



MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)

The following MD&A of Pyramid Petroleum Inc (“Pyramid” or the “Company”), dated May 29, 2008, should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the three months ended March 31, 2008 and the audited consolidated financial statements for the year ended December 31, 2007, which have been filed on www.SEDAR.com.

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 United States dollar. This MD&A and the accompanying unaudited interim consolidated financial statements for the three months ended March 31, 2008, have been approved by the Board of Directors and Audit Committee of the Company.

NON-GAAP MEASURES

Within this MD&A references are made to terms commonly used in the oil and gas industry. Cash flow from operations, cash flow per share, and net oil and gas revenue are terms not defined by Canadian GAAP and are referred to as non-GAAP measures. Cash flow from operations represents net income for the period adjusted for non-cash items in the Consolidated Statements of Net Income 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. Net oil and gas revenue represents revenue less royalties and operating expenses. Management believes that net oil and gas revenue 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.

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.

FUNCTIONAL AND REPORTING CURRENCY

Effective April 1, 2007, the Company changed its functional currency from the Canadian dollar to the U.S. dollar. This change was made as a result of the acquisition of MC Offshore Petroleum, LLC with its capital expenditures, revenues and expenses denominated in U.S. dollars becoming the predominant currency for the Company's cash flows. Concurrent with the change of functional currency to the U.S. dollar, the Company also changed its reporting currency to the U.S. dollar effective April 1, 2007. For comparative purposes, historical financial statements have been translated into the reporting currency of U.S. dollars using the current rate method. Under this method, assets and liabilities are translated at the closing rate in effect at the end of the comparative period; revenues, expenses and cash flows are translated at the average rate in effect for the period; and equity transactions are translated at historical rates.

All references to dollar amounts herein are in U.S. dollars.

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 was constituted by the 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 a 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 from an arms-length party through a company controlled by an Officer and Director.

On April 1, 2007 the Company closed its purchase of a 20% membership share interest in a limited liability company, MCOP Offshore Petroleum Company (the "LLC"). On May 17, 2007, the Company increased its share ownership in the LLC to 50%. The LLC was organized for the purpose of acquiring an interest in certain oil and gas properties from an arms length party, consisting of varying non-operated working interests, ranging from 25% to 100%, in 46 producing and 16 non producing oil and gas wells in the Gulf of Mexico.

As the LLC is controlled and operated jointly by the members, the acquisition is considered to be the acquisition of an interest in a joint venture whereby only the Company's proportionate interest in the LLC is consolidated.

The assets acquired in August 2006 and those through the LLC are referred to as GOM Assets in this MD&A.

Pyramid 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

Following is the summary of financial results for the Company for the three months ended March 31, 2008 and 2007.

| | Three months ended March 31 | |
|---|-----------------------------|-------------------|
| | 2008 | 2007 |
| Statements of Net Income | | |
| Oil and gas sales (\$), net of royalties | 7,562,892 | 718,444 |
| Total sales volumes (boe 6:1), net of royalties | 125,724 | 17,108 |
| Daily sales volumes (boe 6:1) - net of royalties | 1,382 | 190 |
| Oil and gas sales per boe (\$) | 60.15 | 41.99 |
| Net oil and gas revenue ⁽¹⁾ (\$) | 5,655,553 | 525,190 |
| Net oil and gas revenue per boe (\$) | 44.98 | 30.70 |
| Net income for the period (\$) | 1,873,809 | 115,377 |
| Net income per share – basic and diluted (\$) | 0.05 | - |
| Statement of Cash Flows | | |
| Cash flow from operations ⁽¹⁾ (\$) | 4,310,406 | 333,279 |
| Cash flow per share ⁽²⁾ - basic and diluted (\$) | 0.12 | 0.01 |
| Weighted average number of shares – basic | 37,317,595 | 36,605,095 |
| ⁽¹⁾ See Non-GAAP Measures | | |

RESULTS OF OPERATIONS

Revenues, net of royalties, for the three months ended March 31, 2008 and March 31, 2007 were \$7,562,892 and \$718,444 respectively. The increase in revenue is primarily due to the LLC acquisition at March 29, 2007, and higher commodity prices. Operating costs for the same periods were \$1,907,339 and \$193,254, respectively. The increase in operating costs is also attributed to the LLC acquisition. General and administrative expenses for the comparative periods were \$472,868 in 2008 and \$131,796 in 2007. The increase in general and administrative expense is due to increased activity resulting from the LLC acquisition as well as increased compliance and operational requirements of a larger combined company. The depreciation, depletion, and accretion expenses for these periods were \$1,962,648 and \$203,305, respectively. The increase in depreciation, depletion and accretion expenses is due to the increase in the Company's asset base combined with the increase in production volumes resulting from the LLC acquisition.

Net income for the three months ended March 31, 2008 was \$1,873,809 compared to \$115,377 for the comparative 2007 period. Cash flow from operations for the three months ended March 31, 2008 was \$4,310,406 compared to \$333,279 for the three months ended March 31, 2007.

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

| Three months ended (\$) | 2006 Q2 | 2006 Q3 | 2006 Q4 | 2007 Q1 | 2007 Q2 | 2007 Q3 | 2007 Q4 | 2008 Q1 |
|--|------------|------------|-------------|------------|------------|------------|------------|------------|
| Net oil and gas revenue ⁽¹⁾ | 90,720 | 443,388 | 581,771 | 525,190 | 2,240,355 | 3,752,702 | 4,246,121 | 5,655,553 |
| Net income (loss) | (113,508) | 29,204 | (1,956,577) | 115,377 | 549,051 | 397,234 | 1,622,671 | 1,873,809 |
| Net income (loss) per share | (0.01) | - | (0.05) | - | 0.01 | 0.01 | 0.05 | 0 |
| Cash flow from operations ⁽¹⁾ | 92,841 | 333,950 | 85,436 | 333,279 | 1,223,255 | 2,118,455 | 4,474,527 | 4,310,406 |
| Expenditures on property and equipment | 102,879 | 270,065 | 1,654 | 272,792 | 1,120,144 | 2,428,737 | 928,826 | 716,361 |

⁽¹⁾ See Non-GAAP Measures

PRODUCTION VOLUMES

The Company's production volumes, net of royalties, for the comparative quarters are as follows:

| | Q1 2008 | | | | Q1 2007 | | | |
|----------------|--------------|---------------|---------------|----------------|--------------|---------------|---------------|----------------|
| | Gas mcf/d | Oil bbls/d | NGL bbls/d | Total boe/d | Gas mcf/d | Oil bbls/d | NGL bbls/d | Total boe/d |
| Alberta | 36 | - | - | 6 | 39 | - | - | 7 |
| Montana | 630 | 9 | - | 114 | 648 | 11 | - | 118 |
| Gulf of Mexico | 3,728 | 501 | 139 | 1,261 | 350 | 5 | - | 63 |
| Total | 4,394 | 510 | 139 | 1,382 | 1,037 | 16 | - | 188 |

CAPITAL EXPENDITURES

Capital expenditures totaled \$716,361 for the three months ended March 31, 2008 and \$147,204 for the three months ended March 31, 2007.

The capital expenditures include recompletion and compressor installation costs incurred during the three months ended March 31, 2008 for 50% of the LLC's share of cost in the amount of \$573,306.

An additional \$140,777 of capital expenditures was incurred in connection with well drilling and completion activities on properties located in Montana and Alberta.

DEBT AND WORKING CAPITAL

As at March 31, 2008, the Company had current assets of \$6,443,915 and current liabilities of \$14,066,072. Included in the current liabilities are current portions of loans payable in the amount of \$3,559,898 for which debt service payments are required from approximately 80% of net operating revenues from the properties that are collateralized to the lenders. Also included in the current liabilities is the bank's revolving line of credit in the amount of \$3,823,735, and related party amounts payable to companies controlled by an Officer and Director of the Company in the amount of \$1,720,755. After adjusting for these items, the working capital results in a surplus of \$1,482,231.

The following table summarizes the cash flow from operating, investing and financing activities for the three months ended March 31, 2008 and 2007:

| (\$) | Three months ended March 31 | |
|---------------------------------------|-----------------------------|-----------|
| | 2008 | 2007 |
| Cash provided by operating activities | 3,716,776 | 245,627 |
| Cash used in investing activities | (1,884,923) | (201,916) |
| Cash used in financing activities | (615,106) | (147,204) |

At March 31, 2008, the Company had the following contractual obligations, including debt of \$7,383,633.

| | Total | Less than 1 year | 1-3 years | After 3 years |
|---|----------------------|-------------------------|---------------------|----------------------|
| Deferred payment ⁽¹⁾ | \$ 1,800,000 | \$ 1,800,000 | \$ - | \$ - |
| Revolving demand loan ⁽¹⁾ | 3,823,735 | 3,823,735 | - | - |
| Term note ⁽²⁾ | 3,559,898 | 3,559,898 | - | - |
| Due to related parties | 1,702,755 | 1,702,755 | - | - |
| Convertible debenture | 872,765 | - | 872,765 | - |
| Drilling commitments ⁽³⁾ | 3,300,000 | 3,300,000 | - | - |
| Asset Retirement Obligations ⁽⁴⁾ | 21,475,022 | 209,708 | 1,574,428 | 19,690,886 |
| Premises lease | 779,289 | 195,276 | 403,211 | 180,802 |
| Total contractual obligations | \$ 37,313,464 | \$ 14,591,372 | \$ 2,850,404 | \$ 19,871,688 |

⁽¹⁾ Pyramid received a deposit of \$1,800,000 for sale of certain oil and gas properties, which was booked as deferred payment since the agreement was signed after March 31, 2008. Also, the demand loan will be paid in full at closing.

⁽²⁾ The term note is to be paid from operating cash flow related to the properties.

⁽³⁾ The obligation for drilling commitment is for a 4 well farm-in agreement whereby the Company is not liable to any penalty or charges if the Company decides to not participate in subsequent wells after the first well. Pyramid plans to raise equity financing to fund its participation in these wells.

⁽⁴⁾ Undiscounted future cash flows of which \$12,350,000 of Asset Retirement Obligation will be covered by performance bonds in place or sinking fund arrangements as described in the December 31, 2007 financial statements (note 23(b)), for which \$1,555,720 is in the form of cash collateral as at March 31, 2008. Upon abandonment, the Company would receive approximately \$4,380,300 of salvage proceeds.

OUTSTANDING SHARE DATA

Common shares

As of December 31, 2007 and March 31, 2008, the Company had a total of 37,317,595 common shares outstanding. Another 230,000 common shares were issued after March 31, 2008, resulting in the number of common shares outstanding to be at 37,547,595 as at the date of this MD&A.

Of these, a total of 13,093,074 common shares remained in escrow. The following table outlines the future releases of those shares from escrow.

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

Broker Warrants

As at December 31, 2007 and March 31, 2008, the Company had 65,644 broker warrants outstanding. There has been no change in the number of warrants outstanding as at the date of this MD&A.

Stock Options

As at December 31, 2007, the Company had 900,000 stock options outstanding. In February 2008, the Company granted 200,000 stock options, increasing the number of stock options outstanding as at March 31, 2008 to 1,100,000. In May 2008 the Company granted 2,110,000 stock options to employees, officers and directors of the Company, and 230,000 options to acquire common stock were exercised, resulting in an increase in the number of stock options outstanding as at the date of this MD&A to 2,980,000.

RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2008, the Company paid \$29,268 (three months ended March 31, 2007 – \$54,535) of interest on amounts due to related parties. Disclosure of amounts due to related

parties is provided in note 10 of the unaudited interim consolidated financial statements for the three months ended March 31, 2008.

During the three months ended March 31, 2008, the Company paid \$87,346 of contract operating fees to a related party controlled by an Officer and Director of the Company.

As at March 31, 2008, accounts receivable included \$236,274 (December 31, 2007 – \$236,274) due from the LLC for capital expenditures paid by the Company on behalf of the LLC.

COMMITMENTS

The Company is required to contribute 20% of the monthly net profits from the properties owned through the LLC towards an abandonment fund (the “Fund”) established by the Seller as an additional guarantee against the plugging and abandonment liabilities associated with the properties.

Net profits is defined in the Fund agreement as: the monies and revenues payable from gross production of the properties less (i) costs and expenses incurred attributed to the properties with respect to all existing wells located on the properties, including but not limited to the costs and expenses of operating the wells and for producing, treating and storing production from the wells; (ii) capital expenditures related to the properties; (iii) certain taxes assessed against production relating to the property; and (iv) all royalty burdens and other lease burdens affecting the properties. Where the net profit for a particular month is determined to be negative (a net loss), no contribution to the Fund is required for the related month.

Contributions to the Fund commence based on the net profits of the March 2008 production month for which \$398,382 will be paid in May 2008. The Company’s maximum amount of contribution to the Fund is \$5 million. Upon satisfactory performance of plugging and abandonment obligations, the Company may request a release of the bonding amount and funds may be withdrawn from the Fund to a maximum of the Fund balance.

The Company has secured \$5 million of uncollateralized performance bonds through an unrelated corporation (the “Lender”) with whom the Company also has a term note for related to the acquisition of LLC membership shares. The Lender obtained the bonds through a surety company for which it has posted a letter of credit and corporate guarantee in favor of certain regulatory authorities. In connection with these bonds, the Company is required to pay the Lender a fee at a rate of 10% per annum on the \$5 million bond amount. During the three months ended March 31, 2008, the Company paid \$124,658 of fees which are included in interest expense in the unaudited interim consolidated statement of net income for the three months ended March 31, 2008..

Upon full repayment of the term note, the Company will continue to make monthly installments to the Lender, up to a total of \$5 million, which will be deposited to an account in the LLC’s name to provide for cash collateral on the bonds to replace the Lender’s letter of credit and corporate guarantee. The installments are based on 80% of the monthly net proceeds (revenue less royalties, net profits interests and direct operating expenses) from certain Gulf of Mexico properties to be not less than \$500,000 per month.

All bonds become available for release once the subject properties are abandoned and satisfactorily reclaimed at which time all cash collateral will be returned to the LLC.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company’s financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

Information on the Company's financial instruments and financial risk management is discussed in note 18 to the unaudited interim consolidated financial statements for the three months ended March 31, 2008.

CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs. In order to maintain or adjust the capital structure, the Company considers its forecasted funds from operations while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. The Company's capital structure is not subject to external restrictions; however, the Company's bank facility is determined by the lender and based on the lender's borrowing base model which is based on the Company's petroleum and natural gas reserves.

There has been no change in the Company's approach to capital management during the period ended March 31, 2008.

SUBSEQUENT EVENTS

- (a) On April 16, 2008, the Company agreed to participate for a 20% working interest in a three-well drilling program in the Gulf of Mexico. The Company's estimated share of drilling and completion costs for all four wells is \$3.3 million.
- (b) On April 23, 2008, the Company signed an agreement with an unrelated company (the "Vendor") for the disposition of its Montana and Alberta properties for total consideration of \$6.3 million. The proceeds are expected to be used to repay the balance drawn under the revolving operating demand loan, which is secured by the sale assets. For the three months ended March 31, 2008, these properties generated \$329,190 or \$30.06 per boe of net oil and gas revenue (year ended December 31, 2007 - \$1,138,062 or \$25.35 per boe).

Concurrent with the disposition, the Company intends to purchase the Vendor's interest in certain properties in the Gulf of Mexico for \$1.5 million. These properties are currently producing 45 boe per day with significant potential in additional well bores. The purchase price is expected to be funded through a \$0.5 million reduction in the cash consideration paid by the Vendor to the Company and a \$1 million promissory note bearing interest at 8% per annum, paid monthly, and

maturing on December 31, 2010. An Officer and Director of the Company has provided a personal guarantee for the principal amount of the promissory note.

CORPORATE OUTLOOK

The Company has acquired significant assets in the Gulf of Mexico area during the year ended December 31, 2007, as detailed in 'Description of Business'. With this acquisition the Company has established the Gulf of Mexico as a core area for growth and intends to pursue further acquisitions and explorations in that area. The Company is focusing on developing the unproved categories of reserves acquired during the acquisitions, while continuing to acquire more oil and properties in the Gulf of Mexico, utilizing the experience 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.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the new or revised Canadian accounting standards for financial instruments – presentation, financial instruments – disclosure, capital disclosures and inventories as disclosed in note 3 to the unaudited interim consolidated financial statements for the three months ended March 31, 2008. The adoption of these policies had no impact on the Company's financial statements.

PENDING ACCOUNTING PRONOUNCEMENTS

The Company is currently assessing the impact of the following new standards on its consolidated financial statements:

(i) International Financial Reporting Standards ("IFRS")

In 2005, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

(ii) Goodwill and Intangible Assets

In January 2008, Section 3064 Goodwill and Intangible Assets was issued to replace Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. This standard aligns Canadian GAAP with IFRS and will be effective on October 1, 2008.

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 within 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, 2008 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 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.

CRITICAL ACCOUNTING ESTIMATES

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in note 3 to the audited consolidated financial statements for the year ended December 31, 2007. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control. A detailed discussion of the critical accounting estimates of the Company is provided in the December 31, 2007 Management's Discussion and Analysis.

BUSINESS RISKS AND UNCERTAINTIES

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.

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact and credit risk of non-payment for sales contracts and joint venture partners.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner.

The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses.

CORPORATE INFORMATION

| | |
|--------------------------------------|---|
| Head Office: | Suite 780, 910 – 7 Avenue SW Calgary, Alberta, Canada Tel: (403) 234-9000 Fax: (403) 770-8370 |
| Operations Office: | Suite 1950, 1800 West Loop South Houston, Texas, U.S.A Tel: (281) 822-0801 Fax: (281) 822-0802 |
| Officers: | President and CEO – Ilyas M. Chaudhary CFO – Mansoor A. Anjum |
| Directors: | Ilyas M. Chaudhary William E. Richards Raymond L. LaGarde Saad Shaarawi Mansoor A. Anjum |
| Independent Engineers: | Netherland Sewell & Associates, Inc. Haas Petroleum Engineering Services, Inc. |
| Auditors: | BDO Dunwoody LLP |
| Solicitor: | Macleod Dixon LLP |
| Listing: | The TSX Venture Exchange Trading symbol: PYR |
| Transfer Agent and Registrar: | Valiant Trust Company |
| Website: | www.pyramidpetroleum.com |

**Pyramid Petroleum Inc.
Consolidated Financial Statements**

**For the three months ended
March 31, 2008 and 2007**

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NOTICE TO THE READER:

The accompanying unaudited interim consolidated financial statements of Pyramid Petroleum, Inc. for the three months ended March 31, 2008 and 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
William E. Richards

Signed _____ Director
Mansoor A. Anjum

Pyramid Petroleum Inc.
Interim Consolidated Balance Sheets
(unaudited)

| Stated in U.S dollars | March 31 2008 | December 31 2007 |
|--|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 2,364,081 | \$ 1,147,346 |
| Prepaid expenses | 177,053 | 105,387 |
| Accounts receivable | 3,765,171 | 3,473,235 |
| Inventory | 137,610 | 137,610 |
| | <u>6,443,915</u> | <u>4,863,578</u> |
| Property and equipment (note 5) | 28,656,337 | 30,583,504 |
| Bond collateral (note 6) | 1,954,102 | 1,537,884 |
| | <u>\$ 37,054,354</u> | <u>\$ 36,984,966</u> |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,969,976 | \$ 2,700,367 |
| Deferred payment (note 7) | 1,800,000 | 1,250,000 |
| Revolving demand loan (note 8) | 3,823,735 | 4,035,200 |
| Term note (note 9) | 3,559,898 | 5,059,898 |
| Current portion of due to related parties (note 10) | 1,702,755 | 2,840,452 |
| Current portion of asset retirement obligation (note 12) | 209,708 | 194,174 |
| | <u>14,066,072</u> | <u>16,080,091</u> |
| Convertible debentures (note 11) | 872,765 | 866,481 |
| Asset retirement obligation (note 12) | 11,163,676 | 10,982,591 |
| Future income taxes | 209,573 | 209,573 |
| | <u>26,312,086</u> | <u>28,138,736</u> |
| Shareholders' Equity | | |
| Equity instruments (note 13) | 8,131,636 | 8,131,636 |
| Contributed surplus (note 14) | 178,121 | 155,892 |
| Equity component of convertible debentures | 32,976 | 32,976 |
| Retained earnings | 2,591,754 | 717,945 |
| Accumulated other comprehensive loss (note 15) | (192,219) | (192,219) |
| | <u>10,742,268</u> | <u>8,846,230</u> |
| | <u>\$ 37,054,354</u> | <u>\$ 36,984,966</u> |
| Nature of operations (note 1) | | |
| Subsequent events (note 21) | | |

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

Pyramid Petroleum Inc.
Interim Consolidated Statements of Net Income and Retained Earnings (Deficit)
For the three months ended March 31
(unaudited)

Stated in U.S. Dollars

| | 2008 | 2007 |
|---|---------------------|-----------------------|
| Revenue | | |
| Petroleum and natural gas, net of royalties (note 4) | \$ 7,562,892 | \$ 718,444 |
| Interest revenue | 66,446 | - |
| Commodity contracts | - | (75,964) |
| | <u>7,629,338</u> | <u>642,480</u> |
| Expenses | | |
| Operating expenses | 1,907,339 | 193,254 |
| General and administrative | 472,868 | 131,796 |
| Interest (note 16) | 395,848 | 92,139 |
| Depreciation, depletion and accretion | 1,962,648 | 203,305 |
| Stock-based compensation (note 13) | 22,229 | - |
| Foreign exchange (gain) loss | (155,094) | 34,977 |
| Fair value adjustments on financial instruments (note 10) | 175,361 | (128,368) |
| | <u>4,781,199</u> | <u>527,103</u> |
| Income before income taxes | 2,848,139 | 115,377 |
| Current income tax provision | 974,330 | - |
| Net income for the period | 1,873,809 | 115,377 |
| Retained earnings (deficit), beginning of period | 717,945 | (1,966,388) |
| Retained earnings (deficit), end of period | \$ 2,591,754 | \$ (1,851,011) |
| Net income per share: | | |
| Basic and diluted (note 13) | \$ 0.05 | \$ - |

Pyramid Petroleum Inc.
Interim Consolidated Statements of Comprehensive Income
For the three months ended March 31
(unaudited)

Stated in U.S. Dollars

| | 2008 | 2007 |
|---|---------------------|-------------------|
| Net income for the period | \$ 1,873,809 | \$ 115,737 |
| Foreign exchange adjustment on change in functional and reporting currency (note 2) | - | 56,748 |
| Comprehensive income for the period | \$ 1,873,809 | \$ 172,125 |

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

Pyramid Petroleum Inc.
Interim Consolidated Statements of Cash Flows
For the three months ended March 31
(unaudited)

Stated in U.S dollars

| | 2008 | 2007 |
|---|---------------------|------------------|
| Cash provided by (used in) | | |
| Operating Activities | | |
| Net income for the period | \$ 1,873,809 | \$ 115,377 |
| Add: non-cash items | | |
| Petroleum and natural gas revenue, net of royalties as settlement of related party balances | 5,124 | - |
| Operating expenses incurred through related party balances | 253,507 | - |
| Stock-based compensation | 22,229 | - |
| Interest and accretion | 26,404 | 3,112 |
| Depreciation, depletion and accretion | 1,962,648 | 203,305 |
| Unrealized foreign exchange (gain) loss | (8,676) | (23,492) |
| Fair value adjustments on financial instruments | 175,361 | 34,977 |
| | <u>4,310,406</u> | <u>333,279</u> |
| Change in non-cash working capital (note 17) | <u>(593,630)</u> | <u>(87,652)</u> |
| | <u>3,716,776</u> | <u>245,627</u> |
| Financing activities | | |
| Net repayment of revolving demand loan | (211,465) | - |
| Proceeds from convertible debentures, net of issue costs | - | 507,864 |
| Repayment of term note | (1,500,000) | - |
| Repayment of loans payable | - | (52,531) |
| Net repayment of related party debt | (723,458) | (256,002) |
| Deposit on acquisition | - | (401,247) |
| Deferred charges | 550,000 | - |
| | <u>(1,884,923)</u> | <u>(201,916)</u> |
| Investing activities | | |
| Expenditures on property and equipment | (716,361) | (147,204) |
| Abandonment fund contribution (note 6) | (398,382) | - |
| Change in non-cash working capital (note 17) | 499,637 | - |
| | <u>(615,106)</u> | <u>(147,204)</u> |
| Foreign exchange loss on cash held in a foreign currency | <u>(12)</u> | <u>(1,142)</u> |
| Increase (decrease) in cash and cash equivalents | 1,216,735 | (104,635) |
| Cash and cash equivalents, beginning of period | 1,147,346 | 112,020 |
| Cash and cash equivalents, end of period | \$ 2,364,081 | \$ 7,385 |
| Supplemental cash flow information | | |
| Interest paid | \$ 351,608 | \$ 89,027 |
| Taxes paid | \$ - | \$ - |

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

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

1. Nature of Operations and Basis of Presentation

Pyramid Petroleum Inc. ("Pyramid" or the "Company") was incorporated under the Alberta Business Corporations Act on March 11, 2005. The Company started as a Capital Pool Company and completed its qualifying transaction on May 4, 2006 when it acquired certain oil and gas interests. The Company is involved in exploration, development and production of petroleum and natural gas in Canada and the United States.

The unaudited interim financial statements of Pyramid Petroleum Inc. (the "Company") have been prepared by management following the same accounting policies and methods of computation as the audited consolidated financial statements of the Company for the year ended December 31, 2007, except that certain disclosures have been condensed or omitted. In this regard, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

These financial statements are stated in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of interim financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Pyramid Petroleum Company, a Delaware corporation, and Pyramid GOM, Inc., a Texas corporation.

The operating results for the three months ended March 31, 2008 may not be indicative of the results for the year ended December 31, 2008.

2. Functional and Reporting Currency

Effective April 1, 2007, the Company changed its functional currency from the Canadian dollar to the U.S. dollar. This change was made as a result of the acquisition of MC Offshore Petroleum, LLC (note 4) with its capital expenditures, revenues and expenses denominated in U.S. dollars becoming the predominant currency for the Company's cash flows. Concurrent with the change of functional currency to the U.S. dollar, the Company also changed its reporting currency to the U.S. dollar effective April 1, 2007. For comparative purposes, historical financial statements have been translated into the reporting currency of U.S. dollars using the current rate method. Under this method, assets and liabilities are translated at the closing rate in effect at the end of the comparative period; revenues, expenses and cash flows are translated at the average rate in effect for the period; and equity transactions are translated at historical rates. The exchange difference resulting from the translation on April 1, 2007 was an unrealized foreign exchange gain of \$56,748 for the three months ended March 31, 2007 which has been included in accumulated other comprehensive loss presented in shareholders' equity and disclosed in note 15.

Stated in U.S. Dollars

3. Changes in Accounting Policies

On January 1, 2008, the Company adopted the new or revised Canadian accounting standards for financial instruments – disclosures, financial instruments – presentation and capital disclosures. These standards have been adopted prospectively and, therefore, prior periods have not been restated. The adoption of these standards had no impact on opening deficit or opening accumulated other comprehensive income.

(a) Financial instruments – disclosures and financial instruments – presentation

Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation replace Section 3861 Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

(b) Capital disclosures

Section 1535 Capital Disclosures requires additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures include whether the Company has complied with externally imposed capital requirements.

(c) Inventories

Section 3031 Inventories aligns Canadian GAAP with International Financial Reporting Standards.

4. Acquisition and Net Profit Interest

On April 1, 2007, the Company acquired a 20% interest in the membership shares of MC Offshore Petroleum, LLC (the “LLC”) and an additional 30% interest on May 17, 2007. The LLC was organized for the purpose of acquiring interests in certain petroleum and natural gas properties located in the Gulf of Mexico (the “Gulf of Mexico properties”) from an arms length party (the “Seller”). A company controlled by an Officer and Director of the Company (the “Agent Company”) acted as an agent in the organization of the LLC and the acquisition of properties and retained an option (the “Option”) to buy up to 3.5% of the LLC’s membership shares at the Company’s cost.

On January 1, 2008, the Option was exercised and converted to a 3.5% Net Profit Interest (“NPI”) in the underlying assets owned by the LLC for \$879,778 of consideration. The consideration was paid through the reduction of the Company’s indebtedness to the Agent Company (note 10(b)) and offset against the Company’s petroleum and natural gas assets to which the NPI applies.

The NPI shall be distributed subject only to withholding of any plugging and abandonment obligations on the related assets, with payments commencing in February 2008. During the three months ended March 31, 2008, the Company distributed \$319,664 of NPI which has been included in petroleum and natural gas sales, net of royalties, in the interim consolidated statement of net income.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

5. Property and Equipment

| | March 31 2008 | December 31 2007 |
|--------------------------------------|----------------------|----------------------|
| Petroleum and natural gas properties | \$ 37,175,730 | \$ 37,336,868 |
| Accumulated depletion and impairment | (8,519,393) | (6,753,364) |
| | <u>\$ 28,656,337</u> | <u>\$ 30,583,504</u> |

The Company did not capitalize any general and administrative costs to the Company's petroleum and natural gas properties during the three months ended March 31, 2008 (December 31, 2007 – \$42,384).

The calculation of depletion and depreciation included an estimated \$5,641,330 (December 31, 2007 – \$5,641,330) for future development capital costs associated with proved undeveloped reserves. No amounts were excluded from the depletion calculation for the cost of unproved properties. The Company excluded \$4,380,300 (December 31, 2007 – \$4,380,300) of salvage values from the depletion calculation.

At March 31, 2008, the Company performed a ceiling test calculation for each of its cost centers and determined that there was no impairment.

6. Bond Collateral

| | March 31 2008 | December 31 2007 |
|------------------|---------------------|---------------------|
| Zero-coupon bond | \$ 1,555,720 | \$ 1,537,884 |
| Abandonment fund | 398,382 | – |
| | <u>\$ 1,954,102</u> | <u>\$ 1,537,884</u> |

(a) Zero-coupon bond

Bond collateral in the amount of \$1,555,720 (December 31, 2007 – \$1,537,884) is the amortized cost of a zero-coupon bond with a face value of \$2.35 million which matures in March 2017. This bond represents the Company's share of cash collateral, at amortized cost, for performance bonds provided by the LLC to the Seller of the Gulf of Mexico properties as a guarantee for plugging and abandonment liabilities (note 4).

During the three months ended March 31, 2008, the Company recognized \$17,836 of accretion included in the reported amount of interest and accretion in the interim consolidated statement of net income based on a 4.64% discount rate and a 10 year maturity.

(b) Abandonment fund

The Company is required to contribute 20% of the monthly net profits from the properties owned through the LLC (note 4) towards an abandonment fund (the "Fund") established by the Seller as an additional guarantee against the plugging and abandonment liabilities associated with the properties.

Net profits is defined in the Fund agreement as: the monies and revenues payable from gross production of the properties less (i) costs and expenses incurred attributed to the properties with respect to all existing wells located on the properties, including but not limited to the costs and expenses of operating the wells and for producing, treating and storing production from the wells; (ii) capital expenditures related to the properties; (iii) certain taxes assessed against production relating to the property; and (iv) all royalty burdens and other lease burdens affecting the properties.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

6. Bond Collateral (continued)

Where the net profit for a particular month is determined to be negative (a net loss), no contribution to the Fund is required for the related month. In the event of default by the LLC, the Seller has the right to demand that the Fund be immediately funded.

Monthly contributions to the Fund commenced based on the net profits of the March 2008 production month, for which \$398,382 will be paid in May 2008. The Company's maximum amount of contribution to the Fund is \$5 million. Upon satisfactory performance of plugging and abandonment obligations, the Company may request a release of the bonding amount and funds may be withdrawn from the Fund to a maximum of the Fund balance.

(c) Uncollateralized performance bonds

In addition to the cash collateral bond and Fund described above, the Company has secured \$5 million of additional uncollateralized performance bonds through an unrelated corporation (the "Lender") with whom the Company also has a term note (note 9). The Lender obtained the bonds through a surety company for which it has posted a letter of credit and corporate guarantee in favor of certain regulatory authorities. In connection with these bonds, the Company is required to pay the Lender a fee at a rate of 10% per annum on the \$5 million bond amount. During the three months ended March 31, 2008, the Company paid \$124,658 of fees which are included in interest expense in the interim consolidated statement of net income.

Upon full repayment of the term note described in note 9, the Company will continue to make monthly installments to the Lender, up to a total of \$5 million, which will be deposited to an account in the LLC's name to provide for cash collateral on the bonds to replace the Lender's letter of credit and corporate guarantee. The installments are based on 80% of the monthly net proceeds (revenue less royalties, net profits interests and direct operating expenses) from certain Gulf of Mexico properties to be not less than \$500,000 per month.

All bonds become available for release once the subject properties are abandoned and satisfactorily reclaimed at which time all cash collateral will be returned to the LLC.

7. Deferred Payment

As at March 31, 2008, the \$1,800,000 deferred payment related to an advance on the proceeds to be received on the sale of the Company's Montana and Alberta properties prior the finalization of the purchase and sale agreement on April 23, 2008 as disclosed in note 21.

As at December 31, 2007, the \$1,250,000 deferred payment related to related to the LLC's purchase of the Gulf of Mexico properties. The deferred payment was unsecured, bearing an interest rate of 7% and was repaid in March 2008.

8. Revolving Demand Loan

The Company has a revolving one year demand loan facility from a Canadian bank available to a maximum of Cdn\$4,000,000 collateralized by a charge over the Company's Montana and Alberta assets. The interest on the loan is calculated at the bank's prime rate plus 0.5%.

As at March 31, 2008, the Company had drawn \$3,823,723 (Cdn\$3,925,000) (December 31, 2007 – \$4,035,200 (Cdn\$4,000,000)) on the revolving demand loan facility and the bank's prime rate was 5.25% (December 31, 2007 – 6%). The effective rate of interest charged during the three months ended March 31, 2008 was 6.24%.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

8. Revolving Demand Loan (continued)

As at March 31, 2008, the Company was in compliance with the working capital covenant calculated on the combined working capital of the two companies that hold the Montana and Alberta assets.

The amount drawn is expected to be repaid in full following the proposed closing of the sale of the related assets (note 21(b)).

9. Term Note

In conjunction with the acquisition described in note 4, the Company assumed a term note (the "Note") from an unrelated corporation (the "Lender") in the principal amount of \$9,059,898 for which the balance outstanding at March 31, 2008 was \$3,559,898 (December 31, 2007 – \$5,059,898).

The Note bears interest at 10% calculated at a daily rate and is collateralized by the petroleum and natural gas assets in the Gulf of Mexico held by the LLC and for which the LLC members have pledged their member share certificates to the Lender. Principal and accrued interest on the Note are repayable in consecutive principal installments of 80% of the monthly net proceeds (revenue less royalties, net profits interests and direct operating expenses) from the related Gulf of Mexico properties to be not less than \$500,000 in principal per month plus accrued interest commencing on May 31, 2007 or at the discretion of the lender.

During the three months ended March 31, 2008, the Company made \$1.5 million of principal installments and paid \$113,034 of interest to the Lender.

The entire balance of the Note as at March 31, 2008 has been reported as current as the principal is less than the sum of the Company's minimum monthly principal requirement.

10. Due to Related Parties

Transactions with related parties have been recognized at agreed to exchange amounts, adjusted to amortized cost as appropriate, as disclosed below. Any difference between the agreed to cash exchange amount and the estimated fair value of a loan on inception has been recognized immediately in the interim consolidated statement of net income as a fair value adjustment on financial instruments.

| | March 31 2008 | December 31 2007 |
|---|---------------------|---------------------|
| Due to an Officer and Director of the Company (a) | \$ 62,110 | \$ 567,690 |
| Due to a related company (b) | 714,010 | 1,256,668 |
| Due to a related company (c) | 926,635 | 1,016,094 |
| | <u>\$ 1,702,755</u> | <u>\$ 2,840,452</u> |

(a) Due to an Officer and Director of the Company

As at March 31, 2008, the Company was indebted to an Officer and Director of the Company in the amount of \$62,110 consisting of accrued interest on a \$524,774 unsecured, 8% note payable which was repaid on March 26, 2008. As at December 31, 2007, the \$567,690 amortized cost of note payable was based on an estimated fair value interest rate of 15% and a lump-sum principal and interest repayment on March 31, 2008.

During the three months ended March 31, 2008, the Company was charged \$9,892 of interest related to this note.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

10. Due to Related Parties (continued)

(b) Due to a related company

As at March 31, 2008, the estimated amortized cost of amounts owed to companies indirectly controlled by an Officer and Director of the Company was \$714,010 (December 31, 2007 – \$1,256,668). The indebtedness, comprised of \$427,890 of net advances, \$429,746 of operating costs and capital expenditures incurred by the related companies on behalf of the Company and \$143,626 of fair value adjustments to amortized cost, is unsecured and non-interest bearing with no fixed terms of repayment.

The amortized cost was based on an estimated fair value interest rate of 16% and repayment over 1.75 years.

(c) Due to a related company

At March 31, 2008, the Company owed \$926,635 (December 31, 2007 – \$1,016,094) to a company (the "Related Company"), who is a related party controlled by an Officer and Director of the Company. The amount due is a prorated allocation of the loan (the "Loan") from the Related Company's bank (the "Bank") at the time certain assets were acquired in August 2006. Based on the terms and conditions of this indebtedness on inception, fair value approximated carrying value.

The amount due bears an interest rate equal to LIBOR plus 2.5%, which is the rate charged by the Bank, and is repayable from 70% of the net operating revenue from the properties. The effective interest rate charged during the three months ended March 31, 2008 was 7.92% and related interest included in the outstanding balance at March 31, 2008 was \$19,376.

The Company is not a party to the credit agreement between the Related Company and the Bank. Under the terms of the Company's agreement with the Related Company, the Related Company holds title to the subject properties as collateral for the Loan. Legal title to the properties is expected to be transferred to the Company on the Related Company's repayment of the Loan in its entirety.

The Related Company was in breach of certain financial Bank covenants at December 31, 2007 for which the property and equipment carrying value of the Company's share of related collateral is \$1,549,918. As a result of the covenant breach, the Bank called the Loan in April 2008 and the Related Company indicated its intent to sell the collateralized properties to repay the Loan. There can be no certainty that the proceeds, if any, would be sufficient to repay the obligation without recourse on the underlying collateral.

The Company has classified the entire amount due as a current liability.

(d) Contract operator fees

During the three months ended March 31, 2008, the Company paid \$87,346 of contract operator fees to the Related Company who operated certain properties prior to April 1, 2008 after which time the Company took over operatorship.

(e) Other

As at March 31, 2008, accounts receivable included \$236,274 (December 31, 2007 – \$236,274) due from the LLC for capital expenditures paid by the Company on behalf of the LLC.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

11. Convertible Debentures

Convertible debentures issued in February and April 2007 for total gross proceeds of \$828,022 (Cdn \$952,000) have a two year term and bear an interest rate of 12% per annum, payable quarterly. Debenture holders have the option to convert the debentures to common shares of the Company on the basis of one common share for each \$0.44 (Cdn \$0.45) of principal at any time during the term of the Debentures. The Company has an option to call the Debentures at any time after the first anniversary of the closing date if the Company's shares trade at over \$0.658 (Cdn \$0.675) per share for a period of 30 days. 2,115,556 common shares are issuable in the event that the total amount of principal is converted at maturity.

| | March 31 2008 | December 31 2007 |
|---|-------------------|---------------------|
| Liability component | \$ 795,046 | \$ 795,046 |
| Unamortized transaction costs | (47,808) | (58,675) |
| Accumulated accretion of equity component | 17,121 | 13,016 |
| Foreign exchange | 108,406 | 117,094 |
| | <u>\$ 872,765</u> | <u>\$ 866,481</u> |
| | Cdn \$878,304 | Cdn \$860,954 |

12. Asset Retirement Obligation

| | |
|-----------------------------|----------------------|
| Balance – December 31, 2007 | \$ 11,176,765 |
| Accretion | 196,619 |
| | <u>11,373,384</u> |
| Current portion | <u>(209,708)</u> |
| Balance – March 31, 2008 | <u>\$ 11,163,676</u> |

The following significant assumptions were used to estimate the Company's asset retirement obligation at March 31, 2008:

| | |
|--|---------------|
| Undiscounted cash flows | \$ 21,475,022 |
| Credit adjusted risk-free rate | 8% |
| Inflation rate | 2% |
| Range of expected timing of cash flows | 2008 – 2049 |
| Weighted average time to abandonment | 9.4 years |

See note 6 with respect to bond collateral and an abandonment fund related to abandonment liabilities for the Gulf of Mexico properties.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

13. Equity Instruments

(a) Common shares issued

| | Number | Amount |
|--|------------|--------------|
| Balance – December 31, 2007 and March 31, 2008 | 37,317,595 | \$ 8,131,636 |

(b) Shares held in escrow

As at December 31, 2007 and March 31, 2008, 13,093,074 common shares remained in escrow. The following table outlines the future releases:

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

(c) Broker warrants

| | Number of Warrants | Weighted average exercise price | | Estimated Fair Value |
|--|--------------------|---------------------------------|--------|----------------------|
| | | US \$ | Cdn \$ | |
| Balance – December 31, 2007 and March 31, 2008 | 65,644 | 0.45 | 0.45 | \$ 17,681 |

As at March 31, 2008, the outstanding broker warrants have a weighted average life remaining of 0.9 years.

(d) Stock options

As at December 31, 2007, the Company had 900,000 stock options outstanding and exercisable at an exercise price of \$0.30 (Cdn \$0.30) per share, expiring on May 4, 2011.

In February 2008, the Company granted an investor relations firm 200,000 options of which 100,000 options are exercisable at \$0.71 (Cdn \$0.70) per share and 100,000 options are exercisable at \$1.01 (Cdn \$1.00) per share. The options vest 25% immediately, 25% on the four month anniversary of the grant date and 50% on the one year anniversary of the grant date.

The fair value of these options was estimated to be \$52,790 (\$0.26 per share) using the Black-Scholes pricing model based on an expected life of 5 years, a risk-free rate of 2.9%, expected volatility of 149% and a dividend yield of nil. During the three months ended March 31, 2008, stock-based compensation of \$22,229 was recorded in respect of these options.

A continuity of stock options outstanding is provided in the following table:

| | Number of options | Weighted average exercise price |
|-----------------------------|-------------------|---------------------------------|
| Balance – December 31, 2007 | 900,000 | \$0.29 (Cdn \$0.30) |
| Granted | 200,000 | \$0.83 (Cdn \$0.85) |
| Balance – March 31, 2008 | 1,100,000 | \$0.39 (Cdn \$0.40) |
| Exercisable | 950,000 | \$0.34 (Cdn \$0.35) |

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

13. Equity Instruments (continued)

Details of stock options outstanding and exercisable as at March 31, 2008 are as follows:

| Exercise price \$ | Number outstanding | Weighted average contractual life remaining (years) | Weighted average exercise price | Number exercisable |
|----------------------|-----------------------|---|------------------------------------|-----------------------|
| \$0.29 (Cdn \$0.30) | 900,000 | 3.1 | \$0.29 (Cdn \$0.30) | 900,000 |
| \$0.68 (Cdn \$0.70) | 100,000 | 4.9 | \$0.68 (Cdn \$0.70) | 25,000 |
| \$0.97 (Cdn \$1.00) | 100,000 | 4.9 | \$0.97 (Cdn \$1.00) | 25,000 |
| | 1,100,000 | 3.4 | \$0.34 (Cdn \$0.35) | 950,000 |

(e) Per share amounts

Net income per share has been calculated using the treasury stock method. The following table reconciles the denominators used for the basic and diluted earnings per share calculations:

| | For the three months ended March 31 | |
|---|-------------------------------------|------------|
| | 2008 | 2007 |
| Weighted average number of shares – basic | 37,317,595 | 36,605,095 |
| Dilutive effect of broker warrants | – | – |
| Dilutive effect of stock options | 254,416 | – |
| Weighted average number of shares – diluted | 37,572,011 | 36,605,095 |

14. Contributed Surplus

| | | |
|--|----|---------|
| Balance – December 31, 2007 | \$ | 155,892 |
| Stock-based compensation (note 13 (d)) | | 22,229 |
| Balance – March 31, 2008 | \$ | 178,121 |

15. Accumulated Other Comprehensive Loss

| | March 31 2008 | December 31 2007 |
|--|------------------|---------------------|
| Balance – beginning of period | \$ (192,219) | \$ (248,967) |
| Foreign exchange adjustment on change in functional and reporting currency (note 2) | – | 56,748 |
| Balance – end of period | \$ (192,219) | \$ (192,219) |

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2008
(unaudited)

Stated in U.S. Dollars

16. Interest

Interest expense relates to the following:

| | For the three months ended March 31 | |
|------------------------|-------------------------------------|------------------|
| | 2008 | 2007 |
| Current liabilities | \$ 326,686 | \$ – |
| Long-term liabilities | 39,745 | 37,604 |
| Due to related parties | 29,417 | 54,535 |
| | <u>\$ 395,848</u> | <u>\$ 92,139</u> |

17. Change in Non-Cash Working Capital

| | For the three months ended March 31 | |
|--|-------------------------------------|--------------------|
| | 2008 | 2007 |
| Accounts receivable | \$ (291,936) | \$ (211,981) |
| Prepaid expenses | (71,666) | 39,330 |
| Accounts payable and accrued liabilities | 269,609 | 84,999 |
| | <u>\$ (93,993)</u> | <u>\$ (87,652)</u> |

The change in non-cash working capital has been allocated to the following activities:

| | For the three months ended March 31 | |
|-----------|-------------------------------------|--------------------|
| | 2008 | 2007 |
| Operating | \$ (593,630) | \$ (87,652) |
| Investing | 499,637 | – |
| | <u>\$ (93,993)</u> | <u>\$ (87,652)</u> |

18. Financial Instruments and Financial Risk Management

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

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18. Financial Instruments and Financial Risk Management (continued)

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at March 31, 2008, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$3,765,171 (December 31, 2007 – \$3,473,235). As at March 31, 2008, the Company's receivables consisted of \$663,098 from joint venture partners and other trade receivables and \$3,102,073 of revenue receivables from petroleum and natural gas marketers.

Receivables from petroleum and natural gas marketers are typically collected between the 20th and 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers.

All of the \$3,102,073 of revenue receivables from petroleum and natural gas marketers was received in April and May 2008.

Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended March 31, 2008. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at March 31, 2008 the Company considers its receivables to be aged as follows:

| | | |
|-------------------------------|----|-----------|
| Not past due | \$ | 3,095,768 |
| Past due by less than 90 days | | 210,193 |
| Past due by more than 90 days | | 459,210 |
| | | <hr/> |
| | \$ | 3,765,171 |

As the Company has not entered into any hedging arrangements, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

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18. Financial Instruments and Financial Risk Management (continued)

(b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve-based credit facility, as disclosed in note 8, which is reviewed quarterly by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows. The Company's financial liabilities are comprised of accounts payable and accrued liabilities and the credit facility, both of which have expected maturities of less than one year resulting in their current classification on the balance sheet.

i) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy that has been approved by the Board of Directors.

ii) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. As the majority of the Company's petroleum and natural gas sales and related expenditures are denominated in U.S. dollars, the Company does not consider such exposures to be significant.

As disclosed in note 20 a portion of the Company's operations are undertaken in Canada. The Company does not consider the exposure to fluctuations in the Canadian dollar to be significant.

The Company had no outstanding forward exchange rate contracts in place at March 31, 2008.

iii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors. There were no commodity price risk contracts outstanding at March 31, 2008.

iv) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt (note 8) and related party indebtedness (note 10(c)) which bear interest at a floating rate. For the three months ended March 31, 2008, if interest rates had been 1% lower with all other variables held constant, earnings for the period would have been \$12,279 higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amounts. The Company had no interest rate swap or financial contracts in place at March 31, 2008.

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19. Capital Management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company considers its forecasted funds from operations while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. The Company's capital structure is not subject to external restrictions; however, the Company's bank facility is determined by the lender and based on the lender's borrowing base model which is based on the Company's petroleum and natural gas reserves.

There has been no change in the Company's approach to capital management during the period ended March 31, 2008.

20. Segmented Information

The Company undertakes exploration and development of oil and gas properties in Canada and the United States and has disclosed key financial data based on separate jurisdictions. Any allocation of costs between segments is done at cost and based on time allocated to the various projects.

| | For the three months ended | | | | | |
|----------------------------|----------------------------|---------------|-----------|----------------|---------------|---------|
| | March 31, 2008 | | | March 31, 2007 | | |
| | Canada | United States | Total | Canada | United States | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues, net of royalties | 19,598 | 7,543,294 | 7,562,892 | 21,496 | 696,948 | 718,444 |
| Net income (loss) | 33,763 | 1,840,046 | 1,873,809 | (24,038) | 139,415 | 115,377 |
| Per share | | | | | | |
| - Basic and diluted | - | 0.05 | 0.05 | - | - | - |

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20. Segmented Information (continued)

| | March 31, 2008 | | | December 31, 2007 | | |
|--|----------------|---------------|------------|-------------------|---------------|------------|
| | Canada | United States | Total | Canada | United States | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Total assets | 761,824 | 36,292,530 | 37,054,354 | 743,680 | 36,241,286 | 36,984,966 |
| Property and equipment | 688,206 | 27,968,131 | 28,656,337 | 691,011 | 29,892,493 | 30,583,504 |
| Expenditures on property and equipment | 11,067 | 705,294 | 716,361 | 529,610 | 4,220,889 | 4,750,499 |

21. Subsequent Events

Except as disclosed elsewhere in these interim consolidated financial statements, the following events occurred subsequent to year end:

- (a) On April 16, 2008, the Company agreed to participate for a 20% working interest in a three-well drilling program in the Gulf of Mexico. The Company's estimated share of drilling and completion costs is \$3.3 million.
- (b) On April 23, 2008, the Company signed an agreement with an unrelated company (the "Vendor") for the disposition of its Montana and Alberta properties for total consideration of \$6.3 million, subject to certain due diligence and other conditions precedent. The proceeds are expected to be used to repay the balance drawn under the revolving operating demand loan, which is secured by the sale assets (note 8).

Concurrent with the disposition, the Company intends to purchase the Vendor's interest in certain properties in the Gulf of Mexico for \$1.5 million. The purchase price is expected to be funded through a \$0.5 million reduction in the cash consideration paid by the Vendor to the Company and a \$1 million promissory note bearing interest at 8% per annum, paid monthly, and maturing on December 31, 2010. An officer and director of the Company has provided a personal guarantee for the principal amount of the promissory note.

22. Prior Year Comparatives

Certain prior year comparatives have been reclassified to conform with current year presentation.