

MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)

The following MD&A of Pyramid Petroleum Inc. (“Pyramid” or the “Company”), dated November 25, 2008, should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the three and nine months ended September 30, 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 and nine months ended September 30, 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 located in Alberta, Canada and Montana, United States from a founding shareholder of the Company. 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 ("Related Company").

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.

On June 18, 2008, the Company closed on the sale of its interests in oil and gas assets located in Alberta, Canada and Montana, United States to an unrelated party. The contract sales amount of \$6.3 million consisted of \$5.8 million cash and \$500,000 adjustment to the purchase price of the assets acquired from the unrelated party, as described below.

On June 18, 2008, the Company closed on the acquisition of a 25% working interest in oil and gas assets located in offshore Texas state waters from an unrelated party. The contract acquisition cost of \$1.5 million consisted of a \$500,000 adjustment in the sales price of the Alberta and Montana properties described above and a promissory note in the amount of \$1.0 million.

On August 19, 2008, the properties that were acquired by the Company in August 2006 were included in a sale of the property interests by the Related Company's bank. The balance of \$706,190 owed by the Company to the Related Company at the time of the sale was considered to be paid in full.

The assets acquired in August 2006 and June 2008 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.

OPERATING HIGHLIGHTS

During the three month period ended September 30, 2008, The Company experienced some loss of production time from storms that entered the Gulf of Mexico ("Gulf") in July and August as several platforms were shut-in and evacuated in anticipation of the storms. In the second week of September, Hurricane Ike entered the Gulf, causing damages to several of the Company's offshore platforms, as well as to third party transmission lines and onshore processing facilities. Original estimates were that approximately 80% of the Company's production would be curtailed for a period of two months. At the time of this MD&A the Company estimates that approximately 40% of its production in the Gulf is back on line, and that most of the remaining 60% is expected to be on line by late December.

The effect of Hurricane Ike on the Company's production was significant and is discussed in more detail in the following narrative on Results of Operations. While the Company is continuing to assess the total cost of repairs as it proceeds through the repair process, current estimates are that the total cost will approximate \$3.0 million, and that insurance reimbursement will approximate \$1.0 million, although a claim has not yet been filed with the insurance carriers. As at September 30, 2008, the Company had incurred approximately \$140,000 of related expenditures. It is expected that a majority of the total repair cost will be incurred in the fourth quarter of the year 2008.

CONSOLIDATED RESULTS HIGHLIGHTS

Following is the summary of financial results for the Company for the three and nine months ended September 30, 2008 and 2007.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Statement of Operations and Deficit				
Oil and gas sales (\$), net of royalties	4,702,012	6,342,030	20,176,758	10,277,095
Total sales volumes (boe 6:1) - net of royalties	48,868	119,672	248,439	212,338
Daily sales volumes (boe 6:1) - net of royalties	535	1,301	987	778
Oil and gas sales per boe (\$)	96.22	53.00	81.21	48.40
Net oil and gas revenue (\$)	2,653,755	3,706,783	14,084,811	6,567,778
Net oil and gas revenue per boe (\$)	54.30	30.97	56.69	30.93
Net income for the period (\$)	986,538	770,613	1,967,434	1,239,080
Net income per share – basic and diluted (\$)	0.03	0.02	0.05	0.03
Statement of Cash Flows				
Cash flow from operations (\$)	2,369,164	2,219,810	10,965,728	3,723,632
Cash flow per share - basic and diluted (\$)	0.06	0.06	0.29	0.10
Weighted average number of shares – basic	37,692,039	37,123,845	37,495,113	36,784,033

RESULTS OF OPERATIONS

Oil and gas, net of royalties, for the three and nine months ended September 30, 2008 were \$4,702,012 and \$20,176,758, respectively. Revenues for the comparable periods in 2007 were \$6,342,030 and \$10,277,095. The decrease in revenue for the three month period is due to a reduction in sales volumes, offset by higher commodity prices. Sales volumes, expressed in barrels of oil equivalent (“BOE”) decreased 70,804 BOE, resulting in a decrease in revenue of \$6,812,664. The average sales price per BOE increased from \$53.00 to \$96.22, resulting in an increase in revenue of \$5,172,646. The decrease in sales volume was due to (1) the disposition of producing properties during the second and third calendar quarters, resulting in production losses of 15,435 BOE, (2) a production gain of 3,033 BOE resulting from property acquired in the second quarter of 2008, and (3) a decrease in production of 58,402 BOE from LLC properties due principally to severe weather in the Gulf of Mexico and a temporary shut-in of a gas transmission pipeline by one of the Company’s gas transporters. The LLC properties ceased production for approximately 23 days during the period due to hurricane conditions, and one property was shut-in for an additional 24 days due to the shut-in of the gas transmission pipeline for the property. The increase in revenue for the nine month period is a result of an increase in sales volume and higher commodity prices. Sales volumes increased 36,101 BOE, resulting in an increase in revenue of \$2,931,911, and the average sales price per BOE increased from \$48.40 to \$81.21, resulting in an increase in revenue of \$6,967,752. A production loss of 26,829 BOE resulting from properties disposed of in 2008 was offset by a production gain of 3,555 BOE from the property acquired in the second quarter of 2008, and a production gain of 59,375 BOE from the LLC properties.

Operating expenses for the three and nine months ended September 30, 2008 were \$2,048,257 and \$6,091,947, respectively. Operating expenses for the same periods in 2007 were \$2,635,247 and \$3,709,317, respectively. The decrease in operating expenses for the three month period is a result of decreased production levels as discussed above, including costs attributable to properties disposed of during the current year. The increase in costs for the nine month period is attributed to the LLC acquisition which closed at the end of March 2007. General and administrative expenses for the three and nine months ended September 30, 2008 were \$286,101 and \$1,432,824, respectively. General and administrative expenses for the comparable periods in 2007 were \$133,823 and \$497,748, respectively. The increases in general and administrative expenses are due to increased activity resulting from the LLC acquisition as well as increased compliance and operational requirements of a larger combined company. Depreciation, depletion, and accretion expenses for the three and nine months ended September 30, 2008 were \$935,645 and \$4,367,366, respectively, in

comparison with \$1,707,713 and \$2,577,097, respectively, for the same periods in 2007. The decrease in depreciation, depletion and accretion expenses for the three month period is due to the decrease in production volumes discussed above. The increase in depreciation, depletion and accretion expenses for the nine month period is due to the increase in the Company's asset base combined with the increase in production volumes resulting from the LLC acquisition. The Company incurred a loss on disposition of property and equipment in the amount of \$3,138,990 for the nine months ended September 30, 2008. Disposition of the property and underlying proved reserves resulted in a change in the Company's cost depletion rate that was in excess of 20%, requiring that the loss be charged to operations rather than the Company's full cost pool. Stock-based compensation expenses for the three and nine months ended September 30, 2008 were \$141,455 and \$466,161, respectively. The expenses were attributable to the fair value of stock options granted during the periods.

Net income for the three and nine months ended September 30, 2008 was \$986,538 and \$1,967,434, respectively, compared to \$770,613 and \$1,239,080, respectively, for the comparative periods in 2007.

Cash flow from operations for the three and nine months ended September 30, 2008 was \$2,369,164 and \$10,965,728, respectively, compared to \$2,219,840 and \$3,723,632 for the same periods in 2007.

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

Three Months ended (\$)	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4
Net oil and gas revenue ⁽¹⁾	2,653,755	5,775,503	5,655,553	4,279,937	3,752,702	2,240,355	491,374	581,771
Net income (loss)	986,538	(892,913)	1,873,809	1,727,978	397,234	549,051	10,070	(1,956,577)
Net income (loss) /share	0.03	(0.02)	0.05	0.05	0.01	0.01	-	(0.05)
Cash flow from operations ⁽¹⁾	2,369,164	4,286,158	4,310,406	4,571,623	2,118,455	1,223,255	236,183	85,436
Cash flow from operations/share	0.06	0.11	0.12	0.12	0.06	0.03	0	-
Net capital expenditures	1,455,726	293,395	716,361	1,054,414	2,428,737	1,120,144	147,204	1,654

PRODUCTION VOLUMES

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

	Q3 2008				Q3 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
Montana	-	-	-	-	656	9	-	119
Gulf of Mexico (1)	1,204	271	64	535	3,309	489	135	1,176
Total	1,204	271	64	535	4,001	499	135	1,301

(1) Reduced by gas imbalance settlements during the periods of 333 mcf/d (55 boe/d) and 817 mcf/d (136 boe/d), respectively.

	Nine Months Ended September 30, 2008				Nine Months Ended September 30, 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	34	-	-	6	39	0	-	7
Montana	624	10	-	113	655	10	-	119
Gulf of Mexico (2)	2,265	392	98	868	1,871	295	46	652
Total	2,923	402	98	987	2,565	305	46	778

(2) Reduced by gas imbalance settlements during the periods of 334 mcf/d (56 boe/d) and 563 mcf/d (94 boe/d), respectively.

CAPITAL EXPENDITURES

Capital expenditures totaled \$1,455,726 and \$2,465,482 for the three and nine months ended September 30, 2008, respectively, and \$2,428,775 and \$3,818,392 for the three and nine months ended September 30, 2007, respectively.

The capital expenditures incurred during the three and nine months ended September 30, 2008, include \$800,596 and \$1,311,587 of costs attributable to the LLC properties. Expenditures during the three month period were primarily incurred in connection with the Company's well workover program at Green Canyon 184 field. In addition, the Company incurred prospect acquisition costs and prepaid drilling costs in the amount of \$641,975 and \$923,407, respectively, for the Company's participation in future drilling prospects.

DEBT AND WORKING CAPITAL

As at September 30, 2008, the Company had current assets of \$6,696,602 and current liabilities of \$11,155,136.

The following table summarizes the cash flow from operating, investing and financing activities for the three and nine months ended September 30, 2008 and 2007:

CASH FLOW TABLE	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
Cash from operating activities	5,785,209	1,833,289	17,442,044	2,366,621
Cash used by financing activities	(2,079,941)	260,653	(15,049,868)	1,525,001
Cash used by investing activities	(4,829,414)	(1,729,195)	(1,164,285)	(3,449,816)

At September 30, 2008, the Company had the following contractual obligations, including debt of \$1,809,451.

	Total	Less than 1 year	1-3 years	After 3 years
Due to related parties	31,142	31,142	-	-
Convertible debenture	809,451	809,451	-	-
Promissory note ⁽¹⁾	1,000,000	-	1,000,000	-
Drilling commitments ⁽²⁾	1,337,000	1,337,000	-	-
Asset Retirement Obligations ⁽³⁾	23,724,208	-	1,349,815	22,374,393
Premises lease	681,844	197,573	484,271	-
Total contractual obligations	\$ 27,583,645	\$ 2,375,166	\$ 2,834,086	\$ 22,374,393

⁽¹⁾ The promissory note was issued in conjunction with an acquisition that closed in June 2008. The note bears interest at payable monthly. The principal amount of the note is due in December 2010.

⁽²⁾ The obligation for drilling commitment is for a 3 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 fund its participation in these wells from either equity financing or borrowing.

⁽³⁾ 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 financial statement note 6, for which \$5,955,603 is in the form of cash collateral as at September 30, 2008.

OUTSTANDING SHARE DATA

Common shares

As of September 30, 2008 and December 31, 2007, the Company had a total of 37,692,039 and 37,317,595 common shares outstanding, respectively. There has been no change in the number of common shares outstanding as at the date of this MD&A.

A total of 8,728,716 common shares remained in escrow at September 30, 2008. The following table outlines the future releases of those shares from escrow.

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

Broker Warrants

As at December 31, 2007 and September 30, 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 to an investor relations firm. 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 and nine months ended September 30, 2008, the Company paid \$10,437 and \$68,035, respectively (three and nine months ended September 30, 2007 – \$54,535 and \$163,604, respectively) 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 and nine months ended September 30, 2008.

During the three and nine months ended September 30, 2008, the Company paid \$nil and \$87,346 of contract operating fees to a related party controlled by an Officer and Director of the Company.

As at September 30, 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 \$1,857,981 has been incurred as at September 30, 2008. The Company’s maximum amount of contribution to the Fund is \$5.0 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 \$5.0 million of performance bonds through an unrelated corporation (the “Lender”) with whom the Company also had a term note 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 \$5.0 million bond amount, adjusted for monthly cash collateral installment payments. During the three and nine months ended September 30, 2008, the Company paid \$104,715 and \$354,030, respectively, of fees which are included in interest expense in the unaudited interim consolidated statements of net income for the three and nine months ended September 30, 2008.

Upon full repayment of the term note in August 2008, the Company began to make monthly installments to the Lender, up to a total of \$5.0 million, which are 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. As at September 30, 2008 the Company had funded a total of \$2,505,818 to the cash collateral account.

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 19 to the unaudited interim consolidated financial statements for the three and nine months ended September 30, 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.

There has been no change in the Company's approach to capital management during the period ended September 30, 2008.

SUBSEQUENT EVENTS

Pursuant to a normal course issuer bid which commenced on October 10, 2008, the Company may purchase up to 1,884,602 of its common shares (approximately 5% of the Company's outstanding shares) over a 12-month period at the market price on the date of purchase. As at November 18, 2008, a total of 353,000 shares of common stock had been acquired at a cost of \$143,000.

CORPORATE OUTLOOK

The Company 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 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.

The storms that struck the Gulf of Mexico during the three month period ended September 30, 2008, while expensive in terms of repair cost and lost revenue due to the temporary shut-in of properties, had no effect on the ultimate recovery of future reserves from its producing properties. No wells were lost as a result of the storms. The Company anticipates a return to production rates in effect before the storms once necessary repairs and testing are complete. In addition the Company plans to resume its announced workover program on Green Canyon 184 field once production is restored.

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 and nine months ended September 30, 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 became 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 September 30, 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 has been with the Company since its inception and has extensive industry experience. The CEO and CFO 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

Canada Office:	780,910 – 7 Ave SW Calgary, Alberta T2P 3N8 Tel: (403) 234-9000 Fax: (403) 770-8370
Operations Office:	1800 West Loop South, Suite 1950 Houston, Texas Tel: (281) 822-0801 Fax: (281) 822-0802
Officers:	President and CEO – Ilyas M. Chaudhary CFO – James Frazier
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.
Interim Consolidated Financial Statements

For the three and nine months ended
September 30, 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 and nine months ended September 30, 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
Mansoor A. Anjum

Signed _____ Director
Raymond L. La Garde

Pyramid Petroleum Inc.
Interim Consolidated Balance Sheets
(unaudited)

Stated in U.S dollars	September 30 2008	December 31 2007
Assets		
Current		
Cash	\$ 2,375,569	\$ 1,147,346
Prepaid expenses	525,835	105,387
Accounts receivable	3,689,573	3,473,235
Inventory	105,625	137,610
	6,696,602	4,863,578
Property and equipment (note 5)	21,842,969	30,583,504
Bond collateral (note 6)	5,955,603	1,537,884
Due from related parties (note 10)	2,355,793	—
	\$ 36,850,967	\$ 36,984,966
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 8,751,520	\$ 2,448,864
Current income taxes	1,563,023	251,503
Deferred payment (note 7)	—	1,250,000
Revolving demand loan (note 8)	—	4,035,200
Term note (note 9)	—	5,059,898
Current portion of due to related parties (note 10)	31,142	2,840,452
Current portion of convertible debentures (note 11)	809,451	—
Current portion of asset retirement obligation (note 13)	—	194,174
	11,155,136	16,080,091
Convertible debentures (note 11)	—	866,481
Promissory note (note 12)	1,000,000	—
Asset retirement obligation (note 13)	12,604,661	10,982,591
Future income taxes	209,573	209,573
	24,969,370	28,138,736
Shareholders' Equity		
Equity instruments (note 14)	8,301,273	8,131,636
Contributed surplus (note 15)	587,819	155,892
Equity component of convertible debentures	30,436	32,976
Retained earnings	2,685,379	717,945
Accumulated other comprehensive income (loss) (note 16)	276,690	(192,219)
	11,881,597	8,846,230
	\$ 36,850,967	\$ 36,984,966
Nature of operations (note 1)		
Commitment (note 22)		
Subsequent events (note 23)		

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)
(unaudited)

Stated in U.S. Dollars	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenue				
Petroleum and natural gas, net of royalties (note 4)	\$ 4,702,012	\$ 6,342,030	\$ 20,176,758	\$ 10,277,095
Interest revenue	53,832	46,077	180,347	46,077
Commodity contracts	—	—	—	(75,964)
	<u>4,755,844</u>	<u>6,388,107</u>	<u>20,357,105</u>	<u>10,247,208</u>
Expenses				
Operating expenses	2,048,257	2,635,247	6,091,947	3,709,317
General and administrative	286,101	133,823	1,432,824	497,748
Interest (note 17)	203,095	588,003	923,604	1,027,269
Depreciation, depletion and accretion	935,645	1,707,713	4,367,366	2,577,097
Loss on disposition of property and equipment (note 5)	—	—	3,138,990	—
Stock-based compensation (note 14)	141,455	—	466,161	—
Foreign exchange loss (gain)	32,804	375,120	(77,008)	607,785
Fair value adjustments on financial instruments (note 10)	287,779	(321,507)	734,267	(215,513)
	<u>3,935,136</u>	<u>5,118,399</u>	<u>17,078,151</u>	<u>8,203,703</u>
Income before income taxes	820,708	1,269,708	3,278,954	2,043,505
Current income tax provision (reduction)	(165,830)	499,095	1,311,520	804,425
Net income for the period	986,538	770,613	1,967,434	1,239,080
Retained earnings (deficit), beginning of period	1,698,841	(1,497,921)	717,945	(1,966,388)
Retained earnings (deficit), end of period	\$ 2,685,379	\$ (727,308)	\$ 2,685,379	\$ (727,308)
Net income per share (note 14)				
Basic	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.03
Diluted	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.03

Pyramid Petroleum Inc.

Interim Consolidated Statements of Comprehensive Income
(unaudited)

Stated in U.S. Dollars	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Net income for the period	\$ 1,249,857	\$ 770,613	\$ 2,230,753	\$ 1,239,080
Foreign exchange adjustment on change in functional and reporting currency (note 2)	—	—	—	56,748
Foreign exchange adjustment on disposal of property and equipment (note 5)	103,897	—	468,909	—
Comprehensive income for the period	\$ 1,353,754	\$ 770,613	\$ 2,699,662	\$ 1,295,828

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

Pyramid Petroleum Inc.
Interim Consolidated Statements of Cash Flows
(unaudited)

Stated in U.S dollars	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash provided by (used in)				
Operating activities				
Net income for the period	\$ 986,538	\$ 770,613	\$ 1,967,434	\$ 1,239,080
Add: non-cash items				
Petroleum and natural gas revenue, net of royalties as settlement of related party balances	(67,849)	—	(475,274)	—
Operating and other expenses incurred through related party balances	102,776	—	757,096	—
Stock-based compensation	141,455	—	466,161	—
Interest and accretion	14,595	3,889	61,507	34,821
Depreciation, depletion and accretion	935,645	1,707,713	4,367,366	2,577,097
Loss on disposition of property and equipment	—	—	3,138,990	—
Unrealized foreign exchange (gain) loss	(31,775)	59,132	(51,819)	88,147
Fair value adjustments on financial instruments	287,779	(321,507)	734,267	(215,513)
	<u>2,369,164</u>	<u>2,219,840</u>	<u>10,965,728</u>	<u>3,723,632</u>
Change in non-cash working capital (note 18)	3,416,045	(386,551)	6,476,316	(1,357,011)
	<u>5,785,209</u>	<u>1,833,289</u>	<u>17,442,044</u>	<u>2,366,621</u>
Financing activities				
Net proceeds from (repayment of) revolving demand loan	—	241,270	(4,035,200)	3,995,670
Share issue proceeds	—	110,641	69,000	131,591
Proceeds from convertible debentures, net of issue costs	—	—	—	723,674
Repayment of term note	(1,559,898)	(1,090,084)	(5,059,898)	(1,090,084)
Repayment of loans payable	—	—	—	(2,282,141)
Net repayment and advances to related parties	(520,043)	998,826	(4,773,770)	46,291
Deferred payment	—	—	(1,250,000)	—
	<u>(2,079,941)</u>	<u>260,653</u>	<u>(15,049,868)</u>	<u>1,525,001</u>
Investing activities				
Expenditures on property and equipment	(1,455,726)	(2,428,775)	(2,465,482)	(3,818,392)
Proceeds on disposition of property and equipment	—	—	5,131,937	—
Acquisition, net of cash acquired	—	—	—	(542,467)
Deposit on acquisition	—	(200,000)	—	(200,000)
Bond collateral contributions (note 6)	(3,018,766)	—	(4,363,799)	—
Change in non-cash working capital (note 18)	(354,922)	899,580	533,059	1,111,043
	<u>(4,829,414)</u>	<u>(1,729,195)</u>	<u>(1,164,285)</u>	<u>(3,449,816)</u>
Foreign exchange loss on cash held in a foreign currency	432	575	332	(331)
(Decrease) increase in cash	<u>(1,123,714)</u>	<u>365,322</u>	<u>1,228,223</u>	<u>441,475</u>
Cash, beginning of period	<u>3,499,283</u>	<u>188,173</u>	<u>1,147,346</u>	<u>112,020</u>
Cash, end of period	<u>\$ 2,375,569</u>	<u>\$ 553,495</u>	<u>\$ 2,375,569</u>	<u>\$ 553,495</u>

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

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 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 and nine months ended September 30, 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 income (loss) presented in shareholders' equity and disclosed in note 16.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2008
(unaudited)

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(c)) 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 and nine months ended September 30, 2008, the Company distributed \$108,428 and \$724,385, respectively, of NPI which has been included in petroleum and natural gas sales, net of royalties, in the interim consolidated statements of net income.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2008
(unaudited)

Stated in U.S. Dollars

5. Property and Equipment

	September 30 2008	December 31 2007
Petroleum and natural gas properties	\$ 30,097,183	\$ 37,336,868
Accumulated depletion and impairment	(8,254,214)	(6,753,364)
	<u>\$ 21,842,969</u>	<u>\$ 30,583,504</u>

In June 2008, the Company sold its Alberta and Montana properties to an unrelated company (the "Purchaser") for total proceeds of \$5,631,937 comprised of \$5,131,937 and a \$500,000 credit against the acquisition of property from the Purchaser as described below. The change in the Company's depletion due to the disposition was greater than 20%. As a result, the Company has reported a \$3,138,990 loss on the disposition of property and equipment as the net book value of the disposed properties was in excess of the proceeds received.

In June 2008, the Company acquired a 25% working interest in the Brazos 440 area in Texas state waters from the Purchaser for total consideration of \$1,597,095 comprised of the \$500,000 credit against the above disposition, a \$1.0 million promissory note (note 12) and \$97,095 of closing adjustments paid in cash.

In August 2008, the Company's Tana properties were sold for \$706,190 of non-cash proceeds equivalent to the Company's pro-rata portion of the outstanding balance of the related indebtedness collateralized by the properties (note 10(d)).

The Company capitalized \$52,856 of general and administrative costs to the Company's petroleum and natural gas properties during the nine months ended September 30, 2008 (December 31, 2007 – \$42,384).

The calculation of depletion and depreciation included an estimated \$3,800,830 (December 31, 2007 – \$5,641,330) for future development capital costs associated with proved undeveloped reserves. The Company excluded \$1,337,125 (December 31, 2007 – nil) for the cost of unproved properties and \$4,306,240 (December 31, 2007 – \$4,380,300) for salvage values from the depletion calculation.

At September 30, 2008, the Company performed a ceiling test calculation for each of its cost centers and determined that there was no impairment.

6. Bond Collateral

	September 30 2008	December 31 2007
Zero-coupon bond	\$ 1,591,804	\$ 1,537,884
Abandonment fund	1,857,981	–
Cash collateral account	2,505,818	–
	<u>\$ 5,955,603</u>	<u>\$ 1,537,884</u>

(a) Zero-coupon bond

Bond collateral in the amount of \$1,591,804 (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).

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2008
(unaudited)

Stated in U.S. Dollars

6. Bond Collateral (continued)

(a) Zero-coupon bond (continued)

During the three and nine months ended September 30, 2008, the Company recognized \$18,249 and \$53,920, respectively, of accretion included in the reported amount of interest and accretion in the interim consolidated statements 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.

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 in May 2008 based on the net profits of the second previous production month (March 2008), for which \$1,857,981 has been contributed as at September 30, 2008. The Company's maximum amount of contribution to the Fund is \$5.0 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) Cash collateral account

In addition to the zero-coupon bond and Fund described above, the Company has secured \$5.0 million of additional performance bonds through an unrelated corporation (the "Lender") with whom the Company also had 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 unfunded portion of the \$5.0 million bond amount. During the three and nine months ended September 30, 2008, the Company paid \$104,715 and \$354,030 of fees which are included in interest expense in the interim consolidated statements of net income.

In August 2008, the Company repaid the term note described in note 9 and will continue to make monthly installments to the Lender, up to a total of \$5.0 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.

As at September 30, 2008, the Company's \$2,505,818 balance of performance bonds was comprised of \$2,500,000 of installments and \$5,818 of earned interest on the account.

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.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2008
(unaudited)

Stated in U.S. Dollars

7. Deferred Payment

As at December 31, 2007, the \$1,250,000 deferred payment 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 revolving demand loan, collateralized by a charge over the Company's Montana and Alberta assets, was repaid in June 2008 following the sale of the properties as described in note 5.

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 September 30, 2008 was nil (December 31, 2007 – \$5,059,898).

The Note bore interest at 10% calculated at a daily rate and was collateralized by the petroleum and natural gas assets in the Gulf of Mexico held by the LLC and for which the LLC members pledged their member share certificates to the Lender. Principal and accrued interest on the Note were 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 and nine months ended September 30, 2008, the Company made \$1,559,898 and \$5,059,898, respectively, of principal installments and paid \$13,894 and \$194,333, respectively, of interest to the Lender.

10. Due from (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 statements of net income as a fair value adjustment on financial instruments.

	September 30 2008	December 31 2007
Due from a related company (a)	\$ <u>2,355,793</u>	\$ <u>–</u>
Due to an Officer and Director of the Company (b)	\$ –	\$ (567,690)
Due to a related company (c)	(31,142)	(1,256,668)
Due to a related company (d)	<u>–</u>	<u>(1,016,094)</u>
	\$ <u>(31,142)</u>	\$ <u>(2,840,452)</u>

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2008
(unaudited)

Stated in U.S. Dollars

10. Due from (to) Related Parties (continued)

(a) Due from a related company

As at September 30, 2008, the estimated amortized cost of amounts due from companies indirectly controlled by an Officer and Director of the Company was \$2,355,793 (December 31, 2007 – nil). The receivable, comprised of net advances and petroleum and natural gas revenues due from the related companies and \$416,965 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 an average period of 1.25 years.

The Company is currently in discussion with the related companies to achieve realization of this account. The Company anticipates this realization to be an offsetting transaction with either real estate or oil and gas properties of equal or greater value than the agreed to cash exchange amounts.

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

At December 31, 2007, the Company was indebted to an Officer and Director of the Company for an amortized cost of \$567,690 consisting of a \$524,774 unsecured, 8% note payable and accrued interest which was repaid on March 26, 2008. The December 31, 2007 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 and nine months ended September 30, 2008, the Company was charged nil and \$9,892, respectively, of interest related to this note.

(c) Due to a related company

As at September 30, 2008, the estimated amortized cost of amounts owed to companies indirectly controlled by an Officer and Director of the Company was \$31,142 (December 31, 2007 – \$1,256,668). The indebtedness, comprised of net advances and operating costs and capital expenditures incurred by the related companies on behalf of the Company and \$283 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 1.25 years.

(d) Due to a related company

At December 31, 2007, the Company owed \$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 was 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 Company was 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 was to hold title to the subject properties as collateral for the Loan. It was expected that legal title to the properties would 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 was \$1,549,918. As a result of the covenant breach, the Bank called the Loan in April 2008.

In August 2008, the property and equipment acquired in August 2006 were included in a sale of the property interests by the Related Company's Bank for which the proceeds were sufficient to repay the entire Loan without any further recourse. As a result of the sale, the entire amount of indebtedness due at the sale date in the amount of \$706,190 was repaid in full with no further amounts due to, or from, the Related Company.

Pyramid Petroleum Inc.
Notes to the Interim Consolidated Financial Statements
September 30, 2008
(unaudited)

Stated in U.S. Dollars

10. Due from (to) Related Parties (continued)

(d) Due to a related company (continued)

The amount due bore an interest rate equal to LIBOR plus 2.5%, which was the rate charged by the Bank, and was repayable from 70% of the net operating revenue from the properties. The effective interest rate charged during 2008 was 8.8% for which the Company was charged \$47,214 of interest.

(e) Contract operator fees

During the first quarter of 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.

(f) Other

As at September 30, 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.

11. Convertible Debentures

Convertible debentures (the “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 \$0.662 (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.

In June 2008, \$63,863 (Cdn \$65,000) of the principal amount of the Debentures was converted into 144,444 common shares of the Company (note 14), reducing the number of remaining issuable shares to 1,971,112.

	September 30 2008	December 31 2007
Liability component	\$ 731,183	\$ 795,046
Unamortized transaction costs	(12,307)	(58,675)
Accumulated accretion of equity component	24,969	13,016
Foreign exchange	65,606	117,094
	<u>\$ 809,451</u>	<u>\$ 866,481</u>
	Cdn \$863,550	Cdn \$860,954

12. Promissory Note

The Company issued a \$1.0 million promissory note bearing interest at 8% per annum, paid monthly, and maturing on December 31, 2010 as partial consideration for the acquisition of properties described in note 5. An officer and director of the Company provided a personal guarantee for the principal amount of the promissory note. During the three and nine months ended September 30, 2008, the Company paid \$20,164 and \$33,534, respectively, of interest on the note.

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13. Asset Retirement Obligation

Balance – December 31, 2007	\$ 11,176,765
Dispositions (note 5)	(794,572)
Acquisition (note 5)	1,598,440
Accretion	624,028
Balance – September 30, 2008	<u>\$ 12,604,661</u>

The following assumptions were used to estimate the September 30, 2008 asset retirement obligation:

Undiscounted cash flows	\$ 23,724,210
Credit adjusted risk-free rate	8%
Inflation rate	2%
Range of expected timing of cash flows	2010 – 2049
Weighted average time to abandonment	8.3 years

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

14. Equity Instruments

(a) Common shares issued

	<u>Number</u>		<u>Amount</u>
Balance – December 31, 2007	37,317,595	\$	8,131,636
Exercise of stock options	230,000		103,234
Conversion of debentures	144,444		66,403
Balance – September 30, 2008	<u>37,692,039</u>	<u>\$</u>	<u>8,301,273</u>

i) In May 2008, the Company issued 230,000 common shares on the exercise of the same number of stock options for cash proceeds of \$69,000 (Cdn \$69,000). In addition to the cash proceeds, a \$34,234 pro-rata allocation of the options' fair value has been reclassified to the amount for common shares.

ii) In June 2008, the Company issued 144,444 common shares on the conversion of \$63,863 (Cdn \$65,000) principal amount of Debentures. In addition to the principal amount, a \$2,540 pro-rata allocation of the equity component of convertible debentures has been reclassified to the amount for common shares.

(b) Shares held in escrow

As at September 30, 2008, 8,728,716 common shares remained in escrow. The following table outlines the future releases:

<u>Release Date</u>	<u>November 11, 2008</u>	<u>May 11, 2009</u>
Number of shares	4,364,358	4,364,358

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14. Equity Instruments (continued)

(c) Broker warrants

	Number of Warrants	Weighted average exercise price		Estimated Fair Value
		US \$	Cdn \$	
Balance – December 31, 2007 and September 30, 2008	65,644	0.42	0.45	\$ 17,681

As at September 30, 2008, the outstanding broker warrants have a weighted average life remaining of 0.4 years.

(d) Stock options

As at December 31, 2007, the Company had 900,000 stock options outstanding and exercisable at an exercise price of \$0.28 (Cdn \$0.30) per share, expiring on May 4, 2011. In May 2008, 230,000 of these options were exercised for cash proceeds of \$69,000 (note 14(a)(i)).

In February 2008, the Company granted an investor relations firm 200,000 stock options of which 100,000 options are exercisable at \$0.66 (Cdn \$0.70) per share and 100,000 options are exercisable at \$0.94 (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 and expire in February 2013. The fair value of these options was estimated to be \$52,790 (\$0.26 per share) using the Black-Scholes pricing model.

In May 2008, the Company granted 2,110,000 stock options to officers, directors and employees exercisable at \$0.55 (Cdn \$0.59) per share. The options vest under various terms specified in the option agreements and expire in May 2013. The fair value of these options was estimated to be \$1,083,529 (\$0.51 per share) using the Black-Scholes pricing model.

The Black-Scholes pricing model was based on the following significant assumptions:

Expected volatility	147% - 150%
Expected life	5 years
Risk-free interest rate	2.9% - 3.5%
Dividend yield	Nil

During the three and nine months ended September 30, 2008, the Company recognized \$141,455 and \$466,161 respectively, of stock-based compensation expense in the interim consolidated statements of net income.

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	\$0.28 (Cdn \$0.30)
Granted	2,310,000	\$0.58 (Cdn \$0.61)
Exercised	(230,000)	\$0.28 (Cdn \$0.30)
Balance – September 30, 2008	2,980,000	\$0.51 (Cdn \$0.54)
Exercisable	1,356,660	\$0.44 (Cdn \$0.47)

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14. Equity Instruments (continued)

Details of stock options outstanding and exercisable as at September 30, 2008 are as follows:

Exercise price \$	Number outstanding	Weighted average contractual life remaining (years)	Weighted average exercise price	Number exercisable
\$0.28 (Cdn \$0.30)	670,000	2.6	\$0.28 (Cdn \$0.30)	670,000
\$0.55 (Cdn \$0.59)	2,110,000	4.6	\$0.55 (Cdn \$0.59)	586,660
\$0.66 (Cdn \$0.70)	100,000	4.4	\$0.66 (Cdn \$0.70)	50,000
\$0.94 (Cdn \$1.00)	100,000	4.4	\$0.94 (Cdn \$1.00)	50,000
	<u>2,980,000</u>	4.1	\$0.51 (Cdn \$0.54)	<u>1,356,660</u>

(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:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Weighted average number of shares – basic	37,692,039	37,123,845	37,495,113	36,784,033
Dilutive effect of broker warrants	30,438	25,306	20,132	24,152
Dilutive effect of stock options	1,074,777	193,074	467,519	163,743
Dilutive effect of convertible debentures	913,960	–	604,493	–
Weighted average number of shares – diluted	<u>39,711,214</u>	<u>37,342,225</u>	<u>38,587,257</u>	<u>36,971,927</u>

15. Contributed Surplus

Balance – December 31, 2007	\$ 155,892
Stock-based compensation	466,161
Exercise of options (note 14(a))	<u>(34,234)</u>
Balance – September 30, 2008	<u>\$ 587,819</u>

16. Accumulated Other Comprehensive Income (Loss)

	September 30 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
Foreign exchange adjustment on disposal of property and equipment (note 5)	468,909	–
Balance – end of period	<u>\$ 267,690</u>	<u>\$ (192,219)</u>

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17. Interest

Interest expense relates to the following:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Current liabilities	\$ 110,973	\$ 503,964	\$ 691,580	\$ 775,153
Long-term liabilities	81,685	29,504	163,989	88,512
Due to related parties	10,437	54,535	68,035	163,604
	<u>\$ 203,095</u>	<u>\$ 588,003</u>	<u>\$ 923,604</u>	<u>\$ 1,027,269</u>

18. Supplemental Cash Flow Information

(a) Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Accounts receivable	\$ 388,147	\$ (285,545)	\$ (216,338)	\$ (2,319,968)
Prepaid expenses	401,361	(82,224)	(420,448)	(78,519)
Accounts payable and accrued liabilities	2,437,445	880,798	6,334,641	2,152,519
Current income taxes	(165,830)	-	1,311,520	-
	<u>\$ 3,061,123</u>	<u>\$ 513,029</u>	<u>\$ 7,009,375</u>	<u>\$ (245,968)</u>

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Operating	\$ 3,416,045	\$ (386,551)	\$ 6,476,316	\$ (1,357,011)
Investing	(354,922)	899,580	533,059	1,111,043
	<u>\$ 3,061,123</u>	<u>\$ 513,029</u>	<u>\$ 7,009,375</u>	<u>\$ (245,968)</u>

(b) Interest and taxes paid

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Interest	\$ 180,142	\$ 584,114	\$ 818,069	\$ 992,448
Taxes	-	-	-	-

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19. Financial Instruments and Financial Risk Management

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and income taxes payable. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity. Financial instruments also include bond collateral, amounts due from (to) related parties, promissory note and convertible debentures, all of which are reported at amortized cost.

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.

(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 September 30, 2008, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$3,689,573 (December 31, 2007 – \$3,473,235). As at September 30, 2008, the Company's receivables consisted of \$3,297,006 from joint venture partners and other trade receivables and \$392,567 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. \$350,266 of revenue receivables from petroleum and natural gas marketers was received in October and November 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 September 30, 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.

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19. Financial Instruments and Financial Risk Management (continued)

(a) Credit Risk (continued)

As at September 30, 2008 the Company considers its receivables to be aged as follows:

Not past due	\$	2,235,201
Past due by less than 90 days		918,629
Past due by more than 90 days		445,743
	<u>\$</u>	<u>3,689,573</u>

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.

(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. 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 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, interest rate risk and commodity price 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 21 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 September 30, 2008.

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 2008, the Company did not hold any variable rate indebtedness and is therefore not subject to interest rate risk. The Company had no interest rate swap or financial contracts in place at September 30, 2008.

19. Financial Instruments and Financial Risk Management (continued)

iv) 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 September 30, 2008.

20. 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 potential lenders, the level of bank credit that may be attainable from lenders 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.

There has been no change in the Company's approach to capital management during the period ended September 30, 2008.

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21. 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					
	September 30, 2008			September 30, 2007		
	Canada	United States	Total	Canada	United States	Total
	\$	\$	\$	\$	\$	\$
Revenues, net of royalties	(527)	4,702,539	4,702,012	17,139	6,324,891	6,342,030
Net (loss) income	(249,321)	1,235,859	986,538	(300,733)	1,071,346	770,613
Per share						
- Basic and diluted	(0.01)	0.04	0.03	(0.01)	0.03	0.02

	For the nine months ended					
	September 30, 2008			September 30, 2007		
	Canada	United States	Total	Canada	United States	Total
	\$	\$	\$	\$	\$	\$
Revenues, net of royalties	47,530	20,129,228	20,176,758	62,406	10,214,689	10,277,095
Net (loss) income	(735,033)	2,702,467	1,967,434	(426,106)	1,665,186	1,239,080
Per share						
- Basic and diluted	(0.02)	0.07	0.05	(0.01)	0.04	0.03

	September 30, 2008			December 31, 2007		
	Canada	United States	Total	Canada	United States	Total
	\$	\$	\$	\$	\$	\$
Total assets	442,944	36,408,023	36,850,967	743,680	36,241,286	36,984,966
Property and equipment	413,717	21,429,252	21,842,969	691,011	29,892,493	30,583,504
Expenditures on property and equipment	(35,004)	2,500,486	2,465,482	529,610	4,220,889	4,750,499

22. Commitment

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. In September 2008, the Company sold one-half of its original working interest to unaffiliated joint venture partners thereby reducing its estimated share of drilling and completion costs from \$3.3 million to \$1.7 million. As at September 30, 2008, the Company had incurred approximately \$330,000 of related costs.

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23. Subsequent Events

Except as disclosed elsewhere in these interim consolidated financial statements, the following event occurred subsequent to September 30, 2008:

Pursuant to a normal course issuer bid which commenced on October 10, 2008, the Company may purchase up to 1,884,602 of its common shares (approximately 5% of the Company's outstanding shares) over a 12-month period at the market price on the date of purchase.

24. Prior Year Comparatives

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