BlackRock Real Asset Equity Trust
Form N-2/A
September 25, 2006

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As filed with the Securities and Exchange Commission on September 25, 2006

Securities Act Registration No. 333-135868
Investment Company Registration No. 811-21931

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

Registration Statement Under The Securities Act of 1933	**ý**
Pre-Effective Amendment No. 2	**ý**
Post-Effective Amendment No.	**o**
and/or	
REGISTRATION STATEMENT UNDER	
INVESTMENT COMPANY ACT OF 1940	**ý**
AMENDENT NO. 2	**ý**

BlackRock Real Asset Equity Trust

(Exact Name of Registrant As Specified In the Amended and Restated Declaration of Trust)

100 Bellevue Parkway
Wilmington, Delaware 19809
(Address of Principal Executive Offices)

(800) 882-0052
(Registrant's Telephone Number, Including Area Code)

Robert S. Kapito, President
BlackRock Real Asset Equity Trust
40 East 52nd Street
New York, New York 10022
(Name and Address of Agent for Service)

Copies to:

Michael K. Hoffman, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036

Sarah E. Cogan, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017-3954

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee

Common Shares, $.001 par value	60,000,000 shares	$15.00	$900,000,000(1)	$96,139.50(2)

(1) Estimated solely for the purpose of calculating the registration fee.

(2) $160.50 Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

BlackRock Real Asset Equity Trust

CROSS REFERENCE SHEET

Part A Prospectus

Items in Part A of Form N		Location in Prospectus
Item 1.	Outside Front Cover	Cover Page
Item 2.	Cover Pages; Other Offering Information	Cover Page
Item 3.	Fee Table and Synopsis	Prospectus Summary; Summary of Trust Expenses
Item 4.	Financial Highlights	Not Applicable
Item 5.	Plan of Distribution	Cover Page; Prospectus Summary; Underwriting
Item 6.	Selling Shareholders	Not Applicable
Item 7.	Use of Proceeds	Use of Proceeds; The Trust's Investments
Item 8.	General Description of the Registrant	The Trust; The Trust's Investments; Risks; Description of Shares; Anti-Takeover Provisions in the Amended and Restated Agreement and Declaration of Trust; Closed-End Trust Structure;
Item 9.	Management	Management of the Trust; Custodian and Transfer Agent; Summary of Trust Expenses
Item 10.	Capital Stock, Long-Term Debt, and Other Securities	Description of Shares; Distributions; Dividend Reinvestment Plan; Anti-Takeover Provisions in the Amended and Restated Agreement and Declaration of Trust; Tax Matters
Item 11.	Defaults and Arrears on Senior Securities	Not Applicable
Item 12.	Legal Proceedings	Legal Opinions
Item 13.	Table of Contents of the Statement of Additional Information	Table of Contents for the Statement of Additional Information

Part B Statement of Additional Information

Item 14.	Cover Page	Cover Page
Item 15.	Table of Contents	Cover Page
Item 16.	General Information and History	Not Applicable
Item 17.	Investment Objective and Policies	Investment Objective and Policies; Investment Policies and Techniques; Other Investment Policies and Techniques; Portfolio Transactions and Brokerage
Item 18.	Management	Management of the Trust; Portfolio Transactions and Brokerage
Item 19.	Control Persons and Principal Holders of Securities	Not Applicable
Item 20.	Investment Advisory and Other Services	Management of the Trust; Experts
Item 21.	Portfolio Managers	Management of the Trust
Item 22.	Brokerage Allocation and Other Practices	Portfolio Transactions and Brokerage
Item 23.	Tax Status	Tax Matters
Item 24.	Financial Statements	Financial Statements; Independent Auditors' Report

Part C Other Information

Items 25-34 have been answered in Part C of this Registration Statement

PRELIMINARY PROSPECTUS **SUBJECT TO COMPLETION, DATED AUGUST 28, 2006**

BlackRock Real Asset Equity Trust

Common Shares

$15.00 per Share

Investment Objective. BlackRock Real Asset Equity Trust (the "Trust") is a newly organized, non-diversified, closed-end management investment company. The Trust's investment objective is to provide total return through a combination of current income, current gains and capital appreciation. The Trust attempts to achieve this objective by investing primarily in equity securities of companies engaged in energy, natural resources and basic materials businesses and companies engaged in associated businesses and equity derivatives with exposure to those companies.

No Prior History. **Because the Trust is newly organized, its shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering.** The Trust's common shares have been approved for listing on the New York Stock Exchange under the Symbol "BCF", subject to notice of issuance.

(continued on next page)

Investing in the common shares involves certain risks. See "Risks" on page 34 of this prospectus.

	Per Share	Total[1]
Public offering price	$ 15.00	
Sales load[2]	$ .675	
Estimated offering expenses[3]	$ .03	
Proceeds, after expenses, to the Trust[4]	$ 14.295	

(1) The Trust has granted the underwriters an option to purchase up to additional common shares at the public offering price, less the sales load, within 45 days of the date of this prospectus solely to cover over-allotments, if any. If such option is exercised in full, the public offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Trust will be $, $, $ and $, respectively. See "Underwriting."

(2) BlackRock Advisors, Inc. has agreed to pay from its own assets a structuring fee to each of Wachovia Capital Markets, LLC, Citigroup Global Markets Inc., UBS Securities LLC, and A.G. Edwards & Sons, Inc. and additional compensation to Merrill Lynch, Pierce, Fenner & Smith Incorporated. BlackRock Advisors, Inc. may pay certain qualifying underwriters a marketing and structuring fee, additional compensation, or a sales incentive fee in connection with the offering. BlackRock Advisors, Inc. may pay commissions to employees of its affiliates that participate in the marketing of the Trust's common shares. See "Underwriting."

(3) The Trust will pay its organizational costs in full. The offering expenses paid by the Trust (other than the sales load) in addition to the Trust's organizational costs will not exceed an aggregate of $.03 per share of the Trust's common shares sold in this offering. This $.03 per common share amount may include a reimbursement of BlackRock Advisors, Inc.'s expenses incurred in connection with this offering. BlackRock Advisors, Inc. has agreed to pay such offering expenses of the Trust to the extent offering expenses (other than sales load) and organizational expenses exceed $.03 per share of the Trust's common shares. The aggregate offering expenses (other than sales load) to be incurred by the Trust are estimated to be $1,133,332 (including amounts incurred by BlackRock Advisors, Inc. on behalf of the Trust).

(4) The Trust will pay its organizational expenses out of its seed capital prior to completion of this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The common shares will be ready for delivery on or about , 2006.

Wachovia Securities

Citigroup

Merrill Lynch & Co.

UBS Investment Bank

A.G. Edwards

Robert W. Baird & Co. | **Banc of America Securities LLC**

Crowell, Weedon & Co. | **Ferris, Baker Watts Incorporated**

H&R Block Financial Advisors, Inc. | **J.J.B. Hilliard, W.L. Lyons, Inc.**

Janney Montgomery Scott LLC | **Morgan Keegan & Company, Inc.**

Oppenheimer & Co. | **PNC Capital Markets**

Raymond James | **RBC Capital Markets**

Ryan Beck & Co. | **Stifel Nicolaus**

SunTrust Robinson Humphrey | **Wedbush Morgan Securities Inc.**

Wells Fargo Securities

The date of this prospectus is September , 2006

(continued from previous page)

Investment Advisor. The Trust's investment advisor is BlackRock Advisors, Inc. ("BlackRock Advisors" or the "Advisor") and the Trust's sub-advisors are BlackRock Capital Management, Inc., Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited (collectively, the "Sub-Advisors"). We sometimes refer to the Advisor and the Sub-Advisors collectively as the "Advisors".

Investment Policies. Under normal market conditions, the Trust will invest at least 80% of its total assets in equity securities of companies engaged in energy, natural resources and basic materials businesses and companies in associated businesses and equity derivatives with exposure to those companies. Energy, natural resources, basic materials and associated companies include those companies that own, produce, refine, process, transport and market natural resources, and companies that provide related services. These companies include, but are not limited to, those engaged in businesses such as integrated oil, oil and gas exploration and production, gold and other precious metals, steel and iron ore production, energy services, and technology, metal production, forest products, paper products, chemicals, building materials, coal, alternative energy sources and environmental services, as well as related transportation companies and equipment manufacturers. Equity securities held by the Trust may include common stocks, preferred stocks, convertible securities, warrants, depository receipts, equity interests in Canadian Royalty Trusts, and equity interests in master limited partnerships ("MLPs"). The Trust will not invest more than 25% of the value of its total assets in MLPs. The Trust will consider a company to be principally engaged in the energy, natural resources or basic materials industries if: (i) at least 50% of the company's assets, income, sales or profits are committed to or derived from any of the energy, natural resources or basic materials industries; or (ii) a third party classification (such as (a) Standard Industry Classifications and the North American Industry Classification System, each of which is published by the Executive Office of the President, Office of Management and Budget and (b) classifications used by third party data providers including, without limitation, FactSet Research Systems Inc. and MSCI Barra) has given the company an industry or sector classification consistent with the designated business activity. The Trust may invest in companies located anywhere in the world. The Trust expects to invest primarily in companies located in developed countries, but may invest in companies located in emerging markets. In selecting investments, the Trust looks for equity securities of companies that appear to have potential for above average performance. These may include companies that the Advisors expect to show above average growth over the long term as well as those that appear to the Advisors to be trading below their true net worth. The Trust may invest in companies of any size market capitalization including small capitalization and mid-capitalization companies. As part of its investment strategy, the Trust currently intends to employ a strategy of writing (selling) covered call options on a portion of the common stocks in its portfolio, writing (selling) covered put options and, to a lesser extent, writing (selling) covered call and put options on indices of securities and sectors of securities. This option strategy is intended to generate current gains from option premiums as a means to enhance distributions payable to the Trust's shareholders. The Trust may use strategic transactions for hedging purposes or to enhance total return and may engage in short sales of securities and securities lending. The Trust may invest up to 20% of its total assets in U.S. and non-U.S. investments, including stocks and debt securities of companies not associated with energy, natural resources or basic materials. The Trust reserves the right to invest up to 10% of its total assets in non-investment grade debt securities, commonly known as "junk bonds." The Trust does not intend to invest directly in physical commodities such as gold and other metals.

You should read this prospectus, which contains important information about the Trust, before deciding whether to invest in the common shares, and retain it for future reference. A Statement of Additional Information, dated , 2006, containing additional information about the Trust, has been filed with the Securities and Exchange Commission and, as amended from time to time, is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 57 of this prospectus. You may request a free copy of the Statement of

Additional Information by calling (800) 882-0052 or by writing to the Trust, or obtain a copy (and other information regarding the Trust) from the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Call 1-202-551-8090 for information. The Securities and Exchange Commission charges a fee for copies. You can get the same information free from the Securities and Exchange Commission's web site (*http://www.sec.gov*). You may also e-mail requests for these documents to *publicinfo@sec.gov* or make a request in writing to the Securities and Exchange Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102. The Trust does not post a copy of the Statement of Additional Information on its web site because the Trust's common shares are not continuously offered, which means the Statement of Additional Information will not be updated after completion of this offering and the information contained in the Statement of Additional Information will become outdated. The Trust's annual and semi-annual reports, when produced, will be available at the Trust's web site (http://www.blackrock.com).

The Trust's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition and prospects may have changed since that date.

PROSPECTUS SUMMARY

This is only a summary of certain information contained in this prospectus relating to BlackRock Real Asset Equity Trust. This summary may not contain all of the information that you should consider before investing in our common shares. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information.

The Trust	BlackRock Real Asset Equity Trust is a newly organized, non-diversified, closed-end management investment company. Throughout the prospectus, we refer to BlackRock Real Asset Equity Trust simply as the "Trust" or as "we," "us" or "our." See "The Trust."
The Offering	The Trust is offering common shares of beneficial interest at $15.00 per share through a group of underwriters led by Wachovia Capital Markets, LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, UBS Securities LLC and A.G. Edwards & Sons, Inc. The common shares of beneficial interest are called "common shares" in the rest of this prospectus. You must purchase at least 100 common shares ($1,500) in order to participate in this offering. The Trust has given the underwriters an option to purchase up to additional common shares to cover over-allotments. BlackRock Advisors, Inc. ("BlackRock Advisors" or the "Advisor") has agreed to pay offering costs (other than sales load) to the extent that offering costs (other than sales load) and organizational expenses exceed $.03 per common share. See "Underwriting."
Investment Objective	The Trust's investment objective is to provide total return through a combination of current income, current gains and capital appreciation. The Trust attempts to achieve this objective by investing primarily in equity securities of companies engaged in energy, natural resources and basic materials businesses and companies in associated businesses and equity derivatives with exposure to those companies. There can be no assurance that the Trust's investment objective will be achieved. See "The Trust's Investments Investment Objective and Policies."
Investment Policies	*Investment Philosophy.* The Advisors believe inefficient pricing in the energy, natural resources, basic materials and associated industries provides the opportunity for enhanced investment returns. The Advisors seek to take advantage of value dislocations through the combination of top-down macro analysis and bottom-up security selection. The knowledge and experience of the Advisors'

energy, natural resources and basic materials portfolio management teams are used to evaluate the macro environment and assess its impact on the various industries within the energy, natural resources and basic materials sector. Within this framework, the Advisors seek to identify attractively valued securities with strong growth prospects through rigorous bottom-up fundamental research.

The top-down component of the investment process is designed to assess the various interrelated macro variables affecting the energy, natural resources, basic materials and associated industries as a whole. These variables generally include the supply, demand, inventory, raw material and transportation factors for crude oil, natural gas, coal, electricity, gold, precious metals, base metals and industrial metals on a worldwide basis. By comparing the market's perception of these factors relative to the Advisors' outlook, the Advisors seek to identify value dislocations. The greater the conviction and value dislocation, the greater the potential investment returns.

Risk/reward analysis is a key component of the Advisors' macro view. The Advisors evaluate energy, natural resources, basic materials and associated sub-sectors (i.e., oil, gas, coal, pipes, gold, etc.) to seek to determine optimal portfolio positioning. Industry selection is a direct result of the Advisors' sub-sector analysis. Once the evaluation of the various energy, natural resources, basic materials and associated industries is complete, the Advisors identify those sub-sectors that are most attractive based on their long-term macro view.

Bottom-up security selection is focused on identifying the most compelling investment opportunities within each industry. The Advisors seek to identify reasonably-priced companies with attractive long-term prospects, quality management and strong cash-flow growth. The Advisors use quantitative measures such as price-to-earnings, price-to-book, price-to-cash-flow and debt-to-cash-flow ratios, net asset value, and relative cash flows in order to identify such companies. The Advisors currently expect to reconsider on a quarterly basis the Trust's allocation of assets among the industries in which it invests.

Investment Strategy. Under normal market conditions, the Trust will invest at least 80% of its total assets in equity securities of companies

engaged in energy, natural resources and basic materials businesses and companies engaged in associated businesses and equity derivatives with exposure to those companies. Energy, natural resources, basic materials and associated companies include those companies that own, produce, refine, process, transport and market natural resources, and companies that provide related services. These companies include, but are not limited to, those engaged in businesses such as integrated oil, oil and gas exploration and production, gold and other precious metals, steel and iron ore production, energy services, and technology, metal production, forest products, paper products, chemicals, building materials, coal, alternative energy sources and environmental services, as well as related transportation companies and equipment manufacturers. Equity securities held by the Trust may include common stocks, preferred shares, convertible securities, warrants, depository receipts, equity interests in Canadian Royalty Trusts, and master limited partnerships ("MLPs"). The Trust will not invest more than 25% of the value of its total assets in MLPs. The Trust may invest in companies located anywhere in the world. The Trust expects to invest primarily in companies located in developed countries, but may invest in companies located in emerging markets. In selecting investments, the Trust looks for equity securities of companies that appear to have potential for above-average performance. These may include companies that the Advisors expect to show above-average growth over the long term as well as those that appear to the Advisors to be trading below their true net worth. The Trust may invest in companies of any size market capitalization, including small capitalization and mid-capitalization companies. The Trust does not intend to invest directly in physical commodities such as gold or other metals.

The Trust may invest up to 20% of its total assets in other U.S. and other non-U.S. investments. These investments may include equity and debt securities of companies not engaged in energy, natural resources, basic materials and associated businesses. The Trust reserves the right to invest up to 10% of its total assets in non-investment grade debt securities, commonly known as "junk bonds." See "Investment Policies and Techniques Non-Investment Grade Securities" in the Statement of Additional Information.

As part of its strategy, the Trust currently intends to employ a strategy of writing (selling) covered call and put options on individual common stocks. In addition to its covered option strategy, the Trust may, to a lesser extent, pursue a strategy that includes the sale (writing) of both covered call and put options on indices of securities and sectors of securities. This option strategy is intended to generate current gains from option premiums as a means to enhance distributions payable to the Trust's shareholders. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. A substantial portion of the options written by the Trust may be over-the-counter options ("OTC options").

A call option written by the Trust on a security is "covered" if the Trust owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration (or, if additional cash consideration is required, cash or other assets determined to be liquid by the Advisors (in accordance with procedures established by the board of trustees) in such amount are segregated by the Trust's custodian) upon conversion or exchange of other securities held by the Trust. A call option is also covered if the Trust holds a call on the same security as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written, or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Trust in segregated assets determined to be liquid by the Advisors as described above.

A put option written by the Trust on a security is "covered" if the Trust segregates or earmarks assets determined to be liquid by the Advisors (in accordance with procedures established by the board of trustees) equal to the exercise price. A put option is also covered if the Trust holds a put on the same security as the put written where the exercise price of the put held is (i) equal to or greater than the exercise price of the put written, or (ii) less than the exercise price of the put written, provided the difference is maintained by the Trust in segregated or earmarked assets determined to be liquid by the Advisors as described above.

An index or sector orientated option is considered "covered" if the Trust maintains with its custodian assets determined to be liquid in an amount equal to the contract value of the applicable basket of

securities. An index or sector put option also is covered if the Trust holds a put on the same basket of securities as the put written where the exercise price of the put held is (i) equal to or more than the exercise price of the put written, or (ii) less than the exercise price of the put written, provided the difference is maintained by the Trust in segregated assets determined to be liquid. An index or sector call option also is covered if the Trust holds a call on the same basket of securities as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written, or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Trust in segregated assets determined to be liquid. Because index and sector options both refer to options on baskets of securities and generally have similar characteristics, we refer to these types of options collectively as "index" options.

The Trust generally intends to write covered put and call options, the notional amount of which will be approximately 30% to 40% of the Trust's total assets, although this percentage may vary from time to time with market conditions. Under current market conditions, the Trust anticipates initially writing covered put and call options, the notional amount of which will be approximately 33% of the Trust's total assets. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. The number of covered put and call options on securities the Trust can write is limited by the total assets the Trust holds, and further limited by the fact that all options represent 100 share lots of the underlying common stock. In connection with its option writing strategy, the Trust will not write "naked" or uncovered put and call options. Furthermore, the Trust's exchange-listed option transactions will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which such options are traded. These limitations govern the maximum number of options in each class that may be written or purchased by a single investor or group of investors acting in concert, regardless of whether the options are written or purchased on the same or different exchanges, boards of trade or other trading facilities or are held or written in one or more accounts or through one or more brokers. Thus, the number of options which the Trust may write or purchase may be affected by options written or purchased by other investment advisory clients of the

	Advisor. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose certain other sanctions. In addition to the option strategies discussed above, the Trust may engage in strategic transactions for hedging purposes or to enhance total return. See "The Trust's Investments Portfolio Composition Strategic Transactions." The Trust may also engage in short sales of securities and securities lending. The Trust does not intend to utilize leverage or issue preferred shares.
Investment Advisors	The Trust's investment advisor is BlackRock Advisors. In addition, the Sub-Advisors will provide certain day-to-day investment management services to the Trust. Throughout the prospectus, we sometimes refer to BlackRock Advisors and the Sub-Advisors collectively as the "Advisors." BlackRock Advisors will receive an annual fee, payable monthly, in a maximum amount equal to 1.20% of the average weekly value of the Trust's net assets. BlackRock Advisors has agreed to waive receipt of a portion of the management fee or other expenses of the Trust in the amount of 0.20% of average weekly net assets attributable to common shares for the first five years of the Trust's operations, 0.15% in year six, 0.10% in year seven and 0.05% in year eight. BlackRock Advisors will pay a sub-advisory fee to each Sub-Advisor, equal to 25% of the management fee, after giving effect to any waiver. See "Management of the Trust."
Distributions	Commencing with the Trust's initial dividend, the Trust intends to make regular monthly cash distributions of all or a portion of its investment company taxable income to common shareholders. We expect to declare the initial monthly dividend on the Trust's common shares within approximately 45 days after completion of this offering and to pay that initial monthly dividend approximately 60 to 90 days after completion of this offering. The Trust will pay common shareholders at least annually all or substantially all of its investment company taxable income. The Trust intends to pay any capital gains distributions annually. Various factors will affect the level of the Trust's current income and current gains, such as its asset mix and the Trust's use of options. To permit the

	Trust to maintain a more stable monthly distribution, the Trust may from time to time distribute less than the entire amount of income and gains earned in a particular period. The undistributed income and gains would be available to supplement future distributions. As a result, the distributions paid by the Trust for any particular month may be more or less than the amount of income and gains actually earned by the Trust during that month. Undistributed income and gains will add to the Trust's net asset value and, correspondingly, distributions from undistributed income and gains and from capital, if any, will deduct from the Trust's net asset value. See "Distributions." Shareholders will automatically have all dividends and distributions reinvested in common shares of the Trust issued by the Trust or common shares of the Trust purchased in the open market in accordance with the Trust's dividend reinvestment plan unless an election is made to receive cash. See "Dividend Reinvestment Plan."
Listing	The Trust's common shares have been approved for listing on the New York Stock Exchange under the symbol "BCF", subject to notice of issuance.
Custodian and Transfer Agent	The Bank of New York will serve as the Trust's Custodian and Transfer Agent. See "Custodian and Transfer Agent."
Market Price of Shares	Common shares of closed-end investment companies frequently trade at prices lower than their net asset value. Common shares of closed-end investment companies, such as the Trust, that invest primarily in equity securities have during some periods traded at prices higher than their net asset value and during other periods traded at prices lower than their net asset value. The Trust cannot assure you that its common shares will trade at a price higher than or equal to net asset value. The Trust's net asset value will be reduced immediately following this offering by the sales load and the amount of the organizational and offering expenses paid by the Trust. See "Use of Proceeds." In addition to net asset value, the market price of the Trust's common shares may be affected by such factors as dividend levels, which are in turn affected by interest rates, expenses, call protection for portfolio securities, dividend stability, portfolio credit quality, liquidity and market supply and demand. See "Risks," "Description of Shares" and the section of the Statement of Additional Information with the heading "Repurchase of Common Shares." The

	common shares are designed primarily for long-term investors, and you should not purchase common shares of the Trust if you intend to sell them shortly after purchase.
Special Risk Considerations	*No Operating History.* The Trust is a non-diversified, closed-end management investment company with no operating history.
	Market Discount Risk. As with any stock, the price of the Trust's shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by the amount of the sales load and organizational and offering expenses paid by the Trust. Common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Trust's shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the initial offering.
	Industry Concentration Risk. The Trust's investments will be concentrated in a group of industries consisting of the energy, natural resources, basic materials and associated industries. Because the Trust is focused in specific industries, it may present more risks than if it were broadly diversified over numerous industries and sectors of the economy. A downturn in any one of the energy, natural resources, basic materials or associated industries would have a larger impact on the Trust than on an investment company that does not concentrate in such industries. The industries in which the Trust will concentrate its investments can be significantly affected by the supply of and demand for specific products and services, exploration and production spending, government regulation, world events and economic conditions. The energy, natural resources, basic materials and associated industries can also be significantly affected by events relating to international political developments, energy conservation, the success of exploration projects, commodity prices, and tax and government regulations. At times, the performance of securities of companies in the energy, natural resources, basic materials and

associated industries will lag behind the performance of other industries or the broader market as a whole. The Trust will not invest, under normal market conditions, less than 25% of its total assets in equity securities of companies engaged in energy, natural resources and basic materials businesses and companies engaged in associated businesses and equity derivatives with exposure to those companies.

Other risks inherent in investing in energy, natural resources, basic materials and associated companies include:

Supply and Demand Risk. A decrease in the production of a physical commodity or a decrease in the volume of such commodity available for transportation, mining, processing, storage or distribution may adversely impact the financial performance of an energy, natural resources, basic materials or an associated company that devotes a portion of its business to that commodity. Production declines and volume decreases could be caused by various factors, including catastrophic events affecting production, depletion of resources, labor difficulties, environmental proceedings, increased regulations, equipment failures and unexpected maintenance problems, import supply disruption, governmental expropriation, political upheaval or conflicts or increased competition from alternative energy sources or commodity prices. Alternatively, a sustained decline in demand for such commodities could also adversely affect the financial performance of energy, natural resources, basic materials or associated companies. Factors that could lead to a decline in demand include economic recession or other adverse economic conditions, higher taxes on commodities or increased governmental regulations, increases in fuel economy, consumer shifts to the use of alternative commodities or fuel sources, changes in commodity prices, or weather.

Depletion and Exploration Risk. Many energy, natural resources, basic materials and associated companies are engaged in the production of one or more physical commodities or are engaged in transporting, storing, distributing and processing these items on behalf of shippers. To maintain or grow their revenues, these companies or their customers need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources, through acquisitions or through long-term

contracts to acquire reserves. The financial performance of energy, natural resources, basic materials and associated companies may be adversely affected if they, or the companies to whom they provide the service, are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline.

Operational and Geological Risk. Energy, natural resources, basic materials companies and associated companies are subject to specific operational and geological risks in addition to normal business and management risks. Some examples of operational risks include mine rock falls, underground explosions and pit wall failures. Geological risk would include faulting of the ore body and misinterpretation of geotechnical data.

Regulatory Risk. Energy, natural resources, basic materials and associated companies are subject to significant federal, state and local government regulation in virtually every aspect of their operations, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future which would likely increase compliance costs and may adversely affect the operations and financial performance of energy, natural resources and basic materials companies.

Commodity Pricing Risk. The operations and financial performance of energy, natural resources and basic materials companies may be directly affected by commodity prices, especially those energy, natural resources, basic materials and associated companies that own the underlying commodity. Commodity prices fluctuate for several reasons, including changes in market and economic conditions, the impact of weather on demand, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation, the availability of local, intrastate and interstate transportation systems, governmental expropriation and political upheaval and conflicts. Volatility of commodity prices, which may lead to a reduction in production or supply, may also

negatively impact the performance of energy, natural resources, basic materials and associated companies that are solely involved in the transportation, processing, storing, distribution or marketing of commodities. Volatility of commodity prices may also make it more difficult for energy, natural resources, basic materials and associated companies to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices.

Precious Metals Pricing Risk. The Trust may invest in companies that have a material exposure to precious metals, such as gold, silver and platinum and precious metals related instruments and securities. The price of precious metals can fluctuate widely and is affected by numerous factors beyond the Trust's control including: global or regional political, economic or financial events and situations; investors' expectations with respect to the future rates of inflation and movements in world equity, financial and property markets; global supply and demand for specific precious metals, which is influenced by such factors as mine production and net forward selling activities by precious metals producers, central bank purchases and sales, jewelry demand and the supply of recycled jewelry, net investment demand and industrial demand, net of recycling; interest rates and currency exchange rates, particularly the strength of and confidence in the U.S. dollar; and investment and trading activities of hedge funds, commodity funds and other speculators. The Trust does not intend to hold physical precious metals.

Distress Gold Sale Risk. The possibility of large-scale distress sales of gold in times of crisis may have a short-term negative impact on the price of gold and adversely affect companies in which the Trust may invest. For example, economic, political or social conditions or pressures may require central banks, other governmental agencies and multi-lateral institutions that buy, sell and hold gold as part of their reserve assets, to liquidate their gold assets all at once or in an uncoordinated manner. The demand for gold might not be sufficient to accommodate the sudden increase in the supply of gold to the market.

Precious Metals in Emerging Markets. The Trust is likely to invest in precious metals companies that are located in emerging markets. It should be noted that some governments exercise substantial

influence over the private sector, and the political risk for many developing countries is a significant factor. See also "Emerging Markets Risk" below.

Commodity and Currency Risk. The use of commodity and currency derivative instruments by producers has increased in recent years. There have been examples of companies that have mismanaged their exposures resulting, in extreme cases, in financial distress or even bankruptcy.

Interest Rate Risk. Rising interest rates could adversely impact the financial performance of energy, natural resources, basic materials and associated companies by increasing their costs of capital. This may reduce their ability to execute acquisitions or expansion projects in a cost-effective manner.

Investment and Market Risk. An investment in the Trust's common shares is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in common shares represents an indirect investment in the securities owned by the Trust, a majority of which are traded on a securities exchange or in the over-the-counter markets. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Trust dividends and distributions.

Common Stock Risk. The Trust will have exposure to common stocks. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and in certain periods have significantly underperformed relative to fixed-income securities. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Trust. Also, the price of common stocks is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Trust has exposure. Common stock prices fluctuate for several reasons including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive

to rising interest rates, as the cost of capital rises and borrowing costs increase. Interest rates recently have been rising and it is possible that they will rise further.

Non-U.S. Securities Risk. Investing in non-U.S. securities involves certain risks not involved in domestic investments, including, but not limited to: (1) fluctuations in foreign exchange rates; (2) future foreign economic, financial, political and social developments; (3) different legal systems; (4) the possible imposition of exchange controls or other foreign governmental laws or restrictions, including expropriation; (5) lower trading volume; (6) much greater price volatility and illiquidity of certain non-U.S. securities markets; (7) different trading and settlement practices; (8) less governmental supervision; (9) changes in currency exchange rates; (10) high and volatile rates of inflation; (11) fluctuating interest rates; (12) less publicly available information; and (13) different accounting, auditing and financial recordkeeping standards and requirements.

Certain countries in which the Trust may invest, especially emerging market countries, historically have experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates that are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of: (1) the possibility of expropriation or nationalization of assets; (2) confiscatory taxation; (3) difficulty in obtaining or enforcing a court judgment; (4) economic, political or social instability; and (5) diplomatic developments that could affect investments in those countries.

Because the Trust may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Trust and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such

currencies, which means that the Trust's net asset value or current income could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. Certain investments in non-U.S. securities also may be subject to foreign withholding taxes. Dividend income from non-U.S. corporations may not be eligible for the reduced rate for qualified dividend income. These risks often are heightened for investments in smaller, emerging capital markets. In addition, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as: (1) growth of gross domestic product; (2) rates of inflation; (3) capital reinvestment; (4) resources; (5) self-sufficiency; and (6) balance of payments position.

As a result of these potential risks, the Advisors may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Trust may invest in countries in which foreign investors, including the Advisors, have had no or limited prior experience.

Emerging Markets Risk. Investing in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of non-U.S. issuers to a heightened degree. "Emerging market countries" generally include every nation in the world except developed countries, that is the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in lack of liquidity and an increase in price volatility; and (iii) certain national policies that may restrict the Trust's investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

Liquidity Risk. In some circumstances, investments may be relatively illiquid making it difficult to acquire or dispose of them at the prices quoted on relevant exchanges or at all. Accordingly, the Trust's ability to respond to market movements may be impaired and the Trust may experience

adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties.

Foreign Currency Risk. Because the Trust may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Trust and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Trust's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. In addition, the Trust may enter into foreign currency transactions in an attempt to enhance total return which may further expose the Trust to the risks of foreign currency movements and other risks. See "Risks-Strategic Transactions."

*Small and Mid-Cap Stock Risk.*While the Trust generally will invest primarily in large capitalization companies, the Trust may invest in companies with small or medium capitalizations. Smaller and medium company stocks can be more volatile than, and perform differently from, larger company stocks. There may be less trading in a smaller or medium company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Smaller and medium companies may have fewer business lines; changes in any one line of business, therefore, may have a greater impact on a smaller and medium company's stock price than is the case for a larger company. As a result, the purchase or sale of more than a limited number of shares of a small or medium company may affect its market price. The Trust may need a considerable amount of time to purchase or sell its positions in these securities. In addition, smaller or medium company stocks may not be well known to the investing public.

MLP Risk. An investment in MLP units involves some risks that differ from an investment in the common stock of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an

investment in MLP units and conflicts of interest may exist between common unit holders and the general partner, including those arising from incentive distribution payments.

Short Sales Risk. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the short seller to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Risks Associated with the Trust's Option Strategy. The ability of the Trust to achieve its investment objective of providing total return through a combination of current income, current gains and capital appreciation is partially dependent on the successful implementation of its option strategy. Risks that may adversely affect the ability of the Trust to successfully implement its option strategy include the following:

Risks Associated with Options on Securities. There are several risks associated with transactions in options on securities used in connection with the Trust's option strategy. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

As the writer of a covered call option, the Trust forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but

has retained the risk of loss should the price of the underlying security decline. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price.

When the Trust writes covered put options, it bears the risk of loss if the value of the underlying stock declines below the exercise price minus the put premium. If the option is exercised, the Trust could incur a loss if it is required to purchase the stock underlying the put option at a price greater than the market price of the stock at the time of exercise plus the put premium the Trust received when it wrote the option. While the Trust's potential gain in writing a covered put option is limited to distributions earned on the liquid assets securing the put option plus the premium received from the purchaser of the put option, the Trust risks a loss equal to the entire exercise price of the option minus the put premium.

Exchange-Listed Option Risks. There can be no assurance that a liquid market will exist when the Trust seeks to close out an option position on an options exchange. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of

options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by the Options Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. If the Trust were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise.

The hours of trading for options on an exchange may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets. Call options are marked to market daily and their value will be affected by changes in the value and dividend rates of the underlying common stocks, an increase in interest rates, changes in the actual or perceived volatility of the stock market and the underlying common stocks and the remaining time to the options' expiration. Additionally, the exercise price of an option may be adjusted downward before the option's expiration as a result of the occurrence of certain corporate events affecting the underlying equity security, such as extraordinary dividends, stock splits, merger or other extraordinary distributions or events. A reduction in the exercise price of an option would reduce the Trust's capital appreciation potential on the underlying security.

Over-the-Counter Option Risk. The Trust may write (sell) unlisted ("OTC" or "over-the-counter") options, and options written by the Trust with respect to non-U.S. securities, indices or sectors generally will be OTC options. OTC options differ from exchange-listed options in that they are two-party contracts, with exercise price, premium and other terms negotiated between buyer and seller, and generally do not have as much market liquidity as exchange-listed options. The counterparties to these transactions typically will be major international banks, broker-dealers and financial institutions. The Trust may be required to treat as illiquid securities being used to cover certain written OTC options. The OTC options written by the Trust will not be issued, guaranteed or cleared by the Options Clearing

Corporation. In addition, the Trust's ability to terminate the OTC options may be more limited than with exchange-traded options. Banks, broker-dealers or other financial institutions participating in such transaction may fail to settle a transaction in accordance with the terms of the option as written. In the event of default or insolvency of the counterparty, the Trust may be unable to liquidate an OTC option position.

Index Option Risk. The Trust may sell index put and call options from time to time. The purchaser of an index put option has the right to any depreciation in the value of the index below the exercise price of the option on or before the expiration date. The purchaser of an index call option has the right to any appreciation in the value of the index over the exercise price of the option on or before the expiration date. Because the exercise of an index option is settled in cash, sellers of index call options, such as the Trust, cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. The Trust will lose money if it is required to pay the purchaser of an index option the difference between the cash value of the index on which the option was written and the exercise price and such difference is greater than the premium received by the Trust for writing the option. The value of index options written by the Trust, which will be priced daily, will be affected by changes in the value and dividend rates of the underlying common stocks in the respective index, changes in the actual or perceived volatility of the stock market and the remaining time to the options' expiration. The value of the index options also may be adversely affected if the market for the index options becomes less liquid or smaller. Distributions paid by the Trust on its common shares may be derived in part from the net index option premiums it receives from selling index put and call options, less the cost of paying settlement amounts to purchasers of the options that exercise their options. Net index option premiums can vary widely over the short term and long term.

*Non-Investment Grade Securities Risk.*The Trust may invest up to 10% of its total assets in securities that are below investment grade. Non-investment grade securities are commonly referred to as "junk bonds." Investments in lower grade

securities will expose the Trust to greater risks than if the Trust owned only higher grade securities. Because of the substantial risks associated with lower grade securities, you could lose money on your investment in common shares of the Trust, both in the short term and the long term. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value.

Dividend Risk. Dividends on common stocks are not fixed but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of the common stocks in which the Trust invests will declare dividends in the future or that if declared they will remain at current levels or increase over time. As described further in "Tax Matters," "qualified dividend income" received by the Trust will generally be eligible for the reduced tax rate applicable to individuals for taxable years beginning on or before December 31, 2010. There is no assurance as to what portion of the Trust's distributions will constitute qualified dividend income.

Non-Diversification. The Trust has registered as a "non-diversified" investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). For federal income tax purposes, the Trust, with respect to up to 50% of its total assets, will be able to invest more than 5% (but not more than 25%, except for investments in United States government securities and securities of other regulated investment companies, which are not limited for tax purposes) of the value of its total assets in the obligations of any single issuer or the securities of one or more qualified publicly traded partnerships. To the extent the Trust invests a relatively high percentage of its assets in the obligations of a limited number of issuers, the Trust may be more susceptible than a more

widely diversified investment company to any single economic, political or regulatory occurrence.

Strategic Transactions. Strategic transactions in which the Trust may engage for hedging purposes, risk management, or to enhance total return, including engaging in transactions, such as options, futures, swaps, foreign currency transactions, such as forward foreign currency contracts, currency swaps or options on currency and currency futures and other derivatives transactions ("Strategic Transactions") also involve certain risks and special considerations. Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Strategic Transactions depends on the Advisors' ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Trust to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Trust can realize on an investment, or may cause the Trust to hold a security that it might otherwise sell. The use of foreign currency transactions can result in the Trust incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of the Trust to deliver or receive a specified currency. Additionally, amounts paid by the Trust as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Trust for investment purposes.

Market Disruption and Geopolitical Risk. The aftermath of the war in Iraq and the continuing occupation of Iraq, instability in the Middle East and terrorist attacks in the U.S. and around the world may have resulted in market volatility and may have long-term effects on the U.S. and worldwide financial markets and on energy, natural resources and basic materials companies and may cause further economic uncertainties in the U.S. and worldwide. The Trust does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the occupation or similar events in the

future on the U.S. economy and securities markets. Given the risks described above, an investment in the common shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Trust.

Anti-Takeover Provisions. The Trust's Amended and Restated Agreement and Declaration of Trust includes provisions that could limit the ability of other entities or persons to acquire control of the Trust or convert the Trust to open-end status. These provisions could deprive the holders of common shares of opportunities to sell their common shares at a premium over the then current market price of the common shares or at net asset value.

Canadian Royalty Trust Risk. Canadian Royalty Trusts are exposed to many of the same risks as energy and natural resources companies, such as commodity pricing risk, supply and demand risk and depletion and exploration risk.

Risk Associated with the Transaction. BlackRock, Inc. and Merrill Lynch & Co., Inc. ("Merrill Lynch") announced on February 15, 2006 that they had entered into an agreement pursuant to which Merrill Lynch would contribute its investment management business, Merrill Lynch Investment Managers, to BlackRock, Inc. to create a new independent company (the "Transaction"). The Transaction has been approved by the boards of directors of Merrill Lynch, BlackRock and The PNC Financial Services Group, Inc. ("PNC") and is expected to close at the end of the third quarter of 2006, on or after the closing date for the Trust's initial offering of common shares. There is, however, no guarantee that the Transaction will close at the expected time or that the Advisors will not experience difficulties in connection with integrating the operations of BlackRock and Merrill Lynch Investment Managers.

SUMMARY OF TRUST EXPENSES

The following table shows Trust expenses as a percentage of net assets attributable to common shares.

Shareholder Transaction Expenses

Sales load paid by you (as a percentage of offering price)	4.50%
Offering expenses borne by the Trust (as a percentage of offering price)(1)(2)	0.20%
Dividend reinvestment plan fees[3]	None

Annual Expenses	**Percentage of Net Assets Attributable to Common Shares**
Management Fees	1.20%
Other Expenses	0.20%
Total Annual Expenses	1.40%[4][5]
Fee and Expense Waiver	0.20%[5]
Net Annual Expenses	1.20%[4][5]

(1) The Trust will pay its organizational costs in full. The offering expenses paid by the Trust (other than the sales load) in addition to the Trust's organizational costs will not exceed an aggregate of $.03 per share of the Trust's common shares sold in this offering. This $.03 per common share amount may include a reimbursement of BlackRock Advisors' expenses incurred in connection with this offering. BlackRock Advisors has agreed to pay such offering expenses of the Trust to the extent offering expenses (other than sales load) and organizational expenses exceed $.03 per share of the Trust's common shares. The aggregate offering expenses (other than sales load) to be incurred by the Trust are estimated to be $1,133,332 (including amounts incurred by BlackRock Advisors on behalf of the Trust).

(2) BlackRock Advisors, Inc. has agreed to pay from its own assets a structuring fee to each of Wachovia Capital Markets, LLC, Citigroup Global Markets Inc., UBS Securities LLC and A.G. Edwards & Sons, Inc. and additional compensation to Merrill Lynch, Pierce, Fenner & Smith Incorporated. BlackRock Advisors may pay certain qualifying underwriters a marketing and structuring fee, additional compensation, or a sales incentive fee in connection with the offering. BlackRock Advisors may pay commissions to employees of its affiliates that participate in the marketing of the Trust's common shares. See "Underwriting."

(3) You will be charged a $2.50 service charge and a brokerage commission of $.15 per share sold if you direct the Plan Agent (as defined below) to sell your common shares held in a dividend reinvestment account.

(4) Certain of these expenses represent reimbursement at cost to BlackRock Advisors for non-advisory services provided to the Trust by employees of BlackRock Advisors. See "Management of the Trust Investment Management Agreements."

(5) BlackRock Advisors has agreed to waive receipt of a portion of the management fee or other expenses of the Trust in the amount of 0.20% of average weekly net assets attributable to common shares for the first five years of the Trust's operations, 0.15% in year six, 0.10% in year seven and 0.05% in year eight. Without the waiver, "Total Annual Expenses" would be estimated to be 1.40% of the average weekly net assets attributable to common shares.

The purpose of the table above and the example below is to help you understand all fees and expenses that you, as a holder of common shares, would bear directly or indirectly. The expenses shown

in the table under "Other Expenses" and "Total Annual Expenses" are based on estimated amounts for the Trust's first full year of operations and assume that the Trust issues 16,666,667 common shares. If the Trust issues fewer common shares, all other things being equal, these expenses would increase as a percentage of the Trust's net assets attributable to common shares. See "Management of the Trust" and "Dividend Reinvestment Plan."

The following example illustrates the expenses (including the offering expenses borne by the Trust and the sales load of $45) that you would pay on a $1,000 investment in common shares, assuming (1) total annual expenses of 1.20% of net assets attributable to common shares in years one through five, 1.25 % in year six, 1.30% in year seven, 1.35% in year eight and 1.40% thereafter, and (2) a 5% annual return:[1][2]

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred	$ 59	$ 83	$ 110	$ 194

(1) The examples should not be considered a representation of future expenses. Actual expenses may be greater or less than those assumed. The examples assume that the estimated "Other Expenses" set forth in the Annual Expenses table are accurate, and that all dividends and distributions are reinvested at net asset value. Moreover, the Trust's actual rate of return may be greater or less than the hypothetical 5% return shown in the examples.

(2) Assumes waiver of fees and expenses of 0.20% of average weekly net assets attributable to common shares in years one through five, 0.15% in year six, 0.10% in year seven and 0.05% in year eight. BlackRock Advisors has not agreed to waive any portion of its fees and expenses beyond September 30, 2014. See "Management of the Trust Investment Management Agreements."

THE TRUST

The Trust is a newly organized, non-diversified, closed-end management investment company registered under the Investment Company Act. The Trust was organized as a Delaware statutory trust on July 19, 2006, pursuant to an Agreement and Declaration of Trust, as subsequently amended and restated, governed by the laws of the State of Delaware. The Trust has no operating history. The Trust's principal office is located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and its telephone number is (800) 882-0052.

USE OF PROCEEDS

The net proceeds of the offering of common shares will be approximately $ ($ if the underwriters exercise the over-allotment option in full) after payment of the estimated offering costs and the deduction of the sales load. The Trust will invest the net proceeds of this offering in accordance with the Trust's investment objective and policies as stated below. We currently anticipate that the Trust will be able to invest primarily in equity securities that meet the Trust's investment objective and policies within approximately three months after the completion of this offering. Pending such investment, it is anticipated that the proceeds will be invested in short-term debt securities.

THE TRUST'S INVESTMENTS

Investment Objective and Policies

The Trust's investment objective is to provide total return through a combination of current income, current gains and capital appreciation. The Trust seeks to achieve its objective by investing primarily in equity securities of companies engaged in the energy, natural resources and basic materials businesses and equity derivatives with exposure to the energy, natural resources and basic materials industries.

Under normal market conditions, the Trust invests at least 80% of its total assets in equity securities of energy, natural resources and basic materials companies and equity derivatives with exposure to companies in the energy, natural resources and basic materials industries. Energy, natural resources and basic materials companies include those companies that own, produce, refine, process, transport and market natural resources, and companies that provide related services. This sector includes, but is not limited to, industries such as integrated oil, oil and gas exploration and production, gold and other precious metals, steel and iron ore production, energy services, and technology, metal production, forest products, paper products, chemicals, building materials, coal, alternative energy sources and environmental services, as well as related transportation companies and equipment manufacturers. Equity securities held by the Trust may include common stocks, preferred shares, convertible securities, warrants, depository receipts, equity interests in Canadian Royalty Trusts and equity interests in MLPs. The Trust will not invest more than 25% of its total assets in MLPs. The Trust may invest in companies located anywhere in the world. The Trust expects to invest primarily in companies located in developed countries, but may invest in companies located in emerging markets. In selecting investments, the Trust looks for equity securities of companies that appear to have potential for above average performance. These may include companies that the Advisors expect to show above average growth over the long term as well as those that appear to the Advisors to be trading below their true net worth. The Trust may invest in companies of any market capitalization, including small capitalization and mid-capitalization companies. The Trust does not intend to invest directly in physical commodities such as gold and other metals.

As part of its investment strategy, the Trust currently intends to employ a strategy of writing (selling) covered call options on a portion of the common stocks in its portfolio, writing (selling) covered put options and, to a lesser extent, writing (selling) covered call and put options on indices of securities and sectors of securities. This option strategy is intended to generate current gains from option premiums as a means to enhance distributions payable to the Trust's shareholders. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. The Trust

may use strategic transactions for hedging purposes or to enhance gain and may engage in short sales of securities.

The Trust may invest up to 20% of its total assets in other U.S. and non-U.S. investments. These investments may include stocks and debt securities of companies not engaged in the energy, natural resources and basic materials industries. The Trust reserves the right to invest up to 10% of its total assets in non-investment grade debt securities, commonly known as "junk bonds." See "Investment Policies and Techniques Non-Investment Grade Securities" in the Statement of Additional Information.

In addition to the option strategies discussed above, the Trust may engage in Strategic Transactions for hedging purposes, risk management or to enhance total return. The Trust may also engage in short sales of securities.

The percentage limitations applicable to the Trust's portfolio described in this prospectus apply only at the time of investment, and the Trust will not be required to sell investments due to subsequent changes in the value of investments that it owns.

For a more complete discussion of the Trust's intended portfolio composition, see " Portfolio Composition."

Investment Philosophy

The Advisors believe inefficient pricing in the energy, natural resources and basic materials industries provides the opportunity for enhanced investment returns. The Advisors seek to take advantage of value dislocations through the combination of top-down macro analysis and bottom-up security selection. The knowledge and expertise of the Advisors' energy, natural resources and basic materials portfolio management teams are used to evaluate the macro environment and assess its impact on the various industries within the energy, natural resources and basic materials industries. Within this framework, the Advisors seek to identify attractively-valued securities with strong growth prospects through rigorous bottom-up fundamental research.

The top-down component of the investment process is designed to assess the various interrelated macro variables affecting the energy, natural resources and basic materials industries as a whole. These variables generally include the supply, demand, inventory, raw material and transportation factors for crude oil, natural gas, coal, electricity, gold, precious metals, base metals and industrial metals on a worldwide basis. By comparing the market's perception of these factors relative to the Advisors' outlook, the Advisors seek to identify value dislocations. The greater the conviction and value dislocation, the greater the potential investment returns.

Risk/reward analysis is a key component of the Advisors' macro view. The Advisors evaluate energy, natural resources and basic materials sub-sectors (i.e., oil, gas, coal, pipes, gold, etc.) to seek to determine optimal portfolio positioning. Industry selection is a direct result of the Advisors' sub-sector analysis. Once the evaluation of the various energy, natural resources and basic materials industries is complete, the Advisors identify those sub-sectors that are most attractive based on their long-term macro view.

Bottom-up security selection is focused on identifying the most compelling investment opportunities within each industry. The Advisors seek to identify reasonably-priced companies with attractive long-term prospects, quality management and strong cash-flow growth. The Advisors use quantitative measures such as price-to-earnings, price-to-book, price-to-cash-flow and debt-to-cash-flow ratios, net asset value, and relative cash flows in order to identify such companies. The Advisors currently expect to reconsider on a quarterly basis the Trust's allocation of assets among the industries in which it invests.

Portfolio Composition

The Trust's portfolio will be composed principally of the following investments. A more detailed description of the Trust's investment policies and restrictions and more detailed information about the Trust's portfolio investments are contained in the Statement of Additional Information.

Equity Securities. The Trust intends to invest primarily in equity securities, including common and preferred stocks, convertible securities, warrants and depository receipts, of issuers engaged in the energy and natural resources business, including Canadian Royalty Trusts and MLPs. Common stocks generally represent an equity ownership interest in an issuer. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and may under-perform relative to fixed-income securities during certain periods. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Trust. Also, prices of common stocks are sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Trust has exposure. Common stock prices fluctuate for several reasons including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase. The Trust will employ a strategy, as described below, of writing covered call options on common stocks.

The Trust's investments in preferred stock and convertible securities are not subject to a minimum rating limitation. For more information regarding preferred stocks, convertible securities, warrants and depository receipts, see "Investment Policies and Techniques Equity Securities" in the Statement of Additional Information.

Energy, Natural Resources and Basic Materials Companies. Under normal market conditions, the Trust will invest at least 80% of its total assets in equity securities of companies engaged in energy, natural resources and basic materials businesses and companies in associated businesses and equity derivatives with exposure to those companies. Energy, natural resources, basic materials and associated companies include those companies that own, produce, refine, process, transport and market natural resources, and companies that provide related services. These companies include, but are not limited to, those engaged in businesses such as integrated oil, oil and gas exploration and production, gold and other precious metals, steel and iron ore production, energy services, and technology, metal production, forest products, paper products, chemicals, building materials, coal, alternative energy sources and environmental services, as well as related transportation companies and equipment manufacturers. The Trust does not intend to invest directly in physical commodities such as gold and other metals. Equity securities held by the Trust may include common stocks, preferred shares, convertible securities, warrants, depositary receipts, equity interests in Canadian Royalty Trusts and equity interests in MLPs. The Trust will consider a company to be principally engaged in the energy, natural resources or basic materials industries if: (i) at least 50% of the company's assets, income, sales or profits are committed to or derived from any of the energy, natural resources or basic materials industries; or (ii) a third party classification (such as (a) Standard Industry Classifications and the North American Industry Classification System, each of which is published by the Executive Office of the President, Office of Management and Budget and (b) classifications used by third party data providers including, without limitation, FactSet Research Systems Inc. and MSCI Barra) has given the company an industry or sector classification consistent with the designated business activity.

Options In General. An option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option at a specified exercise or "strike" price. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security

upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. Certain options, known as "American style" options may be exercised at any time during the term of the option. Other options, known as "European style" options, may be exercised only on the expiration date of the option.

If an option written by the Trust expires unexercised, the Trust realizes on the expiration date a capital gain equal to the premium received by the Trust at the time the option was written. If an option purchased by the Trust expires unexercised, the Trust realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange-traded option may be closed out by an offsetting purchase or sale of an option of the same series (type, underlying security, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Trust desires. The Trust may sell put or call options it has previously purchased, which could result in a net gain or loss depending on whether the amount realized on the sale is more or less than the premium and other transaction costs paid on the put or call option when purchased. The Trust will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if it is more, the Trust will realize a capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Trust will realize a capital gain or, if it is less, the Trust will realize a capital loss. Net gains from the Trust's option strategy will be short-term capital gains which, for federal income tax purposes, will constitute net investment company taxable income.

Call Options and Covered Call Writing. The Trust will follow a strategy known as "covered call option writing," which is a strategy designed to generate current gains from option premiums as a means to enhance distributions payable to the Trust's shareholders. Under current market conditions, this strategy will be the Trust's primary option investment strategy. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited.

As part of its strategy, the Trust may not sell "naked" call options on individual securities, i.e., options representing more shares of the stock than are held in the portfolio. A call option written by the Trust on a security is "covered" if the Trust owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration (or, if additional cash consideration is required, cash or other assets determined to be liquid by the Advisors (in accordance with procedures established by the board of trustees) in such amount are segregated by the Trust's custodian) upon conversion or exchange of other securities held by the Trust. A call option is also covered if the Trust holds a call on the same security as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written, or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Trust in segregated assets determined to be liquid by the Advisors as described above.

The standard contract size for a single option is 100 shares of the common stock. There are four items needed to identify any option: (1) the underlying security, (2) the expiration month, (3) the strike price and (4) the type (call or put). For example, ten XYZ Co. October 40 call options provide the right to purchase 1,000 shares of XYZ Co. on or before October 31, 2006 at $40 per share. A call option whose strike price is above the current price of the underlying stock is called "out-of-the-money." Most of the options that will be sold by the Trust are expected to be out-of-the-money, allowing for potential appreciation in addition to the proceeds from the sale of the option. An option whose strike price is below the current price of the underlying stock is called "in-the-money" and will be sold by the Trust as a defensive measure to protect against a possible decline in the underlying stock.

The following is a conceptual example of a covered call transaction, making the following assumptions: (1) a common stock currently trading at $37.15 per share; (2) a six-month call option is written with a strike price of $40 (i.e., 7.7% higher than the current market price); and (3) the writer receives $2.45 (or 6.6%) of the common stock's value as premium income. This example is not meant to

represent the performance of any actual common stock, option contract or the Trust itself. Under this scenario, before giving effect to any change in the price of the stock, the covered-call writer receives the premium, representing 6.6% of the common stock's value, regardless of the stock's performance over the six-month period until option expiration. If the stock remains unchanged, the option will expire and there would be a 6.6% return for the 6-month period. If the stock were to decline in price by 6.6%, the strategy would "break-even" thus offering no gain or loss. If the stock were to climb to a price of $40 or above, the option would be exercised and the stock would return 7.7% coupled with the option premium of 6.6% for a total return of 14.3%. Under this scenario, the investor would not benefit from any appreciation of the stock above $40, and thus be limited to a 14.3% total return. The premium income from writing the call option serves to offset some of the unrealized loss on the stock in the event that the price of the stock declines, but if the stock were to decline more than 6.6% under this scenario, the investor's downside protection is eliminated and the stock could eventually become worthless.

For conventional listed call options, the option's expiration date can be up to nine months from the date the call options are first listed for trading. Longer-term call options can have expiration dates up to three years from the date of listing. It is anticipated that most options that are written against Trust stock holdings will be repurchased prior to the option's expiration date, generating a gain or loss in the options. If the options were not to be repurchased, the option holder would exercise their rights and buy the stock from the Trust at the strike price if the stock traded at a higher price than the strike price. In general, the Trust intends to continue to hold its common stocks rather than allowing them to be called away by the option holders.

Put Options. Put options are contracts that give the holder of the option, in return for a premium, the right to sell to the writer of the option the security underlying the option at a specified exercise price at any time during the term of the option. These strategies may produce a considerably higher return than the Trust's primary strategy of covered call writing, but involve a higher degree of risk and potential volatility.

The Trust will write (sell) put options on individual securities only if the put option is "covered." A put option written by the Trust on a security is "covered" if the Trust segregates or earmarks assets determined to be liquid by the Advisor, as described above, equal to the exercise price. A put option is also covered if the Trust holds a put on the same security as the put written where the exercise price of the put held is (i) equal to or greater than the exercise price of the put written, or (ii) less than the exercise price of the put written, provided the difference is maintained by the Trust in segregated or earmarked assets determined to be liquid by the Advisor, as described above.

The following is a conceptual example of a put transaction, making the following assumptions: (1) a common stock currently trading at $37.15 per share; (2) a six-month put option written with a strike price of $35.00 (i.e., 94.2% of the current market price); and (3) the writer receives $1.10 or 2.95% of the common stock's value as premium income. This example is not meant to represent the performance of any actual common stock, option contract or the Trust itself. Under this scenario, before giving effect to any change in the price of the stock, the put writer receives the premium, representing 2.95% of the common stock's value, regardless of the stock's performance over the six-month period until the option expires. If the stock remains unchanged, appreciates in value or declines less than 5.8% in value, the option will expire and there would be a 2.95% return for the six-month period. If the stock were to decline by 5.8% or more, the Trust would lose an amount equal to the amount by which the stock's price declined minus the premium paid to the Trust. The stock's price could lose its entire value, in which case the Trust would lose $33.90 ($35.00 minus $1.10).

Options on Indices. The Trust may sell put and call options on indices of securities. Options on an index differ from options on securities because (i) the exercise of an index option requires cash payments and does not involve the actual purchase or sale of securities, (ii) the holder of an index option has the right to receive cash upon exercise of the option if the level of the index upon which the option is based

is greater, in the case of a call, or less, in the case of a put, than the exercise price of the option and (iii) index options reflect price-fluctuations in a group of securities or segments of the securities market rather than price fluctuations in a single security.

As the seller of an index put or call option, the Trust receives cash (the premium) from the purchaser. The purchaser of an index put option has the right to any depreciation in the value of the index below a fixed price (the exercise price) on or before a certain date in the future (the expiration date). The purchaser of an index call option has the right to any appreciation in the value of the index over a fixed price (the exercise price) on or before a certain date in the future (the expiration date). The Trust, in effect, agrees to accept the potential depreciation (in the case of a put) or sell the potential appreciation (in the case of a call) in the value of the relevant index in exchange for the premium. If, at or before expiration, the purchaser exercises the put or call option sold by the Trust, the Trust will pay the purchaser the difference between the cash value of the index and the exercise price of the index option. The premium, the exercise price and the market value of the index determine the gain or loss realized by the Trust as the seller of the index put or call option.

The Trust may execute a closing purchase transaction with respect to an index option it has sold and sell another option (with either a different exercise price or expiration date or both). The Trust's objective in entering into such a closing transaction will be to optimize net index option premiums. The cost of a closing transaction may reduce the net index option premiums realized from the sale of the index option.

The Trust will cover its obligations when it sells index options. An index option is considered "covered" if the Trust maintains with its custodian assets determined to be liquid in an amount equal to the contract value of the index. An index put option also is covered if the Trust holds a put on the same index as the put written where the exercise price of the put held is (i) equal to or more than the exercise price of the put written, or (ii) less than the exercise price of the put written, provided the difference is maintained by the Trust in segregated assets determined to be liquid. An index call option also is covered if the Trust holds a call on the same index as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written, or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Trust in segregated assets determined to be liquid.

Limitation on Option Writing Strategy. The Trust generally intends to write covered call and put options, the notional amount of which will be approximately 30% to 40% of the Trust's total assets, although this percentage may vary from time to time with market conditions. Under current market conditions, the Trust anticipates initially writing covered call and put options with respect to approximately 33% of its total assets. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. The number of covered put and call options or securities the Trust can write is limited by the total assets the Trust holds, and further limited by the fact that all options represent 100 share lots of the underlying common stock. In connection with its option writing strategy, the Trust will not write "naked" or uncovered put or call options. Furthermore, the Trust's exchange-listed option transactions will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which such options are traded. These limitations govern the maximum number of options in each class which may be written or purchased by a single investor or group of investors acting in concert, regardless of whether the options are written or purchased on the same or different exchanges, boards of trade or other trading facilities or are held or written in one or more accounts or through one or more brokers. Thus, the number of options which the Trust may write or purchase may be affected by options written or purchased by other investment advisory clients of the Advisor. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose certain other sanctions.

Master Limited Partnerships. The Trust may invest up to 25% of the value of its total assets in MLPs. The MLPs in which the Trust intends to invest will be limited partnerships (or limited liability

companies taxable as partnerships), the units of which will be listed and traded on a U.S. securities exchange. In addition, such MLPs will derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. MLPs generally have two classes of owners, the general partner and limited partners. When investing in an MLP, the Trust intends to purchase publicly traded common units issued to limited partners of the MLP. The general partner is typically owned by one or more of the following: a major energy company, an investment fund, or the direct management of the MLP. The general partner may be structured as a private or publicly traded corporation or other entity. The general partner typically controls the operations and management of the MLP through an up to 2% equity interest in the MLP plus, in many cases, ownership of common units and subordinated units. Limited partners own the remainder of the partnership, through ownership of common units, and have a limited role in the partnership's operations and management.

MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount ("minimum quarterly distributions" or "MQD"). Common and general partner interests also accrue arrearages in distributions to the extent the MQD is not paid. Once common and general partner interests have been paid, subordinated units receive distributions of up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD paid to both common and subordinated units is distributed to both common and subordinated units generally on a pro rata basis. The general partner is also eligible to receive incentive distributions if the general partner operates the business in a manner that results in distributions paid per common unit surpassing specified target levels. As the general partner increases cash distributions to the limited partners, the general partner receives an increasingly higher percentage of the incremental cash distributions. A common arrangement provides that the general partner can reach a tier where it receives 50% of every incremental dollar paid to common and subordinated unit holders. These incentive distributions encourage the general partner to streamline costs, increase capital expenditures and acquire assets in order to increase the partnership's cash flow and raise the quarterly cash distribution in order to reach higher tiers. Such results benefit all security holders of the MLP. For more information on MLPs, see "Investment Policies and Techniques Master Limited Partnerships Interests" in the Statement of Additional Information.

Non-U.S. Securities. The Trust will invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies or multinational currency units. The Trust may invest in non-U.S. securities of so-called emerging market issuers. For purposes of the Trust, a company is deemed to be a non-U.S. company if it meets any of the following tests: (i) such company was not organized in the United States; (ii) such company's primary business office is not in the United States; (iii) the principal trading market for such company's assets is not located in the United States; (iv) less than 50% of such company's assets are located in the United States; or (v) 50% or more of such issuer's revenues are derived from outside the United States. Non-U.S. securities markets generally are not as developed or efficient as those in the United States. Securities of some non-U.S. issuers are less liquid and more volatile than securities of comparable U.S. issuers. Similarly, volume and liquidity in most non-U.S. securities markets are less than in the United States and, at times, volatility of price can be greater than in the United States.

Because evidences of ownership of such securities usually are held outside the United States, the Trust would be subject to additional risks with respect to its investments in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions that might adversely affect or restrict the payment of principal and interest on the non-U.S. securities to investors located outside the country of the issuer, whether from currency blockage or otherwise.

Since non-U.S. securities may be purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

Short Sales. The Trust may make short sales of securities. A short sale is a transaction in which the Trust sells a security it does not own in anticipation that the market price of that security will decline. The Trust may make short sales to strategic positions, for risk management, in order to maintain portfolio flexibility or to enhance income or gain.

When the Trust makes a short sale, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Trust may have to pay a fee to borrow particular securities and is often obligated to pay over any payments received on such borrowed securities.

The Trust's obligation to replace the borrowed security will be secured by collateral deposited with the broker-dealer, usually cash, U.S. Government securities or other liquid securities. The Trust will also be required to designate on its books and records similar collateral with its custodian to the extent, if any, necessary so that the aggregate collateral value is at all times at least equal to the current market value of the security sold short. Depending on arrangements made with the broker-dealer from which it borrowed the security regarding payment over of any payments received by the Trust on such security, the Trust may not receive any payments (including interest) on its collateral deposited with such broker-dealer.

If the price of the security sold short increases between the time of the short sale and the time the Trust replaces the borrowed security, the Trust will incur a loss; conversely, if the price declines, the Trust will realize a gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. Although the Trust's gain is limited to the price at which it sold the security short, its potential loss is theoretically unlimited.

The Trust will not make a short sale if, after giving effect to such sale, the market value of all securities sold short exceeds 25% of the value of its total assets or the Trust's aggregate short sales of a particular class of securities exceeds 25% of the outstanding securities of that class. The Trust may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Trust owns or has the immediate and unconditional right to acquire at no additional cost the identical security.

Non-Investment Grade Securities. The Trust's investments are not subject to a minimum rating limitation and the Trust may invest up to 10% of its total assets in securities rated below investment grade, such as those rated Ba or lower by Moody's Investors Service, Inc. ("Moody's") and BB or lower by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P") or Fitch Ratings ("Fitch") or securities comparably rated by other rating agencies or in unrated securities determined by the Advisors to be of comparable quality. Securities rated Ba by Moody's are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P or Fitch are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet timely interest and principal payments. Securities rated C are regarded as having extremely poor prospects of ever attaining any real investment standing. Securities rated D are in default and the payment of interest and/or repayment of principal is in arrears. When the Advisors believe it to be in the best interests of the Trust's shareholders, the Trust will reduce its investment in lower grade securities.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The secondary market for lower grade securities may be less liquid than

that of higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value.

The prices of debt securities generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupon of such securities. Accordingly, lower grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with lower grade securities potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity and will be a substantial factor in the Trust's relative share price volatility.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

The ratings of Moody's, S&P and the other rating agencies represent their opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Advisors also will independently evaluate these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Trust invests in lower grade securities that have not been rated by a rating agency, the Trust's ability to achieve its investment objectives will be more dependent on the Advisors' credit analysis than would be the case when the Trust invests in rated securities.

Short-Term Debt Securities; Temporary Defensive Position; Invest-Up Period. During the period in which the net proceeds of this offering of common shares are being invested, during periods in which the Advisors determine that they are temporarily unable to follow the Trust's investment strategy or that it is impractical to do so or pending re-investment of proceeds received in connection with the sale of a security, the Trust may deviate from its investment strategy and invest all or any portion of its assets in cash, cash equivalents or short-term debt instruments. See "Investment Policies and Techniques Short-Term Debt Securities" in the Statement of Additional Information.

The Advisors' determination that they are temporarily unable to follow the Trust's investment strategy or that it is impractical to do so will generally occur only in situations in which a market disruption event has occurred and where trading in the securities selected through application of the Trust's investment strategy is extremely limited or absent. In such a case, shares of the Trust may be adversely affected and the Trust may not pursue or achieve its investment objective. The Advisors currently anticipate that these are the only circumstances in which the Trust will invest in income securities.

Securities Lending and Delayed Settlement Transactions. The Trust may also lend the securities it owns to others, which allows the Trust the opportunity to earn additional income. Although the Trust will require the borrower of the securities to post collateral for the loan in accordance with market practice and the terms of the loan will require that the Trust be able to reacquire the loaned securities if certain events occur, the Trust is still subject to the risk that the borrower of the securities may default, which could result in the Trust losing money, which would result in a decline in the Trust's net asset value. The Trust may also purchase securities for delayed settlement. This means that the Trust is generally obligated to purchase the securities at a future date for a set purchase price, regardless of whether the value of the securities is more or less than the purchase price at the time of settlement.

Strategic Transactions. In addition to the option strategies discussed above, the Trust may, but is not required to, use various strategic transactions described below to, facilitate portfolio management, mitigate risks and enhance total return. Such strategic transactions are generally accepted under modern portfolio management and are regularly used by many mutual funds, closed-end funds and other institutional investors. Although the Advisors seek to use the practices to further the Trust's investment objective, no assurance can be given that these practices will achieve this result.

The Trust may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity indices, and other financial instruments, purchase and sell financial futures contracts and options thereon and engage in swaps. The Trust also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as "Strategic Transactions." The Trust generally seeks to use Strategic Transactions as a portfolio management or hedging technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Trust's portfolio, protect the value of the Trust's portfolio, facilitate the sale of certain securities for investment purposes, or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. The Trust may use Strategic Transactions to enhance potential total returns although the Trust will commit variation margin for Strategic Transactions that involve futures contracts only in accordance with the rules of the Commodity Futures Trading Commission.

Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to use Strategic Transactions successfully depends on the Advisors' ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Trust to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Trust can realize on an investment, or may cause the Trust to hold a security that it might otherwise sell. Additionally, amounts paid by the Trust as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Trust for investment purposes. A more complete discussion of Strategic Transactions and their risks is contained in the Trust's Statement of Additional Information.

RISKS

The net asset value of, and dividends paid on, the common shares will fluctuate with and be affected by, among other things, the risks more fully described below.

No Operating History. The Trust is a non-diversified, closed-end management investment company with no operating history.

Market Discount Risk. As with any stock, the price of the Trust's shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by the amount of the sales load and organizational and selling expenses paid by the Trust. Common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Trust's shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the initial offering.

Industry Concentration Risk. The Trust's investments will be concentrated in a group of industries consisting of the energy, natural resources, basic materials and associated industries. Because the Trust is focused in specific industries, it may present more risks than if it were broadly diversified over numerous industries and sectors of the economy. A downturn in any one of the energy, natural resources, basic

materials or associated industries would have a larger impact on the Trust than on an investment company that does not concentrate in such industries. The industries in which the Trust will concentrate its investments can be significantly affected by the supply of and demand for specific products and services, exploration and production spending, government regulation, world events and economic conditions. The energy, natural resources, basic materials and associated industries can also be significantly affected by events relating to international political developments, energy conservation, the success of exploration projects, commodity prices, and tax and government regulations. At times, the performance of securities of companies in the energy, natural resources, basic materials and associated industries will lag behind the performance of other industries or the broader market as a whole. The Trust will not invest, under normal market conditions, less than 25% of its total assets in securities of energy, natural resources and basic materials and associated industries equity derivatives with exposure to those companies.

Risks inherent in investing in energy, natural resources and basic materials companies include:

Supply and Demand Risk. A decrease in the production of a physical commodity or a decrease in the volume of such commodity available for transportation, mining, processing, storage or distribution may adversely impact the financial performance of an energy, natural resources, basic materials or an associated company that devotes a portion of its business to that commodity. Production declines and volume decreases could be caused by various factors, including catastrophic events affecting production, depletion of resources, labor difficulties, environmental proceedings, increased regulations, equipment failures and unexpected maintenance problems, import supply disruption, governmental expropriation, political upheaval or conflicts or increased competition from alternative energy sources or commodity prices. Alternatively, a sustained decline in demand for such commodities could also adversely affect the financial performance of energy, natural resources, basic materials or associated companies. Factors that could lead to a decline in demand include economic recession or other adverse economic conditions, higher taxes on commodities or increased governmental regulations, increases in fuel economy, consumer shifts to the use of alternative commodities or fuel sources, changes in commodity prices, or weather.

Depletion and Exploration Risk. Many energy, natural resources, basic materials and associated companies are engaged in the production of one or more physical commodities or are engaged in transporting, storing, distributing and processing these items on behalf of shippers. To maintain or grow their revenues, these companies or their customers need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources, through acquisitions or through long-term contracts to acquire reserves. The financial performance of energy, natural resources, basic materials and associated companies may be adversely affected if they, or the companies to whom they provide the service, are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline.

Operational and Geological Risk. Energy, natural resources and basic materials companies are subject to specific operational and geological risks in addition to normal business and management risks. Some examples of operational risks include mine rock falls, underground explosions and pit wall failures. Geological risk would include faulting of the ore body and misinterpretation of geotechnical data.

Regulatory Risk. Energy, natural resources, basic materials and associated companies are subject to significant federal, state and local government regulation in virtually every aspect of their operations, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future, which would likely increase compliance costs and may adversely affect the operations and financial performance of energy, natural resources and basic materials companies.

Commodity Pricing Risk. The operations and financial performance of energy, natural resources, basic materials companies and associated companies may be directly affected by commodity prices, especially those energy, natural resources, basic materials and associated companies that own the underlying commodity. Commodity prices fluctuate for several reasons, including changes in market and economic conditions, the impact of weather on demand, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation, the availability of local, intrastate and interstate transportation systems, governmental expropriation and political upheaval and conflicts. Volatility of commodity prices, which may lead to a reduction in production or supply, may also negatively impact the performance of energy, natural resources, basic materials and associated companies that are solely involved in the transportation, processing, storing, distribution or marketing of commodities. Volatility of commodity prices may also make it more difficult for energy, natural resources, basic materials and associated companies to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices.

Precious Metals Pricing Risk. The Trust may have a material exposure to precious metals, such as gold, silver and platinum, and precious metals-related instruments and securities. The price of precious metals can fluctuate widely and is affected by numerous factors beyond the Trust's control including: global or regional political, economic or financial events and situations; investors' expectations with respect to the future rates of inflation and movements in world equity, financial and property markets; global supply and demand for specific precious metals, which is influenced by such factors as mine production and net forward selling activities by precious metals producers, central bank purchases and sales, jewelry demand and the supply of recycled jewelry, net investment demand and industrial demand, net of recycling; interest rates and currency exchange rates, particularly the strength of and confidence in the U.S. dollar; and investment and trading activities of hedge funds, commodity funds and other speculators. The Trust does not intend to hold physical precious metals.

Distress Gold Sale Risk. The possibility of large-scale distress sales of gold in times of crisis may have a short-term negative impact on the price of gold and adversely affect companies in which the Trust may invest. For example, economic, political or social conditions or pressures may require central banks, other governmental agencies and multi-lateral institutions that buy, sell and hold gold as part of their reserve assets, to liquidate their gold assets all at once or in an uncoordinated manner. The demand for gold might not be sufficient to accommodate the sudden increase in the supply of gold to the market.

Precious Metals in Emerging Markets. The Trust is likely to invest in precious metals companies that are located in emerging markets. It should be noted that some governments exercise substantial influence over the private sector, and the political risk for many developing countries is a significant factor. See also "Emerging Markets Risk" below.

Commodity and Currency Risk. The use of commodity and currency derivative instruments by producers has increased in recent years. There have been examples of companies that have mismanaged their exposures resulting, in extreme cases, in financial distress or even bankruptcy.

Interest Rate Risk. Rising interest rates could adversely impact the financial performance of energy, natural resources, basic materials and associated companies by increasing their costs of capital. This may reduce their ability to execute acquisitions or expansion projects in a cost-effective manner.

Investment and Market Risk. An investment in the Trust's common shares is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in common shares represents an indirect investment in the securities owned by the Trust, a majority of which are traded on a securities exchange or in the over-the-counter markets. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Trust dividends and distributions.

Common Stock Risk. The Trust will have exposure to common stocks. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and in certain periods have significantly underperformed relative to fixed-income securities. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Trust. Also, the price of common stocks is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Trust has exposure. Common stock prices fluctuate for several reasons including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase. Interest rates recently have been rising and it is possible that they will rise further.

Non-U.S. Securities Risk. Investing in non-U.S. securities involves certain risks not involved in domestic investments, including, but not limited to: (1) fluctuations in foreign exchange rates; (2) future foreign economic, financial, political and social developments; (3) different legal systems; (4) the possible imposition of exchange controls or other foreign governmental laws or restrictions, including expropriation; (5) lower trading volume; (6) much greater price volatility and illiquidity of certain non-U.S. securities markets; (7) different trading and settlement practices; (8) less governmental supervision; (9) changes in currency exchange rates; (10) high and volatile rates of inflation; (11) fluctuating interest rates; (12) less publicly available information; and (13) different accounting, auditing and financial recordkeeping standards and requirements.

Certain countries in which the Trust may invest, especially emerging market countries, historically have experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates that are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of: (1) the possibility of expropriation or nationalization of assets; (2) confiscatory taxation; (3) difficulty in obtaining or enforcing a court judgment; (4) economic, political or social instability; and (5) diplomatic developments that could affect investments in those countries.

Because the Trust may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Trust and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Trust's net asset value or current income could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. Certain investments in non-U.S. securities also may be subject to foreign withholding taxes. Dividend income from non-U.S. corporations may not be eligible for the reduced rate for qualified dividend income. These risks often are heightened for investments in smaller, emerging capital markets. In addition, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as: (1) growth of gross domestic product; (2) rates of inflation; (3) capital reinvestment; (4) resources; (5) self-sufficiency; and (6) balance of payments position.

As a result of these potential risks, the Advisors may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Trust may invest in countries in which foreign investors, including the Advisors, have had no or limited prior experience.

Emerging Markets Risk. Investing in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of non-U.S. issuers to a heightened degree. These

heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in lack of liquidity and an increase in price volatility; and (iii) certain national policies that may restrict the Trust's investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

Liquidity Risk. In some circumstances, investments may be relatively illiquid making it difficult to acquire or dispose of them at the prices quoted on relevant exchanges or at all. Accordingly, the Trust's ability to respond to market movements may be impaired and the Trust may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties.

Foreign Currency Risk. Because the Trust may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Trust and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Trust's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. In addition, the Trust may enter into foreign currency transactions in an attempt to enhance total return which may further expose the Trust to the risks of foreign currency movements and other risks. See "Risks-Strategic Transactions."

Small and Mid-Cap Stock Risk. While the Trust generally will invest primarily in large capitalization companies, the Trust may invest in companies with small and mid-capitalizations. Small and medium company stocks can be more volatile than, and perform differently from, larger company stocks. There may be less trading in a smaller or medium company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Small and medium companies may have fewer business lines; changes in any one line of business, therefore, may have a greater impact on a smaller and medium company's stock price than is the case for a larger company. As a result, the purchase or sale of more than a limited number of shares of a small or medium company may affect its market price. The Trust may need a considerable amount of time to purchase or sell its positions in these securities. In addition, smaller or medium company stocks may not be well known to the investing public.

MLP Risk. An investment in MLP units involves some risks that differ from an investment in the common stock of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in MLP units and conflicts of interest may exist between common unit holders and the general partner, including those arising from incentive distribution payments.

Short Sales Risk. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the short seller to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Risks Associated with Options on Securities. The ability of the Trust to achieve its primary investment objective of providing total return through a combination of current income, current gains and capital appreciation is partially dependent on successful implementation of its option strategy. There are several risks associated with transactions in options on securities used in connection with the Trust's

option strategy. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

As the writer of a covered call option, the Trust forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but has retained the risk of loss should the price of the underlying security decline. As the Trust writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price.

When the Trust writes covered put options, it bears the risk of loss if the value of the underlying stock declines below the exercise price minus the put premium. If the option is exercised, the Trust could incur a loss if it is required to purchase the stock underlying the put option at a price greater than the market price of the stock at the time of exercise plus the put premium the Trust received when it wrote the option. While the Trust's potential gain in writing a covered put option is limited to distributions earned on the liquid assets securing the put option plus the premium received from the purchaser of the put option, the Trust risks a loss equal to the entire exercise price of the option minus the put premium.

Exchange-Listed Option Risks. There can be no assurance that a liquid market will exist when the Trust seeks to close out an option position. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by the Options Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. If the Trust were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise.

The hours of trading for options on an exchange may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets. Call options are marked to market daily and their value will be affected by changes in the value and dividend rates of the underlying common stocks, an increase in interest rates, changes in the actual or perceived volatility of the stock market and the underlying common stocks and the remaining time to the options' expiration. Additionally, the exercise price of an option may be adjusted downward before the option's expiration as a result of the occurrence of certain corporate events affecting the underlying equity security, such as extraordinary dividends, stock splits, merger or other extraordinary distributions or events. A reduction in the exercise price of an option would reduce the Trust's capital appreciation potential on the underlying security.

Over-the-Counter Option Risk. The Trust may write (sell) unlisted ("OTC" or "over-the-counter") options, and options written by the Trust with respect to non-U.S. securities, indices or sectors generally

will be OTC options. OTC options differ from exchange-listed options in that they are two-party contracts, with exercise price, premium and other terms negotiated between buyer and seller, and generally do not have as much market liquidity as exchange-listed options. The counterparties to these transactions typically will be major international banks, broker-dealers and financial institutions. The Trust may be required to treat as illiquid securities being used to cover certain written OTC options. The OTC options written by the Trust will not be issued, guaranteed or cleared by the Options Clearing Corporation. In addition, the Trust's ability to terminate the OTC options may be more limited than with exchange-traded options. Banks, broker-dealers or other financial institutions participating in such transaction may fail to settle a transaction in accordance with the terms of the option as written. In the event of default or insolvency of the counterparty, the Trust may be unable to liquidate an OTC option position.

Index Option Risk. The Trust intends to sell index put and call options from time to time. The purchaser of an index put option has the right to any depreciation in the value of the index below the exercise price of the option on or before the expiration date. The purchaser of an index call option has the right to any appreciation in the value of the index over the exercise price of the option on or before the expiration date. Because the exercise of an index option is settled in cash, sellers of index call options, such as the Trust, cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. The Trust will lose money if it is required to pay the purchaser of an index option the difference between the cash value of the index on which the option was written and the exercise price and such difference is greater than the premium received by the Trust for writing the option. The value of index options written by the Trust, which will be priced daily, will be affected by changes in the value and dividend rates of the underlying common stocks in the respective index, changes in the actual or perceived volatility of the stock market and the remaining time to the options' expiration. The value of the index options also may be adversely affected if the market for the index options becomes less liquid or smaller. Distributions paid by the Trust on its common shares may be derived in part from the net index option premiums it receives from selling index put and call options, less the cost of paying settlement amounts to purchasers of the options that exercise their options. Net index option premiums can vary widely over the short term and long term.

Non-Investment Grade Securities Risk. The Trust may invest up to 10% of its total assets in securities that are below investment grade. Non-investment grade securities are commonly referred to as "junk bonds." Investments in lower grade securities will expose the Trust to greater risks than if the Trust owned only higher grade securities. Because of the substantial risks associated with lower grade securities, you could lose money on your investment in common shares of the Trust, both in the short term and the long term. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value.

Dividend Risk. Dividends on common stocks are not fixed but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of the common stocks in which the Trust invests will declare dividends in the future or that if declared they will remain at current levels or increase over time. As described further in "Tax Matters," "qualified dividend income" received by the Trust will generally be eligible for the reduced tax rate applicable to such dividends for taxable years beginning on or before December 31, 2010. There is no assurance as to what portion of the Trust's distributions will constitute qualified dividend income.

Non-Diversification. The Trust has registered as a "non-diversified" investment company under the Investment Company Act. For federal income tax purposes, the Trust, with respect to up to 50% of its total assets, will be able to invest more than 5% (but not more than 25%, except for investments in

United States government securities and securities of other regulated investment companies, which are not limited for tax purposes) of the value of its total assets in the obligations of any single issuer or the securities of one or more qualified publicly traded partnerships. To the extent the Trust invests a relatively high percentage of its assets in the obligations of a limited number of issuers, the Trust may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence.

Strategic Transactions. Strategic Transactions in which the Trust may engage for hedging purposes, risk management or to enhance total return also involve certain risks and special considerations. Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to use Strategic Transactions successfully depends on the Advisors' ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Trust to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Trust can realize on an investment, or may cause the Trust to hold a security that it might otherwise sell. The use of foreign currency transactions can result in the Trust incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of the Trust to deliver or receive a specified currency. Additionally, amounts paid by the Trust as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Trust for investment purposes.

Market Disruption and Geopolitical Risk. The aftermath of the war in Iraq and the continuing occupation of Iraq, instability in the Middle East and terrorist attacks in the U.S. and around the world may have resulted in market volatility and may have long-term effects on the U.S. and worldwide financial markets and on energy, natural resources and basic materials companies and may cause further economic uncertainties in the U.S. and worldwide. The Trust does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the occupation or similar events in the future on the U.S. economy and securities markets. Given the risks described above, an investment in the common shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Trust.

Anti-Takeover Provisions. The Trust's Amended and Restated Agreement and Declaration of Trust includes provisions that could limit the ability of other entities or persons to acquire control of the Trust or convert the Trust to open-end status. These provisions could deprive the holders of common shares of opportunities to sell their common shares at a premium over the then current market price of the common shares or at net asset value.

Canadian Royalty Trust Risk. Canadian Royalty Trusts are exposed to many of the same risks as energy and natural resources companies, such as commodity pricing risk, supply and demand risk and depletion and exploration risk.

Risk Associated with the Transaction. BlackRock, Inc. and Merrill Lynch announced on February 15, 2006 that they had entered into an agreement pursuant to which Merrill Lynch would contribute its investment management business, Merrill Lynch Investment Managers, to BlackRock, Inc. to create a new independent company that will be a diversified global money management organizations with approximately $1 trillion in assets under management. The new company will operate under the BlackRock name and be governed by a board of directors with a majority of independent members. The new company will offer a full range of equity, fixed income, cash management and alternative investment products with strong representation in both retail and institutional channels, in the U.S. and in non-U.S. markets. It will have over 4,500 employees in 18 countries and a major presence in most key markets, including the United States, the United Kingdom, Asia, Australia, the Middle East and Europe. The Transaction has been approved by the boards of directors of Merrill Lynch, BlackRock and PNC and is

expected to close at the end of the third quarter of 2006, on or after the closing date for the Trust's initial offering of common shares. There is, however, no guarantee that the Transaction will close at the expected time or that the Advisors will not experience difficulties in connection with integrating the operations of BlackRock and Merrill Lynch Investment Managers.

MANAGEMENT OF THE TRUST

Trustees and Officers

The board of trustees is responsible for the overall management of the Trust, including supervision of the duties performed by BlackRock. There are eight trustees of the Trust. A majority of the trustees are not "interested persons" (as defined in the Investment Company Act) of the Trust. The name and business address of the trustees and officers of the Trust and their principal occupations and other affiliations during the past five years are set forth under "Management of the Trust" in the Statement of Additional Information.

Investment Advisor and Sub-Advisors

BlackRock Advisors acts as the Trust's investment advisor. BlackRock Capital Management, Merrill Lynch Investment Managers, LLC, and Merrill Lynch Investment Managers International Limited act as the Trust's sub-advisors. BlackRock Advisors, located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and BlackRock Capital Management, located at 40 East 52nd Street, New York, New York 10022, are wholly owned subsidiaries of BlackRock, Inc., which is one of the largest publicly-traded investment management firms in the United States with approximately $464 billion of assets under management as of June 30, 2006. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products, including the BlackRock Funds and BlackRock Liquidity Funds . In addition, BlackRock provides risk management and investment system services to institutional investors under the BlackRock Solutions® name.

The BlackRock organization has over 17 years of experience managing closed-end products and, as of June 30, 2006, advised a closed-end family of 56 active funds with approximately $18 billion in assets. BlackRock has $40.9 billion in equity assets under management as of June 30, 2006, including $4.2 billion in assets across 8 equity closed-end funds. Clients are served from the company's headquarters in New York City, as well as offices in Boston, Chicago, Edinburgh, Hong Kong, San Francisco, Singapore, Sydney, Tokyo and Wilmington. BlackRock, Inc. is a member of PNC, one of the largest diversified financial services organizations in the United States, and is majority owned by PNC and by BlackRock employees.

Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited act as sub-advisors to the Trust. Merrill Lynch Investment Managers, LLC, located at 800 Scudders Mill Road, Plainsboro, New Jersey 08536, and Merrill Lynch Investment Managers International Limited, located at 33 King William Street, London EC4R 9AS, United Kingdom, are wholly owned subsidiaries of Merrill Lynch and, directly or indirectly through their respective affiliates, manage assets of $589 billion as of June 30, 2006.

BlackRock, Inc. and Merrill Lynch announced on February 15, 2006 that they had entered into an agreement pursuant to which Merrill Lynch would contribute its investment management business, Merrill Lynch Investment Managers, to BlackRock, Inc. to create a new independent company that will be a diversified global money management organizations with approximately $1 trillion in assets under management. Based in New York, BlackRock, Inc. currently manages assets for institutional and individual investors worldwide through a variety of equity, fixed income, cash management and alternative investment products. The new company will operate under the BlackRock name and be governed by a board of directors with a majority of independent members. The new company will offer a full range of equity, fixed income, cash management and alternative investment products with strong representation in both retail and institutional channels, in the U.S. and in non-U.S. markets. It will have over 4,500 employees in 18 countries and a major presence in most key markets, including the United States, the

United Kingdom, Asia, Australia, the Middle East and Europe. Merrill Lynch will own no more than 49.8% of the total issued and outstanding capital stock of the new company and it will own no more than 45% of the new company's common stock, and PNC, which currently holds a majority interest in BlackRock, will retain approximately 34% of the new company's common stock. Each of Merrill Lynch and PNC has agreed that it will vote all of its shares on all matters in accordance with the recommendation of BlackRock, Inc.'s board. Completion of the Transaction is subject to various regulatory approvals, client consents, approval by BlackRock, Inc.'s shareholders and customary conditions. The transaction has been approved by the boards of directors of Merrill Lynch, BlackRock and PNC and is expected to close at the end of the third quarter of 2006, on or after the closing date for the Trust's initial offering of common shares. Following the completion of the Transaction, each of the Advisors will continue to provide investment management and sub-advisory services to the Trust, as the case may be. The terms of the successor advisory and sub-advisory agreements pursuant to which each of the Advisors will continue to provide investment management or sub-advisory services to the Trust following the Transaction will be substantially identical to the respective predecessor agreements that were effective prior to the Transaction. The initial and successor advisory and sub-advisory agreements were approved by the Trust's board of trustees and will be approved by the sole initial shareholder of the Trust prior to the initial public offering of the Trust. In connection with the Transaction, it is anticipated that restructuring may lead to changes in the name, form of organization and jurisdiction of certain of the Advisors to the Trust.

Portfolio Managers. The Trust is co-managed by the BlackRock Global Resources Team, the Merrill Lynch Investment Managers, LLC Natural Resources Team, the Merrill Lynch Investment Managers International Limited Natural Resources Team and the BlackRock Equity Derivatives Team. The BlackRock Global Resources Team will focus on the energy sector and will be led by Daniel Rice III, Managing Director, and Denis J. Walsh III, CFA, Managing Director. Mr. Rice and Mr. Walsh joined BlackRock following a merger with State Street Research & Management Company ("SSRM") in 2005. Prior to joining BlackRock, Mr. Rice was a Senior Vice President and a portfolio manager of the State Street Research Global Resources Fund since its inception in March 1990. He was employed by SSRM beginning in 1984. Prior to joining BlackRock, Mr. Walsh was a Managing Director and was an energy analyst for the State Street Research Global Resources Fund beginning in 1999. He was also a member of the portfolio management team for the Large Cap Analyst Fund and has worked as an investment professional in equity research since 1979.

The Merrill Lynch Investment Managers, LLC Natural Resources Team will focus on the basic materials sector and will be led by Bob Shearer, Managing Director. Mr. Shearer is a senior portfolio manager at Merrill Lynch Investment Managers, LLC and has been Managing Director of Merrill Lynch Investment Managers, LLC since 2000 and was First Vice President of Merrill Lynch Investment Managers, LLC from 1998 to 2000. He has been a portfolio manager with Merrill Lynch Investment Managers, LLC since 1997.

The Merrill Lynch Investment Managers International Limited Natural Resources Team will focus on the metals and minerals sector and will be led by Graham Birch, Managing Director, and Richard Davis, Director. Mr. Birch has been Managing Director of the Merrill Lynch Investment Managers International Limited Natural Resources Team since 1998. Prior to joining Merrill Lynch Investment Managers International Limited, Mr. Birch was part of the mining team at Mercury Asset Management, the predecessor entity to Merrill Lynch Investment Managers International Limited, beginning in 1993. Mr. Davis joined the Merrill Lynch Investment Managers International Limited Natural Resources Team in 1994 and acts as co-manager of the Merrill Lynch Natural Resources Hedge Fund and manager of the Merrill Lynch Commodities Income Investment Trust. He is also responsible for the Team's mining products sold in Japan. Prior to joining Merrill Lynch Investment Managers International Limited, Mr. Davis worked as a geologist for three years.

The BlackRock Equity Derivatives Team will implement the Trust's options strategy. The Equity Derivatives Team will be led by Kyle McClements CFA, Director. Prior to joining BlackRock, Mr. McClements was a Vice President and senior derivatives strategist responsible for equity derivatives strategy and trading in the Quantitative Equity Group at SSRM. Prior to joining SSRM in 2004, Mr. McClements was a senior trader/analyst at Deutsche Asset Management.

The Statement of Additional Information contains additional information about the compensation of the portfolio managers and the portfolio managers' ownership of the common shares of the Trust.

Investment Process

The Advisors will employ their investment process in connection with the Trust. Throughout this process, the portfolio managers will:

Develop a macroeconomic view of the energy, natural resources and basic materials industries. This includes understanding energy fundamentals such as supply of and demand for inventories of oil, natural gas, gold, base metals and industrial metals and energy, natural resources and basic materials-related resources;

Conduct a risk/reward analysis of the energy, natural resources and basic materials sub-sectors;

Determine what it believes to be the optimal portfolio position;

Identify stocks with what it believes to be attractive characteristics. These characteristics include a company's viability as a long-term prospect price-to-earnings, price-to-book, price-to-cash flow and debt-to-cash flow ratios, net asset value, the quality of the company's management and relative cash flows as well as how the company will likely be affected by the fundamental outlook for the sector; and

Continually monitor portfolio risk.

Investment Management Agreements

The Trust has agreed to pay BlackRock Advisors a management fee at an annual rate equal to 1.20% of the average weekly value of the Trust's net assets. BlackRock Advisors has agreed to waive receipt of a portion of its management fee in the amount of 0.20% of the average weekly value of the Trust's net assets attributable to common shares for the first five years of the Trust's operations (through September 30, 2011), 0.15% for the year ending September 30, 2012, 0.10% for the year ending September 30, 2013 and 0.05% for the year ending September 30, 2014. BlackRock Advisors will pay a separate sub-advisory fee equal to 25% of the management fee it actually receives to each of BlackRock Capital Management, Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited, respectively, for sub-advisory services. In addition, with the approval of the board of trustees, including a majority of the independent trustees, a pro rata portion of the salaries, bonuses, health insurance, retirement benefits and similar employment costs for the time spent on Trust operations (other than the provision of services required under the investment management agreement) of all personnel employed by BlackRock Advisors who devote substantial time to Trust operations may be reimbursed, at cost, to BlackRock Advisors by the Trust. BlackRock Advisors currently anticipates that it may be reimbursed for employees who provide pricing, secondary market support and compliance services to the Trust, subject to the approval of the board of trustees, including a majority of the independent trustees.

In addition to the management fee of BlackRock Advisors, the Trust pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with BlackRock Advisors), custodian, transfer and dividend disbursing agent expenses, legal fees, rating agency fees, listing fees and expenses, expenses of independent auditors, expenses of repurchasing shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

NET ASSET VALUE

The net asset value of the common shares of the Trust will be computed based upon the value of the Trust's portfolio securities and other assets. Net asset value per common share will be determined daily on each day that the New York Stock Exchange is open for business as of the close of the regular trading session on the New York Stock Exchange. The Trust calculates net asset value per common share by subtracting liabilities (including accrued expenses or dividends) from the total assets of the Trust (the value of the securities plus cash or other assets, including interest accrued but not yet received) and dividing the result by the total number of outstanding common shares of the Trust.

The Trust values its investments primarily by using market quotations. Short-term debt investments having a remaining maturity of 60 days or less when purchased and debt investments originally purchased with maturities in excess of 60 days but which currently have maturities of 60 days or less may be valued at cost adjusted for amortization of premiums and accretion of discounts. Any investments and other assets for which such current market quotations are not readily available are valued at fair value ("Fair Valued Assets") as determined in good faith under procedures established by, and under the general supervision and responsibility of, the Trust's board of trustees. The Advisors will submit their recommendations regarding the valuation and/or valuation methodologies for Fair Valued Assets to a valuation committee. The valuation committee may accept, modify or reject any recommendations. The pricing of all Fair Valued Assets shall be subsequently reported to and ratified by the Trust's board of trustees.

Foreign securities, including MLPs and equity securities from emerging markets, are valued by translating available quotes into U.S. dollar equivalents, if the quotes are considered reliable, and are otherwise valued at fair value. Over-the-counter options are priced on the basis of dealer quotes. Other types of derivatives for which quotes may not be available are valued at fair value.

When determining the price for a Fair Valued Asset, the Advisor shall seek to determine the price that the Trust might reasonably expect to receive from the current sale of that asset in an arms-length transaction. Fair value determinations shall be based upon all available factors that the Advisors deem relevant.

DISTRIBUTIONS

Commencing with the Trust's initial dividend, the Trust intends to make regular monthly cash distributions of all or a portion of its investment company taxable income to common shareholders. We expect to declare the initial monthly dividend on the Trust's common shares within approximately 45 days after completion of this offering and to pay that initial monthly dividend approximately 60 to 90 days after completion of this offering. The Trust will distribute to common shareholders at least annually all or substantially all its investment company taxable income. The Trust intends to pay any capital gains distributions annually.

Various factors will affect the level of the Trust's current income and current gains, such as its asset mix, and the Trust's use of options. To permit the Trust to maintain a more stable monthly distribution, the Trust may from time to time distribute less than the entire amount of income and gains earned in a particular period. The undistributed income and gains would be available to supplement future distributions. As a result, the distributions paid by the Trust for any particular month may be more or less than the amount of income and gains actually earned by the Trust during that month. Undistributed income and gains will add to the Trust's net asset value and, correspondingly, distributions from undistributed income and gains and from capital, if any, will deduct from the Trust's net asset value. Shareholders will automatically have all dividends and distributions reinvested in common shares of the Trust issued by the Trust or common shares of the Trust purchased in the open market in accordance with the Trust's dividend reinvestment plan unless an election is made to receive cash. See "Dividend Reinvestment Plan."

DIVIDEND REINVESTMENT PLAN

Unless the registered owner of common shares elects to receive cash by contacting the Plan Agent (as defined below), all dividends declared for your common shares of the Trust will be automatically reinvested by The Bank of New York (the "Plan Agent"), agent for shareholders in administering the Trust's Dividend Reinvestment Plan (the "Plan"), in additional common shares of the Trust. If a registered owner of common shares elects not to participate in the Plan, you will receive all dividends in cash paid by check mailed directly to you (or, if the shares are held in street or other nominee name, then to such nominee) by The Bank of New York, as dividend disbursing agent. You may elect not to participate in the Plan and to receive all dividends in cash by sending written instructions or by contacting The Bank of New York, as dividend disbursing agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by contacting the Plan Agent before the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Some brokers may automatically elect to receive cash on your behalf and may re-invest that cash in additional common shares of the Trust for you. If you wish for all dividends declared on your common shares of the Trust to be automatically reinvested pursuant to the Plan, please contact your broker.

The Plan Agent will open an account for each common shareholder under the Plan in the same name in which such shareholder's common shares are registered. Whenever the Trust declares a dividend or other distribution (together, a "dividend") payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in common shares. The common shares will be acquired by the Plan Agent for the participants' accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Trust ("newly issued common shares") or (ii) by purchase of outstanding common shares on the open market ("open-market purchases") on the New York Stock Exchange or elsewhere.

If, on the payment date for any dividend, the market price per common share plus estimated brokerage commissions is greater than the net asset value per common share (such condition being referred to herein as "market premium"), the Plan Agent will invest the dividend amount in newly issued common shares, including fractions, on behalf of the participants. The number of newly issued common shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per common share on the payment date; provided that, if the net asset value per common share is less than 95% of the market price per common share on the payment date, the dollar amount of the dividend will be divided by 95% of the market price per common share on the payment date.

If, on the payment date for any dividend, the net asset value per common share is greater than the market value per common share plus estimated brokerage commissions (such condition being referred to herein as "market discount"), the Plan Agent will invest the dividend amount in common shares acquired on behalf of the participants in open-market purchases.

In the event of a market discount on the payment date for any dividend, the Plan Agent will have until the last business day before the next date on which the common shares trade on an "ex-dividend" basis or 30 days after the payment date for such dividend, whichever is sooner (the "last purchase date"), to invest the dividend amount in common shares acquired in open-market purchases. It is contemplated that the Trust will pay monthly dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date of each dividend through the date before the next "ex-dividend" date, which will typically be approximately 10 days after the payment date for such dividend. If, before the Plan Agent has completed its open-market purchases, the market price of a common share exceeds the net asset value per common share, the average per common share purchase price paid by the Plan Agent may exceed the net asset value of the common shares, resulting in the acquisition of fewer common shares than if the dividend had been paid in newly issued common shares

on the dividend payment date. Because of the foregoing difficulty with respect to open market purchases, if the Plan Agent is unable to invest the full dividend amount in open market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent may cease making open-market purchases and may invest the uninvested portion of the dividend amount in newly issued common shares at the net asset value per common share at the close of business on the last purchase date; provided that, if the net asset value per common share is less than 95% of the market price per common share on the payment date, the dollar amount of the dividend will be divided by 95% of the market price per common share on the payment date.

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of common shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Plan.

There will be no brokerage charges with respect to common shares issued directly by the Trust. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with open-market purchases. The automatic reinvestment of dividends will not relieve participants of any Federal, state or local income tax that may be payable (or required to be withheld) on such dividends. See "Tax Matters." Participants that request a sale of shares through the Plan Agent are subject to a $2.50 sales fee and a brokerage commission of $.15 per share sold.

The Trust reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Trust reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence concerning the Plan should be directed to the Plan Agent at The Bank of New York, Dividend Reinvestment Department, P.O. Box 1958, Newark, New Jersey 07101-9774; telephone: 1-866-216-0242.

DESCRIPTION OF SHARES

Common Shares

The Trust is a statutory trust organized under the laws of Delaware pursuant to an Amended and Restated Agreement and Declaration of Trust dated as of August 22, 2006. The Trust is authorized to issue an unlimited number of common shares of beneficial interest, par value $.001 per share. Each common share has one vote and, when issued and paid for in accordance with the terms of this offering, will be fully paid and non-assessable, except that the trustees shall have the power to cause shareholders to pay expenses of the Trust by setting off charges due from shareholders from declared but unpaid dividends or distributions owed the shareholders and/or by reducing the number of common shares owned by each respective shareholder. All common shares are equal as to dividends, assets and voting privileges and have no conversion, preemptive or other subscription rights. The Trust will send annual and semi-annual reports, including financial statements, to all holders of its shares.

The Trust has no present intention of offering any additional shares other than the common shares it may issue under the Trust's Plan. Any additional offerings of shares will require approval by the Trust's board of trustees. Any additional offering of common shares will be subject to the requirements of the

Investment Company Act, which provides that shares may not be issued at a price below the then current net asset value, exclusive of sales load, except in connection with an offering to existing holders of common shares or with the consent of a majority of the Trust's outstanding voting securities.

The Trust's common shares have been approved for listing on the New York Stock Exchange under the symbol "BCF" subject to notice of issuance. Net asset value will be reduced immediately following the offering of common shares by the amount of the sales load and the amount of the offering expenses paid by the Trust. See "Summary of Trust Expenses."

Unlike open-end funds, closed-end funds like the Trust do not continuously offer shares and do not provide daily redemptions. Rather, if a shareholder determines to buy additional common shares or sell shares already held, the shareholder may do so by trading through a broker on the New York Stock Exchange or otherwise. Shares of closed-end investment companies frequently trade on an exchange at prices lower than net asset value. Shares of closed-end investment companies like the Trust that invest predominantly in equity securities have during some periods traded at prices higher than net asset value and during other periods have traded at prices lower than net asset value. Because the market value of the common shares may be influenced by such factors as dividend levels (which are in turn affected by expenses), call protection on its portfolio securities, dividend stability, portfolio credit quality, net asset value, relative demand for and supply of such shares in the market, general market and economic conditions and other factors beyond the control of the Trust, the Trust cannot assure you that common shares will trade at a price equal to or higher than net asset value in the future. The common shares are designed primarily for long-term investors and you should not purchase the common shares if you intend to sell them soon after purchase. See the Statement of Additional Information under "Repurchase of Common Shares."

ANTI-TAKEOVER PROVISIONS IN THE AMENDED AND RESTATED AGREEMENT AND DECLARATION OF TRUST

The Amended and Restated Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Trust or to change the composition of its board of trustees. This could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control over the Trust. Such attempts could have the effect of increasing the expenses of the Trust and disrupting the normal operation of the Trust. The board of trustees is divided into three classes, with the terms of one class expiring at each annual meeting of shareholders. At each annual meeting, one class of trustees is elected to a three-year term. This provision could delay for up to two years the replacement of a majority of the board of trustees. A trustee may be removed from office for cause only, and not without cause, and only by the action of a majority of the remaining trustees followed by a vote of the holders of at least 75% of the shares then entitled to vote for the election of the respective trustee.

In addition, the Trust's Amended and Restated Agreement and Declaration of Trust requires the favorable vote of a majority of the Trust's board of trustees followed by the favorable vote of the holders of at least 75% of the outstanding shares of each affected class or series of the Trust, voting separately as a class or series, to approve, adopt or authorize certain transactions with 5% or greater holders of a class or series of shares and their associates, unless the transaction has been approved by at least 80% of the trustees, in which case "a majority of the outstanding voting securities" (as defined in the Investment Company Act) of the Trust shall be required. For purposes of these provisions, a 5% or greater holder of a class or series of shares (a "Principal Shareholder") refers to any person who, whether directly or indirectly and whether alone or together with its affiliates and associates, beneficially owns 5% or more of the outstanding shares of all outstanding classes or series of common shares of the Trust.

The 5% holder transactions subject to these special approval requirements are: the merger or consolidation of the Trust or any subsidiary of the Trust with or into any Principal Shareholder; the issuance of any securities of the Trust to any Principal Shareholder for cash, except pursuant to any automatic dividend reinvestment plan; the sale, lease or exchange of all or any substantial part of the assets of the Trust to any Principal Shareholder, except assets having an aggregate fair market value of less than 2% of the total assets of the Trust, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period; or the sale, lease or exchange to the Trust or any subsidiary of the Trust, in exchange for securities of the Trust, of any assets of any Principal Shareholder, except assets having an aggregate fair market value of less than 2% of the total assets of the Trust, aggregating for purposes of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period.

To convert the Trust to an open-end investment company, the Trust's Agreement and Declaration of Trust requires the favorable vote of a majority of the board of the trustees followed by the favorable vote of the holders of at least 75% of the outstanding shares of each affected class or series of shares of the Trust, voting separately as a class or series, unless such amendment has been approved by at least 80% of the trustees, in which case "a majority of the outstanding voting securities" (as defined in the Investment Company Act) of the Trust shall be required. The foregoing vote would satisfy a separate requirement in the Investment Company Act that any conversion of the Trust to an open-end investment company be approved by the shareholders. If approved in the foregoing manner, we anticipate conversion of the Trust to an open-end investment company might not occur until 90 days after the shareholders' meeting at which such conversion was approved and would also require at least 10 days' prior notice to all shareholders. Following any such conversion, it is possible that certain of the Trust's investment policies and strategies would have to be modified to assure sufficient portfolio liquidity. In the event of conversion, the common shares would cease to be listed on the New York Stock Exchange or other national securities exchanges or market systems. Shareholders of an open-end investment company may require the company to redeem their shares at any time, except in certain circumstances as authorized by or under the Investment Company Act, at their net asset value, less such redemption charge, if any, as might be in effect at the time of a redemption. The Trust expects to pay all such redemption requests in cash, but reserves the right to pay redemption requests in a combination of cash and securities. If such partial payment in securities were made, investors may incur brokerage costs in converting such securities to cash. If the Trust were converted to an open-end fund, it is likely that new shares would be sold at net asset value plus a sales load. The board of trustees believes, however, that the closed-end structure is desirable in light of the Trust's investment objectives and policies. Therefore, you should assume that it is not likely that the board of trustees would vote to convert the Trust to an open-end fund.

For the purposes of calculating "a majority of the outstanding voting securities" under the Trust's Amended and Restated Agreement and Declaration of Trust, each class and series of the Trust shall vote together as a single class, except to the extent required by the Investment Company Act or the Trust's Amended and Restated Agreement and Declaration of Trust, with respect to any class or series of shares. If a separate class vote is required, the applicable proportion of shares of the class or series, voting as a separate class or series, also will be required.

The Amended and Restated Agreement and Declaration of Trust also provides that the Trust may be liquidated upon the approval of 80% of the trustees.

The board of trustees has determined that provisions with respect to the board of trustees and the shareholder voting requirements described above, which voting requirements are greater than the minimum requirements under Delaware law or the Investment Company Act, are in the best interest of shareholders generally. For a more complete explanation, see the full text of these provisions in the Trust's Amended and Restated Agreement and Declaration of Trust, which is on file with the Securities and Exchange Commission.

CLOSED-END TRUST STRUCTURE

The Trust is a non-diversified, closed-end management investment company with no operating history (commonly referred to as a closed-end fund). Closed-end funds differ from open-end funds (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. This means that if you wish to sell your shares of a closed-end fund you must trade them on the market like any other stock at the prevailing market price at that time. In a mutual fund, if the shareholder wishes to sell shares of the fund, the mutual fund will redeem or buy back the shares at "net asset value." Also, mutual funds generally offer new shares on a continuous basis to new investors, and closed-end funds generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage a mutual fund's investments. By comparison, closed-end funds are generally able to stay more fully invested in securities that are consistent with their investment objectives, and also have greater flexibility to make certain types of investments, and to use certain investment strategies, such as financial leverage and investments in illiquid securities.

Shares of closed-end funds frequently trade at a discount to their net asset value. Because of this possibility and the recognition that any such discount may not be in the interest of shareholders, the Trust's board of trustees might consider from time to time engaging in open-market repurchases, tender offers for shares or other programs intended to reduce the discount. We cannot guarantee or assure, however, that the Trust's board of trustees will decide to engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in the shares trading at a price equal or close to net asset value per share. The board of trustees might also consider converting the Trust to an open-end mutual fund, which would also require a vote of the shareholders of the Trust.

REPURCHASE OF COMMON SHARES

Shares of closed-end investment companies often trade at a discount to their net asset value, and the Trust's common shares may also trade at a discount to their net asset value, although it is possible that they may trade at a premium above net asset value. The market price of the Trust's common shares will be determined by such factors as relative demand for and supply of such common shares in the market, the Trust's net asset value, general market and economic conditions and other factors beyond the control of the Trust. See "Net Asset Value." Although the Trust's common shareholders will not have the right to redeem their common shares, the Trust may take action to repurchase common shares in the open market or make tender offers for its common shares. This may have the effect of reducing any market discount from net asset value.

There is no assurance that, if action is undertaken to repurchase or tender for common shares, such action will result in the common shares' trading at a price that approximates their net asset value. Although share repurchases and tenders could have a favorable effect on the market price of the Trust's common shares, you should be aware that the acquisition of common shares by the Trust will decrease the capital of the Trust and, therefore, may have the effect of increasing the Trust's expense ratio and decreasing the asset coverage with respect to any preferred shares outstanding. Any share repurchases or tender offers will be made in accordance with requirements of the Securities Exchange Act of 1934, as amended, the Investment Company Act and the principal stock exchange on which the common shares are traded.

TAX MATTERS

The following discussion is a brief summary of certain U.S. federal income tax considerations affecting the Trust and its shareholders. The discussion reflects applicable tax laws of the United States as of the date of this prospectus, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the "IRS") retroactively or prospectively. No attempt is made to

present a detailed explanation of all U.S. federal, state, local and foreign tax concerns affecting the Trust and its shareholders (including shareholders subject to special treatment under U.S. federal income tax law). The discussion set forth herein does not constitute tax advice. Investors are urged to consult their own tax advisors to determine the tax consequences to them of investing in the Trust.

The Trust intends to elect to be treated and to qualify each year for special tax treatment afforded a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). As long as the Trust meets certain requirements that govern the Trust's source of income, diversification of assets and distribution of earnings to shareholders, the Trust will not be subject to U.S. federal income tax on income distributed in a timely manner to its shareholders. If, however, the Trust fails to meet these requirements, resulting in a disqualification of the Fund as a regulated investment company, then the Fund will be subject to the federal income tax on its net income at regular corporate rates (without a deduction for dividends paid to shareholders). When distributed, such income would then be taxable to shareholders as an ordinary dividend.

Distributions paid to you by the Trust from its investment company taxable income or from an excess of net short-term capital gain over net long-term capital losses (together referred to hereinafter as "ordinary income dividends") are generally taxable to you as ordinary income to the extent of the Trust's earnings and profits. Such distributions (if designated by the Trust) may qualify (provided holding period and other requirements are met) (i) for the dividends received deduction in the case of corporate shareholders to the extent that the Trust's income consists of dividend income from U.S. corporations, and (ii) in the case of individual shareholders (effective for taxable years beginning on or before December 31, 2010), as qualified dividend income eligible to be taxed, in general, at a maximum rate of 15% (5% for individuals in lower tax brackets) to the extent that the Trust receives qualified dividend income. If the Trust's qualified dividend income is less than 95 percent of its gross income, a shareholder of the Trust may include as qualified dividend income only that portion of the dividends that may be and are so designated by the Trust as qualified dividend income. Qualified dividend income is, in general, dividend income from taxable domestic corporations and certain foreign corporations (e.g., generally, foreign corporations incorporated in a possession of the United States or in certain countries with a qualified comprehensive tax treaty with the United States, or the stock of which is readily tradable on an established securities market in the United States, provided that the dividend is paid in respect of such publicly traded stock). Dividend income from passive foreign investment companies and, in general, dividend income from real estate investment trusts ("REITs") is not eligible for the reduced rate for qualified dividend income and is taxed as ordinary income. Distributions made to you from an excess of net long-term capital gain over net short-term capital losses ("capital gain dividends"), including capital gain dividends credited to you but retained by the Trust, are taxable to you as long-term capital gain if they have been properly designated by the Trust, regardless of the length of time you have owned Trust shares. The maximum tax rate on capital gain dividends received by individuals generally is 15% (5% for individuals in lower brackets) for such gain recognized on or before December 31, 2010. Distributions, if any, in excess of the Trust's earnings and profits will first reduce the adjusted tax basis of your shares and, after such adjusted tax basis is reduced to zero, will constitute capital gain to you (assuming the shares are held as a capital asset). Generally, not later than 60 days after the close of its taxable year, the Trust will provide you with a written notice designating the amount of any qualified dividend income or capital gain dividends and other distributions.

The sale or other disposition of shares of the Trust will generally result in capital gain or loss to you if you hold the Trust shares as a capital asset, and will be long-term capital gain or loss if the shares have been held for more than one year at the time of sale. Any loss upon the sale or exchange of Trust shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you. For purposes of determining whether Trust shares have been held for six months or less, the holding period is suspended for any periods during which your risk of loss is diminished as a result of holding one or more

other positions in substantially similar or related property, or through certain options or short sales. A loss realized on a sale or exchange of shares of the Trust will be disallowed if other substantially identical Trust shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date on which the shares are sold. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Present law taxes both long-term and short-term capital gain of corporations at the rates applicable to ordinary income. For non-corporate taxpayers, short-term capital gain will currently be taxed at a maximum rate of 35% applicable to ordinary income while long-term capital gain generally will be taxed at a maximum rate of 15% (5% for individuals in lower brackets) for such gain recognized with respect to taxable years beginning on or before December 31, 2010.

Dividends and other taxable distributions are taxable to you even though they are reinvested in additional shares of the Trust. If the Trust pays you a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Trust and received by you on December 31 of the year in which the dividend was declared.

An investor should be aware that if Trust shares are purchased shortly before the record date for any taxable distribution (including a capital gain dividend), the purchase price likely will reflect the value of the distribution and the investor then would receive a taxable distribution likely to reduce the trading value of such Trust shares, in effect resulting in a taxable return of some of the purchase price.

The Trust is required in certain circumstances to backup withhold on taxable dividends and certain other payments paid to non-corporate holders of the Trust's shares who do not furnish the Trust with their correct taxpayer identification number (in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

Certain dividends designated by the Trust as "interest-related dividends" that are paid to most foreign investors (generally those that would qualify for the portfolio interest exemptions of Section 871(h) or Section 881(c) of the Code) will be exempt from U.S. withholding tax. Interest-related dividends are those dividends derived from certain interest income (including bank deposit interest and short term original issue discount that is currently exempt from the withholding tax) earned by the Trust that would not be subject to U.S. tax if earned by a foreign person directly. Further, certain dividends designated by the Trust as "short-term capital gain dividends" that are paid to certain foreign investors (generally those not present in the United States for 183 days or more) will be exempt from U.S. withholding tax. In general, short-term capital gain dividends are those that are derived from the excess of the Trust's short-term capital gains over its net long-term capital losses. These provisions generally apply, with certain exceptions, to taxable years beginning on or before December 31, 2007. Prospective investors are urged to consult their tax advisors regarding the specific tax consequences to them as related to these provisions.

The foregoing is a general and abbreviated summary of the provisions of the Code, Treasury regulations and judicial and administrative authorities currently in effect as they directly govern the taxation of the Trust and its shareholders. These provisions are subject to change or differing interpretations by Congress, the courts or the IRS, and any such change or interpretation may be retroactive. A more detailed discussion of the tax rules applicable to the Trust and its shareholders can be found in the Statement of Additional Information that is incorporated by reference into this prospectus. Shareholders are urged to consult their tax advisors regarding specific questions as to U.S. federal, state, local and foreign income and other taxes.

UNDERWRITING

Wachovia Capital Markets, LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, UBS Securities LLC and A.G. Edwards & Sons, Inc. are acting as the representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement, dated the date of this prospectus, each underwriter named below has agreed to purchase, and the Trust has agreed to sell to that underwriter, the number of common shares set forth opposite the underwriter's name.

Underwriter	Number of Shares
Wachovia Capital Markets, LLC	
Citigroup Global Markets Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
UBS Securities LLC	
A.G. Edwards & Sons, Inc.	
Banc of America Securities LLC	
Crowell, Weedon & Co.	
Ferris, Baker Watts, Incorporated	
H&R Block Financial Advisors, Inc.	
J.J.B. Hilliard, W.L. Lyons, Inc.	
Janney Montgomery Scott LLC	
Morgan Keegan & Company, Inc.	
Oppenheimer & Co. Inc.	
PNC Capital Markets, Inc.	
Raymond James & Associates, Inc.	
RBC Capital Markets Corporation	
Robert W. Baird & Co. Incorporated	
Ryan Beck & Co., Inc.	
Stifel, Nicolaus & Company, Incorporated	
SunTrust Capital Markets, Inc.	
Wedbush Morgan Securities Inc.	
Wells Fargo Securities, LLC	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the common shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the common shares (other than those covered by the over-allotment option described below) shown in the table above if any of the common shares are purchased.

The underwriters propose to offer some of the common shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the common shares to dealers at the public offering price less a concession not to exceed $ per share. The sales load the Trust will pay of $ per share is equal to % of the initial offering price. The underwriters may allow, and dealers may reallow, a concession not to exceed $ per share on sales to other dealers. If all of the common shares are not sold at the initial offering price, the representatives may change the public offering price and other selling terms. Investors must pay for any common shares purchased on or before , 2006. The representatives have advised the Trust that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority. The representatives have advised us that the underwriters do not intend sales to discretionary accounts to exceed five percent of the total number of our common shares offered by them.

The Advisor (and not the Trust) has agreed to pay to Wachovia Capital Markets, LLC, from its own assets, a structuring fee for advice relating to the structure, design and organization of the Trust as well as services related to the sale and distribution of the Trust's common shares in the amount of $. The structuring fee paid to Wachovia Capital Markets, LLC will not exceed % of the total public offering price of the common shares sold in this offering.

The Advisor (and not the Trust) has agreed to pay to Citigroup Global Markets Inc., from its own assets, a structuring fee for advice relating to the structure, design and organization of the Trust as well as services related to the sale and distribution of the Trust's common shares in the amount of $. The structuring fee paid to Citigroup Global Markets Inc. will not exceed % of the total public offering price of the common shares sold in this offering.

The Advisor (and not the Trust) has agreed to pay to UBS Securities LLC, from its own assets, a structuring fee for advice relating to the structure, design and organization of the Trust as well as services related to the sale and distribution of the Trust's common shares in the amount of $. The structuring fee paid to UBS Securities LLC will not exceed % of the total public offering price of the common shares sold in this offering.

The Advisor (and not the Trust) has agreed to pay to A.G. Edwards & Sons, Inc., from its own assets, a structuring fee for advice relating to the structure, design and organization of the Trust as well as services related to the sale and distribution of the Trust's common shares in the amount of $. The structuring fee paid to A.G. Edwards & Sons, Inc. will not exceed % of the total public offering price of the common shares sold in this offering.

The Advisor (and not the Trust) has agreed to pay from its own assets additional compensation to Merrill Lynch, Pierce, Fenner & Smith Incorporated payable quarterly at the annual rate of 0.15% of the Trust's net assets during the continuance of the investment management agreement between the Advisor and the Trust. Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to provide, at the request of the Advisor, certain after market shareholder support services, including services designed to maintain the visibility of the Trust on an ongoing basis and to provide relevant information, studies or reports regarding the Trust and the closed-end investment company industry and asset management industry. The total amount of these additional compensation payments to Merrill Lynch, Pierce, Fenner & Smith Incorporated will not exceed % of the total price of the common shares sold in this offering to the public of the common shares sold in this offering.

The Advisor (and not the Trust) may also pay certain qualifying underwriters a marketing and structuring fee, a sales incentive fee, or additional compensation in connection with the offering.

The Advisor (and not the Trust) has agreed to pay a commission to certain wholesalers of its broker-dealer affiliate, BlackRock Investments, Inc., and certain wholesalers that are affiliates of Merrill Lynch Investment Managers International Limited and Merrill Lynch Investment Managers, LLC that participate in the marketing of the Trust's common shares, which commissions will not exceed % of the total public offering price of the common shares sold in this offering. The Trust may reimburse BlackRock for all or a portion of its expenses incurred in connection with this offering (other than those described in the preceding sentence), to the extent that the other offering expenses of the Trust do not equal or exceed the $.03 per common share the Trust has agreed to pay for the offering expenses of the Trust.

The total amount of the underwriter compensation payments described above will not exceed 4.5% of the total public offering price of the shares offered hereby. The sum total of all compensation to the underwriters in connection with this public offering of common shares, including sales load and all forms of additional compensation or structuring fee payments to the underwriters and other expenses, will be limited to not more than 9.0% of the total public offering price of the common shares sold in this offering.

The Trust has granted to the underwriters an option, exercisable for 45 days from the date of this prospectus, to purchase up to additional common shares at the public offering price less the sales load. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional common shares approximately proportionate to that underwriter's initial purchase commitment.

The underwriters have undertaken to sell common shares to a minimum of 2,000 beneficial owners in lots of 100 or more shares to meet the NYSE distribution requirements for trading.

The common shares have been approved for listing on the NYSE under the symbol "BCF," subject to notice of issuance.

The following table shows the sales load that the Trust will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional common shares.

	Paid By Fund	
	No Exercise	**Full Exercise**
Per share	$	$
Total	$	$

The Trust and the Advisors have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the common shares after trading in the common shares has commenced on the NYSE. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the common shares as a result of any market-making activities undertaken by any underwriter. This prospectus is to be used by any underwriter in connection with the offering and, during the period in which a prospectus must be delivered, with offers and sales of the common shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Wachovia Capital Markets, LLC, on behalf of itself and the other underwriters, may purchase and sell common shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common shares in excess of the number of common shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of common shares made in an amount up to the number of common shares represented by the underwriters' over-allotment option. In determining the source of common shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of common shares available for purchase in the open market as compared to the price at which they may purchase common shares through the over-allotment option.

Transactions to close out the covered syndicate short position involve either purchases of common shares in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of common shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing common shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of common shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of common shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Wachovia Capital Markets, LLC repurchases common shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of common shares. They may also cause the price of common shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. Other than the prospectus in electronic format, the information on any such underwriter's website is not part of this prospectus. The representatives may agree to allocate a number of common shares to underwriters for sale to their online brokerage account holders. The representatives will allocate common shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, common shares may be sold by the underwriters to securities dealers who resell common shares to online brokerage account holders.

The Trust anticipates that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of the Trust's portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters may, from time to time, engage in transactions with or perform services for the Advisor and its affiliates in the ordinary course of business.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, an underwriter, is an affiliate of Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited. In addition, following the completion of the Transaction, Merrill Lynch & Co., Inc., an affiliate of Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited, will own no more than 49.8% of the total issued and outstanding capital stock of BlackRock, Inc., and it will own no more than 45% of BlackRock Inc.'s common stock. PNC Capital Markets, Inc. and J.J.B. Hilliard, W.L. Lyons, Inc., two of the Underwriters, are affiliates of BlackRock Advisors and BlackRock Capital Management, Inc. During the marketing of the Trust's common shares, BlackRock Investments, Inc. refers certain small broker-dealers to PNC Capital Markets, Inc. In return for such referrals, 50% of any concessions paid to PNC Capital Markets, Inc. in connection with the sale of the Trust's common shares are transferred to BlackRock Investments, Inc.

The principal business address of Wachovia Capital Markets, LLC is 375 Park Avenue, New York, New York 10152. The principal business address of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, New York 10013. The principal business address of Merrill Lynch, Pierce, Fenner & Smith Incorporated is Four World Financial Center, 250 Vesey Street, New York, New York 10080. The principal business address of UBS Securities LLC is 299 Park Avenue, New York, New York 10171. The principal business address of A.G. Edwards & Sons, Inc. is One North Jefferson Avenue, St. Louis, Missouri 63103.

CUSTODIAN AND TRANSFER AGENT

The custodian of the assets of the Trust will be The Bank of New York. The Custodian will perform custodial, fund accounting and portfolio accounting services. The Bank of New York will also serve as the Trust's Transfer Agent with respect to the common shares.

LEGAL OPINIONS

Certain legal matters in connection with the common shares will be passed upon for the Trust by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York and for the underwriters by Simpson Thacher & Bartlett LLP, New York, New York. Simpson Thacher & Bartlett LLP may rely as to certain matters of Delaware law on the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, Wilmington, Delaware.

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STATEMENT OF ADDITIONAL INFORMATION

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Common Shares

PROSPECTUS
, 2006

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UBS Investment Bank
A.G. Edwards

Robert W. Baird & Co.
Banc of America Securities LLC
Crowell, Weedon & Co.
Ferris, Baker Watts
Incorporated
H&R Block Financial Advisors, Inc.
J.J.B. Hilliard, W.L. Lyons, Inc.
Janney Montgomery Scott LLC

Morgan Keegan & Company, Inc.

Oppenheimer & Co.

PNC Capital Markets

Raymond James

RBC Capital Markets

Ryan Beck & Co.
Stifel Nicolaus

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Wells Fargo Securities

The information in this Statement of Additional Information is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This Statement of Additional Information is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 25, 2006

PRELIMINARY STATEMENT OF ADDITIONAL INFORMATION

BLACKROCK REAL ASSET EQUITY TRUST
STATEMENT OF ADDITIONAL INFORMATION

BlackRock Real Asset Equity Trust (the "Trust") is a newly organized, non-diversified, closed-end management investment company with no operating history. This Statement of Additional Information relating to common shares does not constitute a prospectus, but should be read in conjunction with the prospectus relating thereto dated , 2006. This Statement of Additional Information, which is not a prospectus, does not include all information that a prospective investor should consider before purchasing common shares, and investors should obtain and read the prospectus prior to purchasing such shares. A copy of the prospectus may be obtained without charge by calling (800) 882-0052. You may also obtain a copy of the prospectus on the Securities and Exchange Commission's web site (http://www.sec.gov). Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the prospectus.

This Statement of Additional Information is dated , 2006.

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USE OF PROCEEDS

Pending investment in securities that meet the Trust's investment objective and policies, the net proceeds of this offering will be invested in short-term debt securities of the type described under "Investment Policies and Techniques Short-Term Debt Securities." We currently anticipate that the Trust will be able to invest primarily in securities that meet the Trust's investment objective and policies within approximately three months after the completion of this offering.

INVESTMENT OBJECTIVE AND POLICIES

The Trust's investment objective is to provide total return through a combination of current income, current gains and capital appreciation. The Trust seeks to achieve this objective by investing primarily in equity securities of companies engaged in the energy, natural resources and basic materials businesses and companies engaged in associated businesses and equity derivatives with exposure to those companies.

Investment Restrictions

Except as described below, the Trust, as a fundamental policy, may not, without the approval of the holders of a majority of the outstanding common shares and any preferred shares, if any, voting together as a single class, and of the holders of a majority of the outstanding preferred shares, if any, voting as a separate class:

(1) invest 25% or more of the value of its total assets in any single industry (except that the Trust will invest at least 25% of its total assets in the energy, natural resources, basic materials businesses and in associated businesses);

(2) issue senior securities or borrow money other than as permitted by the Investment Company Act or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, when issued and forward commitment transactions and similar investment strategies;

(3) make loans of money or property to any person, except through loans of portfolio securities, the purchase of debt securities or the entry into repurchase agreements;

(4) underwrite the securities of other issuers, except to the extent that, in connection with the disposition of portfolio securities or the sale of its own securities, the Trust may be deemed to be an underwriter;

(5) purchase or sell real estate, except that the Trust may invest in securities of companies that deal in real estate or are engaged in the real estate business, including REITs and real estate operating companies, and instruments secured by real estate or interests therein and the Trust may acquire, hold and sell real estate acquired through default, liquidation, or other distributions of an interest in real estate as a result of the Trust's ownership of such other assets; or

(6) purchase or sell commodities or commodity contracts for any purposes except as, and to the extent, permitted by applicable law without the Trust becoming subject to registration with the Commodity Futures Trading Commission (the "CFTC") as a commodity pool.

When used with respect to particular shares of the Trust, "majority of the outstanding" shares means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less.

The Trust is also subject to the following non-fundamental restrictions and policies, which may be changed by the board of trustees. The Trust may not:

(1) make any short sale of securities except in conformity with applicable laws, rules and regulations and unless after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Trust's total assets and the Trust's aggregate short sales of a particular class of securities of an issuer does not exceed 25% of the then outstanding securities of that class. The Trust may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Trust owns or has the immediate and unconditional right to acquire at no additional cost the identical security;

(2) purchase securities of open-end or closed-end investment companies except in compliance with the Investment Company Act or any exemptive relief obtained thereunder. Under the Investment Company Act, the Trust may invest up to 10% of its total assets in the aggregate in shares of other investment companies and up to 5% of its total assets in any one investment company, provided the investment does not represent more than 3% of the outstanding voting stock of the acquired investment company at the time such shares are purchased. As a shareholder in any investment company, the Trust will bear its ratable share of that investment company's expenses, and will remain subject to payment of the Trust's advisory fees and other expenses with respect to assets so invested. Holders of common shares will therefore be subject to duplicative expenses to the extent the Trust invests in other investment companies. In addition, the securities of other investment companies may be leveraged and will therefore be subject to the risks of leverage. The net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares;

(3) under normal market conditions, invest less than 80% of its total assets in equity securities of companies engaged in the energy, natural resources and basic materials industries or equity derivatives with exposure to companies in the energy and natural resources and basic materials industries; the Trust will provide shareholders with notice at least 60 days prior to changing this non-fundamental policy of the Trust unless such change was previously approved by shareholders; or

(4) issue senior securities or borrow money for investment purposes (other than in connection with hedging transactions, short sales, when issued or forward commitment transactions and similar investment strategies).

In addition, to comply with federal income tax requirements for qualification as a regulated investment company, the Trust's investments will be limited in a manner such that at the close of each quarter of each taxable year, (a) no more than 25% of the value of the Trust's total assets are invested (i) in the securities (other than U.S. Government securities or securities of other regulated investment companies) of a single issuer or two or more issuers controlled by the Trust and determined to be engaged in the same, similar or related trades or businesses or (ii) in the securities of one or more "qualified publicly traded partnerships" (as defined under Section 851(h) of the Code) and (b) with regard to at least 50% of the value of the Trust's total assets, no more than 5% of the value of its total assets are invested in the securities (other than U.S. Government securities or securities of other regulated investment companies) of a single issuer and no investment represents more than 10% of the outstanding voting securities of such issuer. These tax-related limitations may be changed by the trustees to the extent appropriate in light of changes to applicable tax requirements.

The percentage limitations applicable to the Trust's portfolio described in the prospectus and this Statement of Additional Information apply only at the time of investment, and the Trust will not be required to sell securities due to subsequent changes in the value of securities it owns.

INVESTMENT POLICIES AND TECHNIQUES

The following information supplements the discussion of the Trust's investment objective, policies and techniques that are described in the prospectus.

Cash Equivalents and Short-Term Debt Securities

For temporary defensive purposes or to keep cash on hand, the Trust may invest up to 100% of its total assets in cash equivalents and short-term debt securities. Cash equivalents and short-term debt investments are defined to include, without limitation, the following:

(1) U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities. U.S. Government securities include securities issued by (a) the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, and Government National Mortgage Association, whose securities are supported by the full faith and credit of the United States; (b) the Federal Home Loan Banks, Federal Intermediate Credit Banks, and Tennessee Valley Authority, whose securities are supported by the right of the agency to borrow from the U.S. Treasury; (c) the Federal National Mortgage Association, whose securities are supported by the discretionary authority of the U.S. Government to purchase certain obligations of the agency or instrumentality; and (d) the Student Loan Marketing Association, whose securities are supported only by its credit. While the U.S. Government provides financial support to such U.S. Government-sponsored agencies or instrumentalities, no assurance can be given that it always will do so since it is not so obligated by law. The U.S. Government, its agencies and instrumentalities do not guarantee the market value of their securities. Consequently, the value of such securities may fluctuate.

(2) Certificates of deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Certificates of deposit purchased by the Trust may not be fully insured by the Federal Deposit Insurance Corporation.

(3) Repurchase agreements, which involve purchases of debt securities. At the time the Trust purchases securities pursuant to a repurchase agreement, it simultaneously agrees to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures a predetermined yield for the Trust during its holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for the Trust to invest temporarily available cash. The Trust may enter into repurchase agreements only with respect to obligations of the U.S. Government, its agencies or instrumentalities; certificates of deposit; or bankers' acceptances in which the Trust may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Trust is limited to the ability of the seller to pay the agreed-upon sum on the repurchase date; in the event of default, the repurchase agreement provides that the Trust is entitled to sell the underlying collateral. If the value of the collateral declines after the agreement is entered into, and if the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, the Trust could incur a loss of both principal and interest. The Advisors monitor the value of the collateral at the time the action is entered into and on a daily basis during the term of the repurchase agreement. The Advisors do so in an effort to determine that the value of the collateral always equals or exceeds the agreed-upon repurchase price to be paid to the Trust. If the seller were to be subject to a federal bankruptcy proceeding, the

ability of the Trust to liquidate the collateral could be delayed or impaired because of certain provisions of the bankruptcy laws.

(4) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Master demand notes are direct lending arrangements between the Trust and a corporation. There is no secondary market for such notes. However, they are redeemable by the Trust at any time. The Advisors will consider the financial condition of the corporation (e.g., earning power, cash flow and other liquidity ratios) and will continually monitor the corporation's ability to meet all of its financial obligations, because the Trust's liquidity might be impaired if the corporation were unable to pay principal and interest on demand. Investments in commercial paper will be limited to commercial paper rated in the highest categories by a major rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest.

(5) Registered money market funds, which are a type of mutual fund that is required by law to invest in low-risk securities. Money market funds typically invest in government securities, certificates of deposits, commercial paper of companies, and other highly liquid and low-risk securities.

Equity Securities

While the Trust will primarily invest in common stocks, it may also invest in other equity securities including preferred stocks, convertible securities, warrants, depository receipts and equity interests in Canadian Royalty Trusts. The Trust's investments in preferred stock and convertible securities are not subject to a minimum rating limitation.

Preferred Stock. Preferred stock has a preference over common stock in liquidation (and generally dividends as well) but is subordinated to the liabilities of the issuer in all respects. As a general rule, the market value of preferred stock with a fixed dividend rate and no conversion element varies inversely with interest rates and perceived credit risk, while the market price of convertible preferred stock generally also reflects some element of conversion value. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

Convertible Securities. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible income securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value. Convertible securities rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument.

Warrants. Warrants, which are privileges issued by corporations enabling the owners to subscribe to and purchase a specified number of shares of the corporation at a specified price during a specified period of time. Subscription rights normally have a short life span to expiration. The purchase of warrants involves the risk that the Trust could lose the purchase value of a right or warrant if the right to subscribe to additional shares is not exercised prior to the warrants' expiration. Also, the purchase of warrants involves the risk that the effective price paid for the right warrant added to the subscription price of the related security may exceed the value of the subscribed security's market price such as when there is no movement in the level of the underlying security.

Depository Receipts. The Trust may invest in both sponsored and unsponsored American Depository Receipts ("ADRs"), European Depository Receipts ("EDRs"), Global Depository Receipts ("GDRs") and other similar global instruments. ADRs typically are issued by an American bank or trust company and evidence ownership of underlying securities issued by a non-U.S. corporation. EDRs, which are sometimes referred to as Continental Depository Receipts, are receipts issued in Europe, typically by non-U.S. banks and trust companies, that evidence ownership of either non-U.S. or domestic underlying securities. GDRs are depository receipts structured like global debt issues to facilitate trading on an international basis. Unsponsored ADR, EDR and GDR programs are organized independently and without the cooperation of the issuer of the underlying securities. As a result, available information concerning the issuer may not be as current as for sponsored ADRs, EDRs and GDRs, and the prices of unsponsored ADRs, EDRs and GDRs may be more volatile than if such instruments were sponsored by the issuer. Investments in ADRs, EDRs and GDRs present additional investment considerations of non-U.S. securities.

Canadian Royalty Trusts. A Canadian royalty trust is a trust whose securities are listed on a Canadian stock exchange and which controls an underlying company whose business is the acquisition, exploitation, production and sale of oil and natural gas. These funds generally pay out to unitholders the majority of the cash flow that they receive from the production and sale of underlying oil and natural gas reserves. The amount of distributions paid on a Canadian royalty trust's units will vary from time to time based on production levels, commodity prices, royalty rates and certain expenses, deductions and costs, as well as on the distribution payout ratio policy adopted. As a result of distributing the bulk of their cash flow to unitholders, the ability of a Canadian royalty trust to finance internal growth through exploration is limited. Therefore, Canadian royalty trusts typically grow through acquisition of additional oil and gas properties or producing companies with proven reserves of oil and gas, funded through the issuance of additional equity or, where the trust is able, additional debt.

Master Limited Partnership Interests

MLP common units represent a limited partnership interest in the MLP. Common units are listed and traded on U.S. securities exchanges or over-the-counter, with their value fluctuating predominantly based on prevailing market conditions and the success of the MLP. We intend to purchase common units in market transactions as well as directly from the MLP or other parties. Unlike owners of common stock of a corporation, owners of common units have limited voting rights and have no ability annually to elect directors. MLPs generally distribute all available cash flow (cash flow from operations less maintenance capital expenditures) in the form of quarterly distributions. Common units along with general partner units, have first priority to receive quarterly cash distributions up to the MQD and have arrearage rights. In the event of liquidation, common units have preference over subordinated units, but not debt or preferred units, to the remaining assets of the MLP.

I-Shares represent an ownership interest issued by an affiliated party of an MLP. The MLP affiliate uses the proceeds from the sale of I-Shares to purchase limited partnership interests in the MLP in the form of i-units. I-units have similar features as MLP common units in terms of voting rights, liquidation preference and distributions. However, rather than receiving cash, the MLP affiliate

receives additional i-units in an amount equal to the cash distributions received by MLP common units. Similarly, holders of I-Shares will receive additional I-Shares, in the same proportion as the MLP affiliates receipt of i-units, rather than cash distributions. I-Shares themselves have limited voting rights which are similar to those applicable to MLP common units. The MLP affiliate issuing the I-Shares is structured as a corporation for federal income tax purposes. I-Shares are traded on the New York Stock Exchange (the "NYSE").

Non-Investment Grade Securities

The Trust may invest up to 10% of its total assets in securities rated below investment grade such as those rated Ba or below by Moody's Investors Service, Inc. ("Moody's") or BB or below by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P") or Fitch Ratings ("Fitch") or securities comparably rated by other rating agencies or in unrated securities determined by the Advisors to be of comparable quality. Securities rated Ba and below by Moody's and Fitch are judged to have speculative elements; their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet timely interest and principal payments. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities; adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value. The prices of debt securities generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupons of such securities. Accordingly, below investment grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with below investment grade securities potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity. Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities. The ratings of Moody's, S&P and other rating agencies represent their opinions as to the quality of the obligations that they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Advisors also will independently evaluate these securities and the ability for the issuers of such securities to pay interest and principal. To the extent that the Trust invests in lower grade securities that have not been rated by a rating agency, the Trust's ability to achieve its investment objectives will be more dependent on the Advisors' credit analysis than would be the case when the Trust invests in rated securities.

Securities Lending and Delayed Settlement Transactions

The Trust may also lend the securities it owns to others, which allows the Trust the opportunity to earn additional income. Although the Trust will require the borrower of the securities to post collateral for the loan in accordance with market practice and the terms of the loan will require that the Trust be able to reacquire the loaned securities if certain events occur, the Trust is still subject to

the risk that the borrower of the securities may default, which could result in the Trust losing money, which would result in a decline in the Trust's net asset value. The Trust may also purchase securities for delayed settlement. This means that the Trust is generally obligated to purchase the securities at a future date for a set purchase price, regardless of whether the value of the securities is more or less than the purchase price at the time of settlement.

Strategic Transactions and Risk Management

Consistent with its investment objectives and policies set forth herein, the Trust may also enter into certain risk management transactions. In particular, the Trust may purchase and sell futures contracts, exchange listed and over-the-counter put and call options on securities, equity and other indices and futures contracts, forward foreign currency contracts, and may enter into various interest rate transactions (collectively, "Strategic Transactions"). Strategic Transactions may be used to attempt to protect against possible changes in the market value of the Trust's portfolio resulting from fluctuations in the securities markets and changes in interest rates, to protect the Trust's unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes and to establish a position in the securities markets as a temporary substitute for purchasing particular securities. Any or all of these Strategic Transactions may be used at any time. There is no particular strategy that requires use of one technique rather than another. Use of any Strategic Transaction is a function of market conditions. The ability of the Trust to manage them successfully will depend on the Advisors' ability to predict pertinent market movements as well as sufficient correlation among the instruments, which cannot be assured. The Strategic Transactions that the Trust may use are described below. Although the Trust recognizes it is not likely that it will use certain of these strategies in light of its investment policies, it nevertheless describes them here because the Trust may seek to use these strategies in certain circumstances.

Futures Contracts and Options on Futures Contracts. In connection with its Strategic Transactions and other risk management strategies, the Trust may also enter into contracts for the purchase or sale for future delivery ("futures contracts") of securities, aggregates of securities or indices or prices thereof, other financial indices and U.S. government debt securities or options on the above. The Trust will engage in such transactions only for bona fide risk management and other portfolio management purposes.

Forward Foreign Currency Contracts. The Trust may enter into forward currency contracts to purchase or sell foreign currencies for a fixed amount of U.S. dollars or another foreign currency. A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days (term) from the date of the forward currency contract agreed upon by the parties, at a price set at the time the forward currency contract is entered into. Forward currency contracts are traded directly between currency traders (usually large commercial banks) and their customers. The Trust may purchase a forward currency contract to lock in the U.S. dollar price of a security denominated in a foreign currency that the Trust intends to acquire. The Trust may sell a forward currency contract to lock in the U.S. dollar equivalent of the proceeds from the anticipated sale of a security or a dividend or interest payment denominated in a foreign currency. The Trust may also use forward currency contracts to shift the Trust's exposure to foreign currency exchange rate changes from one currency to another. For example, if the Trust owns securities denominated in a foreign currency and the Advisors believe that currency will decline relative to another currency, the Trust might enter into a forward currency contract to sell the appropriate amount of the first foreign currency with payment to be made in the second currency. The Trust may also purchase forward currency contracts to enhance income when the Advisors anticipate that the foreign currency will appreciate in value but securities denominated in that currency do not present attractive investment opportunities. The Trust may also use forward currency contracts to offset against a decline in the value of existing investments denominated in a foreign currency. Such a transaction would tend to offset both positive and negative currency fluctuations, but would not offset changes in security values caused by

other factors. The Trust could also enter into a forward currency contract to sell another currency expected to perform similarly to the currency in which the Trust's existing investments are denominated. This type of transaction could offer advantages in terms of cost, yield or efficiency, but may not offset currency exposure as effectively as a simple forward currency transaction to sell U.S. dollars. This type of transaction may result in losses if the currency sold does not perform similarly to the currency in which the Trust's existing investments are denominated. The Trust may also use forward currency contracts in one currency or a basket of currencies to attempt to offset against fluctuations in the value of securities denominated in a different currency if the Advisors anticipate that there will be a correlation between the two currencies. The cost to the Trust of engaging in forward currency contracts varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward currency contracts are usually entered into on a principal basis, no fees or commissions are involved. When the Trust enters into a forward currency contract, it relies on the counterparty to make or take delivery of the underlying currency at the maturity of the contract. Failure by the counterparty to do so would result in the loss of some or all of any expected benefit of the transaction. Secondary markets generally do not exist for forward currency contracts, with the result that closing transactions generally can be made for forward currency contracts only by negotiating directly with the counterparty. Thus, there can be no assurance that the Trust will in fact be able to close out a forward currency contract at a favorable price prior to maturity. In addition, in the event of insolvency of the counterparty, the Trust might be unable to close out a forward currency contract. In either event, the Trust would continue to be subject to market risk with respect to the position, and would continue to be required to maintain a position in securities denominated in the foreign currency or to maintain cash or liquid assets in a segregated account. The precise matching of forward currency contract amounts and the value of the securities involved generally will not be possible because the value of such securities, measured in the foreign currency, will change after the forward currency contract has been established. Thus, the Trust might need to purchase or sell foreign currencies in the spot (cash) market to the extent such foreign currencies are not covered by forward currency contracts. The projection of short term currency market movements is extremely difficult, and the successful execution of a short term strategy is highly uncertain.

Calls on Securities, Indices and Futures Contracts. In order to enhance income or reduce fluctuations on net asset value, the Trust currently expects to sell or purchase call options ("calls") on securities and indices based upon the prices of futures contracts and debt securities that are traded on U.S. and non-U.S. securities exchanges and in the over-the-counter markets. A call option gives the purchaser of the option the right to buy, and obligates the seller to sell, the underlying security, futures contract or index at the exercise price at any time or at a specified time during the option period. All such calls sold by the Trust must be "covered" as long as the call is outstanding (i.e., the Trust must own the instrument subject to the call or other securities or assets acceptable for applicable segregation and coverage requirements). A call sold by the Trust exposes the Trust during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security, index or futures contract and may require the Trust to hold an instrument that it might otherwise have sold. The purchase of a call gives the Trust the right to buy a security, futures contract or index at a fixed price. Calls on futures on securities must also be covered by assets or instruments acceptable under applicable segregation and coverage requirements.

Puts on Securities, Indices and Futures Contracts. As with calls, the Trust may purchase put options ("puts") that relate to securities (whether or not it holds such securities in its portfolio), indices or futures contracts. For the same purposes, the Trust may also sell puts on securities, indices or futures contracts on such securities if the Trust's contingent obligations on such puts are secured by segregated assets consisting of cash or liquid debt securities having a value not less than the exercise price. The Trust will not sell put options if, as a result, more than 50% of the Trust's total assets would be required to cover its potential obligations under the put options and under any other transactions (excluding calls) that would be treated as senior securities under the Investment Company Act. In

selling puts, there is a risk that the Trust may be required to buy the underlying security at a price higher than the current market price.

Interest Rate Transactions. Among the Strategic Transactions in which the Trust may enter into are interest rate swaps and the purchase or sale of interest rate caps and floors. The Trust expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio as a duration management technique or to protect against any increase in the price of securities the Trust anticipates purchasing at a later date. The Trust intends to use these transactions for risk management purposes and not as a speculative investment. The Trust will not sell interest rate caps or floors that it does not own. Interest rate swaps involve the exchange by the Trust with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor.

The Trust may enter into interest rate swaps, caps and floors on either an asset-based or liability-based basis, depending on whether it is offsetting volatility with respect to its assets or liabilities, and will usually enter into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Trust receiving or paying, as the case may be, only the net amount of the two payments on the payment dates. Inasmuch as these Strategic Transactions are entered into for good faith risk management purposes, the Advisors and the Trust believe such obligations do not constitute senior securities, and, accordingly will not treat them as being subject to its borrowing restrictions. The Trust will accrue the net amount of the excess, if any, of the Trust's obligations over its entitlements with respect to each interest rate swap on a daily basis and will designate on its books and records with a custodian an amount of cash or liquid high grade securities having an aggregate net asset value at all times at least equal to the accrued excess. The Trust will not enter into any interest rate swap, cap or floor transaction unless the unsecured senior debt or the claims-paying ability of the other party thereto is rated in the highest rating category of at least one nationally recognized statistical rating organization at the time of entering into such transaction. If there is a default by the other party to such a transaction, the Trust will have contractual remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps and floors are more recent innovations for which standardized documentation has not yet been developed and, accordingly, they are less liquid than swaps.

Credit Derivatives. The Trust may engage in credit derivative transactions. There are two broad categories of credit derivatives: default price risk derivatives and market spread derivatives. Default price risk derivatives are linked to the price of reference securities or loans after a default by the issuer or borrower, respectively. Market spread derivatives are based on the risk that changes in market factors, such as credit spreads, can cause a decline in the value of a security, loan or index. There are three basic transactional forms for credit derivatives: swaps, options and structured instruments. The use of credit derivatives is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. If the Advisors are incorrect in their forecasts of default risks, market spreads or other applicable factors, the investment performance of the Trust would diminish compared with what it would have been if these techniques were not used. Moreover, even if the Advisors are correct in their forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being purchased. There is no limit on the amount of credit derivative transactions that may be entered into by the Trust. The Trust's risk of loss in a credit derivative transaction varies with the form of the transaction. For example, if the

Trust purchases a default option on a security, and if no default occurs with respect to the security, the Trust's loss is limited to the premium it paid for the default option. In contrast, if there is a default by the grantor of a default option, the Trust's loss will include both the premium that it paid for the option and the decline in value of the underlying security that the default option protects.

Appendix A contains further information about the characteristics, risks and possible benefits of Strategic Transactions and the Trust's other policies and limitations (which are not fundamental policies) relating to investment in futures contracts and options. The principal risks relating to the use of futures contracts and other Strategic Transactions are: (a) less than perfect correlation between the prices of the instrument and the market value of the securities in the Trust's portfolio; (b) possible lack of a liquid secondary market for closing out a position in such instruments; (c) losses resulting from interest rate or other market movements not anticipated by the Advisors; and (d) the obligation to meet additional variation margin or other payment requirements, all of which could result in the Trust being in a worse position than if such techniques had not been used.

Certain provisions of the Code may restrict or affect the ability of the Trust to engage in Strategic Transactions. See "Tax Matters."

OTHER INVESTMENT POLICIES AND TECHNIQUES

Restricted and Illiquid Securities

Certain of the Trust's investments may be illiquid. Illiquid securities are subject to legal or contractual restrictions on disposition or lack an established secondary trading market. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

When-Issued and Forward Commitment Securities

The Trust may purchase securities on a "when-issued" basis and may purchase or sell securities on a "forward commitment" basis in order to acquire the security or to offset against anticipated changes in interest rates and prices. When such transactions are negotiated, the price, which is generally expressed in yield terms, is fixed at the time the commitment is made, but delivery and payment for the securities take place at a later date. When-issued securities and forward commitments may be sold prior to the settlement date, but the Trust will enter into when-issued and forward commitments only with the intention of actually receiving or delivering the securities, as the case may be. If the Trust disposes of the right to acquire a when-issued security prior to its acquisition or disposes of its right to deliver or receive against a forward commitment, it might incur a gain or loss. At the time the Trust enters into a transaction on a when-issued or forward commitment basis, it will designate on its books and records cash or liquid debt securities equal to at least the value of the when-issued or forward commitment securities. The value of these assets will be monitored daily to ensure that their marked to market value will at all times equal or exceed the corresponding obligations of the Trust. There is always a risk that the securities may not be delivered and that the Trust may incur a loss. Settlements in the ordinary course, which may take substantially more than five business days, are not treated by the Trust as when-issued or forward commitment transactions and accordingly are not subject to the foregoing restrictions.

Reverse Repurchase Agreements

The Trust may enter into reverse repurchase agreements with respect to its portfolio investments subject to the investment restrictions set forth herein. Reverse repurchase agreements involve the sale of securities held by the Trust with an agreement by the Trust to repurchase the securities at an agreed upon price, date and interest payment. At the time the Trust enters into a

reverse repurchase agreement, it may designate on its books and records liquid instruments having a value not less than the repurchase price (including accrued interest). If the Trust establishes and maintains such a segregated account, a reverse repurchase agreement will not be considered a borrowing by the Trust; however, under certain circumstances in which the Trust does not establish and maintain such a segregated account, such reverse repurchase agreement will be considered a borrowing for the purpose of the Trust's limitation on borrowings. The use by the Trust of reverse repurchase agreements involves many of the same risks of leverage since the proceeds derived from such reverse repurchase agreements may be invested in additional securities. Reverse repurchase agreements involve the risk that the market value of the securities acquired in connection with the reverse repurchase agreement may decline below the price of the securities the Trust has sold but is obligated to repurchase. Also, reverse repurchase agreements involve the risk that the market value of the securities retained in lieu of sale by the Trust in connection with the reverse repurchase agreement may decline in price.

If the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Trust's obligation to repurchase the securities, and the Trust's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. Also, the Trust would bear the risk of loss to the extent that the proceeds of the reverse repurchase agreement are less than the value of the securities subject to such agreement.

Repurchase Agreements

As temporary investments, the Trust may invest in repurchase agreements. A repurchase agreement is a contractual agreement whereby the seller of securities agrees to repurchase the same security at a specified price on a future date agreed upon by the parties. The agreed-upon repurchase price determines the yield during the Trust's holding period. Repurchase agreements are considered to be loans collateralized by the underlying security that is the subject of the repurchase contract. The Trust will only enter into repurchase agreements with registered securities dealers or domestic banks that, in the opinion of the Advisors, present minimal credit risk. The risk to the Trust is limited to the ability of the issuer to pay the agreed-upon repurchase price on the delivery date; however, although the value of the underlying collateral at the time the transaction is entered into always equals or exceeds the agreed-upon repurchase price, if the value of the collateral declines there is a risk of loss of both principal and interest. In the event of default, the collateral may be sold but the Trust might incur a loss if the value of the collateral declines, and might incur disposition costs or experience delays in connection with liquidating the collateral. In addition, if bankruptcy proceedings are commenced with respect to the seller of the security, realization upon the collateral by the Trust may be delayed or limited. The Advisors will monitor the value of the collateral at the time the transaction is entered into and at all times subsequent during the term of the repurchase agreement in an effort to determine that such value always equals or exceeds the agreed-upon repurchase price. In the event the value of the collateral declines below the repurchase price, the Advisors will demand additional collateral from the issuer to increase the value of the collateral to at least that of the repurchase price, including interest.

Lending of Securities

The Trust may lend its portfolio securities to banks or dealers which meet the creditworthiness standards established by the board of trustees of the Trust ("Qualified Institutions"). By lending its portfolio securities, the Trust attempts to increase its income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Trust. The Trust may lend its portfolio securities so long as the terms and the structure of such loans are not inconsistent with requirements of the Investment Company Act, which currently require that (i) the borrower pledge and maintain with the Trust collateral consisting of cash, a letter of credit issued by a domestic U.S. bank, or securities issued or

guaranteed by the U.S. government having a value at all times not less than 100% of the value of the securities loaned; (ii) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the value of the loan is "marked to the market" on a daily basis); (iii) the loan be made subject to termination by the Trust at any time; and (iv) the Trust receive reasonable interest on the loan (which may include the Trust's investing any cash collateral in interest bearing short term investments), any distributions on the loaned securities and any increase in their market value. The Trust will not lend portfolio securities if, as a result, the aggregate of such loans exceeds 33 1/3% of the value of the Trust's total assets (including such loans). Loan arrangements made by the Trust will comply with all other applicable regulatory requirements, including the rules of the New York Stock Exchange, which rules presently require the borrower, after notice, to redeliver the securities within the normal settlement time of five business days. All relevant facts and circumstances, including the creditworthiness of the Qualified Institution, will be monitored by the Advisors, and will be considered in making decisions with respect to lending securities, subject to review by the Trust's board of trustees.

The Trust may pay reasonable negotiated fees in connection with loaned securities, so long as such fees are set forth in a written contract and approved by the Trust's board of trustees. In addition, voting rights may pass with the loaned securities, but if a material event were to occur affecting such a loan, the loan must be called and the securities voted.

MANAGEMENT OF THE TRUST

Investment Management Agreement

Although BlackRock Advisors intends to devote such time and effort to the business of the Trust as is reasonably necessary to perform its duties to the Trust, the services of BlackRock Advisors are not exclusive and BlackRock Advisors provides similar services to other investment companies and other clients and may engage in other activities. On and after the effective date of the agreement pursuant to which Merrill Lynch will contribute its investment management business, Merrill Lynch Investment Managers, to BlackRock, Inc. to create a new independent company (the "Transaction"), BlackRock Advisors will continue to provide investment advisory services to the Trust pursuant to a successor investment management agreement, the terms of which will be substantially identical to the investment management agreement that was in place prior to the Transaction.

The investment management agreement and the successor investment management agreement also provide that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, BlackRock Advisors is not liable to the Trust or any of the Trust's shareholders for any act or omission by BlackRock Advisors in the supervision or management of its respective investment activities or for any loss sustained by the Trust or the Trust's shareholders and provides for indemnification by the Trust of BlackRock Advisors, its directors, officers, employees, agents and control persons for liabilities incurred by them in connection with their services to the Trust, subject to certain limitations and conditions.

The investment management agreement, the successor investment management agreement and certain scheduled waivers of the investment advisory fees were approved by the Trust's board of trustees at an "in person" meeting of the board of trustees held on August 23, 2006 including a majority of the trustees who are not parties to the agreement or interested persons of any such party (as such term is defined in the Investment Company Act). Each agreement provides for the Trust to pay a management fee at an annual rate equal to 1.20% of the average weekly value of the Trust's net assets attributable to common shares. A related waiver letter from BlackRock Advisors provided for temporary fee waiver of 0.20% of the average weekly value of the Trust's net assets in each of the first five years of the Trust's operations (through September 30, 2011) and for a declining amount for an additional three years (through September 30, 2014). The other terms and provisions of the investment management agreement and the successor investment management agreement also are substantially identical. In approving each agreement the board of trustees considered, among other things, the nature and quality of services to be provided by BlackRock Advisors, the profitability to BlackRock Advisors of its relationship with the Trust, economies of scale and comparative fees and expense ratios.

The investment management agreement, the successor investment management agreement, and the waivers of the management fees were approved by the sole common shareholder of the Trust as of August 23, 2006. The investment management agreement and the successor investment management agreement will each continue in effect for a period of two years from its effective date, and if not sooner terminated, will continue in effect for successive periods of 12 months thereafter, provided that each continuance is specifically approved at least annually by both (1) the vote of a majority of the Trust's board of trustees or the vote of a majority of the securities of the Trust at the time outstanding and entitled to vote (as such term is defined in the Investment Company Act) and (2) by the vote of a majority of the trustees who are not parties to the investment management agreement or interested persons (as such term is defined in the Investment Company Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval. The investment management agreement and the successor investment management agreement may each be terminated as a whole at any time by the Trust, without the payment of any penalty, upon the vote of a majority of the Trust's board of trustees or a majority of the outstanding voting securities of the Trust or by BlackRock Advisors, on 60 days' written notice by either party to the other which can be waived by the non-terminating party. The investment management agreement and the successor investment management agreement will each terminate automatically in the event of its assignment (as such term is defined in the Investment Company Act and the rules thereunder).

Sub-Investment Advisory Agreement

Pursuant to three separate sub-investment advisory agreements ("the sub-investment advisory agreements"), BlackRock Advisors has appointed BlackRock Capital Management, Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited (the "Sub-Advisors") to perform the day-to-day investment management of the Trust. On and after the effective date of the Transaction, BlackRock Capital Management will continue to provide sub-investment advisory services to the Trust pursuant to a successor sub-investment advisory agreement. The Trust will utilize Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited as sub-advisors until the effective date of the Transaction, at which time the Trust will utilize two successor entities as sub-advisors in their respective places on a going-forward basis. The terms of the successor sub-investment advisory agreement of BlackRock Capital Management will be substantially identical to the sub-investment advisory agreement of BlackRock Capital Management that was effective prior to the Transaction. The terms of the sub-investment advisory agreements of the successor entities to Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited will also be substantially identical to the sub-investment advisory agreements of their respective predecessor entities that were effective prior to the Transaction. BlackRock Advisors will pay a separate sub-advisory fee equal to 25% of the management fee it actually receives to each of BlackRock Capital Management, Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited, respectively, for sub-advisory services. In addition, with the approval of the board of trustees, including a majority of the independent trustees, a pro rata portion of the salaries, bonuses, health insurance, retirement benefits and similar employment costs for the time spent on Trust operations (other than the provision of services required under the investment management agreement) of all personnel employed by BlackRock Advisors who devote substantial time to Trust operations may be reimbursed, at cost, to BlackRock Advisors by the Trust. BlackRock Advisors currently anticipates that it may be reimbursed for employees who provide pricing, secondary market support and compliance services to the Trust, subject to the approval of the board of trustees, including a majority of the independent trustees.

Each sub-investment advisory agreement and successor sub-investment advisory agreement provides that, in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, the Trust will indemnify such Sub-Advisor, its directors, officers, employees,

agents, associates and control persons for liabilities incurred by them in connection with their services to the Trust, subject to certain limitations.

Although each Sub-Advisor intends to devote such time and effort to the business of the Trust as is reasonably necessary to perform its duties to the Trust, the services of each Sub-Advisor are not exclusive and each Sub-Advisor provides similar services to other investment companies and other clients and may engage in other activities.

The successor sub-investment advisory agreement of BlackRock Capital Management and the sub-investment advisory agreements appointing the successor entities to Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited (collectively, the "successor sub-investment advisory agreements") and the sub- investment advisory agreements were approved by the Trust's board of trustees at an "in person" meeting held on August 23, 2006, including a majority of the Trustees who are not parties to the agreements or interested persons of any such party (as such term is defined in the Investment Company Act). In approving the sub-investment advisory agreements the successor sub-investment advisory agreements the board of trustees considered, among other things, the nature and quality of services to be provided by BlackRock Capital Management, Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited, and each of the successor entities to Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited, the profitability to BlackRock Capital Management, Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited, and each of the successor entities to Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited of their respective relationships with the Trust, economies of scale and comparative fees and expense ratios.

The sub-investment advisory agreements, the successor sub-investment advisory agreement of BlackRock Capital Management and the sub-investment advisory agreements appointing the successor entities to Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited were approved by the sole common shareholder of the Trust as of August 23, 2006. The sub-investment advisory agreements and successor sub-investment advisory agreements will each continue in effect for a period of two years from their respective effective dates, and if not sooner terminated, will continue in effect for successive periods of 12 months thereafter, provided that each continuance is specifically approved at least annually by both (1) the vote of a majority of the Trust's board of trustees or the vote of a majority of the outstanding voting securities of the Trust at the time outstanding and entitled to vote (as defined in the Investment Company Act) and (2) by the vote of a majority of the trustees who are not parties to such agreement or interested persons (as such term is defined in the Investment Company Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval. The sub-investment advisory agreements and successor sub-investment advisory agreements may be terminated as a whole at any time by the Trust or by BlackRock Advisors without the payment of any penalty, upon the vote of a majority of the Trust's board of trustees or a majority of the outstanding voting securities of the Trusts, or the Sub-Advisors, on 60 days' written notice by any party to the other (which may be waived by the non-terminating party). The sub-investment advisory agreements and successor sub-investment advisory agreements will also terminate automatically in the event of its assignment (as such term is defined in the Investment Company Act and the rules thereunder).

Matters Considered by the Board

A discussion regarding the basis for the approval of the respective initial and successor investment management and sub-investment advisory agreements by the Board will be available in the Trust's report to shareholders for the period ending October 31, 2006.

Trustees and Officers

The officers of the Trust manage its day-to-day operations. The officers are directly responsible to the Trust's board of trustees which sets broad policies for the Trust and chooses its officers. Below is a list of the trustees and officers of the Trust and their present positions and principal occupations during the past five years. The business address of the Trust, BlackRock Advisors and their board members and officers is 100 Bellevue Parkway, Wilmington, Delaware 19809, unless specified otherwise below.

The trustees listed below are either trustees or directors of other closed-end funds in which BlackRock Advisors acts as investment advisor.

Name, Address,Age and Position(s) Held With Registrant	Term of Office and Length of Time Served	Principal Occupation During the Past Five Years and Other Affiliations	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
INDEPENDENT TRUSTEES				
Andrew F. Brimmer P.O. Box 4546 New York, NY 10163-4546 Age: 79 Lead Trustee Audit Committee Chairman	3 years(1)(2)	President of Brimmer & Company, Inc., a Washington, D.C.-based economic and financial consulting firm, also Wilmer D. Barrett Professor of Economics. University of Massachusetts-Amherst, Former member of the Board of Governors of the Federal Reserve System. Former Chairman, District of Columbia Financial Control Board.	56	Director of CarrAmerica Realty Corporation and Borg-Warner Automotive. Former Director of AirBorne Express, BankAmerica Corporation (Bank of America), Bell South Corporation, College Retirement Equities Fund (Trustee), Commodity Exchange (Public Governor), Connecticut Mutual Life Insurance Company, E.I. du Pont de Nemours & Company, Equitable Life Assurance Society of the United States, Gannett Company, Mercedes-Benz of North America, MNC Financial Corporation (American Security Bank), NCM Capital Management, Navistar International Corporation, PHH Corp. and UAL Corporation (United Airlines).

Richard E. Cavanagh P.O. Box 4546 New York, NY 10163-4546 Age: 60 Trustee Audit Committee Member	3 years(1)(2)	President and Chief Executive Officer of The Conference Board, Inc., a leading global business research organization, from 1995-present. Former Executive Dean of the John F. Kennedy School of Government at Harvard University from 1988-1995. Acting Director, Harvard Center for Business and Government (1991-1993). Former Partner (principal) of McKinsey & Company, Inc. (1980-1988). Former Executive Director of Federal Cash Management, White House Office of Management and Budget (1977-1979). Coauthor, THE WINNING PERFORMANCE (best selling management book published in 13 national editions)	56	Trustee: Aircraft Finance Trust (AFT) and Educational Testing Service (ETS). Director, Arch Chemical, Fremont Group and The Guardian Life Insurance Company of America.
Kent Dixon P.O Box 4546 New York, NY 10163-4546 Age: 69 Trustee Audit Committee Member	3 years(1)(2)	Consultant/Investor. Former President and Chief Executive Officer of Empire Federal Savings Bank of America and Banc PLUS Savings Association, former Chairman of the Board, President and Chief Executive Officer of Northeast Savings.	56	Former Director of ISFA (the owner of INVEST, a national securities brokerage service designed for banks and thrift institutions).
Frank J. Fabozzi P.O Box 4546 New York, NY 10163-4546 Age: 57 Trustee Audit Committee Member	3 years(1)(2)	Consultant. Editor of THE JOURNAL OF PORTFOLIO MANAGEMENT and Frederick Frank Adjunct Professor of Finance at the School of Management at Yale University. Author and editor of several books on fixed income portfolio management. Visiting Professor of Finance and Accounting at the Sloan School of Management, Massachusetts Institute of Technology from 1986 to August 1992.	56	Director, Guardian Mutual Funds Group (18 portfolios).

Kathleen F. Feldstein P.O Box 4546 New York, NY 10163-4546 Age: 65 Trustee	3 years(1)(2)	President of Economic Studies, Inc., a Belmont, MA based private economic consulting firm, since 1987; Chair, Board of Trustees, McLean Hospital in Belmont, MA	55	Director of BellSouth Inc. and Knight Ridder, Inc.; Trustee of the Museum of Fine Arts, Boston, and of the Committee for Economic Development; Corporation Member, Partners HealthCare and Sherrill House; Member of the Visiting Committee of the Harvard University Art Museums and of the Advisory Board to the International School of Business at Brandeis University.
R. Glenn Hubbard P.O Box 4546 New York, NY 10163-4546 Age: 47 Trustee	3 years(1)(2)	Dean of Columbia Business School since July 1, 2004. Columbia faculty member since 1988. Co-director of Columbia Business School's Entrepreneurship Program 1994-1997. Visiting Professor at the John F. Kennedy School of Government at Harvard University and the Harvard Business School, as well as the University of Chicago. Visiting scholar at the American Enterprise Institute in Washington and member of International Advisory Board of the MBA Program of Ben-Gurion University. Deputy Assistant Secretary of the U.S. Treasury Department for Tax Policy from 1991-1993. Chairman of the U.S. Council of Economic Advisers under the President of the United States 2001-2003.	56	Director of ADP, Dex Media, KKR Financial Corporation, and Ripplewood Holdings. Member of Board of Directors of Duke Realty. Formerly on the advisory boards of the Congressional Budget Office, the Council on Competitiveness, the American Council on Capital Formation, the Tax Foundation and the Center for Addiction and Substance Abuse. Trustee of Fifth Avenue Presbyterian Church of New York.
INTERESTED TRUSTEES:				
Robert S. Kapito* Age: 48 Trustee and President	3 years(1)(2)	Vice Chairman of BlackRock, Inc. Head of the Portfolio Management Group. Also a member of the Management Committee, the Investment Strategy Group, the Fixed Income and Global Operating Committees and the Equity Investment Strategy Group of BlackRock, Inc. Responsible for the portfolio management of the Fixed Income, Domestic Equity and International Equity, Liquidity, and Alternative Investment Groups of BlackRock.	56	Chairman of the Hope & Heroes Children's Cancer Fund. President of the board of Directors of Periwinkle National Theatre for Young Audiences.

Ralph L. Schlosstein* Age: 54 Trustee and Chairman of the Board	3 years(1)(2)	Director since 1999 and President of BlackRock, Inc. since its formation in 1998 and of BlackRock, Inc.'s predecessor entities since 1988. Member of the Management Committee and Investment Strategy Group of BlackRock, Inc. Formerly, Managing Director of Lehman Brothers, Inc. and Co-head of its Mortgage and Savings Institutions Group, Chairman and President of the BlackRock Liquidity Funds and director of several of BlackRock's alternative investment vehicles.	56	Director and Chairman of the Board of Anthracite Capital, Inc. Member of the Visiting Board of Overseers of the John F. Kennedy School of Government at Harvard University, a member of the board of the Financial Institution Center of the Wharton School of the University of Pennsylvania, a trustee of the American Museum of Natural History, a trustee of Trinity School in New York City, a member of the Board of Advisors of Marujupu LLC, and a trustee of New Visions for Public Education, The Public Theater in New York City and the James Beard Foundation. Formerly, a director of Pulte Corporation, the nation's largest homebuilder, a Trustee of Denison University and a member of Fannie Mae's Advisory Council.

*

"Interested person" of the Trust as defined in the Investment Company Act. Messrs. Kapito and Schlosstein are interested persons due to their employment with the Advisor.

(1)

After a trustee's initial term, each trustee is expected to serve a three-year term concurrent with the class of trustees for which he or she serves:

Messrs. Cavanagh and Hubbard, as Class I trustees, are expected to stand for re-election at the Trust's 2008 annual meeting of shareholders

Messrs. Schlosstein and Fabozzi, and Ms. Feldstein, as Class II trustees, are expected to stand for re-election at the Trust's 2009 annual meeting of shareholders

Messrs. Kapito, and Dixon, as Class III trustees, are expected to stand for re-election at the Trust's 2007 annual meeting of shareholders. It is anticipated that Dr. Brimmer will retire from the Board in February 2007.

(2)

Each trustee has served in such capacity since the Trust's inception.

OFFICERS

Name and Age	Title	Principal Occupation During the Past Five Years and Other Affiliations
Anne F. Ackerley Age: 46	Vice President	Managing Director of BlackRock, Inc. since 2000. Formerly, First Vice President and Chief Operating Officer, Mergers and Acquisition Group at Merrill Lynch & Co. from 1997 to 2000; First Vice President and Chief Operating Officer, Public Finance Group at Merrill Lynch & Co. from 1995 to 1997; First Vice President, Emerging Markets Fixed Income Research at Merrill Lynch & Co. prior thereto.
Bartholomew A. Battista Age: 47	Chief Compliance Officer	Chief Compliance Officer and Anti-Money Laundering Compliance Officer of BlackRock, Inc. since 2004. Chief Compliance Officer and Anti-Money Laundering Compliance Officer of the BlackRock Funds and the BlackRock Liquidity Funds since 2004. Managing Director (since 2003) and Director (2000-2002) of BlackRock, Inc. Compliance Officer at Moore Capital Management from 1995-1998.
Henry Gabbay Age: 59	Treasurer	Managing Director of BlackRock, Inc. and its predecessor entities.
James Kong Age: 45	Assistant Treasurer	Managing Director of BlackRock, Inc. and its predecessor entities.
Vincent Tritto, Esq. Age: 44	Secretary	Managing Director, Senior counsel and Assistant Secretary of BlackRock, Inc. (since January 2005) and Director, Senior Counsel and Assistant Secretary (2002-2004) of BlackRock, Inc. Formerly, Executive Director (2000-2002) and Vice President (1998-2000), Morgan Stanley & Co. Incorporated and Morgan Stanley Asset Management Inc. and officer of various Morgan Stanley-sponsored investment vehicles; Counsel (1998) and Associate (1988-1997), Rogers & Wells LLP, New York, NY; Foreign Associate (1992-1994), Asahi Law Offices/Masuda & Ejiri, Tokyo, Japan.
Brian Kindelan, Esq. Age: 47	Assistant Secretary	Managing Director and Senior Counsel (since January 2005), Director and Senior Counsel (2001-2004), and Vice President and Senior Counsel (1998-2000), BlackRock, Inc.; Senior Counsel, PNC Bank Corp. from May 1995 to April 1998; Associate, Stradley Ronon Stevens & Young, LLP from March 1990 to May 1995.

Share Ownership

Name of Trustee	Dollar Range of Equity Securities in the Trust(*)	Aggregate Dollar Range of Equity Securities Overseen by Trustees in the Family of Registered Investment Companies(*)
Andrew F. Brimmer	$ 0	over $100,000
Richard E. Cavanagh	$ 0	over $100,000
Kent Dixon	$ 0	over $100,000
Frank J. Fabozzi	$ 0	over $100,000
Kathleen F. Feldstein	$ 0	$10,001 $50,000
R. Glenn Hubbard	$ 0	over $100,000
Robert S. Kapito	$ 0	over $100,000
Ralph L. Schlosstein	$ 0	over $100,000

(*)
As of , 2006.

The trustees do not own shares in the Trust as the Trust has no operating history.

Compensation of Trustees

The fees and expenses of the Independent Trustees of the Trust are paid by the Trust. The trustees who are members of the BlackRock organization receive no compensation from the Trust. It is estimated that the Independent Trustees will receive from the Trust the amounts set forth before the Trust's calendar year ending December 31, 2006, assuming the Trust will have been in existence for the full calendar year.

Name of Board Member	Estimated Compensation from the Trust	Total Compensation from the Trust and Fund Complex Paid to Board Members(1)
Andrew F. Brimmer	$ 5,600	$ 310,000(3)(4)(5)
Richard E. Cavanagh	$ 4,000(2)	$ 220,000(4)(5)
Kent Dixon	$ 4,000(2)	$ 220,000(4)(5)
Frank J. Fabozzi	$ 4,000(2)	$ 220,000(4)(5)
Kathleen F. Feldstein	$ 3,400(2)	$ 190,000(4)
R. Glenn Hubbard	$ 3,400(2)	$ 190,000(4)

(1) Estimates the total compensation to be earned by that person during the calendar year ending December 31, 2006 from the closed-end funds advised by the Advisor (the "Fund Complex").

(2) Of these amounts it is anticipated that trustees Brimmer, Cavanagh, Dixon, Fabozzi, Feldstein and Hubbard will defer $0, $0, $0, $0, $0, and $3,400, respectively, pursuant to the Fund Complex's deferred compensation plan in the calendar year ended December 31, 2006.

(3) Dr. Brimmer serves as "lead director" and Governance Committee Chairman for each board of trustees/directors in the Fund Complex. For his services as lead trustee/director, Dr. Brimmer will be compensated in the amount of $60,000 per annum by the Fund Complex.

(4) Of this amount, trustees Brimmer, Cavanagh, Dixon, Fabozzi, Feldstein and Hubbard are expected to defer $50,000, $50,000, $50,000, $50,000, $30,000, and $190,000, respectively, pursuant to the Fund Complex's deferred compensation plan.

(5) Includes compensation for service on the Audit Committee. Dr. Brimmer receives $60,000 per annum for his service as Chairman of the Audit Committee and all other trustees on the Audit Committee receive $30,000 base per annum for their service on the Audit Committee.

The Trust shall pay a pro rata portion (based on relative net assets) of the following trustee fees paid by the Fund Complex: (i) $190,000 per annum for each Independent Trustee as a retainer and (ii) $3,000 per day for each Independent Trustee for each special meeting of each board in the Fund Complex (i.e., any meeting, whether telephonic or in person, other than one of the six regularly scheduled meetings of each board per year) attended. Each Independent Trustee shall also be entitled to reimbursement for all of his or her out-of-pocket expenses in attending each meeting of the board of trustees of the Trust and any committee thereof. Dr. Brimmer will receive an additional $60,000 per annum from the Fund Complex for acting as the lead trustee for each board of trustees/directors in the Fund Complex plus an additional $60,000 per annum for his service as chairman of the Audit Committee. Messrs. Cavanagh, Dixon, and Fabozzi will receive an additional $30,000 per annum from the Fund Complex for their service on the Audit Committee of the Fund Complex. This additional compensation to Messrs. Brimmer, Cavanagh, Dixon, and Fabozzi will be allocated among the funds/trusts in the Fund Complex based on their relative net assets. Certain of the above fees paid to the Independent Trustees will be subject to mandatory deferrals pursuant to the Fund Complex's deferred compensation plan. The Independent Trustees have agreed that at least $30,000 of their $190,000 retainer will be mandatorily deferred pursuant to the Fund Complex's deferred compensation plan. Also, members of the Audit Committee of the Fund Complex will be required to defer $20,000 of the

per annum fee they will receive for their services on the Audit Committee pursuant to the Fund Complex's deferred compensation plan. Under the deferred compensation plan, deferred amounts earn a return for the Independent Trustees as though equivalent dollar amounts had been invested in common shares of certain other funds/trusts in the Fund Complex selected by the Independent Trustees. This has approximately the same economic effect for the Independent Trustees as if they had invested the deferred amounts in such other funds/trusts. The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of a fund/trust. A fund/trust may, however, elect to invest in common shares of those funds/trusts selected by the Independent Trustee in order to match its deferred compensation obligations.

The board of trustees of the Trust currently has five committees: an Executive Committee, an Audit Committee, a Governance Committee, a Compliance Committee and a Portfolio Review Committee.

The Executive Committee consists of Messrs. Schlosstein and Kapito, and acts in accordance with the powers permitted to such a committee under the Amended and Restated Agreement and Declaration of Trust and the By-Laws of the Trust. The Executive Committee, subject to the Trust's Amended and Restated Agreement and Declaration of Trust, By-Laws and applicable law, acts on behalf of the full board of trustees in the intervals between meetings of the board.

The Audit Committee consists of Messrs. Brimmer, Cavanagh, Dixon and Fabozzi. The Audit Committee acts according to the Audit Committee charter. Dr. Brimmer has been appointed as Chairman of the Audit Committee. The Audit Committee is responsible for reviewing and evaluating issues related to the accounting and financial reporting policies of the Trust, overseeing the quality and objectivity of the Trust's financial statements and the audit thereof and acting as a liaison between the board of trustees and the Trust's independent accountants. The board of trustees of the Trust has determined that the Trust has three audit committee financial experts serving on its Audit Committee, Messrs. Brimmer, Dixon and Fabozzi, all of whom are independent for the purpose of the definition of audit committee financial expert as applicable to the Trust.

The Governance Committee consists of all of the Independent Trustees. The Governance Committee acts in accordance with the Governance Committee charter. Dr. Brimmer has been appointed as Chairman of the Governance Committee. The Governance Committee performs those functions enumerated in the Governance Committee charter including, but not limited to, making nominations for the appointment or election of Independent Trustees including shareholder nominees, reviewing Independent Trustee compensation, retirement policies and personnel training policies and administrating the provisions of the Code of Ethics applicable to the Independent Trustees.

The Governance Committee will consider trustee candidates recommended by shareholders. In considering candidates submitted by shareholders, the Governance Committee will take into consideration the needs of the Board and the qualifications of the candidate. The Governance Committee may also take into consideration the number of shares held by the recommending shareholder and the length of time that such shares have been held. To have a candidate considered by the Governance Committee, a shareholder must submit the recommendation in writing and must include:

- The name of the shareholder and evidence of the person's ownership of shares of the Trust, including the number of shares owned and the length of time of ownership; and

- The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a trustee of the Trust and the person's consent to be named as a trustee if selected by the Governance Committee and nominated by the Board.

The shareholder recommendation and information described above must be sent to the Corporate Secretary, c/o BlackRock, P.O. Box 4546, New York, New York 10163.

The Compliance Committee consists of all of the Independent Trustees. The Compliance Committee acts according to the Compliance Committee charter. Dr. Brimmer has been appointed as Chairman of the Compliance Committee. The Compliance Committee performs those functions enumerated in the Compliance Committee charter, including, but not limited to, supporting the Independent Trustees in acting independently of BlackRock Advisors in pursuing the best interests of the Trust and its shareholders, receiving information on and, where appropriate, recommending policies concerning the Trust's compliance with applicable law, and receiving reports from and making certain recommendations in respect of the Trust's Chief Compliance Officer.

The Portfolio Review Committee consists of all of the Trustees. The Portfolio Review Committee acts in accordance with the Portfolio Review Committee charter. Dr. Brimmer has been appointed as an Ex Officio member of the Portfolio Review Committee. The Portfolio Review Committee performs those functions enumerated in the Portfolio Review Committee charter, including, but not limited to, supporting the Independent Trustees in acting independently of BlackRock in pursuing the best interests of the Trust and its shareholders, developing an understanding of and reviewing the investment objective, policies and practices of the Trust, and reviewing with respect to the Trust: (a) whether the Trust has complied with its investment policies and restrictions as reflected in its prospectus and Statement of Additional Information, (b) appropriate benchmarks and competitive universes, (c) investment performance, (d) unusual or exceptional investment matters, and (e) other matters bearing on the Trust's investment results.

As the Trust is a closed-end investment company with no prior investment operations, no meetings of the above committees have been held in the current fiscal year, provided that the Governance Committee has acted by written consent to form the Audit Committee which, in turn, met in connection with the organization of the Trust to select the Trust's independent registered public accounting firm.

Prior to this offering, all of the outstanding shares of the Trust were owned by an affiliate of BlackRock Advisors.

Proxy Voting Policies

The board of trustees of the Trust has delegated the voting of proxies for Trust securities to BlackRock pursuant to BlackRock's proxy voting guidelines. Under these guidelines, BlackRock will vote proxies related to Trust securities in the best interests of the Trust and its shareholders. A copy of BlackRock's proxy voting procedures is attached as Appendix B to this Statement of Additional Information.

Codes of Ethics

The Trust, the Advisor and the Sub-Advisors have adopted codes of ethics under Rule 17j-1 of the Investment Company Act. These codes permit personnel subject to the codes to invest in securities, including securities that may be purchased or held by the Trust. These codes can be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-202-942-8090. These codes of ethics are available on the EDGAR Database on the Securities and Exchange Commission's web site (*http://www.sec.gov*), and copies of these codes may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the Securities and Exchange Commission's Public Reference Section, Washington, D.C. 20549-0102.

Investment Advisor and Sub-Advisors

BlackRock Advisors acts as the Trust's investment advisor. BlackRock Capital Management, Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited act as the Trust's sub-advisors. BlackRock Advisors, located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and BlackRock Capital Management, located at 40 East 52nd Street, New York, New York 10022, are wholly owned subsidiaries of BlackRock, Inc., which is one of the largest publicly traded investment management firms in the United States with approximately $464 billion of assets under management as of June 30, 2006. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products, including the BlackRock Funds and BlackRock Liquidity Funds . In addition, BlackRock provides risk management and investment system services to institutional investors under the BlackRock Solutions® name.

The BlackRock organization has over 17 years of experience managing closed-end products and, as of March 31, 2006, advised a closed-end family of 56 active funds with approximately $18 billion in assets. BlackRock has $40.9 billion in equity assets under management as of June 30, 2006, including $4.2 billion in assets across 8 equity closed-end funds. Clients are served from the company's headquarters in New York City, as well as offices in Boston, Chicago, Edinburgh, Hong Kong, San Francisco, Singapore, Sydney, Tokyo and Wilmington. BlackRock, Inc. is a member of The PNC Financial Services Group, Inc. ("PNC"), one of the largest diversified financial services organizations in the United States, and is majority owned by PNC and by BlackRock employees.

Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited act as sub-advisors to the Trust. Merrill Lynch Investment Managers, LLC, located at 800 Scudders Mill Road, Plainsboro, New Jersey 08536, and Merrill Lynch Investment Managers International Limited, located at 33 King William Street, London EC4R 9AS, United Kingdom, are wholly owned subsidiaries of Merrill Lynch & Co., Inc. and, directly or indirectly through their respective affiliates, manage assets of $589 billion as of June 30, 2006.

BlackRock Portfolio Managers

As of June 30, 2006, each of Dan Rice and Denis Walsh managed or were members of the management team for the following client accounts:

Type of Account	Number of Accounts	Total Assets in the Accounts	Number of Accounts Subject to a Performance Fee	Assets Subject to a Performance Fee
Registered Investment Companies	3	$ 2,986,599,680.70	0	0
Pooled Investment Vehicles Other Than Registered Investment Companies	6	$ 1,406,891,074.64	3	$ 902,493,198.64
Other Accounts	17	$ 1,613,986,725.73	6	$ 762,673,864.14

As of June 30, 2006, Kyle McClements managed or was a member of the management team for the following client accounts:

Type of Account	Number of Accounts	Total Assets in the Accounts	Number of Accounts Subject to a Performance Fee	Assets Subject to a Performance Fee
Registered Investment Companies	4	$ 2,310,109,109.30	0	
Pooled Investment Vehicles Other Than Registered Investment Companies	0		0	
Other Accounts	2	$100,368,213.23	0	

Merrill Lynch Portfolio Managers

As of June 30, 2006, Graham Birch managed or was a member of the management team for the following client accounts:

Type of Account	Number of Accounts	Total Assets in the Accounts	Number of Accounts Subject to a Performance Fee	Assets Subject to a Performance Fee
Registered Investment Companies	0		0	
Pooled Investment Vehicles Other Than Registered Investment Companies	4	$ 8,262,000,000	1	$ 307,400,000
Other Accounts	0		0	

As of June 30, 2006, Richard Davis managed or was a member of the management team for the following client accounts:

Type of Account	Number of Accounts	Total Assets in the Accounts	Number of Accounts Subject to a Performance Fee	Assets Subject to a Performance Fee
Registered Investment Companies	0		0	
Pooled Investment Vehicles Other Than Registered Investment Companies	5	$ 771,900,000	1	$ 307,400,000
Other Accounts	0		0	

As of June 30, 2006, Robert Shearer managed or was a member of the management team for the following client accounts:

Type of Account	Number of Accounts	Total Assets in the Accounts	Number of Accounts Subject to a Performance Fee	Assets Subject to a Performance Fee
Registered Investment Companies	3	$ 1,189,885,669	0	
Pooled Investment Vehicles Other Than Registered Investment Companies	0		0	
Other Accounts	0		0	

BlackRock Compliance

BlackRock has built a professional working environment, firm-wide compliance culture and compliance procedures and systems designed to protect against potential incentives that may favor one account over another. BlackRock has adopted policies and procedures that address the allocation of

investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, BlackRock furnishes investment management and advisory services to numerous clients in addition to the Trust, and BlackRock may, consistent with applicable law, make investment recommendations to other clients or accounts (including accounts that are hedge funds or have performance or higher fees paid to BlackRock, or in which portfolio managers have a personal interest in the receipt of such fees), which may be the same as or different from those made to the Trust. In addition, BlackRock, its affiliates and any officer, director, stockholder or employee may or may not have an interest in the securities whose purchase and sale BlackRock recommends to the Trust. Actions with respect to securities of the same kind may be the same as or different from the action which BlackRock, or any of its affiliates, or any officer, director, stockholder, employee or any member of their families may take with respect to the same securities. Moreover, BlackRock may refrain from rendering any advice or services concerning securities of companies of which any of BlackRock's (or its affiliates') officers, directors or employees are directors or officers, or companies as to which BlackRock or any of its affiliates or the officers, directors and employees of any of them has any substantial economic interest or possesses material non-public information. Each portfolio manager also may manage accounts whose investment strategies may at times be opposed to the strategy utilized for the Trust. In this connection, it should be noted that Messrs. Walsh and Rice currently manage certain accounts that are subject to performance fees and each portfolio manager may in the future manage other such accounts.

As a fiduciary, BlackRock owes a duty of loyalty to its clients and must treat each client fairly. When BlackRock purchases or sells securities for more than one account, the trades must be allocated in a manner consistent with its fiduciary duties. BlackRock attempts to allocate investments in a fair and equitable manner among client accounts, with no account receiving preferential treatment. To this end, BlackRock has adopted a policy that is intended to ensure that investment opportunities are allocated fairly and equitably among client accounts over time. This policy also seeks to achieve reasonable efficiency in client transactions and provide BlackRock with sufficient flexibility to allocate investments in a manner that is consistent with the particular investment discipline and client base.

BlackRock Portfolio Manager Compensation

BlackRock's financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The principal components of compensation include a base salary, a discretionary bonus, participation in various benefits programs and one or more of the incentive compensation programs established by BlackRock such as its Long-Term Retention and Incentive Plan and Restricted Stock Program.

Base compensation. Generally, portfolio managers receive base compensation based on their seniority and/or their position with the firm, which may include the amount of assets supervised and other management roles within the firm.

Discretionary compensation. In addition to base compensation, portfolio managers may receive discretionary compensation, which can be a substantial portion of total compensation. Discretionary compensation can include a discretionary cash bonus as well as one or more of the following:

Long-Term Retention and Incentive Plan (LTIP) The LTIP is a long-term incentive plan that seeks to reward certain key employees. The plan provides for the grant of awards that are expressed as an amount of cash that, if properly vested and subject to the attainment of certain performance goals, will be settled in part in cash and in part in BlackRock, Inc. common stock. Mr. Walsh has received awards under the LTIP.

Deferred Compensation Program A portion of the compensation paid to each portfolio manager may be voluntarily deferred by the portfolio manager into an account that tracks the performance of certain of the firm's investment products. Each portfolio manager is permitted to allocate his deferred amounts among various options, including to certain of the firm's hedge funds and other unregistered products. Beginning in 2005, a portion of the annual compensation of certain senior managers, including Messrs. Rice and Walsh, is paid in the form of BlackRock, Inc. restricted stock units which vest ratably over a number of years.

Options and Restricted Stock Awards While incentive stock options are not currently being awarded to BlackRock employees, BlackRock, Inc. previously granted stock options to key employees, including certain portfolio managers who may still hold unexercised or unvested options. BlackRock, Inc. also has a restricted stock award program designed to reward certain key employees as an incentive to contribute to the long-term success of BlackRock. These awards vest over a period of years. Mr. Walsh participates in BlackRock's restricted stock program.

Incentive Savings Plans The PNC Financial Services Group, Inc., which owns approximately 71% of BlackRock, Inc.'s common stock, has created a variety of incentive savings plans in which BlackRock employees are eligible to participate, including an Employee Stock Purchase Plan (ESPP) and a 401(k) plan. The 401(k) plan may involve a company match of the employee's contribution of up to 6% of the employee's salary. The company match is made using BlackRock, Inc. common stock. The firm's 401(k) plan offers a range of investment options, including registered investment companies managed by the firm. Messrs. Walsh, Rice and McClements are eligible to participate in these plans.

Annual incentive compensation for each portfolio manager is a function of several components: the performance of BlackRock, Inc., the performance of the portfolio manager's group within BlackRock, the investment performance, including risk-adjusted returns, of the firm's assets under management or supervision by that portfolio manager relative to benchmarks, and the individual's teamwork and contribution to the overall performance of these portfolios and BlackRock. Unlike many other firms, portfolio managers at BlackRock compete against benchmarks rather than each other. In most cases, including for the portfolio managers of the Trust, these benchmarks are the same as the benchmark or benchmarks against which the performance of the Trust or other accounts are measured. A group of BlackRock, Inc.'s officers determines which benchmarks against which to compare the performance of funds and other accounts managed by each portfolio manager. In the case of the Trust, it is anticipated that such benchmarks would include the S&P 500 Index, the 10-year U.S. Treasury note, certain customized indices and the Trust's Lipper Peer Group. The group then makes a subjective determination with respect to the portfolio manager's compensation based on the performance of the funds and other accounts managed by each portfolio manager relative to the various benchmarks. Senior portfolio managers who perform additional management functions within BlackRock may receive additional compensation for serving in these other capacities.

Merrill Lynch Investment Managers ("MLIM") Portfolio Manager Compensation

The MLIM Portfolio Manager compensation program is critical to MLIM's ability to attract and retain the most talented asset management professionals. This program ensures that compensation is aligned with maximizing investment returns and it provides a competitive pay opportunity for competitive performance.

Compensation Program

The elements of total compensation for MLIM portfolio managers are: fixed base salary, annual performance-based cash and stock compensation (cash and stock bonus) and other benefits.

MLIM has balanced these components of pay to provide portfolio managers with a powerful incentive to achieve consistently superior investment performance. By design, portfolio manager compensation levels fluctuate both up and down with the relative investment performance of the portfolios that they manage.

Base Salary. Under the MLIM approach, like that of many asset management firms, base salaries represent a relatively small portion of a portfolio manager's total compensation. This approach serves to enhance the motivational value of the performance-based (and therefore variable) compensation elements of the compensation program.

Performance-Based Compensation. MLIM believes that the best interests of investors are served by recruiting and retaining exceptional asset management talent and managing their compensation within a consistent and disciplined framework that emphasizes pay for performance in the context of an intensely competitive market for talent. To that end, the portfolio manager incentive compensation is derived on a discretionary basis considering such factors as products they manage, external market conditions, MLIM's investment performance, financial results of MLIM, expense control, profit margins, strategic planning and implementation, quality of client service, market share, corporate reputation, capital allocation, compliance and risk control, leadership, workforce diversity, technology and innovation. In addition to these factors, MLIM may under appropriate circumstances consider other factors from time to time as it deems relevant. MLIM also considers the extent to which individuals exemplify and foster Merrill Lynch's principles of client focus, respect for the individual, teamwork, responsible citizenship and integrity. All factors are considered collectively by MLIM management.

It should be noted that Messrs. Birch and Davis currently manage certain accounts that are subject to performance fees and may receive a portion of that fee as part of their overall compensation. Each portfolio manager may in the future manage other such accounts.

Cash Bonus. Performance-based compensation is distributed to portfolio managers in a combination of cash and stock. Typically, the cash bonus, when combined with base salary, represents more than 60% of total compensation for portfolio managers.

Stock Bonus. A portion of the dollar value of the total annual performance-based bonus is paid in restricted shares of Merrill Lynch & Co., Inc. ("Merrill Lynch") stock. Paying a portion of annual bonuses in stock puts compensation earned by a portfolio manager for a given year "at risk" based on the MLIM's ability to sustain and improve its performance over future periods.

The ultimate value of stock bonuses is dependent on future Merrill Lynch stock price performance. As such, the stock bonus aligns each portfolio manager's financial interests with those of the Merrill Lynch & Co., Inc. shareholders and encourages a balance between short-term goals and long-term strategic objectives.

Management strongly believes that providing a significant portion of competitive performance-based compensation in stock is in the best interests of investors and shareholders. This approach ensures that portfolio managers participate as shareholders in both the "downside risk" and "upside opportunity" of the MLIM's performance. Portfolio managers therefore have a direct incentive to protect Merrill Lynch's reputation for integrity.

Other Compensation Programs. Portfolio managers who meet relative investment performance and expense management objectives during a performance year are eligible to participate in a deferred cash program. Awards under this program are in the form of deferred cash that may be benchmarked to a menu of MLIM mutual funds (including their own fund) during a five-year vesting period. The deferred cash program aligns the interests of participating portfolio managers with the

investment results of MLIM products and promotes continuity of successful portfolio management teams.

Other Benefits. Portfolio managers are also eligible to participate in broad-based plans offered generally to Merrill Lynch employees, including broad-based retirement, 401(k), health, and other employee benefit plans.

Securities Ownership of Portfolio Managers

The Trust is a newly organized investment company. Accordingly, as of the date of this Statement of Additional Information, none of the portfolio managers beneficially owns any securities issued by the Trust.

PORTFOLIO TRANSACTIONS AND BROKERAGE

The Advisor and the Sub-Advisor are responsible for decisions to buy and sell securities for the Trust, the selection of brokers and dealers to effect the transactions and the negotiation of prices and any brokerage commissions. The Trust will generally purchase securities on a stock exchange effected through brokers who charge a commission for their services. The Trust may also invest in securities that are traded principally in the over-the-counter market. In the over-the-counter market, securities are generally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of such securities usually includes a mark-up to the dealer. Securities purchased in underwritten offerings generally include in the price a fixed amount of compensation for the manager(s), underwriter(s) and dealer(s). The Trust may also purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid.

Payments of commissions to brokers who are affiliated persons of the Trust (or affiliated persons of such persons) will be made in accordance with Rule 17e-1 under the Investment Company Act. Commissions paid on such transactions would be commensurate with the rate of commissions paid on similar transactions to brokers that are not so affiliated.

The Advisor and Sub-Advisors may, consistent with the interests of the Trust, select brokers on the basis of the research, statistical and pricing services they provide to the Trust and the Advisor's or Sub-Advisors' other clients. Such research, statistical and/or pricing services must provide lawful and appropriate assistance to the Advisor's or Sub-Advisors', investment decision making process in order for such research, statistical and/or pricing services to be considered by the Advisor or Sub-Advisors in selecting a broker. These research services may include information on securities markets, the economy, individual companies, pricing information, research products and services and such other services as may be permitted from time to time by Section 28(e) of the Securities Exchange Act of 1934, as amended. Information and research received from such brokers will be in addition to, and not in lieu of, the services required to be performed by the Advisor and Sub-Advisors under their respective contracts. A commission paid to such brokers may be higher than that which another qualified broker would have charged for effecting the same transaction, provided that the Advisor or Sub-Advisor sdetermine in good faith that such commission is reasonable in terms either of the transaction or the overall responsibility of the Advisor or Sub-Advisors and its other clients and that the total commissions paid by the Trust will be reasonable in relation to the benefits to the Trust over the long-term. The advisory fees that the Trust pays to the Advisor will not be reduced as a consequence of the Advisor's or Sub-Advisors' receipt of brokerage and research services. To the extent that portfolio transactions are used to obtain such services, the brokerage commissions paid by the Trust will exceed those that might otherwise be paid by an amount that cannot be presently determined. Such services generally would be useful and of value to the Advisor or Sub-Advisors in serving one or more of their other clients and, conversely, such services obtained by the placement of brokerage business of other clients generally would be useful to the Advisor and Sub-Advisors in carrying out their obligations to the Trust.

While such services are not expected to reduce the expenses of the Advisor or Sub-Advisors, the Advisor would, through use of the services, avoid the additional expenses that would be incurred if they should attempt to develop comparable information through their own staffs. Commission rates for brokerage transactions on foreign stock exchanges are generally fixed.

One or more of the other investment companies or accounts that the Advisor and/or the Sub-Advisors manage may own from time to time some of the same investments as the Trust. Investment decisions for the Trust are made independently from those of such other investment companies or accounts; however, from time to time, the same investment decision may be made for more than one company or account. When two or more companies or accounts seek to purchase or sell the same securities, the securities actually purchased or sold will be allocated among the companies and accounts on a good faith equitable basis, usually on a pro rata basis, by the Advisor and/or the Sub-Advisors in their discretion in accordance with the accounts' various investment objectives. Such allocations are based upon the written procedures of the Advisor and/or Sub-Advisors, which have been reviewed and approved by the board of trustees. In some cases, this system may adversely affect the price or size of the position obtainable for the Trust. In other cases, however, the ability of the Trust to participate in volume transactions may produce better execution for the Trust. It is the opinion of the Trust's board of trustees that this advantage, when combined with the other benefits available due to the Advisor's or the Sub-Advisors organization, outweighs any disadvantages that may be said to exist from exposure to simultaneous transactions.

The Advisor and its affiliates manage investments for clients from offices located around the world. As a result, purchases and sales of securities may be executed through different trading debts or on different exchanges or markets through out the day, resulting in transactions in the same security being effected at different prices over a 24 hour period.

It is not the Trust's policy to engage in transactions with the objective of seeking profits from short-term trading. However, the annual portfolio turnover rate of the Trust may be greater than 100%. Because it is difficult to predict accurately portfolio turnover rates, actual turnover may be higher or lower. Higher portfolio turnover results in increased Trust costs, including brokerage commissions, dealer mark-ups and other transaction costs on the sale of securities and on the reinvestment in other securities.

DESCRIPTION OF SHARES

Common Shares

The Trust intends to hold annual meetings of shareholders so long as the common shares are listed on a national securities exchange and such meetings are required as a condition to such listing. All common shares are equal as to dividends, assets and voting privileges and have no conversion, preemptive or other subscription rights. The Trust will send annual and semi-annual reports, including financial statements, to all holders of its shares.

Preferred Shares

Although the Trust does not currently intend to issue preferred shares, the Amended and Restated Agreement and Declaration of Trust provides that the Trust's board of trustees may authorize and issue preferred shares (the "Preferred Shares") with rights as determined by the board of trustees, by action of the board of trustees without the approval of the holders of the common shares. Holders of common shares have no preemptive right to purchase any Preferred Shares that might be issued. Whenever Preferred Shares are outstanding, the holders of common shares will not be entitled to receive any distributions from the Trust unless all accrued dividends on Preferred Shares have been paid, unless asset coverage (as defined in the Investment Company Act) with respect to Preferred

Shares would be at least 200% after giving effect to the distributions and unless certain other requirements imposed by any rating agencies rating the Preferred Shares have been met.

Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Trust, the holders of Preferred Shares will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per Preferred Share plus accrued and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of common shares. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of Preferred Shares will not be entitled to any further participation in any distribution of assets by the Trust.

Voting Rights. The Investment Company Act requires that the holders of any Preferred Shares, voting separately as a single class, have the right to elect at least two trustees at all times. The remaining trustees will be elected by holders of common shares and Preferred Shares, voting together as a single class. In addition, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, the holders of any Preferred Shares have the right to elect a majority of the trustees of the Trust at any time two years' dividends on any Preferred Shares are unpaid. The Investment Company Act also requires that, in addition to any approval by shareholders that might otherwise be required, the approval of the holders of a majority of any outstanding Preferred Shares, voting separately as a class, would be required to (1) adopt any plan of reorganization that would adversely affect the Preferred Shares, and (2) take any action requiring a vote of security holders under Section 13(a) of the Investment Company Act, including, among other things, changes in the Trust's subclassification as a closed-end investment company or changes in its fundamental investment restrictions. As a result of these voting rights, the Trust's ability to take any such actions may be impeded to the extent that there are any Preferred Shares outstanding. The board of trustees presently intends that, except as otherwise indicated in this prospectus and except as otherwise required by applicable law, holders of Preferred Shares will have equal voting rights with holders of common shares (one vote per share, unless otherwise required by the Investment Company Act) and will vote together with holders of common shares as a single class.

The affirmative vote of the holders of a majority of the outstanding Preferred Shares, voting as a separate class, will be required to amend, alter or repeal any of the preferences, rights or powers of holders of Preferred Shares so as to affect materially and adversely such preferences, rights or powers, or to increase or decrease the authorized number of Preferred Shares. The class vote of holders of Preferred Shares described above will in each case be in addition to any other vote required to authorize the action in question.

Redemption, Purchase and Sale of Preferred Shares by the Trust. The terms of any Preferred Shares would typically provide that (1) they are redeemable by the Trust in whole or in part at the original purchase price per share plus accrued dividends per share, (2) the Trust may tender for or purchase Preferred Shares and (3) the Trust may subsequently resell any shares so tendered for or purchased. Any redemption or purchase of Preferred Shares by the Trust will reduce the leverage applicable to the common shares, while any resale of shares by the Trust will increase that leverage.

The discussion above describes the possible offering of Preferred Shares by the Trust. If the board of trustees determines to proceed with such an offering, the terms of the Preferred Shares may be the same as, or different from, the terms described above, subject to applicable law and the Trust's Amended and Restated Agreement and Declaration of Trust. The board of trustees, without the approval of the holders of common shares, may authorize an offering of Preferred Shares or may determine not to authorize such an offering, and may fix the terms of the Preferred Shares to be offered.

The Trust may apply for ratings for any Preferred Shares from Moody's, S&P or Fitch. In order to obtain and maintain the required ratings, the Trust will be required to comply with investment quality, diversification and other guidelines established by Moody's and/or S&P. Such guidelines will likely be more restrictive than the restrictions set forth above. The Trust does not anticipate that such guidelines would have a material adverse effect on the Trust's holders of common shares or its ability to achieve its investment objective. The Trust anticipates that any Preferred Shares that it issues would be initially given the highest ratings by Moody's ("Aaa") or by S&P ("AAA"), but no assurance can be given that such ratings will be obtained. No minimum rating is required for the issuance of Preferred Shares by the Trust. Moody's and S&P receive fees in connection with their ratings issuances.

Other Shares

The board of trustees (subject to applicable law and the Trust's Amended and Restated Agreement and Declaration of Trust) may authorize an offering, without the approval of the holders of either common shares or Preferred Shares, of other classes of shares, or other classes or series of shares, as they determine to be necessary, desirable or appropriate, having such terms, rights, preferences, privileges, limitations and restrictions as the board of trustees see fit. The Trust currently does not expect to issue any other classes of shares, or series of shares, except for the common shares.

REPURCHASE OF COMMON SHARES

The Trust is a closed-end management investment company and as such its shareholders will not have the right to cause the Trust to redeem their shares. Instead, the Trust's common shares will trade in the open-market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of a closed-end investment company may frequently trade at prices lower than net asset value, the Trust's board of trustees may consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of common shares, which may include the repurchase of such shares in the open-market or in private transactions, the making of a tender offer for such shares, or the conversion of the Trust to an open-end investment company. The board of trustees may decide not to take any of these actions. In addition, there can be no assurance that share repurchases or tender offers, if undertaken, will reduce market discount.

Notwithstanding the foregoing, at any time when the Trust's Preferred Shares are outstanding, the Trust may not purchase, redeem or otherwise acquire any of its common shares unless (1) all accrued Preferred Shares dividends have been paid and (2) at the time of such purchase, redemption or acquisition, the net asset value of the Trust's portfolio (determined after deducting the acquisition price of the common shares) is at least 200% of the liquidation value of the outstanding Preferred Shares (expected to equal the original purchase price per share plus any accrued and unpaid dividends thereon). Any service fees incurred in connection with any tender offer made by the Trust will be borne by the Trust and will not reduce the stated consideration to be paid to tendering shareholders.

Subject to its investment restrictions, the Trust may borrow to finance the repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Trust in anticipation of share repurchases or tenders will reduce the Trust's net income. Any share repurchase, tender offer or borrowing that might be approved by the Trust's board of trustees would have to comply with the Securities Exchange Act of 1934, as amended, the Investment Company Act and the rules and regulations thereunder.

Although the decision to take action in response to a discount from net asset value will be made by the board of trustees at the time it considers such issue, it is the board's present policy, which may be changed by the board of trustees, not to authorize repurchases of common shares or a tender

offer for such shares if: (1) such transactions, if consummated, would (a) result in the delisting of the common shares from the New York Stock Exchange or (b) impair the Trust's status as a regulated investment company under the Code (which would make the Trust a taxable entity, causing the Trust's income to be taxed at the corporate level in addition to the taxation of shareholders who receive dividends from the Trust) or as a registered closed-end investment company under the Investment Company Act; (2) the Trust would not be able to liquidate portfolio securities in an orderly manner and consistent with the Trust's investment objective and policies in order to repurchase shares; or (3) there is, in the board's judgment, any (a) material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Trust, (b) general suspension of or limitation on prices for trading securities on the New York Stock Exchange, (c) declaration of a banking moratorium by Federal or state authorities or any suspension of payment by United States or New York banks, (d) material limitation affecting the Trust or the issuers of its portfolio securities by Federal or state authorities on the extension of credit by lending institutions or on the exchange of foreign currency, (e) commencement of war, armed hostilities or other international or national calamity directly or indirectly involving the United States, or (f) other event or condition that would have a material adverse effect (including any adverse tax effect) on the Trust or its shareholders if shares were repurchased. The board of trustees may in the future modify these conditions in light of experience.

The repurchase by the Trust of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding. However, there can be no assurance that share repurchases or tender offers at or below net asset value will result in the Trust's shares trading at a price equal to their net asset value. Nevertheless, the fact that the Trust's shares may be the subject of repurchase or tender offers from time to time, or that the Trust may be converted to an open-end investment company, may reduce any spread between market price and net asset value that might otherwise exist.

In addition, a purchase by the Trust of its common shares will reduce net assets which would likely have the effect of increasing the Trust's expense ratio. Any purchase by the Trust of its common shares at a time when Preferred Shares are outstanding will increase the leverage applicable to the outstanding common shares then remaining.

Before deciding whether to take any action if the common shares trade below net asset value, the Trust's board of trustees would likely consider all relevant factors, including the extent and duration of the discount, the liquidity of the Trust's portfolio, the impact of any action that might be taken on the Trust or its shareholders and market considerations. Based on these considerations, even if the Trust's shares should trade at a discount, the board of trustees may determine that, in the interest of the Trust and its shareholders, no action should be taken.

TAX MATTERS

The following discussion is a brief summary of certain U.S. federal income tax considerations affecting the Trust and its shareholders. No attempt is made to present a detailed explanation of all federal, state, local and foreign tax concerns affecting the Trust and its shareholders (including shareholders subject to special treatment under U.S. federal income tax law), and the discussions set forth here and in the prospectus do not constitute tax advice. Investors are urged to consult their own tax advisors with any specific questions relating to U.S. federal, state, local and foreign taxes. The discussion reflects applicable tax laws of the United States as of the date of this Statement of Additional Information, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the "IRS") retroactively or prospectively.

Taxation of the Trust

The Trust intends to elect to be treated and to qualify each year as a regulated investment company under Subchapter M of the Code (a "RIC"). Accordingly, the Trust must, among other things, (i) derive in each taxable year at least 90% of its gross income (including tax-exempt interest) from (a) dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies and (b) interests in "qualified publicly traded partnerships" as defined below (the "Gross Income Test"); and (ii) diversify its holdings so that, at the end of each quarter of each taxable year (a) at least 50% of the market value of the Trust's total assets is represented by cash and cash items, U.S. Government securities, the securities of other RICs and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Trust's total assets and not more than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of the Trust's total assets is invested in (I) the securities of any one issuer (other than U.S. Government securities and the securities of other RICs), (II) the securities of any two or more issuers that the Trust controls and that are determined to be engaged in the same business or similar or related trades or businesses or (III) one or more qualified publicly traded partnerships. Generally, a qualified publicly traded partnership (as defined in Section 851(h) of the Code) includes a partnership, such as the MLPs in which the Trust intends to invest, the interests of which are traded on an established securities market or readily tradable on a secondary market (or the substantial equivalent thereof) and which derive income and gains from, among other things, the exploration, development, mining or production, processing, refining, transportation, or the marketing of any mineral or natural resource. These provisions generally apply to taxable years beginning after December 31, 2004.

As a RIC, the Trust generally is not subject to U.S. federal income tax on income and gains that it distributes each taxable year to shareholders, if it distributes the sum of (i) 90% of the Trust's investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) 90% of the Trust's net tax-exempt interest (the excess of its gross tax-exempt interest over certain disallowed deductions). The Trust intends to distribute at least annually substantially all of such income. The Trust will be subject to income tax at regular corporate rates on any taxable income or gains that it does not distribute to its shareholders.

Amounts not distributed on a timely basis in accordance with the calendar year distribution requirement are subject to a nondeductible 4% excise tax at the Trust level. To avoid the tax, the Trust must distribute (or be deemed to have distributed) by December 31 of each calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year, (ii) 98% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the Trust's fiscal year) plus 100% of any ordinary income and capital gain net income from the prior year (as previously computed) that were not paid out during such year and on which the Trust paid no U.S. federal income tax. While the Trust intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Trust's taxable income and capital gain will be distributed to avoid entirely the imposition of the tax. In that event, the Trust will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirement.

A distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Trust in October, November or December of the year, payable to shareholders of record on a date during such a month and paid by the Trust during January of the following year. Any such distributions paid during January of the following year will be deemed to be received on December 31 of the year the distributions are declared, rather than when the distributions are received. In addition, certain other distributions made after the close of a taxable year of the Trust may be "spilled back" and treated as paid by the Trust (except for purposes of the 4% excise tax) during such taxable year. In such case, shareholders will be treated as having received such dividends in the taxable year in which the distributions were actually made.

If the Trust were unable to satisfy the 90% distribution requirement or otherwise were to fail to qualify as a RIC in any year, it would be taxed in the same manner as an ordinary corporation and distributions from earnings and profits, including distributions of net capital gain (if any), to the Trust's shareholders, would be taxable to shareholders as ordinary dividend income. Furthermore, such distributions would not be deductible by the Trust in computing its taxable income. In such case, distributions generally would be eligible (i) for treatment as qualified dividend income in the case of individual shareholders and (ii) for the dividends received deduction in the case of corporate shareholders, subject, in each case, to certain holding period requirements.

The Trust's Investments

Certain of the Trust's investment practices are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions; (ii) convert lower taxed long-term capital gains or "qualified dividend income" into higher taxed short-term capital gains or ordinary income; (iii) convert ordinary loss or a deduction into capital loss (the deductibility of which is more limited); (iv) cause the Trust to recognize income or gain without a corresponding receipt of cash; (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur; (vi) adversely alter the characterization of certain complex financial transactions. These income tax provisions could therefore affect the amount, timing and character of distributions to shareholders. The Trust intends to monitor its transactions and may make certain tax elections to mitigate the effect of these provisions and prevent disqualification of the Trust as a RIC.

The Trust intends to invest in equity securities of MLPs that are expected to derive income and gains from, among other things, the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. The Trust expects that these MLPs will be treated as qualified publicly traded partnerships (as defined in Section 851(h) of the Code and discussed above under "Taxation of the Trust"). Accordingly, it is expected that the net income derived by the Trust from such investments will qualify as "good income" for purposes of the Gross Income Test. If the MLPs in which the Trust invests do not, however, qualify as qualified publicly traded partnerships under the new rules or otherwise are not treated as corporations for U.S. federal income tax purposes, the income derived by the Trust from such investments may not qualify as "good income" under the Gross Income Test and, therefore, could adversely affect the Trust's status as a RIC.

The MLPs in which the Trust intends to invest are expected to be treated as partnerships for U.S. federal income tax purposes and, therefore, the cash distributions received by the Trust from an MLP may not correspond to the amount of income allocated to the Trust by the MLP in any given taxable year. If the amount of income allocated by an MLP to the Trust exceeds the amount of cash received by such MLP, the Trust may have difficulty making distributions in the amounts necessary to satisfy the requirements for maintaining RIC status and avoiding U.S. federal income and excise taxes. Accordingly, the Trust may have to dispose of securities under disadvantageous circumstances in order to generate sufficient cash to satisfy the distribution requirements.

The Trust intends to invest in Canadian Royalty Trusts that are expected to derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. Canadian Royalty Trusts are generally treated as either corporations or partnerships for U.S. federal income tax purposes. If the Canadian Royalty Trusts in which the Trust invests are treated as corporations for U.S. federal income tax purposes, the income and gain generated by the Trust from such investments will generally be qualifying income, and a trust unit will generally be a qualifying asset, for purposes of the Trust qualifying as a RIC. Moreover, if the Canadian Royalty Trust is a passive foreign investment company ("PFIC"), the Trust will be subject to additional rules described below relating to tax consequences of an investment in a PFIC.

If the Canadian Royalty Trusts in which the Trust invests are treated as partnerships for U.S. federal income tax purposes, the effect on the Trust will depend on whether the Canadian Royalty Trust is a qualified publicly traded partnership (as described above). If the Canadian Royalty Trust is a qualified publicly traded partnership, the Trust's investment therein would generally be subject to the rules described above relating to investments in MLPs. If the Canadian Royalty Trust is not, however, treated as a qualified publicly traded partnership, then the consequences to the Trust of an investment in such Canadian Royalty Trust will depend upon the amount and type of income and assets of the Canadian Royalty Trust allocable to the Trust. The Trust intends to monitor its investments in Canadian Royalty Trusts to prevent the disqualification of the Trust as a RIC.

The Trust may invest (directly or indirectly through a REIT) in residual interests in real estate mortgage investment conduits ("REMICs"). Under Treasury regulations that have not yet been issued, but which may apply retroactively when issued, a portion of the Trust's income from a REIT that is attributable to the REIT's residual interest in a REMIC referred to in the Code as "excess inclusion" will be subject to U.S. federal income tax in all events. Excess inclusion income of the Trust generated by a residual interest in a REMIC will be allocated to shareholders of the Trust in proportion to the dividends received by the shareholders of the Trust with the same consequences as if the shareholders held the related REMIC residual interest directly. Under temporary Treasury regulations, a foreign investor (as defined below) that is allocated any excess inclusion income for a taxable year must include such income in that taxable year. Excess inclusion income generally (i) cannot be offset by net operating losses, (ii) will constitute unrelated business taxable income to certain tax exempt investors and (iii) in the case of a foreign shareholder will not qualify for any reduction in U.S. federal withholding taxes. In addition, if the shareholders of the Trust include a "disqualified organization" (such as certain governments or governmental agencies), the Trust may be liable for a tax on the excess inclusion income allocable to the disqualified organization.

Income received by the Trust with respect to non-U.S. securities may be subject to withholding and other taxes imposed by foreign countries and U.S. possessions. Tax conventions may reduce or eliminate such taxes. Due to the makeup of the Trust's investment portfolio, shareholders will not be entitled to claim a credit or deduction with respect to such foreign taxes. If, however, the Trust invests more than 50% of the value of its total assets in non-U.S. securities as of a year-end, the Trust may elect to have its foreign tax deduction or credit for foreign taxes paid with respect to qualifying taxes to be taken by its shareholders instead of on its own tax return. If the Trust so elects, the Trust would treat those foreign taxes as dividends paid to its shareholders and each shareholder (1) would be required to include in gross income, and treat as paid by such shareholder, a proportionate share of those taxes, (2) would be required to treat such share of those taxes and of any dividend paid by the Trust that represents income from foreign or U.S. possessions sources as such shareholder's own income from those sources, and (3) could either deduct the foreign taxes deemed paid in computing taxable income (subject to various Code limitations) or, alternatively, use the foregoing information in calculating the foreign tax credit against federal income tax. The Trust will report to its shareholders shortly after each taxable year their respective shares of foreign taxes paid and the income from

sources within, and taxes paid to, foreign countries. Individual shareholders who do not pay or accrue or are not deemed to pay or accrue more than $300 ($600 in the case of persons filing jointly) of creditable foreign taxes included on Forms 1099 and all of whose foreign source income is "qualified passive income" may elect each year to be exempt from the complicated foreign tax credit limitation, in which event such individual would be able to claim a foreign tax credit without needing to file the detailed Form 1116 that otherwise is required. Each shareholder should consult its own tax adviser regarding the potential application of foreign tax credits.

Investments by the Trust in certain PFICs could subject the Trust to U.S. federal income tax (including interest charges) on certain distributions or dispositions with respect to those investments, which the Trust cannot eliminate by making distributions to its shareholders. One or more tax elections will be available to the Trust to mitigate the effect of this provision, but the elections generally cause the recognition of income without the receipt of cash. Dividends paid by PFICs will not qualify for the reduced tax rates discussed below under "Taxation of Shareholders." A PFIC is any foreign corporation (with certain exceptions) that, in general, meets either of the following tests: (1) at least 75% of its gross income is passive or (2) an average of at least 50% of its assets produce, or are held for the production of, passive income.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time the Trust accrues income or receivables or expenses or other liabilities denominated in a foreign currency and the time the Trust actually collects such income or receivables or pays such liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt securities denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

The Trust believes that its investment strategies, including its investments in foreign currency-denominated securities, will generate qualifying income for RIC purposes under current federal income tax law. The Code expressly provides the U.S. Treasury with authority to issue regulations that would exclude foreign currency gains from qualifying income if such gains are not directly related to a fund's business of investing in stock or securities. While to date the U.S. Treasury has not exercised this regulatory authority, there can be no assurance that it will not issue regulations in the future (possibly with retroactive application) that would treat some or all of the Trust's foreign currency gains as non-qualifying income, which may affect the Trust's status as a RIC for all years to which such regulations are applicable.

Taxation of Shareholders

Distributions (whether paid in cash or reinvested in Trust shares) paid by the Trust from its investment company taxable income, which includes net short-term capital gain, generally are taxable as ordinary income to the extent of the Trust's earnings and profits. Such distributions (if designated by the Trust) may qualify (provided holding period and other requirements are met) (i) for the dividends received deduction available to corporations, but only to the extent that the Trust's income consists of dividends received from U.S. corporations and (ii) in the case of individual shareholders, as qualified dividend income eligible to be taxed at a maximum rate of generally 15% (5% for individuals in lower tax brackets) to the extent that the Trust receives qualified dividend income. If the Trust's qualified dividend income is less than 95 percent of its gross income, a shareholder of the Trust may only include as qualified dividend income that portion of the dividends that may be and are so designated by the Trust as qualified dividend income. These special rules relating to the taxation of ordinary income dividends paid by RICs to individual taxpayers generally apply to taxable years beginning on or before December 31, 2010. Thereafter, the Trust's dividends, other than capital gains dividends, will be fully taxable at ordinary income tax rates unless further Congressional action is taken. There can be no

assurance as to what portion of the Trust's income distributions will qualify for favorable treatment as qualified dividend income.

Qualified dividend income is, in general, dividend income from taxable domestic corporations and certain qualified foreign corporations. Distributions with respect to interests in qualified publicly traded partnerships, dividend income from PFICs and, in general, dividend income from REITs are not eligible for the reduced rate for qualified dividend income and are taxed as ordinary income. In the case of securities lending transactions, payments in lieu of dividends do not constitute qualified dividend income. Subject to certain exceptions, a "qualified foreign corporation" is any foreign corporation that is either (i) incorporated in a possession of the United States (the "possessions test"), or (ii) eligible for benefits of a comprehensive income tax treaty with the United States, which the Secretary of the Treasury determines is satisfactory for these purposes and which includes an exchange of information program (the "treaty test"). The Secretary of the Treasury has currently identified tax treaties between the United States and 52 other countries that satisfy the treaty test. Subject to the same exceptions, a foreign corporation that does not satisfy either the possessions test or the treaty test will still be considered a "qualified foreign corporation" with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States. The Treasury Department has issued a notice stating that common or ordinary stock, or an American Depositary Receipt in respect of such stock, is considered readily tradable on an established securities market in the Unites States if it is listed on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or on the Nasdaq Stock Market.

A dividend (whether paid in cash or reinvested in additional Trust shares) will not be treated as qualified dividend income (whether received by the Trust or paid by the Trust to a shareholder) if (1) the dividend is received with respect to any share held for fewer than 61 days during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex dividend with respect to such dividend, (2) to the extent that the shareholder is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, or (3) if the shareholder elects to have the dividend treated as investment income for purposes of the limitation on deductibility of investment interest.

Distributions of net capital gain designated as capital gain dividends, if any, are taxable to shareholders at rates applicable to long-term capital gain, whether paid in cash or in shares, and regardless of how long the shareholder has held the Trust's shares. Capital gain dividends are not eligible for the dividends received deduction. The maximum tax rate on net capital gain dividend received, or deemed to have been received, by individuals on or before December 31, 2010 generally is 15% (5% for individuals in lower brackets). Distributions in excess of the Trust's current and accumulated earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gain to such holder (assuming the shares are held as a capital asset). For non-corporate taxpayers, distributions of investment company taxable income (other than qualified dividend income) will currently be taxed at a maximum rate of 35%, while net capital gain generally will be taxed at a maximum rate of 15%. For corporate taxpayers, both investment company taxable income and net capital gain are taxed at a maximum rate of 35%.

The Trust may retain for reinvestment all or part of its net capital gain. If any such gain is retained, the Trust will be subject to a tax of 35% of such amount. In that event, the Trust expects to designate the retained amount as undistributed capital gain in a notice to its shareholders, each of whom (i) will be required to include in income for tax purposes as long-term capital gain its share of such undistributed amounts, (ii) will be entitled to credit its proportionate share of the tax paid by the Trust against its U.S. federal income tax liability and to claim refunds to the extent that the credit exceeds such liability and (iii) will increase its basis in its shares of the Trust by an amount equal to 65% of the amount of undistributed capital gain included in such shareholder's gross income.

Shareholders may be entitled to offset their capital gain dividends with capital loss. There are a number of statutory provisions affecting when capital loss may be offset against capital gain, and limiting the use of loss from certain investments and activities. Accordingly, shareholders with capital loss are urged to consult their tax advisors.

The price of shares purchased at any time may reflect the amount of a forthcoming distribution. Those purchasing shares just prior to a distribution will receive a distribution which will be taxable to them even though it represents in part a return of invested capital.

Upon a sale or exchange of shares, a shareholder will recognize a taxable gain or loss depending upon its basis in the shares. Such gain or loss will be treated as long-term capital gain or loss if the shares have been held for more than one year. Any loss recognized by a shareholder on the sale of Trust shares held by the shareholder for six months or less will be treated for tax purposes as a long-term capital loss to the extent of any capital gain dividends received by the shareholder (or amounts credited to the shareholder as an undistributed capital gain) with respect to such shares. In addition, all or a portion of a loss recognized on a redemption or other disposition of Trust shares may be disallowed under "wash sale" rules if the shares disposed of are replaced with substantially identical shares within a 61-day period beginning 30 days before and ending 30 days after the date on which the shares are sold. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Sales charges paid upon a purchase of shares cannot be taken into account for purposes of determining gain or loss on a sale of the shares before the 91st day after their purchase to the extent a sales charge is reduced or eliminated in a subsequent acquisition of shares of the Trust (or of another fund) pursuant to the reinvestment or exchange privilege. Any disregarded amounts will result in an adjustment to the shareholder's tax basis in some or all of any other shares acquired.

An investor should be aware that if Trust shares are purchased shortly before the record date for any taxable distribution (including a capital gain dividend), the purchase price likely will reflect the value of the distribution and the investor then would receive a taxable distribution likely to reduce the trading value of such Trust shares, in effect resulting in a taxable return of some of the purchase price.

Ordinary income dividends and capital gain dividends also may be subject to state and local taxes. Shareholders are urged to consult their own tax advisors regarding specific questions about U.S. federal (including the application of the alternative minimum tax rules), state, local or foreign tax consequences to them of investing in the Trust.

A shareholder that is a nonresident alien individual or a foreign corporation (a "foreign investor") generally may be subject to U.S. withholding tax at the rate of 30% (or possibly a lower rate provided by an applicable tax treaty) on ordinary income dividends. Different tax consequences may result if the foreign investor is engaged in a trade or business in the United States or, in the case of an individual, is present in the United States for 183 days or more during a taxable year and certain other conditions are met. Foreign investors should consult their tax advisors regarding the tax consequences of investing in the Trust's common shares.

Certain dividends designated by the Trust as "interest-related dividends" that are received by most foreign investors (generally those that would qualify for the portfolio interest exemptions of Section 871(h) or Section 881(c) of the Code) in the Trust will be exempt from U.S. withholding tax. Interest-related dividends are those dividends derived from certain interest income (including bank deposit interest and short term original issue discount that is currently exempt from the withholding tax) earned by the Trust that would not be subject to U.S. tax if earned by a foreign person directly. Further, certain dividends designated by the Trust as "short-term capital gain dividends" that are received by certain foreign investors (generally those not present in the United States for 183 days or more) will also be exempt from U.S. withholding tax. In general, short-term capital gain dividends are

those that are derived from the Trust's short-term capital gains over net long-term capital losses. These provisions generally apply, with certain exceptions, to taxable years beginning after December 31, 2004 and on or before December 31, 2007. Prospective investors are urged to consult their tax advisors regarding the specific tax consequences to them related to these provisions.

The Trust may be required to withhold federal income tax on all taxable distributions and redemption proceeds payable to non-corporate shareholders who fail to provide the Trust with their correct taxpayer identification number or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be refunded or credited against such shareholder's U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

The Trust will inform shareholders of the source and tax status of all distributions promptly after the close of each calendar year. If the Trust issues preferred shares, the Trust will designate dividends made to holders of shares and to holders of those preferred shares in accordance with each class's proportionate share of each item of Trust income (such as net capital gains and investment company taxable income). A class's proportionate share of a particular type of income for a year is determined according to the percentage of total dividends paid by the RIC during that year to the class.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative, judicial or administrative action, either prospectively or retroactively. Persons considering an investment in common shares should consult their own tax advisors regarding the purchase, ownership and disposition of common shares.

EXPERTS

The statement of net assets of the Trust as of August 23, 2006 and related statement of operations and statement of changes in net assets for the period from July 19, 2006 (date of inception) to August 23, 2006 appearing in this Statement of Additional Information has been audited by Deloitte & Touche LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and is included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. Deloitte & Touche LLP, located at 200 Berkeley Street, Boston, MA 02116, provides accounting and auditing services to the Trust.

ADDITIONAL INFORMATION

A Registration Statement on Form N-2, including amendments thereto, relating to the shares offered hereby, has been filed by the Trust with the Securities and Exchange Commission, Washington, D.C. The prospectus and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Trust and the shares offered hereby, reference is made to the Registration Statement. Statements contained in the prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected without charge at the Securities and Exchange Commission's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the Securities and Exchange Commission upon the payment of certain fees prescribed by the Securities and Exchange Commission.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholder of
BlackRock Real Asset Equity Trust,

We have audited the accompanying statement of assets and liabilities of BlackRock Real Asset Equity Trust (the "Trust") as of August 23, 2006 and the related statements of operations and changes in net assets for the period from July 19, 2006 (date of inception) to August 23, 2006. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Trust is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to the above present fairly, in all material respects, the financial position of BlackRock Real Asset Equity Trust as of August 23, 2006, and the results of its operations and the changes in its net assets for the period from July 19, 2006 (date of inception) to August 23, 2006, in conformity with accounting principles generally accepted in the United States of America.

September 15, 2006

FINANCIAL STATEMENTS

BLACKROCK REAL ASSET EQUITY TRUST (BCF)

STATEMENT OF ASSETS AND LIABILITIES

August 23, 2006

ASSETS:		
Cash	$	115,001
LIABILITIES:		
Payable for organization costs		15,000
Net Assets	$	100,001
Net assets were comprised of:		
Common stock at par (Note 1)	$	8
Paid-in capital in excess of par		114,993
Accumulated net investment loss		(15,000)
Net assets, August 23, 2006	$	100,001
Net asset value per common share:		
Equivalent to 8,028 shares of common stock issued and outstanding, par value $0.001, unlimited shares authorized	$	12.46

See Notes to Financial Statements.

BLACKROCK REAL ASSET EQUITY TRUST (BCF)

STATEMENT OF OPERATIONS

For the period July 19, 2006 (date of inception) to August 23, 2006

Investment Income	$
Expenses	
Organization expenses	15,000
Net investment loss	$ (15,000)

See Notes to Financial Statements.

BLACKROCK REAL ASSET EQUITY TRUST (BCF)

STATEMENT OF CHANGES IN NET ASSETS

For the period July 19, 2006 (date of inception) to August 23, 2006

INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment loss	$	(15,000)
Net decrease in net assets resulting from operations		(15,000)
Capital Share Transactions		
Net proceeds from the issuance of common shares		115,001
Total increase		100,001
NET ASSETS		
Beginning of period		
End of period (including accumulated net investment loss of $15,000)	$	100,001

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

BlackRock Real Asset Equity Trust (the "Trust") was organized as a Delaware statutory trust on July 19, 2006, and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended. The Trust had no operations other than a sale to BlackRock Funding, Inc. of 8,028 shares of common stock for $115,001 ($14.325 per share).

Under the Trust's organizational documents, its officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. In addition, in the normal course of business, the Trust enters into contracts with its vendors and others that provide for general indemnifications. The Trust's maximum exposure under these arrangements are unknown as this would involve future claims that may be made against the Trust. However, based on experience, the Trust considers the risk of loss from such claims to be remote.

Investment Valuation: The Trust values most of it's investments on the basis of current market quotations provided by dealers or pricing services selected under the supervision of the Trust's Board of Trustees (the "Board"). In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, market transactions in comparable investments, various relationships observed in the market between investments, and calculated yield measures based on valuation technology commonly employed in the market for such investments. Short-term securities may be valued at amortized cost. Investments in open-end investment companies are valued at net asset value per share. Any investments or other assets for which such current market quotations are not readily available are valued at fair value ("Fair Value Assets") as determined in good faith under procedures established by, and under the general supervision and responsibility of the Trust's Board. The investment advisor and/or sub-advisors will submit their recommendations regarding the valuation and/or valuation methodologies for Fair Value Assets to a valuation committee. The valuation committee may accept, modify or reject any recommendations. The pricing of all Fair Value Assets shall be subsequently reported to the Board.

When determining the price for a Fair Value Asset, the investment advisor and/or sub-advisors shall seek to determine the price that the Trust might reasonably expect to receive from the current sale of that asset in an arm's-length transaction. Fair value determinations shall be based upon all available factors that the investment advisor and/or sub-advisors deems relevant.

Federal Income Taxes: It is the Trust's intention to elect to be treated as a regulated investment company under the Internal Revenue Code and to distribute sufficient amounts of its net income and net realized capital gains, if any, to shareholders. Therefore, no Federal income tax or excise tax provisions have been recorded.

Estimates: The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from these estimates and such differences may be material.

Note 2. Agreements

The Trust has entered into an Investment Management Agreement with BlackRock Advisors, Inc. (the "Advisor"), a wholly owned subsidiary of BlackRock, Inc. BlackRock Capital Management, Inc., a wholly owned subsidiary of BlackRock, Inc., Merrill Lynch Investment Managers,

LLC and Merrill Lynch Investment Managers International Limited serve as sub-advisors (the "sub-advisors") to the Trust. BlackRock, Inc. is an indirect majority owned subsidiary of The PNC Financial Services Group, Inc. The Trust will pay the Advisor a monthly fee (the "Investment Management Fee") in an amount equal to 1.20% of the average weekly value of the Trust's Net Assets. "Net Assets" means the total assets of the Trust minus the sum of accrued liabilities. The Advisor has voluntarily agreed to waive a portion of the management fee or other expenses of the Trust in the amount of 0.20% of the average weekly value of the Trust's Net Assets for the first five years of the Trust's operations (through September 30, 2011), and for declining amounts for the following three years, 0.15% in year six (through September 30, 2012), 0.10% in year seven (through September 30, 2013) and 0.05% in year eight (through September 30, 2014). The Investment Management Fee covers both investment advisory and administration services.

The Advisor pays the sub-advisors fees for their sub-advisory services.

Note 3. Organization Expenses and Offering Costs

Organization expenses of $15,000 incurred by the Trust have been expensed. Offering costs, estimated to be approximately $868,000, limited to $0.03 per share, will be charged to paid-in capital at the time common shares are sold.

APPENDIX A

GENERAL CHARACTERISTICS AND RISKS OF STRATEGIC TRANSACTIONS

In order to manage the risk of its securities portfolio, or to enhance income or gain as described in the prospectus, the Trust will engage in Strategic Transactions. The Trust will engage in such activities in the Advisor's or Sub-Advisor's discretion, and may not necessarily be engaging in such activities when movements in interest rates that could affect the value of the assets of the Trust occur. The Trust's ability to pursue certain of these strategies may be limited by applicable regulations of the CFTC. Certain Strategic Transactions may give rise to taxable income.

Put and Call Options on Securities and Indices

The Trust may purchase and sell put and call options on securities and indices. A put option gives the purchaser of the option the right to sell and the writer the obligation to buy the underlying security at the exercise price during the option period. The Trust may also purchase and sell options on securities indices ("index options"). Index options are similar to options on securities except that, rather than taking or making delivery of securities underlying the option at a specified price upon exercise, an index option gives the holder the right to receive cash upon exercise of the option if the level of the securities index upon which the option is based is greater, in the case of a call, or less, in the case of a put, than the exercise price of the option. The purchase of a put option on a security could protect the Trust's holdings in a security or a number of securities against a substantial decline in the market value. A call option gives the purchaser of the option the right to buy and the seller the obligation to sell the underlying security or index at the exercise price during the option period or for a specified period prior to a fixed date. The purchase of a call option on a security could protect the Trust against an increase in the price of a security that it intended to purchase in the future. In the case of either put or call options that it has purchased, if the option expires without being sold or exercised, the Trust will experience a loss in the amount of the option premium plus any related commissions. When the Trust sells put and call options, it receives a premium as the seller of the option. The premium that the Trust receives for selling the option will serve as a partial offset, in the amount of the option premium, against changes in the value of the securities in its portfolio. During the term of the option, however, a covered call seller has, in return for the premium on the option, given up the opportunity for capital appreciation above the exercise price of the option if the value of the underlying security increases, but has retained the risk of loss should the price of the underlying security decline. Conversely, a secured put seller retains the risk of loss should the market value of the underlying security decline below the exercise price of the option, less the premium received on the sale of the option. The Trust is authorized to purchase and sell exchange listed options and over-the-counter options ("OTC Options") which are privately negotiated with the counterparty. Listed options are issued by the Options Clearing Corporation ("OCC") which guarantees the performance of the obligations of the parties to such options.

The Trust's ability to close out its position as a purchaser or seller of an exchange listed put or call option is dependent upon the existence of a liquid secondary market on option exchanges. Among the possible reasons for the absence of a liquid secondary market on an exchange are: (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities; (iv) interruption of the normal operations on an exchange; (v) inadequacy of the facilities of an exchange or OCC to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been listed by the OCC as a result of trades on

that exchange would generally continue to be exercisable in accordance with their terms. OTC Options are purchased from or sold to dealers, financial institutions or other counterparties which have entered into direct agreements with the Trust. With OTC Options, such variables as expiration date, exercise price and premium will be agreed upon between the Trust and the counterparty, without the intermediation of a third party such as the OCC. If the counterparty fails to make or take delivery of the securities underlying an option it has written, or otherwise settle the transaction in accordance with the terms of that option as written, the Trust would lose the premium paid for the option as well as any anticipated benefit of the transaction.

The hours of trading for options on securities may not conform to the hours during which the underlying securities are traded. To the extent that the option markets close before the markets for the underlying securities, significant price movements can take place in the underlying markets that cannot be reflected in the option markets.

Futures Contracts and Related Options

Characteristics. The Trust may sell financial futures contracts or purchase put and call options on such futures as an offset against anticipated market movements. The sale of a futures contract creates an obligation by the Trust, as seller, to deliver the specific type of financial instrument called for in the contract at a specified future time for a specified price. Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put).

Margin Requirements. At the time a futures contract is purchased or sold, the Trust must allocate cash or securities as a deposit payment ("initial margin"). It is expected that the initial margin that the Trust will pay may range from approximately 1% to approximately 5% of the value of the securities or commodities underlying the contract. In certain circumstances, however, such as periods of high volatility, the Trust may be required by an exchange to increase the level of its initial margin payment. Additionally, initial margin requirements may be increased generally in the future by regulatory action. An outstanding futures contract is valued daily and the payment in case of "variation margin" may be required, a process known as "marking to the market." Transactions in listed options and futures are usually settled by entering into an offsetting transaction, and are subject to the risk that the position may not be able to be closed if no offsetting transaction can be arranged.

Limitations on Use of Futures and Options on Futures. The Trust's use of futures and options on futures will in all cases be consistent with applicable regulatory requirements and in particular the rules and regulations of the CFTC. The Trust currently may enter into such transactions without limit for bona fide strategic purposes, including risk management and duration management and other portfolio strategies. The Trust may also engage in transactions in futures contracts or related options for non-strategic purposes to enhance income or gain provided that the Trust will not enter into a futures contract or related option (except for closing transactions) for purposes other than bona fide strategic purposes, or risk management including duration management if, immediately thereafter, the sum of the amount of its initial deposits and premiums on open contracts and options would exceed 5% of the Trust's liquidation value, i.e., net assets (taken at current value); provided, however, that in the case of an option that is in-the-money at the time of the purchase, the in-the-money amount may be excluded in calculating the 5% limitation. The above policies are non-fundamental and may be changed by the Trust's board of trustees at any time. Also, when required, an account of cash equivalents designated on the books and records will be maintained and marked to market on a daily basis in an amount equal to the market value of the contract.

Segregation and Cover Requirements. Futures contracts, interest rate swaps, caps, floors and collars, short sales, reverse repurchase agreements and dollar rolls, and listed or OTC options on

securities, indices and futures contracts sold by the Trust are generally subject to earmarking and coverage requirements of either the CFTC or the SEC, with the result that, if the Trust does not hold the security or futures contract underlying the instrument, the Trust will be required to designate on its books and records an ongoing basis, cash, U.S. government securities, or other liquid high grade debt obligations in an amount at least equal to the Trust's obligations with respect to such instruments.

Such amounts fluctuate as the obligations increase or decrease. The earmarking requirement can result in the Trust maintaining securities positions it would otherwise liquidate, segregating assets at a time when it might be disadvantageous to do so or otherwise restrict portfolio management.

Strategic Transactions Present Certain Risks. With respect to Strategic Transactions and risk management, the variable degree of correlation between price movements of strategic instruments and price movements in the position being offset create the possibility that losses using the strategy may be greater than gains in the value of the Trust's position. The same is true for such instruments entered into for income or gain. In addition, certain instruments and markets may not be liquid in all circumstances. As a result, in volatile markets, the Trust may not be able to close out a transaction without incurring losses substantially greater than the initial deposit. Although the contemplated use of these instruments predominantly for Strategic Transactions should tend to minimize the risk of loss due to a decline in the value of the position, at the same time they tend to limit any potential gain which might result from an increase in the value of such position. The ability of the Trust to successfully utilize Strategic Transactions will depend on the Advisor's and the Sub-Advisor's ability to predict pertinent market movements and sufficient correlations, which cannot be assured. Finally, the daily deposit requirements in futures contracts that the Trust has sold create an ongoing greater potential financial risk than do options transactions, where the exposure is limited to the cost of the initial premium. Losses due to the use of Strategic Transactions will reduce net asset value.

Regulatory Considerations. The Trust has claimed an exclusion from the term "commodity pool operator" under the Commodity Exchange Act and, therefore, is not subject to registration or regulation as a commodity pool operator under the Commodity Exchange Act.

APPENDIX B

PROXY VOTING POLICY

For

BlackRock Advisors, Inc.
and Its Affiliated Registered Investment Advisers

Introduction

This Proxy Voting Policy ("Policy") for BlackRock Advisors, Inc. and its affiliated registered investment advisers ("BlackRock") reflects our duty as a fiduciary under the Investment Advisers Act of 1940 (the "Advisers Act") to vote proxies in the best interests of our clients. In addition, the Department of Labor views the fiduciary act of managing ERISA plan assets to include the voting of proxies. Proxy voting decisions must be made solely in the best interests of the pension plan's participants and beneficiaries. The Department of Labor has interpreted this requirement as prohibiting a fiduciary from subordinating the retirement income interests of participants and beneficiaries to unrelated objectives. The guidelines in this Policy have been formulated in a manner designed to ensure decision-making consistent with these fiduciary responsibilities.

Any general or specific proxy voting guidelines provided by an advisory client or its designated agent in writing will supersede the specific guidelines in this Policy for that client. BlackRock will disclose to our advisory clients information about this Policy as well as disclose to our clients how they may obtain information on how we voted their proxies. Additionally, BlackRock will maintain proxy voting records for our advisory clients consistent with the Advisers Act. For those of our clients that are registered investment companies, BlackRock will disclose this Policy to the shareholders of such funds and make filings with the Securities and Exchange Commission and make available to fund shareholders the specific proxy votes that we cast in shareholder meetings of issuers of portfolio securities in accordance with the rules and regulations under the Investment Company Act of 1940.

Registered investment companies that are advised by BlackRock as well as certain of our advisory clients may participate in securities lending programs, which may reduce or eliminate the amount of shares eligible for voting by BlackRock in accordance with this Policy if such shares are out on loan and cannot be recalled in time for the vote.

Implicit in the initial decision to retain or invest in the security of a corporation is acceptance of its existing corporate ownership structure, its management, and its operations. Accordingly, proxy proposals that would change the existing status of a corporation will be supported only when we conclude that the proposed changes are likely to benefit the corporation and its shareholders. Notwithstanding this favorable predisposition, we will assess management on an ongoing basis both in terms of its business capability and its dedication to shareholders to seek to ensure that our continued confidence remains warranted. If we determine that management is acting on its own behalf instead of for the well being of the corporation, we will vote to support shareholder proposals, unless we determine other mitigating circumstances are present.

Additionally, situations may arise that involve an actual or perceived conflict of interest. For example, we may manage assets of a pension plan of a company whose management is soliciting proxies, or a BlackRock employee involved with managing an account may have a close relative who serves as a director or executive of a company that is soliciting proxies regarding securities held in such account. In all cases, we seek to vote proxies based on our clients' best interests.

This Policy and its attendant recommendations attempt to generalize a complex subject. It should be clearly understood that specific fact situations, including differing voting practices in jurisdictions outside the United States, might warrant departure from these guidelines. In such

instances, we will consider the facts we believe are relevant, and if we vote contrary to these guidelines we will record the reasons for this contrary vote.

Section I of the Policy describes proxy proposals that may be characterized as routine and lists examples of the types of proposals we would typically support. Section II of the Policy describes various types of non-routine proposals and provides general voting guidelines. These non-routine proposals are categorized as those involving:

(A)
Social Issues,

(B)
Financial/Corporate Issues, and

(C)
Shareholder Rights.

Finally, Section III of the Policy describes the procedures we follow in casting votes pursuant to these guidelines.

SECTION I

ROUTINE MATTERS

Routine proxy proposals, amendments, or resolutions are typically proposed by management and meet the following criteria:

1. They do not measurably change the structure, management control, or operation of the corporation.

2. They are consistent with industry standards as well as the corporate laws of the state of incorporation.

Voting Recommendation

BlackRock will normally support the following routine proposals:

1. To increase authorized common shares.

2. To increase authorized preferred shares as long as there are not disproportionate voting rights per preferred share.

3. To elect or re-elect directors, except as noted below.

4. To appoint or elect auditors.

5. To approve indemnification of directors and limitation of directors' liability.

6. To establish compensation levels.

7. To establish employee stock purchase or ownership plans.

8. To set time and location of annual meeting.

BlackRock will withhold its vote for a nominee to the board if he or she failed to attend at least 75% of the board meetings in the previous year without a valid reason. In addition, BlackRock will withhold its vote for all nominees standing for election to a board if (1) since the last annual meeting of shareholders and without shareholder approval, the board or its compensation committee has repriced underwater options; or (2) within the last year, shareholders approved by majority vote a resolution recommending that the board rescind a "poison pill" and the board has failed to take responsive action to that resolution. Responsive action would include the rescission of the "poison pill" (without a broad reservation to reinstate the "poison pill" in the event of a hostile tender offer), or public assurances that the terms of the "poison pill" would be put to a binding shareholder vote within the next five to seven years.

BlackRock evaluates a contested election of directors on a case-by-case basis considering the long-term financial performance of the company relative to its industry, management's track record, the qualifications of the nominees for both slates and an evaluation of what each side is offering shareholders.

SECTION II

NON-ROUTINE PROPOSALS

A.

Social Issues

Proposals in this category involve issues of social conscience. They are typically proposed by shareholders who believe that the corporation's internally adopted policies are ill-advised or misguided.

Voting Recommendation

If we have determined that management is generally socially responsible, we will generally vote against the following shareholder proposals:

1. To enforce restrictive energy policies.
2. To place arbitrary restrictions on military contracting.
3. To bar or place arbitrary restrictions on trade with other countries.
4. To restrict the marketing of controversial products.
5. To limit corporate political activities.
6. To bar or restrict charitable contributions.
7. To enforce a general policy regarding human rights based on arbitrary parameters.
8. To enforce a general policy regarding employment practices based on arbitrary parameters.
9. To enforce a general policy regarding animal rights based on arbitrary parameters.
10. To place arbitrary restrictions on environmental practices.

B.

Financial/Corporate Issues

Proposals in this category are usually offered by management and seek to change a corporation's legal, business or financial structure.

Voting Recommendation

We will generally vote in favor of the following management proposals provided the position of current shareholders is preserved or enhanced:

1. To change the state of incorporation.

2. To approve mergers, acquisitions or dissolution.

3. To institute indenture changes.

4. To change capitalization.

C. Shareholder Rights

Proposals in this category are made regularly both by management and shareholders. They can be generalized as involving issues that transfer or realign board or shareholder voting power.

We typically would oppose any proposal aimed solely at thwarting potential takeover offers by requiring, for example, super-majority approval. At the same time, we believe stability and continuity promote profitability. The guidelines in this area seek to find a middle road, and they are no more than guidelines. Individual proposals may have to be carefully assessed in the context of their particular circumstances.

Voting Recommendation

We will generally vote for the following management proposals:

1. To require majority approval of shareholders in acquisitions of a controlling share in the corporation.
2. To institute staggered board of directors.
3. To require shareholder approval of not more than $66^{2}/_{3}\%$ for a proposed amendment to the corporation's by-laws.
4. To eliminate cumulative voting.
5. To adopt anti-greenmail charter or by-law amendments or to otherwise restrict a company's ability to make greenmail payments.
6. To create a dividend reinvestment program.
7. To eliminate preemptive rights.
8. To eliminate any other plan or procedure designed primarily to discourage a takeover or other similar action (commonly known as a "poison pill").
9. To adopt or continue a stock option or restricted stock plan if all such plans for a particular company do not involve excessive dilution.

We will generally vote against the following management proposals:

1. To require greater than $66^{2}/_{3}\%$ shareholder approval for a proposed amendment to the corporation's by-laws ("super-majority provisions").
2. To require that an arbitrary fair price be offered to all shareholders that is derived from a fixed formula ("fair price amendments").
3. To authorize a new class of common stock or preferred stock which may have more votes per share than the existing common stock.
4. To prohibit replacement of existing members of the board of directors.
5. To eliminate shareholder action by written consent without a shareholder meeting.
6. To allow only the board of directors to call a shareholder meeting or to propose amendments to the articles of incorporation.
7.

To implement any other action or procedure designed primarily to discourage a takeover or other similar action (commonly known as a "poison pill").

8. To limit the ability of shareholders to nominate directors.

9. To adopt or continue a stock option or restricted stock plan if plan contributes to excessive dilution.

We will generally vote for the following shareholder proposals:

1. To rescind share purchases rights or require that they be submitted for shareholder approval, but only if the vote required for approval is not more than $66^{2}/_{3}\%$.

2. To opt out of state anti-takeover laws deemed to be detrimental to the shareholder.

3. To change the state of incorporation for companies operating under the umbrella of anti-shareholder state corporation laws if another state is chosen with favorable laws in this and other areas.

4. To eliminate any other plan or procedure designed primarily to discourage a takeover or other similar action.

5. To permit shareholders to participate in formulating management's proxy and the opportunity to discuss and evaluate management's director nominees, and/or to nominate shareholder nominees to the board.

6. To require that the board's audit, compensation, and/or nominating committees be comprised exclusively of independent directors.

7. To adopt anti-greenmail charter or by-law amendments or otherwise restrict a company's ability to make greenmail payments.

8. To create a dividend reinvestment program.

9. To recommend that votes to "abstain" not be considered votes "cast" at an annual meeting or special meeting, unless required by state law.

10. To require that "golden parachutes" be submitted for shareholder ratification.

11. To rescind a stock option or restricted stock plan if the plan contributes to excessive dilution.

We will generally vote against the following shareholder proposals:

1. To restore preemptive rights.

2. To restore cumulative voting.

3. To require annual election of directors or to specify tenure.

4. To eliminate a staggered board of directors.

5. To require confidential voting.

6. To require directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board.

7. To dock director pay for failing to attend board meetings.

8. To rescind a stock option or restricted stock plan if the plan does not contribute to excessive dilution.

9. To prohibit the provision of any non-audit services by a company's auditors to the company.

SECTION III

VOTING PROCESS

BlackRock has engaged an independent third-party service provider to assist us in the voting of proxies. These guidelines have been provided to this service provider, who then analyzes all proxy solicitations we receive for our clients and makes recommendations to us as to how, based upon our guidelines, the relevant votes should be cast. These recommendations are set out in a report that is provided to the relevant BlackRock Portfolio Management Group team, who must approve the proxy vote in writing and return such written approval to the BlackRock Operations Group (e-mail is deemed to be a writing). If any authorized member of a Portfolio Management Group team desires to vote in a manner that differs from the third-party service provider recommendation, the reason for such differing vote shall be noted in the written approval form sent to the BlackRock Operations Group. The head of each relevant BlackRock Portfolio Management Group team is responsible for making sure that proxies are voted in a timely manner. The BlackRock Equity Investment Policy Oversight Committee (or similar or successor committee, the "EIPOC") receives regular reports of votes cast that differ from recommendations made by the third-party service provider and votes cast that may have involved a material conflict of interest. The EIPOC also review these guidelines from time to time to determine their continued appropriateness and whether any changes to the guidelines or the proxy voting process should be made.

Votes may involve a conflict of interest if (i) the vote is proposed to be cast in a manner that differs from the third-party service provider recommendation and (ii) the subject matter of the proxy involves a party that has a material relationship with BlackRock, or the issuer of the proxy has such a relationship, such as where the issuer soliciting the vote is a BlackRock client. The BlackRock Operations Group identifies potential conflicts of interest and then refers any potential conflict to BlackRock's Legal and Compliance Department for review prior to a vote being cast.

With respect to votes in connection with securities held on a particular record date but sold from a client account prior to the holding of the related meeting, BlackRock may take no action on proposals to be voted on in such meeting.

With respect to voting proxies of non-U.S. companies, a number of logistical problems may arise that may have a detrimental effect on BlackRock's ability to vote such proxies in the best interests of our clients. These problems include, but are not limited to, (i) untimely and/or inadequate notice of shareholder meetings, (ii) restrictions on the ability of holders outside the issuer's jurisdiction of organization to exercise votes, (iii) requirements to vote proxies in person, if not practicable, (iv) the imposition of restrictions on the sale of the securities for a period of time in proximity to the shareholder meeting, and (v) impracticable or inappropriate requirements to provide local agents with power of attorney to facilitate the voting instructions. Accordingly, BlackRock may determine not to vote proxies if it believes that the restrictions or other detriments associated with such vote outweigh the benefits that will be derived by voting on the company's proposal.

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Any questions regarding this Policy may be directed to the General Counsel of BlackRock.

PART C

OTHER INFORMATION

Item 25. Financial Statements and Exhibits

(1)

Financial Statements

Part A None.

Part B Statement of Assets and Liabilities.

(2)

Exhibits

(a))1)	Agreement and Declaration of Trust.(1)
(a)(2)	Amended and Restated Agreement and Declaration of Trust.(3)
(b)(1)	By-Laws.(1)
(b)(2)	Amended and Restated By-Laws.(3)
(c)	Inapplicable.
(d)	Form of Specimen Certificate.(3)
(e)	Form of Dividend Reinvestment Plan.(3)
(f)	Inapplicable.
(g)(1)	Form of Initial and Successor Investment Management Agreement.(3)
(g)(2)	Form of Initial and Successor Sub-Investment Advisory Agreements.(3)
(h)	Form of Underwriting Agreement.(3)
(i)	Form of the BlackRock Closed-End Trusts Amended and Restated Deferred Compensation Plan.(3)
(j)(1)	Form of Custody Agreement.(3)
(j)(2)	Form of Foreign Custody Manager Agreement.(3)
(k)(1)	Form of Stock Transfer Agency Agreement.(3)
(k)(2)	Form of Fund Accounting Agreement.(3)
(l)	Opinion and Consent of Counsel to the Trust.(3)
(m)	Inapplicable.
(n)	Independent Registered Public Accounting Firm Consent.(3)
(o)	Inapplicable.
(p)	Subscription Agreement.(3)
(q)	Inapplicable.
(r)(1)	Code of Ethics of Trust.(3)
(r)(2)	Code of Ethics of the Advisor and BlackRock Capital Management, Inc.(3)
(r)(3)	Code of Ethics of Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited.(3)
(s)	Power of Attorney.(1)

(1)

Previously filed.

(2)

To be filed by amendment.

(3)

Filed herewith.

Item 26. Marketing arrangements

Reference is made to the Form of Underwriting Agreement for the Registrant's common shares to be filed by amendment to this registration statement.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses to be incurred in connection with the offering described in this registration statement:

Registration fees	$	29,425
NYSE listing fee	$	30,000
Printing (other than certificates)	$	505,000
Engraving and printing certificates	$	14,407
Accounting fees and expenses related to the offering	$	15,000
Legal fees and expenses related to the offering	$	264,000
NASD fee	$	25,500
Miscellaneous (i.e. travel) related to the offering	$	250,000
Total	$	1,133,332

Item 28. Persons Controlled by or under Common Control with the Registrant

None.

Item 29. Number of Holders of Shares

As of September 25, 2006.

Title of class	Number of Record holders
Common Shares	1

Item 30. Indemnification

Article V of the Registrant's Amended and Restated Agreement and Declaration of Trust provides as follows:

5.1 *No Personal Liability of Shareholders, Trustees, etc.* No Shareholder of the Trust shall be subject in such capacity to any personal liability whatsoever to any Person in connection with Trust Property or the acts, obligations or affairs of the Trust. Shareholders shall have the same limitation of personal liability as is extended to stockholders of a private corporation for profit incorporated under the Delaware General Corporation Law. No Trustee or officer of the Trust shall be subject in such capacity to any personal liability whatsoever to any Person, save only liability to the Trust or its Shareholders arising from bad faith, willful misfeasance, gross negligence or reckless disregard for his duty to such Person; and, subject to the foregoing exception, all such Persons shall look solely to the Trust Property for satisfaction of claims of any nature arising in connection with the affairs of the Trust. If any Shareholder, Trustee or officer, as such, of the Trust, is made a party to any suit or proceeding to enforce any such liability, subject to the foregoing exception, he shall not, on account thereof, be held to any personal liability. Any repeal or modification of this Section 5.1 shall not adversely affect any right or protection of a Trustee or officer of the Trust existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

5.2 *Mandatory Indemnification* (a) The Trust hereby agrees to indemnify each person who at any time serves as a Trustee or officer of the Trust (each such person being an "indemnitee") against any liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and reasonable counsel fees reasonably incurred by such indemnitee in connection with the defense or disposition of any action, suit or

other proceeding, whether civil or criminal, before any court or administrative or investigative body in which he may be or may have been involved as a party or otherwise or with which he may be or may have been threatened, while acting in any capacity set forth in this Article V by reason of his having acted in any such capacity, except with respect to any matter as to which he shall not have acted in good faith in the reasonable belief that his action was in the best interest of the Trust or, in the case of any criminal proceeding, as to which he shall have had reasonable cause to believe that the conduct was unlawful, provided, however, that no indemnitee shall be indemnified hereunder against any liability to any person or any expense of such indemnitee arising by reason of (i) willful misfeasance, (ii) bad faith, (iii) gross negligence, or (iv) reckless disregard of the duties involved in the conduct of his position (the conduct referred to in such clauses (i) through (iv) being sometimes referred to herein as "disabling conduct"). Notwithstanding the foregoing, with respect to any action, suit or other proceeding voluntarily prosecuted by any indemnitee as plaintiff, indemnification shall be mandatory only if the prosecution of such action, suit or other proceeding by such indemnitee (1) was authorized by a majority of the Trustees or (2) was instituted by the indemnitee to enforce his or her rights to indemnification hereunder in a case in which the indemnitee is found to be entitled to such indemnification. The rights to indemnification set forth in this Declaration shall continue as to a person who has ceased to be a Trustee or officer of the Trust and shall inure to the benefit of his or her heirs, executors and personal and legal representatives. No amendment or restatement of this Declaration or repeal of any of its provisions shall limit or eliminate any of the benefits provided to any person who at any time is or was a Trustee or officer of the Trust or otherwise entitled to indemnification hereunder in respect of any act or omission that occurred prior to such amendment, restatement or repeal.

(b) Notwithstanding the foregoing, no indemnification shall be made hereunder unless there has been a determination (i) by a final decision on the merits by a court or other body of competent jurisdiction before whom the issue of entitlement to indemnification hereunder was brought that such indemnitee is entitled to indemnification hereunder or, (ii) in the absence of such a decision, by (1) a majority vote of a quorum of those Trustees who are neither "interested persons" of the Trust (as defined in Section 2(a)(19) of the Investment Company Act) nor parties to the proceeding ("Disinterested Non-Party Trustees"), that the indemnitee is entitled to indemnification hereunder, or (2) if such quorum is not obtainable or even if obtainable, if such majority so directs, independent legal counsel in a written opinion concludes that the indemnitee should be entitled to indemnification hereunder. All determinations to make advance payments in connection with the expense of defending any proceeding shall be authorized and made in accordance with the immediately succeeding paragraph (c) below.

(c) The Trust shall make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the Trust receives a written affirmation by the indemnitee of the indemnitee's good faith belief that the standards of conduct necessary for indemnification have been met and a written undertaking to reimburse the Trust unless it is subsequently determined that the indemnitee is entitled to such indemnification and if a majority of the Trustees determine that the applicable standards of conduct necessary for indemnification appear to have been met. In addition, at least one of the following conditions must be met: (i) the indemnitee shall provide adequate security for his undertaking, (ii) the Trust shall be insured against losses arising by reason of any lawful advances, or (iii) a majority of a quorum of the Disinterested Non-Party Trustees, or if a majority vote of such quorum so direct, independent legal counsel in a written opinion, shall conclude, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is substantial reason to believe that the indemnitee ultimately will be found entitled to indemnification.

(d) The rights accruing to any indemnitee under these provisions shall not exclude any other right which any person may have or hereafter acquire under this Declaration, the By-Laws of the Trust, any statute, agreement, vote of stockholders or Trustees who are "disinterested persons" (as defined in Section 2(a)(19) of the Investment Company Act) or any other right to which he or she may be lawfully entitled.

(e) Subject to any limitations provided by the 1940 Act and this Declaration, the Trust shall have the power and authority to indemnify and provide for the advance payment of expenses to employees, agents and other Persons providing services to the Trust or serving in any capacity at the request of the Trust to the full extent corporations organized under the Delaware General Corporation Law may indemnify or provide for the advance payment of expenses for such Persons, provided that such indemnification has been approved by a majority of the Trustees.

5.3 *No Bond Required of Trustees.* No Trustee shall, as such, be obligated to give any bond or other security for the performance of any of his duties hereunder.

5.4 *No Duty of Investigation; Notice in Trust Instruments, etc.* No purchaser, lender, transfer agent or other person dealing with the Trustees or with any officer, employee or agent of the Trust shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Trustees or by said officer, employee or agent or be liable for the application of money or property paid, loaned, or delivered to or on the order of the Trustees or of said officer, employee or agent. Every obligation, contract, undertaking, instrument, certificate, Share, other security of the Trust, and every other act or thing whatsoever executed in connection with the Trust shall be conclusively taken to have been executed or done by the executors thereof only in their capacity as Trustees under this Declaration or in their capacity as officers, employees or agents of the Trust. The Trustees may maintain insurance for the protection of the Trust Property, its Shareholders, Trustees, officers, employees and agents in such amount as the Trustees shall deem adequate to cover possible tort liability, and such other insurance as the Trustees in their sole judgment shall deem advisable or is required by the Investment Company Act.

5.5 *Reliance on Experts, etc.* Each Trustee and officer or employee of the Trust shall, in the performance of its duties, be fully and completely justified and protected with regard to any act or any failure to act resulting from reliance in good faith upon the books of account or other records of the Trust, upon an opinion of counsel, or upon reports made to the Trust by any of the Trust's officers or employees or by any advisor, administrator, manager, distributor, selected dealer, accountant, appraiser or other expert or consultant selected with reasonable care by the Trustees, officers or employees of the Trust, regardless of whether such counsel or expert may also be a Trustee.

Insofar as indemnification for liabilities arising under the Act, may be terminated to Trustees, officers and controlling persons of the Trust, pursuant to the foregoing provisions or otherwise, the Trust has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Trustee, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be

governed by the final adjudication of such issue. Reference is made to Article 6 of the purchase agreement attached as Exhibit (h), which is incorporated herein by reference.

Item 31. Business and Other Connections of Investment Advisor

Not Applicable

Item 32. Location of Accounts and Records

The Registrant's accounts, books and other documents are currently located at the offices of the Registrant, c/o BlackRock Advisors, Inc., 100 Bellevue Parkway, Wilmington, Delaware 19809 and at the offices of the Registrant's Sub-Advisors, Custodian and Transfer Agent.

Item 33. Management Services

Not Applicable

Item 34. Undertakings

(1) The Registrant hereby undertakes to suspend the offering of its units until it amends its prospectus if (a) subsequent to the effective date of its registration statement, the net asset value declines more than 10 percent from its net asset value as of the effective date of the Registration Statement or (b) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

(2) Not applicable

(3) Not applicable

(4) Not applicable

(5) (a) For the purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant under Rule 497 (h) under the Securities Act of 1933 shall be deemed to be part of the Registration Statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) The Registrant undertakes to send by first class mail or other means designed to ensure equally prompt delivery within two business days of receipt of a written or oral request, any Statement of Additional Information.

PART C-5

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 25th day of September, 2006.

Name	* Robert S. Kapito President and Chief Executive Officer Title
* Robert S. Kapito	Trustee, President and Chief Executive Officer
/s/ HENRY GABBAY Henry Gabbay	Treasurer and Principal Financial Officer
* Andrew F. Brimmer	Trustee
* Richard E. Cavanagh	Trustee
* Kent Dixon	Trustee
* Frank J. Fabozzi	Trustee
* Kathleen F. Feldstein	Trustee
* R. Glenn Hubbard	Trustee
* Ralph L. Schlosstein	Trustee
*By: /s/ ANNE F. ACKERLEY Anne F. Ackerley	Attorney-in-fact

INDEX TO EXHIBITS

Ex. 99(a)(2)	Amended and Restated Agreement and Declaration of Trust.
Ex. 99(b)(2)	Amended and Restated By-Laws.
Ex. 99(d)	Form of Specimen Certificate.
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Ex. 99(n)	Independent Registered Public Accounting Firm Consent.
Ex. 99(p)	Subscription Agreement.
Ex. 99(r)(1)	Code of Ethics of Trust.
Ex. 99(r)(2)	Code of Ethics of the Advisor and BlackRock Capital Management, Inc.
Ex. 99(r)(3)	Code of Ethics of Merrill Lynch Investment Managers, LLC and Merrill Lynch Investment Managers International Limited.

QuickLinks

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Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE U – SALES TO MAJOR CUSTOMERS

Yuma generally sells crude oil and natural gas to numerous customers on a month-to-month basis. In 2013, four customers accounted for approximately 78 percent of unaffiliated oil and gas sales. In 2012, four customers accounted for approximately 79 percent of unaffiliated oil and gas sales, and in 2011, approximately 65 percent of unaffiliated oil and gas sales were made to three customers.

NOTE V – LEASES

Yuma leases its primary office space of 15,180 square feet for $26,565 per month, plus $50 per month for each employee or contractor parking space. The lease term, as amended on July 30, 2010, expires on December 31, 2017. On November 1, 2012, the monthly rent reduced to $21,821 on a triple-net basis, and then escalates by 1.45 percent for the period November 1, 2013 through October 31, 2014. The lease then escalates by approximately 2.8 percent each year thereafter

Yuma currently leases approximately 2,000 square feet of office space at an off-site location as a storage facility. The current lease was effective December 28, 2004, and expired on January 31, 2012. The Company extended this lease for two additional years at the same terms. The lease called for a security deposit of $1,300, and monthly rent of $1,455 commencing on February 1, 2012.

Aggregate rental expense for 2013, 2012 and 2011 was $534,275, $378,192 and $367,212, respectively. As of December 31, 2013, future minimum rentals under all noncancellable operating leases are as follows:

2014	$523,521
2015	531,083
2016	520,762
2017	525,492
2018	2,197

NOTE W – DISCONTINUED OPERATIONS

Texas Southeastern Gas Gathering Company (“TSEGG”) was a wholly owned subsidiary of YEI and operated approximately 76 miles of gathering lines in Louisiana. On March 12, 2010, TSEGG closed on the sale of its pipeline assets located in Cameron, Iberville, Plaquemine and St. Bernard Parishes, Louisiana, for total proceeds of $7.5 million. The sale was effective January 1, 2010, and resulted in the recognition of a gain on the sale of $3,957,057 after estimated taxes of $2,633,524. Accordingly, the Company’s financial statements have been prepared with the net assets and liabilities, results of operations, and cash flows of this entity displayed separately as “discontinued operations.”

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE W – DISCONTINUED OPERATIONS – Continued

The terms of the sale call for an "Earn Out" calculation for each of the successive five years whereby the Company can earn $100,000, $250,000, or $500,000 if the revenues from the pipeline assets surpass certain prescribed hurdles. The total maximum "Earn Out" payments for the five years may not exceed $2.5 million. For 2013, 2012 and 2011, the revenues did not surpass any of the hurdles necessary to generate an "Earn Out" payment to TSEGG. Prior to the dissolution of TSEGG, the rights under the "Earn Out" provision were assigned to the Company's CEO (see Note F – Related Party Transactions).

A summary of the results of operations of the discontinued company follows:

	December 31, 2013	December 31, 2012	December 31, 2011
Results of operations:			
Gas transportation revenue	$ -	$ -	$ -
Operations and maintenance	-	-	-
General and administrative	-	-	(110,211)
Depreciation and amortization	-	-	-
Income (loss) from operations	-	-	(110,211)
Gain on sale of pipeline assets	-	-	-
Other income (expense)	-	-	(8,755)
Net income (loss) before taxes	-	-	(118,966)
Income tax expense (benefit)	-	-	(100,928)
Income from discontinued operations	$ -	$ -	$ (18,038)

TSEGG was formally dissolved as of December 31, 2011. Subsequent to the dissolution, there are no reported current or noncurrent liabilities of discontinued operations for 2013 or 2012, and no income from discontinued operations in 2013 or 2012.

NOTE X – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 24, 2014, the date these financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, except as noted below or already recognized or disclosed.

1. Agreement and Plan of Merger and Reorganization with Pyramid Oil Company

On February 6, 2014, Pyramid Oil Company ("Pyramid") and Yuma jointly announced a definitive merger agreement (the "merger agreement") for an all-stock transaction. The transaction is subject to the approval of the stockholders of Yuma's common stock and each class of Preferred Stock, and the stockholders of Pyramid.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE X – SUBSEQUENT EVENTS – Continued

As part of the merger, Pyramid will reincorporate as a Delaware corporation and change its name to Yuma Energy, Inc. Under the terms of the merger agreement, Pyramid will issue an aggregate of 66,336,701 shares of newly issued Pyramid common stock, subject to certain adjustments, to Yuma stockholders, resulting in former Yuma stockholders owning approximately 93 percent of the post-merger company. The transaction is expected to qualify as a tax-deferred reorganization under Section 368(a) of the Internal Revenue Code. Pyramid common stock is traded on the NYSE MKT under the symbol “PDO”. Upon closing, all Yuma executive officers and directors will assume the same roles with the combined company. The transaction is expected to close mid-2014.

2. Deferred Offering Costs

As a result of the merger agreement with Pyramid Oil Company, the expenses of approximately $1.3 million incurred by the Company in exploring several alternative options to go public will be written off during the first quarter of 2014.

3. Annual Incentive Plan Awards for 2013 and Restricted Stock Awards

During the March 6, 2014 meeting of the Board of Directors, the AIP awards for performance in 2013 were evaluated and approved. Participants will be offered the choice of cash, restricted stock, or a combination of cash and restricted stock. No shares of restricted stock will vest until the Company has a Liquidity Event.

During the March 6, 2014 meeting, the Board also awarded 22 shares of restricted stock to two non-employee members of the Board and awarded 237 shares of restricted stock to two employees. All of these awards have three year vesting schedules and all are subject to the occurrence of a Liquidity Event prior to vesting.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED)

1. Costs Incurred

Costs incurred in oil and natural gas property acquisition, exploration and development activities, all of which are conducted within the continental United States, are summarized below:

	December 31, 2013	December 31, 2012	December 31, 2011
Property acquisition costs - unproved	$ 3,865,932	$ 17,025,756	$ 4,815,285
Property acquisition costs - proved	8,539,134	1,800,385	(186,273)
Sales proceeds - unproved	(679,266)	(1,386,649)	-
Sales proceeds - proved	(718,000)	-	-
Exploration costs	2,504,087	4,931,623	2,090,462
Development costs	11,910,179	7,699,903	3,922,267
Capitalized asset retirements costs	5,795,400	173,432	283,509
Total costs incurred	$ 31,217,466	$ 30,244,450	$ 10,925,250

The Company sells oil and natural gas prospects. The gains or losses from these sales are recorded as adjustments to the full cost pool under U.S. Securities and Exchange Commission (“SEC”) guidelines. Prospect profits were $50,346, $234,105 and $-0- for 2013, 2012 and 2011, respectively.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

2. Capitalized Costs Relating to Oil and Gas Producing Activities

The following table illustrates the total amount of capitalized costs relating to natural gas and crude oil producing activities and the total amount of related accumulated depreciation, depletion and amortization:

	December 31, 2013	December 31, 2012
Oil and gas properties, full cost method:		
Not subject to amortization:		
Prospect inventory	$14,587,986	$12,845,654
Property acquisition costs - unproved	8,202,369	7,511,033
Well development costs - unproved	1,249,718	949,638
Subject to amortization:		
Property acquisition costs - proved	36,999,813	28,832,235
Well development costs - proved	56,460,276	49,657,267
Capitalized costs - unsuccessful	50,849,905	43,132,174
Capitalized asset retirement costs	8,565,199	2,769,799
Total capitalized costs	176,915,266	145,697,800
Less accumulated depreciation, depletion and amortization	(84,438,840)	(72,510,968)
Net capitalized costs	$92,476,426	$73,186,832

3. Reserves

Proved natural gas and oil reserves are those quantities of natural gas and oil, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be

determined. Based on reserve reporting rules, the price is calculated using the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period (if the first day of the month occurs on a weekend or holiday, the previous business day is used), unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. A project to extract hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. The area of the reservoir considered as proved includes: (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible natural gas or oil on the basis of available geosciences and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geosciences, engineering or performance data and reliable technology establish a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated natural gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geosciences, engineering or performance data and reliable technology establish the higher contact with reasonable certainty.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

Developed natural gas and oil reserves are reserves of any category that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

The information below on our natural gas and oil reserves is presented in accordance with regulations prescribed be the SEC, with guidelines established by the Society of Petroleum Engineers' Petroleum Resource Management System, as in effect as of the date of such estimates. The Company's reserve estimates are generally based upon extrapolation of historical production trends, analogy to similar properties and volumetric calculations. Accordingly, these estimates will change as future information becomes available and as commodity prices change. Such changes could be material and could occur in the near term.

The Company does not prepare engineering estimates of proved oil and natural gas reserve quantities for all wells. The Company only prepares engineering studies of estimated oil and natural gas quantities on a consolidated basis. The Company has a quantity of interests that, individually, are immaterial and are excluded from prepared engineering studies. Accounting sales volumes and receipts differ from amounts prepared by internal engineers and included in the following tables.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

	2013	2012	2011
Barrels of oil:			
Proved developed and undeveloped reserves:			
Beginning of year	6,164,340	1,484,550	1,224,683
Revisions of previous estimates	(861,854)	(132,352)	122,335
Purchases of oil and gas properties	6,481,816	4,777,048	12,780
Extensions and discoveries	92,152	225,063	236,583
Sale of oil and gas properties	-	-	-
Production	(201,473)	(154,186)	(110,124)
End of year	11,614,811	6,200,123	1,486,257
Proved developed reserves - January 1,	1,130,465	1,123,623	981,391
Proved developed reserves - December 31,	1,607,229	1,130,465	1,123,623
Proved undeveloped reserves - January 1,	5,033,875	360,922	243,292
Proved undeveloped reserves - December 31,	10,007,582	5,033,875	360,922

	2013	2012	2011
Barrels of natural gas liquids:			
Proved developed and undeveloped reserves:			
Beginning of year	1,575,624	354,875	-
Revisions of previous estimates	(280,800)	-	-
Purchases of oil and gas properties	1,477,784	1,199,186	-
Extensions and discoveries	-	-	354,873
Sale of oil and gas properties	-	-	-
Production	(65,629)	(14,220)	(1,705)
End of year	2,706,979	1,539,841	353,168

Proved developed reserves - January 1,	343,550	112,379	-
Proved developed reserves - December 31,	492,472	343,550	112,379
Proved undeveloped reserves - January 1,	1,232,074	242,501	-
Proved undeveloped reserves - December 31,	2,274,677	1,232,074	242,501

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

	2013	2012	2011
Thousands of cubic feet of natural gas			
Proved developed and undeveloped reserves:			
Beginning of year	31,071,137	17,020,496	10,831,934
Revisions of previous estimates	(8,281,139)	(463,712)	(2,802,945)
Purchases of oil and gas properties	16,495,803	12,931,203	5,626
Extensions and discoveries	362,806	2,163,825	9,463,335
Sale of oil and gas properties	-	-	-
Production	(1,276,238)	(580,675)	(477,454)
End of year	38,372,369	31,071,137	17,020,496
Proved developed reserves - January 1,	10,156,754	5,287,966	2,403,165
Proved developed reserves - December 31,	10,316,516	10,156,754	5,287,966
Proved undeveloped reserves - January 1,	20,914,383	11,732,530	8,428,769
Proved undeveloped reserves - December 31,	28,055,853	20,914,383	11,732,530

Revisions to previously estimates reserves for both natural gas and crude oil were primarily caused by (i) commodity price reductions causing wells to reach their economic limits sooner thus producing fewer reserves and causing some proved undeveloped locations to become uneconomic; (ii) downward revisions to the La Posada field Broussard #2 well when the well was recompleted up hole in the “B” sand; and, (iii) a downward revision in the DS&B #119 well due to well performance.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

4. Internal Controls Over Reserve and Future Net Revenue Estimation

The Company's principal engineer, who is primarily responsible for overseeing the preparation of proved reserve estimates and future net revenues, has over 14 years of experience in the oil and gas industry. His experience includes detailed evaluation of reserves and future net reserves for acquisitions, divestments, bank financing, long range planning, portfolio optimization, strategy and end of year financial reports. He has a B.S. in Petroleum Engineering from Texas A&M University, M.S. in Finance from University of Houston, and MBA from Rice University. He is a member of the Society of Petroleum Engineers (the "SPE"). The procedures and methods used by the principal engineer in preparing internal estimates of proved reserves and future net cash flows are approved by the SPE's Petroleum Resource Management System ("PMRS") with no risks applied.

At December 31, 2012 and 2011, Pressler Petroleum Consultants ("Pressler") performed an independent engineering evaluation using the same guidelines established by PMRS to obtain an independent estimate of the proved reserves and future net revenues. During 2013, Yuma changed outside engineering firms for the evaluation of its reserves. Yuma hired Netherland, Sewell & Associates, Inc. ("NSAI") to evaluate its reserve portfolio, replacing Pressler Petroleum Consultants. At December 31, 2013, NSAI performed an independent engineering evaluation using the same guidelines established by PMRS to obtain an independent estimate of the proved reserves and future net revenues.

5. Third Party Procedures and Methods Review

The review consisted of 22 fields which included the Company's major assets in the United States and encompassed approximately 95 percent of Yuma's proved reserves and future net cash flows as of December 31, 2013, 2012 and 2011. The principal engineer presented the outside engineering firm with an overview of the data, methods and assumptions used in estimating reserves and future net revenues for each field. The data presented included pertinent seismic information, geologic maps, well logs, production tests, material balance calculations, well performance data, operating expenses and other relevant economic criteria.

6. Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following information has been developed utilizing procedures from the FASB concerning disclosures about oil and gas producing activities, and based on natural gas and crude oil reserve and production volumes estimated by the Company's engineering staff. It can be used for some comparisons, but should not be the only method used to evaluate the Company or its performance. Further, the information in the following table may not represent realistic assessments of future cash flows, nor should the standardized measure of discounted future net cash flows be viewed as representative of the current value of the Company.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

The Company believes that the following factors should be taken into account when reviewing the following information:

- Future costs and selling prices will probably differ from those required to be used in these calculations;
- Due to future market conditions and governmental regulations, actual rates of production in future years may vary significantly from the rate of production assumed in the calculations;
- A 10 percent discount rate may not be reasonable as a measure of the relative risk inherent in realizing future net oil and gas revenues; and
- Future net revenues may be subject to different rates of income taxation.

The standardized measure of discounted future net cash flows relating to the Company's ownership interests in proved crude oil and natural gas reserves as of year-end is shown for Exploration for 2013, 2012 and 2011.

	December 31, 2013	December 31, 2012	December 31, 2011
Future cash inflows	$1,450,469,000	$823,280,251	$252,662,388
Future oil and natural gas operating expenses	(334,883,800)	(151,140,007)	(51,468,360)
Future development costs	(424,256,900)	(209,618,885)	(13,306,206)
Future income tax expenses	(163,704,120)	(111,946,653)	(45,117,996)
Future net cash flows	527,624,180	350,574,706	142,769,826
10% annual discount for estimating timing of cash flows	(202,270,201)	(139,021,820)	(57,685,959)
Standardized measure of discounted future net cash flows	$325,353,979	$211,552,886	$85,083,867

Estimates of future net cash flows from proved reserves of gas, oil, and condensate for 2013, 2012 and 2011 are computed using the average first-day-of-the-month price during the 12-month period including the impact of cash flow hedges for 2012 and 2011 only. Since the Company discontinued cash flow hedge accounting as of January 1,

2013, the impact of cash flow hedges are excluded as of that date. Prices used in computing year-end future cash flows were $96.94, $94.04 and $96.04 for crude oil and $3.67, $2.93 and $4.04 for natural gas for 2013, 2012 and 2011, respectively.

The ceiling test for many companies following the full cost method of accounting for oil and natural gas properties, including Yuma, could be negatively impacted by prolonged unfavorable crude oil and natural gas prices. Future operating expenses and development costs are computed primarily by the Company’s petroleum engineer by estimating the expenditures to be incurred in developing and producing the Company’s proved oil and natural gas reserves at the end of the year, based on the year-end costs and assuming continuation of existing economic conditions.

Yuma Energy, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Y – SUPPLEMENTARY INFORMATION ON OIL AND NATURAL GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES (UNAUDITED) – Continued

Future income taxes are based on year-end statutory rates, adjusted for tax basis and applicable tax credits. A discount factor of ten percent was used to reflect the timing of future net cash flows. The standardized measure of discounted future net cash flows is not intended to represent the replacement cost or fair market value of the Company's oil and natural gas properties. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

7. Change in Standardized Measure

Changes in the standardized measure of future net cash flows relating to proved oil and natural gas reserves for Exploration are summarized below:

	December 31, 2013	December 31, 2012	December 31, 2011
Changes due to current year operation:			
Sales of oil and natural gas, net of oil and natural gas operating expenses	$(17,255,824)	$(13,250,556)	$(12,877,813)
Extensions and discoveries	37,750,617	40,013,415	50,163,527
Purchases of oil and gas properties	215,427,459	177,412,984	17,132,467
Development costs incurred during the period that reduced future development costs	100,500	5,432,652	-
Changes due to revisions in standardized variables:			
Prices and operating expenses	(30,773,529)	(37,028,314)	20,364,851
Income taxes	(38,340,467)	(40,922,146)	(14,624,083)
Estimated future development costs	32,430,504	(5,173,677)	(794,080)
Quantities	(107,070,514)	(12,905,019)	(19,926,711)
Sale of reserves in place	-	-	-
Accretion of discount	27,910,664	11,055,659	5,083,613
Production rates, timing and other	(6,378,317)	1,834,021	(1,475,127)

Net change	113,801,093	126,469,019	43,046,644
Beginning of year	211,552,886	85,083,867	42,037,223
End of year	$325,353,979	$211,552,886	$85,083,867

Sales of oil and natural gas, net of oil and natural gas operating expenses, are based on historical pretax results. Sales of oil and natural gas properties, extensions and discoveries, purchases of minerals in place and the changes due to revisions in standardized variables are reported on a pretax discounted basis.

Yuma Energy, Inc.

CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$6,365,305	$4,194,511
Accounts receivable, net of allowance for doubtful accounts:		
Trade	14,490,629	10,833,211
CEO and employees	96,651	155,080
Other	191,296	417,850
Note receivable	4,000	4,000
Prepayments	256,973	433,991
Deferred taxes	146,964	146,964
Other deferred charges	181,166	162,416
Total current assets	21,732,984	16,348,023
OIL AND GAS PROPERTIES, at cost (full cost method):		
Not subject to amortization	25,563,673	24,051,278
Subject to amortization	153,309,206	152,863,988
	178,872,879	176,915,266
Less: accumulated depreciation, depletion and amortization	(90,138,293)	(84,438,840)
Net oil and gas properties	88,734,586	92,476,426
OTHER OPERATING PROPERTY AND EQUIPMENT, at cost	2,105,242	2,066,760
Less: accumulated depreciation and amortization	(1,849,555)	(1,822,925)
Net other operating property and equipment	255,687	243,835
OTHER ASSETS:		
Receivables from affiliate	-	95,634
Commodity derivative instruments	684,295	818,637
Other noncurrent assets	352,430	1,649,413
Total other assets	1,036,725	2,563,684
Total assets	$111,759,982	$111,631,968

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

Yuma Energy, Inc.

CONSOLIDATED BALANCE SHEETS - CONTINUED

	March 31, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of debt	$-	$178,027
Accounts payable, principally trade	17,424,428	15,116,560
Commodity derivative instruments	1,762,788	677,132
Asset retirement obligations	1,783,756	1,755,650
Other accrued liabilities	1,394,422	1,127,283
Total current liabilities	22,365,394	18,854,652
LONG-TERM DEBT:		
Bank debt	30,565,000	31,215,000
OTHER NONCURRENT LIABILITIES:		
Preferred stock derivative liability, Series A and B	49,818,384	51,290,414
Asset retirement obligations	9,042,561	8,942,029
Commodity derivative instruments	12,766	218,649
Deferred taxes	12,288,426	13,160,205
Restricted stock units	158,654	102,532
Other deferred credits	61,673	69,998
Total other noncurrent liabilities	71,382,464	73,783,827
PREFERRED STOCK, Series A and B, subject to mandatory redemption	35,948,291	35,666,342
EQUITY:		
Common stock	542	542
Capital in excess of par value of common stock	2,668,923	2,668,923
Accumulated other comprehensive income	2,383	38,770
Accumulated earnings (deficit)	(51,173,015)	(50,596,088)
Total equity	(48,501,167)	(47,887,853)
Total liabilities and equity	$111,759,982	$111,631,968

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

Yuma Energy, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarters Ended March 31,	
	2014	2013
REVENUES:		
Sales of natural gas and crude oil	$10,355,439	$4,869,942
Other revenue	241,493	126,648
Total revenues	10,596,932	4,996,590
EXPENSES:		
Marketing cost of sales	321,317	235,569
Lease operating	3,658,505	1,347,731
Re-engineering and workovers	1,510	50,957
General and administrative - stock based compensation	47,914	-
General and administrative - other	3,150,071	1,251,791
Depreciation, depletion and amortization	5,726,083	1,661,505
Asset retirement obligation accretion expense	142,144	64,244
Bad debt expense	27,128	504
Total expenses	13,074,672	4,612,301
INCOME (LOSS) FROM OPERATIONS	(2,477,740)	384,289
OTHER INCOME (EXPENSE):		
Change in fair value of preferred stock derivative liability - Series A and Series B	1,472,030	2,003,655
Interest expense	(139,419)	(165,223)
Interest income	1,049	2,046
Other, net	102	(2,138)
Total other income (expense)	1,333,762	1,838,340
NET INCOME (LOSS) BEFORE INCOME TAXES	(1,143,978)	2,222,629
Income tax expense (benefit)	(849,000)	114,800
NET INCOME (LOSS)	(294,978)	2,107,829
Accretion of Preferred Stock, Series A and Series B	281,949	271,674
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(576,927)	$1,836,155

EARNINGS (LOSS) PER COMMON SHARE		
Basic	$(10.64)	$34.00
Diluted	$(10.64)	$26.67
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	54,236	54,000
Diluted	54,236	79,036

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

Yuma Energy, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Quarters Ended March 31,	
	2014	2013
NET INCOME (LOSS)	$(294,978)	$2,107,829
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification of gain on settled commodity derivatives	(35,728)	(67,921)
Less income taxes	(13,755)	(26,150)
Reclassification of gain on settled commodity derivatives, net of income taxes	(21,973)	(41,771)
Reclassification of gain from amortization of commodity derivatives sold	(23,438)	(18,150)
Less income taxes	(9,024)	(6,988)
Reclassification of gain from amortization of commodity derivatives sold, net of income taxes	(14,414)	(11,162)
OTHER COMPREHENSIVE INCOME (LOSS)	(36,387)	(52,933)
COMPREHENSIVE INCOME (LOSS)	$(331,365)	$2,054,896

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

Yuma Energy, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	March 31, 2014 (Unaudited)	December 31, 2013
COMMON STOCK:		
Balance at beginning of period - 54,000 shares, $.01 par	$542	$540
Employee restricted stock awards (236 shares)		2
Balance at end of period - 54,236 shares, $.01 par	542	542
CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK:		
Balance at beginning of period	2,668,923	2,182,293
Employee restricted stock awards (236 shares)	-	486,630
Balance at end of period	2,668,923	2,668,923
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance at beginning of period	38,770	268,841
Comprehensive income (loss) from commodity derivative instruments, net of income taxes	(36,387)	(230,071)
Balance at end of period	2,383	38,770
ACCUMULATED EARNINGS (DEFICIT):		
Balance at beginning of period	(50,596,088)	(10,885,832)
Net income (loss)	(294,978)	(33,050,103)
Preferred stock accretion (Series A and B)	(281,949)	(1,101,972)
Preferred stock cash dividends (Series A and B)	-	(145,900)
Preferred stock dividends paid in kind (Series A and B)	-	(5,412,281)
Balance at end of period	(51,173,015)	(50,596,088)
TOTAL EQUITY	$(48,501,167)	$(47,887,853)

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

Yuma Energy, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarters Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$(294,978)	$2,107,829
Decrease in fair value of preferred stock liability	(1,472,030)	(2,003,655)
Depreciation, depletion and amortization of property and equipment	5,726,083	1,661,505
Accretion of asset retirement obligation	142,144	64,244
Stock-based compensation net of capitalized cost	47,913	-
Amortization of other assets and liabilities	46,073	40,202
Deferred tax expense (benefit)	(849,000)	114,800
Bad debt expense	27,128	504
Write off deferred offering costs	1,257,160	-
Write off credit financing costs	-	123,925
Amortization of benefit from commodity derivatives (sold) and purchased, net	(23,437)	(18,150)
Net commodity derivatives mark-to-market loss	978,386	675,613
Other	-	793
Cash flow from direct operations	5,585,442	2,767,610
Changes in current operating assets and liabilities:		
Accounts receivable	(3,399,563)	(33,797)
Note receivable	-	(5,117)
Other current assets	177,018	334,727
Accounts payable	2,307,868	2,721,079
Other current liabilities	267,139	(108,961)
Noncurrent payable to commodity derivative advisor	(8,325)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,929,579	5,675,541

Yuma Energy, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

	Quarters Ended March 31,	
	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures on property, plant and equipment	$(2,308,992)	$(5,215,033)
Proceeds from sale of property	307,600	55,000
Decrease (increase) in noncurrent receivable from affiliate	95,634	(293)
NET CASH USED BY INVESTING ACTIVITIES	(1,905,758)	(5,160,326)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings	(178,027)	(183,601)
Change in borrowing on line of credit	(650,000)	1,175,000
Line of credit financing costs	(25,000)	(266,276)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(853,027)	725,123
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,170,794	1,240,338
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,194,511	5,285,022
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$6,365,305	$6,525,360
Supplemental disclosure of cash flow information:		
Interest payments (net of interest capitalized)	$66,968	$(148,831)
Interest capitalized	$239,063	$239,063
Income tax payments	$-	$-

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

Yuma Energy, Inc.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE A – BASIS OF PRESENTATION

These consolidated financial statements are unaudited; however, in the opinion of management, these statements reflect all adjustments necessary for a fair statement of the results for the period reported. All such adjustments are of a normal recurring nature unless disclosed otherwise. These consolidated financial statements, including notes, have been condensed and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2013 and the notes thereto.

NOTE B – FAIR VALUE MEASUREMENTS

Certain financial instruments are reported at fair value on the Consolidated Balance Sheets. Under fair value measurement accounting guidance, fair value is defined as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e., an exit price. To estimate an exit price, a three-level hierarchy is used. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or a liability, into three levels. Yuma uses a market valuation approach based on available inputs and the following methods and assumptions to measure the fair values of its assets and liabilities, which may or may not be observable in the market.

Fair Value of Other Financial Instruments – The carrying values of financial instruments comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments.

Derivatives – The fair values of the Company’s commodity derivatives are based on third-party pricing models which utilize inputs that are either readily available in the public market, such as natural gas and oil forward curves and discount rates, or can be corroborated from active markets or broker quotes. These values are then compared to the values given by Yuma’s counterparties for reasonableness. The Company is able to value the assets and liabilities based on observable market data for similar instruments, which results in the Company using market prices and

implied volatility factors related to changes in the forward curves. Derivatives are also subject to the risk that counterparties will be unable to meet their obligations. Because the Company's commodity derivative counterparty was Société Générale at March 31, 2014, Yuma has not considered non-performance risk in the valuation of the Company's derivatives.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable. Level 3 financial liabilities consist of embedded derivatives related to the conversion features in the Series A Preferred Stock issued July 1, 2011, and the Series B Preferred Stock issued in July and August of 2012, for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Yuma has valued the automatic conditional conversion, re-pricing/down-round, change of control, default and follow-on offering provisions using a Monte Carlo simulation model, with the assistance of a valuation consultant. These models incorporate transaction details such as the stock price of comparable companies in the same industry, contractual terms, maturity, and risk free interest rates, as well as assumptions about future financings, volatility, and holder behavior as of issuance, and each quarter thereafter for each of the Series A and the Series B Preferred Stock.

NOTE B – FAIR VALUE MEASUREMENTS – Continued

	Fair value measurements at March 31, 2014			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Commodity derivatives - oil	$ -	$ 684,295	$ -	$ 684,295
Total assets	$ -	$ 684,295	$ -	$ 684,295
Liabilities:				
Commodity derivatives - gas	$ -	$ 1,009,231	$ -	$ 1,009,231
Commodity derivatives - oil	-	766,323	-	766,323
Preferred stock derivative liability	-	-	49,818,384	49,818,384
Total liabilities	$ -	$ 1,775,554	$ 49,818,384	$ 51,593,938

	Fair value measurements at December 31, 2013			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Commodity derivatives - oil	$ -	$ 818,637	$ -	$ 818,637
Total assets	$ -	$ 818,637	$ -	$ 818,637
Liabilities:				
Commodity derivatives - gas	$ -	$ 472,564	$ -	$ 472,564
Commodity derivatives - oil	-	423,217	-	423,217
Preferred stock derivative liability	-	-	51,290,414	51,290,414
Total liabilities	$ -	$ 895,781	$ 51,290,414	$ 52,186,195

Commodity derivative instruments listed above include collars, swaps, and 3-way collars. For additional information on the Company’s commodity derivatives, see Note C – Commodity Derivative Instruments.

NOTE B – FAIR VALUE MEASUREMENTS – Continued

Debt – The Company's debt is recorded at the carrying amount on its Consolidated Balance Sheets. For further discussion of the Company's debt, please see Note G – Debt. The carrying amount of floating-rate debt approximates fair value because the interest rates are variable and reflective of market rates.

Asset Retirement Obligations (ARO's) – The Company estimates the fair value of ARO's based on discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, amounts and timing of settlements, the credit-adjusted risk-free rate to be used and inflation rates.

At March 31, 2014, the level 3 inputs to the Monte Carlo option pricing model were an assumed valuation market value of equity of $254.95 million based on a discount to net asset value, resulting in a value per share on a fully diluted and as-converted basis of $2,946. The evaluation assumed a likely merger or initial public offering with a probability of 5% in the second quarter, 65% in the third quarter and 20% in the fourth quarter of 2014, with some sale or other exit of the Company at the end of 2014 or early in 2015 if not completed in 2014. The volatility was assumed to be 40.84% and was derived from implied volatilities of a number of public companies (tickers: AXAS, CRK, CRZO, GDP, PQ, SFY, SGY and WRES) adjusted for Yuma's relatively lower amount of financial leverage at March 31, 2014.

A summary of the value and the changes in Yuma's assets (liabilities) classified as Level 3 measurements during the quarter ended March 31, 2014 is presented below:

	Preferred Stock Derivative Liability
March 31, 2014	$ 49,818,384
December 31, 2013	51,290,414
Total change (decrease)	$ (1,472,030)

NOTE C – COMMODITY DERIVATIVE INSTRUMENTS

Objective and Strategies for Using Commodity Derivative Instruments – In order to mitigate the effect of commodity price uncertainty and enhance the predictability of cash flows relating to the marketing of the Company's crude oil and natural gas, Yuma enters into crude oil and natural gas price commodity derivative instruments with respect to a portion of the Company's expected production. The commodity derivative instruments used include variable to fixed price commodity swaps, two-way and three-way collars.

NOTE C – COMMODITY DERIVATIVE INSTRUMENTS – Continued

The fixed price swap and two-way collar contracts entitle Yuma (floating price payor) to receive settlement from the counterparty (fixed price payor) for each calculation period in amounts, if any, by which the settlement price for the scheduled trading days applicable for each calculation period is less than the fixed strike price or floor price. Yuma would pay the counterparty if the settlement price for the scheduled trading days applicable for each calculation period is more than the fixed strike price or selling price. The amount payable by Yuma, if the floating price is above the fixed or selling price, is the product of the notional quantity per calculation period and the excess of the floating price over the fixed or ceiling price with respect to each calculation period. The amount payable by the counterparty, if the floating price is below the fixed or floor price, is the product of the notional quantity per calculation period and the excess of the fixed or floor price over the floating price with respect to each calculation period.

A three-way collar consists of a two-way collar contract combined with a put option contract sold by Yuma with a strike price below the floor price of the two-way collar. The Company receives price protection at the purchased put option floor price of the two-way collar if commodity prices are above the sold put option strike price. If commodity prices fall below the sold put option strike price, Yuma receives the cash market price plus the difference between the two put option strike prices. This type of instrument allows Yuma to capture more value in a rising commodity price environment, but limits the benefits in a downward commodity price environment.

While these instruments mitigate the cash flow risk of future reductions in commodity prices, they may also curtail benefits from future increases in commodity prices.

Yuma has elected to discontinue hedge accounting for all commodity derivative instruments beginning with the 2013 financial year. The balance in other comprehensive income (“OCI”) at year-end 2012 will remain in accumulated other comprehensive income (“AOCI”) until such time that the original hedged forecasted transaction occurs. The last of these contracts will expire in December 2016. Starting with year 2013, mark-to-market adjustments to the contracts that were in AOCI at year-end 2012 will not be made to AOCI, but instead are recognized in earnings, as are all other commodity derivative contracts going forward. As a result of discontinuing the application of hedge accounting, Yuma’s earnings are potentially more volatile.

See Note B – Fair Value Measurements for a discussion of methods and assumptions used to estimate the fair values of the Company’s commodity derivative instruments.

Counterparty Credit Risk – Commodity derivative instruments expose Yuma to counterparty credit risk. The Company’s commodity derivative instruments are with Société Générale (“SocGen”) which is rated “A” by Standard and Poor’s, “A2” by Moody’s, and “A” by Fitch. Commodity derivative contracts are executed under master agreements which allow Yuma, in the event of default, to elect early termination of all contracts. If Yuma chooses to elect early termination, all asset and liability positions would be netted and settled at the time of election.

Commodity derivative instruments open as of March 31, 2014 are provided below. Natural gas prices are New York Mercantile Exchange (“NYMEX”) Henry Hub prices, and crude oil prices are NYMEX West Texas Intermediate, except for the oil swaps noted below that are based on Argus Light Louisiana Sweet.

NOTE C – COMMODITY DERIVATIVE INSTRUMENTS – Continued

	Prices are Weighted Averages		
	2014 Settlement	2015 Settlement	2016 Settlement
NATURAL GAS (MMBtu):			
3-way collars			
Volume	764,285	2,377,371	1,122,533
Ceiling sold price (call)	$4.42	$4.47	$4.35
Floor purchased price (put)	$4.12	$4.00	$4.10
Floor sold price (short put)	$3.32	$3.25	$3.25
Swaps			
Volume	1,431,508	458,622	-
Price	$4.08	$4.08	-
Reverse Swaps			
Volume	142,233	293,234	-
Price	$4.27	$4.32	-
CRUDE OIL (Bbls):			
3-way collars			
Volume	36,700	89,512	70,263
Ceiling sold price (call)	$103.61	$104.36	$106.39
Floor purchased price (put)	$90.92	$86.49	$92.38
Floor sold price (short put)	$69.39	$65.82	$72.38
Swaps			
Volume	195,802	-	-
Price	$94.05	-	-
Swaps at Argus Light Louisiana Sweet			
Volume	20,203	-	-
Price	$99.40	-	-
Sold puts			
Volume	40,500	-	-
Floor sold price (short put)	$70.00	-	-
Put Spread			
Volume	-	27,588	-
Floor purchased price (put)	-	$90.00 *	-
Floor sold price (short put)	-	$75.00 *	-

* Contracts include a premium to be paid by Yuma of $5.56 per barrel as the contracts mature ($153,389 total premium). The premium is not included in these prices.

NOTE C – COMMODITY DERIVATIVE INSTRUMENTS – Continued

Derivatives for each commodity are netted on the Consolidated Balance Sheets as they are all contracts with the same counterparty. The following table presents the fair value and balance sheet location of each classification of commodity derivative contracts on a gross basis without regard to same-counterparty netting:

	Fair value as of	
	March 31, 2014	December 31, 2013
Asset commodity derivatives:		
Current assets	$826,697	$1,109,403
Noncurrent assets	2,331,574	2,861,225
	3,158,271	3,970,628
Liability commodity derivatives:		
Current liabilities	(2,589,485)	(1,786,535)
Noncurrent liabilities	(1,660,045)	(2,261,237)
	(4,249,530)	(4,047,772)
Total commodity derivative instruments	$(1,091,259)	$(77,144)

Sales of natural gas and crude oil on the Consolidated Statements of Operations are comprised of the following:

	Quarters ended March 31,	
	2014	2013
Sales of natural gas and crude oil	$12,307,018	$5,443,298
Gains (losses) realized on commodity derivatives	(996,631)	84,107
Gains (losses) unrealized on commodity derivatives	(978,386)	(675,613)
Amortized gains from benefit of sold qualified gas options	23,438	18,150
Total sales of natural gas and crude oil	$10,355,439	$4,869,942

NOTE C – COMMODITY DERIVATIVE INSTRUMENTS – Continued

A reconciliation of the components of accumulated other comprehensive income (loss) in the Consolidated Statements of Changes in Equity is presented below:

	March 31, 2014		March 31, 2013	
	Before tax	After tax	Before tax	After tax
Balance, beginning of period	$63,041	$38,770	$437,140	$268,841
Other reclassifications due to expired contracts previously subject to hedge accounting rules	(35,728)	(21,973)	(67,921)	(41,771)
Amortized gains from benefit of sold qualified options realized in income	(23,438)	(14,414)	(18,150)	(11,162)
Balance, end of period	$3,875	$2,383	$351,069	$215,908

NOTE D – RELATED PARTY TRANSACTIONS

On March 19, 2014, under the terms of the Company’s 2011 Working Interest Incentive Plan with the Company’s CEO, Samuel L. Banks, Yuma’s Board of Directors approved the sale to Mr. Banks of an additional 1.00% working interest in Phase 2 of the Company’s Austin Chalk Project. Mr. Banks paid $16,000 as his share of the upfront participation amount on the same terms as third party participants.

NOTE E – STOCK AWARDS AND THEIR TREATMENT

Under the terms of the Company’s 2011 Stock Option Plan, on March 6, 2014, the Company granted 237 RSA’s to two employees that vest at various dates with one-third vesting one year from the employee’s start date and each additional third vesting in each of the next two subsequent years, subject to the successful completion of a Liquidity Event and any underwriter lock-up period. Should an employee leave the Company; any unvested shares are forfeited.

On March 6, 2014, the Company granted 22 RSA’s to two non-employee members of the Board of Directors with a vesting schedule of one-third December 31, 2014, one-third December 31, 2015 and one-third December 31, 2016, subject to the completion of a Liquidity Event and any underwriter lock-up period. Should a Director leave the Board,

any unvested shares are forfeited.

The term “Liquidity Event” means either (i) the closing of an initial public offering of Company securities raising gross proceeds of at least $40 million, or (ii) the closing of a merger or stock exchange between the Company or its stockholders pursuant to which the Company stockholders own in excess of 50% of the common equity of the surviving company and such surviving company is subject to the reporting obligations under Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

NOTE E – STOCK AWARDS AND THEIR TREATMENT – Continued

A summary of the status of the RSA's and changes for the quarter ending March 31, 2014 is presented below.

	Number of unvested RSA shares	Weighted average grant-date fair value
Unvested shares as of January 1, 2014	2,739	$2,542 per share
Granted on March 6, 2014	259	$2,946 per share
Vested	-	
Forfeited	-	
Unvested shares as of March 31, 2014	2,998	$2,577 per share

On April 1, 2013, the Company granted 163 Restricted Stock Units or "RSU's". In order to vest, an employee must have continuous service with the Company from time of the grant through April 1, 2016, the Vesting Date. The RSU's may be settled in cash and do not require the eventual issuance of common stock (although it is an election available to the Company); consequently, the awards are liability based and the booked valuation will change as the market value for common stock (as determined by an outside consulting firm) changes. Compensation expense is recognized over the three-year vesting period.

A summary of the status of the unvested RSU's and changes during the quarter ended March 31, 2014 is presented below.

	Number of unvested RSU shares	Weighted average grant-date fair value
Unvested shares as of January 1, 2014	158	$2,062 per share
Forfeited	(9)	$2,062 per share
Unvested shares as of March 31, 2014	149	$2,062 per share

NOTE F – EARNINGS PER COMMON SHARE

Earnings per common share are computed by dividing earnings available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Potential common stock equivalents are determined using the “if converted” method.

Potentially dilutive securities for the computation of diluted weighted average shares outstanding are as follows:

	Three Months Ended March 31,	
	2014	2013
Series A Convertible Preferred Stock	18,876	15,589
Series B Convertible Preferred Stock	9,989	9,447
Restricted Stock Awards	2,578	-
Restricted Stock Units	150	-
	31,593	25,036

The Company excludes convertible preferred stock and stock-based awards whose effect would be anti-dilutive from the calculation. For the quarter ended March 31, 2014, adjusted earnings was a loss, therefore common stock equivalents were excluded from the calculation of diluted net loss per common share, as their effect was anti-dilutive. For the quarter ended March 31, 2013, common stock equivalents were dilutive and are included for the computation of fully diluted earnings per share.

NOTE G – DEBT

	March 31, 2014	December 31, 2013
Variable rate revolving credit facility payable to Société Générale, OneWest Bank, FSB, and View Point Bank, N.A., maturing May 20, 2017, with possible acceleration (see below), secured by oil and natural gas reserves held by Yuma Exploration and Production Company, Inc. and guaranteed by YEI.	$30,565,000	$31,215,000
Installment loan due February 28, 2014, originating from the financing of insurance premiums at 4.29% interest rate.	-	178,027

	30,565,000	31,393,027
Less: Current portion	-	(178,027)
Total long-term debt	$30,565,000	$31,215,000

NOTE G – DEBT – Continued

On February 13, 2013, the credit facility was amended to bring SocGen in as a new participant and as a replacement for Union Bank N. A. (“Union”) as the Administrative Agent, and to remove Amegy from the syndication (although still remaining Yuma’s bank for operations). The participation allocation became 68.75% for SocGen and 31.25% for Union. The new interest rate margins are as follows:

Borrowing base utilization	Prime margin	LIBOR margin
Utilization ≥ 90%	2.25 %	3.25 %
75% ≤ utilization < 90%	2.00 %	3.00 %
50% ≤ utilization < 75%	1.75 %	2.75 %
25% ≤ utilization < 50%	1.50 %	2.50 %
Utilization < 25%	1.25 %	2.25 %

On May 20, 2013, a third amendment to the credit agreement brought in OneWest Bank, FSB (“OneWest”) to replace Union with new participation equal for SocGen and OneWest at 50/50. With the new amendment, the credit agreement now matures May 20, 2017; provided, however, that if the Series A Preferred Stock is not terminated or the redemption date of that series is not extended past May 20, 2018, and changed on or prior to January 1, 2016, the maturity date of the credit agreement accelerates to no later than April 30, 2016. The fee paid to extend the maturity date was $216,000, and is being amortized over the life of the loan.

On September 27, 2013, the Borrowing Base Redetermination Agreement and Assignment brought in View Point Bank, N.A. (“View Point”) as a third lender in the credit agreement. Participating percentages at September 27, 2013 became 37.5% for SocGen, 37.5% for OneWest and 25% for View Point.

Costs paid to SocGen to bring them into the syndicate include a $150,000 arrangement fee, an $88,000 upfront fee, and $87,598 in legal fees. Costs paid to replace Union with OneWest were a $50,000 arrangement fee and $37,061 in legal fees. On September 27, 2013, Yuma paid SocGen a $24,000 redetermination fee whereby the borrowing base was increased $4 million to $40 million. Legal fees for the redetermination were $4,080. All these costs are being amortized over the life of the credit facility. SocGen is also paid an annual administrative fee each February of $25,000 amortized over each year. The unamortized Amegy and Union costs of $123,925 and $189,727 were written off immediately upon their exit from the syndicate. SocGen also required all commodity derivatives be moved from BP Corporation North America, Inc. to SocGen and charged a fee of $175,000 for the novation. This fee was fully expensed in the second quarter of 2013.

Cash paid for interest for the quarter ended March 31, 2014 to SocGen as administrator was $293,580 and to SocGen and Union for the quarter ended March 31, 2013 was $11,377 and $74,839, respectively. All the interest paid to Union was prime-based at 4.75%. On June 14, 2013, $5,000,000 of outstanding debt was converted to LIBOR and on July 15, 2013, another $15,000,000 was converted to LIBOR. Except for a brief period (November 15th to December 5th) when only $5,000,000 was in LIBOR, Yuma has kept $20,000,000 in LIBOR. Yuma's all-in rates for LIBOR have ranged from 2.92% to 3.21% per annum. SocGen interest rates for prime-based debt have been 5.25% except for one day at 5% for the first quarter of 2014, and were 5% for the first quarter of 2013. Cash paid to SocGen for commitment fees for the first quarter of 2014 was $9,716 and for the first quarter of 2013 was $2,044.

NOTE G – DEBT– Continued

The terms of the credit agreement require Yuma Exploration and Production Company, Inc., a Delaware corporation and wholly owned subsidiary of the Company ("Exploration"), to meet a specific current ratio, interest coverage ratio, and a funded debt to EBITDA ratio. In addition, the credit facility requires the guarantee of Yuma. Exploration was in compliance with the loan covenants as of March 31, 2014.

NOTE H – INCOME TAXES

The following summarizes the income tax expense (benefit) and effective tax rates:

	Three Months Ended March 31,	
	2014	2013
Consolidated Net Income (Loss) before Income Taxes	$(1,143,978)	$2,222,629
Income Tax Expense (Benefit)	(849,000)	114,800
Effective Tax Rate	74.21%	5.17%
Adjusted Consolidated Net Income (Loss) before Income Taxes [1]	(2,616,008)	218,974
Income Tax Expense (Benefit)	(849,000)	114,800
Effective Tax Rate, as adjusted	32.45%	52.43%

[1] Adjusted to exclude the change in fair value of preferred stock derivative liability

The differences between the U. S. federal statutory rate of 35% and our effective tax rates for the three months ended March 31, 2014 and 2013 are due primarily to the tax effects of the excess of book basis over the tax basis in the full cost pool and the net operating loss carryforwards for each period.

NOTE I – CONTINGENCIES

1. **Certain Legal Proceedings**

From time to time, the Company is party to various legal proceedings arising in the ordinary course of business. While the outcome of lawsuits cannot be predicted with certainty, the Company is not currently a party to any proceeding that it believes, if determined in a manner adverse to the Company, could have a potential material adverse effect on the Company's financial condition, results of operations, or cash flows.

2. Environmental Remediation Contingencies

As of March 31, 2014, there were no known environmental or other regulatory matters related to the Company's operations that were reasonably expected to result in a material liability to the Company. The Company's operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection.

NOTE I – CONTINGENCIES – Continued

Yuma has been named as one of 97 defendants in a matter entitled *Board of Commissioners of the Southeast Louisiana Flood Protection Authority – East, Individually and As the Board Governing the Orleans Levee District, the Lake Borgne Basin Levee District, and the East Jefferson Levee District v. Tennessee Gas Pipeline Company, LLC, et al.,* Civil District Court for the Parish of Orleans, State of Louisiana, No. 13-6911, Division "J" - 5, now removed as Civil Action No. 13-5410, before the United Stated District Court, Eastern District of Louisiana. Plaintiff filed the suit on July 24, 2013 seeking damages and injunctive relief arising out of defendants' drilling, exploration, and production activities from the early 1900s to the present day in coastal areas east of the Mississippi River in Southeast Louisiana.

The suit alleges that defendants' activities have caused "removal, erosion, and submergence" of coastal lands resulting in significant reduction or loss of the protection such lands afforded against hurricanes and tropical storms. Plaintiff alleges that it now faces increased costs to maintain and operate the man-made hurricane protection system and may reach the point where that system no longer adequately protects populated areas.

Plaintiff lists hundreds of wells, pipelines, and dredging events as possible sources of the alleged land loss. Yuma is named in association with 11 wells, four rights-of-way, and one dredging permit. The suit does not specify any deficiency or harm caused by any individual activity or facility.

Although the suit references various federal statutes as sources of standards of care, plaintiff claims that all causes of action arise under state law: negligence, strict liability, natural servitude of drain, public nuisance, private nuisance, and as third-party beneficiary under breach of contract.

The lawsuit is in its early stages. No broad activity is expected until after the federal court decides whether to remand the matter to state court. The court retaining jurisdiction will then set a scheduling order under which preliminary motions will be heard, likely over the next several months. Potential motions to dismiss are numerous, including, challenges to plaintiff's right to bring suit, no cause of action, and improper parties. At this time, the Company cannot predict the outcome of this case and, in management's opinion, assess any potential liability; therefore no liability has been recorded on the Company's books.

NOTE J – MERGER AGREEMENT

On February 6, 2014, Yuma and Pyramid Oil Company ("Pyramid"), which is traded on the New York Stock Exchange (NYSE MKT, symbol "PDO"), announced they had entered into a definitive merger agreement for an all-stock

transaction. Upon completion of the transaction, which is subject to the approval of stockholders of both companies, Pyramid will change its name to “Yuma Energy, Inc.,” and relocate its headquarters to Houston, Texas, while maintaining offices in Bakersfield, California, to oversee its California operations.

Under the terms of the merger agreement, Pyramid will reincorporate in Delaware and the Delaware successor corporation will issue an aggregate of approximately 66 million shares of its common stock to Yuma stockholders, resulting in former Yuma stockholders owning approximately 93% of the combined company. Upon closing, there will be an aggregate of approximately 71 million shares of common stock outstanding. The transaction is expected to qualify as a tax-deferred reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”).

NOTE J – MERGER AGREEMENT – Continued

The merger agreement is subject to the approval of the common stockholders of Pyramid and the common and preferred stockholders of Yuma, as well as other customary approvals, including authorization to list the newly issued shares on the NYSE MKT. The companies anticipate completing the transaction in mid-2014.

As a result of the merger agreement with Pyramid Oil Company, the expenses of approximately $1.6 million incurred by the Company in exploring several alternative options to go public were written off during the first quarter of 2014.

NOTE K – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through June 2, 2014, the date these financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, except as noted below or already recognized or disclosed.

Filing of Registration Statement on Form S-4

On April 25, 2014, Pyramid Delaware Merger Subsidiary, Inc., a Delaware corporation (“Pyramid Delaware”) and wholly-owned subsidiary of Pyramid, filed a Registration Statement on Form S-4 (“Form S-4”) with the SEC to effectuate (i) the proposed reincorporation of Pyramid from California to Delaware through the merger of Pyramid with and into Pyramid Delaware (the “reincorporation”), and (ii) the merger of Pyramid Merger Subsidiary, Inc., a Delaware corporation and wholly-owned subsidiary of Pyramid Delaware (“Merger Subsidiary”), with and into Yuma Energy, Inc. (“Yuma”), with Yuma becoming a wholly-owned subsidiary of Pyramid Delaware (the “merger”). As a result of the reincorporation and the merger, Pyramid Delaware will be the publicly held corporation through which Pyramid Delaware’s (renamed Yuma Energy, Inc.) common stock will be traded. In order to complete the merger, the stockholders of both Yuma and Pyramid must vote to approve and adopt the merger agreement (which includes (i) approval of the principal terms and conditions of the reincorporation; (ii) approval of the amended and restated certificate of incorporation and the amended and restated bylaws of Pyramid Delaware; (iii) approval of the issuance of shares of Pyramid Delaware common stock to stockholders of Yuma; and (iv) approval of the change of Pyramid Delaware’s name to “Yuma Energy, Inc.

Annual Incentive Plan Awards for 2013

On April 1, 2014, the Company granted 44 RSA's to employees in lieu of cash awards for 2013 under the 2013 Annual Incentive Plan that vest immediately at the completion of a Liquidity Event and any underwriter lock-up period, subject to continued service as an employee through such time. Should an employee leave the Company, any unvested shares are forfeited.

Fourth Amendment to Credit Agreement

Effective April 22, 2014, Yuma amended its credit agreement with its Administrative Agent Bank, SocGen, and two additional banks making up the lenders. This amendment provides for, among other things, a borrowing base of $40 million, a non-conforming borrowing base of $4.5 million, a new fee schedule, and the removal of certain informational reporting covenants.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Pyramid Oil Company

Bakersfield, California

We have audited the balance sheets of Pyramid Oil Company (the "Company") as of December 31, 2013 and 2012, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pyramid Oil Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with U. S. generally accepted accounting principles.

/s/ SINGERLEWAK LLP

Los Angeles, California

March 31, 2014

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PYRAMID OIL COMPANY

BALANCE SHEETS

ASSETS

	December 31, 2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	$4,404,246	$3,834,097
Restricted cash	967,329	0
Short-term investments	2,140,822	2,135,709
Trade accounts receivable (net of reserve for doubtful accounts of $4,000 in 2013 and 2012)	484,468	375,090
Income taxes receivable	12,400	73,069
Crude oil inventory	102,334	82,180
Prepaid expenses and other assets	249,030	257,370
Deferred income taxes	711,800	264,400
TOTAL CURRENT ASSETS	9,072,429	7,021,915
PROPERTY AND EQUIPMENT, at cost:		
Oil and gas properties and equipment (successful efforts method)	19,883,190	20,007,453
Capitalized asset retirement costs	412,612	425,978
Drilling and operating equipment	2,058,744	1,966,750
Land, buildings and improvements	1,098,918	1,098,918
Automotive, office and other property and equipment	1,136,566	1,202,544
	24,590,030	24,701,643
Less – accumulated depletion, depreciation, amortization and valuation allowances	(21,335,914)	(20,953,324)
TOTAL PROPERTY AND EQUIPMENT	3,254,116	3,748,319
OTHER ASSETS		
Long-term investments	1,131,707	1,101,526
Deferred income taxes	459,900	621,800
Deposits	250,000	250,000
Other assets	11,380	17,380
TOTAL OTHER ASSETS	1,852,987	1,990,706
TOTAL ASSETS	$14,179,532	$12,760,940

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

PYRAMID OIL COMPANY

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2013	2012
CURRENT LIABILITIES:		
Accounts payable	$290,930	$226,759
Accrued professional fees	140,711	120,000
Accrued taxes, other than income taxes	54,444	70,407
Accrued payroll and related costs	40,932	58,954
Accrued royalties payable	226,502	204,509
Accrued insurance	113,480	94,116
Liability for deferred compensation	1,026,655	0
TOTAL CURRENT LIABILITIES	1,893,654	774,745
LIABILITY FOR ASSET RETIREMENT OBLIGATIONS	1,305,862	1,327,861
TOTAL LIABILITIES	3,199,516	2,102,606
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value		
Authorized – 10,000,000 shares		
Issued and outstanding – none	0	0
Common stock, no par value (Note 11, 12 and 13)		
Authorized – 50,000,000 shares		
Issued and outstanding – 4,688,085 shares		
shares at December 31, 2013		
and December 31, 2012	1,847,384	1,682,971
Retained earnings	9,132,632	8,975,363
TOTAL SHAREHOLDERS' EQUITY	10,980,016	10,658,334
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$14,179,532	$12,760,940

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

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PYRAMID OIL COMPANY

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2013	2012	2011
REVENUES:			
Oil and gas sales	$4,391,824	$4,995,327	$5,688,437
Gain on sales of property and equipment	809,476	0	1,512
	5,201,300	4,995,327	5,689,949
COSTS AND EXPENSES:			
Operating expenses	1,978,468	1,942,754	1,789,569
General and administrative	1,080,162	842,037	879,779
Deferred compensation	1,063,445	0	0
Stock based compensation	164,413	0	43,743
Taxes, other than income and payroll taxes	130,297	160,144	137,163
Provision for depletion, depreciation, and amortization	507,157	649,559	735,231
Valuation allowances	151,243	237,711	751,263
Accretion expense	37,477	38,341	45,314
Other costs and expenses	165,533	149,717	147,330
	5,278,195	4,020,263	4,529,392
OPERATING INCOME (LOSS)	(76,895)	975,064	1,160,557
OTHER INCOME (EXPENSE):			
Interest income	40,519	42,943	49,863
Other income	0	450	500
Interest expense	0	(1,091)	(3,020)
	40,519	42,302	47,343
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	(36,376)	1,017,366	1,207,900
Income tax expense (benefit)			
Current	91,855	81,921	203,203
Deferred	(285,500)	157,900	(90,500)
	(193,645)	239,821	112,703
NET INCOME	$157,269	$777,545	$1,095,197
BASIC AND DILUTED INCOME PER COMMON SHARE	$0.03	$0.17	$0.23
Basic and diluted average number of common shares outstanding	4,688,085	4,685,859	4,687,580

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

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PYRAMID OIL COMPANY

STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares Issued and Outstanding	Common Stock	Retained Earnings	Total Shareholders' Equity
Balances, December 31, 2010	4,677,728	$1,639,228	$7,102,621	$8,741,849
Stock based compensation		43,743		43,743
Shares issued on exercise of options	6,125			
Net income			1,095,197	1,095,197
Balances, December 31, 2011	4,683,853	1,682,971	8,197,818	9,880,789
Shares issued on exercise of options	4,232			
Net income			777,545	777,545
Balances, December 31, 2012	4,688,085	1,682,971	8,975,363	10,658,334
Stock based compensation		164,413		164,413
Net income			157,269	157,269
Balances, December 31, 2013	4,688,085	$1,847,384	$9,132,632	$10,980,016

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

PYRAMID OIL COMPANY

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$157,269	$777,545	$1,095,197
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depletion, depreciation, and amortization	507,157	649,559	735,231
Valuation allowances	151,243	237,711	751,263
Accretion expense	37,477	38,341	45,314
Gain on sale of property and equipment	(809,476)	0	(1,512)
Stock based compensation	164,413	0	43,743
Deferred income taxes	(285,500)	157,900	(90,500)
Asset retirement obligations	0	10,631	(1,618)
Loss on disposal of fixed assets	30,790	0	0
Deferred compensation	1,026,655	0	0
Changes in operating assets and liabilities:			
(Increase) decrease in trade accounts and interest receivable	(48,709)	128,505	(68,207)
(Increase) decrease in crude oil inventory	(20,154)	35,976	(31,795)
Decrease (increase) in prepaid expenses	8,340	(1,523)	(24,970)
Decrease (increase) in other assets	6,000	0	(10,000)
Increase in accounts payable and accrued liabilities	92,254	107,300	55,099
Net cash provided by operating activities	1,017,759	2,141,945	2,497,245

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

PYRAMID OIL COMPANY

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	$(194,987)	$(979,038)	$(1,163,961)
Payments to acquire short-term investments	0	0	(100,000)
(Increase) in short-term investments	(5,113)	(7,329)	(11,655)
(Increase) in long-term investments	(30,181)	(29,542)	(30,181)
Restricted cash	(967,329)	0	0
Proceeds from sale of property and equipment	750,000	0	21,500
Net cash used in investing activities	(447,610)	(1,015,909)	(1,284,297)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	0	0	55,979
Principal payments on long-term debt	0	(54,615)	(41,783)
Net cash (used in) provided by financing activities	0	(54,615)	14,196
Net increase in cash and cash equivalents	570,149	1,071,421	1,227,144
Cash and cash equivalents at beginning of year	3,834,097	2,762,676	1,535,532
Cash and cash equivalents at end of year	$4,404,246	$2,762,676	$2,762,676
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for interest	$0	$1,091	$3,020
Cash paid during the year for income taxes	$48,800	$133,821	$216,874

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

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Nature of Operations

Pyramid Oil Company (the “Company”), a California Corporation, has been in the oil and gas business continuously for 103 years since it was incorporated on October 9, 1909. The Company is in the business of exploration, development and production of crude oil and natural gas. The Company operated and has interests in 28 oil and gas leases in Kern and Santa Barbara Counties in the State of California. The Company also owns oil and gas interests in Wyoming, Texas and New York that it does not operate. The Company grants short-term credit to its customers and generally receives payment within 30 days.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents principally consist of demand deposits and certificates of deposits having original maturities of three months or less. At December 31, 2013, the Company had approximately $3,813,898 of cash and cash equivalents that were not fully insured by the FDIC.

Investments

Investments consist of certificates of deposit having original maturities of three months or more and are valued at cost.

Inventory

Inventories of crude oil and condensate are valued at the lower of cost, predominately on a first-in, first-out (FIFO) basis, or market, and include certain costs directly related to the production process.

Deposits

In April 2004, the Company replaced its state of California oil and gas blanket performance surety bond, with a cash bond in the form of an irrevocable certificate of deposit in the amount of $250,000.

Costs Incurred in Oil and Gas Producing Activities

The Company has adopted the “successful efforts” method of accounting for its oil and gas exploration and development activities, as set forth in FASB ASC Topic No. 932.

The Company initially capitalizes expenditures for oil and gas property acquisitions until they are either determined to be successful (capable of commercial production) or unsuccessful. The carrying value of all undeveloped oil and gas properties is evaluated periodically and reduced if such carrying value appears to have been impaired. Leasehold costs relating to successful oil and gas properties remain capitalized while leasehold costs which have been proven unsuccessful are charged to operations in the period the leasehold costs are proven unsuccessful. Costs of carrying and retaining unproved properties are expensed as incurred.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

The costs of drilling and equipping development wells are capitalized, whether the wells are successful or unsuccessful. The costs of drilling and equipping exploratory wells are capitalized until they are determined to be either successful or unsuccessful. If the wells are successful, the costs of the wells remain capitalized. If, however, the wells are unsuccessful, the capitalized costs of drilling the wells, net of any salvage value, are charged to operations in the period the wells are determined to be unsuccessful.

The Company adopted FASB ASC Topic No. 360-10-15, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of” (the Statement). The Statement specifies when an impairment loss should be recognized and how impairment losses should be measured for long-lived assets to be held and used and for long-lived assets to be disposed of. In accordance with the Statement, the costs of proved oil and gas properties and equipment are periodically assessed on a lease by lease basis to determine if such costs exceed undiscounted future cash flows, and if conditions warrant an impairment reserve will be provided based on the estimated future discounted cash flows. The Company recorded an impairment reserve of $151,243, $237,711 and $751,263 at December 31, 2013, 2012 and 2011, respectively (see Note 6). The accumulated impairment reserve was $4,988,758 and $4,980,931 at December 31, 2013 and 2012, respectively.

Joint Venture Investments

The Company participates in two joint ventures as a non-operator. The properties are located in New York and Texas, both are primarily gas properties. The Company has a minority interest in both joint ventures. The Company’s interest in the New York gas wells range from 19 to 38 percent. The Company’s interest in the Texas joint venture wells range from 3.75 to 6.25 percent. The Company records its share of revenues, expenses and capital costs as provided to the Company by the joint-venture operators. The accounting policies for the joint venture properties are consistent with the accounting policies that the Company uses for its wholly-owned properties.

Depletion, Depreciation, and Amortization

Depletion of leasehold costs of producing oil and gas properties is provided on the unit-of-production method, by individual property unit, based on estimated recoverable proved reserves. Depreciation and amortization of the costs of producing wells and related equipment are provided on the unit-of-production method, by individual property unit, based on estimated recoverable proved developed reserves. Amortization of the costs of undeveloped oil and gas properties is based on the Company's experience, giving consideration to the holding periods of leaseholds. The average depletion per equivalent barrel of crude oil produced for 2013, 2012 and 2011 were $11.88, $16.66 and $24.27, respectively.

Drilling and operating equipment, buildings, automotive, office and other property and equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the shorter of the estimated useful lives or the applicable lease terms (range of 3 to 19 years). Any permanent impairment of the carrying value of property and equipment is provided for at the time such impairments become known.

Stock-based Compensation

The Company accounts for its share based compensation in accordance with ASC718. Stock-based compensation cost represents stock options issued to non-employee members of the Board of Directors, and is measured at the grant date based on the estimated fair value of the award, and is recognized as expense over the requisite vesting period.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions relative to volatility and anticipated forfeitures are determined at the time of grant. The following are the assumptions used for stock option grants during 2013. There were no stock option grants during 2012.

	December 31, 2013	
Expected life in years	2.5 years	
Stock price volatility	51.4	%
Discount rate	0.34	%
Expected dividends	None	
Forfeiture rate	0	%

The assumptions used in the Black Scholes model referred to above are based upon the following data: (1) the expected life of the option is estimated by considering the contractual term of the option and the vesting period of the option, the employees' expected exercise behavior and the post-vesting employee turnover rate; (2) the expected stock price volatility of the underlying shares over the expected term of the option is based upon historical share price data of the Company's shares; (3) the risk free interest rate is based on published U.S. Treasury Department interest rates for the expected terms of the underlying options; (4) expected dividends are based on historical dividend data and expected future dividend activity; and (5) the expected forfeiture rate is based on historical forfeiture activity and assumptions regarding future forfeitures based on the composition of current grantees.

Maintenance and Repairs

Maintenance, repairs and replacement expenditures are charged to operations as incurred, while major renewals and betterments are capitalized and depreciated over their useful lives.

Retirement or Disposal of Properties and Equipment

Costs and accumulated depletion, depreciation, amortization and valuation allowances of property and equipment retired, abandoned, or otherwise disposed of are removed from the accounts upon disposal, and any resulting gain or loss is included in operations in the year of disposition. However, upon disposal of a portion of an oil and gas property, any proceeds received are treated as a recovery of cost and no gain or loss is recognized in the year of disposition.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company adopted the provisions of FASB ASC Topic No. 740-10-25, “Accounting for Uncertainty in Income Taxes,” on January 1, 2007 (ASC 740-10-25). As a result of the implementation of ASC 740-10-25, the Company made a comprehensive review of its portfolio of tax positions in accordance with recognition standards established by ASC 740-10-25. As a result of the implementation of ASC 740-10-25, the Company recognized no material adjustments to liabilities or stockholders equity.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

The Company files income tax returns in the U.S. Federal jurisdiction, and California, Texas and New York states. With few exceptions, the Company is no longer subject to U.S. Federal tax examination for the years prior to 2010. State jurisdictions that remain subject to examination range from 2009 to 2012. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of ASC 740-10-25, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the year ended December 31, 2013.

Concentration of Credit Risk

The Company sells its crude oil to Phillips 66 and Kern Oil & Refining, accounting for approximately 51% and 47%, respectively, of the Company's crude oil and gas sales in 2013. Crude oil sales were approximately 51% and 47% attributable to Phillips 66 and Kern Oil and Refining, respectively at December 31, 2012. While revenue from these customers is significant, and the loss of any one could have an adverse effect on the Company, it is management's opinion that the oil and gas it produces could be sold to other crude oil purchasers, refineries or pipeline companies. Trade receivables were approximately 44% and 55% attributable to Phillips 66 and Kern Oil and Refining, respectively at December 31, 2013. Trade receivables were approximately 62% and 37.5% attributable to Phillips 66 and Kern Oil and Refining, respectively at December 31, 2012.

Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years

beginning on or after January 1, 2013. The Company does not expect the adoption of ASU 2013-01 to have a material impact on its financial statements.

In April 2013, the FASB issued ASU 2013-07, “Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting.” The amendments in this update are being issued to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The Company does not expect the adoption of ASU 2013-07 to have a material impact on its financial statements.

In July 2013, the FASB issued ASU No. 2013-011, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or A Tax Credit Carryforward Exists.” These amendments provide guidance on the financial statement presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 will not have a material impact on the Company’s consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior financial statements to conform to the 2013 presentation.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

Revenue Recognition

The Company recognizes sales when: (1) persuasive evidence of an arrangement exists; (2) product delivery has occurred; (3) pricing is fixed or determinable; and (4) collection is reasonably assured. To satisfy these criteria, the Company: (1) has crude oil sales contracts with its crude oil purchasers; (2) records revenue based upon receipt of evidence of shipment of crude oil and when risk of loss and title transfer has occurred; (3) the Company's crude oil contracts specify the pricing terms which are fixed and determinable; (4) validates creditworthiness through past payment history and other financial date. Sales rebates, discounts and customer returns are not applicable to the oil and gas industry.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Our accounts receivable are unsecured and are at risk to the extent such amounts become uncollectible. The Company has had the same two major customers for approximately 20 years with no history of non-payment or default. Pursuant to the terms of the crude oil sales contracts, the Company receives payment around the 20th of the month following crude oil shipments. The Company has established a nominal allowance for doubtful accounts due to the Company's evaluation of its customers past payment history, creditworthiness and other financial data.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 19 years. Maintenance and repairs are charged to operations as incurred, while significant improvements are capitalized. Upon retirement or disposition of property, the asset and related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is charged to operations. The carrying value of property and equipment is assessed periodically and/or when factors indicating impairment are present. We recognize impairment losses when the expected cash flows are less than the asset's carrying value, in which case the asset is written down to its estimated fair value. The Company recorded an impairment reserve of $151,243, $237,711 and $751,263 at December 31, 2013,

2012 and 2011, respectively (see Note 6).

2. Fair Value Measurements

Effective January 1, 2008, the Company adopted the authoritative guidance on fair value measurements. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the guidance establishes a three tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity. Included in this category is the Company’s valuation of its asset retirement obligation liability. The obligation increased $37,477 during the year ended December 31, 2013, as a result of normal accretion. This was offset by a decrease in the obligation of $59,476 due to the sale of the Chico-Martinez lease.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

In accordance with this guidance, we measure our cash equivalents and short-term investments at fair value. Our cash equivalents and short term investments are classified within Level 1. Cash equivalents and short term investments are valued primarily using quoted market prices utilizing market observable inputs. At December 31, 2013, cash equivalents and short term investments consisted of certificates of deposit measured at fair value on a recurring basis. Fair values of our certificates of deposit were $3,678,639, of which $406,110 was included in cash equivalents, $2,140,822 was included in short-term investments and $1,131,707 was included in long-term investments at December 31, 2013. Fair values of our certificates of deposit were $3,642,944, of which $405,709 was included in cash equivalents, $2,135,709 was included in short-term investments and $1,101,526 was included in long-term investments at December 31, 2012.

Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP (for example, when there is evidence of impairment). The amounts below represent only balances measured at fair value during the period presented and still held as of the reporting date. These balances appear as a component of the “Oil and Gas Properties and Equipment” and “Accumulated Depletion, Depreciation, Amortization and Valuation Allowances” captions on the balance sheet.

	At and for the period ended December 31, 2013:				
	Total	Level 1	Level 2	Level 3	Total Valuation
Oil and gas properties and equipment	$ 674,600	$ —	$ —	$ 523,400	$ (151,200)

In the year ended December 31, 2013 certain oil and gas properties and equipment held and used with a carrying amount of $674,600 were written down to their fair value of $523,400, resulting in a valuation charge of $151,200, which was included in earnings for this period. The fair value of these long-lived assets held and used was calculated based upon discounted cash flow projections. These projections incorporate management’s assumptions about future cash flows based upon past experience and future expectations. The expected cash flows are then discounted using a discount rate that the Company believes is commensurate with the risks involved.

	At and for the period ended December 31, 2012:				
	Total	Level 1	Level 2	Level 3	Total Valuation
Oil and gas properties and equipment	$ 1,019,100	$ —	$ —	$ 781,400	$ (237,700)

In the year ended December 31, 2012 certain oil and gas properties and equipment held and used with a carrying amount of $1,019,100 were written down to their fair value of $781,400, resulting in a valuation charge of $237,700, which was included in earnings for this period. The fair value of these long-lived assets held and used was calculated based upon discounted cash flow projections. These projections incorporate management's assumptions about future cash flows based upon past experience and future expectations. The expected cash flows are then discounted using a discount rate that the Company believes is commensurate with the risks involved.

3. Long-Term Debt and Line of Credit

At December 31, 2013, the Company had an unsecured line of credit with a bank, under which the Company may borrow up to $500,000 through May 31, 2014. Interest on any borrowing is accrued at the bank's index rate plus 0.50 percentage points. The bank's index rate was 4.75% at December 31, 2013. As of December 31, 2013, the Company did not have any outstanding balance on its unsecured line of credit.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Income Taxes

Income tax expense (benefit) consists of the following:

	Year Ended December 31,		
	2013	2012	2011
Federal income taxes:			
Current	$78,226	$69,700	$174,403
Deferred	(228,800)	122,850	(70,350)
	(150,574)	192,550	104,053
State income taxes:			
Current	13,629	12,221	28,800
Deferred	(56,700)	35,050	(20,150)
	(43,071)	47,271	8,650
Income tax expense (benefit)	$(193,645)	$239,821	$112,703

Differences exist between certain accounting policies and related provisions included in federal income tax rules. The amounts by which these differences and other factors cause the total income tax provision to differ from an amount computed by applying the federal statutory income tax rate to financial income is set forth in the following reconciliation:

	Year Ended December 31,		
	2013	2012	2011
Federal income tax expense (benefit) at statutory rate	$(13,942)	$351,395	$410,686
Statutory depletion	(147,845)	(143,291)	(320,627)
Prior period tax changes	(2,443)	(8,000)	0
State income taxes	13,629	12,221	28,800
Other	(43,044)	27,496	(6,156)
Income tax expense (benefit)	$(193,645)	$239,821	$112,703

The components of net deferred tax asset (liability) are as follows:

	Year Ended December 31,		
	2013	2012	2011
Current deferred taxes:			
Gross assets	$711,800	$264,400	$262,500
Gross liabilities	0	0	0
	711,800	264,400	262,500
Noncurrent deferred taxes:			
Gross assets	2,178,600	2,340,500	2,500,300
Gross liabilities	0	0	0
Valuation allowance	(1,718,700)	(1,718,700)	(1,718,700)
	459,900	621,800	781,600
	$1,171,700	$886,200	$1,044,100

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

The tax effect of significant temporary differences representing deferred tax assets and (liabilities) are as follows:

	Year Ended December 31,		
	2013	2012	2011
Accounts receivable	$1,600	$1,600	$1,600
Asset retirement obligations	520,200	519,800	500,100
Statutory depletion carryover	1,718,700	1,718,700	1,718,700
Accrued liabilities	710,200	262,800	260,900
Total deferred tax assets	2,950,700	2,502,900	2,481,300
Property and equipment	(60,300)	102,000	281,500
Valuation allowance	(1,718,700)	(1,718,700)	(1,718,700)
	$1,171,700	$886,200	$1,044,100

At December 31, 2013, a valuation allowance has been provided against the statutory depletion carryover due to the uncertainty of its future utilization.

The Company believes that its estimate of deferred tax assets and determination to record a valuation allowance against the statutory depletion carryover are critical accounting estimates because they are subject to, among other things, an estimate of future taxable income, which is susceptible to change and dependent upon events that may or may not occur, and because the impact of recording a valuation allowance may be material to the assets reported on the balance sheet and results of operations.

At December 31, 2013, the Company has, for Federal income tax purposes, a statutory depletion carryover of approximately $4,095,000, which currently has no expiration date.

5. Related-Party Transactions

Effective January 1, 1990, John H. Alexander, a former officer and director of the Company participated with a group of investors that acquired the mineral and fee interest on one of the Company's oil and gas leases (the "Santa Fe Energy lease") in the Carneros Creek field after the Company declined to participate. The thirty-three percent interest owned by Mr. Alexander represents a minority interest in the investor group. Royalties on oil and gas production from this property paid to the investor group approximated $131,000, $222,500 and $226,200 in 2013, 2012 and 2011, respectively.

As a director, Mr. Alexander had abstained from voting on any of the above matters that have been brought before the Board of Directors, involving the Santa Fe lease. See Note 12 for discussion of severance awards entered into with Mr. Alexander.

6. Fourth Quarter Results (Unaudited)

During the fourth quarter of 2013, the Company made adjustments to the carrying value of some of its oil and gas properties. The Company recorded a valuation allowance in the amount of $151,243 at December 31, 2013 to reflect the change in the projected future discounted net cash flows for this property, as the result of the analysis of the Company's oil and gas reserves by independent consultants. The Company also reduced depletion of its oil and gas properties by $34,834 as a result of the analysis of the Company's oil and gas reserves by independent consultants at December 31, 2013.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

During the fourth quarter of 2012, the Company made adjustments to the carrying value of some of its oil and gas properties. The Company recorded a valuation allowance in the amount of $237,711 at December 31, 2012 to reflect the change in the projected future discounted net cash flows for this property, as the result of the analysis of the Company's oil and gas reserves by independent consultants. The Company also reduced depletion of its oil and gas properties by $39,414 as a result of the analysis of the Company's oil and gas reserves by independent consultants at December 31, 2012.

During the fourth quarter of 2011, the Company made adjustments to the carrying value of one of its oil and gas properties. The Company recorded a valuation allowance in the amount of $23,879 at December 31, 2010 to reflect the change in the projected future discounted net cash flows for this property, as the result of the analysis of the Company's oil and gas reserves by independent consultants.

7. Commitments and Contingencies

The Company is liable for future dismantlement and abandonment costs associated with its oil and gas properties. These costs include down-hole plugging and abandonment of wells, future site restoration, post closure and other environmental exit costs. The costs of future dismantlement and abandonment have been accrued and recorded in the financial statements. See Note 10, Assets Retirement Obligations.

The Company is subject to potential litigation within the normal course of business. In management's opinion, the resolution of such litigation would not have a material adverse effect upon the Company's financial position or the results of its operations. The Company did not have any pending litigation at December 31, 2013.

The Company has been notified by the United States Environmental Protection Agency ("EPA") of a final settlement offer to settle its potential liability as a generator of waste containing hazardous substances that were disposed of at a waste disposal site in Santa Barbara County. The Company has responded to the EPA by indicating that the waste contained petroleum products that fall within the exception to the definition of hazardous substances for petroleum-related substances of the pertinent EPA regulations. Management has concluded that under both Federal

and State regulations no reasonable basis exists for any valid claim against the Company. As such, the likelihood of any liability is deemed remote.

During the fourth quarter of 2012, pursuant to requirements of the California Department of Oil and Gas (“CA DOG”) the Company conducted a testing program on all of its crude oil storage tanks. The testing required the Company to empty each tank and measure for the thickness of the metal. The testing is almost complete and the results were favorable. The testing process disrupted crude oil production during the fourth quarter leading to lower revenues during the fourth quarter of 2012 and the first quarter of 2013.

8. Defined Contribution Plan

The Company has a defined contribution plan (Simple IRA) available to all employees meeting certain service requirements. Employees may contribute up to a maximum of $6,000 of their compensation to the plan. The Company will make a contribution to the plan in an amount equal to the employee’s contributions up to 3% of their salaries. Contributions of $12,641, $12,646 and $11,549 were made during the years ended December 31, 2013, 2012 and 2011, respectively.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. Asset Retirement Obligations

The Company recognizes a liability at discounted fair value for the future retirement of tangible long-lived assets and associated assets retirement cost associated with the petroleum and natural gas properties. The fair value of the liability is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligations. The related accretion expense is recognized in the statement of operations. The provision will be revised for the effect of any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site reclamation are charged to the asset retirement obligations to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded are recognized in income in the period the actual costs are incurred.

There are no legally restricted assets for the settlement of asset retirement obligations. The Company has recognized deferred tax benefits of approximately $520,200 for the asset retirement obligations as of December 31, 2013.

A reconciliation of the Company’s asset retirement obligations from the periods presented, are as follows:

	December 31,		
	2013	2012	2011
Beginning balance	$1,327,861	$1,278,889	$1,235,193
Incurred during the period	0	(14,105)	(13,397)
Additions for new wells	0	25,092	11,779
Deletions for wells sold	(59,476)	0	0
Accretion expense	37,477	37,985	45,314
Ending balance	$1,305,862	$1,327,861	$1,278,889

10. Share Based Compensation

Stock-Option Plan

The Company has issued stock options as compensation for members of the Board of Directors under the Pyramid Oil Company 2006 Equity Incentive Plan (the "2006 Plan"). These options vested immediately and are exercisable for a five-year period from the date of the grant.

The following is a summary of the Company's stock option activity.

	Number Of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	10,000	$ 5.40	0	$ 0
Granted	0	0		0
Exercised	0	0		0
Forfeited	0	0		0
Outstanding at December 31, 2012	10,000	$ 5.40	3.42	$ 0
Granted	100,000	5.16		0
Exercised	0	0		0
Forfeited	(5,000)	5.40		0
Outstanding at December 31, 2013	105,000	$ 5.17	4.66	$ 0
Exercisable at December 31, 2013	105,000	$ 5.17	4.66	$ 0

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

As of December 31, 2013, there were no unvested stock options or unrecognized stock option expense. The weighted average grant date fair value of options issued and vested during 2013 was $1.64 per option.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013.

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 5.40	5,000	2.42	$ 5.40	5,000	$ 5.40
$ 5.16	100,000	4.77	$ 5.16	100,000	$ 5.16
	105,000			105,000	

Warrants

During the year ended December 31, 2012, warrant holders exercised 15,000 outstanding warrants under a cash-less exercise provision in the warrant agreements. This resulted in 4,232 shares of common stock being issued to the warrant holders. There were no remaining warrants outstanding as of December 31, 2013 or 2012.

11. Incentive and Retention Plan

On January 9, 2007, the Company's Board of Directors adopted an Incentive and Retention Plan (the "Incentive Plan") pursuant to which the Company's officers and other employees selected by the Company's Compensation Committee are entitled to receive payments if they are employed by the Company as of the date of a Corporate Transaction (as such term is defined in the Incentive Plan). A Corporate Transaction includes certain mergers involving the Company,

sales of Company assets, and other changes in the control of the Company, as specified in the Incentive and Retention Plan. In general, the amount that is payable to each plan participant will equal the number of plan units that have been granted to him or her, multiplied by the increase in the value of the Company between January 9, 2007 and the date of a Corporate Transaction. There has been no Corporate Transaction since the adoption of the Incentive and Retention Plan. No employees have been selected by the Compensation Committee to receive payments under the Incentive Plan.

12. Registration Statement on Form S-3

The Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") on November 5, 2013, that became effective on November 21, 2013. The registration statement is designed to provide the Company the flexibility to offer and sell from time to time up to $30 million of the Company's common stock. The Company may offer and sell such securities through one or more methods of distribution, subject to market conditions and the Company's capital needs. The terms of any offering under the shelf registration statement will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of the offering. The Company has not filed any supplemental prospectus with the SEC or sold any common stock under this registration statement.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

13. Change in Directors of the Company

On September 30, 2013, John H. Alexander resigned as the President and Chief Executive Officer, and as a director, of the Company, and John E. Turco resigned as a director of the Company. Michael D. Herman, currently the Chairman of the Board of Directors of the Company, was appointed as the Interim President and Chief Executive Officer of the Company.

Mr. Herman served as Pyramid's Chairman of the Board of Directors since 2005. Following his purchases of Pyramid common stock from Messrs. Alexander and Turco, Mr. Herman owns approximately 39.5% of the outstanding common stock of Pyramid (not including the 100,000 shares that Mr. Herman will acquire in April 2014).

As part of this Board of Directors and management transition, Mr. Herman purchased 243,579 shares of Pyramid common stock from Mr. Turco at a purchase price of $6.00 per share. In addition, Mr. Herman purchased 95,592 shares of Pyramid common stock from Mr. Alexander at a purchase price $6.00 per share, and will purchase an additional 100,000 of Mr. Alexander's shares by April 5, 2014, at the same price.

On October 8, 2013, the Board of Directors appointed Rick D. Kasch to the Company's Board of Directors to fill the vacancy created by the resignation of Mr. Turco. Mr. Kasch serves as President of ENSERVCO Corporation, which is a publicly traded energy services company based in Denver, Colorado. Pyramid's Chairman of the Board of Directors and Interim President and Chief Executive Officer, Michael D. Herman, serves as the Chairman of the Board of Directors and Chief Executive Officer of ENSERVCO Corporation.

14. Settlement Agreement

In February 2002, the Company entered into an employment agreement with John H. Alexander pursuant to which Mr. Alexander agreed to serve as the Company's Vice President. On June 3, 2004, Mr. Alexander was appointed as the

Company's President and Chief Executive Officer. The employment agreement was for an initial term of six years, which term automatically renews annually if written notice is not tendered. The agreement was automatically renewed on June 3, 2013. On September 30, 2013, Mr. Alexander resigned as the President and Chief Executive Officer of the Company.

In connection with Mr. Alexander's resignation, Mr. Alexander and the Company entered into a Settlement Agreement and General Release of Claims, dated as of September 30, 2013 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, among other things:

- Mr. Alexander's existing employment agreement terminated effective as of September 30, 2013;

- The Company agreed to pay an aggregate amount of $967,329 to Mr. Alexander in satisfaction of amounts that are owed to Mr. Alexander under his employment agreement, with such amount to be paid in three equal installments of $322,443 each, on April 5, 2014, January 5, 2015, and January 5, 2016. These amounts are included in restricted cash and deferred compensation liability;

- The Company agreed to secure these payments owed to Mr. Alexander in a "rabbi trust" pursuant to a Trust Agreement, dated as of October 1, 2013 between the Company and Gilbert Ansolabehere, as trustee (the "Trust Agreement");

- Mr. Alexander agreed to resign as a director and officer of the Company;

- The Company and Mr. Alexander entered into a Consulting Agreement, dated as of October 1, 2013 (the "Consulting Agreement"), pursuant to which Mr. Alexander will serve as a consultant to the Company on a part-time basis through September 30, 2014 for a fee of $10,000 per month;

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

(Continued)

- The Company and Mr. Alexander waived known and unknown claims against each other;

- Mr. Herman agreed to purchase shares of the Company's common stock held by Messrs. Alexander and Turco, see Note 13; and

- The Company and Mr. Alexander entered into an Indemnity Agreement, dated as of September 30, 2013 (the "Indemnity Agreement"), pursuant to which the Company agreed to indemnify Mr. Alexander against certain claims, losses, costs and expenses that may result in the future from lawsuits and other proceedings in connection with his service as a director and an officer of the Company.

On March 18, 2014, the trust agreement, "Rabbi Trust dated October 1, 2013," noted above was terminated by agreement of the Company, Mr. Alexander and the trustee and the funds were disbursed.

15. Subsequent Events

The Company evaluated subsequent events after the balance sheet date of December 31, 2013 through March 31, 2014.

On February 6, 2014, the Company and privately held Yuma Energy, Inc. ("Yuma") announced they had entered into a definitive merger agreement for an all-stock transaction. Upon completion of the transaction, which is subject to the approval of shareholders of both companies, the Company will change its name to "Yuma Energy, Inc.," and relocate its headquarters to Houston, Texas, while maintaining offices in Bakersfield, California, to oversee its California operations.

Under the terms of the merger agreement, the Company will reincorporate in Delaware and the Delaware successor corporation will issue an aggregate of approximately 66 million shares of its common stock to Yuma shareholders, resulting in former Yuma shareholders owning approximately 93% of the post-merger company. Upon closing, there

will be an aggregate of approximately 71 million shares of common stock outstanding. The transaction is expected to qualify as a tax-deferred reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

The merger agreement is subject to the approval of the shareholders of both companies, as well as other customary approvals, including authorization to list the newly issued shares on the NYSE MKT. The companies anticipate completing the transaction in mid-2014.

PYRAMID OIL COMPANY

SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)

OIL AND GAS PRODUCING ACTIVITIES

FASB ASC Topic 932, Extraction Activities – Oil and Gas, requires disclosure of certain financial data for oil and gas operations and reserve estimates of oil and gas. This information, presented here, is intended to enable the reader to better evaluate the operations of the Company. All of the Company's oil and gas reserves are located in the United States.

The aggregate amounts of capitalized costs relating to oil and gas producing activities and the related accumulated depletion, depreciation, and amortization and valuation allowances as of December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Proved properties	$19,704,600	$19,828,900	$18,946,000
Unproved properties being amortized	178,600	178,600	178,600
Unproved properties not being amortized	0	0	0
Capitalized asset retirement costs	412,612	425,978	401,200
Accumulated depletion, depreciation, amortization and valuation allowances	(18,214,400)	(17,912,400)	(17,132,100)
	$2,081,412	$2,521,078	$2,393,700

The estimated quantities and the change in proved reserves, both developed and undeveloped, for the Company are as follows:

	2013		2012		2011	
	Oil (Mbbls)	Gas (MMCF)	Oil (Mbbls)	Gas (MMCF)	Oil (Mbbls)	Gas (MMCF)
Proved developed and undeveloped reserves:						
Beginning of year	482	0	546	42	538	44
Revisions of previous estimates	10	20	(19)	(36)	63	7
Extensions, discoveries and other additions	0	0	0	0	0	0
Production	(43)	(6)	(45)	(6)	(55)	(9)
End of year	449	14	482	0	546	42
Proved developed reserves:						
Beginning of year	482	0	474	42	433	35

End of year	449	14	482	0	474	42
Proved undeveloped reserves:						
Beginning of year	0	0	71	0	105	8
End of year	0	0	0	0	71	0

The foregoing estimates have been prepared by the Company from data prepared by an independent petroleum engineer in respect to certain producing properties. Revisions in previous estimates as set forth above can result from analysis of new information, as well as from additional production experience or from a change in economic factors. The primary factor that has impacted the revisions of previous estimates of crude oil and natural gas reserves noted above is from a change in crude oil and natural gas prices used to determine the valuation of year-end reserves. Higher crude oil and natural gas prices cause certain oil and gas leases to become more profitable, thus generating additional reserves. Net average crude oil sales prices (average crude oil sales prices net of operating costs, production taxes and development costs) used to value the year-end reserves decreased by approximately $0.63 per barrel at December 31, 2013, decreased by approximately $6.50 per barrel at December 31, 2012 and increased by approximately $18.00 per barrel at December 31, 2011.

PYRAMID OIL COMPANY

SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)

OIL AND GAS PRODUCING ACTIVITIES

The reserve estimates are believed to be reasonable and consistent with presently known physical data concerning size and character of the reservoirs and are subject to change as additional knowledge concerning the reservoirs becomes available.

The present value of estimated future net revenues of proved developed and undeveloped reserves, discounted at 10%, were as follows:

	December 31,		
	2013	2012	2011
Proved developed and undeveloped reserves (Present value before income taxes)	$13,135,000	$13,712,000	$18,439,000

FASB ASC Topic 932, Extraction Activities - Oil and Gas, requires certain disclosures of the costs and results of exploration and production activities and established a standardized measure of oil and gas reserves and the year-to-year changes therein.

In addition to the foregoing disclosures, FASB ASC Topic 932, Extraction Activities – Oil and Gas established a “Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves”.

Costs incurred, both capitalized and expensed, of oil and gas property acquisition, exploration and development for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Property acquisition costs	$0	$50,000	$700
Exploration costs – expensed	0	0	0
Development costs	103,000	857,900	1,022,300
Asset retirement costs	0	24,700	11,800

The results of operations for oil and gas producing activities for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Sales	$4,392,000	$4,995,000	$5,688,000
Production costs	2,109,000	2,103,000	1,920,000
Exploration costs	0	0	0
Accretion expense	115,000	38,000	45,000
Depletion, depreciation, amortization and valuation allowance	658,000	887,000	1,486,000
	1,510,000	1,967,000	2,237,000
Income tax (benefit) provision	(246,000)	240,000	113,000
Results of operations from production activities	$1,756,000	$1,727,000	$2,124,000

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PYRAMID OIL COMPANY

SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)

OIL AND GAS PRODUCING ACTIVITIES

The standardized measure of discounted estimated future net cash flows relating to proved oil and gas reserves for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Future cash inflows	$46,428,000	$51,004,000	$58,216,000
Future development and production costs	23,136,000	25,941,000	24,445,000
Future abandonment costs	1,442,000	1,328,000	1,279,000
Future income tax expense	5,100,000	5,238,000	7,987,000
Future net cash flow	16,750,000	18,497,000	24,505,000
10% annual discount	6,701,000	7,771,000	9,392,000
Standardized measure of discounted future net cash flow	$10,049,000	$10,726,000	$15,113,000

The principal changes in the standardized measure of discounted future net cash flows during the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Extensions	$0	$0	$0
Revisions of previous estimates			
Price changes	(357,000)	(2,155,000)	7,026,000
Quantity estimates	411,000	(894,000)	1,901,000
Change in production rates, timing and other	143,000	(1,642,000)	(1,157,000)
Development costs incurred	103,000	858,000	1,023,000
Changes in estimated future development costs	0	(1,281,000)	315,000
Estimated future abandonment costs	(90,000)	(6,000)	8,000
Sales of oil and gas, net of production costs	(2,283,000)	(2,892,000)	(3,768,000)
Accretion of discount	1,450,000	1,922,000	1,386,000
	(623,000)	(6,090,000)	6,734,000
Net change in income taxes	54,000	(1,703,000)	1,778,000
Net (decrease) increase	$(677,000)	$(4,387,000)	$4,956,000

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by

applying the year-end effective tax rate to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the SEC. Because of the unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes being largely influenced and controlled by United States and foreign governmental actions, and the fact that the basis for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows do not represent management's assessment of future profitability or future actual cash flows of the Company. It should be recognized that applying current costs and prices and a ten percent standard discount rate allows for comparability but does not convey absolute value. The discounted amounts arrived at are only one measure of financial quantification of proved reserves.

The standardized measure of discounted future cash flows before income taxes decreased by $623,000 at December 31, 2013. The increase in income taxes decreased discounted future cash flows by $54,000 for a total decrease in future cash flows of $677,000 after income taxes as of December 31, 2013. Future cash flows decreased due primarily to sales of oil and gas, net of production costs. This was offset by accretion of discount and revisions of quantity estimates.

PYRAMID OIL COMPANY

SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)

OIL AND GAS PRODUCING ACTIVITIES

The standardized measure of discounted future cash flows before income taxes decreased by $6,090,000 at December 31, 2012. The decrease in income taxes offset discounted future cash flows by $1,703,000 for a net decrease in future cash flows of $4,387,000 after income taxes as of December 31, 2012. The factors contributing to the decrease in cash flows are lower net average crude oil prices (average crude oil sales prices net of operating costs, production taxes and development costs). During 2012, net average crude oil prices decreased by approximately $6.50 per barrel. At December 31, 2012 the Company did not have any proved undeveloped reserves which also contributed to the decrease in future cash flows for 2012. The proved undeveloped reserves at December 31, 2011 included two wells that were projected to be drilled during 2012. One of these wells was the Santa Fe #20 development well that was drilled in 2012. This well is not currently producing and a valuation allowance of $204,000 was recorded at December 31, 2012 for the Santa Fe energy lease. The other well project to be drilled in 2012, the CLI 4-H, was not drilled during 2012 and is not expected to be drilled in the future.

The standardized measure of discounted future cash flows before income taxes increased by $6,734,000 at December 31, 2011. The increase in income taxes offset discounted future cash flows by $1,778,000 for a net increase in future cash flows of $4,956,000 after income taxes as of December 31, 2011. The major factor contributing to the increase in cash flows is higher net average crude oil prices (average crude oil sales prices net of operating costs, production taxes and development costs). During 2011, net average crude oil prices increased by approximately $18.00 per barrel. This price increase contributed to an increase in discounted cash flows due to price changes of $7,026,000.

PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

PYRAMID OIL COMPANY

SUPPLEMENTAL INFORMATION (UNAUDITED)

QUARTERLY RESULTS

	2013	2012
REVENUES:		
Quarter Ended:		
March 31	$1,007,803	$1,369,058
June 30	1,154,409	1,340,314
September 30	1,138,438	1,198,420
December 31 (a)	1,900,650	1,087,535
	$5,201,300	$4,995,327
NET INCOME (LOSS):		
Quarter Ended:		
March 31	$112,687	$372,096
June 30	130,071	288,571
September 30 (b)	(533,781)	207,896
December 31 (a) (c) (d)	448,292	(91,018)
	$157,269	$777,545
INCOME (LOSS) PER COMMON SHARE:		
Quarter Ended:		
March 31	$0.02	$0.08
June 30	0.03	0.06
September 30 (b)	(0.11)	0.04
December 31 (a) (c) (d)	0.09	(0.01)
	$0.03	$0.17

(a) Reflects gain on sale of fixed assets of $809,476 for the sale of one of the Company’s oil and gas properties recorded in the fourth quarter of 2013.

(b) Reflects deferred compensation of $1,040,764, see Note 14. “Settlement Agreement.”

(c) Reflects a valuation allowance of $151,243 recorded in the fourth quarter of 2013 for the write-down of certain oil and gas properties.

(d) Reflects a valuation allowance of $237,711 recorded in the fourth quarter of 2012 for the write-down of certain oil and gas properties.

PYRAMID OIL COMPANY

BALANCE SHEETS

ASSETS

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	$4,555,645	$4,404,246
Restricted cash	0	967,329
Short-term investments	2,141,887	2,140,822
Trade accounts receivable (net of reserve for doubtful accounts of $4,000 in 2014 and 2013)	448,168	484,468
Income taxes receivable	537,400	12,400
Crude oil inventory	74,607	102,334
Prepaid expenses and other assets	201,925	249,030
Deferred income taxes	281,700	711,800
TOTAL CURRENT ASSETS	8,241,332	9,072,429
PROPERTY AND EQUIPMENT, at cost:		
Oil and gas properties and equipment (successful efforts method)	19,883,190	19,883,190
Capitalized asset retirement costs	412,612	412,612
Drilling and operating equipment	2,058,744	2,058,744
Land, buildings and improvements	1,098,918	1,098,918
Automotive, office and other property and equipment	1,136,566	1,136,566
	24,590,030	24,590,030
Less - accumulated depletion, depreciation, amortization and valuation allowances	(21,439,883)	(21,335,914)
TOTAL PROPERTY AND EQUIPMENT	3,150,147	3,254,116
INVESTMENTS AND OTHER ASSETS		
Long-term investments	1,139,149	1,131,707
Deferred income taxes	413,500	459,900
Deposits	250,000	250,000
Other assets	11,380	11,380
TOTAL INVESTMENTS AND OTHER ASSETS	1,814,029	1,852,987
TOTAL ASSETS	$13,205,508	$14,179,532

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

PYRAMID OIL COMPANY

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
CURRENT LIABILITIES:		
Accounts payable	$351,836	$290,930
Accrued professional fees	26,893	140,711
Accrued taxes, other than income taxes	54,444	54,444
Accrued payroll and related costs	56,010	40,932
Accrued royalties payable	227,457	226,502
Accrued insurance	69,838	113,480
Liability for deferred compensation	282,314	1,026,655
TOTAL CURRENT LIABILITIES	1,068,792	1,893,654
LIABILITY FOR ASSET RETIREMENT OBLIGATIONS	1,315,279	1,305,862
TOTAL LIABILITIES	2,384,071	3,199,516
CONTINGENCIES (Note 4)		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value		
Authorized - 10,000,000 shares		
Issued and outstanding - none	0	0
Common stock, no par value		
Authorized - 50,000,000 shares		
Issued and outstanding - 4,688,085 shares	1,847,384	1,847,384
Retained earnings	8,974,053	9,132,632
TOTAL SHAREHOLDERS’ EQUITY	10,821,437	10,980,016
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$13,205,508	$14,179,532

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

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PYRAMID OIL COMPANY

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31,	
	2014	2013
REVENUES:		
Oil and gas sales	$ 1,043,599	$ 1,007,803
COSTS AND EXPENSES:		
Operating expenses	496,290	434,438
General and administrative	577,963	222,141
Taxes, other than income and payroll taxes	33,609	30,397
Provision for depletion, depreciation, and amortization	103,970	112,979
Accretion expense	9,417	10,379
Other costs and expenses	46,090	33,224
	1,267,339	843,558
OPERATING (LOSS) INCOME	(223,740)	164,245
OTHER INCOME:		
Interest	9,661	10,311
Other	7,000	0
	16,661	10,311
(LOSS) INCOME BEFORE		
INCOME TAX (BENEFIT) EXPENSE	(207,079)	174,556
Income tax (benefit) expense		
Current	(525,000)	5,769
Deferred	476,500	56,100
	(48,500)	61,869
NET (LOSS) INCOME	$ (158,579)	$ 112,687
BASIC (LOSS) INCOME PER COMMON SHARE	$ (0.03)	$ 0.02
DILUTED (LOSS) INCOME PER COMMON SHARE	$ (0.03)	$ 0.02
Weighted average number of common shares outstanding	4,688,085	4,688,085
Diluted average number of common shares outstanding	4,688,085	4,688,085

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

PYRAMID OIL COMPANY

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (158,579)	$ 112,687
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Provision for depletion, depreciation, and amortization	103,970	112,979
Accretion expense	9,417	10,379
Deferred income taxes	476,500	56,100
Changes in operating assets and liabilities:		
Trade accounts and income taxes receivable	(488,700)	(87,474)
Crude oil inventories	27,727	(34,486)
Prepaid expenses	47,105	56,235
Deferred compensation liability	(744,341)	0
Accounts payable and accrued liabilities	(80,522)	(94,856)
Net cash (used in) provided by operating activities	(807,423)	131,564
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	0	(128,928)
Restricted cash	967,329	0
Increase in short-term investments	(1,065)	(1,331)
Increase in long-term investments	(7,442)	(7,442)
Net cash provided by (used in) Investing activities	958,822	(137,701)
Net increase (decrease) in cash and cash equivalents	151,399	(6,137)
Cash & cash equivalents at beginning of period	4,404,246	3,834,097
Cash and cash equivalents at end of period	$ 4,555,645	$ 3,827,960

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

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PYRAMID OIL COMPANY

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014

(UNAUDITED)

1. Summary of Significant Accounting Policies

The financial statements include the accounts of Pyramid Oil Company (the “Company”). Such financial statements included herein have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

A summary of the Company's significant accounting policies is contained in its Annual Report on Form 10-K for the year ended December 31, 2013. The financial data presented herein should be read in conjunction with the Company's December 31, 2013 financial statements and notes thereto, contained in the Company's Form 10-K.

In the opinion of management, the unaudited financial statements, contained herein, include all adjustments necessary to present fairly the Company's financial position as of March 31, 2014 and the results of its operations and its cash flows for the three month periods ended March 31, 2014 and 2013. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

Stock Based Compensation

The Company accounts for its share based compensation in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718. Stock-based compensation cost represents stock options issued to non-employee members of the Board of Directors, and is measured at the grant date based on the estimated fair value of the award, and is recognized as expense over the requisite vesting period.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions relative to volatility and anticipated forfeitures are determined at the time of grant. There were no stock option grants during the three month periods ended March 31, 2014 or 2013.

Income Taxes

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company files income tax returns in the U.S. federal jurisdiction, and California, Texas and New York states. With few exceptions, the Company is no longer subject to U.S. federal tax examination for the years prior to 2010. State jurisdictions that remain subject to examination range from 2009 to 2013. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FASB ASC 740-10-25, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the three month period ended March 31, 2014.

Interest associated with unrecognized tax benefits are classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of operations.

Income Taxes Receivable

The Company has recognized income taxes receivable of $537,400 at March 31, 2014. The Company recorded an increase in income taxes receivable for the first quarter of 2014 in the amount of $525,000. This increase is due primarily to the deduction of deferred compensation for tax purposes in the amount of $1,003,973. The deferred compensation had been recorded for financial statement purposes during the third quarter of 2013.

Income (Loss) per Share

Basic income (loss) per common share is computed by dividing the net income (loss) applicable to common stock by the weighted average number of shares of common stock outstanding during the period.

Valuation Allowances

The Company has recorded valuation allowances for certain of its oil and gas properties when the undiscounted future net cash flows are less than the net capitalized costs for the property. No valuation allowances were recorded in the first quarter of 2014 or 2013.

Reclassifications

Certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

2. Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, “Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.” The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013. The Company does not expect the adoption of ASU 2013-01 to have a material impact on its financial statements.

3. Dividends

No cash dividends were paid during the three month periods ended March 31, 2014 and 2013.

4. Contingencies

In September 2009, the Company was notified by the U.S. Environmental Protection Agency (“EPA”) of a final settlement offer to settle its potential liability as a generator of waste containing hazardous substances that were disposed of at a waste disposal site in Santa Barbara County, California. The Company responded to the EPA in October 2009 by indicating that the waste contained petroleum products that fall within the exception to the definition of hazardous substances for petroleum-related substances of the pertinent EPA regulations. Management has concluded that under both federal and state regulations no reasonable basis exists for any valid claim against the Company. As such, the likelihood of any liability is deemed remote. There has been no further communication from the EPA on this matter since September 25, 2009.

Under the terms of the merger agreement between the Company and Yuma Energy, Inc., the Company may be required to pay to Yuma a termination fee of approximately $1.0 million if the merger agreement is terminated under certain circumstances.

5. Income Tax Expense (Benefit)

The Company recognized an income tax expense (benefit) of $(48,500) for the first quarter of 2014 compared to an income tax provision of $61,869 for the same period in 2013.

Income tax expense (benefit) for the first quarter of 2014 was calculated as follows:

	Federal	State	Total
Current tax (benefit)	$(450,000)	$(75,000)	$(525,000)
Deferred tax expense	377,400	99,100	476,500
	$(72,600)	$24,100	$(48,500)

Income tax expense (benefit) for the first quarter of 2013 was calculated as follows:

	Federal	State	Total
Current tax expense	$4,769	$1,000	$5,769
Deferred tax expense	43,700	12,400	56,100
	$48,469	$13,400	$61,869

Deferred income taxes are recognized using the asset and liability method by applying income tax rates to cumulative temporary differences based on when and how they are expected to affect the tax returns. Deferred tax assets and liabilities are adjusted for income tax rate changes. Deferred income tax assets have been offset by a valuation allowance of $1,719,000 as of March 31, 2014. Management reviews deferred income taxes regularly throughout the year, and accordingly makes any necessary adjustments to properly reflect the valuation allowance based upon current financial trends and projected results.

6. Incentive and Retention Plan

On January 9, 2007, the Company's Board of Directors adopted an Incentive and Retention Plan (the “Incentive Plan”) pursuant to which the Company's officers and other employees selected by the Company's Compensation Committee are entitled to receive payments if they are employed by the Company as of the date of a Corporate Transaction (as such term is defined in the Incentive Plan). A Corporate Transaction includes certain mergers involving the Company, sales of Company assets, and other changes in the control of the Company, as specified in the Incentive and Retention Plan. In general, the amount that is payable to each plan participant will equal the number of plan units that have been granted to him or her, multiplied by the increase in the value of the Company between January 9, 2007 and the date of a Corporate Transaction. There has been no Corporate Transaction since the adoption of the Incentive Plan. No employees have been selected by the Compensation Committee to receive payments under the Incentive Plan.

7. Related-party Transaction

Effective January 1, 1990, John H. Alexander, a former officer and director of the Company, participated with a group of investors that acquired the mineral and fee interest on one of the Company's oil and gas leases (the “Santa Fe Energy lease”) in the Carneros Creek field after the Company declined to participate. The thirty-three percent interest owned by Mr. Alexander represents a minority interest in the investor group. Mr. Alexander resigned as President, Chief Executive Officer and director of the Company effective September 30, 2013. Royalties on oil and gas production from this property paid to the investor group approximated $43,000 during the first quarter of 2013. Because Mr. Alexander is no longer an officer, director or employee of the Company, the amounts paid to Mr. Alexander for royalties during the first quarter of 2014 are no longer considered a related-party transaction.

8. Stock Based Compensation

Stock-Option Plan

The Company has issued stock options as compensation for non-employee members of the Board of Directors under its 2006 Equity Incentive Plan. These options vest immediately and are exercisable for a five-year period from the date of the grant.

The following is a summary of the Company's stock option activity.

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	105,000	$ 5.17	4.66	$ -
Granted	-			-
Exercised	-			-
Forfeited	-			-
Outstanding at March 31, 2014 (unaudited)	105,000	$ 5.17	4.41	$ -
Vested and expected to vest at March 31, 2014	105,000	$ 5.17	4.41	$ -
Exercisable at March 31, 2014	105,000	$ 5.17	4.41	$ -

As of March 31, 2014, there were no unvested stock options or unrecognized stock option expense.

The following table summarizes information about stock options outstanding and exercisable at March 31, 2014.

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 5.40	5,000	2.17	$ 5.40	5,000	$ 5.40
5.16	100,000	4.52	5.16	100,000	5.16

105,000	105,000

9. Fair Value

Effective January 1, 2008, the Company adopted FASB ASC 820 (formerly SFAS No. 157) for its nonfinancial assets and nonfinancial liabilities measured on a non-recurring basis. The Company adopted the provisions of FASB ASC 820 for measuring the fair value of our financial assets and liabilities during 2008. As defined in FASB ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that it believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. FASB ASC 820 establishes a three-tiered fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Included in this category is the Company's determination of the value of its asset retirement obligation liability. The obligation has increased $9,417 during the three months ended March 31, 2014 as a result of normal accretion expense.

The carrying amount of our cash and cash equivalents, short term investments, accounts receivable and accounts payable reported in the balance sheets approximates fair value because of the short maturity of those instruments.

Fair Value on Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP (for example, when there is evidence of impairment). There were no instances of impairment recorded in the quarter ended March 31, 2014.

10. Asset Retirement Obligations

The Company recognizes a liability at discounted fair value for the future retirement of tangible long-lived assets and associated assets retirement cost associated with the petroleum and natural gas properties. The fair value of the liability is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligations. The related accretion expense is recognized in the statement of operations. The provision will be revised for the effect of any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site reclamation are charged to the asset retirement obligations to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded are recognized in income in the period the actual costs are incurred.

There are no legally restricted assets for the settlement of asset retirement obligations. A reconciliation of the Company's asset retirement obligations from the periods presented, are as follows:

Balance at December 31, 2013	$1,305,862
Incurred during the period	0
Additions for new wells	0
Accretion expense	9,417
Balance at March 31, 2014	$1,315,279

11. Registration Statement on Form S-3

The Company filed a shelf registration statement on Form S-3 with the SEC on November 5, 2013, that was declared effective on November 21, 2013. The registration statement is designed to provide the Company the flexibility to offer and sell from time to time up to $30 million of the Company's common stock. The Company may offer and sell such securities through one or more methods of distribution, subject to market conditions and the Company's capital needs. The terms of any offering under the shelf registration statement will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of the offering. The Company has not filed any supplemental prospectus with the SEC or sold any common stock under this registration statement.

12. Merger Agreement

On February 6, 2014, the Company and privately held Yuma Energy, Inc. (“Yuma”) announced they had entered into a definitive merger agreement for an all-stock transaction. Upon completion of the transaction, which is subject to the approval of shareholders of both companies, the Company will change its name to “Yuma Energy, Inc.,” and relocate its headquarters to Houston, Texas, while maintaining offices in Bakersfield, California, to oversee its California operations.

Under the terms of the merger agreement, the Company will reincorporate in Delaware and the Delaware successor corporation will issue an aggregate of approximately 66 million shares of its common stock to Yuma shareholders, resulting in former Yuma shareholders owning approximately 93% of the post-merger company. Upon closing, there will be an aggregate of approximately 71 million shares of common stock outstanding. The transaction is expected to qualify as a tax-deferred reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”).

The merger agreement is subject to the approval of the shareholders of both companies, as well as other customary approvals, including authorization to list the newly issued shares on the NYSE MKT. The companies anticipate completing the transaction in mid-2014.

The foregoing description of the merger agreement is qualified in its entirety by reference to the full text of such agreement. See Note 14.

13. Settlement Agreement

In February 2002, the Company entered into an employment agreement with John H. Alexander pursuant to which Mr. Alexander agreed to serve as the Company's Vice President. On June 3, 2004, Mr. Alexander was appointed as the Company's President and Chief Executive Officer. The employment agreement was for an initial term of six years, which term automatically renews annually if written notice is not tendered. The agreement was automatically renewed on June 3, 2013. On September 30, 2013, Mr. Alexander resigned as the President and Chief Executive Officer of the Company.

In connection with Mr. Alexander’s resignation, Mr. Alexander and the Company entered into a Settlement Agreement and General Release of Claims, dated as of September 30, 2013 (the “Settlement Agreement”). Pursuant to the Settlement Agreement, among other things:

- Mr. Alexander’s existing employment agreement terminated effective as of September 30, 2013;

- The Company agreed to pay an aggregate amount of $967,329 to Mr. Alexander in satisfaction of amounts that are owed to Mr. Alexander under his employment agreement, with such amount to be paid in three equal installments of $322,443 each, on April 5, 2014, January 5, 2015, and January 5, 2016. These amounts are included in restricted cash and deferred compensation liability;

- The Company agreed to secure these payments owed to Mr. Alexander in a “rabbi trust” pursuant to a Trust Agreement, dated as of October 1, 2013 between the Company and Gilbert Ansolabehere, as trustee (the “Trust Agreement”);

- Mr. Alexander agreed to resign as a director and officer of the Company;

.

The Company and Mr. Alexander entered into a Consulting Agreement, dated as of October 1, 2013 (the "Consulting Agreement"), pursuant to which Mr. Alexander will serve as a consultant to the Company on a part-time basis through September 30, 2014 for a fee of $10,000 per month;

- The Company and Mr. Alexander waived known and unknown claims against each other;

- Michael D. Herman, Chairman of the Board of Directors of the Company and Interim President and Chief Executive Officer of the Company, agreed to purchase shares of the Company's common stock held by Messrs. Alexander and Turco; and

- The Company and Mr. Alexander entered into an Indemnity Agreement, dated as of September 30, 2013 (the "Indemnity Agreement"), pursuant to which the Company agreed to indemnify Mr. Alexander against certain claims, losses, costs and expenses that may result in the future from lawsuits and other proceedings in connection with his service as a director and an officer of the Company.

On March 18, 2014, the Trust Agreement noted above was terminated by agreement of the Company, Mr. Alexander and the trustee, and the funds were disbursed. At March 31, 2014, the Company had recorded a liability for deferred compensation of $282,314. These amounts represent payroll tax withholding related to certain Severance Award Agreements issued to Mr. Alexander.

14. Subsequent Events

On April 25, 2014, Pyramid Delaware Merger Subsidiary, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Pyramid Delaware"), filed a Registration Statement on Form S-4 ("Form S-4") with the SEC to effectuate (i) the proposed reincorporation of the Company from California to Delaware through the merger of the Company with and into Pyramid Delaware (the "reincorporation"), and (ii) the proposed merger of Pyramid Merger Subsidiary, Inc., a Delaware corporation and wholly-owned subsidiary of Pyramid Delaware ("Merger Subsidiary"), with and into Yuma Energy, Inc. ("Yuma"), with Yuma becoming a wholly-owned subsidiary of Pyramid Delaware (the "merger"). As a result of the reincorporation and the merger, Pyramid Delaware will be the publicly held corporation through which the Company's common stock will be traded. In order to complete the merger, the Company's shareholders must vote to approve and adopt the merger agreement (which includes (i) approval of the principal terms and conditions of the reincorporation; (ii) approval of the amended and restated certificate of incorporation and the amended and restated bylaws of Pyramid Delaware; (iii) approval of the issuance of shares of Pyramid Delaware common stock to stockholders of Yuma; and (iv) approval of the change of Pyramid Delaware's name to "Yuma Energy, Inc."), and Yuma shareholders must vote to approve and adopt the merger agreement as well. See Note 12.

On April 25, 2014, the Company's Board of Directors approved the issuance of 100,000 shares of Company common stock under the Company's 2006 Equity Incentive Plan to certain employees, directors and consultants, which vest upon a change in control.

The Company evaluated subsequent events after the balance sheet date of March 31, 2014 through May, 15, 2014.

Annex A

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER AND REORGANIZATION

dated as of

August 1, 2014

by and among

Pyramid Oil Company,

PYRAMID DELAWARE MERGER SUBSIDIARY, INC.,

PYRAMID MERGER SUBSIDIARY, INC.,

and

YUMA ENERGY, INC.

TABLE OF CONTENTS

Exhibits:

Subject Matters of Disclosure Schedules to the

Amended and Restated Agreement and Plan of Merger and Reorganization

The following is a list of the subject matters addressed in the disclosure schedules delivered by Yuma Energy, Inc. to Pyramid Oil Company and the disclosure schedules delivered by Pyramid Oil Company to Yuma Energy, Inc. Pursuant to Item 601(b)(2) of Regulation S-K, Pyramid Oil Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the Amended and Restated Agreement and Plan of Merger and Reorganization to the SEC upon request.

List of Subject Matters in Pyramid Oil Company Disclosure Schedule

5.02	Capitalization
5.03	Non-Contravention; Authorization
5.06	Violation of Law
5.07	Material Contracts
5.10	Litigation; Government Investigations
5.11	Taxes
5.12	Employee Benefit Plans; ERISA; Employment Agreements
5.14	Liabilities
5.17	Environmental Matters
5.18	Insurance
5.22	Title to Assets
7.02	Conduct of Business by Pyramid Pending the Merger
9.02(f)	Consents, Approval and Waivers

List of Subject Matters in Yuma Energy, Inc. Disclosure Schedule

6.01(b)	Company and Subsidiaries
6.02(a)	Capitalization
6.02(b)	Company Stock Plans and Holders of Company Restricted Stock Awards and Restricted Stock Units
6.02(c)	Pending Awards
6.03(c)	Authority; Non-Contravention; Approvals
6.04(c)	Accounting Controls
6.06	Absence of Certain Changes or Events
6.07	Litigation
6.09	No Violation of Law
6.10	Company Material Contracts

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER AND REORGANIZATION

THIS AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER AND REORGANIZATION (this "Agreement") entered into as of August 1, 2014, by and among YUMA ENERGY, INC., a Delaware corporation (the "Company"), PYRAMID OIL COMPANY, a California corporation ("Pyramid"), PYRAMID DELAWARE MERGER SUBSIDIARY, INC., a Delaware corporation and wholly-owned subsidiary of Pyramid ("Delaware Merger Subsidiary"), and PYRAMID MERGER SUBSIDIARY, INC., a Delaware corporation and wholly-owned subsidiary of Pyramid ("Merger Subsidiary").

WHEREAS, the Company, Pyramid, Delaware Merger Subsidiary and Merger Subsidiary have entered into that certain Agreement and Plan of Merger and Reorganization as of February 6, 2014 (the "February 6, 2014 Agreement"); and

WHEREAS, the reincorporation contemplated by the February 6, 2014 Agreement will be abandoned; and

WHEREAS, Delaware Merger Subsidiary will no longer be necessary to effectuate the proposed reincorporation and will therefore be deleted as a party to this Agreement; and

WHEREAS, the parties wish to amend and restate the February 6, 2014 Agreement in its entirety; and

WHEREAS, the respective Boards of Directors of the Company, Pyramid and Merger Subsidiary have determined that this Agreement and the transactions contemplated hereby are fair to, advisable and in the best interests of their respective stockholders, and have approved the Merger (as defined below) and this Agreement, on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Company, Pyramid and Merger Subsidiary intend to effect a merger of Merger Subsidiary with and into the Company (the "Merger"), upon the terms and subject to the conditions of this Agreement and in accordance with the Delaware General Corporation Law (the "DGCL"). Upon consummation of the Merger, Merger Subsidiary will cease to exist, and the Company will continue as a wholly owned subsidiary of Pyramid; and

WHEREAS, in connection with the Merger, the parties desire to make certain representations, warranties, covenants and agreements and prescribe certain conditions to the Merger, as provided herein; and

WHEREAS, as a material inducement to Pyramid and Merger Subsidiary to enter into this Agreement, certain stockholders of the Company shall have concurrently herewith entered into a voting agreement (the "Company Voting Agreement") in substantially the form attached hereto as Exhibit A, pursuant to which, among other things, such stockholders shall have agreed to vote the shares of Company Common Stock (as defined below) beneficially owned by them in favor of the approval and adoption of this Agreement, the approval of the Merger and the approval of the transactions contemplated hereby; and

WHEREAS, as a material inducement to the Company to enter into this Agreement, a major shareholder of Pyramid shall have concurrently herewith entered into a voting agreement (the "Pyramid Voting Agreement") in substantially the form attached hereto as Exhibit B, pursuant to which, among other things, such shareholder shall have agreed to vote the shares of common stock, no par value per share, of Pyramid (the "Pyramid Common Stock"), beneficially owned by him in favor of the approval and adoption of this Agreement, the approval of the Merger and the approval of the transactions contemplated hereby; and

WHEREAS, the parties intend that (a) all references in this Agreement to "the date hereof" or "the date of this Agreement" shall refer to the original execution date of the February 6, 2014 Agreement, and (b) the date on which the representations, warranties and covenants made by any party to this Agreement shall not change as a result of the execution of this Agreement and shall be made as of such dates as they were in the February 6, 2014 Agreement, in each of cases (a) and (b), except as otherwise expressly indicated in this Agreement.

WHEREAS, for U.S. federal income Tax (as such term is defined in Section 5.11(m)) purposes, the parties intend that (a) the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code"), (b) this Agreement will constitute a plan of reorganization within the meaning of U.S. Treasury Regulation Section 1.368-2(g), and (c) Pyramid, Merger Subsidiary and the Company will each be a party to such reorganization within the meaning of Section 368(b) of the Code.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

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ARTICLE II

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ARTICLE III

THE MERGER

SECTION 3.01 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Merger Effective Time (as defined in Section 3.02), Merger Subsidiary shall be merged with and into the Company in accordance with the DGCL. Upon the Merger, the separate corporate existence of Merger Subsidiary shall cease and the Company shall continue as the surviving corporation of the Merger (the "Surviving Corporation") and shall continue its existence under the DGCL.

SECTION 3.02 Effective Time of the Merger. Unless this Agreement is earlier terminated pursuant to the terms hereof, the Merger shall become effective as promptly as practicable following the filing with the Secretary of State of the State of Delaware (the "Secretary of State") of a certificate of merger in accordance with the requirements of the DGCL and the form of which is attached hereto as Exhibit C (the "Certificate of Merger"), in accordance with Section 3.08 hereof. When used in this Agreement, the term "Merger Effective Time" means the date and time at which the Certificate of Merger is accepted by the Secretary of State for filing, or such later time as shall be set forth in the Certificate of Merger.

SECTION 3.03 Effects of the Merger. The Merger shall have the effects provided for in this Agreement and in Section 259 of the DGCL. Without limiting the foregoing, upon the Merger, all the rights, privileges, immunities, powers and franchises of Merger Subsidiary shall vest in the Company and all the obligations, duties, debts and liabilities of Merger Subsidiary shall be the obligations, duties, debts and liabilities of the Company.

SECTION 3.04 Conversion of Shares. At the Merger Effective Time and subject to the other provisions of this Article III, by virtue of the Merger and without any action on the part of the parties or the holders of any of the following securities:

(a) each issued and outstanding share of capital stock of Merger Subsidiary shall be converted into one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation, par value $0.01 per share;

(b) each issued and outstanding share of the common stock, par value $0.01 per share, of the Company ("Company Common Stock"), owned by any subsidiary of the Company, Pyramid or Merger Subsidiary and shares of Company Common Stock held by the Company as treasury stock (all such shares, the "Excluded Shares"), shall automatically be cancelled and retired and shall cease to exist, and no payment or consideration shall be made with respect thereto;

(c) each share of Company Common Stock issued and outstanding immediately prior to the Merger Effective Time (excluding any Excluded Shares and any Dissenting Shares (as such term is defined in Section 3.05(a)) shall no longer be outstanding, shall automatically be cancelled and retired and shall cease to exist, and shall automatically be converted into and exchangeable for the right to receive the Per Share Common Stock Consideration (as such term is defined in Section 3.06(i));

(d) each share of Series A Preferred Stock, par value $0.01 per share, of the Company (the "Series A Preferred Stock"), issued and outstanding immediately prior to the Merger Effective Time shall no longer be outstanding, shall automatically be cancelled and retired and shall cease to exist, and shall automatically be converted into the right to receive that number of whole shares of Pyramid Common Stock equal to the product obtained by multiplying (A) the number of shares of Company Common Stock into which one share of Series A Preferred Stock is convertible immediately prior to the Merger Effective Time by (B) the Per Share Common Stock Consideration;

(e) each share of Series B Preferred Stock, par value $0.01 per share, of the Company (the "Series B Preferred Stock," and together with the Series A Preferred Stock, the "Company Preferred Stock"), issued and outstanding immediately prior to the Merger Effective Time shall no longer be outstanding, shall automatically be cancelled and retired and shall cease to exist, and shall automatically be converted into the right to receive that number of whole shares of Pyramid Common Stock equal to the product obtained by multiplying (A) the number of shares of Company Common Stock into which one share of Series B Preferred Stock is convertible immediately prior to the Merger Effective Time by (B) the Per Share Common Stock Consideration;

(f) each restricted stock unit (each, a "Company RSU") which was issued pursuant any stock option, purchase or award plan, program or arrangement of the Company (collectively, the "Company Stock Plans"), evidenced by an RSU agreement between the holder and the Company (each, a "Company RSU Agreement"), and outstanding immediately prior to the Merger Effective Time, shall be assumed by Pyramid and converted automatically at the Merger Effective Time into a restricted stock unit denominated in Pyramid Common Stock having the same terms and conditions as the Company RSU (each, an "Assumed RSU"), except that (i) each such Company RSU Agreement will entitle the holder, upon vesting and settlement, to that number of whole shares of Pyramid Common Stock equal to the product obtained by multiplying (A) the number of shares of Company Common Stock that were issuable with regard to such Company RSU Agreement immediately prior to the Merger Effective Time by (B) the Per Share Common Stock Consideration, and rounding such product down to the nearest whole number of shares of Pyramid Common Stock, and (ii) all references to the "Company" in the applicable Company Stock Plans and the Company RSU Agreements will be references to Pyramid. The Company will not take any action to accelerate the vesting of any Company RSU (other than to implement any existing agreements or arrangements for such acceleration in effect as of the date of this

Agreement);

(g) each outstanding share of restricted stock of the Company (each, a "Company Restricted Share") under any Company Stock Plan and evidenced by a restricted share agreement between the holder and the Company (each, a "Company Restricted Share Agreement"), that will not vest at or immediately prior to the Merger Effective Time shall be assumed by Pyramid and shall be converted into restricted stock of Pyramid Common Stock with associated rights to the issuance of additional shares of Pyramid Common Stock (the "Assumed Restricted Shares"), as follows: (i) the Assumed Restricted Shares issued pursuant to each Company Restricted Share Agreement will entitle the holder, upon vesting, to that number of whole shares of Pyramid Common Stock equal to the product obtained by multiplying (A) the number of Company Restricted Shares issued pursuant to such Company Restricted Share Agreement immediately prior to the Merger Effective Time by (B) the Per Share Common Stock Consideration, and rounding such product down to the nearest whole number of shares of Pyramid Common Stock, and (ii) all references to the "Company" in the applicable Company Stock Plans and the Company Restricted Share Agreements will be references to Pyramid;

(h) each Company Restricted Share that is not an Assumed Restricted Share (the "Vested Company Restricted Shares") shall vest and such shares of Company Common Stock shall no longer be outstanding, shall automatically be cancelled and retired and shall cease to exist, and shall automatically be converted into and exchangeable for the right to receive the Per Share Common Stock Consideration; and

(i) the Company (or its Board of Directors or the appropriate committee thereof, or the President of the Company, if applicable) shall (i) make any amendments to the terms of the Company Stock Plans, take all corporate action necessary for the adjustment of Company RSUs and Company Restricted Shares, and take any other actions necessary or appropriate to give effect to the transactions contemplated by this Section 3.04, and (ii) take all reasonable actions necessary to ensure that from and after the Merger Effective Time, other than as set forth in this Section 3.04, Pyramid will not be bound by any options, warrants, rights, awards or other arrangements that would entitle any person, other than Pyramid, to beneficially own shares of Pyramid or receive any payments in respect of such options, warrants, rights, awards or arrangements.

SECTION 3.05 Dissenting Shares. For purposes of this Agreement, the term "Dissenting Shares" means shares of Company Common Stock and Company Preferred Stock held immediately prior to the Merger Effective Time by a holder of Company Common Stock and Company Preferred Stock (each, a "Company Stockholder"), who did not vote in favor of the Merger (or consent thereto in writing) and with respect to which demand to the Company for purchase of such shares is duly made and perfected in accordance with Section 262 of the DGCL and not subsequently and effectively withdrawn or forfeited. Notwithstanding the provisions of Section 3.04(c) or any other provision of this Agreement to the contrary, Dissenting Shares shall not be converted into or be exchangeable for the right to receive the Merger Consideration at or after the Merger Effective Time (and at the Merger Effective Time, such Dissenting Shares shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist), but shall entitle the holder thereof to receive such consideration as may be determined to be due to holders pursuant to the DGCL, unless and until the holder of such Dissenting Shares withdraws his or her demand for such appraisal in accordance with the DGCL or becomes ineligible for such appraisal. If a holder of Dissenting Shares shall withdraw his or her demand for such appraisal or shall become ineligible for such appraisal (through failure to perfect or otherwise), then, as of the Merger Effective Time or the occurrence of such event, whichever last occurs, such holder's Dissenting Shares shall automatically be converted into and represent the right to receive the Merger Consideration, as provided in Section 3.04 and in accordance with the DGCL.

(a) The Company shall give Pyramid (i) prompt notice of any demands received by the Company for appraisal of shares of Company Common Stock or Company Preferred Stock and (ii) the opportunity to participate in negotiations and proceedings with respect to any such demands.

SECTION 3.06 Payment of Merger Consideration.

(a) Prior to the Merger Effective Time, Pyramid shall appoint an agent, reasonably satisfactory to the Company, to act as disbursing agent (the "Disbursing Agent") for the payment of the Merger Consideration upon surrender of certificates representing shares of Company Common Stock and Company Preferred Stock (the "Certificates"). At or prior to the Merger Effective Time, Pyramid shall deposit or cause to be deposited with the Disbursing Agent in trust for the benefit of the Company Stockholders (i) certificates representing the shares of Pyramid Common Stock (or make appropriate alternative arrangements if uncertificated shares of Pyramid Common Stock represented by a book entry will be issued) sufficient to pay the Merger Consideration, and (ii) as needed, cash sufficient to make payments in lieu of issuing fractional shares of Pyramid Common Stock in accordance with Section 3.06(e).

(b) Promptly after the Merger Effective Time, Pyramid shall cause the Disbursing Agent to mail to each individual, corporation, limited liability company, partnership, association, joint venture, unincorporated organization, trust or any other entity, including a governmental authority (each, a "person"), who was a record holder as of the Merger Effective Time of a Certificate which immediately prior to the Merger Effective Time represented shares of Company Common Stock or Company Preferred Stock, and whose shares were converted into the right to receive the Merger Consideration pursuant to Section 3.04, a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Disbursing Agent, and which shall be in such form and shall have such other customary provisions as Pyramid may reasonably specify) and instructions for use in effecting the surrender of the Certificates in exchange for payment of the Merger Consideration. Upon surrender to the Disbursing Agent of a Certificate, together with such letter of transmittal duly executed and such other documents as may be reasonably required by the Disbursing Agent, the holder of such Certificate shall be paid promptly in exchange therefor the Merger Consideration and such Certificate shall forthwith be canceled. If payment is to be made to a person other than the person in whose name the Certificate surrendered is registered, it shall be a condition of payment that the Certificate so surrendered be properly endorsed or otherwise be in proper form for transfer and that the person requesting such payment pay any transfer or other taxes required by reason of the payment of the Merger Consideration to a person other than the registered holder of the Certificate surrendered or establish to the satisfaction of Pyramid that such Tax has been paid or is not applicable. Until surrendered in accordance with the provisions of this Section 3.06, each Certificate (other than Certificates representing Excluded Shares and other than Certificates representing Dissenting Shares) shall represent for all purposes only the right to receive, as and when payable hereunder, the applicable amount of the Merger Consideration in accordance with Section 3.04.

(c) From and after the Merger Effective Time, there shall be no registration of transfers of shares of Company Common Stock or Company Preferred Stock which were outstanding immediately prior to the Merger Effective Time on the stock transfer books of the Surviving Corporation. From and after the Merger Effective Time, the holders of shares of Company Common Stock or Company Preferred Stock outstanding immediately prior to the Merger Effective Time shall cease to have any rights with respect to such shares of Company Common Stock or Company Preferred Stock except as otherwise provided in this Agreement or by applicable law. All Merger Consideration paid upon the surrender of Certificates in accordance with the terms of this Article III shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock or Company Preferred Stock previously represented by such Certificates. If, after the Merger Effective Time, Certificates are presented to Pyramid or the Surviving Corporation for any reason, such Certificates shall be cancelled and exchanged as provided in this Article III. At the close of business on the day of the Merger Effective Time, the stock ledger of the Company shall be closed.

(d) If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by Pyramid, the posting by such person of a bond, in such reasonable amount as Pyramid may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the Disbursing Agent will pay, in exchange for such lost, stolen or destroyed Certificate, the Merger Consideration to be paid in respect of the shares of Company Common Stock, Company Preferred Stock or Vested Company Restricted Shares formerly represented by such Certificate, as contemplated by this Article III.

(e) No fraction of a share of Pyramid Common Stock shall be issued by virtue of the Merger, but in lieu thereof each holder of shares of Company Common Stock or Company Preferred Stock who would otherwise be entitled to a fraction of a share of Pyramid Common Stock in connection with the Merger (after aggregating all fractional shares of Pyramid Common Stock to be received by such holder) shall receive from Pyramid an amount of cash (rounded down to the nearest whole cent), without interest, equal to the product obtained by multiplying (x) such fraction, by (y) the average closing price of one share of Pyramid Common Stock for the five consecutive trading days ending on the trading day immediately prior to the Merger Effective Time, as reported on the NYSE MKT.

(f) At any time after 180 days after the Merger Effective Time, Pyramid shall be entitled to require the Disbursing Agent to deliver to it any Merger Consideration which had been deposited by Pyramid with the Disbursing Agent and not disbursed in exchange for Certificates. Thereafter, holders of shares of Company Common Stock and Company Preferred Stock shall look only to Pyramid (subject to the terms of this Agreement and abandoned property, escheat and other similar laws) as general creditors thereof with respect to any Merger Consideration that may be payable upon surrender of the Certificates held by them. If any Certificates shall not have been surrendered prior to two years after the Merger Effective Time (or immediately prior to such time on which any payment in respect thereof would otherwise escheat or become the property of any governmental unit or agency), the payment in respect of such Certificates shall, to the extent permitted by applicable law, become the property of Pyramid, free and clear of all claims or interest of any person previously entitled thereto. Notwithstanding the foregoing, none of Pyramid, the Company, the Surviving Corporation or the Disbursing Agent shall be liable to any holder of a share of Company Common Stock or Company Preferred Stock for any Merger Consideration delivered in respect of such share of Company Common Stock or Company Preferred Stock to a public official pursuant to any abandoned property,

escheat or other similar law.

(g) Pyramid and the Disbursing Agent shall be entitled to deduct and withhold from the Merger Consideration otherwise payable to a holder of shares of Company Common Stock or Company Preferred Stock pursuant to this Agreement such amounts as may be required to be deducted and withheld with respect to the making of such payment under the Code, or under any provision of state, local or foreign Tax law. To the extent amounts are so withheld and paid over to the appropriate taxing authority, the withheld amounts shall be treated for all purposes of this Agreement as having been paid to the person in respect of which such deduction and withholding was made.

(h) If, between the date of this Agreement and the Merger Effective Time, the shares of Pyramid Common Stock shall be changed or proposed to be changed into a different number or class of shares by reason of the occurrence of or record date with respect to any reclassification, recapitalization, split-up, combination, exchange of shares or similar readjustment, in any such case within such period, or a stock dividend thereon shall be declared with a record date within such period, appropriate adjustments shall be made to the Merger Consideration (as such term is defined below in Section 3.06(i).

(i) Merger Consideration Definitions.

(a) The term "Per Share Common Stock Consideration" shall mean the quotient of (i) the Merger Consideration divided by (ii) the Closing Company Share Number.

(b) The term "Closing Company Share Number" shall mean the sum of (i) the aggregate number of shares of Company Common Stock outstanding immediately prior to the Merger Effective Time, plus (ii) the aggregate number of shares of Company Common Stock issuable upon the conversion of shares of Series A Preferred Stock and Series B Preferred Stock outstanding immediately prior to the Merger Effective Time, and plus (iii) the aggregate number of Company Restricted Shares outstanding immediately prior to the Merger Effective Time. For avoidance of doubt, Dissenting Shares shall not be deemed outstanding immediately prior to the Merger Effective Time for purposes of determining the Closing Company Share Number.

(c) The term "Merger Consideration" shall mean the result of (i) the Initial Merger Consideration less (ii) the Aggregate Dissenting Share Amount, as adjusted pursuant to Section 3.06(h).

(d) The term "Initial Merger Consideration" shall mean Sixty-Six Million, Three Hundred Thirty-Six Thousand, Seven Hundred and One (66,336,701) shares of newly issued Pyramid Common Stock, as adjusted pursuant to Section 3.06(h).

(e) The term "Initial Per Share Consideration" shall mean the quotient of (i) the Initial Merger Consideration divided by (ii) the Initial Company Share Number.

(f) The term "Initial Company Share Number" shall mean the sum of (i) the aggregate number of shares of Company Common Stock outstanding immediately prior to the Merger Effective Time, plus (ii) the aggregate number of shares of Company Common Stock issuable upon the conversion of shares of Series A Preferred Stock and Series B Preferred Stock outstanding immediately prior to the Merger Effective Time, plus (iii) the aggregate number of Company Restricted Shares outstanding immediately prior to the Merger Effective Time, and plus (iv) the Aggregate Converted Dissenting Shares. For avoidance of doubt, Dissenting Shares shall not be deemed outstanding immediately prior to the Merger Effective Time for purposes of determining the Initial Company Share Number.

(g) The term "Aggregate Converted Dissenting Shares" shall mean the sum of (i) the aggregate number of shares of Company Common Stock that are deemed Dissenting Shares immediately prior to the Merger Effective Time plus (ii) the aggregate number of shares of Company Common Stock issuable upon the conversion of shares of Series A Preferred Stock and Series B Preferred Stock that are deemed Dissenting Shares immediately prior to the Merger Effective Time.

(h) The term "Aggregate Dissenting Share Amount" shall mean the product of (i) the Aggregate Converted Dissenting Shares multiplied by (ii) the Initial Per Share Consideration, and rounding the product down to the nearest whole number.

SECTION 3.07 The Closing. The consummation of Merger (the "Closing") shall take place at the offices of TroyGould PC, 1801 Century Park East, 16th Floor, Los Angeles, California 90067, which shall be no later than the second business day following the satisfaction or waiver of all conditions set forth in Article IX (other than those conditions that by their nature are to be satisfied at the Closing) or such other place and date as the parties may mutually determine (the "Closing Date"). As soon as practicable following the Closing, the Company and Merger Subsidiary shall file with the Secretary of State the duly executed Certificate of Merger and such other documents as may be required by the DGCL, and the parties shall take all such other and further actions as may be required by law to make the Merger effective.

SECTION 3.08 Tax Consequences. It is the intention of the parties hereto that the Merger qualify as a reorganization under Section 368(a) of the Code.

ARTICLE IV

THE SURVIVING CORPORATION OF THE MERGER; DIRECTORS AND OFFICERS

SECTION 4.01 Certificate of Incorporation. The certificate of incorporation of Merger Subsidiary in effect at the Merger Effective Time shall be the certificate of incorporation of the Surviving Corporation, except that the name of the Surviving Corporation shall be changed to "The Yuma Companies, Inc.," unless and until amended in accordance with applicable law and the terms of this Agreement.

SECTION 4.02 Bylaws. The bylaws of Merger Subsidiary in effect at the Merger Effective Time shall be the bylaws of the Surviving Corporation, unless and until amended in accordance with applicable law.

SECTION 4.03 Directors and Officers. The persons who are directors and officers of the Company immediately prior to the Merger Effective Time shall be the directors and officers of the Surviving Corporation in their same positions and shall hold office in accordance with the DGCL, the certificate of incorporation of the Surviving Corporation and the bylaws of Surviving Corporation.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PYRAMID AND MERGER SUBSIDIARY

Pyramid and Merger Subsidiary (each, a "Pyramid Entity," and collectively, the "Pyramid Entities"), jointly and severally, represent and warrant to the Company that, except as set forth in the disclosure schedule delivered to the Company by Pyramid at or prior to the execution and delivery of the February 6, 2014 Agreement (the "Pyramid Disclosure Schedule"), which shall be arranged in sections corresponding to the numbered sections of this Article V, it being agreed that disclosure of any item on the Pyramid Disclosure Schedule shall be deemed disclosure with respect to all Sections of this Agreement if the relevance of such item is reasonably apparent from the face of the Pyramid Disclosure Schedule:

SECTION 5.01 Organization and Qualification. Each of the Pyramid Entities is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite corporate power and authority to own, lease and operate its assets and properties and to carry on its business as it is now being conducted. Each of the Pyramid Entities is duly qualified and licensed to transact business and is in good standing in each jurisdiction in which the properties owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so organized, existing, qualified, licensed and in good standing would not reasonably be expected to have a Pyramid Material Adverse Effect (as hereinafter defined). In this Agreement, the term "Pyramid Material Adverse Effect" means any change, event, circumstance, development or occurrence (other than an effect arising out of or resulting from the entering into or the public announcement or disclosure of this Agreement and the transactions contemplated hereby) that, individually or in the aggregate, (i) has a material adverse effect on the business, financial condition or ongoing operations of Pyramid or (ii) has a material adverse effect on Pyramid's ability to consummate the Merger; *provided, however*, that in no event shall a decrease in Pyramid's stock price by itself constitute a Pyramid Material Adverse Effect. True, accurate and complete copies of Pyramid's Restated Articles of Incorporation and Amended and Restated Bylaws and Merger Subsidiary's Certificate of Incorporation and Bylaws, in each case, as in effect on the date hereof, including all amendments thereto, have heretofore been made available to the Company.

SECTION 5.02 Capitalization.

(a) The authorized capital stock of Pyramid consists of 50,000,000 shares of Pyramid Common Stock and 10,000,000 shares of preferred stock, no par value ("Pyramid Preferred Stock") of Pyramid. As of the date hereof, (i) 4,688,085 shares of Pyramid Common Stock are issued and outstanding, all of which have been duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights, (ii) no shares of Pyramid Preferred Stock are issued and outstanding, (iii) no shares of Pyramid capital stock are held in treasury by Pyramid, and (iv) 105,000 shares of Pyramid Common Stock are reserved for issuance upon exercise of Pyramid Options.

(b) The shares of Pyramid Common Stock to be issued pursuant to the Merger, when issued and delivered in accordance with this Agreement, will be duly authorized, validly issued, fully paid and non-assessable and issued in compliance with federal and state securities laws.

(c) Except for the Pyramid Options, there are no outstanding subscriptions, options, calls, contracts, commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement and also including any rights plan or other anti-takeover agreement, obligating Pyramid or any subsidiary of Pyramid to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of Pyramid or obligating Pyramid or any subsidiary of Pyramid to grant, extend or enter into any such agreement or commitment. There are no outstanding stock appreciation rights or similar derivative securities or rights of Pyramid or any subsidiary of Pyramid. Except for the Pyramid Voting Agreement, there are no voting trusts, irrevocable proxies or other agreements or understandings to which Pyramid or any subsidiary of Pyramid is a party or is bound with respect to the voting of any shares of Pyramid Common Stock.

(d) Except as provided in Section 5.02 of the Pyramid Disclosure Schedule, Pyramid has no subsidiaries other than Delaware Merger Subsidiary and Merger Subsidiary, and does not own any equity interest in any entity other than Delaware Merger Subsidiary and Merger Subsidiary. Delaware Merger Subsidiary and Merger Subsidiary do not have any subsidiaries.

SECTION 5.03 Authority; Non-Contravention; Approvals.

(a) Pyramid has the requisite corporate power and authority to enter into this Agreement and, subject to Pyramid Shareholder Approval (as defined below), to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery by Pyramid of this Agreement, the performance by Pyramid of its obligations hereunder, and the consummation by Pyramid of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of Pyramid, subject only to the approval of the Pyramid

Shareholder Approval Matters (as defined in Section 7.08) by the shareholders of Pyramid. The affirmative vote of the holders of a majority of the outstanding shares of Pyramid Common Stock outstanding on the applicable record date ("Pyramid Shareholder Approval") is the only vote of the holders of any class or series of Pyramid's capital stock necessary to adopt or approve the Pyramid Shareholder Approval Matters. This Agreement has been duly executed and delivered by each of the Pyramid Entities, and, assuming the due authorization, execution and delivery hereof by the Company, constitutes a valid and legally binding agreement of each of the Pyramid Entities, enforceable against the Pyramid Entities in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

(b) Pyramid's Board of Directors, by resolutions duly adopted by unanimous vote at a meeting of all directors of Pyramid duly called and held and, as of the date hereof, not subsequently rescinded or modified in any way, has, as of the date hereof (i) approved this Agreement and the Merger, and determined that this Agreement and the transactions contemplated hereby, including the Merger, are fair to, and in the best interests of Pyramid shareholders, and (ii) resolved to recommend that Pyramid's shareholders approve the Pyramid Shareholder Approval Matters and directed that such matters be submitted for consideration of the shareholders of Pyramid at the Pyramid Shareholders' Meeting. The Board of Directors of Merger Subsidiary, at a meeting duly called and held, has unanimously approved this Agreement and the Merger. Pyramid, in its capacity as the sole stockholder of Delaware Merger Subsidiary and Merger Subsidiary, hereby approves of this Agreement.

(c) The execution, delivery and performance of this Agreement by each of the Pyramid Entities and the consummation of the Merger and the other transactions contemplated hereby do not and will not violate, conflict with or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration under, contractually require any offer to purchase or any prepayment of any debt, or result in the creation of any lien, security interest or encumbrance upon any of the properties or assets of Pyramid under any of the terms, conditions or provisions of (i) the Restated Articles of Incorporation or the Amended and Restated Bylaws of Pyramid, (ii) subject to compliance with the requirements set forth in clauses (i)-(v) of Section 5.03(d) and obtaining the Pyramid Shareholder Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any court or governmental authority applicable to Pyramid or any Pyramid subsidiary or any of their respective properties or assets, or (iii) any contract, agreement, commitment or understanding to which Pyramid or any Pyramid subsidiary is now a party or by which Pyramid or any Pyramid subsidiary or any of their respective properties or assets may be bound or affected, except as provided in Section 5.03 of the Pyramid Disclosure Schedule, and other than, in the case of clauses (ii) and (iii) of this Section 5.03(c), such violations, conflicts, breaches, defaults, terminations, accelerations, contractual requirements or creations of liens, security interests or encumbrances that would not reasonably be expected, individually or in the aggregate, to have a Pyramid Material Adverse Effect and would not prevent or materially delay the consummation of the Merger.

(d) Except for (i) the filing with the Securities and Exchange Commission (the "SEC") of a Registration Statement on Form S-4 under the Securities Act of 1933, as amended (the "Securities Act"), by Pyramid, with respect to the transactions contemplated hereby (the "Registration Statement") and applicable filings pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including the filing with the SEC of Pyramid's proxy statement relating to the Pyramid Shareholders' Meeting (the "Proxy Statement/Prospectus"), (ii) the filing of the Certificate of Merger with the Secretary of State in connection with the Merger, (iii) the filing of a Current Report on Form 8-K with the SEC within four business days after the execution of this Agreement and on the Closing Date, (iv) filings with the Secretary of State and the secretary of state of the State of California in connection with the amendments to its articles of incorporation in the form attached hereto as Exhibit D (the "Pyramid Restated Articles"), and (v) such approvals as may be required under applicable state securities or "blue sky" laws or the rules and regulations of the NYSE MKT, and except as provided in Section 5.03 of the Pyramid Disclosure Schedule, no declaration, filing or registration with, or notice to, or authorization, consent or approval, ratification or permission of (any of the foregoing being a "Consent"), any governmental or regulatory body or authority or other person is necessary under any Pyramid Material Contract or otherwise for the execution and delivery of this Agreement by Pyramid or Merger Subsidiary or the consummation by Pyramid or Merger Subsidiary of the transactions contemplated hereby, other than such Consents which, if not made or obtained, as the case may be, would not reasonably be expected,

individually or in the aggregate, to have a Pyramid Material Adverse Effect and would not prevent or materially delay the consummation of the Merger.

(e) The Board of Directors of Pyramid has approved the Merger and this Agreement and the transactions contemplated hereby and thereby, and such approval is sufficient to render inapplicable to the Merger and this Agreement and the transactions contemplated hereby the anti-takeover provisions of the California Corporation Code ("CCC") to the extent, if any, such provisions are applicable to the Merger, this Agreement, and the transactions contemplated hereby and thereby. No other state takeover, control share, fair price or similar statute or regulation applies to or purports to apply to Pyramid with respect to the Merger, this Agreement, or the transactions contemplated hereby and thereby.

SECTION 5.04 Reports and Financial Statements.

(a) Since January 1, 2011, Pyramid has timely filed with the SEC all material forms, statements, reports, certifications and documents, including all exhibits, post-effective amendments and supplements thereto (the "Pyramid SEC Reports"), required to be filed by it under each of the Securities Act, the Exchange Act and the respective rules and regulations thereunder, all of which, as amended if applicable, complied when filed, or amended, in all material respects with all applicable requirements of the appropriate act and the rules and regulations thereunder. As of their respective dates, the Pyramid SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent corrected by a subsequent Pyramid SEC Report filed with the SEC prior to the date hereof.

(b) The financial statements of Pyramid included in the Pyramid SEC Reports (collectively, the "Pyramid Financial Statements") were prepared in accordance with generally accepted accounting principles (except, with respect to any unaudited financial statements, as permitted by applicable SEC rules or requirements) applied on a consistent basis (except as may be indicated therein or in the notes thereto) and fairly present in all material respects the financial position of Pyramid as of the dates thereof and the results of operations and changes in financial position of Pyramid for the periods then ended (subject, in the case of any unaudited interim financial statements, to normal year-end adjustments).

SECTION 5.05 Proxy Statement/Prospectus. None of the information to be supplied by any of the Pyramid Entities for inclusion in the Proxy Statement/Prospectus will, at the time of the mailing thereof or any amendments or supplements thereto, or at the time of the Pyramid Shareholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement will comply, as of its effective date, as to form in all material respects with all applicable laws, including the provisions of the Securities Act and the rules and regulations promulgated thereunder. Notwithstanding the foregoing, no representation or warranty is made by any Pyramid Entity with respect to statements made or incorporated by reference therein supplied by the Company in writing expressly for inclusion or incorporation by reference in the Proxy Statement/Prospectus or Registration Statement.

SECTION 5.06 No Violation of Law. No Pyramid Entity is in violation of or has been given written (or, to the knowledge of any Pyramid Entity, oral) notice of any violation of any law, statute, order, rule, regulation, ordinance or judgment of any governmental or regulatory body or authority, except for violations which would not reasonably be expected, individually or in the aggregate, to have a Pyramid Material Adverse Effect. Neither Pyramid nor any Pyramid subsidiary is in violation of the terms of any permits, licenses, franchises, variances, exemptions, orders and other governmental Consents necessary to conduct their businesses as presently conducted, except for delays in filing reports or violations which would not reasonably be expected, individually or in the aggregate, to have a Pyramid Material Adverse Effect.

SECTION 5.07 Material Contracts; Compliance with Contracts. Section 5.07 of the Pyramid Disclosure Schedule includes a list of each contract to which Pyramid is a party or by which Pyramid or its assets are bound or affected as of the date hereof which is required to be disclosed in the Pyramid SEC Reports (each, a "Pyramid Material Contract"). With respect to each Pyramid Material Contract (i) the Pyramid Material Contract is legal, valid, binding and enforceable and in full force and effect with respect to Pyramid, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity) and (ii) Pyramid is not in material breach or violation of or in material default in the performance or observance of any term or provision of, and, to the knowledge of Pyramid, no event has occurred which, with lapse of time or action by a third party, would result in a default under, the Material Contract.

SECTION 5.08 Brokers and Finders. Except for fees payable to Roth Capital Partners pursuant to an engagement letter, dated December 19, 2013, Pyramid has not entered into any contract with any person that may result in the obligation of Pyramid to pay any investment banking fees, finder's fees or brokerage fees in connection with the transactions contemplated hereby. Pyramid has provided to the Company a true, correct and complete copy of any and all engagement or retention agreements with financial advisors or other advisors, to which Pyramid is a party and which are related to the transactions contemplated hereby.

SECTION 5.09 No Prior Activities of Merger Subsidiary. Except for obligations incurred in connection with its incorporation or organization and the negotiation, execution and consummation of this Agreement and the transactions contemplated hereby, Merger Subsidiary has not incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any person.

SECTION 5.10 Litigation; Government Investigations. There are no material claims, suits, actions, proceedings, arbitrations or other actions pending or, to the knowledge of Pyramid, threatened against, relating to or affecting Pyramid, before any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator. No material investigation or review by any governmental or regulatory body or authority is pending or, to the knowledge of Pyramid, threatened, nor has any governmental or regulatory body or authority indicated an intention to conduct the same. Pyramid is not subject to any judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator, or any settlement agreement or stipulation, which as of the date hereof prohibits the consummation of the transactions contemplated hereby or would reasonably be expected, individually or in the aggregate, to have a Pyramid Material Adverse Effect.

SECTION 5.11 Taxes.

(a) Pyramid has timely (i) filed with the appropriate governmental authorities all material Tax Returns (as defined in Section 5.11(m)) required to be filed by it, and such Tax Returns are true, correct and complete in all material respects, and (ii) paid in full or reserved in accordance with generally accepted accounting principles on the Pyramid Financial Statements all material Taxes (as defined in Section 5.11(m) required to be paid. Pyramid has not requested an extension of time within which to file a material Tax Return, which has not been since filed. There are no liens for Taxes upon any property or asset of Pyramid, other than liens for Taxes not yet due and payable or Taxes contested in good faith by appropriate proceedings or that are otherwise not material and reserved against in accordance with generally accepted accounting principles. No deficiency with respect to Taxes has been proposed, asserted or assessed in writing against Pyramid, which has not been fully paid or adequately reserved or reflected in the Pyramid SEC Reports, and there are no material unresolved issues of law or fact arising out of a notice of a deficiency, proposed deficiency or assessment from the Internal Revenue Service or any other governmental taxing authority with respect to Taxes of Pyramid. Pyramid has not agreed to an extension of time with respect to a Tax deficiency, other than extensions which are no longer in effect. Pyramid has not received (A) notice from any federal taxing authority of its intent to examine or audit any of Pyramid's or any of its subsidiaries' Tax Returns or (B) notice from any state taxing authority of its intent to examine or audit any of Pyramid's or any of its subsidiaries' Tax Returns, other than notices with respect to examinations or audits by any state taxing authority that have not had and would not

reasonably be expected to have a Material Adverse Effect on Pyramid. Pyramid is not a party to any agreement providing for the allocation or sharing of Taxes with any entity other than agreements the consequences of which are fully and adequately reserved for in the Pyramid Financial Statements. Pyramid has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the five-year period ending on the date hereof.

(b) Pyramid has withheld and paid each material Tax required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder or other party, and materially complied with all information reporting and backup withholding provisions of applicable law.

(c) The statutes of limitations for the federal income Tax Returns of Pyramid have expired or otherwise have been closed for all taxable periods ending on or before December 31, 2007.

(d) Since December 31, 2007, no Pyramid Entity has entered into an agreement or waiver extending any statute of limitations relating to the payment or collection of a material amount of Taxes, nor is any request for such a waiver or extension pending.

(e) No Pyramid Entity is the subject of or bound by any material private letter ruling, technical advice memorandum, closing agreement or similar material ruling, memorandum of agreement with any taxing authority.

(f) No Pyramid Entity has entered into, has any liability in respect of, or has any filing obligations with respect to, any "reportable transactions," as defined in Section 1.6011-4(b)(1) of the U.S. Treasury Regulations.

(g) No Pyramid Entity will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date under Section 481(c) of the Code (or any corresponding or similar provision of state, local or foreign Tax law), (ii) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Tax law) executed on or prior to the Closing Date, or (iii) deferred intercompany gain or excess loss account described in the U.S. Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or foreign Tax law).

(h) No Pyramid Entity has taken or agreed to take any action or knows of any fact, agreement, plan or other circumstance that would be reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(i) Pyramid has made available to the Company correct and complete copies of (i) all U.S. federal income Tax Returns of Pyramid relating to taxable periods ending on or after December 31, 2007, filed through the date hereof and (ii) any material audit report within the last three years relating to any material Taxes due from or with respect to Pyramid.

(j) No jurisdiction where Pyramid does not file a Tax Return has made a claim that Pyramid is required to file a Tax Return for a material amount of Taxes for such jurisdiction.

(k) Within the last three years, No Pyramid Entity has owned any material assets located outside the United States or conducted a material trade or business outside the United States.

(l) Except as set forth in Section 5.11(l) of the Pyramid Disclosure Schedule, all of the transactions which Pyramid has accounted for as hedges under the Statement of Financial Accounting Standards ("SFAS") 133 have also been treated as hedging transactions for federal income Tax purposes pursuant to U.S. Treasury Regulation Section 1.1221-2 and have been properly identified as such under U.S. Treasury Regulation Section 1.1221-2(f).

(m) For purposes of this Agreement, "Tax" (including, with correlative meaning, the terms "Taxes") means all federal, state, local and foreign taxes, charges, fees, imposts, levies or other assessments, including all net income, profits, franchise, gross receipts, environmental, customs duty, capital stock, communications services, severance, stamp, payroll, sales, employment, unemployment, disability, social security, occupation, use, property, withholding, excise, production, value added, occupancy, capital, ad valorem, transfer, inventory, license, customs duties, fees, assessments and charges of any kind whatsoever and other taxes, duties or assessments of any nature whatsoever, together with all interest, penalties, fines and additions imposed with respect to such amounts and any interest in respect of such penalties and additions, and includes any liability for Taxes of another person by contract, as a transferee or successor, under Treas. Reg. Section 1.1502-6 or analogous state, local or foreign law provision or otherwise, and "Tax Return" means any return, report, claim for refund, estimate, information return or statement or other similar document (including attached schedules) relating to or required to be filed with respect to any Tax, including, any information return, claim for refund, amended return or declaration of estimated Tax.

SECTION 5.12 Employee Benefit Plans; ERISA; Employment Agreements.

(a) Section 5.12(a) of the Pyramid Disclosure Schedule contains a complete and accurate list of each plan, program, policy, practice, contract, agreement or other arrangement providing for employment, compensation, retirement, deferred compensation, loans, severance, separation, relocation, termination pay, performance awards, bonus, incentive, stock option, stock purchase, stock bonus, phantom stock, stock appreciation right, change in control, supplemental retirement, fringe benefits, cafeteria benefits, salary continuation, vacation, sick, or other paid leave, employment or consulting, hospitalization or other medical, dental, life (including all individual life insurance policies as to which Pyramid is the owner, the beneficiary or both) or other insurance or coverage, disability, death benefit, or other benefits, whether written or unwritten, including without limitation each "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which is or has been sponsored, maintained, contributed to, or required to be contributed to by Pyramid and, with respect to any such plans which are subject to Code Section 401(a), any trade or business (whether or not incorporated) that is or at any relevant time was treated as a single employer with Pyramid within the meaning of Section 414(b), (c), (m) or (o) of the Code (an "ERISA Affiliate") for the benefit of any person who performs or who has performed services for Pyramid or with respect to which Pyramid or any ERISA Affiliate of Pyramid has or may have any liability (including without limitation contingent liability) or obligation (collectively, the "Pyramid Employee Plans").

(b) Pyramid has furnished to the Company true and complete copies of documents embodying each of Pyramid Employee Plans and related plan documents, including without limitation trust documents, group annuity contracts, plan amendments, insurance policies or contracts, participant agreements, employee booklets, administrative service agreements, summary plan descriptions, compliance and nondiscrimination tests for the last three plan years, standard Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") forms and related notices, registration statements and prospectuses and, to the extent still in its possession, any material employee communications relating thereto. With respect to each Pyramid Employee Plan, if any, that is subject to ERISA reporting requirements, Pyramid has provided copies of the Form 5500 reports filed for the last five plan years.

(c) Compliance. (i) Each Pyramid Employee Plan has been administered in accordance with its terms and in compliance with the requirements prescribed by any and all statutes, rules and regulations (including ERISA and the Code), except as could not reasonably be expected to have, individually or in the aggregate, a Pyramid Material Adverse Effect; and Pyramid and each ERISA Affiliate of Pyramid have performed all material obligations required to be performed by them under, are not in material respect in default under or violation of and have no knowledge of any material default or violation by any other party to, any of Pyramid Employee Plans; (ii) any Pyramid Employee Plan intended to be qualified under Section 401(a) of the Code has either obtained from the Internal Revenue Service a favorable determination letter as to its qualified status under the Code, including all currently effective amendments to the Code, or has time remaining to apply under applicable U.S. Treasury Regulations or Internal Revenue Service pronouncements for a determination or opinion letter and to make any amendments necessary to obtain a favorable determination or opinion letter; (iii) none of Pyramid Employee Plans promises or provides retiree medical or other retiree welfare benefits to any person; (iv) there has been no "prohibited transaction," as such term is defined in Section 406 of ERISA or Section 4975 of the Code, with respect to any Pyramid Employee Plan; (v) none of Pyramid or, to the knowledge of Pyramid, any ERISA Affiliate of Pyramid is subject to any liability or penalty under

Sections 4976 through 4980 of the Code or Title I of ERISA with respect to any Pyramid Employee Plan; (vi) all contributions required to be made by Pyramid or any ERISA Affiliate of Pyramid to any Pyramid Employee Plan have been timely paid and accrued; (vii) with respect to each Pyramid Employee Plan, no "reportable event" within the meaning of Section 4043 of ERISA (excluding any such event for which the thirty day notice requirement has been waived under the regulations to Section 4043 of ERISA) nor any event described in Section 4062, 4063 or 4041 of ERISA has occurred; (viii) each Pyramid Employee Plan subject to ERISA has prepared in good faith and timely filed all requisite governmental reports, which were true and correct as of the date filed, and has properly and timely filed and distributed or posted all notices and reports to employees required to be filed, distributed or posted with respect to each such Pyramid Employee Plan; (ix) no suit, administrative proceeding, action or other litigation has been brought, or to the knowledge of Pyramid is threatened, against or with respect to any such Pyramid Employee Plan, including any audit or inquiry by the Internal Revenue Service or United States Department of Labor; and (x) there has been no amendment to, written interpretation or announcement by Pyramid or any ERISA Affiliate of Pyramid that would materially increase the expense of maintaining any Pyramid Employee Plan above the level of expense incurred with respect to that Pyramid Employee Plan for the most recent fiscal year included in Pyramid Financial Statements. No current or former officer, director, employee, leased employee, consultant or agent (or their respective beneficiaries) of Pyramid or a subsidiary has or will obtain a right to receive a gross-up payment from Pyramid or a subsidiary with respect to any Tax that may be imposed upon such individual pursuant to Section 409A of the Code, Section 4999 of the Code or otherwise.

(d) Neither Pyramid nor any ERISA Affiliate of Pyramid has ever maintained, established, sponsored, participated in, contributed to, or is obligated to contribute to, or otherwise incurred any obligation or liability (including without limitation any contingent liability) under any "multiemployer plan" (as defined in Section 3(37) of ERISA) or to any "pension plan" (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA or Section 412 of the Code. None of Pyramid or any ERISA Affiliate of Pyramid has any actual or potential withdrawal liability (including without limitation any contingent liability) for any complete or partial withdrawal (as defined in Sections 4203 and 4205 of ERISA) from any multiemployer plan.

(e) With respect to each Pyramid Employee Plan, Pyramid has complied with (i) the applicable health care continuation and notice provisions of the COBRA and the regulations thereunder or any state law governing health care coverage extension or continuation; (ii) the applicable requirements of the Family and Medical Leave Act of 1993 and the regulations thereunder; (iii) the applicable requirements of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"); and (iv) the applicable requirements of the Cancer Rights Act of 1998. Pyramid has no unsatisfied obligations to any employees, former employees or qualified beneficiaries pursuant to COBRA, HIPAA or any state law governing health care coverage extension or continuation.

(f) The consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former employee or other service provider of Pyramid or any ERISA Affiliate of Pyramid to severance benefits or any other payment (including without limitation unemployment compensation, golden parachute, bonus or benefits under any Pyramid Employee Plan), except as expressly provided in this Agreement; or (ii) accelerate the time of payment or vesting of any such benefits or increase the amount of compensation due any such employee or service provider. No benefit payable or that may become payable by Pyramid pursuant to any Pyramid Employee Plan or as a result of or arising under this Agreement shall constitute an "excess parachute payment" (as defined in Section 280G(b)(1) of the Code) subject to the imposition of an excise Tax under Section 4999 of the Code or the deduction for which would be disallowed by reason of Section 280G of the Code and no such benefit will fail to be deductible for federal income Tax purposes by virtue of Section 162(m) of the Code. Each Pyramid Employee Plan can be amended, terminated or otherwise discontinued after the Merger Effective Time in accordance with its terms, without material liability to Pyramid or the Company other than ordinary administration expenses typically incurred in a termination event. Pyramid will terminate its 5304-Simple Plan effective immediately before the Merger Effective Time if requested by the Company.

(g) Pyramid is in compliance with all currently applicable laws and regulations respecting terms and conditions of employment, including without limitation applicant and employee background checking, immigration laws, discrimination laws, verification of employment eligibility, employee leave laws, classification of workers as employees and independent contractors, wage and hour laws, and occupational safety and health laws. There are no proceedings pending or, to the knowledge of Pyramid, reasonably expected or threatened, between Pyramid, on the one hand, and any or all of its current or former employees, on the other hand, including without limitation any claims for actual or alleged harassment or discrimination based on race, national origin, age, sex, sexual orientation, religion, disability, or similar tortious conduct, breach of contract, wrongful termination, defamation, intentional or negligent infliction of emotional distress, interference with contract or interference with actual or prospective economic disadvantage. There are no claims pending, or, to the knowledge of Pyramid, reasonably expected or threatened, against Pyramid under any workers' compensation or long-term disability plan or policy. Pyramid has no unsatisfied

obligations to any employees, former employees, or qualified beneficiaries pursuant to COBRA, HIPAA, or any state law governing health care coverage extension or continuation. Except as set forth in Section 5.12(g) of the Pyramid Disclosure Schedule, Pyramid is not a party to any collective bargaining agreement or other labor union contract. Pyramid is not paying and is not obligated to pay any employee or any former employee any disability or workers compensation payments or unemployment benefits. The employment of each of Pyramid's employees is terminable by Pyramid at will. To the best of the knowledge of Pyramid, no employee of Pyramid intends to terminate his or her employment with Pyramid.

(h) Except as set forth in Section 5.12(h) of the Pyramid Disclosure Schedule, Pyramid is not a party to or bound by any employment, consulting, termination, severance or similar agreement with any individual officer, director or employee of Pyramid or any agreement pursuant to which any such person is entitled to receive any benefits from Pyramid upon the occurrence of a change in control of Pyramid or similar event.

(i) All Pyramid Employee Plans that are subject to Section 409A of the Code are in compliance with the requirements of such Code section and regulations and other guidance thereunder. Except as set forth in Section 5.12(i) of the Pyramid Disclosure Schedule, no Pyramid Common Stock or other security of Pyramid, any of its subsidiaries or other affiliates and no real property is held in trust or otherwise set aside for funding benefit obligations under any Pyramid Employee Plan.

SECTION 5.13 Tax Matters. Neither Pyramid nor any of Pyramid's subsidiaries has taken or agreed to take any action that would prevent the Merger from constituting a reorganization within the meaning of Section 368(a) of the Code. Without limiting the generality of the foregoing:

(a) The Merger will be carried out strictly in accordance with this Agreement, there are no other written or oral agreements relating to the Merger other than those expressly referred to in this Agreement, and Pyramid will obtain control of the Company as defined in Section 368(c) of the Code for Pyramid voting Common Stock.

(b) In connection with the Merger, no shares of Company Common Stock will be acquired by Pyramid, Pyramid or a Related Person (as such term is defined below) for consideration other than shares of Pyramid Common Stock, except for payments to holders of Dissenting Shares, if any, and any cash paid in lieu of issuing fractional shares of Pyramid Common Stock. In accordance with Treasury Regulation Section 1.368-1(e)(4), (5), and (7), for purposes of this Agreement, the term "Related Person" means, (i) a corporation that, immediately before or immediately after a purchase, exchange, redemption, or other acquisition of Company Common Stock or Pyramid Common Stock, as the case may be, is a member of an Affiliated Group (as defined below) of which the Company or Pyramid, as applicable, (or any successor corporation thereto) is a member; or (ii) a corporation in which the Company or Pyramid, as applicable, (or any successor corporation thereto), owns, or which owns with respect to the Company or Pyramid, as applicable, (or any successor corporation thereto), directly or indirectly, immediately before or immediately after such purchase, exchange, redemption, or other acquisition, at least 50% of the total combined voting power of all classes of stock entitled to vote or at least 50% of the total value of shares of all classes of stock, taking into account for purposes of this clause (ii) any stock owned by 5% or greater stockholders of the Company or Pyramid, as applicable, (or any successor thereto) or such corporation, a proportionate share of the stock owned by entities in which the Company or Pyramid, as applicable, (or any successor thereto) or such corporation owns an interest, and any stock which may be acquired pursuant to the exercise of options. For purposes of this Agreement, the term "Affiliated Group" means one or more chains of corporations connected through stock ownership with a common Pyramid corporation, but only if: (i) the common parent owns directly stock that possesses at least 80% of the total voting power, and has a value at least equal to 80% of the total value, of the stock in at least one of the other corporations, and (ii) stock possessing at least 80% of the total voting power, and having a value at least equal to 80% of the total value, of the stock in each corporation (except the common parent) is owned directly by one or more of the other corporations.

(c) Pyramid is a publicly traded company and its value is determined on that basis. The Merger Consideration was negotiated by the parties on an arm's length basis. Pyramid believes, based on the volume weighted average closing price of Pyramid Common Stock over the fifteen trading days prior to the date of this Agreement, that the fair market value of the Merger Consideration received by each stockholder of the Company will be approximately equal

to the fair market value of Company Common Stock and Company Preferred Stock exchanged in the Merger.

(d) Other than cash paid in lieu of issuing fractional shares of Pyramid Common Stock, neither Pyramid nor any Related Person has any plan or intention to redeem or otherwise reacquire, directly or indirectly, any shares of Pyramid Common Stock to be issued in the Merger.

(e) Pyramid has no stock repurchase program and has no current plan or intention to adopt such a plan.

(f) Neither Pyramid nor any Related Person owns, nor has it owned during the past five years, any shares of stock of the Company. Neither Pyramid nor any Related Person has caused any other person to acquire stock of the Company on behalf of Pyramid or a Related Person, and will not directly or indirectly acquire any stock of the Company in connection with the Merger, except as described in this Agreement.

(g) Pyramid has not, directly or indirectly, transferred any cash or property to the Company (or any entity controlled directly or indirectly by the Company) for less than full and adequate consideration and has not made any loan to the Company (or any entity controlled directly or indirectly by the Company) in anticipation of the Merger.

(h) There is no intercompany indebtedness existing between Pyramid, Merger Subsidiary and the Company that was or will be issued, acquired, or settled at a discount in connection with the Merger.

(i) Pyramid and Merger Subsidiary will each pay its expenses incurred in connection with or as part of the Merger. Pyramid has not paid and will not pay, directly or indirectly, any expenses (including transfer taxes) incurred by any holder of shares of Company Common Stock in connection with or as part of the Merger or any related transactions. Pyramid has not agreed to assume, nor will it directly or indirectly assume, any expense or other liability, whether fixed or contingent, of any holder of shares of Company Common Stock.

(j) Any compensation paid to the holders of shares of Company Common Stock who enter (or have entered) into employment, consulting or noncompetitive contracts, if any, with Pyramid (a) will be for services actually rendered or to be rendered, (b) will be commensurate with amounts paid to third parties bargaining at arm's length for similar services, and (c) will not represent consideration for the surrender of the shares of Company Common Stock in the Merger.

(k) Following the Merger, Pyramid will continue the historic business of the Company or use a significant portion of its assets in a business, within the meaning of U.S. Treasury Regulation Section 1.368-1(d). Substantially all the assets of Merger Subsidiary (ninety percent (90%) of the fair value of its net assets and seventy percent (70%) of the fair value of its gross assets) will be held by the Company at and after the Merger Effective Time.

(l) Other than cash paid in lieu of issuing fractional shares of Pyramid, Pyramid is paying no consideration in the Merger other than the Merger Consideration.

(m) Pyramid has substantial non-tax business purposes and reasons for the Merger, and the terms of the Merger are the product of arm's length negotiations.

(n) Pyramid will not take any position on any Tax Return, or take any other Tax reporting position that is inconsistent with the treatment of the Merger as a reorganization within the meaning of Section 368(a) of the Code, unless otherwise required by a "determination" (as defined in Code Section 1313(a)(1)).

(o) No stock or securities of Pyramid will be issued to any Company Stockholder for services rendered to or for the benefit of Pyramid, Pyramid or the Company in connection with the Merger except as provided in this Agreement.

(p) No stock or securities of Pyramid will be issued for any indebtedness owed to any Company Stockholder in connection with the Merger.

(q) The payment of cash in lieu of fractional shares of Pyramid Common Stock is solely for the purpose of avoiding the expense and inconvenience to Pyramid of issuing fractional shares and does not represent separately bargained for consideration. The total cash that will be paid in the Merger to the holders of Company Common Stock instead of issuing fractional shares of Pyramid Common Stock will not exceed one percent (1%) of the total consideration that will be paid in the Merger to Company Stockholders in exchange for their Company Common Stock.

(r) Pyramid has not distributed the stock of any corporation in a transaction satisfying the requirements of Section 355 of the Code since February 4, 2009. The stock of Pyramid has not been distributed in a transaction satisfying the requirements of Section 355 of the Code since February 4, 2009.

(s) At and after the Merger Effective Time, Pyramid will be a corporation duly incorporated, validly existing and in good standing under the laws of the State of California.

(t) After the Merger Effective Time and as part of a plan that includes the Merger, Pyramid will not liquidate the Company, merge the Company with or into another entity (including Pyramid), or sell or otherwise transfer any of the stock of the Company.

(u) Immediately after the Merger Effective Time, Pyramid expects that Pyramid will not be treated as a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code (a "USRPHC"), taking into account the United States real property owned by the Company.

(v) Prior to the Merger, Merger Subsidiary will be a newly formed corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and Pyramid will be in control of Merger Subsidiary within the meaning of Section 368(c) of the Code.

(w) Merger Subsidiary will have no liabilities assumed by the Company and will not transfer to the Company any assets subject to liabilities in the Merger.

SECTION 5.14 Liabilities. As of the date hereof, Pyramid has incurred no liabilities or obligations (whether absolute, accrued, contingent or otherwise) of any nature, except (a) liabilities, obligations or contingencies (i) which are accrued or reserved against in Pyramid Financial Statements or reflected in the notes thereto (ii) which were incurred since September 30, 2013 in the ordinary course of business and consistent with past practices, or (iii) which were disclosed in Pyramid's Current Report on Form 8-K, and exhibits thereto, filed with the SEC on October 4, 2013, (b) liabilities, obligations or contingencies which (i) would not reasonably be expected, individually or in the aggregate, to have a Pyramid Material Adverse Effect, or (ii) have been discharged or paid in full prior to the date hereof in the ordinary course of business, and (c) liabilities, obligations and contingencies which are of a nature not required to be reflected in the financial statements of Pyramid prepared in accordance with generally accepted accounting principles consistently applied. As of the date hereof, Merger Subsidiary has no assets or liabilities.

SECTION 5.15 Absence of Certain Changes or Events. Since December 31, 2012, (a) except with respect to the transactions contemplated by this Agreement, Pyramid has carried on and operated its businesses in all material respects in the ordinary course of business and (b) there have not been any changes, events, circumstances, developments or occurrences that would reasonably be expected to have a Pyramid Material Adverse Effect.

SECTION 5.16 Compliance. Pyramid is in compliance in all material respects with the provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder, and the listing and corporate governance rules and regulations of NYSE MKT that are in each case applicable to Pyramid.

SECTION 5.17 Environmental Matters. Pyramid is in material compliance with all applicable Environmental Laws (as defined below), which compliance includes the possession by Pyramid of all material permits and other governmental authorizations required under applicable Environmental Laws and material compliance with the terms and conditions thereof. Pyramid has made available to the Company an accurate and complete list for any property owned or leased at any time by Pyramid of any and all material permits, spill reports and notifications from any governmental body, court, administrative agency or commission or other governmental authority or instrumentality held, prepared or received, as applicable, by Pyramid at any time during the past 10 years with respect to the generation, treatment, storage and disposition by Pyramid of Hazardous Materials (as defined below). Pyramid has not received since January 1, 2004, any written notice, whether from a governmental body, court, administrative agency or commission or other governmental authority or instrumentality, citizens group, employee or otherwise, that alleges that Pyramid is not in compliance with any Environmental Law, and, to the knowledge of Pyramid, there are no circumstances that may prevent or interfere with Pyramid's compliance with any Environmental Law in the future. To the knowledge of Pyramid: (a) no current or prior owner of any property leased or controlled by Pyramid has received since January 1, 2004 any written notice or other communication relating to property owned or leased at any time by Pyramid, whether from a governmental body, court, administrative agency or commission or other governmental authority or instrumentality, citizens group, employee or otherwise, that alleges that such current or prior owner or Pyramid are not in compliance with or violated any Environmental Law relating to such property and (b) Pyramid does not have any material liability under any Environmental Law. Pyramid is not aware of any ongoing environmental corrective action or remediation action at any of its properties.

For purposes of this Agreement, the term (i) "Environmental Law" means any federal, state, local or foreign law, ordinance, regulation, rule, code, order, judgment, decree or other requirement of law (collectively, "laws") relating to pollution or protection of human health or the environment (including ambient air, surface water, ground water, land surface or subsurface strata), including any law or regulation relating to emissions, discharges, releases or threatened releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, and (ii) "Hazardous Materials" means (a) any material, substance, chemical, pollutant, waste, product, derivative, compound, mixture, solid, liquid, mineral or gas, in each case, whether naturally occurring or man-made, that is hazardous, acutely hazardous, toxic, or words of similar import or regulatory effect under Environmental Laws, including, without limitation, crude oil or any fraction thereof, and (b) any petroleum or petroleum-derived products, radon, radioactive materials or wastes, asbestos in any form, lead or lead-containing materials, urea formaldehyde foam insulation and polychlorinated biphenyls.

SECTION 5.18 Insurance. Section 5.18 of the Pyramid Disclosure Schedule sets forth each insurance policy maintained by Pyramid as of the date hereof and each general liability, umbrella and excess liability policy currently maintained by Pyramid (each, a "Pyramid Insurance Policy"). Each Pyramid Insurance Policy is in full force and effect with respect to the period covered and is valid, outstanding and enforceable, and all premiums or installment payments of premiums, as applicable, due thereon have been paid in full. No insurer under any Pyramid Insurance Policy has canceled or generally disclaimed liability under any such policy or, to the knowledge of Pyramid, indicated any intent to do so or not to renew any such policy. To the knowledge of Pyramid, all material claims under the Pyramid Insurance Policies have been filed in a timely fashion.

SECTION 5.19 Affiliate Transactions. Pyramid's SEC Reports completely and correctly disclose, as of the date of this Agreement, all agreements, contracts, transfers or assets or liabilities or other commitments or transactions required to be disclosed by applicable securities laws, whether or not entered into in the ordinary course of business, to or by which Pyramid, on the one hand, and, on the other hand, any (A) present executive officer or director of Pyramid or any person that has served as such an executive officer or director within the past two years or any of such executive officer's or director's immediate family members, (B) record or beneficial owner of more than 5% of Pyramid Common Stock as of the date hereof, or (C) to the knowledge of Pyramid, any affiliate of any such executive officer, director or owner are or have been a party or otherwise bound or affected, and that (a) are currently pending, in effect or have been in effect during the past 12 months, and (b) involve continuing liabilities and obligations that, individually or in the aggregate, have been, are or will be material to Pyramid taken as a whole.

SECTION 5.20 Recommendation of Pyramid Board of Directors; Opinion of Financial Advisor.

(a) The Pyramid Board, at a meeting duly called and held, duly adopted resolutions (i) determining that this Agreement and the transactions contemplated hereby are fair to, and in the best interests of, the shareholders of Pyramid, (ii) approving this Agreement and the transactions contemplated hereby, (iii) resolving to recommend adoption of this Agreement and the Pyramid Shareholder Approval Matters, and (iv) directing that the adoption of this Agreement and the approval of the Pyramid Shareholder Approval Matters and the other transactions contemplated hereby be submitted to Pyramid's shareholders for consideration in accordance with this Agreement, which resolutions, as of the date of this Agreement, have not been subsequently rescinded, modified or withdrawn in any way.

(b) Pyramid has received an opinion of ROTH Capital Partners, LLC ("Roth"), to the effect that, as of the date of such opinion, the Merger is fair, from a financial point of view, to Pyramid shareholders. A correct and complete copy of the form of such opinion has been made available to the Company. Pyramid has received the approval of Roth to permit the inclusion of a copy of its written opinion in its entirety and/or references thereto in the Proxy Statement/Prospectus, subject to Roth's and its legal counsel's review of the Proxy Statement/Prospectus and approval of any references to Roth or its written opinion included therein.

SECTION 5.21 Certain Payments. Pyramid has not, nor to the knowledge of Pyramid, has any director, officer, agent or employee of Pyramid, or any other person, directly or indirectly, made any contribution, gift, bribe, rebate, payoff, influence payment, kickback or other payment to any entity or person, private or public, regardless of form, whether in money, property or services, in material violation of any applicable law.

SECTION 5.22 Title to Assets.

(a) Section 5.22 of the Pyramid Disclosure Schedule sets forth a complete and correct list of (i) all real property and interests in real property owned in fee (individually, an "Owned Property" and collectively, the "Owned Properties") by Pyramid, and (ii) all real property and interests in real property leased, subleased, or otherwise occupied as lessee (individually, a "Leased Property" and collectively, the "Leased Properties") by Pyramid, setting forth information sufficient to specifically identify such Owned Properties and Leased Properties, as the case may be, and the legal owner thereof.

(b) Pyramid has good title to all of its Owned Properties, as reflected in Pyramid Financial Statements, except for properties and assets that have been disposed of in the ordinary course of business since September 30, 2013, free and clear of all mortgages, liens, pledges, charges or encumbrances of any nature whatsoever, except (i) liens for current taxes, payments of which are not yet delinquent or are being disputed in good faith by appropriate proceedings

and (ii) such imperfections in title and easements and encumbrances, if any, as are not substantial in character, amount or extent and do not materially detract from the value, or interfere with the present use of the property subject thereto or affected thereby, or otherwise impair Pyramid's assets, business or operations.

(c) Pyramid is in possession of all of its Leased Properties pursuant to each lease or sublease, and Pyramid is entitled to and has exclusive possession of such Leased Properties, and the Leased Properties are not subject to any other legally binding lease, tenancy, license or easement of any kind that materially interferes with Pyramid's use of its Leased Properties as currently used. Pyramid has good and valid title to the leasehold estate or other interest created under each applicable lease, free and clear of any liens, claims or encumbrances created by, through or under Pyramid, except where the failure to have such good and valid title would not have a Pyramid Material Adverse Effect.

(d) Pyramid has defensible title to all Pyramid Oil and Gas Properties (as such term is defined below) forming the basis for the reserves reflected in Pyramid Financial Statements as attributable to interests owned by Pyramid, except for those defects in title that do not have a Pyramid Material Adverse Effect, and are free and clear of all liens, except for liens associated with obligations reflected in Pyramid Financial Statements. The oil and gas leases and other agreements that provide Pyramid with operating rights in the Pyramid Oil and Gas Properties are legal, valid and binding and in full force and effect, and the rentals, royalties and other payments due thereunder have been properly and timely paid and there is no existing default (or event that, with notice or lapse of time or both, would become a default) under any of such oil and gas leases or other agreements, except, in each case, as individually or in the aggregate has not had, and would not be reasonably likely to have or result in, a Pyramid Material Adverse Effect. As used in this Agreement, the term "Pyramid Oil and Gas Properties" means all of Pyramid's right, title and interest in, to and under, or derived from oil and gas leases, licenses, authorities to prospect and rights, wells and units, including all land, facilities, personal property and equipment, contracts and information pertaining or relating thereto.

SECTION 5.23 No Other Representations or Warranties. Except for the representations and warranties contained in this Article V, neither Pyramid nor any other person makes any other express or implied representation or warranty on behalf of Pyramid or any of its affiliates in connection with this Agreement or the transactions contemplated hereby.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Pyramid Entities that, except as set forth in the disclosure schedule delivered to Pyramid by the Company at or prior to the execution and delivery of this Agreement (the "Company Disclosure Schedule"), which shall be arranged in sections corresponding to the numbered sections of this Article VI, it being agreed that disclosure of any item on the Company Disclosure Schedule shall be deemed disclosure with respect to all Sections of this Agreement if the relevance of such item is reasonably apparent from the face of the Company Disclosure Schedule:

SECTION 6.01 Organization and Qualification.

(a) Each of the Company and its subsidiaries is a corporation or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite corporate power or entity power and authority to own, lease and operate its assets and properties and to carry on its business as it is now being conducted. Each of the Company and its subsidiaries is duly qualified and licensed to transact business and is in good standing in each jurisdiction in which the properties owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so organized, existing, qualified, licensed and in good standing would not reasonably be expected to have a Company Material Adverse Effect (as hereinafter defined). In this Agreement, the term "Company Material Adverse Effect" means any change, event, circumstance, development or occurrence (other than an effect arising out of or resulting from the entering into or the public announcement or disclosure of this Agreement and the transactions contemplated hereby) that, individually or in the aggregate, (i) has a material adverse effect on the business, financial condition or ongoing operations of the Company, or (ii) has a material adverse effect on the Company's ability to consummate the Merger. True, accurate and complete copies of the certificate of incorporation (including any certificate of designations), bylaws or like organizational documents of the Company and each of its subsidiaries, in each case, as in effect on the date hereof, including all amendments thereto, have heretofore been made available to Pyramid.

(b) Section 6.01(b) of the Company Disclosure Schedule lists the Company and each of its subsidiaries and sets forth as to each the type of entity, its jurisdiction of organization and, except in the case of the Company, its stockholders or other equity holders. Except for the capital stock of, or other equity or voting interests in, its subsidiaries, the Company does not own, directly or indirectly, any capital stock of, or other equity or voting interests

in, any other entity.

SECTION 6.02 Capitalization.

(a) The authorized capital stock of the Company consists of 200,000 shares of Company Common Stock, 50,000 shares of Series A Preferred Stock, 35,000 shares of Series B Preferred Stock, and 40,000 shares of blank check preferred stock, par value $0.01 per share. As of the date hereof, (i) 54,000 shares of Company Common Stock are issued and outstanding, all of which have been duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights, (ii) 15,638 shares of Series A Preferred Stock are issued and outstanding, all of which have been duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights, (iii) 19,656 shares of Series B Preferred Stock are issued and outstanding, all of which have been duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights, (iv) 2,739 Company Restricted Shares are issued and outstanding, all of which have been duly authorized, validly issued, fully paid, nonassessable and free and clear of all preemptive rights, and (v) 149 shares of Company Common Stock are reserved for issuance upon vesting and settlement of outstanding Company RSUs. The outstanding shares of Company Common Stock, the Company Preferred Stock, the Company Restricted Shares and the Company RSUs have been issued in compliance with all applicable securities laws. Since the date hereof, except as permitted by this Agreement or as disclosed in Section 6.02(a) of the Company Disclosure Schedule, (x) no shares of capital stock of the Company have been issued, and (y) no options, warrants or securities convertible into, or commitments with respect to the issuance of, shares of capital stock of the Company have been issued, granted or made. Section 6.02(a) of the Company Disclosure Schedule sets forth a true, correct and complete list of the holders of record of Company Common Stock and Company Preferred Stock as of the date hereof.

(b) Section 6.02(b) of the Company Disclosure Schedule sets forth a complete and accurate list of all Company Stock Plans and all holders of Company Restricted Shares and Company RSUs, indicating with respect to each Company Restricted Share and each Company RSU, the number of shares of Company Common Stock subject to such Company Restricted Shares and Company RSUs, the date of grant, settlement terms, vesting period and the expiration date thereof. The Company has delivered or made available to Pyramid accurate and complete copies of all Company Stock Plans, the standard forms of the Company Restricted Share Agreement and the Company RSU Agreement evidencing Company Restricted Shares and Company RSUs, and any Company Restricted Share Agreements and Company RSU Agreements evidencing a Company Restricted Share or a Company RSU that deviates in any material manner from the Company's standard forms of the Company Restricted Share Agreement and the Company RSU Agreement.

(c) Except for Company Restricted Shares and Company RSUs, there are no outstanding subscriptions, options, calls, contracts, commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement and also including any rights plan or other anti-takeover agreement, obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of the Company or obligating the Company to grant, extend or enter into any such agreement or commitment. There are no outstanding stock appreciation rights or similar derivative securities or rights of the Company. Except for the Company Voting Agreement, there are no voting trusts, irrevocable proxies or other agreements or understandings to which the Company is a party or is bound with respect to the voting of any shares of capital stock of the Company.

(d) All of the issued and outstanding shares of capital stock (or equivalent equity interests of entities other than corporations) of each of the Company's subsidiaries are owned, directly or indirectly, by the Company free and clear of any liens, other than statutory liens for Taxes not yet due and payable and such other restrictions as may exist under applicable law, and liens in favor of the Company's lenders, and all such shares or other ownership interests have been duly authorized, validly issued and are fully paid and non-assessable and free of preemptive rights, with no personal liability attaching to the ownership thereof.

SECTION 6.03 Authority; Non-Contravention; Approvals.

(a) The Company has the requisite corporate power and authority to enter into this Agreement and, subject to the Company Stockholders' Approval (as defined below), to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder, and the consummation by the Company of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of the Company, subject only to the Company Stockholders' Approval. The only vote or approval of the holders of any class or series of capital stock of the Company required for approval of this Agreement or the Merger is the affirmative vote of the (i) holders of a majority of the outstanding shares of Company Common Stock, (ii) holders of 66 of the Series A Preferred Stock voting as a separate class, and (iii) holders of 66 of the Series B Preferred Stock voting as a separate class, entitled to vote thereon (the "Company Stockholders' Approval"). There are no bonds, debentures, notes or other indebtedness of the Company

having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which the Company Stockholders may vote. This Agreement has been duly executed and delivered by the Company, and, assuming the due authorization, execution and delivery hereof by the Pyramid Entities, constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

(b) The Company's Board of Directors, by resolutions duly adopted by unanimous vote at a meeting of all directors of the Company duly called and held and, as of the date hereof, not subsequently rescinded or modified in any way, has, as of the date hereof (i) approved this Agreement and the Merger, and determined that this Agreement and the transactions contemplated hereby, including the Merger, are fair to, and in the best interests of, the Company's stockholders, and (ii) resolved to recommend that the Company's stockholders adopt this Agreement and approve the Merger.

(c) Except as set forth in Section 6.03(c) of the Company Disclosure Schedule, the execution, delivery and performance of this Agreement by the Company and the consummation of the Merger and the transactions contemplated hereby do not and will not violate, conflict with or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration under, contractually require any offer to purchase or any prepayment of any debt, or result in the creation of any lien, security interest or encumbrance upon any of the properties or assets of the Company under any of the terms, conditions or provisions of (i) the certificate of incorporation or the bylaws of the Company, (ii) subject to compliance with the requirements set forth in clauses (i)-(iv) of Section 6.03(d) and obtaining the Company Stockholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any court or governmental authority applicable to the Company or any of its properties or assets, or (iii) any contract to which the Company is now a party or by which the Company or any of its properties or assets may be bound or affected, other than, in the case of clauses (ii) and (iii) of this Section 6.03(c), such violations, conflicts, breaches, defaults, terminations, accelerations, contractual requirements or creations of liens, security interests or encumbrances that would not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect and would not prevent or materially delay the consummation of the Merger.

(d) Except for (i) the filing with the SEC of the Registration Statement, (ii) the filing of the Certificate of Merger with the Secretary of State in connection with the Merger, (iii) such approvals as may be required under applicable state securities or "blue sky" laws or the rules and regulations of the NYSE MKT, and (iv) the credit facility administered by Société Générale, no declaration, filing or registration with, or notice to, Consent of, any governmental or regulatory body or authority or other person is necessary under any Company Material Contract (as defined in Section 6.10(a)) or otherwise for the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, other than such Consents which, if not made or obtained, as the case may be, would not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect and would not prevent or materially delay the consummation of the Merger.

(e) The Board of Directors of the Company has approved the Merger, this Agreement and the transactions contemplated hereby, and such approval is sufficient to render inapplicable to the Merger, this Agreement and the transactions contemplated hereby the provisions of Section 203 of DGCL to the extent, if any, such section is applicable to the Merger, this Agreement, and the transactions contemplated hereby. No other state takeover control share, fair price or similar statute or regulation applies to or purports to apply to the Company with respect to the Merger, this Agreement or the transactions contemplated hereby and thereby.

SECTION 6.04 Financial Statements.

(a) The Company has made available to Pyramid true and complete copies of (i) the Company's unaudited balance sheet as of September 30, 2013 (the "Company Balance Sheet"), and the related unaudited statement of operations and statement of cash flows of the Company for the periods covered therein, and (ii) the Company's audited balance sheets as of December 31, 2012, December 31, 2011, and December 31, 2010, and the related audited statements of operations and statements of cash flows of the Company for the periods covered therein (collectively, the "Company Financial Statements"). The Company Financial Statements (i) are consistent with, and have been prepared from, the books and records of the Company, and (ii) were prepared in accordance with generally accepted accounting principles (except, with respect to any unaudited financial statements) applied on a consistent basis (except as may be indicated therein or in the notes thereto) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of operations and changes in financial position of the Company for the periods then ended (subject, in the case of any unaudited interim financial statements, to normal year-end adjustments).

(b) The Company has not effected any securitization transactions or "off-balance sheet arrangements" (as defined in Item 303(c) of SEC Regulation S-K) since December 31, 2009.

(c) Since January 1, 2010, there have been no formal internal investigations regarding financial reporting or accounting policies and practices discussed with, reviewed by or initiated at the direction of the chief executive officer, chief financial officer or general counsel of the Company, the Board of Directors of the Company or any committee thereof. Since January 1, 2010, neither the Company nor its independent auditors have identified (i) any significant deficiency or material weakness in the system of internal accounting controls utilized by the Company, (ii) any fraud, whether or not material, that involves the Company's management or other employees who have a role in the preparation of financial statements or the internal accounting controls utilized by the Company, or (iii) any claim or allegation regarding any of the foregoing.

SECTION 6.05 Liabilities. As of the date hereof, the Company has incurred no liabilities or obligations (whether absolute, accrued, contingent or otherwise) of any nature, except (a) liabilities, obligations or contingencies (i) which are accrued or reserved against in the Company Financial Statements or reflected in the notes thereto or (ii) which were incurred since the date of the Company Balance Sheet in the ordinary course of business and consistent with past practices, (b) liabilities, obligations or contingencies which (i) would not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect, or (ii) have been discharged or paid in full prior to the date hereof in the ordinary course of business, and (c) liabilities, obligations and contingencies which are of a nature not required to be reflected in the financial statements of the Company prepared in accordance with generally accepted accounting principles consistently applied.

SECTION 6.06 Absence of Certain Changes or Events. Since December 31, 2012, (a) except with respect to the transactions contemplated by this Agreement, the Company and each of its subsidiaries has carried on and operated its businesses in all material respects in the ordinary course of business and (b) there have not been any changes, events, circumstances, developments or occurrences that would reasonably be expected to have a Company Material Adverse Effect.

SECTION 6.07 Litigation; Government Investigations. There are no material claims, suits, actions, proceedings, arbitrations or other actions pending or, to the knowledge of the Company, threatened against, relating to or affecting the Company or any of its subsidiaries, before any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator. No material investigation or review by any governmental or regulatory body or authority is pending or, to the knowledge of the Company, threatened, nor has any governmental or regulatory body or authority indicated an intention to conduct the same. Neither the Company nor any of its subsidiaries is subject to any judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or authority, or any arbitrator, or any settlement agreement or stipulation, which as of the date hereof prohibits the consummation of the transactions contemplated hereby or would reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect.

SECTION 6.08 Proxy Statement/Prospectus. None of the information to be supplied by the Company or its stockholders for inclusion in the Proxy Statement/Prospectus will, at the time of the mailing thereof or any amendments or supplements thereto, or as of the date of the Company Stockholder Written Consents (as such term is defined in Section 7.07(a)), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement/Prospectus will comply, as of its mailing date, as to form in all material respects with all applicable laws, including the provisions of the Exchange Act and the rules and regulations promulgated thereunder, except that no representation is made by the Company with respect to information supplied in writing by any Pyramid Entity for inclusion therein.

SECTION 6.09 No Violation of Law. Neither the Company nor any of its subsidiaries is in violation of or has been given written (or, to the knowledge of the Company, oral) notice of any violation of any law, statute, order, rule, regulation, ordinance or judgment of any governmental or regulatory body or authority, except for violations which would not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect. Neither the Company nor any of its subsidiaries is in violation of the terms of any permits, licenses, franchises, variances, exemptions, orders and other governmental Consents necessary to conduct their respective businesses as presently conducted, except for delays in filing reports or violations which would not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect.

SECTION 6.10 Material Contracts; Compliance with Contracts.

(a) Section 6.10 of the Company Disclosure Schedule includes a list of each contract, agreement, license, arrangement or understanding to which the Company or any of its subsidiaries is a party or by which the Company or any its subsidiaries or their respective assets are bound or affected as of the date hereof (each, a "Company Material Contract"):

(i) which would be deemed a "material contract" within the meaning of Item 601(b)(10) of SEC Regulation S-K;

(ii) pursuant to which payments are required or acceleration of benefits is required upon a change of control of the Company or similar event;

(iii) which is material to the Company's or any of the Company's subsidiaries' assets, including the Company's Intellectual Property (as such term is defined in Section 6.15), or business and which requires the Consent or waiver of a third party prior to the Company consummating the transactions contemplated hereby; or

(iv) which relates to (A) any acquisition by or from the Company or any of its subsidiaries, or any grant by or to the Company or any of its subsidiaries, of any right, title or interest in, under or to any of the Company's Intellectual Property, contracts, agreements, arrangements or understandings or (B) any covenant not to sue granted by the Company to any person or granted by any person to the Company for the benefit of the Company, with respect to any of the Company's Intellectual Property, all of which the Company's Intellectual Property in clauses (A) and (B) is material to the Company, other than standardized nonexclusive licenses obtained by the Company in the ordinary course of business.

(b) With respect to each Company Material Contract (i) the Company Material Contract is legal, valid, binding and enforceable and in full force and effect with respect to the Company or its applicable subsidiary, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity) and (ii) neither the Company nor any of its subsidiaries is in material breach or violation of or in material default in the performance or observance of any term or provision of, and, to the knowledge of the Company, no event has occurred which, with lapse of time or action by a third party, would result in a default under, the Company Material Contract.

(c) True, accurate and complete copies of each Company Material Contract have heretofore been made available to Pyramid.

SECTION 6.11 Taxes.

(a) The Company has timely (i) filed with the appropriate governmental authorities all material Tax Returns (as defined below) required to be filed by it, and such Tax Returns are true, correct and complete in all material respects, and (ii) paid in full or reserved in accordance with generally accepted accounting principles on the Company Financial Statements all material Taxes (as defined below) required to be paid. The Company has not requested an extension of time within which to file a material Tax Return, which has not been since filed. There are no liens for Taxes upon any property or asset of the Company, other than liens for Taxes not yet due and payable or Taxes contested in good faith by appropriate proceedings or that are otherwise not material and reserved against in accordance with generally accepted accounting principles. No deficiency with respect to Taxes has been proposed, asserted or assessed in writing against the Company, which has not been fully paid or adequately reserved or reflected in the Company Financial Statements, and there are no material unresolved issues of law or fact arising out of a written notice of a deficiency, proposed deficiency or assessment from the Internal Revenue Service or any other governmental taxing authority with respect to Taxes of the Company. The Company has not agreed to an extension of time with respect to a Tax deficiency, other than extensions which are no longer in effect. Neither the Company nor any of its subsidiaries has received (A) notice from any federal taxing authority of its intent to examine or audit any of the Company's or any of its subsidiaries' Tax Returns or (B) notice from any state taxing authority of its intent to examine or audit any of the Company's or any of its subsidiaries' Tax Returns, other than notices with respect to examinations or audits by any state taxing authority that have not had and would not reasonably be expected to have a Material Adverse Effect on the Company. The Company is not a party to any agreement providing for the allocation or sharing of Taxes with any entity other than agreements the consequences of which are fully and adequately reserved for in the Company Financial Statements. The Company has been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the five-year period ending on the date hereof.

(b) The Company and each of its subsidiaries has withheld and paid each material Tax required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other party, and materially complied with all information reporting and backup withholding provisions of applicable law.

(c) The statutes of limitations for the federal income Tax Returns of the Company and its subsidiaries have expired or otherwise have been closed for all taxable periods ending on or before December 31, 2007.

(d) Since December 31, 2007, neither the Company nor any of its subsidiaries has entered into an agreement or waiver extending any statute of limitations relating to the payment or collection of a material amount of Taxes, nor is any request for such a waiver or extension pending.

(e) Neither the Company nor any of its subsidiaries is the subject of or bound by any material private letter ruling, technical advice memorandum, closing agreement or similar material ruling, memorandum of agreement with any taxing authority.

(f) Neither the Company nor its subsidiaries has entered into, has any liability in respect of, or has any filing obligations with respect to, any "reportable transactions," as defined in Section 1.6011-4(b)(1) of the U.S. Treasury Regulations.

(g) Neither the Company nor any of its subsidiaries will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date under Section 481(c) of the Code (or any corresponding or similar provision of state, local or foreign Tax law), (ii) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Tax law) executed on or prior to the Closing Date, or (iii) deferred intercompany gain or excess loss account described in the U.S. Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or foreign Tax law).

(h) Neither the Company nor any of its subsidiaries has taken or agreed to take any action or knows of any fact, agreement, plan or other circumstance that would be reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(i) The Company has made available to Pyramid correct and complete copies of (i) all U.S. federal income Tax Returns of the Company and its subsidiaries relating to taxable periods ending on or after December 31, 2007, filed through the date hereof and (ii) any material audit report within the last three years relating to any material Taxes due from or with respect to the Company or any of its subsidiaries.

(j) No jurisdiction where the Company or any of its subsidiaries does not file a Tax Return has made a claim that the Company or any of its subsidiaries is required to file a Tax Return for a material amount of Taxes for such jurisdiction.

(k) Within the last three years, neither the Company nor any of its subsidiaries has owned any material assets located outside the United States or conducted a material trade or business outside the United States.

(l) Except as set forth in Section 6.11(l) of the Company Disclosure Schedule, all of the transactions which the Company has accounted for as hedges under SFAS 133 have also been treated as hedging transactions for federal income Tax purposes pursuant to U.S. Treasury Regulation Section 1.1221-2 and have been properly identified as such under U.S. Treasury Regulation Section 1.1221-2(f).

SECTION 6.12 Employee Benefit Plans; ERISA; Employment Agreements.

(a) Section 6.12(a) of the Company Disclosure Schedule contains a complete and accurate list of each plan, program, policy, practice, contract, agreement or other arrangement providing for employment, compensation, retirement, deferred compensation, loans, severance, separation, relocation, termination pay, performance awards, bonus, incentive, stock option, stock purchase, stock bonus, phantom stock, stock appreciation right, change in control, supplemental retirement, fringe benefits, cafeteria benefits, salary continuation, vacation, sick, or other paid leave, employment or consulting, hospitalization or other medical, dental, life (including all individual life insurance policies as to which the Company or any of its subsidiaries is the owner, the beneficiary or both) or other insurance or coverage, disability, death benefit, or other benefits, whether written or unwritten, including without limitation each "employee benefit plan" within the meaning of Section 3(3) of ERISA, which is or has been sponsored, maintained, contributed to, or required to be contributed to by the Company and, with respect to any such plans which are subject to Code Section 401(a), any trade or business (whether or not incorporated) that is or at any relevant time was treated as an ERISA Affiliate of the Company or any of its subsidiaries for the benefit of any person who performs or who has performed services for the Company or any of its subsidiaries, or with respect to which the Company, any of its subsidiaries, or any ERISA Affiliate of the Company or any of its subsidiaries has or may have any liability (including without limitation contingent liability) or obligation (collectively, the "Company Employee Plans").

(b) The Company has furnished to Pyramid true and complete copies of documents embodying each of the Company Employee Plans and related plan documents, including without limitation trust documents, group annuity contracts, plan amendments, insurance policies or contracts, participant agreements, employee booklets, administrative service agreements, summary plan descriptions, compliance and nondiscrimination tests for the last three plan years, standard COBRA forms and related notices, registration statements and prospectuses and, to the extent still in its possession, any material employee communications relating thereto. With respect to each Company Employee Plan, if any, that is subject to ERISA reporting requirements, the Company has provided copies of the Form 5500 reports filed for the last five plan years.

(c) Compliance. (i) Each Company Employee Plan has been administered in accordance with its terms and in compliance with the requirements prescribed by any and all statutes, rules and regulations (including ERISA and the Code), except as could not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect; and the Company and each ERISA Affiliate of the Company have performed all material obligations required to be performed by them under, are not in material respect in default under or violation of and have no knowledge of any material default or violation by any other party to, any of the Company Employee Plans; (ii) any Company Employee Plan intended to be qualified under Section 401(a) of the Code has either obtained from the Internal Revenue Service a favorable determination letter as to its qualified status under the Code, including all currently effective amendments to the Code, or has time remaining to apply under applicable U.S. Treasury Regulations or Internal Revenue Service pronouncements for a determination or opinion letter and to make any amendments necessary to obtain a favorable determination or opinion letter; (iii) none of the Company Employee Plans promises or provides retiree medical or other retiree welfare benefits to any person; (iv) there has been no "prohibited transaction," as such term is defined in Section 406 of ERISA or Section 4975 of the Code, with respect to any Company Employee Plan; (v) none of Company or, to the knowledge of the Company, any ERISA Affiliate of the Company is subject to any liability or penalty under Sections 4976 through 4980 of the Code or Title I of ERISA with respect to any Company Employee Plan; (vi) all contributions required to be made by Company or any ERISA Affiliate of the Company to any Company Employee Plan have been timely paid and accrued; (vii) with respect to each Company Employee Plan, no "reportable event" within the meaning of Section 4043 of ERISA (excluding any such event for which the thirty day notice requirement has been waived under the regulations to Section 4043 of ERISA) nor any event described in Section 4062, 4063 or 4041 of ERISA has occurred; (viii) each Company Employee Plan subject to ERISA has prepared in good faith and timely filed all requisite governmental reports, which were true and correct as of the date filed, and has properly and timely filed and distributed or posted all notices and reports to employees required to be filed, distributed or posted with respect to each such Company Employee Plan; (ix) no suit, administrative proceeding, action or other litigation has been brought, or to the knowledge of Company is threatened, against or with respect to any such Company Employee Plan, including any audit or inquiry by the Internal Revenue Service or United States Department of Labor; and (x) there has been no amendment to, written interpretation or announcement by Company or any ERISA Affiliate of the Company that would materially increase the expense of maintaining any Company Employee Plan above the level of expense incurred with respect to that Company Employee Plan for the most recent fiscal year included in the Company Financial Statements. No current or former officer, director, employee, leased employee, consultant or agent (or their respective beneficiaries) of the Company or any subsidiary of the Company has or will obtain a right to receive a gross-up payment from the Company or any subsidiary of the Company with respect to any Tax that may be imposed upon such individual pursuant to Section 409A of the Code, Section 4999 of the Code or otherwise.

(d) Neither the Company nor any ERISA Affiliate of the Company has ever maintained, established, sponsored, participated in, contributed to, or is obligated to contribute to, or otherwise incurred any obligation or liability (including without limitation any contingent liability) under any "multiemployer plan" (as defined in Section 3(37) of ERISA) or to any "pension plan" (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA or Section 412 of the Code. None of Company or any ERISA Affiliate of the Company has any actual or potential withdrawal liability (including without limitation any contingent liability) for any complete or partial withdrawal (as defined in Sections 4203 and 4205 of ERISA) from any multiemployer plan.

(e) With respect to each Company Employee Plan, the Company and each of its subsidiaries has complied with (i) the applicable health care continuation and notice provisions of COBRA and the regulations thereunder or any state law governing health care coverage extension or continuation; (ii) the applicable requirements of the Family and Medical Leave Act of 1993 and the regulations thereunder; (iii) the applicable requirements of HIPAA; and (iv) the applicable requirements of the Cancer Rights Act of 1998. Neither the Company nor any of its subsidiaries has unsatisfied obligations to any employees, former employees or qualified beneficiaries pursuant to COBRA, HIPAA or any state law governing health care coverage extension or continuation.

(f) The consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former employee or other service provider of the Company, any subsidiary of the Company, or any ERISA Affiliate of the Company or any subsidiary of the Company to severance benefits or any other payment (including without limitation unemployment compensation, golden parachute, bonus or benefits under any Company Employee Plan), except as expressly provided in this Agreement; or (ii) accelerate the time of payment or vesting of any such benefits or increase the amount of compensation due any such employee or service provider. No benefit payable or that may become payable by the Company or any subsidiary of the Company pursuant to any Company Employee Plan or as a result of or arising under this Agreement shall constitute an "excess parachute payment" (as defined in Section 280G(b)(1) of the Code) subject to the imposition of an excise Tax under Section 4999 of the Code or the deduction for which would be disallowed by reason of Section 280G of the Code and no such benefit will fail to be deductible for federal income Tax purposes by virtue of Sections 162(m) of the Code. Each Company Employee Plan can be amended, terminated or otherwise discontinued after the Merger Effective Time in accordance with its terms, without material liability to Pyramid, the Company or any subsidiary of the Company other than ordinary administration expenses typically incurred in a termination event.

(g) The Company and each subsidiary of the Company is in compliance with all currently applicable laws and regulations respecting terms and conditions of employment, including without limitation applicant and employee background checking, immigration laws, discrimination laws, verification of employment eligibility, employee leave laws, classification of workers as employees and independent contractors, wage and hour laws, and occupational safety and health laws. There are no proceedings pending or, to the knowledge of the Company, reasonably expected or threatened, between the Company or any of its subsidiaries, on the one hand, and any or all of their respective current or former employees, on the other hand, including without limitation any claims for actual or alleged harassment or discrimination based on race, national origin, age, sex, sexual orientation, religion, disability, or similar tortious conduct, breach of contract, wrongful termination, defamation, intentional or negligent infliction of emotional distress, interference with contract or interference with actual or prospective economic disadvantage. There are no claims pending, or, to the knowledge of the Company, reasonably expected or threatened, against the Company or any

of its subsidiaries under any workers' compensation or long-term disability plan or policy. Neither the Company nor any of its subsidiaries has unsatisfied obligations to any employees, former employees, or qualified beneficiaries pursuant to COBRA, HIPAA, or any state law governing health care coverage extension or continuation. Neither the Company nor any of its subsidiaries is a party to any collective bargaining agreement or other labor union contract. Neither the Company nor any of its subsidiaries is paying or is obligated to pay any employee or any former employee any disability or workers compensation payments or unemployment benefits. The employment of each of the Company's employees and each of the employees of each subsidiary of the Company is terminable by the Company or its subsidiaries, as applicable, at will. To the best of the knowledge of the Company, no employee of the Company or any of its subsidiaries intends to terminate his employment with the Company or any of its subsidiaries.

(h) Neither the Company nor any subsidiary of the Company is a party to or bound by any employment, consulting, termination, severance or similar agreement with any individual officer, director or employee of the Company or any subsidiary of the Company, or any agreement pursuant to which any such person is entitled to receive any benefits from the Company or any subsidiary of the Company upon the occurrence of a change in control of the Company or similar event.

(i) All Company Employee Plans that are subject to Section 409A of the Code are in compliance with the requirements of such Code section and regulations and other guidance thereunder. No Company Common Stock or other security of the Company, any of its subsidiaries or other affiliates and no real property is held in trust or otherwise set aside for funding benefit obligations under any Company Employee Plan.

SECTION 6.13 Environmental Matters. The Company and each of its subsidiaries is in material compliance with all applicable Environmental Laws, which compliance includes the possession by the Company or its subsidiary, as applicable, of all material permits and other governmental authorizations required under applicable Environmental Laws and material compliance with the terms and conditions thereof. The Company has made available to Pyramid an accurate and complete list for any property owned or leased at any time by the Company of any and all material permits, spill reports and notifications from any governmental body, court, administrative agency or commission or other governmental authority or instrumentality held, prepared or received, as applicable, by the Company at any time during the past 10 years with respect to the generation, treatment, storage and disposition by the Company of Hazardous Materials. The Company has not received since January 1, 2004, any written notice, whether from a governmental body, court, administrative agency or commission or other governmental authority or instrumentality, citizens group, employee or otherwise, that alleges that the Company or any of its subsidiaries is not in compliance with any Environmental Law, and, to the knowledge of the Company, there are no circumstances that may prevent or interfere with the Company's or any of its subsidiaries' compliance with any Environmental Law in the future. To the knowledge of the Company: (a) no current or prior owner of any property leased or controlled by the Company has received since January 1, 2004 any written notice or other communication relating to property owned or leased at any time by the Company, whether from a governmental body, court, administrative agency or commission or other governmental authority or instrumentality, citizens group, employee or otherwise, that alleges that such current or prior owner or the Company are not in compliance with or violated any Environmental Law relating to such property and (b) the Company does not have any material liability under any Environmental Law. The Company is not aware of any ongoing environmental corrective action or remediation action at any of its properties.

SECTION 6.14 Title to Assets.

(a) Section 6.14 of the Company Disclosure Schedule sets forth a complete and correct list of (i) all Owned Property of the Company and its subsidiaries, and (ii) all Leased Property of the Company and its subsidiaries, setting forth information sufficient to specifically identify such Owned Properties and Leased Properties, as the case may be, and the legal owner thereof.

(b) The Company and its subsidiaries have good title to all of their Owned Properties, as reflected in the Company Balance Sheet, except for properties and assets that have been disposed of in the ordinary course of business since the date of such balance sheet, free and clear of all mortgages, liens, pledges, charges or encumbrances of any nature whatsoever, except (i) liens for current Taxes, payments of which are not yet delinquent or are being disputed in good faith by appropriate proceedings and (ii) such imperfections in title and easements and encumbrances, if any, as are not substantial in character, amount or extent and do not materially detract from the value, or interfere with the present use of the property subject thereto or affected thereby, or otherwise have a Company Material Adverse Effect.

(c) The Company and its subsidiaries are in possession of all of their Leased Properties pursuant to each lease or sublease, and the Company is entitled to and has exclusive possession of such Leased Properties, and the Leased Properties are not subject to any other legally binding lease, tenancy, license or easement of any kind that materially interferes with the Company's use of the Leased Properties as currently used. The Company has good and valid title to the leasehold estate or other interest created under each applicable lease, free and clear of any liens, claims or encumbrances created by, through or under the Company, except where the failure to have such good and valid title would not have a Company Material Adverse Effect.

(d) The Company and its subsidiaries have defensible title to all Company Oil and Gas Properties (as such term is defined below) forming the basis for the reserves reflected in the Company Financial Statements as attributable to interests owned by the Company, except for those defects in title that do not have a Company Material Adverse Effect, and are free and clear of all liens, except for liens associated with obligations reflected in the Company Financial Statements. The oil and gas leases and other agreements that provide the Company with operating rights in the Company Oil and Gas Properties are legal, valid and binding and in full force and effect, and the rentals, royalties and other payments due thereunder have been properly and timely paid and there is no existing default (or event that, with notice or lapse of time or both, would become a default) under any of such oil and gas leases or other agreements, except, in each case, as individually or in the aggregate has not had, and would not be reasonably likely to have or result in, a Company Material Adverse Effect. As used in this Agreement, the term "Company Oil and Gas Properties" means all of the Company's and any of its subsidiaries' right, title and interest in, to and under, or derived from oil and gas leases, licenses, authorities to prospect and rights, wells and units, including all land, facilities, personal property and equipment, contracts and information pertaining or relating thereto.

SECTION 6.15 Intellectual Property. The Company and its subsidiaries own free and clear of any lien, or possess licenses or other valid rights to use, all patents, patent rights, domain names, trademarks (registered or unregistered), trade dress, trade names, copyrights (registered or unregistered), service marks, trade secrets, know-how and other confidential or proprietary rights and information, inventions (patentable or unpatentable), processes, formulae, as well as all goodwill symbolized by any of the foregoing (collectively, "Intellectual Property") necessary in connection with the business of the Company and its subsidiaries as currently conducted, except where the failure to possess such rights or licenses would not have a Company Material Adverse Effect. To the knowledge of the Company, (i) the conduct, products or services of the business of the Company and its subsidiaries as currently conducted do not infringe upon any Intellectual Property of any third party except where such infringement would not have a Company Material Adverse Effect, and (ii) there are no claims or suits pending or, to the knowledge of the Company, threatened (x) alleging that the Company's and its subsidiaries' conduct, products or services infringe upon any Intellectual Property of any third party except where such infringement would not have a Company Material

Adverse Effect, or (y) challenging the Company's and its subsidiaries' ownership of, right to use, or the validity or enforcement of any license or other agreement relating to the Company's Intellectual Property except where such challenge would not have a Company Material Adverse Effect. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not result in the loss of, or any encumbrance on, the rights of the Company or any of its subsidiaries with respect to the Intellectual Property owned or used by them, except where such loss or encumbrance would not have a Company Material Adverse Effect.

SECTION 6.16 Insurance. Section 6.16 of the Company Disclosure Schedule sets forth each insurance policy maintained by or on behalf of the Company and its subsidiaries as of the date hereof and each general liability, umbrella and excess liability policy currently maintained by the Company and its subsidiaries (each, a "Company Insurance Policy"). Each Company Insurance Policy is in full force and effect with respect to the period covered and is valid, outstanding and enforceable, and all premiums or installment payments of premiums, as applicable, due thereon have been paid in full. No insurer under any Company Insurance Policy has canceled or generally disclaimed liability under any such policy or, to the knowledge of the Company, indicated any intent to do so or not to renew any such policy. To the knowledge of the Company, all material claims under the Company Insurance Policies have been filed in a timely fashion.

SECTION 6.17 Certain Payments. The Company has not, nor to the knowledge of the Company, has any director, officer, agent or employee of the Company or its subsidiaries, or any other person, directly or indirectly, made any contribution, gift, bribe, rebate, payoff, influence payment, kickback or other payment to any entity or person, private or public, regardless of form, whether in money, property or services, in material violation of any applicable law.

SECTION 6.18 Brokers and Finders. The Company has not entered into any contract with any person that may result in the obligation of the Company or the Surviving Corporation to pay any investment banking fees, finder's fees or brokerage fees in connection with the transactions contemplated hereby. The Company has provided to Pyramid a true, correct and complete copy of any and all engagement or retention agreements with financial advisors or other advisors, to which the Company is a party and which are related to the transactions contemplated hereby.

SECTION 6.19 Production and Reserves. Netherland, Sewell & Associates, Inc., whose report as of July 31, 2013 and dated August 28, 2013 (the "Reserve Report") provided to Pyramid, was as of the date of such report, and is, as of the date hereof, an independent reserve engineer and acts as independent reserve engineer with respect to the Company. The information underlying the estimates of reserves of the Company and its subsidiaries contained in Reserve Report, which information was supplied by the Company to Netherland, Sewell & Associates, Inc., for purposes of reviewing the Reserve Report and estimates of the Company and preparing the letter of Netherland, Sewell & Associates, Inc., including production and costs of operation, was true and correct in all material respects on the dates such estimates were made and such information was supplied and was prepared in accordance with customary industry practices. Other than (i) the production of reserves in the ordinary course of business, and (ii) the intervening price fluctuations, the Company is not aware of any facts or circumstances that would result in a Company Material Adverse Effect in its proved reserves in the aggregate, or the aggregate present value of estimated future net revenues of the Company or the standardized measure of discounted future net cash flows therefrom, as described in the Reserve Report and reflected in the reserve information as of the respective dates such information is given.

SECTION 6.20 Tax Matters. Neither the Company nor any of its subsidiaries has taken or agreed to take any action that would prevent the Merger from constituting a reorganization within the meaning of Section 368(a) of the Code. Without limiting the generality of the foregoing:

(a) The Merger will be carried out strictly in accordance with this Agreement, the Company is not a party to any other written or oral agreements regarding the Merger other than those expressly referred to in this Agreement, and Pyramid will obtain control of the Company as defined in Section 368(c) of the Code in exchange for Pyramid voting Common Stock.

(b) Pyramid is a publicly traded company and its value is determined on that basis. The Merger Consideration was negotiated by the parties on an arm's length basis. The Company believes, based on the volume weighted average closing price of Pyramid Common Stock over the fifteen trading days prior to the date of this Agreement, that the fair

market value of the Merger Consideration received by each stockholder of the Company will be approximately equal to the fair market value of Company Common Stock and Company Preferred Stock exchanged in the Merger.

(c) Prior to the Merger Effective Time and in connection with or anticipation of the Merger, (i) none of the shares of Company Common Stock will be redeemed, (ii) no extraordinary dividends will be made with respect to the shares of Company Common Stock, and (iii) none of the shares of Company Common Stock will be acquired by the Company or any Related Person.

(d) The Company and Company Stockholders will each pay their respective expenses, if any, incurred in connection with the Merger.

(e) Any compensation paid to the Company Stockholders who enter (or have entered) into employment, consulting or noncompetitive contracts, if any, with Pyramid (a) will be for services actually rendered or to be rendered, (b) will be commensurate with amounts paid to third parties bargaining at arm's length for similar services, and (c) will not represent consideration for the surrender of the shares of Company Common Stock in the Merger.

(f) No debt of the Company is guaranteed by any Company Stockholder.

(g) The Company owns no stock of Pyramid.

(h) No assets of the Company have been sold, transferred or otherwise disposed of which would prevent Pyramid from continuing the historic business of the Company or from using a significant portion of the Company's historic business assets in a business following the Merger, within the meaning of U.S. Treasury Regulation Section 1.368-1(d) or prevent the Company from holding substantially all of the Company's assets at and after the Merger Effective Time (ninety percent (90%) of the fair value of its net assets and seventy percent (70%) of the fair value of its gross assets, taking into account cash paid to dissenters).

(i) The Company is not an investment company as defined in Section 368(a)(2)(F) of the Code. An investment company is (1) a regulated investment company; (2) a real estate investment trust; or (3) a corporation (i) fifty percent (50%) or more of the value of whose total assets are stock and securities, and (ii) eighty percent (80%) or more of the value of whose total assets are held for investment. In making the fifty percent and eighty percent determinations under the preceding sentence, stock and securities in any subsidiary corporation shall be disregarded and a parent corporation shall be deemed to own its ratable share of the subsidiary's assets, and a corporation shall be considered a subsidiary if a parent owns fifty percent (50%) or more of the combined voting power of all classes of stock entitled to vote, or fifty percent (50%) or more of the total value of shares of all classes of stock outstanding. For this purpose, "total assets" shall not include cash and cash items (including receivables) and government securities.

(j) The Company is not under the jurisdiction of a court in a title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

(k) There is no indebtedness existing between Pyramid, Merger Subsidiary and the Company that was or will be issued, acquired, or settled at a discount in connection with the Merger.

(l) The Company has substantial non-tax business purposes and reasons for the Merger, and the terms of the Merger are the product of arm's length negotiations.

(m) The Company will not take, and the Company is not aware of any plan or intention of any of the Company Stockholders to take, any position on any Tax Return, or take any other Tax reporting position, that is inconsistent with the treatment of the Merger as a reorganization within the meaning of Section 368(a) of the Code, unless otherwise required by a "determination" (as defined in Code Section 1313(a)(1)).

(n) No stock or securities of the Company will be issued to any Company Stockholder for services rendered to or for the benefit of Pyramid or the Company in connection with the Merger (except to the extent of outstanding Company Restricted Shares or Company RSUs described in Section 3.04).

(o) No stock or securities of Pyramid or of the Company will be issued to any Company Stockholder for any indebtedness owed to any Company Stockholder in connection with the Merger.

(p) No assets were transferred to the Company, nor did the Company assume any liabilities, in anticipation of the Merger. On the date of the Merger the fair market value of the assets of the Company will exceed the sum of its liabilities, plus the amount of liabilities, if any, to which the assets are subject.

(q) The Company has not distributed the stock of any corporation in a transaction satisfying the requirements of Section 355 of the Code since February 4, 2009. The stock of the Company has not been distributed in a transaction satisfying the requirements of Section 355 of the Code since February 4, 2009.

(r) During the five-year period leading up to and ending as of the Merger Effective Time, the Company was a USRPHC.

(s) At the Merger Effective Time, except as contemplated by Section 3.04, the Company will not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in the Company.

SECTION 6.21 No Other Representations or Warranties. Except for the representations and warranties contained in this Article VI, neither the Company nor any other person makes any other express or implied representation or warranty on behalf of the Company or any of its affiliates in connection with this Agreement or the transactions contemplated hereby.

ARTICLE VII

COVENANTS

SECTION 7.01 Conduct of Business by the Company Pending the Merger. Except as otherwise contemplated by this Agreement or disclosed in the Company Disclosure Schedule, after the date hereof and until the Merger Effective Time or earlier termination of this Agreement (the "Pre-Closing Period"), unless Pyramid shall otherwise agree in writing (which agreement shall not be unreasonably withheld or delayed), the Company shall:

(a) conduct its business in the ordinary course of business consistent with past practice;

(b) use its commercially reasonable efforts to mitigate or compromise the liabilities of the Company from time to time;

(c) not (i) amend or propose to amend its certificate of incorporation or its bylaws, except as agreed to by the parties hereto, (ii) split, combine, subdivide or reclassify any shares of outstanding capital stock, (iii) declare, set aside

or pay any dividend or distribution payable in cash, stock, property or otherwise, or make any other distribution in respect of any shares of its capital stock, except for dividends by a direct or wholly-owned subsidiary of the Company to its parent, or a semi-annual (or pro-rated) cash or in-kind dividend on the Company Preferred Stock, or (iv) repurchase, redeem or otherwise acquire, or modify or amend, any shares of its capital stock or any other securities or any rights, warrants or options to acquire any such shares or other securities;

(d) except as set forth in Section 6.02(a) of the Company Disclosure Schedule, not issue, sell, pledge, grant or dispose of, or agree to issue, sell, pledge, grant or dispose of, any Company Restricted Shares, Company RSUs, or any additional shares of, or any options, warrants or rights of any kind to acquire any shares of, its capital stock of any class or any debt or equity securities convertible into or exchangeable for its capital stock, except that the Company may issue shares upon conversion of Company Preferred Stock outstanding on the date hereof;

(e) not (i) redeem, purchase, acquire or offer to purchase or acquire any shares of its capital stock or any options, warrants or rights to acquire any of its capital stock or any security convertible into or exchangeable for its capital stock, (ii) make any acquisition of any capital stock, assets or businesses of any other person other than expenditures for current assets in the ordinary course of business consistent with past practice and expenditures for fixed or capital assets in the ordinary course of business consistent with past practice, (iii) sell, pledge, dispose of or encumber any assets or businesses that are material to the Company, except (A) sales, leases, rentals and licenses in the ordinary course of business consistent with past practice, (B) pursuant to contracts that are in force at the date of this Agreement and are disclosed in Section 6.10 of the Company Disclosure Schedule, (C) dispositions of obsolete or worthless assets or, or (iv) enter into any contract with respect to any of the foregoing;

(f) use all reasonable efforts to preserve intact its business organization and goodwill, keep available the services of its present officers and key employees, and preserve the goodwill and business relationships with customers and others having business relationships with it, other than as expressly permitted by the terms of this Agreement;

(g) not make capital expenditures or enter into any binding commitment or contract to make capital expenditures, except (i) capital expenditures which the Company is currently committed to make, (ii) capital expenditures in the ordinary course of the Company's business, (iii) capital expenditures for repairs and other capital expenditures necessary in light of circumstances not anticipated as of the date of this Agreement which are necessary to avoid significant disruption to the Company's business or operations consistent with past practice, and (iv) repairs and maintenance in the ordinary course of business;

(h) not adopt a plan or agreement of complete or partial liquidation or dissolution;

(i) not pay, discharge or satisfy any material claims, material liabilities or material obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction (A) of any such material claims, material liabilities or material obligations in the ordinary course of business consistent with past practice or (B) of material claims, material liabilities or material obligations reflected or reserved against in, or contemplated by, the Company Financial Statements (or the notes thereto);

(j) not enter into any contract that restrains, limits or impedes the ability of the Company or the Surviving Corporation to compete with or conduct any business or line of business, including geographic limitations on the activities of the Company;

(k) except in the ordinary course of the Company's business, not materially modify or amend, or terminate any Company Material Contract, or waive, relinquish, release or terminate any material right or material claim, or enter into any contract that would have been a Company Material Contract if it had been in existence at the time of the execution of this Agreement; and

(l) not agree to take any of the foregoing actions.

SECTION 7.02 Conduct of Business by Pyramid Pending the Merger. Except as otherwise contemplated by this Agreement or disclosed in the Pyramid Disclosure Schedule, during the Pre-Closing Period, unless the Company shall otherwise agree in writing (which agreement shall not be unreasonably withheld or delayed), Pyramid shall:

(a) conduct its business in the ordinary course of business consistent with past practice;

(b) not (i) amend or propose to amend its Restated Articles of Incorporation or its Amended and Restated Bylaws, (ii) split, combine, subdivide or reclassify any shares of Common Stock, or (iii) declare, set aside or pay any dividend or distribution payable in cash, stock, property or otherwise, or make any other distribution in respect of any shares of Common Stock;

(c) use all reasonable efforts to preserve intact its business organization and goodwill, keep available the services of its present officers and key employees, and preserve the goodwill and business relationships with customers and others having business relationships with it, other than as expressly permitted by the terms of this Agreement;

(d) not adopt a plan or agreement of complete or partial liquidation or dissolution;

(e) not pay, discharge or satisfy any material claims, material liabilities or material obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction (A) of any such material claims, material liabilities or material obligations in the ordinary course of business consistent with past practice or (B) of material claims, material liabilities or material obligations reflected or reserved against in, or contemplated by, Pyramid Financial Statements (or the notes thereto);

(f) not enter into any contract that restrains, limits or impedes its ability to compete with or conduct any business or line of business, including geographic limitations on its activities;

(g) not make any changes in financial or Tax accounting methods, principles or practices (or change an annual accounting period), except insofar as may be required by a change in generally accepted accounting principles or applicable law;

(h) not enter into, amend, modify or renew any employment, consulting, severance or similar contract with, pay any bonus or grant any increase in salary, wage or other compensation or any increase in any employee benefit to, any of its directors, officers or employees, except in each such case (i) as may be required by applicable law or (ii) to satisfy obligations existing as of the date hereof pursuant to the terms of contracts that are in effect on the date hereof;

(i) not enter into, establish, adopt, amend or modify any pension, retirement, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare plan, agreement, program or arrangement, in respect of any of its directors, officers or employees, except, in each such case (i) as may be required by applicable law or pursuant to the terms of this Agreement, (ii) to satisfy obligations existing as of the date hereof pursuant to the terms of contracts that are in effect on the date hereof or (iii) if requested by the Company, Pyramid will terminate its 5304-Simple Plan effective immediately before the Merger Effective Time";

(j) except to the extent required under existing employee and director benefit plans, agreements or arrangements as in effect on the date hereof or as expressly provided by this Agreement, not accelerate the payment, right to payment or vesting of any bonus, severance, profit sharing, retirement, deferred compensation, stock option, insurance or other compensation or benefits;

(k) not agree to the settlement of any claim, litigation, investigation or other action that is material to it;

(l) except in the ordinary course of its business, not materially modify or amend, or terminate any Pyramid Material Contract, or waive, relinquish, release or terminate any material right or material claim, or enter into any contract that would have been a Pyramid Material Contract if it had been in existence at the time of the execution of this Agreement; and

(m) not agree to take any of the foregoing actions.

SECTION 7.03 No Solicitation.

(a) General. Each party hereto agrees that it shall not, nor shall it authorize or permit any of the officers, directors, investment bankers, attorneys or accountants retained by it to, and that it shall use commercially reasonable efforts to cause its non-officer employees and other agents not to (and shall not authorize any of them to) directly or indirectly: (i) solicit, initiate, encourage, induce or knowingly facilitate the communication, making, submission or announcement of any Acquisition Proposal (as defined below) or Acquisition Inquiry (as defined below) or take any action that could reasonably be expected to lead to an Acquisition Proposal or Acquisition Inquiry; (ii) furnish any information regarding such party to any person in connection with or in response to an Acquisition Proposal or Acquisition Inquiry; (iii) engage in discussions or negotiations with any person with respect to any Acquisition Proposal or Acquisition Inquiry; (iv) approve, endorse or recommend any Acquisition Proposal (unless permitted pursuant to Sections 7.07 and 7.08); or (v) execute or enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any Acquisition Proposal; *provided*, *however*, that, notwithstanding anything contained in this Section 7.03(a), prior to obtaining the Company Stockholders' Approval, the Company may, and prior to obtaining Pyramid Shareholder Approval, Pyramid may, furnish nonpublic information regarding such party to, and enter into discussions or negotiations with, any person in response to a bona fide written Acquisition Proposal, which such party's Board of Directors determines in good faith, after consultation with a nationally recognized independent financial advisor and its outside legal counsel, constitutes, or is reasonably likely to result in, a Superior Offer (and is not withdrawn) if: (A) such Acquisition Proposal was not solicited in violation of this Section 7.03(a); (B) the Board of Directors of such party concludes in good faith based on the advice of outside legal counsel, that the failure to take such action is reasonably likely to result in a breach of the fiduciary duties of the Board of Directors of such party under applicable laws; (C) at least two business days prior to furnishing any such nonpublic information to, or entering into discussions with, such person, such party gives the other parties written notice of the identity of such person and of such party's intention to furnish nonpublic information to, or enter into discussions with, such person; (D) such party receives from such person an executed confidentiality agreement containing provisions at least as favorable to such party as those contained in the Confidentiality Agreements; and (E) prior to furnishing any such nonpublic information to such person, such party furnishes such nonpublic information to the other parties hereto (to the extent such nonpublic information has not been previously furnished by such party to the other parties). Without limiting the generality of the foregoing, each party acknowledges and agrees that, in the event any representative of such party (whether or not such representative is purporting to act on behalf of such party) takes any action that, if taken by such party, would constitute a breach of this Section 7.03 by such party, the taking of such action by such representative shall be deemed to constitute a breach of this Section 7.03 by such party for purposes of this Agreement.

For purposes of this Agreement, the term: (i) "Acquisition Inquiry" means, with respect to a party hereto, an inquiry, indication of interest or request for information that could reasonably be expected to lead to an Acquisition Proposal with such party; (ii) "Acquisition Proposal" means, with respect to a party hereto, any offer or proposal, whether written or oral, from any person or group (as defined in Section 13(d)(3) of the Exchange Act) other than Pyramid, Delaware Merger Subsidiary, the Company or any affiliates thereof (each, a "third party") to acquire beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of (a) 15% or more of any class of the equity securities of such party or (b) 15% or more of the fair market value of the assets of such party, in each case pursuant to any merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction or series of related transactions, which is structured to permit a third party to acquire beneficial ownership of (y) 15% or more of any class of equity securities of the party or (z) 15% or more of the fair market value of the assets of the party; *provided*, *however*, that, for purposes of Sections 10.02(a) and 10.02(b), all such references to "15%" shall be deemed to be "50%"; and (iii) "Superior Offer" means an unsolicited bona fide written offer by a third party to enter into (a) a merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction as a result of which either (A) the stockholders of a party hereto prior to such transaction in the aggregate cease to own at least 50% of the voting securities of the entity surviving or resulting from such transaction (or the ultimate company entity thereof) or (B) in which a person or "group" (as defined in Section 13(d)(3) of the Exchange Act) directly or indirectly acquires beneficial ownership of securities representing 50% or more of the voting power of the party's capital stock then outstanding or (b) a sale, lease, exchange transfer, license, acquisition or disposition of any business or other disposition of at least 50% of the assets of the party, taken as a whole, in a single transaction or a series of related transactions that: (A) was not obtained or made as a direct or indirect result of a breach of (or in violation of) this Agreement; and (B) is on terms and conditions that the Board of Directors of Pyramid or the Company, as applicable, determines, in its reasonable, good faith judgment, after obtaining and taking into account such matters that its Board of Directors deems relevant following consultation with its outside legal counsel and financial advisor: (x) is reasonably likely to be more favorable, from a financial point of view, to Pyramid's shareholders or the Company's stockholders, as applicable, than the Merger and the other transactions contemplated hereby; and (y) is reasonably capable of being consummated.

(b) Notice of Proposal or Inquiry. If any party or any representative of such party receives an Acquisition Proposal or Acquisition Inquiry at any time during the Pre-Closing Period, then such party shall promptly (and in no event later than 24 hours after such party becomes aware of such Acquisition Proposal or Acquisition Inquiry) advise the other parties hereto orally and in writing of such Acquisition Proposal or Acquisition Inquiry (including the identity of the person making or submitting such Acquisition Proposal or Acquisition Inquiry, and the terms thereof). Such party shall keep the other parties informed in all material respects with respect to the status and terms of any such Acquisition Proposal or Acquisition Inquiry and any modification or proposed modification thereto.

(c) Cease Current Discussions. Each party shall immediately cease and cause to be terminated any existing discussions with any person that relate to any Acquisition Proposal or Acquisition Inquiry as of the date of this Agreement.

SECTION 7.04 Access to Information; Confidentiality.

(a) Subject to applicable law relating to the exchange of information, the parties shall afford to each other and the other's accountants, counsel, financial advisors, sources of financing and other representatives reasonable access during normal business hours with reasonable notice throughout the period from the date hereof until the Merger Effective Time to all of their respective properties, books, contracts and records (including, but not limited to, Tax Returns) and, during such period, shall furnish promptly (i) a copy of each report, schedule and other document filed or received by any of them pursuant to the requirements of federal or state securities laws or filed by any of them with the SEC in connection with the transactions contemplated by this Agreement, and (ii) such other information concerning its businesses, properties and personnel as any party shall reasonably request, and will use reasonable efforts to obtain the reasonable cooperation of its officers, employees, counsel, accountants, consultants and financial advisors in connection with the review of such other information by the parties and their respective representatives.

(b) The parties hereto acknowledge that the Confidentiality Agreements, dated December 27, 2013, between Pyramid and the Company (the "Confidentiality Agreements") shall continue in full force and effect in accordance with their terms.

SECTION 7.05 Notices of Certain Events.

(a) The Company and Pyramid shall as promptly as reasonably practicable after their executive officers acquire knowledge thereof, notify the other of: (i) any notice or other communication from any person alleging that the Consent of such person (or another person) is or may be required in connection with the transactions contemplated by this Agreement which Consent relates to a Pyramid Material Contract or a Company Material Contract, as applicable, or the failure of which to obtain could materially delay consummation of the Merger; (ii) any notice or other communication from any governmental or regulatory agency or authority in connection with the transactions contemplated by this Agreement; and (iii) any actions, suits, claims, investigations or proceedings commenced or, to its knowledge, threatened, relating to or involving or otherwise affecting the Company or Pyramid, as the case may be that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Sections 7.09, 7.10 or 7.12, or which relate to the consummation of the transactions contemplated by this Agreement.

(b) Subject to the provisions of Section 7.03, each of the Company and Pyramid agrees to give prompt notice to the other of, and to use its reasonable best efforts to remedy, (i) the occurrence or failure to occur of any event which occurrence or failure to occur would reasonably be expected to cause any of its representations or warranties in this Agreement to be untrue or inaccurate at the Merger Effective Time unless such occurrence or failure to occur would not reasonably be expected to have a Company Material Adverse Effect or a Pyramid Material Adverse Effect, as the case may be, and (ii) any failure on its part to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder unless such failure would not reasonably be expected to have a Company Material Adverse Effect or a Pyramid Material Adverse Effect, as the case may be; *provided, however*, that the

delivery of any notice pursuant to this Section 7.05(b) shall not limit or otherwise affect the representations, warranties, covenants or agreements of the parties, the remedies available hereunder to the party receiving such notice or the conditions to such party's obligation to consummate the Merger.

SECTION 7.06 Merger Subsidiary. Pyramid will take all action necessary to cause its subsidiary to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement. Until the Merger Effective Time, Merger Subsidiary will not carry on any business or conduct any operations other than the execution of this Agreement, the performance of its obligations hereunder and matters ancillary hereto.

SECTION 7.07 Company Stockholder Meeting or Written Consent.

(a) Promptly after the S-4 Effective Date (as defined in Section 7.09(a)), the Company shall solicit approval at a meeting or by written consent (each a "Company Stockholder Written Consent" and collectively, the "Company Stockholder Written Consents") from the holders of Company Common Stock, Series A Preferred Stock and Series B Preferred Stock for purposes of adopting this Agreement and approving the Merger, and all other transactions contemplated by this Agreement, and the Company shall use its reasonable best efforts to obtain the requisite approval from its stockholders by the date twenty business days after the S-4 Effective Date.

(b) The Company agrees that, subject to Section 7.07(c): (i) the Board of Directors of the Company shall recommend that the Company's stockholders vote to adopt and approve this Agreement and the Merger and shall use reasonable best efforts to solicit such approval within the time set forth in Section 7.07(a) (the recommendation of the Board of Directors of the Company that the Company's stockholders vote to adopt and approve this Agreement and the Merger being referred to as the "Company Board Recommendation"); and (ii) the Company Board Recommendation shall not be withdrawn or modified in a manner adverse to Pyramid, and no resolution by the Board of Directors of the Company or any committee thereof to withdraw or modify the Company Board Recommendation in a manner adverse to Pyramid shall be adopted or proposed.

(c) Notwithstanding anything to the contrary contained in Section 7.07(b), at any time prior to the approval of this Agreement by the Company's stockholders, the Board of Directors of the Company may withhold, amend, withdraw or modify the Company Board Recommendation in a manner adverse to Pyramid if, but only if the Board of Directors of the Company determines in good faith, based on such matters as it deems relevant following consultation with its outside legal counsel, that the failure to withdraw, withhold, amend, or modify such recommendation would result in a breach of its fiduciary duties under applicable law; *provided*, that Pyramid receives written notice from the Company confirming that the Board of Directors of the Company has determined to change its recommendation at least two business days in advance of the Company Board Recommendation being so withdrawn, withheld, amended or modified in a manner adverse to Pyramid.

(d) The Company's obligation to solicit the consent of its stockholders to sign the Company Stockholder Written Consent in accordance with Section 7.07(a) shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission of any Superior Offer or other Acquisition Proposal, or by any withdrawal or modification of the Company Board Recommendation.

SECTION 7.08 Pyramid Shareholders' Meeting.

(a) Pyramid shall take all action necessary and within its powers under applicable law to call, give notice of and hold a meeting (such meeting, the "Pyramid Shareholders' Meeting") of the holders of Pyramid Common Stock to vote on (i) this Agreement, (ii) the principal terms of the Merger, (iii) the issuance of shares of Pyramid Common Stock in the Merger, and (iv) the Pyramid Restated Articles (collectively, the "Pyramid Shareholder Approval Matters"). The Pyramid Shareholders' Meeting shall be held as promptly as practicable after the S-4 Effective Date. Pyramid shall take reasonable measures to ensure that all proxies solicited in connection with the Pyramid Shareholders' Meeting are solicited in compliance with all applicable laws.

(b) Pyramid agrees that, subject to Section 7.08(c): (i) the Board of Directors of Pyramid shall recommend that the holders of Pyramid Common Stock vote to approve the Pyramid Shareholder Approval Matters and shall use commercially reasonable efforts to solicit such approval within the timeframe set forth in Section 7.08(a), (ii) the Proxy Statement/Prospectus shall include a statement to the effect that the Board of Directors of Pyramid recommends that Pyramid's shareholders vote to approve the Pyramid Shareholder Approval Matters (the recommendation of the Board of Directors of Pyramid that Pyramid's shareholders vote to approve the Pyramid Shareholder Approval Matters being referred to as the "Pyramid Board Recommendation"); and (iii) the Pyramid Board Recommendation shall not be withdrawn or modified in a manner adverse to the Company, and no resolution by the Board of Directors of Pyramid or any committee thereof to withdraw or modify the Pyramid Board Recommendation in a manner adverse to the Company shall be adopted or proposed.

(c) Notwithstanding anything to the contrary contained in Section 7.08(b), at any time prior to the approval of the Pyramid Shareholder Approval Matters by Pyramid's shareholders, the Board of Directors of Pyramid may withhold, amend, withdraw or modify the Pyramid Board Recommendation in a manner adverse to the Company if, but only if the Board of Directors of Pyramid determines in good faith, based on such matters as it deems relevant following consultation with its outside legal counsel, that the failure to withhold, amend, withdraw or modify such recommendation would result in a breach of its fiduciary duties under applicable law; *provided*, that the Company receives written notice from Pyramid confirming that the Board of Directors of Pyramid has determined to change its recommendation at least two business days in advance of the Pyramid Board Recommendation being withdrawn, withheld, amended or modified in a manner adverse to the Company.

(d) Pyramid's obligation to call, give notice of and hold the Pyramid Shareholders' Meeting in accordance with Section 7.08(a) shall not be limited or otherwise affected by any withdrawal or modification of the Pyramid Board Recommendation.

(e) Nothing contained in this Agreement shall prohibit Pyramid or its Board of Directors from complying with Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act; *provided*, *however*, that any disclosure made by Pyramid or its Board of Directors pursuant to Rules 14d-9 and 14e-2(a) shall be limited to a statement that Pyramid is unable to take a position with respect to the bidder's tender offer unless the Board of Directors of Pyramid determines in good faith, after consultation with its outside legal counsel, that such statement would result in a breach of its fiduciary duties under applicable law. Pyramid shall not withdraw or modify in a manner adverse to the Company the Pyramid Board Recommendation unless specifically permitted pursuant to the terms of Section 7.08(c).

SECTION 7.09 Proxy Statement/Prospectus; Registration Statement.

(a) As promptly as practicable after the date of this Agreement, the parties hereto shall prepare and cause to be filed with the SEC the Proxy Statement/Prospectus and Pyramid shall prepare and cause to be filed with the SEC the Registration Statement, in which the Proxy Statement/Prospectus will be included as a prospectus. Each of the parties shall use commercially reasonable efforts to cause the Registration Statement and the Proxy Statement/Prospectus to comply with the applicable rules and regulations promulgated by the SEC, to respond promptly to any comments of the SEC or its staff and to have the Registration Statement declared effective under the Securities Act as promptly as practicable after it is filed with the SEC. Each of the parties shall use commercially reasonable efforts to cause the Proxy Statement/Prospectus to be mailed to the stockholders of Pyramid and the Company as promptly as practicable after the date on which the Registration Statement is declared effective under the Securities Act (the "S-4 Effective Date"). Each party hereto shall promptly furnish to the other party all information concerning such party and such party's stockholders that may be required or reasonably requested in connection with any action contemplated by this Section 7.09.

(b) Each party shall reasonably cooperate with the other and provide, and require its representatives, advisors, accountants and attorneys to provide, the other party and its representatives, advisors, accountants and attorneys, with all such information regarding such party as is required by law to be included in the Registration Statement or reasonably requested from such party to be included in the Registration Statement.

SECTION 7.10 Public Announcements. In connection with the execution and delivery of this Agreement, Pyramid and the Company shall issue a joint press release mutually agreed to by the Company and Pyramid. Pyramid, in its discretion, shall be entitled to convene an investor conference call in conjunction with the issuance of such press release. Except for the press release and such conference call, no party shall issue or cause the publication of any press release or other public announcement (to the extent not previously issued or made in accordance with this Agreement) with respect to this Agreement, the Merger or the other transactions contemplated hereby without the prior written

Consent of the other parties (which consent shall not be unreasonably withheld or delayed), except as may be required by law, including applicable SEC requirements, applicable fiduciary duties or by any applicable listing agreement with the NYSE MKT (in which case such party shall not issue or cause the publication of such press release or other public statement without prior consultation with the other party).

SECTION 7.11 Expenses and Fees. Each of the parties shall bear and pay all costs and expenses incurred by it in connection with this Agreement and the transactions contemplated hereby.

SECTION 7.12 Agreement to Cooperate.

(a) Subject to the terms and conditions of this Agreement, including Section 7.03 and this Section 7.12, each of the parties hereto shall use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable law and regulations to consummate and make effective the transactions contemplated by this Agreement, including using its reasonable best efforts to obtain all necessary or appropriate waivers, consents or approvals of third parties required in order to preserve material contractual relationships of Pyramid and the Company and their respective subsidiaries and to effect all necessary registrations, filings and submissions. In addition, subject to the terms and conditions herein provided and subject to the fiduciary duties of the respective Boards of Directors of the Company and Pyramid, none of the parties hereto shall knowingly take or cause to be taken any action that would reasonably be expected to materially delay or prevent consummation of the Merger.

(b) In the event that any administrative or judicial action or proceeding is instituted (or threatened to be instituted) by a governmental authority or private party challenging the Merger or any other transaction contemplated by this Agreement, or any other agreement contemplated hereby, the Company, Pyramid and Merger Subsidiary shall cooperate in all respects with the other parties and shall use their reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement. Notwithstanding anything in this Agreement to the contrary, if so precluded in the exercise of their directors' fiduciary duties, none of Pyramid, Merger Subsidiary or any of their affiliates shall be required to defend, contest or resist any action or proceeding, whether judicial or administrative, or to take any action to have vacated, lifted, reversed or overturned any order, in connection with the transactions contemplated by this Agreement.

SECTION 7.13 Exemption From Liability Under Section 16(b). Pyramid and the Company shall cause their respective Boards of Directors and the Board of Directors of the Surviving Corporation to adopt prior to the Merger Effective Time such resolutions as may be required to, and shall otherwise use reasonable efforts to, exempt the transactions contemplated by this Agreement from the provisions of Section 16(b) of the Exchange Act to the maximum extent permitted by law. The Company shall use reasonable efforts to provide the information to Pyramid required in connection with the adoption of such resolutions to exempt the transactions contemplated by this Agreement from the provisions of Section 16(b) of the Exchange Act to the maximum extent permitted by law.

SECTION 7.14 Certain Tax Matters.

(a) Pyramid and the Company shall each use their reasonable best efforts to cause the Merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and before or after the Merger Effective Time, none of Pyramid, Merger Subsidiary or the Company shall knowingly take any action, cause any action to be taken, fail to take any action or cause any action to fail to be taken which action or failure to act could cause the Merger to fail to

qualify as a reorganization under Section 368(a) of the Code.

(b) Pyramid and the Company shall comply with the record keeping and information reporting requirements set forth in U.S. Treasury Regulation Section 1.368-3. This Agreement is intended to constitute a "plan of reorganization" within the meaning of U.S. Treasury Regulation Section 1.368-2(g).

(c) The Company and Pyramid shall cooperate in the preparation, execution and filing of all Tax Returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp Taxes, and transfer, recording, registration and other fees and similar Taxes which become payable in connection with the Merger that are required or permitted to be filed on or before the Merger Effective Time. Each of Pyramid and the Company shall pay, without deduction from any amount payable to holders of Company Common Stock and without reimbursement from the other party, any such Taxes or fees imposed on it by any governmental authority, which becomes payable in connection with the Merger.

(d) Following the Merger, Pyramid and the Company will not take any action and will not fail to take any action that would prevent the merger from satisfying the "continuity of business enterprise" requirement for a "reorganization" as provided in U.S. Treasury Regulation 1.368-1(d).

SECTION 7.15 Company Financial Statements. As soon as practicable but prior to May 31, 2014, the Company shall deliver to Pyramid true and complete copies of the Company's audited balance sheet as of December 31, 2013, and the related audited statements of operations and statements of cash flows of the Company for the periods covered therein, together with all related notes and schedules thereto, accompanied by the report thereon of the Company's independent auditors (collectively, the "Company 2013 Audited Financial Statements"). The Company shall ensure that its financial statements comply in all material respects with the applicable rules and regulations of the SEC in connection with the preparation and filing of the Registration Statement.

SECTION 7.16 Directors' and Officers' Indemnification and Insurance.

(a) Pyramid and Merger Subsidiary agree that all rights to indemnification, advancement of expenses and exculpation by the Company and Pyramid now existing in favor of each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Merger Effective Time an officer or director of (i) the Company and its subsidiaries (each, a "Company Indemnified Party"), as provided in the Company's certificate of incorporation, bylaws or the DGCL, in each case as in effect on the date of this Agreement, or pursuant to any other contracts in effect on the date hereof and disclosed in Section 6.10 of the Company Disclosure Schedule, shall be assumed by the Surviving Corporation in the Merger at the Merger Effective Time, (ii) Pyramid and its subsidiaries (each, a "Pyramid Indemnified Party" and collectively with the Company Indemnified Party, the "Indemnified Parties"), as provided in Pyramid's Restated Articles of Incorporation, Amended and Restated Bylaws, or the CCC, in each case as in effect on the date of this Agreement, or pursuant to any other contracts in effect on the date hereof and disclosed in Section 5.07 of the Pyramid Disclosure Schedule, shall be assumed by Pyramid without further action, and shall survive the Merger and shall remain in full force and effect in accordance with their terms, and, in the event that any proceeding is pending or asserted or any claim made during such period, until the final disposition of such proceeding or claim.

(b) For six years after the Merger Effective Time, to the fullest extent permitted under applicable law, Pyramid and the Surviving Corporation shall indemnify, defend and hold harmless each Company Indemnified Party and each Pyramid Indemnified Party, as applicable, against all losses, claims, damages, liabilities, fees, expenses, judgments and fines arising in whole or in part out of actions or omissions in their capacity as such occurring at or prior to the Merger Effective Time (including in connection with the transactions contemplated by this Agreement), and shall reimburse each Company Indemnified Party and each Pyramid Indemnified Party for any legal or other expenses reasonably incurred by such Company Indemnified Party or Pyramid Indemnified Party in connection with investigating or defending any such losses, claims, damages, liabilities, fees, expenses, judgments and fines as such expenses are incurred, subject to the Surviving Corporation's or Pyramid's receipt of an undertaking by such Company Indemnified Party or Pyramid Indemnified Party, as the case may be, to repay such legal and other fees and expenses paid in advance if it is ultimately determined in a final and non-appealable judgment of a court of competent jurisdiction that such Company Indemnified Party or Pyramid Indemnified Party is not entitled to be indemnified under applicable law; *provided, however,* that the Surviving Corporation and Pyramid will not be liable for any settlement effected without the Surviving Corporation's prior written consent, in the case of a Company Indemnified Party, or Pyramid's prior written consent, in the case of a Pyramid Indemnified Party (which consent shall not be unreasonably withheld or delayed).

(c) Pyramid shall, as to Pyramid, and the Surviving Corporation shall, as to the Surviving Corporation, (i) maintain in effect for a period of six (6) years after the Merger Effective Time, if available, the current policies of directors' and officers' liability insurance maintained by Pyramid and the Company, as applicable, immediately prior to the Merger Effective Time (*provided* that Pyramid and the Surviving Corporation may substitute therefor policies, of at least the same coverage and amounts and containing terms and conditions that are not less advantageous to the directors and officers of Pyramid and the Company and its subsidiaries when compared to the insurance maintained by Pyramid and the Company, as applicable, as of the date hereof), or (ii) obtain as of the Merger Effective Time "tail" insurance policies with a claims period of six (6) years from the Merger Effective Time with at least the same coverage and amounts and containing terms and conditions that are not less advantageous to the directors and officers of Pyramid and the Company and its subsidiaries, as applicable, in each case with respect to claims arising out of or relating to events which occurred before or at the Merger Effective Time (including in connection with the transactions contemplated by this Agreement); *provided, however,* that in no event will Pyramid or the Surviving Corporation be required to expend a premium for such coverage in excess of $100,000.00 (the "Maximum Premium"). If such insurance coverage cannot be obtained at a premium equal to or less than the Maximum Premium, Pyramid and the Surviving Corporation will obtain, and Pyramid will cause the Surviving Corporation to obtain, that amount of directors' and officers' insurance (or "tail" coverage) obtainable for a premium equal to the Maximum Premium.

(d) The obligations of Pyramid and the Surviving Corporation under this Section 7.16 shall survive the consummation of the Merger and shall not be terminated or modified in such a manner as to adversely affect any Company Indemnified Party or Pyramid Indemnified Party to whom this Section 7.16 applies without the consent of such affected Company Indemnified Party or Pyramid Indemnified Party, as applicable (it being expressly agreed that the Indemnified Parties to whom this Section 7.16 applies shall be third party beneficiaries of this Section 7.16, each of whom may enforce the provisions of this Section 7.16).

(e) In the event Pyramid, the Surviving Corporation or any of their respective successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person, then, and in either such case, proper provision shall be made so that the successors and assigns of Pyramid or the Surviving Corporation, as the case may be, shall assume all of the obligations set forth in this Section 7.16. The agreements and covenants contained herein shall not be deemed to be exclusive of any other rights to which any Company Indemnified Party and any Pyramid Indemnified Party is entitled, whether pursuant to law, contract or otherwise. Nothing in this Agreement is intended to, shall be construed to or shall release, waive or impair any rights to directors' and officers' insurance claims under any policy that is or has been in existence with respect to Pyramid, the Company or their respective officers, directors and employees, it being understood and agreed that the indemnification provided for in this Section 7.16 is not prior to, or in substitution for, any such claims under any such policies.

ARTICLE VIII

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ARTICLE IX

CONDITIONS TO THE MERGER

SECTION 9.01 Conditions to the Obligations of Each Party. The obligations of the parties to consummate the Merger are subject to the fulfillment at or prior to the Merger Effective Time of the following conditions:

(a) this Agreement and the Merger shall have been adopted and approved by the requisite vote of the stockholders of the Company in accordance with the DGCL;

(b) the principal terms of the Merger and the issuance of shares of Pyramid Common Stock in the Merger shall have been adopted and approved by the requisite vote of the shareholders of Pyramid in accordance with the CCC;

(c) none of the parties hereto shall be subject to any law, order, injunction, judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any governmental authority of competent jurisdiction that prohibits the consummation of the Merger or makes the consummation of the Merger illegal;

(d) the Registration Statement shall be declared effective under the Securities Act, and no stop order suspending the effectiveness of the Registration Statement shall have been issued by the SEC and no proceeding for that purpose shall have been initiated by the SEC and not concluded or withdrawn;

(e) the issuance of the shares of Pyramid Common Stock to be issued as the Merger Consideration shall be exempt from registration, or shall have been appropriately registered or qualified, under applicable state securities laws;

(f) the shares of Pyramid Common Stock to be issued as the Merger Consideration shall have been approved for listing on the NYSE MKT, effective upon notice of issuance;

(g) no Governmental Entity (as defined below having jurisdiction over any party hereto shall have enacted, issued, promulgated, enforced or entered any laws, or any order, writ, assessment, decision, injunction, decree, ruling or judgment of a Governmental Entity (any of the foregoing, an "Order"), whether temporary, preliminary or permanent, that make illegal, enjoin or otherwise prohibit consummation of the Merger or the other transactions contemplated by this Agreement. For purposes of this Agreement, the term "Governmental Entity" means any supranational, national, state, municipal, local or foreign government, any instrumentality, subdivision, court, administrative agency or commission or other governmental authority, or any quasi-governmental or private body exercising any regulatory or other governmental or quasi-governmental authority; and

(h) the Board of Directors of Pyramid shall have received an opinion from Roth to the effect that, as of the date of the February 6, 2014 Agreement and based upon and subject to the qualifications and assumptions set forth therein, the terms of the Merger are fair, from a financial point of view, to Pyramid and its shareholders.

SECTION 9.02 Conditions to Obligation of the Company to Effect the Merger. Unless waived by the Company, the obligation of the Company to consummate the Merger shall be subject to the fulfillment at or prior to the Merger Effective Time of the following additional conditions:

(a) (i) the representations and warranties of the Pyramid Entities set forth in Sections 6.02 (Capitalization), and 5.03(a) – (c) (Authority; Non-Contravention) shall be true and correct in all respects as of the date hereof and as of the Merger Effective Time as if made on and as of the Merger Effective Time (or, if given as of a specific date, at and as of such date) and (ii) the other representations and warranties of the Pyramid Entities contained in this Agreement, disregarding all qualifications and exceptions contained therein relating to materiality or Pyramid Material Adverse Effect, shall be true and correct in all respects as of the date hereof and as of the Merger Effective Time as if made on and as of the Merger Effective Time (or, if given as of a specific date, at and as of such date), except in the case of this clause (ii) (x) for changes expressly permitted by this Agreement or (y) where the failure to be true and correct would not reasonably be expected to have a Pyramid Material Adverse Effect. The Company shall have received a certificate of the chief executive officer or the chief financial officer of Pyramid to that effect;

(b) each Pyramid Entity shall have performed in all material respects all obligations required to be performed by it under this Agreement on or prior to the Merger Effective Time, including terminating its 5304-Simple Plan if requested by the Company, and the Company shall have received a certificate of the chief executive officer or the chief financial officer of Pyramid to that effect;

(c) at Closing, all of the directors and officers of Pyramid shall have resigned in writing from their positions as directors and officers of Pyramid effective upon the election of the persons designated in Exhibit E attached hereto (the "New Pyramid Board"), and the appointment of the persons designated in Exhibit E attached hereto, each to hold office in accordance with the articles of incorporation and the bylaws of Pyramid until their respective successors are duly elected or appointed and qualified; *provided* that the New Pyramid Board shall have a sufficient number of "independent directors" to satisfy applicable SEC and NYSE MKT rules. The directors of Pyramid shall take such action as may be necessary or desirable regarding such election and appointment of the foregoing individuals;

(d) the environmental report prepared for the Company with respect to any material property of Pyramid shall be reasonably acceptable to the Company and the Company's land due diligence of Pyramid properties shall be reasonably acceptable to the Company, provided that such report and such due diligence, respectively, shall be deemed to be acceptable to the Company if the Company does not notify Pyramid in writing to the contrary on or before February 20, 2014;

(e) the Board of Directors of the Company shall have a good faith belief that the date on which the S-4 is filed and on the Closing Date, that (i) the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and (ii) the Company and Pyramid will each be a "party to the reorganization" within the meaning of Section 368 of the Code; and

(f) the Company shall have been furnished with evidence satisfactory to it that Pyramid has obtained the consents, approvals and waivers set forth in Section 9.02(f) of the Pyramid Disclosure Schedule.

SECTION 9.03 Conditions to Obligations of Pyramid and Merger Subsidiary to Effect the Merger. Unless waived by Pyramid and Merger Subsidiary, the obligations of Pyramid and Merger Subsidiary to consummate the Merger shall be subject to the fulfillment at or prior to the Merger Effective Time of the following additional conditions:

(a) (i) the representations and warranties of the Company set forth in Sections 6.02 (Capitalization), and 6.03(a) – (c) (Authority; Non-Contravention) shall be true and correct in all respects as of the date hereof and as of the Merger Effective Time as if made on and as of the Merger Effective Time (or, if given as of a specific date, at and as of such date) and (ii) the other representations and warranties of the Company contained in this Agreement, disregarding all qualifications and exceptions contained therein relating to materiality or Company Material Adverse Effect, shall be true and correct in all respects as of the date hereof and as of the Merger Effective Time as if made on and as of the Merger Effective Time (or, if given as of a specific date, at and as of such date), except in the case of this clause (ii) (x) for changes expressly permitted by this Agreement or (y) where the failure to be true and correct would not reasonably be expected to have a Company Material Adverse Effect. Pyramid shall have received a certificate of the chief executive officer or the chief financial officer of the Company to that effect;

(b) the Company shall have performed in all material respects all obligations required to be performed by it under this Agreement on or prior to the Merger Effective Time, and Pyramid shall have received a certificate of the chief executive officer or the chief financial officer of the Company to that effect;

(c) Dissenting Shares, if any, shall constitute less than 1% of the issued and outstanding shares of Company Common Stock, less than 5% of the issued and outstanding shares of Series A Preferred Stock, and less than 5% of the issued and outstanding shares of Series B Preferred Stock;

(d) each of the Company's agreements set forth in Section 9.03(d) of the Company Disclosure Schedule shall have been terminated, effective prior to or as of the day immediately preceding the Closing Date, and Pyramid shall have received from the Company evidence of such terminations in form and substance reasonably satisfactory to Pyramid;

(e) Pyramid shall have been furnished with evidence satisfactory to it that the Company has obtained the consents, approvals and waivers set forth in Section 9.03(e) of the Company Disclosure Schedule;

(f) except as otherwise contemplated herein, all Vested Company Restricted Shares and any other rights to purchase any shares of Company capital stock shall have been converted into or exercised for Company Common Stock or shall have been cancelled; and

(g) the environmental report delivered to Pyramid on or before the date hereof shall be reasonably acceptable to Pyramid, provided that such report shall be deemed to be acceptable to Pyramid if Pyramid does not notify the Company in writing to the contrary on or before February 20, 2014.

ARTICLE X

TERMINATION

SECTION 10.01 Termination. This Agreement may be terminated and the Merger may be abandoned, at any time prior to the Effective Time (whether before or after the Pyramid Shareholder Approval or any approval of this Agreement by the stockholders of the Company):

(a) by mutual written consent of the Company and Pyramid duly authorized by each of their respective Boards of Directors; or

(b) by either the Company or Pyramid, if the Merger has not been consummated by December 31, 2014 (the "Outside Date"); *provided, however*, that the right to terminate this Agreement under this Section 10.01(b) shall not be available to (i) Pyramid, if the failure of any Pyramid Entity to fulfill any of its material obligations under this Agreement caused the failure of the Closing to occur on or before such date, or (ii) the Company, if the failure of the Company to fulfill any of its material obligations under this Agreement caused the failure of the Closing to occur on or before such date, or (iii) Pyramid or the Company, if the failure of the Closing to occur on or before such date is due solely to the failure of the condition set forth in Section 9.01(d) notwithstanding the performance by Pyramid of any obligations under Section 7.09; or

(c) by either the Company or Pyramid, if (x) there has been a breach by the other of any representation or warranty contained in this Agreement which would reasonably be expected to have a Company Material Adverse Effect or a Pyramid Material Adverse Effect, as the case may be, and which breach is not curable or, if curable, the breaching party shall not be using on a continuous basis its reasonable best efforts to cure in all material respects such breach after written notice of such breach by the terminating party or such breach has not been cured within ten business days after written notice of such breach by the terminating party, or (y) there has been a breach of any of the covenants or agreements set forth in this Agreement on the part of the other party, which would reasonably be expected to have a Pyramid Material Adverse Effect or a Company Material Adverse Effect, as the case may be, and which breach is not curable or, if curable, the breaching party shall not be using on a continuous basis its reasonable best efforts to cure such breach after written notice of such breach by the terminating party or such breach has not been cured within twenty business days after written notice of such breach by the terminating party; or

(d) by either the Company or Pyramid after ten days following the entry of any final and non-appealable judgment, injunction, order or decree by a court or governmental agency or authority of competent jurisdiction restraining or prohibiting the consummation of the Merger; or

(e) by the Company if, notwithstanding the existence of the Company Voting Agreement, prior to receipt of the Company Stockholders' Approval, the Company receives a Superior Offer, resolves to accept such Superior Offer, complies with its Company Termination Fee payment obligations under Section 10.02 hereof and gives Pyramid at least four business days' prior written notice of its intention to terminate pursuant to this provision; *provided, however*, that such termination shall not be effective until such time as the payment required by Section 10.02 shall have been received by Pyramid; or

(f) by the Company, if the Board of Directors of Pyramid shall have failed to recommend, or shall have withdrawn, modified or amended in a manner adverse to the Company in any material respect the Pyramid Board Recommendation, or shall have resolved to do any of the foregoing, or shall have recommended another Acquisition

Proposal or if the Board of Directors of Pyramid shall have resolved to accept a Superior Offer; or

(g) by Pyramid if, notwithstanding the existence of the Pyramid Voting Agreement, prior to receipt of the Pyramid Shareholders' Approval, Pyramid receives a Superior Offer, resolves to accept such Superior Offer, complies with its Pyramid Termination Fee payment obligations under Section 10.02 hereof and gives the Company at least four business days' prior written notice of its intention to terminate pursuant to this provision; *provided, however*, that such termination shall not be effective until such time as the payment required by Section 10.02 shall have been received by the Company; or

(h) by Pyramid, if the Board of Directors of the Company shall have failed to recommend, or shall have withdrawn, modified or amended in a manner adverse to Pyramid in any material respect the Company Board Recommendation, or shall have resolved to do any of the foregoing, or shall have recommended another Acquisition Proposal or if the Board of Directors of the Company shall have resolved to accept a Superior Offer; or

(i) (i) by Pyramid, if the stockholders of the Company fail to approve the Merger in accordance with Section 7.07, or (ii) by the Company, if the shareholders of Pyramid fail to approve the Pyramid Shareholder Approval Matters at the Pyramid Shareholders' Meeting (including any adjournment or postponement thereof); or

(j) by Pyramid, if the Company 2013 Audited Financial Statements are not delivered to Pyramid by May 31, 2014.

SECTION 10.02 Termination Fee.

(a) Payment of Termination Fees by the Company. The Company shall pay to Pyramid a termination fee in an amount in cash equal to $1,000,000 (the "Company Termination Fee") in the event that (i) the Company terminates this Agreement pursuant to Section 10.01(e); (ii) Pyramid terminates this Agreement pursuant to Sections 10.01(c) (as a result of a breach by the Company) or 10.01(h); or (iii) Pyramid terminates this Agreement pursuant to Section 10.01(i), provided, in the case of this clause (iii), that (A) after the date hereof and prior to the date the Company solicits the approval of the Company's stockholders at a meeting or by written consent in accordance with Section 7.07, an Acquisition Proposal has been publicly announced and not withdrawn or abandoned at the time of termination, and (B) within one year after such termination, the Company enters into a definitive agreement with respect to or consummates such Acquisition Proposal. Payment of the Company Termination Fee under this Section 10.02 shall be paid to Pyramid within five business days following the date of termination of this Agreement; *provided, however,* that in the event of payment pursuant to clause (iii) above, on the date of the execution and delivery by the Company of the definitive agreement regarding such Acquisition Proposal.

(b) Payment of Termination Fees by Pyramid. Pyramid shall pay to the Company a termination fee in an amount in cash equal to $1,000,000 (the "Pyramid Termination Fee") in the event that (i) Pyramid terminates this Agreement pursuant to Section 10.01(g); (ii) the Company terminates this Agreement pursuant to Sections 10.01(c) (as a result of a breach by Pyramid) or 10.01(f); or (iii) the Company terminates this Agreement pursuant to Section 10.01(i), provided, in the case of this clause (iii), that (A) after the date hereof and prior to the Pyramid Shareholders' Meeting, an Acquisition Proposal has been publicly announced and not withdrawn or abandoned at the time of termination, and (B) within one year after such termination, Pyramid enters into a definitive agreement with respect to or consummates such Acquisition Proposal. Payment of the Pyramid Termination Fee under this Section 10.02 shall be paid to the Company within five business days following the date of termination of this Agreement; *provided, however,* that in the event of payment pursuant to clause (iii) above, on the date of the execution and delivery by Pyramid of the definitive agreement regarding such Acquisition Proposal.

SECTION 10.03 Effect of Termination. In the event of termination of this Agreement by either Pyramid or the Company pursuant to the provisions of Section 10.01, written notice thereof shall be given to the other party or parties, specifying the provision hereof pursuant to which such termination is made, and there shall be no liability or further obligation on the part of the Company, Pyramid, Merger Subsidiary or their respective officers or directors (except as set forth in the first sentence of Section 5.08, Section 10.02 and this Section 10.03, all of which shall survive the termination). Nothing in this Section 10.03 shall relieve any party from liability for fraud or any willful breach of this Agreement.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01 Non-Survival of Representations and Warranties. Absent actual fraud, and any intentional, willful and material breach of any representation or warranty contained in this Agreement by the Company or any Pyramid Entity, as applicable, none of the representations and warranties contained in this Agreement or in any instrument delivered under this Agreement will survive the Merger Effective Time. This Section 11.01 does not limit any covenant of the parties to this Agreement which, by its terms, contemplates performance after the Merger Effective Time. The Confidentiality Agreements will survive termination of this Agreement in accordance with their respective terms.

SECTION 11.02 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, mailed by registered or certified mail (return receipt requested), sent via facsimile or e-mail (with confirmation of transmission) or sent by a nationally recognized overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to the Company:

Yuma Energy, Inc.

1177 West Loop South, Suite 1825

Houston, TX 77027

Attention: Sam L. Banks

Facsimile: (713) 968-7016

with a copy to (which shall not constitute notice hereunder):

Jones & Keller, P.C.

1999 Broadway, Suite 3150

Denver, CO 80202

Attention: Reid A. Godbolt

Facsimile: (303) 573-8133

If to Pyramid or Merger Subsidiary:

Pyramid Oil Company

2008 21st Street

Bakersfield, CA 93301

Attention: Michael D. Herman

with a copy to (which shall not constitute notice hereunder):

TroyGould PC

1801 Century Park East, 16th Floor

Los Angeles, CA 90067

Attention: William D. Gould

Facsimile: (310) 201-4746

SECTION 11.03 Interpretation.

(a) The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, unless a contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) "knowledge" shall mean actual knowledge as of the date hereof of the executive officers of the Company or Pyramid, as the case may be, after reasonable inquiry of any person directly reporting to any such executive officer, (iii) "including" shall mean "including, without limitation," and "includes" shall mean "includes, without limitation," and (iv) reference to any Article or Section means such Article or Section hereof. No provision of this Agreement shall be interpreted or construed against any party hereto solely because such party or its legal representative drafted such provision. For purposes of determining whether any fact or circumstance involves a material adverse effect on the ongoing operations of a party, any special transaction charges incurred by such party as a result of the consummation of transactions contemplated by this Agreement shall not be considered.

(b) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

SECTION 11.04 Assignments and Successors. No party may assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of the other parties. Any attempted assignment of this Agreement or of any such rights or delegation of obligations without such consent shall be void and of no effect This Agreement will be binding upon, and shall be enforceable by and inure solely to the benefit of, the parties hereto and their respective successors and permitted assigns.

SECTION 11.05 Governing Law. THIS AGREEMENT, AND ANY DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE PARTIES' RELATIONSHIP TO EACH OTHER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICTS OF LAW THEREOF.

SECTION 11.06 Waiver of Jury Trial. Each of the parties irrevocably waives any and all rights to trial by jury in any action or proceeding between the parties arising out of or relating to this Agreement and the transactions contemplated hereby.

SECTION 11.07 Exclusive Jurisdiction; Venue. In any action or proceeding between any of the parties arising out of or relating to this Agreement or any of the transactions contemplated hereby, each of the parties: (a) irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the Court of Chancery of the State of Delaware or to the extent such court does not have subject matter jurisdiction, the Superior Court of the State of Delaware or the United States District Court for the District of Delaware, (b) agrees that all claims in respect of such action or proceeding shall be heard and determined exclusively in accordance with clause (a) of this Section 11.07, (c) waives any objection to laying venue in any such action or proceeding in such courts, (d) waives any objection that such courts are an inconvenient forum or do not have jurisdiction over any party, and (e) agrees that service of process upon such party in any such action or proceeding shall be effective if such process is given as a notice in accordance with Section 11.02 of this Agreement.

SECTION 11.08 No Third-Party Rights. Nothing in this Agreement, express or implied, is intended to or shall confer upon any person (other than the parties) any right, benefit, or remedy of any nature whatsoever under or by reason of this Agreement; *provided, however*, that after the Merger Effective Time, the Company Indemnified Parties and the Pyramid Indemnified Parties shall be third-party beneficiaries of, and entitled to enforce, Sections 7.16 and 7.17, as applicable, and *provided* further, that no consent of the Company Indemnified Parties and the Pyramid Indemnified Parties shall be required to amend any provision of the Agreement prior to the Merger Effective Time.

SECTION 11.09 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

SECTION 11.10 Amendments; No Waivers.

(a) Any provision of this Agreement may be amended or waived prior to the Merger Effective Time if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Company, Pyramid and Merger Subsidiary or, in the case of a waiver, by the party against whom the waiver is to be effective; *provided* that

any waiver or amendment shall be effective against a party only if the Board of Directors of such party approves such waiver or amendment.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 11.11 Entire Agreement. This Agreement, including the schedules, exhibits and amendments hereto, and the Confidentiality Agreements constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements, specifically including the February 6, 2014 Agreement, understandings and negotiations, both written and oral, between the parties with respect to the subject matter of this Agreement. No representation, inducement, promise, understanding, condition or warranty not set forth herein has been made or relied upon by any party hereto. Neither this Agreement nor any provision hereof is intended to confer upon any person other than the parties hereto any rights or remedies hereunder except for the provisions of Article III, which is intended for the benefit of the stockholders of the Company.

SECTION 11.12 Severability. If any term or other provision of this Agreement is invalid, illegal or unenforceable, all other provisions of this Agreement shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

SECTION 11.13 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with their specific terms hereof and that the parties shall be entitled to specific performance of the terms hereof in addition to any other rights or remedies at law or in equity.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

YUMA ENERGY, INC.

/s/ Sam L. Banks
Name: Sam L. Banks
Title: Chairman and Chief Executive Officer

PYRAMID OIL COMPANY

/s/ Michael D. Herman
Name: Michael D. Herman
Title: Chairman, Interim President and Chief Executive Officer

PYRAMID MERGER SUBSIDIARY, INC.

/s/ Michael D. Herman
Name: Michael D. Herman
Title: Chairman, Interim President and Chief Executive Officer

PYRAMID DELAWARE MERGER SUBSIDIARY, INC.*

/s/ Michael D. Herman
Name: Michael D. Herman
Title: Chairman, Interim President and Chief Executive Officer

* Joined for the purpose of approving this Amendment to the February 6, 2014 Agreement, waiving all rights thereunder and releasing all parties therefrom.

Signature Page to the Amended and Restated Agreement and Plan of Merger and Reorganization

EXHIBIT A

FORM OF COMPANY VOTING AGREEMENT

(See Annex C)

EXHIBIT B

FORM OF PYRAMID VOTING AGREEMENT

(See Annex B)

EXHIBIT C

FORM OF CERTIFICATE OF MERGER

CERTIFICATE OF MERGER

of

PYRAMID MERGER SUBSIDIARY, INC.

(a Delaware corporation)

with and into

YUMA ENERGY, INC.

(a Delaware corporation)

Pursuant to Title 8, Section 251(c) of the Delaware General Corporation Law (the "**DGCL**"), the undersigned corporation executed the following Certificate of Merger:

FIRST: The name, jurisdiction of incorporation and type of entity of each of the constituent corporations which is to merge are as follows:

Name	**Jurisdiction of Incorporation**	**Entity Type**
Pyramid Merger Subsidiary, Inc.	Delaware	Corporation
Yuma Energy, Inc.	Delaware	Corporation

SECOND: The Amended and Restated Agreement and Plan of Merger and Reorganization (the "**Merger Agreement**") has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations pursuant to Title 8, Section 251(c) of the DGCL.

THIRD: The name of the surviving Delaware corporation is Yuma Energy, Inc. (the "**Surviving Corporation**").

FOURTH: The Second Amended and Restated Certificate of Incorporation, as amended, of Yuma Energy, Inc., as in effect immediately prior to the effective time of the merger, shall be the Certificate of Incorporation of the Surviving Corporation, except that the Article numbered "FIRST" of the Second Amended and Restated Certificate of Incorporation, as amended, of Yuma Energy, Inc., shall be amended and restated in its entirety to read as follows:

"The name of this corporation is The Yuma Companies, Inc."

FIFTH: This Certificate of Merger, and the merger referenced herein, shall become effective upon the filing of this Certificate of Merger in the office of the Secretary of State of the State of Delaware.

SIXTH: The executed Merger Agreement is on file at the principal place of business of the Surviving Corporation, which is located at 1177 West Loop South, Suite 1825, Houston, Texas 77027.

SEVENTH: Upon request, a copy of the Merger Agreement will be furnished by the Surviving Corporation, without cost, to any stockholder of the constituent corporations.

IN WITNESS WHEREOF, said Surviving Corporation has caused this this Certificate of Merger to be signed by an authorized officer, this _____ day of _____, 2014.

YUMA ENERGY, INC.

By:
Name:
Title:

EXHIBIT D

FORM OF RESTATED ARTICLES OF INCORPORATION OF PYRAMID

(See Annex F)

EXHIBIT E

OFFICERS AND DIRECTORS

Directors of Pyramid:

Sam L. Banks, Chairman

Richard K. Stoneburner

James W. Christmas

Frank A. Lodzinski

Richard W. Volk

Ben T. Morris

Officers of Pyramid:

Sam L. Banks, Chief Executive Officer

Michael F. Conlon, President and Chief Operating Officer

Kirk F. Sprunger, Chief Financial Officer, Treasurer and Secretary

Annex B

AMENDED AND RESTATED VOTING AGREEMENT

THIS AMENDED AND RESTATED VOTING AGREEMENT (this "Agreement") is dated as of August 1, 2014 by and among Yuma Energy, Inc., a Delaware corporation (the "Company"), and each of the persons listed on Schedule A hereto (each a "Shareholder" and collectively, the "Shareholders").

WHEREAS, each of the Shareholders is, as of the date hereof and has been since February 6, 2014, the record and beneficial owner of that number of shares of Common Stock, no par value per share (the "Pyramid Common Stock"), of Pyramid Oil Company, a California corporation ("Pyramid"), and set forth opposite such Shareholder's name on Schedule A hereto; and

WHEREAS, the Company and the Shareholders are parties to the Voting Agreement dated as of February 6, 2014 (the "Original Voting Agreement"); and

WHEREAS, Pyramid, Pyramid Merger Subsidiary, Inc., a Delaware corporation and wholly owned subsidiary of Pyramid (the "Merger Subsidiary"), and the Company concurrently with the execution and delivery of this Agreement are entering into an Amended and Restated Agreement and Plan of Merger and Reorganization, dated as of the date hereof (as the same may be amended or supplemented, the "Merger Agreement"), providing for, among other things, the merger (the "Merger") of Merger Subsidiary with and into the Company, and the Company as the surviving entity to the Merger upon the terms and subject to the conditions set forth in the Merger Agreement (capitalized terms used and not otherwise defined herein shall have the meanings attributed thereto in the Merger Agreement); and

WHEREAS, as a condition to the willingness of the Company to enter into the Merger Agreement, and in order to induce the Company to enter into the Merger Agreement, the Shareholders and the Company have agreed to amend and restate the Original Voting Agreement and enter into this Agreement.

NOW, THEREFORE, in consideration of the execution and delivery by the Company of the Merger Agreement and the mutual representations, warranties, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Representations and Warranties of the Shareholders. Each of the Shareholders hereby represents and warrants to the Company, severally and not jointly, as follows:

(a) Such Shareholder is the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and unless otherwise indicated, the record owner of the shares of Pyramid Common Stock (as may be adjusted from time to time pursuant to Section 5 hereof, the "Shares") set forth opposite such Shareholder's name on Schedule A to this Agreement and such Shares represent all of the shares of Pyramid Common Stock beneficially owned by such Shareholder as of the date hereof. For purposes of this Agreement, the term "Shares" shall include any shares of Pyramid Common Stock issuable to such Shareholder upon exercise or conversion of any existing right, contract, option, or warrant to purchase, or securities convertible into or exchangeable for, Pyramid Common Stock ("Shareholder Rights") that are currently exercisable or convertible or become exercisable or convertible and any other shares of Pyramid Common Stock such Shareholder may acquire or beneficially own during the term of this Agreement.

(b) Such Shareholder has all requisite power and authority and, if an individual, the legal capacity, to execute and deliver this Agreement and to consummate the transactions contemplated hereby. This Agreement has been validly executed and delivered by such Shareholder and, assuming that this Agreement constitutes the legal, valid and binding obligation of the Company, constitutes the legal, valid and binding obligation of such Shareholder, enforceable against such Shareholder in accordance with its terms (except insofar as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, or by principles governing the availability of equitable remedies).

(c) The execution and delivery of this Agreement by such Shareholder does not, and the performance of this Agreement by such Shareholder will not, (i) if such Shareholder is a corporation or limited liability company, conflict with the certificate or articles of incorporation, certificate of formation or limited liability company agreement or bylaws, or similar organizational documents of such Shareholder as presently in effect (in the case of a Shareholder that is a legal entity), (ii) conflict with or violate any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to such Shareholder or by which it is bound or affected, (iii)(A) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, (B) give to any other person any rights of termination, amendment, acceleration or cancellation of, or (C) result in the creation of any pledge, claim, lien, charge, encumbrance or security interest of any kind or nature whatsoever upon any of the properties or assets of the Shareholder under, any agreement, contract, indenture, note or instrument to which such Shareholder is a party or by which it is bound or affected, except for such breaches, defaults or other occurrences that would not prevent or materially delay the performance by such Shareholder of any of such Shareholder's obligations under this Agreement, or (iv) except for applicable requirements, if any, of the Exchange Act, the Securities Act of 1933, as amended (the "Securities Act"), the New York Stock Exchange Market (the "NYSE") or the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), require any filing by such Shareholder with, or any permit, authorization, consent or approval of, any governmental or regulatory authority, except where the failure to make such filing or obtain such permit, authorization, consent or approval would not prevent or materially delay the performance by the Shareholder of any of such Shareholder's obligations under this Agreement.

(d) The Shares and the certificates representing the Shares owned by such Shareholder are now and at all times during the term hereof will be held by such Shareholder, or by a nominee or custodian for the benefit of such Shareholder, free and clear of all pledges, liens, charges, claims, security interests, proxies, voting trusts or agreements, understandings or arrangements or any other encumbrances whatsoever, except for any such encumbrances or proxies arising hereunder or under applicable federal and state securities laws or under the agreements set forth on Schedule B hereto. Such Shareholder owns of record or beneficially no shares of Pyramid Common Stock other than such Shareholder's Shares.

(e) As of the date hereof, neither such Shareholder, nor any of its respective properties or assets is subject to any order, writ, judgment, injunction, decree, determination or award that would prevent or delay the consummation of the transactions contemplated hereby.

(f) Such Shareholder understands and acknowledges that the Company is entering into, the Merger Agreement in reliance upon such Shareholder's execution and delivery of this Agreement.

Section 2. Representations and Warranties of the Company. The Company hereby represents and warrants to the Shareholders as follows:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. The Company has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby, and has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by the Company and, assuming that this Agreement constitutes the legal, valid and binding obligation of the other parties hereto, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with the terms of this Agreement (except insofar as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, or by principles governing the availability of equitable remedies).

(b) The execution and delivery of this Agreement by the Company does not, and the performance of this Agreement by the Company will not, (i) conflict with the certificate of incorporation or bylaws of the Company as presently in effect, (ii) conflict with or violate any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or by which it is bound or affected, (iii) (A) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, (B) give to any other person any rights of termination, amendment, acceleration or cancellation of, or (C) result in the creation of any pledge, claim, lien, charge, encumbrance or security interest of any kind or nature whatsoever upon any of the properties or assets of the Company under, any agreement, contract, indenture, note or instrument to which the Company is a party or by which it is bound or affected, except for such breaches, defaults or other occurrences that would not prevent or materially delay the performance by the Company of its obligations under this Agreement, or (iv) except for applicable requirements, if any, of the Exchange Act, the Securities Act, the NYSE or the HSR Act, require any filing by the Company with, or any permit, authorization, consent or approval of, any governmental or regulatory authority, except where the failure to make such filing or obtain such permit, authorization, consent or approval would not prevent or materially delay the performance by the Company of its obligations under this Agreement.

(c) As of the date hereof, neither the Company nor any of its properties or assets is subject to any order, writ, judgment, injunction, decree, determination or award that would prevent or delay the consummation of the transactions contemplated hereby.

Section 3. Covenants of the Shareholders. Each of the Shareholders, severally and not jointly, agrees as follows:

(a) Such Shareholder shall not, except as contemplated by the terms of this Agreement, sell, transfer, pledge, assign or otherwise dispose of, or enter into any contract, option or other arrangement (including any profit-sharing arrangement) or understanding with respect to the sale, transfer, pledge, assignment or other disposition of, the Shares (including any options or warrants to purchase Pyramid Common Stock) to any person (any such action, a "Transfer"). For purposes of clarification, the term "Transfer" shall include, without limitation, any short sale (including any "short sale against the box"), pledge, transfer, and the establishment of any open "put equivalent position" within the meaning of Rule 16a-1(h) under the Exchange Act. Notwithstanding the foregoing, (i) Transfers of Shares as bona fide gifts, (ii) distributions of Shares to partners, members, shareholders, subsidiaries, affiliates, affiliated partnerships or other affiliated entities of the undersigned, (iii) Transfers of Shares by will or intestacy, and (iv) Transfers of Shares to (A) members of the undersigned's immediate family or (B) a trust, the beneficiaries of which are the undersigned and/or members of the undersigned's immediate family, shall not be prohibited by this Agreement; provided that in the case of any such transfer or distribution pursuant to clause (i), (ii), (iii) or (iv), each donee or distributee shall execute and deliver to the Company a valid and binding counterpart to this Agreement.

(b) Such Shareholder shall not, except as contemplated by the terms of this Agreement (i) enter into any voting arrangement, whether by proxy, voting agreement, voting trust, power-of-attorney or otherwise, with respect to the Shares or (ii) take any other action that would in any way restrict, limit or interfere with the performance of his, her or its obligations hereunder or the transactions contemplated hereby or make any representation or warranty of such Shareholder herein untrue or incorrect in any material respect.

(c) At any meeting of the shareholders of Pyramid called to vote upon the Merger or in connection with any shareholder consent in respect of a vote on the Merger, the Merger Agreement or any other transaction contemplated by the Merger Agreement or at any adjournment thereof or in any other circumstances upon which a vote, consent or other approval (including by written consent) with respect to such matters is sought, each Shareholder shall vote (or cause to be voted), or shall consent, execute a consent or cause to be executed a consent in respect of, such Shareholder's Shares in favor of the Merger, the adoption by Pyramid of the Merger Agreement and the approval of any other transactions contemplated by the Merger Agreement.

(d) Such Shareholder agrees to permit Pyramid and Merger Subsidiary to publish and disclose in the Proxy Statement and related filings under the securities laws such Shareholder's identity and ownership of Shares and the nature of its commitments, arrangements and understandings under this Agreement and any other information required by applicable law.

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Section 4. Grant of Irrevocable Proxy; Appointment of Proxy.

(a) Each Shareholder hereby irrevocably grants to, and appoints, Sam L. Banks, and any other individual who shall hereafter be designated by the Company, such Shareholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of such Shareholder, to vote such Shareholder's Shares, or grant a consent or approval in respect of such Shares, at any meeting of shareholders of Pyramid or at any adjournment thereof or in any other circumstances upon which their vote, consent or other approval is sought, in favor of the Merger, the adoption by Pyramid of the Merger Agreement and the approval of the other transactions contemplated by the Merger Agreement.

(b) Each Shareholder represents that any existing proxies given in respect of such Shareholder's Shares are not irrevocable, and that any such proxies are hereby revoked.

(c) Each Shareholder hereby affirms that the irrevocable proxy set forth in this Section 4 is given in connection with the execution of the Merger Agreement, and that such irrevocable proxy is given to secure the performance of the duties of such Shareholder under this Agreement. Such Shareholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked, subject to Section 7 herein. Such Shareholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. Such irrevocable proxy is executed and intended to be irrevocable in accordance with applicable law. Such irrevocable proxy shall be valid until the termination of this Agreement pursuant to Section 7 herein.

Section 5. Adjustments Upon Share Issuances, Changes in Capitalization. In the event of any change in Pyramid Common Stock or in the number of outstanding shares of Pyramid Common Stock by reason of a stock dividend, subdivision, reclassification, recapitalization, split, combination, exchange of shares or other similar event or transaction or any other change in the corporate or capital structure of Pyramid (including, without limitation, the declaration or payment of an extraordinary dividend of cash, securities or other property), and consequently the number of Shares changes or is otherwise adjusted, this Agreement and the obligations hereunder shall attach to any additional shares of Pyramid Common Stock, Shareholder Rights or other securities or rights of Pyramid issued to or acquired by each of the Shareholders.

Section 6. Further Assurances. Each Shareholder will, from time to time, execute and deliver, or cause to be executed and delivered, such additional or further transfers, assignments, endorsements, consents and other instruments as the Company may reasonably request for the purpose of effectively carrying out the transactions contemplated by this Agreement and to vest the power to vote such Shareholder's Shares as contemplated by Section 3 herein.

Section 7. Termination. This Agreement, and all rights and obligations of the parties hereunder, shall terminate upon the earlier of (a) the Effective Time and (b) the date upon which the Merger Agreement is terminated pursuant to Section 7.01 thereof. Notwithstanding the foregoing, Sections 7, 8 and 9 hereof shall survive any termination of this Agreement.

Section 8. Action in Shareholder Capacity Only. No Shareholder executing this Agreement who is or becomes during the term hereof a director or officer of Pyramid makes any agreement or understanding herein in his or her capacity as such director or officer. Each Shareholder signs solely in his or her capacity as the record holder and beneficial owner of, or the trustee of a trust whose beneficiaries are the beneficial owners of, such Shareholder's Shares and nothing herein shall limit or affect any actions or omissions taken by or fiduciary duties of, a Shareholder or any of its affiliates, in his or her capacity as an officer or director of Pyramid to the extent permitted by the Merger Agreement and applicable law.

Section 9. Miscellaneous.

(a) *Assignment*. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Each Shareholder agrees that this Agreement and the obligations of such Shareholder hereunder shall attach to such Shareholder's Shares and shall be binding upon any person or entity to which legal or beneficial ownership of such Shares shall pass, whether by operation of law or otherwise, including without limitation such Shareholder's heirs, guardians, administrators or successors.

(b) *Expenses*. All costs and expenses incurred in connection with this Agreement and the transactions contemplated thereby shall be paid by the party incurring such expenses.

(c) *Amendments*. This Agreement may not be amended except vis-à-vis the Company and a Shareholder by an instrument in writing signed by the Company and the applicable Shareholder and in compliance with applicable law.

(d) *Notice*. All notices and other communications hereunder shall be in writing and shall be deemed duly given if delivered personally, mailed by registered or certified mail (return receipt requested), delivered by Federal Express or other nationally recognized overnight courier service or sent via facsimile to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) if to a Shareholder, to the address set forth under the name of such Shareholder on Schedule A hereto

with a copy to (which shall not constitute notice):

TroyGould PC

1801 Century Park East, 16th Floor

Los Angeles, CA 90067

Attention: William D. Gould

Facsimile: (310) 201-4746

and

(ii) if to the Company:

Yuma Energy, Inc.

1177 West Loop South, Suite 1825

Houston, TX 77027

Attention: Sam L. Banks

Facsimile: (713) 968-7016

with a copy to (which shall not constitute notice):

Jones & Keller, P.C.

1999 Broadway, Suite 3150

Denver, CO 80202

Attention: Reid A. Godbolt

Facsimile: (303) 573-8133

(e) *Interpretation*. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, unless a contrary intention appears, (i) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision and (ii) reference to any Section means such Section hereof. No provision of this Agreement shall be interpreted or construed against any party hereto solely because such party or its legal representative drafted such provision.

(f) *Counterparts*. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall be considered one and the same agreement. Delivery of an executed counterpart signature page of this Agreement by facsimile or by e-mail of a PDF document is as effective as executing and delivering this Agreement in the presence of the other parties.

(g) *Entire Agreement*. This Agreement constitutes the entire agreement of the parties and supersedes all prior agreements and undertakings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof, specifically including the Original Voting Agreement, and except as otherwise expressly provided herein, is not intended to confer upon any other person any rights or remedies hereunder.

(h) *Governing Law; Consent to Jurisdiction; Waiver of Trial by Jury*. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to laws that may be applicable under conflicts of laws principles. Each of the parties hereto irrevocably and unconditionally (i) agrees that any suit, action or other legal proceeding arising out of or relating to this Agreement or any of the agreements delivered in connection herewith or the transactions contemplated hereby or thereby shall be brought in the state courts of the State of Delaware (or, if such courts do not have jurisdiction or do not accept jurisdiction, in the United States District Court located in the State of Delaware), (ii) consents to the jurisdiction of any such court in any such suit, action or proceeding, and (iii) waives any objection that such party may have to the laying of venue of any such suit, action or proceeding in any such court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9(d). Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE IT HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT AND ANY OF THE AGREEMENTS DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE EITHER OF SUCH WAIVERS, (B) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVERS, (C) IT MAKES SUCH WAIVERS VOLUNTARILY, AND (D) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9(h).

(i) *Specific Performance*. The parties to this Agreement agree that irreparable damage would occur in the event that any provision of this Agreement was not performed in accordance with the terms of this Agreement and that the

Company shall be entitled to specific performance of the terms of this Agreement in addition to any other remedy at law or equity.

(j) *Severability*. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(k) *Several Liability.* Each party to this Agreement enters into this Agreement solely on its own behalf, each such party shall solely be severally liable for any breaches of this Agreement by such party and in no event shall any party be liable for breaches of this Agreement by any other party hereto.

(l) *Non-Recourse*. No past, present or future director, officer, employee, incorporator, member, partner, shareholder, agent, attorney, representative or affiliate of any Shareholder hereto or of any of their respective affiliates shall have any liability (whether in contract or in tort) for any obligations or liabilities of such party arising under, in connection with or related to this Agreement or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby; provided, however, that nothing in this Section 9(l) shall limit any liability of any Shareholder hereto for its breaches of the terms and conditions of this Agreement.

(m) *Waiver*. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by applicable law.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer thereunto duly authorized and each Shareholder has signed this Agreement, all as of the date first written above.

COMPANY:

YUMA ENERGY, INC.,
a Delaware corporation

By: /s/ Sam L. Banks
Name: Sam L. Banks
Title: Chairman and Chief Executive Officer

SIGNATURE PAGE TO THE

AMENDED AND RESTATED VOTING AGREEMENT

AMENDED AND RESTATED VOTING AGREEMENT

SHAREHOLDER SIGNATURE PAGE

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer thereunto duly authorized and each Shareholder has signed this Agreement, all as of the date first written above.

SHAREHOLDER:

By: /s/ Michael D. Herman
Name: Michael D. Herman

SIGNATURE PAGE TO THE

AMENDED AND RESTATED VOTING AGREEMENT

SCHEDULE A

OWNERSHIP OF SHARES

Name and Address of Shareholder	**Number of Shares of Pyramid Common Stock Beneficially Owned**
Michael D. Herman 2008 Twenty-First Street Bakersfield, CA 93301	2,002,580 shares, which includes 50,000 shares of Pyramid Common Stock issuable to Mr. Herman upon exercise of a stock option granted as of October 8, 2013.

SCHEDULE B

LIST OF AGREEMENTS

Refer to Michael Herman's Schedule 13D filed with the SEC on October 10, 2013.

Annex C

AMENDED AND RESTATED VOTING AGREEMENT

THIS AMENDED AND RESTATED VOTING AGREEMENT (this "Agreement"), is dated as of August 1, 2014 by and among Pyramid Oil Company, a California corporation ("Pyramid"), Pyramid Merger Subsidiary, Inc., a Delaware corporation and wholly owned subsidiary of Pyramid (the "Merger Subsidiary"), and each of the persons listed on Schedule A hereto (each a "Stockholder" and collectively, the "Stockholders").

WHEREAS, each of the Stockholders is, as of the date hereof, the record and beneficial owner of that number of shares of (i) Common Stock, par value $0.01 per share (the "Company Common Stock"), of Yuma Energy, Inc., a Delaware corporation (the "Company"), (ii) Series A Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock") of the Company, or (iii) Series B Preferred Stock, par value $0.01 per share (the "Series B Preferred Stock") of the Company, set forth opposite such Stockholder's name on Schedule A hereto; and

WHEREAS, the Company and the Stockholders are parties to the Voting Agreement dated as of February 6, 2014 (the "Original Voting Agreement"); and

WHEREAS, Pyramid, the Merger Subsidiary and the Company concurrently with the execution and delivery of this Agreement are entering into an Amended and Restated Agreement and Plan of Merger and Reorganization, dated as of the date hereof (as the same may be amended or supplemented, the "Merger Agreement"), providing for, among other things, the merger (the "Merger") of Merger Subsidiary with and into the Company, and the Company as the surviving entity to the Merger upon the terms and subject to the conditions set forth in the Merger Agreement (capitalized terms used and not otherwise defined herein shall have the meanings attributed thereto in the Merger Agreement); and

WHEREAS, as a condition to the willingness of Pyramid and Merger Subsidiary to enter into the Merger Agreement, and in order to induce Pyramid and Merger Subsidiary to enter into the Merger Agreement, the Stockholders, Pyramid and Merger Subsidiary have agreed to amend and restate the Original Voting Agreement and enter into this Agreement.

NOW, THEREFORE, in consideration of the execution and delivery by Pyramid and Merger Subsidiary of the Merger Agreement and the mutual representations, warranties, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Representations and Warranties of the Stockholders. Each of the Stockholders hereby represents and warrants to Pyramid and Merger Subsidiary, severally and not jointly, as follows:

(a) Such Stockholder is the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and unless otherwise indicated, the record owner of the shares of Company Common Stock, Series A Preferred Stock or Series B Preferred Stock (as may be adjusted from time to time pursuant to Section 5 hereof, the "Shares") set forth opposite such Stockholder's name on Schedule A to this Agreement and such Shares represent all of the shares of Company Common Stock, Series A Preferred Stock and Series B Preferred Stock beneficially owned by such Stockholder as of the date hereof. For purposes of this Agreement, the term "Shares" shall include any shares of Company Common Stock issuable to such Stockholder upon exercise or conversion of any existing right, contract, option, or warrant to purchase, or securities convertible into or exchangeable for, Company Common Stock ("Stockholder Rights") that are currently exercisable or convertible or become exercisable or convertible and any other shares of Company Common Stock such Stockholder may acquire or beneficially own during the term of this Agreement.

(b) Such Stockholder has all requisite power and authority and, if an individual, the legal capacity, to execute and deliver this Agreement and to consummate the transactions contemplated hereby. This Agreement has been validly executed and delivered by such Stockholder and, assuming that this Agreement constitutes the legal, valid and binding obligation of the other parties hereto, constitutes the legal, valid and binding obligation of such Stockholder, enforceable against such Stockholder in accordance with its terms (except insofar as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, or by principles governing the availability of equitable remedies).

(c) The execution and delivery of this Agreement by such Stockholder does not, and the performance of this Agreement by such Stockholder will not, (i) if such Stockholder is a corporation or limited liability company, conflict with the certificate or articles of incorporation, certificate of formation or limited liability company agreement or bylaws, or similar organizational documents of such Stockholder as presently in effect (in the case of a Stockholder that is a legal entity), (ii) conflict with or violate any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to such Stockholder or by which it is bound or affected, (iii)(A) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, (B) give to any other person any rights of termination, amendment, acceleration or cancellation of, or (C) result in the creation of any pledge, claim, lien, charge, encumbrance or security interest of any kind or nature whatsoever upon any of the properties or assets of the Stockholder under, any agreement, contract, indenture, note or instrument to which such Stockholder is a party or by which it is bound or affected, except for such breaches, defaults or other occurrences that would not prevent or materially delay the performance by such Stockholder of any of such Stockholder's obligations under this Agreement, or (iv) except for applicable requirements, if any, of the Exchange Act, the Securities Act of 1933, as amended (the "Securities Act"), the New York Stock Exchange Market (the "NYSE") or the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), require any filing by such Stockholder with, or any permit, authorization, consent or approval of, any governmental or regulatory authority, except where the failure to make such filing or obtain such permit, authorization, consent or approval would not prevent or materially delay the performance by the Stockholder of any of such Stockholder's obligations under this Agreement.

(d) The Shares and the certificates representing the Shares owned by such Stockholder are now and at all times during the term hereof will be held by such Stockholder, or by a nominee or custodian for the benefit of such Stockholder, free and clear of all pledges, liens, charges, claims, security interests, proxies, voting trusts or agreements, understandings or arrangements or any other encumbrances whatsoever, except for any such encumbrances or proxies arising hereunder or under applicable federal and state securities laws or under the agreements set forth on Schedule B hereto. Such Stockholder owns of record or beneficially no shares of Company Common Stock other than such Stockholder's Shares.

(e) As of the date hereof, neither such Stockholder, nor any of its respective properties or assets is subject to any order, writ, judgment, injunction, decree, determination or award that would prevent or delay the consummation of the transactions contemplated hereby.

(f) Such Stockholder understands and acknowledges that Pyramid is entering into, and causing Merger Subsidiary to enter into, the Merger Agreement in reliance upon such Stockholder's execution and delivery of this Agreement.

Section 2. Representations and Warranties of Pyramid and Merger Subsidiary. Pyramid and Merger Subsidiary hereby jointly and severally represent and warrant to the Stockholders as follows:

(a) Each of Pyramid and Merger Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Each of Pyramid and Merger Subsidiary has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby, and has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by each of Pyramid and Merger Subsidiary and, assuming that this Agreement constitutes the legal, valid and binding obligation of the other parties hereto, constitutes the legal, valid and binding obligation of each of Pyramid and Merger Subsidiary, enforceable against each of them in accordance with the terms of this Agreement (except insofar as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, or by principles governing the availability of equitable remedies).

(b) The execution and delivery of this Agreement by each of Pyramid and Merger Subsidiary does not, and the performance of this Agreement by each of Pyramid and Merger Subsidiary will not, (i) conflict with the articles or certificate of incorporation or bylaws or similar organizational documents of each of Pyramid and Merger Subsidiary as presently in effect, (ii) conflict with or violate any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Pyramid or Merger Subsidiary or by which either is bound or affected, (iii) (A) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, (B) give to any other person any rights of termination, amendment, acceleration or cancellation of, or (C) result in the creation of any pledge, claim, lien, charge, encumbrance or security interest of any kind or nature whatsoever upon any of the properties or assets of Pyramid or Merger Subsidiary under, any agreement, contract, indenture, note or instrument to which Pyramid or Merger Subsidiary is a party or by which it is bound or affected, except for such breaches, defaults or other occurrences that would not prevent or materially delay the performance by Pyramid or Merger Subsidiary of their obligations under this Agreement, or (iv) except for applicable requirements, if any, of the Exchange Act, the Securities Act, the NYSE or the HSR Act, require any filing by Pyramid or Merger Subsidiary with, or any permit, authorization, consent or approval of, any governmental or regulatory authority, except where the failure to make such filing or obtain such permit, authorization, consent or approval would not prevent or materially delay the performance by Pyramid or Merger Subsidiary of their obligations under this Agreement.

(c) As of the date hereof, neither Pyramid or Merger Subsidiary, nor any of their respective properties or assets is subject to any order, writ, judgment, injunction, decree, determination or award that would prevent or delay the consummation of the transactions contemplated hereby.

Section 3. Covenants of the Stockholders. Each of the Stockholders, severally and not jointly, agrees as follows:

(a) Such Stockholder shall not, except as contemplated by the terms of this Agreement, and except for the pledge set forth in Schedule B, sell, transfer, pledge, assign or otherwise dispose of, or enter into any contract, option or other arrangement (including any profit-sharing arrangement) or understanding with respect to the sale, transfer, pledge, assignment or other disposition of, the Shares (including any options or warrants to purchase Company Common Stock) to any person (any such action, a "Transfer"). For purposes of clarification, the term "Transfer" shall include, without limitation, any short sale (including any "short sale against the box"), pledge, transfer, and the establishment of any open "put equivalent position" within the meaning of Rule 16a-1(h) under the Exchange Act. Notwithstanding the foregoing, (i) Transfers of Shares as bona fide gifts, (ii) distributions of Shares to partners, members, stockholders, subsidiaries, affiliates, affiliated partnerships or other affiliated entities of the undersigned, (iii) Transfers of Shares by will or intestacy, and (iv) Transfers of Shares to (A) members of the undersigned's immediate family or (B) a trust, the beneficiaries of which are the undersigned and/or members of the undersigned's immediate family, shall not be prohibited by this Agreement; provided that in the case of any such transfer or distribution pursuant to clause (i), (ii), (iii) or (iv), each donee or distributee shall execute and deliver to Pyramid a valid and binding counterpart to this Agreement.

(b) Such Stockholder shall not, except as contemplated by the terms of this Agreement (i) enter into any voting arrangement, whether by proxy, voting agreement, voting trust, power-of-attorney or otherwise, with respect to the

Shares or (ii) take any other action that would in any way restrict, limit or interfere with the performance of his, her or its obligations hereunder or the transactions contemplated hereby or make any representation or warranty of such Stockholder herein untrue or incorrect in any material respect.

(c) At any meeting of the stockholders of the Company called to vote upon the Merger or in connection with any stockholder consent in respect of a vote on the Merger, the Merger Agreement or any other transaction contemplated by the Merger Agreement or at any adjournment thereof or in any other circumstances upon which a vote, consent or other approval (including by written consent) with respect to such matters is sought, each Stockholder shall vote (or cause to be voted), or shall consent, execute a consent or cause to be executed a consent in respect of, such Stockholder's Shares in favor of the Merger, the adoption by the Company of the Merger Agreement and the approval of any other transactions contemplated by the Merger Agreement.

(d) Such Stockholder agrees to permit Pyramid and Merger Subsidiary to publish and disclose in the Proxy Statement and related filings under the securities laws such Stockholder's identity and ownership of Shares and the nature of its commitments, arrangements and understandings under this Agreement and any other information required by applicable law.

Section 4. Grant of Irrevocable Proxy; Appointment of Proxy.

(a) Each Stockholder hereby irrevocably grants to, and appoints, Michael D. Herman and any other individual who shall hereafter be designated by Pyramid, such Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of such Stockholder, to vote such Stockholder's Shares, or grant a consent or approval in respect of such Shares, at any meeting of stockholders of the Company or at any adjournment thereof or in any other circumstances upon which their vote, consent or other approval is sought, in favor of the Merger, the adoption by the Company of the Merger Agreement and the approval of the other transactions contemplated by the Merger Agreement.

(b) Each Stockholder represents that any proxies heretofore given in respect of such Stockholder's Shares are not irrevocable, and that any such proxies are hereby revoked.

(c) Each Stockholder hereby affirms that the irrevocable proxy set forth in this Section 4 is given in connection with the execution of the Merger Agreement, and that such irrevocable proxy is given to secure the performance of the duties of such Stockholder under this Agreement. Such Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked, subject to Section 7 herein. Such Stockholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. Such irrevocable proxy is executed and intended to be irrevocable in accordance with applicable law. Such irrevocable proxy shall be valid until the termination of this Agreement pursuant to Section 7 herein.

Section 5. Adjustments Upon Share Issuances, Changes in Capitalization. In the event of any change in Company Common Stock or in the number of outstanding shares of Company Common Stock by reason of a stock dividend, subdivision, reclassification, recapitalization, split, combination, exchange of shares or other similar event or transaction or any other change in the corporate or capital structure of the Company (including, without limitation, the declaration or payment of an extraordinary dividend of cash, securities or other property), and consequently the number of Shares changes or is otherwise adjusted, this Agreement and the obligations hereunder shall attach to any additional shares of Company Common Stock, Stockholder Rights or other securities or rights of the Company issued to or acquired by each of the Stockholders.

Section 6. Further Assurances. Each Stockholder will, from time to time, execute and deliver, or cause to be executed and delivered, such additional or further transfers, assignments, endorsements, consents and other instruments as Pyramid or Merger Subsidiary may reasonably request for the purpose of effectively carrying out the transactions contemplated by this Agreement and to vest the power to vote such Stockholder's Shares as contemplated by Section 3 herein.

Section 7. Termination. This Agreement, and all rights and obligations of the parties hereunder, shall terminate upon the earlier of (a) the Effective Time; (b) the date upon which the Merger Agreement is terminated pursuant to Section 7.01 thereof, or (c) with respect to any Stockholder, upon its delivery of written notice of termination to Pyramid following any amendment to the Merger Agreement to decrease the Merger Consideration or otherwise alter the Merger Agreement in a manner adverse to the Stockholder in any material respect unless such amendment has been consented to by stockholder in writing prior to such amendment. Notwithstanding the foregoing, Sections 7, 8 and 9 hereof shall survive any termination of this Agreement.

Section 8. Action in Stockholder Capacity Only. No Stockholder executing this Agreement who is or becomes during the term hereof a director or officer of the Company makes any agreement or understanding herein in his or her capacity as such director or officer. Each Stockholder signs solely in his or her capacity as the record holder and beneficial owner of, or the trustee of a trust whose beneficiaries are the beneficial owners of, such Stockholder's Shares and nothing herein shall limit or affect any actions or omissions taken by or fiduciary duties of, a Stockholder or any of its affiliates, in his or her capacity as an officer or director of the Company to the extent permitted by the Merger Agreement and applicable law.

Section 9. Miscellaneous.

(a) *Assignment*. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties without the prior written consent of the other parties, except that Merger Subsidiary may assign, in its sole discretion, any or all of its rights, interests and obligations hereunder to Pyramid or to any direct or indirect wholly owned subsidiary of Pyramid. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Each Stockholder agrees that this Agreement and the obligations of such Stockholder hereunder shall attach to such Stockholder's Shares and shall be binding upon any person or entity to which legal or beneficial ownership of such Shares shall pass, whether by operation of law or otherwise, including without limitation such Stockholder's heirs, guardians, administrators or successors.

(b) *Expenses*. All costs and expenses incurred in connection with this Agreement and the transactions contemplated thereby shall be paid by the party incurring such expenses.

(c) *Amendments*. This Agreement may not be amended except vis-à-vis Pyramid and a Stockholder by an instrument in writing signed by Pyramid and the applicable Stockholder and in compliance with applicable law.

(d) *Notice*. All notices and other communications hereunder shall be in writing and shall be deemed duly given if delivered personally, mailed by registered or certified mail (return receipt requested), delivered by Federal Express or other nationally recognized overnight courier service or sent via facsimile to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) if to Pyramid:

Pyramid Oil Company

2008 Twenty-First Street

Bakersfield, CA 93301

Attention: Michael D. Herman

Facsimile: (661) 325-0100

with a copy to (which shall not constitute notice):

TroyGould PC

1801 Century Park East, 16th Floor

Los Angeles, CA 90067

Attention: William D. Gould

Facsimile: (310) 201-4746

and

(ii) if to a Stockholder, to the address set forth under the name of such Stockholder on Schedule A hereto

with a copy to (which shall not constitute notice):

C-5

Jones & Keller, P.C.
1999 Broadway, Suite 3150

Denver, CO 80202

Attention: Reid A. Godbolt

Facsimile: (303) 573-8133

(e) *Interpretation*. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement, unless a contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision and (ii) reference to any Section means such Section hereof. No provision of this Agreement shall be interpreted or construed against any party hereto solely because such party or its legal representative drafted such provision.

(f) *Counterparts*. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall be considered one and the same agreement. Delivery of an executed counterpart signature page of this Agreement by facsimile or by e-mail of a PDF document is as effective as executing and delivering this Agreement in the presence of the other parties.

(g) *Entire Agreement*. This Agreement constitutes the entire agreement of the parties and supersedes all prior agreements and undertakings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof, specifically including the Original Voting Agreement, and except as otherwise expressly provided herein, is not intended to confer upon any other person any rights or remedies hereunder.

(h) *Governing Law; Consent to Jurisdiction; Waiver of Trial by Jury*. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to laws that may be applicable under conflicts of laws principles. Each of the parties hereto irrevocably and unconditionally (i) agrees that any suit, action or other legal proceeding arising out of or relating to this Agreement or any of the agreements delivered in connection herewith or the transactions contemplated hereby or thereby shall be brought in the state courts of the State of Delaware (or, if such courts do not have jurisdiction or do not accept jurisdiction, in the United States District Court located in the State of Delaware), (ii) consents to the jurisdiction of any such court in any such suit, action or proceeding, and (iii) waives any objection that such party may have to the laying of venue of any such suit, action or proceeding in any such court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9(d). Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE IT HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT AND ANY OF THE AGREEMENTS DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE EITHER OF SUCH WAIVERS, (B) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVERS, (C) IT MAKES SUCH WAIVERS VOLUNTARILY, AND (D) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9(h).

(i) *Specific Performance*. The parties to this Agreement agree that irreparable damage would occur in the event that any provision of this Agreement was not performed in accordance with the terms of this Agreement and that Pyramid and Merger Subsidiary shall be entitled to specific performance of the terms of this Agreement in addition to any other remedy at law or equity.

(j) *Severability*. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable or against its regulatory policy, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(k) *Several Liability.* Each party to this Agreement enters into this Agreement solely on its own behalf, each such party shall solely be severally liable for any breaches of this Agreement by such party and in no event shall any party be liable for breaches of this Agreement by any other party hereto.

(l) *Non-Recourse*. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, agent, attorney, representative or affiliate of any Stockholder hereto or of any of their respective affiliates shall have any liability (whether in contract or in tort) for any obligations or liabilities of such party arising under, in connection with or related to this Agreement or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby; provided, however, that nothing in this Section 9(l) shall limit any liability of any Stockholder hereto for its breaches of the terms and conditions of this Agreement.

(m) *Waiver*. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by applicable law.

[Signature Page Follows]

IN WITNESS WHEREOF, each of Pyramid and Merger Subsidiary has caused this Agreement to be signed by its officer thereunto duly authorized and each Stockholder has signed this Agreement, all as of the date first written above.

PYRAMID:

Pyramid Oil Company,
a California corporation

By: /s/ Michael D. Herman
Name: Michael D. Herman
Title: Chairman, Interim President and
Chief Executive Officer

MERGER SUBSIDIARY:

Pyramid Merger Subsidiary, Inc.,
a Delaware corporation

By: /s/ Michael D. Herman
Name: Michael D. Herman
Title: Chairman, President and Chief Executive Officer

SIGNATURE PAGE TO THE

AMENDED AND RESTATED VOTING AGREEMENT

AMENDED AND RESTATED VOTING AGREEMENT

STOCKHOLDER SIGNATURE PAGE

IN WITNESS WHEREOF, each of Pyramid and Subsidiary has caused this Agreement to be signed by its officer thereunto duly authorized and each Stockholder has signed this Agreement, all as of the date first written above.

STOCKHOLDER:

By: /s/ Sam L. Banks
Name: Sam L. Banks

STOCKHOLDER:

By: /s/ James W. Christmas
Name: James W. Christmas

STOCKHOLDER:

By: /s/ Frank A. Lodzinski
Name: Frank A. Lodzinski

STOCKHOLDER:

By: /s/ Ben T. Morris
Name: Ben T. Morris

STOCKHOLDER:

By: /s/ Richard K. Stoneburner
Name: Richard K. Stoneburner

STOCKHOLDER:

By: /s/ Richard W. Volk
Name: Richard W. Volk

SIGNATURE PAGE TO THE

AMENDED AND RESTATED VOTING AGREEMENT

SCHEDULE A

OWNERSHIP OF SHARES

Name and Address of Stockholder	Number of Company Restricted Shares Beneficially Owned	Number of Shares of Company Common Stock Beneficially Owned	Number of Shares of Series A Preferred Stock Beneficially Owned	Number of Shares of Series B Preferred Stock Beneficially Owned
Sam L. Banks 1177 West Loop South Suite 1825 Houston, Texas 77027	339	53,967		
James W. Christmas 1177 West Loop South Suite 1825 Houston, Texas 77027	11	(1)	341	1,638
Frank A. Lodzinski 110 Cypress Station Drive Suite 220 Houston, Texas 77090	11			162 (2)
Ben T. Morris c/o Sanders Morris Harris 600 Travis, Suite 5900 Houston, Texas 77002-2909	11		130	109
Richard K. Stoneburner 1177 West Loop South Suite 1825 Houston, Texas 77027	11	(1)		
Richard W. Volk 1177 West Loop South Suite 1825 Houston, Texas 77027	236			

(1) Pending.

(2) Shares held by Azure Energy, LLC.

SCHEDULE B

LIST OF AGREEMENTS

None.

Annex D

February 5, 2014 (except for the second paragraph hereof)

Board of Directors

Pyramid Oil Company

2008 21st Street

Bakersfield, California 93301

RE: Pyramid Oil Company | Fairness Opinion

Members of the Board of Directors:

Roth Capital Partners, LLC ("Roth") understands that Pyramid Oil Company, a California corporation (the "Parent"), Pyramid Delaware Merger Subsidiary, Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("Delaware Merger Sub"), Pyramid Merger Subsidiary, Inc., a Delaware corporation and a wholly-owned subsidiary of Delaware Merger Sub ("Merger Sub"), and Yuma Energy, Inc., a Delaware corporation ("Target"), intend to enter into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") pursuant to which, among other things, (i) Parent will be merged with and into the Delaware Merger Sub and Parent will cease to exist and Delaware Merger Sub will be the surviving corporation of such merger (the "Surviving Corporation") and (ii) Merger Sub will be merged with and into the Target (the "Merger"), and (A) each outstanding share of common stock, par value $0.01 per share, of Target ("Target Common Stock") will be converted into the right to receive 757.165 shares (the "Exchange Ratio") of common stock, par value $0.001 per share, of the Surviving Corporation ("Pyramid Delaware Common Stock"), (B) each outstanding share of Series A Preferred Stock, par value $0.01 per share, of Target will be converted into the right to receive a number of shares of Pyramid Delaware Common Stock equal to the product obtained by multiplying (I) the number of shares of Target Common Stock into which one share of Series A Preferred Stock is convertible immediately prior to the Merger Effective Time (as defined in the Merger Agreement) by (II) the Exchange Ratio and (C) each outstanding share of Series B Preferred Stock, par value $0.01 per share, of Target will be converted into the right to receive a number of shares of Pyramid Delaware Common Stock equal to the product obtained by multiplying (III) the number of shares of Target Common Stock into which one share of Series B Preferred Stock is convertible immediately prior to the Merger Effective Time by (IV) the Exchange Ratio, and Merger Sub will cease to exist and Target will continue as a wholly-owned subsidiary of the Surviving Corporation.

We further understand that on August 1, 2014, the parties entered into an Amended and Restated Agreement and Plan of Merger and Reorganization (the "Amendment") for the sole purpose of eliminating the reincorporation of Pyramid from California to Delaware (set forth in (i) in the immediately preceding paragraph and hence Parent will be the "Surviving Corporation"). The Amendment did not change the economic terms or the Exchange Ratio as described above.

You have asked us to render our opinion with respect to the fairness, from a financial point of view, to Parent and its shareholders of the Exchange Ratio.

For purposes of the opinion set forth herein, we have, among other things, reviewed a draft of the Merger Agreement received by us on February 4, 2014 and drafts of certain related documents, and also:

(i) reviewed certain publicly available business and financial information of Parent that we believe to be relevant to our inquiry;

(ii) reviewed certain internal financial statements and other financial and operating data concerning Parent and Target, respectively;

(iii) reviewed certain financial forecasts relating to Target prepared by the management of Target (the "Target Forecasts");

(iv) discussed the past and current operations, financial condition and prospects of each of Target and Parent with management of Target and Parent, respectively, including the assessments of the management of Parent as to the liquidity needs of, and financing alternatives and other capital resources available to, Parent;

(v) participated in certain discussions among management of Parent and Target regarding their assessment of the strategic rationale for, and the potential benefits of, the Merger;

(vi) reviewed the reported prices and trading activity for common stock, no par value, of Parent (the "Parent Common Stock");

(vii) compared the financial performance of Target and Parent, respectively, and the prices and trading activity of Parent Common Stock with that of certain publicly traded companies we deemed relevant;

(viii) compared certain financial terms of the Merger to financial terms, to the extent publicly available, of certain other business combination transactions we deemed relevant;

(ix) participated in discussions and negotiations among representatives of Parent, Target and their respective advisors; and

(x) performed such other analyses and considered such other factors as we have deemed appropriate.

We have also considered such other information, financial studies, analyses and investigations, and financial, economic and market criteria which we deemed relevant.

In conducting our review and arriving at our opinion, with your consent, we have not independently verified any of the foregoing information and we have assumed and relied upon such information being accurate and complete in all material respects, and we have further relied upon the assurances of management of Parent that they are not aware of any facts that would make any of the information reviewed by us inaccurate, incomplete or misleading in any material respect. With respect to the Target Forecasts, we have assumed, upon the advice of Target and at the direction of Parent, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Target as to the future financial performance of Target. We have not been

engaged to assess the achievability of any projections or the assumptions on which they were based, and we express no view as to such projections or assumptions. In addition, we have not assumed any responsibility for any independent valuation or appraisal of the assets or liabilities, including any ongoing litigation and administrative investigations, of Target, nor have we been furnished with any such valuation or appraisal. In addition, we have not assumed any obligation to conduct, nor have we conducted, any physical inspection of the properties or facilities of Target.

We also have assumed, with your consent, that the Merger will be consummated in accordance with the terms set forth in the Merger Agreement and in compliance with the applicable provisions of the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended, and all other applicable federal, state and local statutes, rules, regulations and ordinances, that the representations and warranties of each party in the Agreement are true and correct, that each party will perform on a timely basis all covenants and agreements required to be performed by it under such agreement and that all conditions to the consummation of the Merger will be satisfied without waiver thereof. We have further assumed that the Merger Agreement when signed will conform to the draft Merger Agreement provided to us on February 4, 2014 in all respects material to our analysis, and that the Merger will be consummated in all material respects as described in the draft Merger Agreement provided to us. We have also assumed that all governmental, regulatory and other consents and approvals contemplated by the Merger Agreement will be obtained and that, in the course of obtaining any of those consents and approvals, no modification, delay, limitation, restriction or condition will be imposed or waivers made that would have an adverse effect on Parent or Target or on the contemplated benefits of the Merger. Finally, we have assumed, with your consent, that the Merger will be treated as a tax-free reorganization for federal income tax purposes.

Our opinion addresses only the fairness, from a financial point of view, to Parent of the Exchange Ratio, and our opinion does not in any manner address any other aspect or implication of the Merger or any agreement, arrangement or understanding entered into in connection with the Merger or otherwise, including, without limitation, the fairness of the amount or nature of, or any other aspect relating to, any compensation to any officers, directors or employees of any party to the Merger, or class of such persons, relative to the Exchange Ratio or otherwise. Our opinion also does not address the relative merits of the Merger as compared to any alternative business strategies that might exist for Parent, the underlying business decision of Parent to proceed with the Merger, or the effects of any other transaction in which Parent might engage. The issuance of this opinion was not approved by an internal committee. Our opinion is necessarily based on economic, market and other conditions as they exist and can be evaluated on, and the information made available to us on, the date hereof. We express no opinion as to the underlying valuation, future performance or long-term viability of Parent. Further, we express no opinion as to what the value of the shares of Parent Common Stock actually will be when issued to holders of Target Common Stock pursuant to the Merger or the prices at which shares of Parent Common Stock will trade at any time. It should be understood that, although subsequent developments may affect our opinion, we do not have any obligation to update, revise or reaffirm our opinion and we expressly disclaim any responsibility to do so.

We have acted as financial advisor to Parent in connection with the Merger and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Merger. We also became entitled to receive a fee upon the rendering of our opinion. Parent has agreed to indemnify us for certain liabilities and other items arising out our engagement.

Roth, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We and our affiliates are currently providing and may in the future provide investment banking and other financial services to Parent and its affiliates for which we and our affiliates have received and would expect to receive compensation. We are a full service securities firm engaged in securities trading and brokerage activities, as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates' own accounts and for the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of Parent, and, accordingly, may at any time hold a long or a short position in such securities.

It is understood that this letter is provided for the information of the Board of Directors of Parent in connection with its evaluation of the Merger and does not constitute a recommendation to any stockholder as to how such stockholder

should vote or act on any matter relating to the Merger. This opinion may not be reproduced without our prior written consent. In furnishing this opinion, we do not admit that we are experts within the meaning of the term "experts" as used in the Securities Act and the rules and regulations thereunder, nor do we admit that this opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act. Parent may reproduce this written opinion in full in any proxy statement or other filing required to be made by Parent or Delaware Merger Sub with the Securities and Exchange Commission in connection with the Merger, and in materials required to be delivered to stockholders of Parent or Delaware Merger Sub which are part of such filings.

On the basis of and subject to the foregoing, and such other factors as we deemed relevant, we are of the opinion as of the date hereof that the Exchange Ratio is fair to Parent and its shareholders, from a financial point of view.

Very truly yours,

Roth Capital Partners, LLC

Annex E

Section 262 of the General Corporation Law of the State of Delaware

§ 262. Appraisal rights.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in 1 or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title and, subject to paragraph (b)(3) of this section, § 251(h) of this title), § 252, § 254, § 255, § 256, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that, except as expressly provided in § 363(b) of this title, no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to act upon the agreement of merger or consolidation, were either: (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in § 251(f) of this title.

(2) Notwithstanding paragraph (b)(1) of this section, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 255, 256, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a. and b. of this section; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a., b. and c. of this section.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 251(h), § 253 or § 267 of this title is not owned by the parent immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(4) In the event of an amendment to a corporation's certificate of incorporation contemplated by § 363(a) of this title, appraisal rights shall be available as contemplated by § 363(b) of this title, and the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as practicable, with the word "amendment" substituted for the words "merger or consolidation," and the word "corporation" substituted for the words "constituent corporation" and/or "surviving or resulting corporation."

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for notice of such meeting (or such members who received notice in accordance with § 255(c) of this title) with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) of this section that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228, § 251(h), § 253, or § 267 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice or, in the case of a merger approved pursuant to § 251(h) of this title, within the later of the consummation of the tender or exchange offer contemplated by § 251(h) of this title and 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice or, in the case of a merger approved pursuant to § 251(h) of this title, later than the later of the consummation of the tender or exchange offer contemplated by § 251(h) of this title and 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the

notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) of this section hereof and who is otherwise entitled to appraisal rights, may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) of this section hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) of this section hereof, whichever is later. Notwithstanding subsection (a) of this section, a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request from the corporation the statement described in this subsection.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After the Court determines the stockholders entitled to an appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding the Court shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Unless the Court in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder’s certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court’s decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just; provided, however that this provision shall not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation within 60 days after the effective date of the merger or consolidation, as set forth in subsection (e) of this section.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

Annex F

RESTATED ARTICLES OF INCORPORATION

OF

PYRAMID OIL COMPANY

[-] and [-] hereby certify that:

1. They are the duly elected and acting President and Corporate Secretary, respectively, of Pyramid Oil Company, a California corporation (the "Corporation").

2. The Restated Articles of Incorporation of the Corporation, as amended to date, are hereby amended and restated to read in their entirety as follows:

FIRST: The name of the Corporation is Yuma Energy, Inc.

SECOND: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

THIRD: The Corporation shall have perpetual existence.

FOURTH: The authorized number of directors of the Corporation shall be not less than four (4) nor more than seven (7), and the exact number of directors within those limits shall be determined from time to time by a resolution which is duly adopted by the Board of Directors of the Corporation in the manner provided in the Bylaws.

FIFTH: There shall be no right with respect to shares of stock of the Corporation to cumulate votes in the election of directors.

SIXTH: The Corporation is authorized to issue two classes of stock, with no par value, designated Common Stock and Preferred Stock. The total number of shares that the Corporation is authorized to issue is 310,000,000. The number of shares of Common Stock that the Corporation is authorized to issue is 300,000,000, and the number of shares of Preferred Stock that the Corporation is authorized to issue is 10,000,000. The holders of the Common Stock or Preferred Stock shall have no preemptive rights to subscribe for or purchase any shares of any class of stock of the Corporation, whether now or hereafter authorized. The Board of Directors of the Corporation is authorized to: (i) determine the number of series into which shares of Preferred Stock may be divided; (ii) determine or alter the designations, rights, preferences, privileges, qualifications, limitations and restrictions granted to or imposed upon any unissued Preferred Stock or any wholly unissued series of Preferred Stock or any holders thereof; and (iii) fix the number of shares of each such series and increase or decrease, within the limits stated in any resolution of the Board of Directors of the Corporation originally fixing the number of shares constituting any series (but not below the number of such shares then outstanding), the number of shares of any such series subsequent to the issuance of shares of that series.

SEVENTH: Effective upon the acceptance of this Restated Articles of Incorporation for filing by the Secretary of State of the State of California (the “Effective Date”), and subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, the directors of the Corporation shall be divided into two classes as nearly equal in size as is practicable, hereby designated Class I and Class II. The Board of Directors may assign members of the Board of Directors already in office to such classes at the time such classification becomes effective. The term of office of the initial Class I directors shall expire at the first regularly-scheduled annual meeting of shareholders following the Effective Date and the term of office of the initial Class II directors shall expire at the second annual meeting of shareholders following the Effective Date. At each annual meeting of shareholders, commencing with the first regularly-scheduled annual meeting of shareholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term shall have expired at such annual meeting shall be elected to hold office until the second annual meeting next succeeding his or her election and until his or her respective successor shall have been duly elected and qualified.

Notwithstanding the foregoing provisions of this SEVENTH ARTICLE, and subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation, or removal. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, if the number of directors is hereafter changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

EIGHTH: Vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled only by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director, at any meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall be duly elected and qualified.

NINTH: The Corporation elects to be governed by all of the provisions of Division 1 of Title 1 of the California Corporations Code (as amended by act of the California Legislature, 1975-976 Regular Session, effective January 1, 1977, as defined in Section 2300 of the California General Corporation Law) not otherwise applicable to this Corporation under Chapter 23 of said Division 1.

TENTH: The liability of directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law. The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors, or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to the Corporation and its shareholders.

3. The foregoing Restated Articles of Incorporation has been duly approved by the Board of Directors of the Corporation.

4. The foregoing Restated Articles of Incorporation has been duly approved by the required vote of the Corporation’s shareholders in accordance with Section 902 of the California Corporations Code. The total number of outstanding shares of the Corporation entitled to vote on such Restated Articles of Incorporation was [-]. The number of shares voting in favor of the Restated Articles of Incorporation equaled or exceeded the vote required. The percentage vote required was more than 50% of such total number of outstanding shares.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge on this [-] day of [-], 2014.

By:
Name:
Title:
President

By:
Name:
Title:
Corporate
Secretary

Annex G

PYRAMID OIL COMPANY

2014 LONG-TERM INCENTIVE PLAN

ARTICLE I

PURPOSE

1.1 Purpose. The purposes of this Plan are to create incentives which are designed to motivate Participants to put forth maximum effort toward the success and growth of the Company and to enable the Company to attract and retain experienced individuals who by their position, ability and diligence are able to make important contributions to the Company's success. Toward these objectives, this Plan provides for the grant of Options, Restricted Stock Awards, Restricted Stock Units, SARs, Performance Units, Performance Bonuses, Stock Awards and Other Incentive Awards to Eligible Employees and the grant of Nonqualified Stock Options, Restricted Stock Awards, Restricted Stock Units, SARs, Performance Units, Stock Awards and Other Incentive Awards to Consultants and Eligible Directors, subject to the conditions set forth in this Plan.

ARTICLE II

DEFINITIONS

2.1 "**Affiliated Entity**" means any corporation, partnership, limited liability company or other form of legal entity in which a majority of the partnership or other similar interest thereof is owned or controlled, directly or indirectly, by the Company or one or more of its Subsidiaries or Affiliated Entities or a combination thereof. For purposes hereof, the Company, a Subsidiary or an Affiliated Entity shall be deemed to have a majority ownership interest in a partnership or limited liability company if the Company, such Subsidiary or Affiliated Entity shall be allocated a majority of partnership or limited liability company gains or losses or shall be or control a managing director or a general partner of such partnership or limited liability company.

2.2 "**Award**" means, individually or collectively, any Option, Restricted Stock Award, Restricted Stock Unit, SAR, Performance Unit, Performance Bonus, Stock Award or Other Incentive Award granted under this Plan to an Eligible Employee by the Board or any Nonqualified Stock Option, Performance Unit, SAR, Restricted Stock Award, Restricted Stock Unit, Stock Award or Other Incentive Award granted under this Plan to a Consultant or an Eligible Director by the Board, in either case pursuant to such terms, conditions, restrictions, and/or limitations, if any, as the

Board may establish by the Award Agreement or otherwise.

2.3 "**Award Agreement**" means any written or electronic instrument that establishes the terms, conditions, restrictions, and/or limitations applicable to an Award in addition to those established by this Plan and by the Board's exercise of its administrative powers.

2.4 "**Board**" means the Board of Directors of the Company and, if the Board has appointed a Committee as provided in Section 3.2, the term "Board" shall include such Committee.

2.5 "**Cash Dividend Right**" means a contingent right, granted in tandem with a specific Restricted Stock Unit Award, to receive an amount in cash equal to the cash distributions made by the Company with respect to a share of Common Stock during the period such Award is outstanding.

2.6 "**Change of Control Event**" means each of the following:

(a) Any transaction in which shares of voting securities of the Company representing more than 50% of the total combined voting power of all outstanding voting securities of the Company are issued by the Company, or sold or transferred by the stockholders of the Company, in either case resulting in those persons and entities who beneficially owned voting securities of the Company representing more than 50% of the total combined voting power of all outstanding voting securities of the Company immediately prior to such transaction ceasing to beneficially own voting securities of the Company representing more than 50% of the total combined voting power of all outstanding voting securities of the Company immediately after such transaction;

(b) The merger or consolidation of the Company with or into another entity resulting in those persons and entities who beneficially owned voting securities of the Company representing more than 50% of the total combined voting power of all outstanding voting securities of the Company immediately prior to such merger or consolidation ceasing to beneficially own voting securities representing more than 50% of the total combined voting power of all outstanding voting securities of the surviving corporation or resulting entity immediately after such merger of consolidation; or

(c) The sale of all or substantially all of the Company's assets unless those persons and entities who beneficially owned voting securities of the Company representing more than 50% of the total combined voting power of all outstanding voting securities of the Company immediately prior to such asset sale beneficially own voting securities of the purchasing entity representing more than 50% of the total combined voting power of all outstanding voting securities of the purchasing entity immediately after such asset sale.

2.7 "**Code**" means the Internal Revenue Code of 1986, as amended. References in this Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

2.8 "**Committee**" means the Committee appointed by the Board as provided in Section 3.2.

2.9 "**Common Stock**" means the common stock, no par value per share, of the Company, and after substitution, such other stock as shall be substituted therefore as provided in Article XII.

2.10 "**Company**" means Pyramid Oil Company, a California corporation.

2.11 "**Consultant**" means any person who is engaged by the Company, a Subsidiary or an Affiliated Entity to render consulting or advisory services.

2.12 "**Date of Grant**" means the date on which the grant of an Award is authorized by the Board or such later date as may be specified by the Board as the Date of Grant in such authorization.

2.13 "**Disability**" means the Participant is unable to continue providing services by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a

continuous period of not less than 12 months. For purposes of this Plan, the determination of Disability shall be made in the sole and absolute discretion of the Board.

2.14 "**Dividend Unit Right**" means a contingent right, granted in tandem with a specific Restricted Stock Unit Award, to have an additional number of Restricted Stock Units credited to a Participant in respect of the Award equal to the number of whole shares of Common Stock that could be purchased at Fair Market Value upon, and with the amount of, each cash distribution made by the Company during the period such Award is outstanding with respect to a number of shares of Common Stock equal to the number of Restricted Stock Units subject to the Award at the time of each such distribution.

2.15 "**Eligible Employee**" means any employee of the Company, a Subsidiary, or an Affiliated Entity as approved by the Board.

2.16 "**Eligible Director**" means any member of the Board who is not an employee of the Company, a Subsidiary or an Affiliated Entity or a Consultant.

2.17 "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

2.18 "**Fair Market Value**" means (a) during such time as the Common Stock is registered under Section 12 of the Exchange Act, the closing sales price of the Common Stock (or the closing bid, if no sales were reported) as quoted by an established stock exchange or automated quotation system on the day for which such value is to be determined, or, if there was no quoted price for such day, then for the last preceding business day on which there was a quoted price as reported in The Wall Street Journal or such other sources as the Board deems reliable, or (b) during any such time as the Common Stock is not listed upon an established stock exchange or automated quotation system, the mean between dealer "bid" and "ask" prices of the Common Stock in the over-the-counter market on the day for which such value is to be determined, as reported in The Wall Street Journal or such other source as the Board deems reliable, or (c) during any such time as the Common Stock cannot be valued pursuant to (a) or (b) above, (i) with respect to Incentive Stock Options, the fair market value of the Common Stock as determined in good faith by the Board within the meaning of Section 422 of the Code or (ii) the fair market value of the Common Stock as determined in good faith by the Board using a "reasonable application of a reasonable valuation method" within the meaning of Treasury Regulation Section 1.409A-1(b)(5)(iv)(B) or any successor provision.

2.19 "**Incentive Stock Option**" means an Option that is intended to be an "incentive stock option" within the meaning of Section 422 of the Code.

2.20 "**Nonqualified Stock Option**" means an Option which is not an Incentive Stock Option.

2.21 "**Other Incentive Award**" means an incentive award granted to an Eligible Employee, Consultant or Eligible Director under Article XI of this Plan.

2.22 "**Option**" means an Award granted under Article V of this Plan and includes both Nonqualified Stock Options and Incentive Stock Options to purchase shares of Common Stock.

2.23 "**Participant**" means an Eligible Employee, a Consultant or an Eligible Director to whom an Award has been granted by the Board under this Plan.

2.24 "**Performance Bonus**" means the bonus which may be granted to Eligible Employees under Article X of this Plan.

2.25 "**Performance Units**" means those monetary units and/or units representing fictional shares of Common Stock that may be granted to Eligible Employees, Consultants or Eligible Directors pursuant to Article IX hereof.

2.26 "**Plan**" means the Pyramid Oil Company 2014 Long-Term Incentive Plan.

2.27 "**Restricted Stock Award**" means an Award granted to an Eligible Employee, Consultant or Eligible Director under Article VI of this Plan.

2.28 "**Restricted Stock Unit**" means an Award granted to an Eligible Employee, Consultant or Eligible Director under Article VII of this Plan.

2.29 "**SAR**" means a stock appreciation right granted to an Eligible Employee, Consultant or Eligible Director under Article VIII of this Plan.

2.30 "**Stock Award**" means an Award granted to an Eligible Employee, Consultant or Eligible Director under Article XI of this Plan.

2.31 "**Subsidiary**" means a "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

ARTICLE III

ADMINISTRATION

3.1 Shares Subject to this Plan. Subject to the limitations set forth herein, Awards may be made under this Plan for a total of 8,900,000 shares of Common Stock. The limitations of this Section 3.1 shall be subject to the adjustment provisions of Article XII.

3.2 Administration of this Plan by the Board. The Board shall administer this Plan. The Board may, by resolution, appoint a committee to administer this Plan and delegate its powers described under this Section 3.2 for purposes of Awards granted to Eligible Employees and Consultants. Subject to the provisions of this Plan, the Board shall have exclusive power to:

(a) Select Eligible Employees and Consultants to participate in this Plan.

(b) Determine the time or times when Awards will be made to Eligible Employees or Consultants.

(c) Determine the form of an Award, whether an Incentive Stock Option, Nonqualified Stock Option, Restricted Stock Award, Restricted Stock Unit, SAR, Performance Unit, Performance Bonus, Stock Award or Other Incentive Award, the number of shares of Common Stock, Performance Units or Restricted Stock Units subject to the Award, the amount and all the terms, conditions (including performance requirements), restrictions and/or limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Agreement, which may include the waiver or amendment of prior terms and conditions or acceleration or early vesting or payment of an Award under certain circumstances determined by the Board.

(d) Determine whether Awards will be granted singly or in combination.

(e) Accelerate the vesting, exercise or payment of an Award or the performance period of an Award.

(f) Take any and all other action it deems necessary or advisable for the proper operation or administration of this Plan.

3.3 Administration of Grants to Eligible Directors. The Board shall have the exclusive power to select Eligible Directors to participate in this Plan and to determine the number of Nonqualified Stock Options, Performance Units, Restricted Stock Units, SARs, Stock Awards, Other Incentive Awards or the number of shares of Common Stock subject to a Restricted Stock Award awarded to Eligible Directors selected for participation. If the Board appoints a committee to administer this Plan, it may delegate to the committee administration of all other aspects of the Awards made to Eligible Directors.

3.4 The Board to Make Rules and Interpret Plan. The Board in its sole discretion shall have the authority, subject to the provisions of this Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to this Plan, as it may deem necessary or advisable for the administration of this Plan. The Board's interpretation of this Plan or any Awards and all decisions and determinations by the Board with respect to this Plan shall be final, binding, and conclusive on all parties.

3.5 Section 162(m) Provisions. The Company intends for this Plan to permit, but not require, the grant of Awards that qualify for the exception from Section 162(m) of the Code for "qualified performance based compensation." In the event Awards granted hereunder are intended to be "qualified performance based compensation," a Committee composed of two or more "outside directors" within the meaning of Section 162(m) of the Code shall make such Awards and shall exercise all administrative authority with respect to such Awards. Nothing herein shall require that the Board or the Committee grant awards that satisfy the "qualified performance based compensation" requirements of Section 162(m) of the Code, and neither the Board, nor the Committee, nor the Company shall be liable for any failure to satisfy such requirements.

3.6 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board, and to the extent allowed by applicable laws, the Board shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually incurred in connection with any action, suit or proceeding or in connection with any appeal therein, to which the Board may be party by reason of any action taken or failure to act under or in connection with this Plan or any Award granted under this Plan, and against all amounts paid by the Board in settlement thereof (provided, however, that the settlement has been approved by the Company, which approval shall not be unreasonably withheld) or paid by the Board in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Board did not act in good faith and in a manner which such person reasonably believed to be in the best interests of the Company, or in the case of a criminal proceeding, had no reason to believe that the conduct complained of was unlawful; provided, however, that within 60 days after institution of any such action, suit or proceeding, the Board shall, in writing, offer the Company the opportunity at its own expense to handle and defend such action, suit or proceeding.

ARTICLE IV

GRANT OF AWARDS

4.1 Grant of Awards. Awards granted under this Plan shall be subject to the following conditions:

(a) Subject to Article XII, (i) the aggregate number of shares of Common Stock made subject to the grant of Options and/or SARs to any Eligible Employee in any calendar year may not exceed 1,500,000 and (ii) the maximum aggregate number of shares that may be issued under this Plan through Incentive Stock Options is 1,000,000.

(b) Subject to Article XII, the aggregate number of shares of Common Stock made subject to the grant of Restricted Stock Awards, Restricted Stock Unit Awards, Performance Unit Awards, Performance Bonus Awards, Stock Awards and Other Incentive Awards to any Eligible Employee in any calendar year may not exceed 700,000.

(c) The maximum amount made subject to the grant of Performance Bonuses to any Eligible Employee in any calendar year may not exceed $1,500,000.

(d) Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of shares of Common Stock or are exchanged in the Board's discretion for Awards not involving the issuance of shares of Common Stock, shall be available again for grant under this Plan and shall not be counted against the shares authorized under Section 3.1. Any shares of Common Stock issued as Restricted Stock Awards that subsequently are forfeited without vesting shall again be available for grant under this Plan and shall not

be counted against the shares authorized under Section 3.1. Any Awards that, pursuant to the terms of the applicable Award Agreement, are to be settled in cash, whether or not denominated in or determined with reference to shares of Common Stock (for example, SARs, Performance Units or Restricted Stock Units to be settled in cash), shall not be counted against the shares authorized under Section 3.1.

(e) Common Stock delivered by the Company in payment of an Award authorized under Articles V and VI of this Plan may be authorized and unissued Common Stock or Common Stock held in the treasury of the Company.

(f) The Board shall, in its sole discretion, determine the manner in which fractional shares arising under this Plan shall be treated.

(g) Shares of Common Stock issued hereunder may be evidenced in any manner determined by the Board, including, but not limited to, separate certificates or book-entry registration.

(h) The Board shall be prohibited from canceling, reissuing or modifying Awards if such action will have the effect of repricing the Participant's Award.

(i) Eligible Directors and Consultants may only be granted Nonqualified Stock Options, Performance Units, Restricted Stock Awards, Restricted Stock Units, SARs, Stock Awards or Other Incentive Awards under this Plan.

(j) The maximum term of any Award shall be ten years.

ARTICLE V

STOCK OPTIONS

5.1 Grant of Options. The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant Options to Eligible Employees. These Options may be Incentive Stock Options or Nonqualified Stock Options, or a combination of both. The Board may, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant Nonqualified Stock Options to Eligible Directors and Consultants. Notwithstanding the foregoing, Nonqualified Stock Options may be granted only to Eligible Employees, Eligible Directors and Consultants performing services for the Company or a corporation or other type of entity in a chain of corporations or other entities in which each corporation or other entity has a "controlling interest" in another corporation or entity in the chain, starting with the Company and ending with the corporation or other entity for which the Eligible Employee, Eligible Director or Consultant performs services. For purposes of this Section 5.1, the term "**controlling interest**" means (a) in the case of a corporation, ownership of stock possessing at least 50% of total combined voting power of all classes of stock entitled to vote of such corporation or at least 50% of the total value of shares of all classes of stock of such corporation; (b) in the case of a partnership, ownership of at least 50% of the profits interest or capital interest of such partnership; (c) in the case of a sole proprietorship, ownership of the sole proprietorship; or (d) in the case of a trust or estate, ownership of an actuarial interest (as defined in Treasury Regulation Section 1.414(c)-2(b)(2)(ii)) of at least 50% of such trust or estate. Each grant of an Option shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Board may from time to time approve, subject to the requirements of Section 5.2.

5.2 Conditions of Options. Each Option so granted shall be subject to the following conditions:

(a) Exercise Price. As limited by Section 5.2(e) below, each Option shall state the exercise price which shall be set by the Board at the Date of Grant; provided, however, no Option shall be granted at an exercise price which is less than the Fair Market Value of the Common Stock on the Date of Grant unless the Option is granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became Eligible Employees (or other service providers) as a result of a merger, consolidation, acquisition or other corporate transaction involving the Company which complies with Treasury Regulation Section 1.409A-1(b)(5)(v)(D).

(b) Form of Payment. The exercise price of an Option may be paid (i) in cash or by check, bank draft or money order payable to the order of the Company; (ii) subject to prior approval by the Board in its discretion, by delivering previously acquired shares of Common Stock having an aggregate Fair Market Value on the date of payment equal to the amount of the exercise price, but only to the extent such exercise of an Option would not result in an adverse accounting charge to the Company for financial accounting purposes with respect to the shares used to pay the exercise price unless otherwise determined by the Board; (iii) subject to prior approval by the Board in its discretion, by withholding shares of Common Stock which otherwise would be acquired on exercise having an aggregate Fair Market Value at on the date of payment equal to the amount of the exercise price; or (iv) subject to prior approval by

the Board in its discretion, by a combination of the foregoing. In addition to the foregoing, the Board may permit an Option granted under this Plan to be exercised by a broker-dealer acting on behalf of a Participant through procedures approved by the Board. Such procedures may include a broker either (x) selling all of the shares of Common Stock received when an Option is exercised and paying the Participant the proceeds of the sale (minus the exercise price, withholding taxes and any fees due to the broker) or (y) selling enough of the shares of Common Stock received upon exercise of the Option to cover the exercise price, withholding taxes and any fees due to the broker and delivering to the Participant (either directly or through the Company) a stock certificate for the remaining shares of Common Stock.

(c) Exercise of Options.

(i) Options granted under this Plan shall be exercisable, in whole or in such installments and at such times, and shall expire at such time, as shall be provided by the Board in the Award Agreement. Exercise of an Option shall be by written notice to the Secretary of the Company (or such other officer as may be designated by the Board) at least two business days in advance of such exercise stating the election to exercise (or such lesser period of time as the Board may require) in the form and manner determined by the Board. Every share of Common Stock acquired through the exercise of an Option shall be deemed to be fully paid at the time of exercise and payment of the exercise price.

(ii) Unless otherwise provided in an Award Agreement, the following provisions will apply to the exercisability of Options following the termination of a Participant's employment or service with the Company, a Subsidiary or an Affiliated Entity:

(A) If an Eligible Employee's employment with the Company, a Subsidiary or an Affiliated Entity terminates as a result of death or Disability, the Eligible Employee (or personal representative in the case of death) shall be entitled to purchase all or any part of the shares subject to any (i) vested Incentive Stock Option for a period of up to three months from such date of termination (one year in the case of death or Disability in lieu of the three-month period) and (ii) vested Nonqualified Stock Option during the remaining term of the Option. If an Eligible Employee's employment terminates for any other reason, the Eligible Employee shall be entitled to purchase all or any part of the shares subject to any vested Option for a period of up to three months from such date of termination. In no event shall any Option be exercisable past the term of the Option. The unvested portion of any Option shall be forfeited immediately upon termination; provided, however, that the Board may, in its sole discretion, accelerate the vesting of unvested Options in the event of termination of employment of any Participant.

(B) In the event a Consultant ceases to provide services to the Company or an Eligible Director terminates service as a director of the Company, the unvested portion of any Award shall be forfeited unless otherwise accelerated pursuant to the terms of the Eligible Director's Award Agreement or by the Board. Unless otherwise provided in the applicable Award Agreement, the Consultant or Eligible Director shall have a period of three years following the date he ceases to provide consulting services or ceases to be a director, as applicable, to exercise any Nonqualified Stock Options which are otherwise exercisable on his date of termination of service. In no event shall any Option be exercisable past the term of the Option.

(d) Other Terms and Conditions. Among other conditions that may be imposed by the Board, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which Participants must be employed by the Company, its Subsidiaries, or an Affiliated Entity, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time; (vi) the achievement by the Company of specified performance criteria; and (vii) non-compete and protection of business matters.

(e) Special Restrictions Relating to Incentive Stock Options.

(i) Options issued in the form of Incentive Stock Options shall only be granted to Eligible Employees of the Company or a Subsidiary, and not to Eligible Employees of an Affiliated Entity unless such entity shall be considered as a "disregarded entity" under the Code and shall not be distinguished for federal tax purposes from the Company or the applicable Subsidiary.

(ii) No Incentive Stock Option shall be granted to an Eligible Employee who owns or who would own immediately before the grant of such Incentive Stock Option more than 10% of the combined voting power of the Company or its Subsidiaries or a "parent corporation", unless (A) at the time such Option is granted the exercise price is at least 110% of the Fair Market Value of a share of Common Stock on the date of grant and (B) such Option by its terms is not exercisable after the expiration of five years from the date of grant. For purposes of this Section 5.2(e), "parent corporation" means a "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(iii) To the extent that the aggregate Fair Market Value (determined at the time an Incentive Stock Option is granted) of shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its Subsidiaries and parent corporations exceeds $100,000, such excess Incentive Stock Options shall be treated as Nonqualified Stock Options. The Board shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements, which of a Participant's Options will not constitute Incentive Stock Options because of such limitation and shall notify the Participant of such determination as soon as practicable after such determination.

(iv) Each Participant awarded an Incentive Stock Option shall notify the Company in writing immediately after the date he or she makes a disqualifying disposition of any shares of Common Stock acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including any sale) of such Common Stock before the later of (i) two years after the Date of Grant of the Incentive Stock Option or (ii) one year after the date of exercise of the Incentive Stock Option.

(v) Except in the case of death, an Option will not be treated as an Incentive Stock Option unless at all times beginning on the Date of Grant and ending on the day three months (one year in the case of a Participant who is "disabled" within the meaning of Section 22(e)(3) of the Code) before the date of exercise of the Option, the Participant is an employee of the Company or a parent corporation of the Company or a Subsidiary (or a corporation or a parent corporation or subsidiary corporation of such corporation issuing or assuming an Option in a transaction to which Section 424(a) of the Code applies).

(f) Application of Funds. The proceeds received by the Company from the sale of Common Stock pursuant to Options will be used for general corporate purposes.

(g) Stockholder Rights. No Participant shall have a right as a stockholder with respect to any share of Common Stock subject to an Option prior to purchase of such shares of Common Stock by exercise of the Option.

ARTICLE VI

RESTRICTED STOCK AWARDS

6.1 Grant of Restricted Stock Awards. The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant a Restricted Stock Award to Eligible Employees, Consultants or Eligible Directors. Restricted Stock Awards shall be awarded in such number and at such times during the term of this Plan as the Board shall determine. Each Restricted Stock Award shall be subject to an Award

Agreement setting forth the terms of such Restricted Stock Award and may be evidenced in such manner as the Board deems appropriate, including without limitation, a book-entry registration or issuance of a stock certificate or certificates.

6.2 Conditions of Restricted Stock Awards. The grant of a Restricted Stock Award shall be subject to the following:

(a) Restriction Period. Restricted Stock Awards granted to an Eligible Employee shall require the holder to remain in the employment of the Company, a Subsidiary, or an Affiliated Entity for a prescribed period. Restricted Stock Awards granted to Consultants or Eligible Directors shall require the holder to provide continued services to the Company for a period of time. These employment and service requirements are collectively referred to as a "**Restriction Period**." The Board shall determine the Restriction Period or Periods which shall apply to the shares of Common Stock covered by each Restricted Stock Award or portion thereof. In addition to any time vesting conditions determined by the Board vesting and/or the grant of Restricted Stock Awards may be subject to the achievement by the Company of specified performance criteria as may from time to time be established by the Board. The Board also will determine whether the Award is intended to satisfy the Section 162(m) Requirements, as described in Exhibit A attached hereto, in which case the performance criteria shall be based upon the Company's achievement of all or any of the operational, financial or stock performance criteria set forth on Exhibit A. At the end of the Restriction Period, or upon the later fulfillment of any other specified vesting conditions, the restrictions imposed by the Board shall lapse with respect to the shares of Common Stock covered by the Restricted Stock Award or portion thereof. In addition to acceleration of vesting upon the occurrence of a Change of Control Event as provided in Section 13.4, the Board may, in its discretion, accelerate the vesting of a Restricted Stock Award in the case of the death or Disability of the Participant who is an Eligible Employee or resignation of a Participant who is a Consultant or an Eligible Director.

(b) Restrictions. The holder of a Restricted Stock Award may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of the shares of Common Stock represented by the Restricted Stock Award during the applicable Restriction Period or prior to the fulfillment of any other specified vesting conditions. The Board shall impose such other restrictions and conditions on any shares of Common Stock covered by a Restricted Stock Award as it may deem advisable including, without limitation, restrictions under applicable federal or state securities laws, and may legend the certificates representing shares of Common Stock covered by a Restricted Stock Award to give appropriate notice of such restrictions.

(c) Rights as Stockholders. Unless otherwise provided in the Award Agreement, during any Restriction Period (and prior to the fulfillment of any other specified vesting conditions), the Participant shall have all of the rights of a stockholder with respect to the shares, including, but not by way of limitation, the right to vote such shares and to receive dividends. If any dividends or other distributions are paid in shares of Common Stock, all such shares shall be subject to the same risk of forfeiture and same restrictions on transferability as the shares of Common Stock covered by the Restricted Stock Award with respect to which they were paid.

ARTICLE VII

RESTRICTED STOCK UNITS

7.1 Grant of Restricted Stock Units. The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant Restricted Stock Units to Eligible Employees, Consultants or Eligible Directors. Restricted Stock Units shall be awarded in such number and at such times during the term of this Plan as the Board shall determine. Each Award of Restricted Stock Units shall be subject to an Award Agreement setting forth the terms of such Award of Restricted Stock Units. A Participant shall not be required to make any payment for Restricted Stock Units.

7.2 Conditions of Restricted Stock Units. The grant of Restricted Stock Units shall be subject to the following:

(a) Restriction Period. Restricted Stock Units granted to an Eligible Employee shall require the holder to remain in the employment of the Company, a Subsidiary, or an Affiliated Entity for a prescribed period. Restricted Stock Units granted to Consultants or Eligible Directors shall require the holder to provide continued services to the Company for a period of time. These employment and service requirements are collectively referred to as a "**Restriction Period**." The Board shall determine the Restriction Period or Periods which shall apply to the Restricted Stock Units. In addition to any time vesting conditions determined by the Board vesting and/or the grant of Restricted Stock Units may be subject to the achievement by the Company of specified performance criteria as may from time to time be established by the Board. The Board also will determine whether the Award is intended to satisfy the Section 162(m) Requirements, as described in Exhibit A attached hereto, in which case the performance criteria shall be based upon the Company's achievement of all or any of the operational, financial or stock performance criteria set forth on Exhibit A. At the end of the Restriction Period, or upon the later fulfillment of any other specified vesting conditions, the restrictions imposed by the Board shall lapse with respect to the Restricted Stock Units. In addition to acceleration of vesting upon the occurrence of a Change of Control Event as provided in Section 13.4, the Board may, in its discretion, accelerate the vesting of an Award of Restricted Stock Units in the case of the death or Disability of the Participant who is an Eligible Employee or resignation of a Participant who is a Consultant or an Eligible Director.

(b) Lapse of Restrictions. Upon the lapse of restrictions with respect to each Restricted Stock Unit, the Participant shall be entitled to receive one share of Common Stock or an amount of cash equal to the Fair Market Value of one share of Common Stock, as provided in the Award Agreement.

(c) Cash Dividend Rights and Dividend Unit Rights. The Board may, in its sole discretion, grant a tandem Cash Dividend Right or Dividend Unit Right grant with respect to Restricted Stock Units. A grant of Cash Dividend Rights may provide that such Cash Dividend Rights shall be paid directly to the Participant at the time of payment of related dividend, be credited to a bookkeeping account subject to the same vesting and payment provisions as the tandem Award (with or without interest in the sole discretion of the Board), or be subject to such other provisions or restrictions as determined by the Board in its sole discretion. A grant of Dividend Unit Rights may provide that such Dividend Unit Rights shall be subject to the same vesting and payment provisions as the tandem Award or be subject to such other provisions and restrictions as determined by the Board in its sole discretion.

ARTICLE VIII

STOCK APPRECIATION RIGHTS

8.1 Grant of SARs. The Board may from time to time, in its sole discretion, subject to the provisions of this Plan and subject to other terms and conditions as the Board may determine, grant a SAR to any Eligible Employee, Consultant or Eligible Director. SARs may be granted in tandem with an Option, in which event, the Participant has the right to elect to exercise either the SAR or the Option. Upon the Participant's election to exercise one of these Awards, the other tandem Award is automatically terminated. SARs may also be granted as an independent Award separate from an Option. Each grant of a SAR shall be evidenced by an Award Agreement executed by the Company and the Participant and shall contain such terms and conditions and be in such form as the Board may from time to time approve, subject to the requirements of this Plan. The exercise price of the SAR shall not be less than the Fair Market Value of a share of Common Stock on the Date of Grant of the SAR.

8.2 Exercise and Payment. SARs granted under this Plan shall be exercisable in whole or in installments and at such times as shall be provided by the Board in the Award Agreement. Exercise of a SAR shall be by written notice to the Secretary of the Company at least two business days in advance of such exercise (or such lesser period of time as the Board may require). The amount payable with respect to each SAR shall be equal in value to the excess, if any, of the Fair Market Value of a share of Common Stock on the exercise date over the exercise price of the SAR. Payment of amounts attributable to a SAR shall be made in cash or in shares of Common Stock, as provided by the terms of the applicable Award Agreement.

8.3 Restrictions. In the event a SAR is granted in tandem with an Incentive Stock Option, the Board shall use commercially reasonable efforts subject the SAR to restrictions necessary to ensure satisfaction of the requirements under Section 422 of the Code. In the case of a SAR granted in tandem with an Incentive Stock Option to an Eligible

Employee who owns more than 10% of the combined voting power of the Company or its Subsidiaries or a “parent corporation” (as defined in Section 424(e) of the Code) on the date of such grant, the amount payable with respect to each SAR shall be equal in value to the applicable percentage of the excess, if any, of the Fair Market Value of a share of Common Stock on the exercise date over the exercise price of the SAR, which exercise price shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date the SAR is granted.

ARTICLE IX

PERFORMANCE UNITS

9.1 Grant of Awards. The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant Performance Units to Eligible Employees, Consultants and Eligible Directors. Each Award of Performance Units shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Board may from time to time approve, subject to the requirements of Section 9.2.

9.2 Conditions of Awards. Each Award of Performance Units shall be subject to the following conditions:

(a) Establishment of Award Terms. Each Award shall state the target, maximum and minimum value of each Performance Unit payable upon the achievement of performance goals.

(b) Achievement of Performance Goals. The Board shall establish performance targets for each Award. If the Award is intended to satisfy the Section 162(m) Requirements, as described in Exhibit A, the performance targets shall be based on some or all of the operational, financial or stock performance criteria listed in Exhibit A. The Board shall also establish such other terms and conditions as it deems appropriate to such Award. The Award may be paid out in cash or Common Stock as determined in the sole discretion of the Board.

ARTICLE X

PERFORMANCE BONUS

10.1 Grant of Performance Bonus. The Board may from time to time, subject to the provisions of this Plan and such other terms and conditions as the Board may determine, grant a Performance Bonus to certain Eligible Employees selected for participation. The Board will determine the amount that may be earned as a Performance Bonus in any period of one year or more upon the achievement of a performance target established by the Board. The Board shall select the applicable performance target(s) for each period in which a Performance Bonus is awarded. The performance target shall be based upon all or some of the operational, financial or stock performance criteria more specifically listed in Exhibit A attached hereto. The Board also will determine whether the Award is intended to satisfy the Section 162(m) Requirements, as described in Exhibit A.

10.2 Payment of Performance Bonus. In order for any Participant to be entitled to payment of a Performance Bonus, the applicable performance target(s) established by the Board must first be obtained or exceeded. Payment of a Performance Bonus shall be made within 60 days of the Board's certification that the performance target(s) has been achieved. Payment of a Performance Bonus may be made in cash or shares of Common Stock, as provided by the terms of the applicable Award Agreement.

ARTICLE XI

STOCK AWARDS AND OTHER INCENTIVE AWARDS

11.1 Grant of Stock Awards. The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant Stock Awards of shares of Common Stock not subject to vesting or forfeiture restrictions to Eligible Employees, Consultants or Eligible Directors. Stock Awards shall be awarded with respect to such number of shares of Common Stock and at such times during the term of this Plan as the Board shall determine. Each Stock Award shall be subject to an Award Agreement setting forth the terms of such Stock Award. The Board may in its sole discretion require a Participant to pay a stipulated purchase price for each share of Common Stock covered by a Stock Award.

11.2 Grant of Other Incentive Awards. The Board may, from time to time, subject to the provisions of this Plan and such other terms and conditions as it may determine, grant Other Incentive Awards to Eligible Employees, Consultants or Eligible Directors. Other Incentive Awards may be granted based upon, payable in or otherwise related to, in whole or in part, shares of Common Stock if the Board, in its sole discretion, determines that such Other Incentive Awards are consistent with the purposes of this Plan. Such Awards may include, but are not limited to, Common Stock awarded as a bonus, dividend equivalents, convertible or exchangeable debt securities, other rights convertible or exchangeable into Common Stock, purchase rights for Common Stock, Awards with value and payment contingent upon the Company's performance or any other factors designated by the Board, and awards valued by reference to the book value of Common Stock or the value of securities of or the performance of specified subsidiaries. Long-term cash Awards also may be made under this Plan. Cash Awards also may be granted as an element of or a supplement to any Awards permitted under this Plan. Awards may also be granted in lieu of obligations to pay cash or deliver other property under this Plan or under other plans or compensation arrangements, subject to any applicable provision under Section 16 of the Exchange Act. Each grant of an Other Incentive Award shall be evidenced by an Award Agreement that shall specify the amount of the Other Incentive Award and the terms, conditions, restrictions and limitations applicable to such Award. Payment of Other Incentive Awards shall be made at such times and in such form, which may be cash, shares of Common Stock or other property (or a combination thereof), as established by the Board, subject to the terms of this Plan.

ARTICLE XII

STOCK ADJUSTMENTS

12.1 Recapitalizations and Reorganizations. In the event that the shares of Common Stock, as constituted on the effective date of this Plan, shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, spin-off, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, or a dividend on the shares of Common Stock, or if rights or warrants to purchase securities of the Company shall be issued to holders of all outstanding Common Stock, then the maximum number and kind of shares of Common Stock available for issuance under this Plan, the maximum number and kind of shares of Common Stock for which any individual may receive Awards in any calendar year under this Plan, the number and kind of shares of Common Stock covered by outstanding Awards, and the price per share or the applicable market value or performance target of such Awards will be appropriately adjusted by the Board to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights under such Awards. Notwithstanding the provisions of this Section 12.1, (i) the number and kind of shares of Common Stock available for issuance as Incentive Stock Options under this Plan shall be adjusted only in accordance with the applicable provisions of Sections 422 and 424 of the Code and the regulations thereunder, and (ii) outstanding Awards and Award Agreements shall be adjusted in accordance with (A) Sections 422 and 424 of the Code and the regulations thereunder with respect to Incentive Stock Options and (B) Section 409A of the Code with respect to Nonqualified Stock Options, SARs and, to the extent applicable, other Awards. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Board shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to this Plan, or in any Award, theretofore granted, such adjustments shall be made in accordance with such determination. No

fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

12.2 Adjustments Upon Change of Control Event. Upon the occurrence of a Change of Control Event, the Board, in its sole discretion, without the consent of any Participant or holder of the Award, and on such terms and conditions as it deems appropriate, may take any one or more of the following actions in connection with such Change in Control Event:

(a) provide for either (i) the termination of any Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of such transaction or event the Board determines in good faith that no amount would have been attained upon the realization of the Participant's rights, then such Award may be terminated by the Board without payment) or (ii) the replacement of such Award with other rights or property selected by the Board in its sole discretion;

(b) provide that such Award be assumed by a successor or survivor entity, or a parent or subsidiary thereof, or be exchanged for similar rights or awards covering the equity of the successor or survivor, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of equity interests and prices;

(c) make adjustments in the number and type of Common Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Awards or in the terms and conditions of, and the vesting criteria included in, outstanding Awards, or both;

(d) accelerate any vesting schedule to which an Award is subject;

(e) provide that such Award shall be payable, notwithstanding anything to the contrary in this Plan or the applicable Award Agreement; and/or

(f) provide that the Award cannot become payable after such event, i.e., shall terminate upon such event.

Notwithstanding the foregoing, any such action contemplated under this Section 12.2 shall be effective only to the extent that such action will not cause any Award that is designed to satisfy Section 409A of the Code to fail to satisfy such section.

ARTICLE XIII

GENERAL

13.1 Amendment or Termination of this Plan. The Board may alter, suspend or terminate this Plan at any time. In addition, the Board may, from time to time, amend this Plan in any manner, but may not without stockholder approval adopt any amendment which would (i) increase the aggregate number of shares of Common Stock available under this Plan (except by operation of Article XII), (ii) materially modify the requirements as to eligibility for participation in this Plan, or (iii) materially increase the benefits to Participants provided by this Plan. Unless terminated earlier by the Board pursuant to this Section 13.1, this Plan shall terminate on [-], 2024, which is the day prior to the tenth anniversary of the date of this Plan was initially approved by the stockholders of the Company. This Plan shall continue in effect until all matters relating to the payment of Awards and administration of this Plan have been settled.

13.2 Transferability. The Board may, in its discretion, authorize all or a portion of the Nonqualified Stock Options granted under this Plan to be on terms which permit transfer by the Participant to (i) the ex-spouse of the Participant pursuant to the terms of a domestic relations order, (ii) the spouse, children or grandchildren of the Participant ("**Immediate Family Members**"), (iii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iv) a partnership or limited liability company in which such Immediate Family Members are the only partners or members. In addition there may be no consideration for any such transfer. The Award Agreement pursuant to which

such Nonqualified Stock Options are granted expressly provides for transferability in a manner consistent with this Section 13.2. Subsequent transfers of transferred Nonqualified Stock Options shall be prohibited except as set forth below in this Section 13.2. Following transfer, any such Nonqualified Stock Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Section 5.2(c)(ii) or similar provisions of an Award Agreement the term "Participant" shall be deemed to refer to the transferee. The events of termination of employment of Section 5.2(c)(ii) or similar provisions of an Award Agreement shall continue to be applied with respect to the original Participant, following which the Nonqualified Stock Options shall be exercisable by the transferee only to the extent, and for the periods specified in Section 5.2(c)(ii). No transfer pursuant to this Section 13.2 shall be effective to bind the Company unless the Company shall have been furnished with written notice of such transfer together with such other documents regarding the transfer as the Board shall request. With the exception of a transfer in compliance with the foregoing provisions of this Section 13.2, all other types of Awards authorized under this Plan shall be transferable only by will or the laws of descent and distribution; however, no such transfer shall be effective to bind the Company unless the Board has been furnished with written notice of such transfer and an authenticated copy of the will and/or such other evidence as the Board may deem necessary to establish the validity of the transfer and the acceptance by the transferee of the terms and conditions of such Award.

13.3 Withholding Taxes. Unless otherwise paid by the Participant, the Company, its Subsidiaries or any of its Affiliated Entities shall be entitled to deduct from any payment under this Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment, may require the Participant to pay to it such tax prior to and as a condition of the making of such payment, and shall be entitled to deduct from any other compensation payable to the Participant any withholding obligations with respect to Awards. In accordance with any applicable administrative guidelines it establishes, the Board may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by (i) directing the Company to withhold from any payment of the Award a number of shares of Common Stock having a Fair Market Value on the date of payment equal to the minimum amount of the required withholding taxes or (ii) delivering to the Company previously owned shares of Common Stock having a Fair Market Value on the date of payment equal to the amount of the required withholding taxes. However, any payment made by the Participant pursuant to either of the foregoing clauses (i) or (ii) shall not be permitted if it would result in an adverse accounting charge with respect to such shares used to pay such taxes unless otherwise approved by the Board.

13.4 Change of Control. Unless otherwise provided in the applicable Award Agreement, Awards granted under this Plan to any Eligible Employee, Consultant or Eligible Director shall be immediately vested, fully earned and exercisable upon the occurrence of a Change of Control Event.

13.5 Amendments to Awards. Subject to the limitations of Article IV, such as the prohibition on repricing of Options, the Board may at any time unilaterally amend the terms of any Award Agreement, whether or not presently exercisable or vested, to the extent it deems appropriate. However, amendments which are adverse to the Participant shall require the Participant’s consent.

13.6 Regulatory Approval and Listings. In the sole discretion of the Board, the Company may file with the Securities and Exchange Commission and keep continuously effective, a Registration Statement on Form S-8 with respect to shares of Common Stock subject to Awards hereunder. Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue shares of Common Stock under this Plan prior to the obtaining of any approval from, or satisfaction of any waiting period or other condition imposed by, any governmental agency which the Board shall, in its sole discretion, determine to be necessary or advisable. In addition, and notwithstanding anything contained in this Plan to the contrary, at such time as the Company is subject to the reporting requirements of Section 12 of the Exchange Act, the Company shall have no obligation to issue shares of Common Stock under this Plan prior to:

(a) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed; and

(b) the completion of any registration or other qualification of such shares under any state or federal law or ruling of any governmental body which the Board shall, in its sole discretion, determine to be necessary or advisable.

13.7 Right to Continued Employment. Participation in this Plan shall not give any Eligible Employee any right to remain employed by or in the service of the Company, any Subsidiary, or any Affiliated Entity. The Company or, in the case of employment or services with a Subsidiary or an Affiliated Entity, the Subsidiary or Affiliated Entity, reserves the right to terminate any Participant at any time. Further, the adoption of this Plan shall not be deemed to give any Eligible Employee or any other individual any right to be selected as a Participant or to be granted an Award.

13.8 Reliance on Reports. Each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with this Plan by any person or persons other than himself or herself. In no event shall any person who is or shall have been a member of the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

13.9 Construction. Masculine pronouns and other words of masculine gender shall refer to both men and women. The titles and headings of the sections in this Plan are for the convenience of reference only, and in the event of any conflict, the text of this Plan, rather than such titles or headings, shall control.

13.10 Governing Law. This Plan shall be governed by and construed in accordance with the laws of the State of Texas except as superseded by applicable federal law.

13.11 Other Laws. The Board may refuse to issue or transfer any shares of Common Stock or other consideration under an Award if, acting in its sole discretion, it determines that the issuance or transfer of such shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary. In addition, by accepting or exercising any Award granted under this Plan (or any predecessor plan), the Participant agrees to abide and be bound by any policies adopted by the Company pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or exchange listing standards promulgated thereunder calling for the repayment and/or forfeiture of any Award or payment resulting from an accounting restatement. Such repayment and/or forfeiture provisions shall apply whether or not the Participant is employed by or affiliated with the Company.

13.12 No Trust or Fund Created. Neither this Plan nor an Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that a Participant acquires the right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company.

IN WITNESS WHEREOF, this Plan has been executed to be effective as of [-], 2014.

PYRAMID
OIL
COMPANY

By:
Name:
Title:

G-15

EXHIBIT A

2014 Long-Term Incentive Plan

Performance Criteria

Performance Criteria. The performance criteria to be used for purposes of Awards intended to meet the 162(m) Requirements shall be set in the Committee's sole discretion and may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company in which the Participant is employed or with respect to which the Participant performs services, and shall consist of one or more or any combination of the following criteria:

Operational Criteria may include:

- Reserve additions/replacements
- Finding & development costs
- Production volume
- Production Costs

Financial Criteria may include:

- Earnings
- EBITDA (net income, earnings before interest, taxes, depreciation and amortization)
- Earnings per share
- Free cash flow

- Cash flow
- Operating income
- General and Administrative Expenses
- Debt to equity ratio
- Debt to cash flow
- Debt to EBITDA
- EBITDA to Interest
- Return on Assets
- Return on Equity
- Return on Invested Capital
- Profit returns/margins

Stock Performance Criteria:

- Stock price appreciation
- Total stockholder return
- Relative stock price performance

Requirements of Section 162(m) of the Code. The Board will have the discretion to determine whether all or any portion of a Restricted Stock Award, Restricted Stock Unit Award, Performance Unit Award, Performance Bonus, Stock Award or Other Incentive Award is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code (the "**162(m) Requirements**"). The performance criteria for any such Award that is intended to satisfy the 162(m) Requirements shall be established in writing by the Board based on one or more performance criteria listed in this Exhibit A not later than 90 days after commencement of the performance period with respect to such Award or any such other date as may be required or permitted for "performance-based compensation" under the 162(m) Requirements, provided that the outcome of the performance in respect of the goals remains substantially uncertain as of such time. At the time of the grant of an Award and to the extent permitted under Section 162(m) of the Code and the regulations thereunder for an Award intended to satisfy the 162(m) Requirements, the Board may provide for the manner in which the performance goals will be measured in light of specified corporate transactions, extraordinary events, accounting changes and other similar occurrences. All determinations made by the Board as to the establishment or achievement of performance goals, or the final settlement of an Award intended to satisfy the 162(m) Requirements shall be made in writing.

Certification and Negative Discretion. Before payment is made in relation to any Award that is intended to satisfy the 162(m) Requirements, the Board shall certify the extent to which the performance goals and other material terms of the Award have been satisfied, and the Board in its sole discretion shall have the authority to reduce, but not to increase, the amount payable and/or the number of shares of Common Stock to be granted, issued, retained or vested pursuant to any such Award.

Committee. In the case of an Award intended to meet the Section 162(m) Requirements, the term "**Board**" shall mean the Committee, which shall be composed of two or more "outside directors" within the meaning of Section 162(m) of the Code, and the Committee may not delegate its duties with respect to such Awards.

Annex H

AMENDED AND RESTATED BYLAWS

OF

PYRAMID OIL COMPANY

a California corporation

ARTICLE I

OFFICES

Section A. Principal Offices.

The Board of Directors (the "Board") shall fix the location of the principal executive office of the Corporation at any place within or outside the State of California. If the principal executive office is located outside the State of California and the Corporation has one or more business offices in the State of California, the Board shall fix and designate a principal business office in the State of California.

Section B. Other Offices.

The Board may at any time establish branch or subordinate offices at any place or places it may choose from time to time.

ARTICLE II

DIRECTORS

Section A. Powers.

Subject to the provisions of the California General Corporation Law and any limitations in the Articles of Incorporation of the Corporation (the "Articles of Incorporation") and these Bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

Section B. Standard of Care; Liability.

In performing the duties of a director, a director shall act in good faith, in the manner such director believes to be in the best interests of the Corporation and its shareholders, and with such care, including reasonable inquiry, and prudence as a person in a like position would use under similar circumstances.

In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports, and statements, including financial statements and other financial data, which have been prepared or presented by any of the following:

(a) One or more officers or employees of the Corporation whom the director believes to be reliable and competent in the matters presented;

(b) Counsel, independent accountants or other persons as to matters which the director believes to be within such person's professional or expert competence; or

(c) A committee of the Board upon which the director does not serve, as to matters within its designated authority, which committee the director believes to merit confidence, so long as in any such case, the director acts in good faith, after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

Section C. Number of Directors.

The authorized number of directors of the Corporation shall be not less than four (4) nor more than seven (7), and the exact number of directors within those limits shall be four (4) unless and until the exact number of directors is changed from time to time, within such specified limits, by a resolution which is duly adopted by the Board.

Section D. Election and Term of Office of Directors.

Directors shall be elected at each annual meeting of shareholders to hold office until the next annual meeting of shareholders and until a successor has been elected and qualified.

Section E. Vacancies.

Vacancies on the Board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, except that a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of holders of a majority of the outstanding shares entitled to vote. Each director so elected shall hold office until the next annual meeting of shareholders and until a successor has been elected and qualified.

A vacancy or vacancies on the Board shall be deemed to exist in the event of the death, resignation or removal of any director, or if the Board by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or who has been convicted of a felony, or if the authorized number of directors is increased, or if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the number of directors to be elected at such meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election by written consent shall require the consent of a majority of the outstanding shares entitled to vote.

Any director may resign effective on giving written notice to the Chairman of the Board, the President, the Secretary or the Board, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a later time, the Board may elect a successor to take office when the resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director before the expiration of such director's term of office.

Section F. Removal of Directors.

The entire Board or any individual director named may be removed from office as provided by Sections 302, 303 and 304 of the California Corporations Code. In such a case, the remaining Board members may elect a successor director to fill such vacancy for the remaining unexpired term of the director so removed. No director may be removed (unless the entire Board is removed) when the votes cast against removal or not consenting in writing to such removal would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the directors most recent election were then being elected; and when by the provisions of the Articles of Incorporation the holders of the shares of any class or series voting as a class or series are entitled to elect one or more directors, any director so elected may be removed only by the applicable vote of the holders of the shares of that class or series.

Section G. Place of Meetings and Meetings by Telephone.

Regular meetings of the Board may be held at any place within or outside the State of California that has been designated from time to time by resolution of the Board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the Corporation. Special meetings of the Board shall be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the Corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another, and all such directors shall be deemed to be present in person at the meeting.

Section H. Annual Meetings.

Immediately following each annual meeting of shareholders, the Board shall hold a regular meeting for the purpose of the election of officers and the transaction of other business. Notice of this meeting shall not be required. Minutes of any meeting of the Board, or any committee thereof, shall be maintained as required by Section 1500 of the California Corporations Code by the Secretary or other officer designated for that purpose.

Section I. Other Regular Meetings.

Other regular meetings of the Board shall be held at such time as shall from time to time be fixed by the Board. Such regular meetings may be held without notice, provided the time and place has been fixed by the Board, and further provided the notice of any change in the time of such meetings shall be given to all the directors. Notice of a change in the time shall be given to each director in the same manner as notice for special meetings of the Board.

Section J. Special Meetings.

Special meetings of the Board for any purpose or purposes may be called at any time by the Chairman of the Board, the President, the Secretary or any two directors.

Notice of the time and place of such special meetings shall be delivered to each director personally or by telephone (including a voice messaging system or other system designed to record and communicate messages), facsimile, electronic mail or other electronic means, or sent by first-class mail or telegram, charges prepaid, addressed to each director at such director's address as is shown on the records of the Corporation. If such notice is mailed, it shall be deposited in the United States mail at least four days before the time of the holding of such meeting. If such notice is delivered by telegram, it shall be delivered to the telegraph company at least 48 hours before the time of the holding of such meeting. If such notice is delivered personally or by telephone, facsimile, electronic mail or other electronic means it shall be delivered at least 48 hours before the time of holding such meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director whom the person giving such notice has reason to believe will promptly communicate it to such director. The notice need not specify the purpose of the meeting or the place if the meeting is to be held at the principal executive office of the Corporation.

Section K. Quorum.

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section M of this Article II. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board, subject to the provisions of Section 310 of the Corporations Code of California (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of such Code (as to appointment of committees) and Section 317(e) of such Code (as to indemnification of directors). A meeting at which a quorum initially is present may continue to transact business notwithstanding the withdrawal of directors, provided any action taken is approved by at least a majority of the required quorum for such meeting.

Section L. Waiver of Notice.

The transactions of any meeting of the Board, however called and noticed, and wherever held, shall be as valid as though they had occurred at a meeting duly held after regular call and notice if a quorum is present and if, either before or after such meeting, each of the directors not present signs a written waiver of notice, a consent to hold such meeting or an approval of the minutes. The waiver of notice or consent need not specify the purpose of such meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of such meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, before or at its commencement, the lack of notice to such director.

Section M. Adjournment.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section N. Notice of Adjournment.

Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than 24 hours, in which case notice of the time and place shall be given before the time of the adjourned meeting in the manner specified in Section J of this Article II to the directors who were not present at the time of the adjournment.

Section O. Action Without Meeting.

Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such action by written consent shall have the same force and effect as a unanimous vote of the Board. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section P. Sole Director Provided by Articles of Incorporation.

In the event only one director is required by these Bylaws or the Articles of Incorporation, any references herein to notices, waivers, consents, meetings or other actions by the majority or quorum of directors shall be deemed notice, waiver, etc. by such sole director, who shall have all the rights and duties and shall be entitled to exercise all the powers and shall assume all responsibilities otherwise herein described given to a Board.

Section Q. Fees and Compensation of Directors.

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the Board. This Section Q shall not be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee or otherwise, and receiving compensation for such service.

ARTICLE III

COMMITTEES; ADVISORY DIRECTORS

Section A. Committees of Directors.

The Board may, by resolution adopted by a majority of the whole Board designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any such committee, who may replace any absent member at any meeting of such committee. Any committee, to the extent provided in such a resolution of the Board, shall have all the authority of the Board, except with respect to:

(a) The approval of any action that, under the California General Corporation Law, also requires shareholders' approval (under Section 153 of the California Corporations Code) or approval of the outstanding shares (under Section 152 of the California Corporations Code);

(b) The filling of vacancies on the Board or in any committee;

(c) The fixing of compensation of the directors for serving on the Board or on any committee;

(d) The amendment or repeal of these bylaws or the adoption of new bylaws;

(e) The amendment or repeal of any resolution of the Board that by its express terms is not so amendable or repealable;

(f) A distribution to the shareholders of the Corporation (under Section 166 of the California Corporations Code), except at a rate or in a periodic amount or within a price range determined by the Board; and

(g) The appointment of any other committees of the Board or the members of such committees.

Section B. Meetings and Action of Committees.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article II, Sections G (place of meetings), H (annual meetings), I (other regular meetings) J (special meetings), K (quorum), L (waiver of notice), M (adjournment), N (notice of adjournment), and O (action without meeting), with such changes in the context of these Bylaws as are necessary to substitute the committee and its members for the Board and its members, except that the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee; special meetings of committees also may be called by resolution of the Board; and notice of special meetings of committees also shall be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

Section C. Advisory Directors.

The Board from time to time may elect one or more persons to be advisory directors, who shall not by such appointment be members of the Board. Advisory directors shall be available from time to time to perform special assignments specified by the President, to attend meetings of the Board upon invitation and to furnish consultation to the Board. The period during which the title shall be held may be prescribed by the Board. If no period is prescribed, title shall be held at the pleasure of the Board.

ARTICLE IV

OFFICERS

Section A. Officers.

The officers of the Corporation shall include a President, a Chief Financial Officer and a Secretary. The Corporation may also have, at the discretion of the Board, a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as may be appointed in accordance with the provisions of Section C of this Article IV. Any number of offices may be held by the same person.

Section B. Election of Officers.

The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section C or Section E of this Article IV, shall be chosen by the Board, and each shall serve at the pleasure of the Board, subject to the rights, if any, of any officer under any contract of employment.

Section C. Subordinate Officers.

The Board may appoint and remove, and may empower the President to appoint and remove, such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board may from time to time determine.

Section D. Removal and Resignation of Officers.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board at any regular or special meeting or, except in the case of any officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of such notice or at any later time specified in such notice; and, unless otherwise specified in such notice, the acceptance of such resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the resigning officer is a party.

Section E. Vacancies in Offices.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to such office.

Section F. Chairman of the Board.

The Chairman of the Board, if such an officer be chosen, shall, if present, preside at meetings of the Board and exercise and perform such other powers and duties as from time to time may be assigned to him by the Board or prescribed by these Bylaws. If there is no President, the Chairman of the Board shall, in addition, be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Section G of this Article IV.

Section G. President.

Subject to such supervisory powers, if any, as may be given by the Board to the Chairman of the Board, if there is such an officer, the President shall be the Chief Executive Officer of the Corporation and shall, subject to the control of the Board, have general supervision, direction and control of the business and the officers of the Corporation. He shall preside at all meetings of the shareholders and, in the absence of the Chairman of the Board, or if there is none, at all meetings of the Board. He shall have the general powers and duties of management usually vested in the office of President of a Corporation and shall have such other powers and duties as may be prescribed by the Board or these Bylaws.

Section H. Vice Presidents.

In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board or, if not ranked, a Vice President designated by the Board, shall perform all the duties of the President and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them by the Board, the Chairman of the Board, the President or these Bylaws.

Section I. Secretary.

The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may direct, a book of minutes of all meetings and actions of directors, committees of directors and shareholders, with the time and place of holding, whether regular or special and, if special, how authorized, the notice given, the names of those present at Board meetings and committee meetings, the number of shares present or represented at meetings of shareholders and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the Corporation's transfer agent or registrar, as determined by resolution of the Board, a share register or a duplicate share register showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of shareholders and of the Board required by these Bylaws or by law to be given, and he shall keep in safe custody the seal of the Corporation, if one is adopted, and shall have such other powers and perform such other duties as may be prescribed by the Board or by these Bylaws.

Section J. Chief Financial Officer.

The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director.

The Chief Financial Officer shall deposit all money and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board. He shall disburse the funds of the Corporation as may be ordered by the Board, shall render to the President and directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board or these Bylaws.

ARTICLE V

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

Section A. Indemnification of Directors and Officers.

The Corporation shall, to the maximum extent and in the manner permitted by the California General Corporation Law, indemnify each of its directors and officers against expenses (as defined in Section 317(a) of the California General Corporation Law), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the California General Corporation Law), arising by

reason of the fact that such person is or was an agent of the Corporation. For purposes of this Article V, a “director” or “officer” of the Corporation includes any person (i) who is or was a director or officer of the Corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation.

Section B. Indemnification of Others.

The Corporation shall have the power, to the extent and in the manner permitted by the California General Corporation Law, to indemnify each of its employees and agents (other than directors and officers) against expenses (as defined in section 317(a) of the California General Corporation Law), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding (as defined in Section 317(a) of the California General Corporation Law), arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Article V, an “employee” or “agent” of the Corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the Corporation, (ii) who is or was serving at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation.

Section C. Payment of Expenses in Advance.

Expenses incurred in defending any civil or criminal action or proceeding for which indemnification is required pursuant to this Article V or for which indemnification is permitted pursuant to this Article V following authorization thereof by the Board shall be paid by the Corporation in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amount if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized in this Article V.

Section D. Indemnity Not Exclusive.

The indemnification provided by this Article V shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent that such additional rights to indemnification are authorized in the Articles of Incorporation.

Section E. Insurance Indemnification.

The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation against any liability asserted against or incurred by such person in such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify them against such liability under the provisions of this Article V.

Section F. Conflicts.

No indemnification or advance shall be made under this Article V, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(i) That it would be inconsistent with a provision of the Articles of Incorporation, these Bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of the action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(ii) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

ARTICLE VI

MEETINGS OF SHAREHOLDERS

Section A. Place of Meetings.

Meetings of shareholders shall be held at any place within or outside the State of California designated by the Board. In the absence of any such designation, meetings of shareholders shall be held at the principal executive office of the Corporation.

Section B. Annual Meeting.

The annual meeting of shareholders shall be held on such date and at such time as the Board may determine. The annual meeting shall be held at the Corporation's principal offices or at any other location as may be determined by the Board. At each annual meeting, directors shall be elected and any other proper business may be transacted.

Section C. Special Meetings.

A special meeting of the shareholders may be called at any time by the Board, the Chairman of the Board, the President, or one or more shareholders holding shares in the aggregate entitled to cast not less than 10% of the votes at such meeting.

If a special meeting is called by any person or persons other than the Board, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the Chairman of the Board, the President, any Vice President or the Secretary. The officer receiving the request shall promptly cause notice to be given to the shareholders entitled to vote, in accordance with the provisions of Sections D and E of this Article VI, that a meeting will be held at the time requested by the person or persons calling the meeting, not fewer than 35 days or more than 60 days after the receipt of the request. If such notice is not given within 20 days after the receipt of the request, the person or persons requesting the meeting may give the notice in the manner provided in these Bylaws. Nothing contained in this paragraph of this Section C shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the Board may be held.

Section D. Notice of Meetings of Shareholders.

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section E of this Article VI not less than 10 days or more than 60 days before the date of the meeting. Such notice shall specify the place, date, and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, or (ii) in the case of the annual meeting, those matters that the Board, at the time of giving the notice, intends to present for action by the shareholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees whom, at the time of the notice, management intends to present for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California, (ii) an amendment of the Articles of Incorporation, pursuant to Section 902 of such Code, (iii) a reorganization of the Corporation, pursuant to Section 1201 of such Code, (iv) a voluntary dissolution of the Corporation, pursuant to Section 1900 of such Code, or (v) a distribution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of such Code, the notice shall also state the general nature of such proposal.

Section E. Manner of Giving Notice; Affidavit of Notice.

Notice of any meeting of shareholders shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to each shareholder at the address of such shareholder appearing on the books of the Corporation or given by the shareholder to the Corporation for the purpose of notice. If no such address appears on the books of the Corporation or is given, notice shall be deemed to have been given if sent to a shareholder by first-class mail or telegraphic or other written communication at the location of the Corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where such office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of such shareholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver such notice to such shareholder at such address, each future notice and report shall be deemed to have been duly given without further mailing if it shall be available to the shareholder on written demand by the shareholder at the principal executive office of the Corporation for a period of one year from the date of the giving of such notice or report.

An affidavit of the mailing or other means of giving any notice of any meeting of shareholders shall be executed by the Secretary, Assistant Secretary or any transfer agent of the Corporation giving the notice and shall be filed and maintained in the minutes book of the Corporation.

Section F. Nominations For Director.

Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of voting stock of the corporation entitled to vote for the election of directors. Notice of intention to make any nominations, other than by the Board of Directors shall be made in writing and shall be received by the President of the corporation no more than 60 days prior to any meeting of shareholders called for the election of directors, nor more than 10 days after the date the notice of such meeting is sent to shareholders pursuant to Article VI Section D of these bylaws, provided, however, that if 10 days' notice of the meeting is given to shareholders, such notice of intention to nominate shall be received by the President of the corporation not later than the time fixed in the notice of the meeting for the opening of the meeting. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of voting stock of the corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of voting stock of the corporation owned by the notifying shareholder. Nominations not made in accordance herewith may be disregarded by the then chairman of the meeting, and the inspectors of election shall then disregard all votes cast for each such nominee.

Section G. Quorum.

The presence in person or by proxy of the holders of a majority of the shares entitled to vote at a meeting of shareholders shall constitute a quorum for the transaction of business at such meeting. The shareholders in attendance at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section H. Adjourned Meeting; Notice.

Any meeting of shareholders, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at such meeting, either in person or by proxy; but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section F of this Article VI.

When any meeting of shareholders, annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed or unless the adjournment is for more than 45 days from the date set for the original meeting, in which case the Board shall set a new record date. Notice of any such adjourned meeting

shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections D and E of this Article VI. At any adjourned meeting, the Corporation may transact any business that might have been transacted at the original meeting.

Section I. Voting.

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section L of this Article VI, subject to the provisions of Sections 702 to 704, inclusive, of the California Corporations Code (relating to voting shares held by a fiduciary or in joint ownership). The shareholders' vote may be by voice vote or by ballot; provided, however, that any election of directors must be by ballot if demanded by any shareholder before the voting has begun. On any matter other than the election of directors, any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal; but if a shareholder fails to specify the number of shares such shareholder is voting affirmatively, it shall be presumed conclusively that such shareholder's approving vote is with respect to all shares that such shareholder is entitled to vote. Except as provided in Section F of this Article VI, the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by California General Corporation Law or the Articles of Incorporation.

At a meeting of shareholders at which directors are to be elected, no shareholder shall be entitled to cumulate votes (i.e., cast for any one or more candidates a number of votes greater than the number of such shareholder's shares) unless the candidates' names have been placed in nomination prior to commencement of the voting and a shareholder has given notice prior to commencement of the voting of such shareholder's intention to cumulate votes. If any shareholder has given such a notice, every shareholder entitled to vote may cumulate votes for candidates in the number of directors to be elected multiplied by the number of votes to which such shareholder's shares are entitled or distribute such shareholder's votes on the same principle among any or all of the candidates as the shareholder thinks fit. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section J. Waiver of Notice or Consent by Absent Shareholders.

The transactions of any meeting of shareholders, annual or special, however called and noticed and wherever held, shall be as valid as though they had occurred at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after such meeting, each person entitled to vote who was not present in person or by proxy signs a written waiver of notice or a consent to a holding of such meeting or an approval of the minutes thereof. Such waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section D of this Article VI, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of such meeting, except that when the person objects at the beginning of the meeting to the transaction of any business thereat because such meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of such meeting if an objection is expressly made at such meeting.

Section K. Shareholders Acting Without a Meeting; Filling Vacancies on Board.

Any action to elect directors which may be taken at a meeting of the shareholders may be taken without a meeting or notice of meeting if authorized by a writing signed by all of the shareholders entitled to vote at a meeting for such purpose and filed with the Secretary; provided further, that while ordinarily directors can only be elected by unanimous written consent under California Corporations Code Section 603(d), as to vacancy created by death, resignation or other causes, if the directors fail to fill a vacancy, then a director to fill that vacancy may be elected by the written consent of persons holding a majority of shares entitled to vote for the election of directors.

Section L. Other Actions Without a Meeting.

Unless otherwise provided in the California General Corporation Law, any action that may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on such action were present and voted.

Unless the consents of all shareholders entitled to vote have been solicited in writing, and unless the unanimous written consent of all shareholders has been received, the Secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting. Such notice shall be given in the manner specified in Section E of this Article VI. In the case of approval of (i) contracts or transactions in which a director has a direct or indirect financial interest, pursuant to Section 310 of the California Corporations Code, (ii) indemnification of agents of the Corporation, pursuant to Section 317 of such Code, (iii) a reorganization of the Corporation, pursuant to Section 1201 of such Code, and (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of such Code, such notice shall be given at least 10 days before the consummation of any action authorized by such approval. Any shareholder giving a written consent or the shareholder's proxy holders or a transferee of the shares or a personal representative of the shareholder or their respective proxy holders may revoke the consent by a writing received by the Secretary before written consents of the number of shares required to authorize the proposed action have been filed with the Secretary but may not do so thereafter. Such revocation is effective upon its receipt by the Secretary.

Section M. Record Date for Shareholder Notice, Voting and Giving Consents.

For purposes of determining the shareholders entitled to receive notice of any meeting or to give consent to corporate action without a meeting, the Board may fix in advance a record date, which shall not be more than 60 days or less than 10 days before the date of any such meeting nor more than 60 days before any such action without a meeting. In this event, only shareholders of record on the date so fixed are entitled to receive notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date, except as otherwise provided in the California General Corporation Law.

If the Board does not so fix a record date:

(a) The record date for determining shareholders entitled to receive notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the date on which the meeting is held; or

(b) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the Board has been taken, shall be the day on which the first written consent is given, or (ii) when prior action of the Board has been taken, shall be at the close of business on the day on which the Board adopts the resolution relating to that action or at the close of business on the sixtieth day before the date of such other action, whichever is later.

Section N. Proxies.

Every shareholder entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a proxy validly executed by the shareholder. A proxy may be executed by written authorization signed, or by electronic transmission authorized, by the shareholder or the shareholder's attorney-in-fact, giving the proxyholder(s) the power to vote the shareholder's shares. A proxy shall be deemed signed if the shareholder's name or other authorization is placed on the proxy (whether by manual signature, typewriting, telegraphic or electronic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A proxy may also be transmitted orally by telephone if submitted with information from which it may be determined that the proxy was authorized by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to such proxy, by a writing delivered to the Corporation stating that such proxy is revoked, or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing such proxy; or (ii) written notice of the death or incapacity of the maker of such proxy is received by the Corporation before the vote pursuant to such proxy is counted; provided, however, that no proxy shall be valid after the expiration

of eleven months from the date of the proxy unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Corporations Code of California.

Section O. Inspectors of Election.

Before any meeting of shareholders, the Board may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting. The number of such inspectors shall be either one (1) or three (3). If such inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(a) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) Receive votes, ballots or consents;

(c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) Count and tabulate all votes or consents;

(e) Determine when the polls shall close;

(f) Determine the result; and

(g) Do any other acts that may be necessary or proper to conduct the election or vote with fairness to all shareholders.

ARTICLE VII

RECORDS, REPORTS AND GENERAL CORPORATE MATTERS

Section A. Maintenance and Inspection of Share Register.

The Corporation shall keep at its principal executive office or at the office of its transfer agent or registrar, if either be appointed, and as determined by resolution of the Board, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the Corporation holding at least 5% in the aggregate of the outstanding voting shares of the Corporation may: (i) inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours, on five days' prior written demand on the Corporation, and/or (ii) obtain from the transfer agent of the Corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the names and addresses of the shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which such list has been compiled or as of a date specified by such shareholder or shareholders after the date of demand. Such list shall be made available to any such shareholder by the transfer agent on or before the later of five days after the demand is received or the date specified in the demand as the date as of which such list is to be compiled. The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. Any inspection and copying under this Section A may be made in person or by an agent or attorney of the shareholder or a holder of a voting trust certificate making the demand.

Section B. Maintenance and Inspection of Bylaws.

The Corporation shall keep at its principal executive office or if its principal executive office is not in the State of California, at its principal business office in the State of California, the original or a copy of these Bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the Corporation is outside the State of California and the Corporation has no principal business office in the State of California, the Secretary shall, upon the written request of any shareholder, furnish to such shareholder a copy of these Bylaws as amended to date.

Section C. Maintenance and Inspection of Other Corporate Records.

The accounting books and records and minutes of proceedings of the shareholders and the Board and any committee or committees of the Board shall be kept at such place or places as may be designated by the Board or, in the absence of such designation, at the principal executive office of the Corporation. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as a holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney and shall include the right to copy and make extracts. The rights of inspection set forth in this Section C shall extend to the equivalent records of each subsidiary Corporation of the Corporation.

Section D. Inspection by Directors.

Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the Corporation and each of its subsidiary Corporations. Such inspection by a director may be made in person or by an agent or attorney, and the right of inspection includes the right to copy and make extracts of all documents.

Section E. Annual Report to Shareholders.

Provided the Corporation has 100 shareholders or less, the Annual Report to Shareholders referred to in Section 1501 of the General Corporation Law is expressly dispensed with, but nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to shareholders of the Corporation as they deem appropriate. Should the Corporation have 100 or more shareholders, an Annual Report must be furnished not later than 120 days after the end of each fiscal period.

Section F. Financial Statements.

A copy of any annual financial statement and any income statement of the Corporation for each quarterly period of each fiscal year, and any accompanying balance sheet of the Corporation as of the end of each such period, that has been prepared by the Corporation shall be kept on file in the principal executive office of the Corporation for 12 months, and each such statement shall be exhibited at all reasonable times to any shareholder demanding an examination of any such statement or a copy shall be mailed to any such shareholder.

If a shareholder or shareholders holding at least 5% of the outstanding shares of any class of stock of the Corporation makes a written request to the Corporation for an income statement of the Corporation for the three-month, six-month or nine-month period of the then-current fiscal year ending more than 30 days before the date of the request and a balance sheet of the Corporation as of the end of such period, the Chief Financial Officer shall cause such statement to be prepared, if not already prepared, and shall deliver personally or mail such statement to the person making such request within 30 days after the receipt of such request. If the Corporation has not sent to the shareholders its annual report for the last fiscal year (and if such report is required to be sent in accordance with Section E of this Article VII), this report shall likewise be delivered or mailed to the shareholder or shareholders within 30 days after such request.

The Corporation shall also, on the written request of any shareholder, mail to the shareholder a copy of the last annual, semi-annual or quarterly income statement that it has prepared and a balance sheet as of the end of that period.

The quarterly income statements and balance sheets referred to in this Section F shall be accompanied by the report, if any, of any independent accountants engaged by the Corporation or the certificate of an authorized officer of the Corporation that the financial statements were prepared without audit from the books and records of the Corporation.

Section G. Annual Statement of General Information.

The Corporation shall, within the statutorily required time period, file with the Secretary of State of California, on the prescribed form, a statement setting forth the authorized number of directors, the names and complete business or residence addresses of all incumbent directors, the names and complete business or residence addresses of the Chief Executive Officer, Secretary and Chief Financial Officer, the street address of its principal executive office or principal business office in this state and the general type of business constituting the principal business activity of the Corporation, together with a designation of the agent of the Corporation for the purpose of service of process and any other required information, all in compliance with Section 1502 of the Corporations Code of California.

Section H. Record Date for Purposes Other Than Notice and Voting.

For purposes of determining the shareholders entitled to receive any dividend or other distribution or allotment of any rights or entitled to exercise any rights with respect to any other lawful action (other than action by shareholders by written consent without a meeting), the Board may fix, in advance, a record date, which shall not be more than 60 days before any such action, and in such case only shareholders of record on the date so fixed are entitled to receive such dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date so fixed, except as otherwise provided in the California General Corporation Law.

If the Board does not so fix a record date, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the applicable resolution or the sixtieth day before the date of such action, whichever is later.

Section I. Checks, Drafts, Evidence of Indebtedness.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to the Corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board.

Section J. Execution of Corporate Contracts and Instruments.

The Board, except as otherwise provided in these Bylaws, may authorize any officer, officers, agent or agents to enter into any contract or execute any instrument in the name of and for the Corporation; such authority may be general or confined to specific instances; and, unless so authorized or ratified by the Board or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

ARTICLE VIII

CERTIFICATES AND TRANSFERS OF SHARES

Section A. Certificates for Shares.

Certificates for shares shall be of such form and device as the Board may designate and shall state the name of the record holder of the shares represented thereby; its number and date of issuance; the number of shares for which it is issued; a statement of the rights, privileges, preferences and restrictions, if any; a statement as to the redemption or conversion, if any; a statement of liens or restrictions upon transfer or voting, if any; and if the shares be assessable, or if assessments are collectible by personal action, a plain statement of such facts.

Every certificate for shares must be signed by the Chairman of the Board or the President or a Vice President and the Chief Financial Officer or the Secretary or an Assistant Secretary, and must be authenticated by the signature of the President and Secretary or an Assistant Secretary. No certificate or certificates for shares are to be issued until such shares are fully paid, unless the Board authorizes the issuance of certificates or shares as partly paid, provided that such certificates shall state the amount of consideration to be paid therefore and the amount paid thereon.

Notwithstanding any other provision of these By-Laws that refers to certificates evidencing shares of the Corporation's outstanding shares of capital stock, shares of the Corporation may be evidenced by registration in the holder's name in uncertificated, book-entry form in accordance with the direct registration system approved by the United States Securities and Exchange Commission and by the principal securities exchange on which the stock of the Corporation may from time to time be traded, or as may be otherwise authorized by Section 416(b) of the California General Corporation Law or any successor statute, as any of the foregoing may be approved from time to time by the Board of Directors. Every holder of uncertificated shares of the Corporation shall be entitled to receive a statement of holdings as evidence of share ownership.

Section B. Transfer on the Books.

Upon surrender to the Secretary or transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction on its books.

Section C. Lost or Destroyed Certificates.

Any person claiming a certificate or stock to be lost or destroyed shall make an affidavit or affirmation of that fact and shall, if the directors so require, give the Corporation a bond of indemnity, in the form and with one or more sureties satisfactory to the Board, in an amount satisfactory to the Board, whereupon a new certificate may be issued in the same manner and for the same number of shares as the one alleged to be lost or destroyed.

Section D. Transfer Agents and Registrars.

The Board may appoint one or more transfer agents or transfer clerks and one or more registrars, which shall be an incorporated bank or trust company, either domestic or foreign, who shall be appointed at such times and places as the requirements of the Corporation may necessitate and the directors may designate.

Section E. Legend Condition.

In the event any shares of this Corporation are issued pursuant to a permit or exemption therefrom requiring the imposition of a legend condition, the person or persons issuing or transferring said shares shall make sure said legend appears on the certificate and on the stub relating thereto in the stock record book and shall not be required to transfer any shares free of such legend unless an amendment to such permit to a new permit be first issued so authorizing said deletion.

ARTICLE IX

AMENDMENTS

Section A. Amendment by Shareholders.

New bylaws may be adopted or these Bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the Articles of Incorporation set forth the number of authorized directors of the Corporation, the authorized number of directors may be changed only by an amendment of such Articles of Incorporation.

Section B. Amendment by Directors.

Subject to the rights of the shareholders as provided in Section A of this Article IX, bylaws, other than a bylaw or an amendment of a bylaw changing the authorized number of directors, may be adopted, amended or repealed by the Board.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify that:

(1) I am the duly elected and acting Secretary of Pyramid Oil Company, a California corporation; and

(2) The foregoing Bylaws, comprising 16 pages, constitute the Amended and Restated Bylaws of said Corporation as duly adopted by the Board of Directors of the Corporation.

IN WITNESS WHEREOF, I have hereunto subscribed my name Corporation this 17th day of October, 2013.

/s/ Lee G. Christianson
Lee G. Christianson, Secretary

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

Pyramid

Sections 204(a)(11) and 317 of the California General Corporation Law authorize Pyramid to indemnify, subject to the terms and conditions set forth therein, its directors, officers, employees and other agents against expenses, judgments, fines, settlements and other amounts that they may incur in connection with pending, threatened or completed lawsuits and other proceedings that are based upon their service as Pyramid directors, officers, employees or other agents or that are based upon their service as directors, officers, employees or other agents of certain other specified entities. The California General Corporation Law also provides that Pyramid is entitled to purchase indemnification insurance on behalf of any such director, officer, employee or agent. Article Seventh of Pyramid's articles of incorporation permits it to indemnify its directors, officers, employees and other agents in excess of the indemnification otherwise permitted by Section 317 of the California General Corporation Law, subject only to the applicable limits set forth in Section 204 of the California General Corporation Law. Article V of Pyramid's bylaws requires it to indemnify its directors and officers against such expenses, judgments, fines, settlements and other amounts to the maximum extent permitted by applicable law.

Article Seventh of Pyramid's articles of incorporation eliminates the personal liability of its directors for monetary damages for breach of their duties as directors to the fullest extent permitted under California law. Section 204(a)(10) of the California General Corporation Law provides that this provision does not eliminate the liability of a director for specified acts such as (1) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (2) acts or omissions that a director believes to be contrary to the best interests of the corporation or its stockholders or that involve the absence of good faith on the part of the director, (3) any transaction from which the director derived an improper personal benefit, (4) acts or omissions that show a reckless disregard for the director's duty to the corporation or its stockholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing his or her duties, of a risk of serious injury to the corporation or its stockholders, (5) acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation or its stockholders, or (6) unlawful dividends, loans or stock repurchases.

Pyramid has also entered into individual indemnity agreements with its directors and executive officers. These agreements indemnify those directors and officers to the fullest extent permitted by law against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of Pyramid.

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Item 21. Exhibits

Exhibit No.	Description
2.1*	Amended and Restated Agreement and Plan of Merger and Reorganization dated as of August 1, 2014, by and among Yuma Energy, Inc., Pyramid Oil Company, Pyramid Delaware Merger Subsidiary, Inc., and Pyramid Merger Subsidiary, Inc. (included as Annex A to the proxy statement/prospectus in Part I of this Registration Statement and incorporated herein by reference).
3.1*	Form of Restated Articles of Incorporation of Pyramid Oil Company (included as Annex F to the proxy statement/prospectus forming part of this Registration Statement and incorporated herein by reference).
3.2*	Amended and Restated Bylaws of Pyramid Oil Company (included as Annex H to the proxy statement/prospectus forming part of this Registration Statement and incorporated herein by reference).
5.1**	Opinion of TroyGould PC regarding the legality of the shares of the Registrant's common stock to be registered under this Registration Statement.
8.1**	Tax Opinion of TroyGould PC.
10.1**	Amended and Restated Voting Agreement dated as of August 1, 2014, between Yuma Energy, Inc. and Michael D. Herman (included as Annex B to the proxy statement/prospectus in Part I of this Registration Statement and incorporated herein by reference).
10.2**	Amended and Restated Voting Agreement dated as of August 1, 2014, by and among Pyramid Oil Company, Pyramid Merger Subsidiary, Inc., and the Persons listed on Schedule A thereto (included as Annex C to the proxy statement/prospectus in Part I of this Registration Statement and incorporated herein by reference).
10.3**	Credit Agreement dated as of August 11, 2011, among Yuma Exploration and Production Company, Inc., as Borrower, Amegy Bank National Association, as Administrative Agent, and each of the lenders from time to time party thereto.
10.4**	First Amendment and Limited Waiver to Credit Agreement and Assignment effective as of September 21, 2012, among Yuma Exploration and Production Company, Inc., as Borrower, Amegy Bank National Association, as Administrative Agent and Assignor, Union Bank, N.A., as an Assignee and successor Administrative Agent and successor Issuing Bank, and each of the lenders party thereto.
10.5**	Second Amendment to Credit Agreement and Assignment effective as of February 13, 2013, among Yuma Exploration and Production Company, Inc., as Borrower, Union Bank, N.A., as Administrative Agent and Assignor, Societe General, as an Assignee and successor Administrative Agent and successor Issuing Bank, and each of the lenders party thereto.
10.6**	Third Amendment to Credit Agreement and Assignment effective as of May 20, 2013, among Yuma Exploration and Production Company, Inc., as Borrower, Union Bank, N.A., as Assignor, Societe General,

	as an Assignor and Administrative Agent and Issuing Bank, OneWest Bank, FSB, as Assignee, and each of the lenders party thereto.
10.7**	Fourth Amendment to Credit Agreement effective as of April 22, 2014, among Yuma Exploration and Production Company, Inc., as Borrower, Societe General, as Administrative Agent and Issuing Bank, and each of the lenders party thereto.
10.8**	Employment Agreement dated October 1, 2012, between Yuma Energy, Inc. and Sam L. Banks.
10.9**	Employment Agreement dated October 1, 2012, between Yuma Energy, Inc. and Michael F. Conlon.
10.10**	Employment Agreement dated June 15, 2014, between Yuma Energy, Inc. and Mark D. Hartman.
23.1**	Consent of SingerLewak LLP.
23.2**	Consent of MHA Petroleum Consultants.
23.3**	Consent of Grant Thornton LLP.
23.4**	Consent of TroyGould PC (included in opinion filed as Exhibit 5.1 and Exhibit 8.1).
23.5**	Consent of Netherland, Sewell & Associates, Inc.
23.6**	Consent of Pressler Petroleum Consultants, Inc.
24.1**	Powers of Attorney (incorporated by reference to the signature page of the Registration Statement on Form S-4, No. 333-197826, as filed with the SEC on August 4, 2014).
99.1**	Form of Proxy Card for Holders of Pyramid Common Stock.
99.2**	Form of Proxy Card for Holders of Yuma Common Stock and Preferred Stock.

99.3**	Opinion of ROTH Capital Partners, LLC (included as Annex D to the proxy statement/prospectus forming part of this Registration Statement and incorporated herein by reference).
99.4**	Consent of ROTH Capital Partners, LLC.
99.5**	Report of MHA Petroleum Consultants dated February 12, 2014 (incorporated by reference to Exhibit 99.1 to the Registrant's Annual Report on Form 10-K filed on March 31, 2014).
99.6**	Report of Netherland, Sewell & Associates, Inc. dated April 22, 2014.
99.7**	Consent of Sam L. Banks, as Director Nominee.
99.8**	Consent of James W. Christmas, as Director Nominee.
99.9**	Consent of Frank A. Lodzinski, as Director Nominee.
99.10**	Consent of Ben T. Morris, as Director Nominee.
99.11**	Consent of Richard K. Stoneburner, as Director Nominee.
99.12**	Consent of Richard W. Volk, as Director Nominee.
99.13*	ROTH Capital Partners presentation dated December, 2014.
99.14*	Consent of ROTH Capital Partners, LLC.

*Filed herewith.
** Previously filed.

Item 22. Undertakings

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, (ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement, and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is part of this Registration Statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(5) That every prospectus: (i) that is filed pursuant to paragraph 4 immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the Registration Statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offering therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class

mail or other equally prompt means. This includes information contained in the documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

(7) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bakersfield, State of California, on August 7, 2014.

PYRAMID OIL COMPANY

By: /s/ Michael D. Herman
Name: Michael D. Herman
Title: Chairman of the Board, Interim President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities indicated below on August 7, 2014.

Signature	**Title**
/s/ Michael D. Herman Michael D. Herman	Chairman of the Board, Director, Interim President and Chief Executive Officer (Principal Executive Officer)
/s/ Lee G. Christianson Lee G. Christianson	Chief Financial Officer and Corporate Secretary (Principal Financial Officer and Principal Accounting Officer)
/s/ Rick D. Kasch Rick D. Kasch	Director
/s/ Gary L. Ronning Gary L. Ronning	Director