

ULTRA PETROLEUM CORP

Form 10-Q

November 02, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**  
**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**  
**Commission File Number 0-29370**  
**ULTRA PETROLEUM CORP.**  
(Exact name of registrant as specified in its charter)

**Yukon Territory, Canada**  
(State or other jurisdiction of  
incorporation or organization)

**N/A**  
(I.R.S. Employer  
Identification Number)

**363 North Sam Houston Parkway, Suite 1200,**  
**Houston, Texas**  
(Address of principal executive offices)

**77060**  
(Zip code)

**(281) 876-0120**

(Registrant's telephone number,  
including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐  
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒  
The number of common shares, without par value, of Ultra Petroleum Corp., outstanding as of October 20, 2006 was 151,950,897.

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ULTRA PETROLEUM CORP.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In U.S. Dollars)			
Revenues:				
Natural gas sales	\$ 116,364,900	\$ 110,665,181	\$ 330,201,795	\$ 266,692,797
Oil sales	29,001,147	23,714,106	96,307,105	67,685,543
Total operating revenues	145,366,047	134,379,287	426,508,900	334,378,340
Expenses:				
Production expenses and taxes	29,207,499	22,718,722	78,879,336	58,959,388
Depletion and depreciation	22,541,118	13,270,825	59,229,047	37,166,738
General and administrative	4,225,197	4,019,706	12,141,587	10,712,319
Total operating expenses	55,973,814	40,009,253	150,249,970	106,838,445
Operating income	89,392,233	94,370,034	276,258,930	227,539,895
Other income (expense):				
Interest expense	(872,120)	(787,604)	(1,183,167)	(2,856,011)
Interest income	284,952	177,463	1,629,094	371,020
Total other income (expense)	(587,168)	(610,141)	445,927	(2,484,991)
Income, before income tax provision	88,805,065	93,759,893	276,704,857	225,054,904
Income tax provision	36,329,569	32,909,724	106,080,054	78,994,271
Net income	52,475,496	60,850,169	170,624,803	146,060,633
Retained earnings, beginning of period	511,737,865	250,498,775	393,588,558	165,288,311
Retained earnings, end of period	\$ 564,213,361	\$ 311,348,944	\$ 564,213,361	\$ 311,348,944
Income per common share basic	\$ 0.34	\$ 0.40	\$ 1.10	\$ 0.96
Income per common share fully diluted	\$ 0.33	\$ 0.38	\$ 1.05	\$ 0.90
Weighted average common shares outstanding basic	153,350,518	153,719,760	154,591,379	152,515,660

Weighted average common shares outstanding    fully diluted	160,919,594	162,231,248	162,446,569	161,538,906
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ULTRA PETROLEUM CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	(In U.S. Dollars)	
Cash provided by (used in):		
Operating activities:		
Net income for the period	\$ 170,624,803	\$ 146,060,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and depreciation	59,229,047	37,166,738
Deferred income taxes	82,908,405	78,994,271
Excess tax benefit from stock based compensation	(9,515,806)	
Stock compensation	1,021,632	2,271,832
Net changes in non-cash working capital:		
Restricted cash	(2,007)	(1,399)
Accounts receivable	(12,075,313)	(7,127,575)
Inventory	794,000	(292,776)
Prepaid expenses and other current assets	21,956	644,321
Accounts payable and accrued liabilities	32,296,436	16,708,441
Deferred revenue	1,506,580	137,500
Other long-term obligations	5,255,044	4,474,803
Taxes payable	(3,174,990)	(195,000)
Net cash provided by operating activities	328,889,787	278,841,789
Investing activities:		
Oil and gas property expenditures	(342,537,507)	(188,197,911)
Change in capital cost accrual	34,798,341	(3,604,699)
Inventory	(2,555,087)	(18,938,712)
Purchase of capital assets	(565,615)	(881,165)
Net cash used in investing activities	(310,859,868)	(211,622,487)
Financing activities:		
Borrowings on long-term debt, gross	110,000,000	22,000,000
Payments on long-term debt, gross		(99,000,000)
Repurchased shares	(174,318,943)	
Stock issued for compensation	1,741,003	
Excess tax benefit from stock based compensation	9,515,806	
Proceeds from exercise of options	7,492,982	16,051,102
Net cash used in financing activities	(45,569,152)	(60,948,898)
(Decrease)/Increase in cash during the period	(27,539,233)	6,270,404
Cash and cash equivalents, beginning of period	44,394,775	16,932,661

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Cash and cash equivalents, end of period	\$	16,855,542	\$	23,203,065
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Supplemental disclosures of Cash Flow information:

Non-cash tax benefit of stock options exercised			\$	39,352,436
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ULTRA PETROLEUM CORP.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2006 (unaudited)	December 31, 2005
	(In U.S. Dollars)	
Assets		
Current assets		
Cash and cash equivalents	\$ 16,855,542	\$ 44,394,775
Restricted cash	215,906	213,899
Accounts receivable	87,731,344	75,656,031
Deferred tax asset	501,381	
Inventory	23,161,272	22,062,585
Prepaid expenses and other current assets	106,088	128,044
Total current assets	128,571,533	142,455,334
Oil and gas properties, net, using the full cost method of accounting		
Proved	918,543,819	612,960,790
Unproved	70,882,131	89,702,465
Capital assets	2,013,150	2,147,528
Total assets	\$ 1,120,010,633	\$ 847,266,117
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 81,894,297	\$ 49,297,861
Deferred revenue	1,506,580	
Current taxes payable	390,000	3,564,990
Capital cost accrual	81,677,630	46,879,289
Total current liabilities	165,468,507	99,742,140
Long-term debt	110,000,000	
Deferred income tax liability	229,640,436	155,746,465
Other long-term obligations	27,239,113	20,576,574
Shareholders' equity		
Share capital	24,642,866	178,806,030
Treasury stock	(1,193,650)	(1,193,650)
Retained earnings	564,213,361	393,588,558
Total shareholders' equity	587,662,577	571,200,938
Total liabilities and shareholders' equity	\$ 1,120,010,633	\$ 847,266,117





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**ULTRA PETROLEUM CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

(Nine months ended September 30, 2006 and 2005 expressed in U.S. dollars unless otherwise noted)

**DESCRIPTION OF THE BUSINESS:**

Ultra Petroleum Corp. (the Company) is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil and gas properties. The Company is incorporated under the laws of the Yukon Territory, Canada. The Company's principal business activities are in the Green River Basin of Southwest Wyoming and Bohai Bay, China.

**1. SIGNIFICANT ACCOUNTING POLICIES:**

The accompanying financial statements, other than the balance sheet data as of December 31, 2005, are unaudited and were prepared from the Company's records. Balance sheet data as of December 31, 2005 was derived from the Company's audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles. The Company's management believes that these financial statements include all adjustments necessary for a fair presentation of the Company's financial position and results of operations. All adjustments are of a normal and recurring nature unless specifically noted. The Company prepared these statements on a basis consistent with the Company's annual audited statements and Regulation S-X. Regulation S-X allows the Company to omit some of the footnote and policy disclosures required by generally accepted accounting principles and normally included in annual reports on Form 10-K. You should read these interim financial statements together with the financial statements, summary of significant accounting policies and notes to the Company's most recent annual report on Form 10-K.

(a) Basis of presentation and principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries UP Energy Corporation, Ultra Resources, Inc. and Sino-American Energy Corporation. The Company presents its financial statements in accordance with U.S. GAAP. All material inter-company transactions and balances have been eliminated upon consolidation.

(b) Accounting principles: The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States.

(c) Cash and cash equivalents: We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Restricted cash: Restricted cash represents cash received by the Company from production sold where the final division of ownership of the production is unknown or in dispute. Wyoming law requires that these funds be held in a federally insured bank in Wyoming.

(e) Capital assets: Capital assets are recorded at cost and depreciated using the declining-balance method based on a seven-year useful life.

(f) Oil and gas properties: The Company uses the full cost method of accounting for exploration and development activities as defined by the Securities and Exchange Commission (SEC). Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as properties and equipment on a country-by-country basis. This includes any internal costs that are directly related to exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. The carrying amount of oil and gas properties also includes estimated asset retirement costs recorded based on the fair value of the asset retirement obligation when incurred. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a country.

The sum of net capitalized costs and estimated future development costs of oil and gas properties are amortized using the unit-of-production method based on the proven reserves as determined by independent petroleum engineers. Oil and gas reserves and production are converted into equivalent units based on relative energy content. Operating fees received related to the properties in which the Company owns an interest are netted against expenses. Fees received in excess of costs incurred are recorded as a reduction to the full cost pool.



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Oil and gas properties include costs that are excluded from capitalized costs being amortized. These amounts represent investments in unproved properties and major development projects. The Company excludes these costs on a country-by-country basis until proved reserves are found or until it is determined that the costs are impaired. All costs excluded are reviewed at least quarterly to determine if impairment has occurred. The amount of any impairment is transferred to the capitalized costs being amortized (the depreciation, depletion and amortization ( DD&A ) pool) or a charge is made against earnings for those international operations where a reserve base has not yet been established. For international operations where a reserve base has not yet been established, an impairment requiring a charge to earnings may be indicated through evaluation of drilling results, relinquishing drilling rights or other information. Under the full cost method of accounting, a ceiling test is performed each quarter. The full cost ceiling test is an impairment test prescribed by SEC Regulation S-X Rule 4-10. The ceiling test determines a limit, on a country-by-country basis, on the book value of oil and gas properties. The capitalized costs of proved oil and gas properties, net of accumulated DD&A and the related deferred income taxes, may not exceed the estimated future net cash flows from proved oil and gas reserves, generally using prices in effect at the end of the period held flat for the life of production excluding the estimated abandonment cost for properties with asset retirement obligations recorded on the balance sheet and including the effect of derivative contracts that qualify as cash flow hedges, discounted at 10%, net of related tax effects, plus the cost of unevaluated properties and major development.

(g) Inventories: Crude oil products and materials and supplies inventories are carried at the lower of current market value or cost. Inventory costs include expenditures and other charges directly and indirectly incurred in bringing the inventory to its existing condition and location and the Company uses the weighted average method to record its inventory. Selling expenses and general and administrative expenses are reported as period costs and excluded from inventory cost. Inventories of materials and supplies are valued at cost or less. Drilling and completion supplies inventory of \$23.2 million primarily includes the cost of pipe that will be utilized in the Company's drilling activities.

(h) Derivative transactions: The Company has, in the past, used derivative instruments as one way to manage its exposure to commodity prices. As of September 30, 2006, the Company had no open derivative contracts to manage its price risk on its production.

The Company, to a larger extent utilizes fixed price forward gas sales contracts at southwest Wyoming delivery points to manage its commodity exposure. The Company had the following fixed price physical delivery contracts in place on behalf of its interest and those of other parties at September 30, 2006. (The Company's approximate average net interest in physical gas sales is 80%.)

<b>Remaining Contract Period</b>	<b>Volume - MMBTU / day</b>	<b>Average Price / MMBTU</b>
Calendar 2006	70,000	\$5.86

The above forward gas sales contracts represent approximately 24% of the Company's currently forecasted gas production for the balance of 2006.

(i) Income taxes: Income taxes are accounted for 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 basis and operating loss and tax credit carryforwards. 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 income in the period that includes the enactment date. (See Note 9).

(j) Earnings per share: Basic earnings per share is computed by dividing net earnings attributable to common stock by the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed by adjusting the average number of common shares outstanding for the dilutive effect, if any, of common stock equivalents. The Company uses the treasury stock method to determine the dilutive effect. The earnings per share information has been updated to reflect the 2 for 1 stock split on May 10, 2005.



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The following table provides a reconciliation of the components of basic and diluted net income per common share:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2006</b>	<b>September 30, 2005</b>	<b>September 30, 2006</b>	<b>September 30, 2005</b>
Net income	\$ 52,475,496	\$ 60,850,169	\$ 170,624,803	\$ 146,060,633
Weighted average common shares outstanding during the period	153,350,518	153,719,760	154,591,379	152,515,660
Effect of dilutive instruments	7,569,076	8,511,488	7,855,190	9,023,246
Weighted average common shares outstanding during the period including the effects of dilutive Instruments	160,919,594	162,231,248	162,446,569	161,538,906
Basic earnings per share	\$ 0.34	\$ 0.40	\$ 1.10	\$ 0.96
Diluted earnings per share	\$ 0.33	\$ 0.38	\$ 1.05	\$ 0.90

(k) Use of estimates: Preparation of consolidated financial statements in accordance 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, the 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.

(l) Reclassifications: Certain amounts in the financial statements of the prior years have been reclassified to conform to the current year financial statement presentation.

(m) Accounting for share-based compensation: On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS No. 123R ) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. SFAS No. 123R supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ) for periods beginning in fiscal year 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS No. 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS No. 123R.

The Company adopted SFAS No. 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Consolidated Financial Statements as of and for the nine months ended September 30, 2006 reflect the impact of SFAS No. 123R. In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Share-based compensation expense recognized under SFAS No. 123R for the nine months ended September 30, 2006 was \$721,633, which consisted of stock-based compensation expense related to employee stock options. There was no stock-based compensation expense related to employee stock options recognized during the nine months ended September 30, 2005. (See Note 5 for additional information.)

SFAS No. 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Income. Prior to the adoption of SFAS No. 123R, the Company accounted for stock-based awards to employees and directors using the

intrinsic value method in accordance with APB No. 25 as allowed under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ( SFAS No. 123 ). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Income because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Under SFAS No. 123R, share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Share-based compensation expense recognized in the Company's Consolidated Statement of Income for the nine months ended September 30, 2006 includes compensation expense for share-based payment awards granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. As of December 31, 2005, all stock options granted to date had fully vested. Compensation expense attributable to awards granted subsequent to January 1, 2006 is recognized using the straight-line method. As share-based compensation expense recognized in the Consolidated Statements of Income for the first nine months of 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS No. 123 for the periods prior to January 1, 2006, the Company accounted for forfeitures as they occurred.

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Under SFAS No. 123 (and APB No. 25), the Company utilized a Black-Scholes option pricing model to measure the fair value of stock options granted to employees. For additional information, see Note 5. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because (1) the Company's employee stock options have certain characteristics that are significantly different from traded options, and (2) changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS No. 123R and SAB 107 using a Black-Scholes option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards.

(n) Revenue Recognition. Within the Company's United States segment, natural gas revenues are recorded on the entitlement method. Under the entitlement method, revenue is recorded when title passes based on the Company's net interest. The Company records its entitled share of revenues based on estimated production volumes. Subsequently, these estimated volumes are adjusted to reflect actual volumes that are supported by third party pipeline statements or cash receipts. Since there is a ready market for natural gas, the Company sells the majority of its products soon after production at various locations at which time title and risk of loss pass to the buyer. Gas imbalances occur when the Company sells more or less than its entitled ownership percentage of total gas production. Any amount received in excess of the Company's share is treated as a liability. If the Company receives less than its entitled share, the underproduction is recorded as a receivable. Oil revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title is transferred.

In China, revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title is transferred.

(o) Impact of recently issued accounting pronouncements: As of January 1, 2006, the Company adopted SFAS No. 154, Accounting for Changes and Error Corrections, a replacement of APB Opinion No. 20 and SFAS No. 3 ( SFAS No. 154 ). SFAS No. 154 requires retrospective application of voluntary changes in accounting principles, unless it is impracticable. The Company does not expect this standard to have a material impact on its financial statements.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48 ( FIN No. 48 ),

Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, which clarifies the accounting for uncertainty in income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement attribute for the measurement and financial statement recognition of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. For the Company, the provisions of FIN No. 48 are effective January 1, 2007. The Company is evaluating what impact FIN No. 48 will have, but currently believes that its implementation will not have a material impact on consolidated results of operations, financial position or liquidity.

In September 2006, the SEC staff issued Staff Accounting Bulletin 108, Financial Statements Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements ( SAB 108 ). SAB 108 addresses how a registrant should quantify the effect of an error on the financial statements and concludes that a dual approach should be used to compute the amount of a misstatement. Specifically, the amount should be computed using both the rollover (current year income statement perspective) and iron curtain (year-end balance sheet perspective) methods. For the Company, the provisions of SAB 108 are effective January 1, 2007. The Company does not expect that the implementation of SAB 108 will have a material impact on consolidated results of operations, financial position or liquidity.





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The Company has recorded a liability of \$5,008,843 (\$3,730,078 U.S and \$1,278,765 China) at September 30, 2006 to account for the retirement of tangible, long-lived assets that result from the acquisition, construction, development and/or normal use of the assets.

**3. OIL AND GAS PROPERTIES:**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Developed Properties:		
Acquisition, equipment, exploration, drilling and environmental costs		
Domestic	\$ 1,015,620,232	\$ 700,425,880
Acquisition, equipment, exploration, drilling and environmental costs		
China	91,935,200	43,890,413
Less accumulated depletion, depreciation and amortization Domestic	(167,493,316)	(118,172,467)
Less accumulated depletion, depreciation and amortization China	(21,518,297)	(13,183,036)
	918,543,819	612,960,790
Unproven Properties:		
Acquisition and exploration costs Domestic	27,418,418	17,647,300
Acquisition and exploration costs China	43,463,713	72,055,165
	\$ 989,425,950	\$ 702,663,255

**4. LONG-TERM LIABILITIES:**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Bank indebtedness	\$ 110,000,000	\$
Other long-term obligations	27,239,113	20,576,574
	\$ 137,239,113	\$ 20,576,574

Bank indebtedness: The Company (through its subsidiary) participates in a revolving credit facility with a group of banks led by JP Morgan Chase Bank, N.A. The agreement specifies a maximum loan amount of \$500 million, an aggregate borrowing base of \$950 million and a commitment amount of \$200 million. The commitment amount may be increased up to the lesser of the borrowing base amount or \$500 million at any time at the request of the Company. Each bank shall have the right, but not the obligation, to increase the amount of their commitment as requested by the Company. In the event that the existing banks increase their commitment to an amount less than the requested commitment amount, then it would be necessary to bring additional banks into the facility. At September 30, 2006, the Company had \$110.0 million outstanding and \$90.0 million unused and available under the current committed amount.

The credit facility matures on May 1, 2010. The note bears interest at either (A) the bank's prime rate plus a margin of zero percent (0.00%) to three-quarters of one percent (0.75%) based on the percentage of available credit drawn or at (B) LIBOR plus a margin of one percent (1.00%) to one and three-quarters of one percent (1.75%) based on the percentage of available credit drawn. For purposes of calculating interest, the available credit is equal to the borrowing base. An average annual commitment fee of 0.25% to 0.375%, depending on the percentage of available credit drawn, is charged quarterly for any unused portion of the commitment amount.

The borrowing base is subject to periodic (at least semi-annual) review and re-determination by the banks and may be decreased or increased depending on a number of factors, including the Company's proved reserves and the bank's forecast of future oil and gas prices. If the borrowing base is reduced to an amount less than the balance outstanding, the Company has sixty days from the date of written notice of the reduction in the borrowing base to pay the difference. Additionally, the Company is subject to quarterly reviews of compliance with the covenants under the bank facility including minimum coverage ratios relating to interest, working capital and advances to Sino-American Energy Corporation. In the event of a default under the covenants, the Company may not be able to access funds otherwise available under the facility. As of September 30, 2006, the Company was in compliance with required covenants of the bank facility.

Any debt outstanding under the credit facility is secured by a majority of the Company's proved domestic oil and gas properties.

Other long-term obligations: These costs relate to the long-term portion of production taxes payable, a liability associated with imbalanced production, the long-term portion of costs associated with our compensation programs and our asset retirement obligations (See Note 2).

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### **5. SHARE BASED COMPENSATION:**

#### ***Share-Based Payment Arrangements***

The Company's Stock Incentive Plans are administered by the Compensation Committee of the Board of Directors (the Plan Administrator). The Plan Administrator may make awards of stock options to employees, directors, officers and consultants of the Company as long as the aggregate number of common shares issuable to any one person pursuant to incentives does not exceed 5% of the number of common shares outstanding at the time of the award. In addition, no participant may receive during any fiscal year of the Company's awards of incentives covering an aggregate of more than 500,000 common shares. The Plan Administrator determines the vesting requirements and any vesting restrictions or forfeitures that occur in certain circumstances. Incentives may not have an exercise period longer than 10 years. The exercise price of the stock may not be less than the fair market value of the common shares at the time of award, where fair market value means the average high and low trading price of the common shares on the date of the award.

On April 29, 2005, the shareholders approved the adoption of the 2005 Stock Incentive Plan (2005 Stock Incentive Plan). The 2005 Stock Incentive Plan authorizes the Plan Administrator to award incentives from the effective date of the 2005 Stock Incentive Plan. The 2005 Stock Incentive Plan is in addition to the Company's existing stock option plans (the 2000 Option Plan and the 1998 Stock Plan). The 2000 Option Plan and the 1998 Stock Plan remain effective and the Company will make grants under each of the existing plans.

The purpose of the 2005 Stock Incentive Plan is to foster and promote the long-term financial success of the Company and to increase shareholder value by attracting, motivating and retaining key employees, consultants and directors and providing such participants in the 2005 Stock Incentive Plan with a program for obtaining an ownership interest in the Company that links and aligns their personal interests with those of the Company's shareholders, thus enabling such participants to share in the long-term growth and success of the Company. To accomplish these goals, the 2005 Stock Incentive Plan permits the granting of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, and other stock-based awards, some of which may require the satisfaction of performance-based criteria in order to be payable to participants. The 2005 Stock Incentive Plan is an important component of the total compensation package offered to employees and directors, reflecting the importance that the Company places on motivating and rewarding superior results with long-term, performance-based incentives.

The purposes of the 2000 Option Plan and the 1998 Stock Plan are: (i) to associate the interests of management of the Company and its subsidiaries and affiliates closely with the stockholders to generate an increased incentive to contribute to the Company's future success and prosperity, thus enhancing the value of the Company for the benefit of its stockholders; (ii) to maintain competitive compensation levels thereby attracting and retaining highly competent and talented directors, employees and consultants; and (iii) to provide an incentive to such management for continuous employment with the Company.

#### ***Accounting for share-based compensation***

In December 2004, the FASB issued SFAS No. 123R. SFAS No. 123R is a revision of SFAS No. 123 and supersedes APB No. 25. Among other items, SFAS No. 123R eliminates the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. Pro forma disclosure is no longer an alternative under the new standard. Accordingly, the Company adopted SFAS No. 123R as of January 1, 2006.

SFAS No. 123R provides specific guidance on income tax accounting and clarifies how SFAS No. 109, Accounting for Income Taxes, should be applied to stock-based compensation. For example, the expense for certain types of option grants is only deductible for tax purposes at the time that the taxable event takes place, which could cause variability in the Company's effective tax rates recorded throughout the year. SFAS No. 123R does not allow companies to predict when these taxable events will take place. Furthermore, it requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under SFAS No. 123. These future amounts cannot be estimated, because they depend on, among other things, when employees exercise stock options.



**Table of Contents*****Valuation and Expense Information under SFAS 123R***

The following table summarizes share-based compensation expense related to employee stock options under SFAS 123R for the nine months ended September 30, 2006 which was allocated as follows:

	<b>Nine Months Ended September 30, 2006</b>
Total cost of share-based payment plans	\$ 1,405,980
Amounts capitalized in inventory and oil and gas properties	684,347
Amounts recognized in income for amounts previously capitalized in inventory and fixed assets	
Amounts charged against income, before income tax benefit	\$ 721,633
Amount of related income tax benefit recognized in income	\$ 253,293
Cumulative effect from adoption of SFAS No. 123R on :	
Income from continuing operations	\$ 721,633
Income before income taxes	\$ 721,633
Net income	\$ 468,340
Cash flow from operations	\$ (9,515,806)
Cash flow from financing activities	\$ 9,515,806
Basic earnings per share	
Diluted earnings per share	

The fair value of each share option award is estimated on the date of grant using a Black-Scholes pricing model based on assumptions noted in the following table. The Company's employee stock options have various restrictions including vesting provisions and restrictions on transfers and hedging, among others, and are often exercised prior to their contractual maturity. Expected volatilities used in the fair value estimate are based on historical volatility of the Company's stock. The Company uses historical data to estimate share option exercises, expected term and employee departure behavior used in the Black-Scholes pricing model. Groups of employees (executives and non-executives) that have similar historical behavior are considered separately for purposes of determining the expected term used to estimate fair value. The assumptions utilized result from differing pre- and post-vesting behaviors among executive and non-executive groups. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury yield curve in effect at the time of grant.

	<b>Non-Executives</b>	<b>Executives</b>
Expected volatility	44.2-45.8%	43.5%
Expected dividends	0%	0%
Expected term (in years)	2.75-4.71	3.58
Risk free rate	4.56-5.03%	4.84%
Expected forfeiture rate	20.0%	20.0%

***Securities Authorized for Issuance Under Equity Compensation Plans***

As of September 30, 2006, the Company had the following securities issuable pursuant to outstanding award agreements or reserved for issuance under the Company's previously approved stock incentive plans. (Upon exercise, shares issued will be newly issued shares).

<b>Number of Securities to  Be Issued</b>	<b>Number of Securities Remaining Available for</b>
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<b>Plan Category</b>	<b>Upon Exercise of Outstanding Options</b>	<b>Weighted- Average Exercise Price of Outstanding Options</b>	<b>Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</b>
Equity compensation plans approved by security holders	9,085,256	\$ 10.24	10,856,044
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	9,085,256 12	\$ 10.24	10,856,044

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**Table of Contents*****Changes in Stock Options and Stock Options Outstanding***

The following table summarizes the changes in stock options for the year ended December 31, 2005 and the nine months ended September 30, 2006:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price (US\$)</b>
Balance, December 31, 2004	12,703,400	\$ 0.25 to \$24.31
Granted	1,529,000	\$23.90 to \$58.71
Exercised	(4,793,700)	\$ 0.32 to \$25.68
Forfeited	(50,000)	\$25.68 to \$25.68
Balance, December 31, 2005	9,388,700	\$ 0.26 to \$58.71
Granted	264,966	\$46.05 to \$67.73
Exercised	(566,400)	\$ 0.46 to \$40.00
Forfeited	(2,010)	\$63.05 to \$63.05
Expired		
Balance, September 30, 2006	9,085,256	\$ 0.25 to \$67.73

The following tables summarize information about the stock options outstanding at September 30, 2006:

<b>Range of Exercise</b>		<b>Options Outstanding</b>		<b>Aggregate Intrinsic Value</b>
		<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price (\$US)</b>	
<b>Price (\$US)</b>	<b>Number Outstanding</b>			<b>(\$US)</b>
\$0.38 0.46	2,577,500	2.33	\$ 0.46	\$ 122,818,065
\$0.25 0.57	760,000	3.54	\$ 0.34	\$ 36,306,400
\$1.49 2.61	1,355,000	4.46	\$ 1.90	\$ 62,610,900
\$3.91 4.43	661,000	5.61	\$ 4.40	\$ 28,894,580
\$4.83 7.10	856,600	6.61	\$ 5.05	\$ 36,886,262
\$11.68 24.21	1,359,000	7.56	\$ 15.94	\$ 43,725,770
\$23.90 58.71	1,253,200	8.73	\$ 35.45	\$ 16,805,110
\$46.05 67.73	262,956	9.63	\$ 59.54	\$ 41,200

<b>Range of Exercise</b>		<b>Options Exercisable</b>		<b>Aggregate Intrinsic Value</b>
		<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price (\$US)</b>	
<b>Price (\$US)</b>	<b>Number Exercisable</b>			<b>(\$US)</b>
\$0.38 0.46	2,577,500	2.33	\$ 0.46	\$ 122,818,065



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\$0.25	0.57	760,000	3.54	\$ 0.34	\$ 36,306,400
\$1.49	2.61	1,355,000	4.46	\$ 1.90	\$ 62,610,900
\$3.91	4.43	661,000	5.61	\$ 4.40	\$ 28,894,580
\$4.83	7.10	856,600	6.61	\$ 5.05	\$ 36,886,262
\$11.68	24.21	1,359,000	7.56	\$ 15.94	\$ 43,725,770
\$23.90	58.71	1,253,200	8.73	\$ 35.45	\$ 16,805,110
\$46.05	67.73				

The aggregate intrinsic value in the preceding tables represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$48.11 on September 30, 2006, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of September 30, 2006 was 8,612,300.

The weighted-average grant-date fair value of share options granted during the nine months ended September 30, 2006 was \$24.06 per share. The total intrinsic value of share options exercised during the nine months ended September 30, 2006 was \$25.9 million.

At September 30, 2006, there was \$3,693,488 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Stock Incentive Plans. That cost is expected to be recognized over a weighted average period of 2.1 years.

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Prior to adopting of SFAS No. 123R on January 1, 2006, the Company followed SFAS No. 123 which allowed for the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25 provided that pro forma results of operations were disclosed for those options granted.

Accordingly, the Company accounted for stock options granted to employees and directors of the Company under the intrinsic value method. Had the Company reported compensation costs as determined by the fair value method of accounting for option grants to employees and directors, net income and net income per common share would approximate the following pro forma amounts: (The earnings per share amounts have been adjusted to reflect the 2 for 1 stock split on May 10, 2005).

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Net income as reported:	\$ 60,850,169	\$ 146,060,633
Deduct: Stock based employee compensation, net of tax	(3,842,861)	(7,335,492)
Pro Forma	\$ 57,007,308	\$ 138,725,141
Basic Earnings per share:		
As Reported	\$ 0.40	\$ 0.96
Pro Forma	\$ 0.37	\$ 0.91
Diluted Earnings per share:		
As Reported	\$ 0.38	\$ 0.90
Pro Forma	\$ 0.35	\$ 0.86

For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the options vesting period. The weighted-average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions at September 30, 2005:

Expected volatility	30.8%	37.31%
Expected dividends		0.0%
Expected term (in years)		6.50
Risk free rate	3.83%	4.32%
Expected forfeiture rate		Actual forfeitures

**PERFORMANCE SHARE PLANS:*****Long-Term Incentive Plan***

In 2005, the Company adopted a Long-Term Incentive Plan ( LTIP ) in order to further align the interests of key employees with shareholders and give key employees the opportunity to share in the long-term performance of the Company by achieving specific corporate financial and operational goals. Under the LTIP, the Compensation Committee establishes certain performance measures at the beginning of each three-year overlapping performance period. Performance measures may vary for performance periods. In the event of a change of control of the Company all outstanding awards are paid at target levels in cash. The event of a change of control is not currently probable. Each participant in the LTIP is assigned threshold, target and maximum award levels that are expressed as a percentage of his or her base salary. Selected officers, managers and other key employees are eligible to participate in the LTIP. Participants are recommended by the CEO and approved by the Compensation Committee and are assigned to a specific eligibility level. The participation levels are as follows (the respective percentage award is calculated based upon the participant's base salary at the beginning of the award period), (i) if threshold performance objectives are attained, the incentive award opportunities range from 6% to 38%; (ii) if target performance objectives are attained, the incentive award opportunities range from 20% to 125%; and (iii) if maximum performance objectives are attained, the incentive award opportunities range from 30% to 188%. The threshold award level is not the minimum award, but is the award at the threshold performance level. Awards are expressed as dollar targets and become payable

in common shares issued under the Company's stock incentive plans at the end of each three-year performance period based on the overall performance of the Company during such period. A new three-year period begins each January, beginning January 1, 2005. Participants must be employed by the Company at the end of a performance period in order to receive an award. Employees joining the Company after January 1, 2005 will participate on a pro rata basis based on their length of employment during the performance period.

The Compensation Committee has established the following performance measures for the 2005 LTIP and 2006 LTIP: return on equity, reserve replacement ratio, and production growth. At the discretion of the Compensation Committee, additional metrics may be added to individual participants.

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For the nine months ended September 30, 2006, the Company recognized \$317,039 and \$310,173 in pre-tax compensation expense related to the 2005 LTIP and 2006 LTIP, respectively. The amounts recognized during the first nine months of 2006 assumes that maximum performance objectives are attained. If the Company ultimately attains maximum performance objectives, the associated total compensation expense, estimated at September 30, 2006, for the three year performance periods would be approximately \$2.1 million and \$2.2 million (before taxes) related to the 2005 LTIP and 2006 LTIP, respectively.

**Best in Class**

In 2005, the Company also established a Best in Class program for all full-time employees of the Company, including executive officers. The purpose of the program is to recognize and financially reward the collective efforts of all the Company's employees in achieving sustained industry leading performance and the enhancement of shareholder value. Under the Best in Class program, on January 1, 2005 or the employment date if subsequent to January 1, 2005, all employees of the Company received a contingent award of stock units equal to \$50,000 worth of the Company's common stock based on the average of the high and low share price on the date of grant. Employees joining the Company after January 1, 2005 will participate on a pro rata basis based on their length of employment during the performance period. The number of units that will vest and become payable is based on the Company's performance relative to the industry during a three-year performance period beginning January 1, 2005 and ending December 31, 2007 and are set at threshold (50%), target (100%) and maximum (150%) levels. For each vested unit, the participant will receive one share of common stock.

The emphasis of this plan is to recognize and reward the Company's employees for performance that is recognized in the industry as clearly outstanding. Performance metrics will be developed and measured by an accepted third party research organization. The total vested award will be the sum of the vesting percentage for each metric. The maximum units that may be vested is 150% of the original award. Performance results will be determined after the end of the performance period and publication of the applicable industry reports. A participant must be employed when payments are made in order to receive an award.

For the nine months ended September 30, 2006, the Company recognized \$94,883 in pre-tax compensation expense related to the Best in Class Incentive Compensation Plan. The amount recognized during the first nine months of 2006 assumes that target performance levels are achieved. If the Company ultimately attains the target performance level, the associated total compensation expense, estimated at September 30, 2006, for the entire three year performance period would be approximately \$2.0 million before income taxes.

**6. SEGMENT INFORMATION:**

The Company has two reportable operating segments, one domestic and one foreign, which are in the business of natural gas and crude oil exploration and production. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from oil and gas operations before price-risk management and other, general and administrative expenses and interest expense. The Company's reportable operating segments are managed separately based on their geographic locations. Financial information by operating segment is presented below:

<b>Three Months Ended September 30,</b>						
	<b>Domestic</b>	<b>2006 China</b>	<b>Total</b>	<b>Domestic</b>	<b>2005 China</b>	<b>Total</b>
Oil and gas sales	\$ 127,533,212	\$ 17,832,835	\$ 145,366,047	\$ 118,736,583	\$ 15,642,704	\$ 134,379,287
Costs and Expenses:						
Depletion and depreciation	19,555,958	2,985,160	22,541,118	12,121,758	1,149,067	13,270,825
Lease operating expenses	5,410,445	2,104,000	7,514,445	2,318,646	1,079,000	3,397,646
Production taxes	14,549,006	1,634,791	16,183,797	13,935,435	783,520	14,718,955
Gathering	5,509,257		5,509,257	4,602,121		4,602,121

Segment operating income	82,508,546	11,108,884	93,617,430	85,758,623	12,631,117	98,389,740
General and administrative			4,225,197			4,019,706
Other expense (income)			587,168			610,141
Income before income taxes			\$ 88,805,065			\$ 93,759,893
Capital expenditures	\$ 151,381,055	\$ 5,216,332	\$ 156,597,387	\$ 72,225,419	\$ 4,762,429	\$ 76,987,848
Net oil and gas properties	\$ 875,545,334	\$ 113,880,616	\$ 989,425,950	\$ 522,558,216	\$ 103,860,873	\$ 626,419,089

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Nine Months Ended September 30,						
	Domestic	2006 China	Total	Domestic	2005 China	Total
Oil and gas sales	\$ 358,172,639	\$ 68,336,261	\$ 426,508,900	\$ 285,546,319	\$ 48,832,021	\$ 334,378,340
Costs and Expenses:						
Depletion and depreciation	50,189,449	9,039,598	59,229,047	32,027,985	5,138,753	37,166,738
Lease operating expenses	10,217,905	6,817,000	17,034,905	6,336,316	4,699,000	11,035,316
Production taxes	41,222,962	7,000,151	48,223,113	33,162,191	2,442,986	35,605,177
Gathering	13,621,318		13,621,318	12,318,895		12,318,895
Segment operating income	242,921,005	45,479,512	288,400,517	201,700,932	36,551,282	238,252,214
General and administrative			12,141,587			10,712,319
Other expense (income)			(445,927)			2,484,991
Income before income taxes			\$ 276,704,857			\$ 225,054,904
Capital expenditures	\$ 323,565,377	\$ 18,972,130	\$ 342,537,507	\$ 172,189,550	\$ 16,008,361	\$ 188,197,911
Net oil and gas properties	\$ 875,545,334	\$ 113,880,616	\$ 989,425,950	\$ 522,558,216	\$ 103,860,873	\$ 626,419,089

**7. LONG TERM CONTRACTS:**

On December 19, 2005, the Company signed two Precedent Agreements with Rockies Express Pipeline, LLC and Entrega Gas Pipeline LLC governing how the parties will proceed through the design, regulatory process and construction of the pipeline facilities and, subject to certain conditions precedent, the Company will take firm transportation service if and when the pipeline facilities are constructed. The Company's Board of Directors approved the Precedent Agreements on February 6, 2006 and Kinder Morgan, as the Managing Member of the Rockies Express Pipeline LLC advised the Company of their final approval of the Precedent Agreements, and their intent to proceed with the construction of the Rockies Express Pipeline on February 28, 2006.

**8. SHARE REPURCHASE PROGRAM:**

On May 17, 2006, the Company announced that its Board of Directors authorized a share repurchase program for up to an aggregate \$1 billion of the Company's outstanding common stock which has been and will be funded by cash on hand and the Company's senior credit facility. Pursuant to this authorization, the Company has commenced an initial program to purchase up to \$250.0 million of the Company's outstanding shares through open market transactions or privately negotiated transactions.

Ultra Petroleum Corp. (Ultra Petroleum) owns 100% of UP Energy Corporation (UP Energy), which in turn owns 100% of Ultra Resources, Inc. (Ultra Resources). Ultra Resources may, from time to time, repurchase Ultra Petroleum publicly traded stock. On settlement, the repurchased stock will be transferred to Ultra Resources. The stock repurchase will be funded with cash held in an Ultra Resources bank account or the Company's senior credit facility. At September 30, 2006, the Company had repurchased 3,481,032 shares of its common stock for an aggregate \$174.3 million at a weighted average price of \$50.08 per share.

**9. INCOME TAXES:**

Income taxes are accounted for 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 basis and operating loss and tax credit carryforwards. 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 income in the period that includes the enactment date.

In conjunction with the share repurchase program described in Note 8, a stock distribution to Ultra Petroleum from Ultra Resources is treated as a dividend for U.S. tax purposes to the extent of earnings and profits of UP Energy and Ultra Resources. U.S. tax rules, including rules under the U.S.-Canada Income Tax Treaty, require a 5% withholding tax when a U.S. corporation distributes a dividend to its sole corporate Canadian shareholder.

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The following table summarizes the components of Income Tax Expense for the three and nine months ended September 30, 2006 and 2005:

	For the three months ended September 30,				For the nine months ended September 30,			
	2006		2005		2006		2005	
	\$	Rate	\$	Rate	\$	Rate	\$	Rate
<b>Current:</b>								
China	\$ 390,000	0.4%	\$	0.0%	\$ 14,215,000	5.1%	\$	0.0%
Withholding taxes-stock distribution	5,158,991	5.8%		0.0%	8,956,649	3.2%		0.0%
Deferred tax expense	30,780,578	34.7%	32,909,724	35.1%	82,908,405	30.0%	78,994,271	35.1%
Total Income Tax Provision	\$ 36,329,569	40.9%	\$ 32,909,724	35.1%	\$ 106,080,054	38.3%	\$ 78,994,271	35.1%

**10. LEGAL PROCEEDINGS:**

The Company is currently involved in various routine disputes and allegations incidental to its business operations. While it is not possible to determine the ultimate disposition of these matters, the Company believes that the resolution of all such pending or threatened litigation is not likely to have a material adverse effect on the Company's financial position, or results of operations.

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of the financial condition and operating results of the Company should be read in conjunction with the consolidated financial statements and related notes of the Company. Except as otherwise indicated all amounts are expressed in U.S. dollars. We operate in one industry segment, natural gas and oil exploration and development with two geographical segments: the United States and China.

The Company currently generates the majority of its revenue, earnings and cash from the production and sales of natural gas and oil from its property in southwest Wyoming. The price of natural gas in the southwest Wyoming region is a critical factor to the Company's business. The price of gas in southwest Wyoming historically has been volatile. The average annual realizations for the period 2003-2005 have ranged from \$3.84 to \$8.64 per Mcf. This volatility could be very detrimental to the Company's financial performance. The Company seeks to limit the impact of commodity price movements on its results by entering into forward sales contracts for gas in southwest Wyoming, and to a lesser extent, derivative instruments. The average realization for the Company's gas during the first nine months of 2006 was \$6.18 per Mcf compared with \$6.14 per Mcf for the same nine month period in 2005. The Company's average realized crude oil price for its Bohai Bay production was \$56.62 USD per barrel for the nine months ended September 30, 2006 as compared to \$41.98 USD per barrel for the first nine months of 2005.

The Company has grown its natural gas and oil production significantly over the past three years and management believes it has the ability to continue growing production by drilling already identified locations on its leases in Wyoming and by bringing into production the already discovered oilfields in China. The Company delivered 21% production growth on an Mcfe basis during the nine months ended September 30, 2006 as compared to the same period in 2005.

The Company uses the full cost method of accounting for oil and gas operations whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized to the Company's cost centers. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition,



exploration and development activities. Separate cost centers are maintained for the United States and China. Substantially all of the oil and gas activities are conducted jointly with others and, accordingly, the amounts reflect only the Company's proportionate interest in such activities. Inflation has not had a material impact on the Company's results of operations and is not expected to have a material impact on the Company's results of operations in the future.

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**RESULTS OF OPERATIONS**

**QUARTER ENDED SEPTEMBER 30, 2006 VS. QUARTER ENDED SEPTEMBER 30, 2005**

During the quarter ended September 30, 2006, production increased 25% on an equivalent basis to 23.6 Bcfe from 18.8 Bcfe for the same quarter in 2005 attributable to the Company's successful drilling activities during 2005 and in the first nine months of 2006 including the addition of production from new fields in China. Average realized price for natural gas decreased to \$5.68 per Mcf in the quarter ended September 30, 2006 compared to \$6.86 per Mcf during the same period in 2005 while realized oil prices on our China production increased 4% to \$50.14 per barrel during the third quarter of 2006 from \$48.44 per barrel during the same period in 2005. The increase in production combined with higher realized oil prices contributed to an 8% increase in revenues for the quarter ended September 30, 2006 to \$145.4 million as compared to \$134.4 million in 2005.

In Wyoming, lease operating expense ( LOE ) increased to \$5.4 million for the quarter ended September 30, 2006 compared to \$2.3 million during the same period in 2005 due to increased production volumes along with increased water disposal costs. On a unit of production basis, LOE costs increased to \$0.25 per Mcfe during the three months ended September 30, 2006 as compared to \$0.14 per Mcfe for the three months ended September 30, 2005. During the quarter ended September 30, 2006 production taxes were \$14.5 million compared to \$13.9 million during the same period in 2005, or \$0.68 per Mcfe during quarter ended September 30, 2006 and \$0.83 per Mcfe during the same period in 2005. The decrease in per unit costs is attributable to the lower realized gas price received during the quarter ended September 30, 2006 as compared to the same period in 2005. Production taxes are calculated based on a percentage of revenue from production. Therefore, the price received impacts the costs on a unit basis. Gathering fees increased to \$5.5 million during the third quarter of 2006 compared to \$4.6 million during the quarter ended September 30, 2005 largely due to increased production volumes partially offset by revised gathering and processing agreements. On a per unit basis, gathering fees decreased to \$0.26 per Mcfe for the three months ended September 30, 2006 from \$0.27 per Mcfe for the same period in 2005. This decrease is attributable to revised gathering and processing arrangements.

In Wyoming, depletion, depreciation and amortization ( DD&A ) expenses increased to \$19.6 million during the quarter ended September 30, 2006 from \$12.1 million for the same period in 2005, attributable to increased production volumes and a higher depletion rate, due to forecasted increased future development costs. On a unit basis, DD&A increased to \$0.91 per Mcfe for the quarter ended September 30, 2006 from \$0.72 per Mcfe for the same period in 2005.

In China, LOE was \$2.1 million during the third quarter ended September 30, 2006 (\$0.99 per Mcfe or \$5.94 per BOE) compared to \$1.1 million (\$0.56 per Mcfe or \$3.36 per BOE) during the same quarter in 2005. The increase in production costs is largely attributable to increased production during the quarter ended September 30, 2006 along with one-time costs associated with new fields coming on production compared to the same period in 2005. Severance taxes in China increased to \$1.6 million for the three months ended September 30, 2006 from \$0.8 million for the three months ended September 30, 2005. The increase is largely due to \$0.8 million in Petroleum Special Profits Tax levied by the Chinese government beginning in March 2006.

DD&A expense in China was \$3.0 million (\$1.40 per Mcfe or \$8.40 per BOE) for the quarter ended September 30, 2006 as compared to \$1.1 million (\$0.59 per Mcfe or \$3.54 per BOE) for the same period in 2005. This increase is primarily attributable to higher DD&A rates as a result of costs being allocated from unevaluated properties to the full cost pool as well as increased production volumes.

Net income before income taxes decreased 5% to \$88.8 million for the quarter ended September 30, 2006 from \$93.8 million for the same period in 2005, primarily as a result of increased DD&A expenses due to a higher depletion rate, due to forecasted increased future development costs. The income tax provision increased 10% to \$36.3 million for the three months ended September 30, 2006 compared to \$32.9 million for the three months ended September 30, 2005, largely attributable to \$5.2 million in withholding tax associated with the Company's share repurchase program (See Note 9). For the quarter ended September 30, 2006, net income decreased 14% to \$52.5 million or \$0.33 per diluted share as compared with \$60.9 million or \$0.38 per diluted share for the same period in 2005.

General and administrative expenses increased slightly to \$4.2 million during the quarter ended September 30, 2006 compared to \$4.0 million for the same period in 2005. On a per unit basis, general and administrative expenses

decreased to \$0.18 per Mcfe during the third quarter of 2006 compared with \$0.21 per Mcfe for the same period in 2005 largely attributable to increased production volumes.

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**NINE MONTHS ENDED SEPTEMBER 30, 2006 VS. NINE MONTHS ENDED SEPTEMBER 30, 2005**

During the nine-months ended September 30, 2006, production increased 21% on an equivalent basis to 63.2 Bcfe from 52.4 Bcfe for the same nine-month period in 2005. The increase is primarily attributable to the additional wells drilled and completed during 2005 along with the increased drilling and completion during the first nine-months of 2006. Increased production coupled with average realized oil prices on our China production increasing 35% to \$56.62 per barrel during the nine month period ended September 30, 2006 from \$41.98 per barrel for the same period in 2005 contributed to a 28% increase in revenues to \$426.5 million compared to \$334.4 million in the first nine months of 2005.

In Wyoming, LOE increased to \$10.2 million for the nine months ended September 30, 2006 compared to \$6.3 million during the same period in 2005 due to increased production volumes along with increased water disposal costs. On a unit of production basis, LOE costs increased to \$0.18 per Mcfe during the nine months ended September 30, 2006 as compared to \$0.14 per Mcfe during the same period ended September 30, 2005. During the nine months ended September 30, 2006 production taxes were \$41.2 million compared to \$33.2 million during the same period in 2005, or \$0.74 per Mcfe during nine months ended September 30, 2006 as compared to \$0.73 per Mcfe during the same period in 2005. Production taxes are calculated based on a percentage of revenue from production. Therefore, the price received impacts the costs on a per unit basis. Gathering fees increased to \$13.6 million during the first nine months of 2006 compared to \$12.3 million during the nine months ended September 30, 2005. On a per unit basis, gathering fees decreased to \$0.24 per Mcfe for the nine months ended September 30, 2006 from \$0.27 per Mcfe for the same period in 2005. This decrease is attributable to revised gathering and processing arrangements. In Wyoming, DD&A expenses increased to \$50.2 million during the nine months ended September 30, 2006 from \$32.0 million for the same period in 2005, attributable to increased production volumes and a higher depletion rate, due to forecasted increased future development costs. On a unit basis, DD&A increased to \$0.90 per Mcfe for the nine months ended September 30, 2006 from \$0.71 per Mcfe for the same period in 2005.

In China, LOE was \$6.8 million during the nine months ended September 30, 2006 (\$0.94 per Mcfe or \$5.64 per BOE) compared to \$4.7 million (\$0.67 per Mcfe or \$4.02 per BOE) during the same period in 2005. The increase is attributable to increased production volumes associated with nine fields producing during 2006 compared with four during the same period in 2005. Severance taxes in China increased to \$7.0 million for the nine months ended September 30, 2006 from \$2.4 million for the same period in 2005. The increase is due to \$3.6 million in Petroleum Special Profits Tax levied by the Chinese government beginning in March 2006 combined with increased production volumes and higher average realized prices.

DD&A expense in China was \$9.0 million (\$1.25 per Mcfe or \$7.50 per BOE) for the nine months ended September 30, 2006 as compared to \$5.1 million (\$0.74 per Mcfe or \$4.44 per BOE) for the same period in 2005. This increase is largely attributable to higher DD&A rates as a result of costs being allocated from unevaluated properties to the full cost pool.

Net income before income taxes increased 23% to \$276.7 million for the nine months ended September 30, 2006 from \$225.1 million for the same period in 2005. The income tax provision increased 34% to \$106.1 million for the nine months ended September 30, 2006 as compared to \$79.0 million for the nine months ended September 30, 2005, attributable to an increase in pre-tax income combined with \$9.0 million in withholding tax associated with the Company's share repurchase program (See Note 9). For the nine months ended September 30, 2006, net income increased 17% to \$170.6 million or \$1.05 per diluted share as compared with \$146.1 million or \$0.90 per diluted share for the same period in 2005.

General and administrative expenses increased by 13% to \$12.1 million during the first nine months of 2006 compared to \$10.7 million for the same period in 2005. On a per unit basis, general and administrative expenses decreased to \$0.19 per Mcfe during the nine months ended September 30, 2006 as compared to \$0.20 per Mcfe for the nine months ended September 30, 2005.

The discussion and analysis of the Company's financial condition and results of operations is based upon consolidated financial statements, which have been prepared in accordance with U.S. GAAP. In addition, application of generally accepted accounting principles requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the revenues and expenses

reported during the period. Changes in these estimates, judgments and assumptions will occur as a result of future events, and, accordingly, actual results could differ from amounts estimated.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

During the nine month period ended September 30, 2006, the Company relied on cash provided by operations and borrowings under its senior credit facility to finance its capital expenditures. The Company participated in the drilling of 73 development and 37 exploratory wells for a total of 110 wells in Wyoming for aggregate capital expenditures of \$323.6 million for the first three quarters of 2006 and continued to participate in the exploration and development processes in the China blocks including the ongoing batch drilling program for the development wells for aggregate capital expenditures of \$19.0 million for the first three quarters of 2006. For the nine month period ended September 30, 2006, net capital expenditures were \$342.5 million. The Company's positive cash provided by operating activities, along with the availability under the senior credit facility, are projected to be sufficient to fund the Company's budgeted capital expenditures for 2006, which are currently projected to aggregate \$450 million. Of the \$450 million budget, the Company plans to spend approximately \$400 million of its 2006 budget in Wyoming and approximately \$20 million in China with the balance allocated to evaluating other areas. Of the \$400 million for Wyoming, the Company plans to drill or participate in an estimated 160 gross wells in 2006, of which approximately 25% will be exploration wells and the remaining will be development wells. Of the \$20 million budgeted for China, approximately 33% will be for exploratory/appraisal activity and the balance will be for development activity. The Company currently has no budget for acquisitions in 2006.

At September 30, 2006, the Company reported a cash position of \$16.9 million compared to \$23.2 million at September 30, 2005. Working capital at September 30, 2006 was a deficit of \$36.9 million compared to working capital at September 30, 2005 of \$6.6 million. As of September 30, 2006, the Company had \$110.0 million in bank indebtedness outstanding and other long-term obligations of \$27.2 million comprised of items payable in more than one year, primarily related to production taxes.

The Company (through its subsidiary) participates in a revolving credit facility with a group of banks led by JP Morgan Chase Bank, N.A. The agreement specifies a maximum loan amount of \$500 million, an aggregate borrowing base of \$950 million and a commitment amount of \$200 million. The commitment amount may be increased up to the lesser of the borrowing base amount or \$500 million at any time at the request of the Company. Each bank shall have the right, but not the obligation, to increase the amount of their commitment as requested by the Company. In the event that the existing banks increase their commitment to an amount less than the requested commitment amount, then it would be necessary to bring additional banks into the facility. At September 30, 2006, the Company had \$110.0 million outstanding and \$90.0 million unused and available under the current committed amount.

The credit facility matures on May 1, 2010. The note bears interest at either (A) the bank's prime rate plus a margin of zero percent (0.00%) to three-quarters of one percent (0.75%) based on the percentage of available credit drawn or at (B) LIBOR plus a margin of one percent (1.00%) to one and three-quarters of one percent (1.75%) based on the percentage of available credit drawn. For purposes of calculating interest, the available credit is equal to the borrowing base. An average annual commitment fee of 0.25% to 0.375%, depending on the percentage of available credit drawn, is charged quarterly for any unused portion of the commitment amount.

The borrowing base is subject to periodic (at least semi-annual) review and re-determination by the banks and may be decreased or increased depending on a number of factors, including the Company's proved reserves and the bank's forecast of future oil and gas prices. If the borrowing base is reduced to an amount less than the balance outstanding, the Company has sixty days from the date of written notice of the reduction in the borrowing base to pay the difference. Additionally, the Company is subject to quarterly reviews of compliance with the covenants under the bank facility including minimum coverage ratios relating to interest, working capital and advances to Sino-American Energy Corporation. In the event of a default under the covenants, the Company may not be able to access funds otherwise available under the facility. As of September 30, 2006, the Company was in compliance with required covenants of the bank facility.

During the nine months ended September 30, 2006, net cash provided by operating activities was \$328.9 million, an 18% increase over the \$278.8 million for the nine months ended September 30, 2005. The increase in net cash provided by operating activities was largely attributable to the increase in production combined with increased realized average oil prices during the nine months ending September 30, 2006.

During the nine months ended September 30, 2006, net cash used in investing activities was \$310.9 million as compared to \$211.6 million for the nine months ended September 30, 2005. The increase in net cash used in investing activities is largely due to increased capital expenditures associated with the Company's drilling activities.

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During the nine months ended September 30, 2006, net cash used in financing activities was \$45.6 million as compared to \$60.9 million for the nine months ended September 30, 2005. The change in net financing activities is primarily attributable to shares repurchased under the Company's share repurchase program during the nine months ended September 30, 2006. (See Part II, Item 2).

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company did not have any off-balance sheet arrangements as of September 30, 2006.

### **CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this document, including without limitation, statements in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives of the Company's management for future operations, covenant compliance and those statements preceded by, followed by or that otherwise include the words "believe", "expects", "anticipates", "intends", "estimates", "projects", "target", "goal", "plans", "objective", "should", or similar expressions or variations on such expressions are forward-looking statements. The Company can give no assurances that the assumptions upon which such forward-looking statements are based will prove to be correct nor can the Company assure adequate funding will be available to execute the Company's planned future capital program.

Other risks and uncertainties include, but are not limited to, fluctuations in the price the Company receives for oil and gas production, reductions in the quantity of oil and gas sold due to increased industry-wide demand and/or curtailments in production from specific properties due to mechanical, marketing or other problems, operating and capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates and/or from the number of exploration and development opportunities being greater or fewer than currently anticipated and increased financing costs due to a significant increase in interest rates. See the Company's annual report on Form 10-K for the year ended December 31, 2005 for additional risks related to the Company's business.

### **ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's major market risk exposure is in the pricing applicable to its gas and oil production. Realized pricing is primarily driven by the prevailing price for the Company's Wyoming natural gas production. Historically, prices received for gas production have been volatile and unpredictable. Pricing volatility is expected to continue. Gas price realizations averaged \$6.18 per Mcf during the nine months ended September 30, 2006.

The Company primarily relies on fixed price forward gas sales to manage its commodity price exposure. These fixed price forward gas sales are considered normal sales. The Company may, from time to time and to a lesser extent, use derivative instruments as one way to manage its exposure to commodity prices. The Company has periodically entered into fixed price to index price swap agreements in order to hedge a portion of its production. The oil and natural gas reference prices of these commodity derivatives contracts are based upon crude oil and natural gas futures, which have a high degree of historical correlation with actual prices the Company receives. Under SFAS No. 133 all derivative instruments are recorded on the balance sheet at fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. For qualifying cash flow hedges, the gain or loss on the derivative is deferred in accumulated other comprehensive income (loss) to the extent the hedge is effective. For qualifying fair value hedges, the gain or loss on the derivative is offset by related results of the hedged item in the income statement. Gains and losses on hedging instruments included in accumulated other comprehensive income (loss) are reclassified to oil and natural gas sales revenue in the period that the related production is delivered. Derivative contracts that do not qualify for hedge accounting treatment are recorded as derivative assets and liabilities at market value in the consolidated balance sheet, and the associated unrealized gains and losses are recorded as current expense or income in the consolidated statement of operations. The Company currently does not have any derivative contracts in place that do not qualify as a cash flow hedge.





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The Company to a larger extent utilizes fixed price forward gas sales contracts at southwest Wyoming delivery points to manage its commodity exposure. At September 30, 2006, the Company had no open derivative contracts to manage price risk on its natural gas production. The Company had the following fixed price physical delivery contracts in place on behalf of its interest and those of other parties at September 30, 2006. (The Company's approximate average net interest in physical gas sales is 80%.)

<b>Remaining Contract Period</b>	<b>Volume - MMBTU / day</b>	<b>Average Price / MMBTU</b>
Calendar 2006	70,000	\$5.86

The above forward gas sales contracts represent approximately 24% of the Company's currently forecasted gas production for the balance of 2006.

**ITEM 4 CONTROLS AND PROCEDURES****(a) Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of the Company's Annual Report of Form 10-K for the year ended December 31, 2005 (2005 10-K), an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). The Company concluded that control deficiencies in its internal control over financial reporting as of December 31, 2005 constituted material weaknesses within the meaning of the Public Company Accounting Oversight Board's Auditing Standard No. 2.

The material weaknesses identified by the Company were disclosed in its 2005 10-K, which was filed with the SEC on March 31, 2006. Based on that and subsequent evaluations, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2006, the Company's disclosure controls and procedures were not effective as a result of the previously-identified material weaknesses in internal control over financial reporting. As reported in the 2005 10-K and in the Company's Report on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006, management is in the process of taking remedial steps to correct these weaknesses.

**(b) Changes in Internal Control Over Financial Reporting**

As reported in Item 9A of the 2005 10-K, the Company determined that material weaknesses in internal control over financial reporting existed as of December 31, 2005. These material weaknesses also existed as of September 30, 2006, and therefore are reported in this Form 10-Q:

The Company did not maintain effective company level controls. Specifically, (i) certain of its accounting personnel in key roles did not possess an appropriate level of technical expertise, and (ii) the Company's monitoring of the internal audit function was not sufficient to provide management a basis to assess the quality of the Company's internal control performance over time. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

The Company did not have adequate policies and procedures regarding supervisory review of account reconciliations and account and transaction analyses. This deficiency resulted in material errors (as reported in the 2005 10-K) which were corrected prior to the issuance of the Company's 2005 consolidated financial

statements.

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The Company did not have adequate policies and procedures to ensure that accurate and reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, the Company did not have sufficient personnel with the skills and experience in the application of U.S. generally accepted accounting principles and policies and procedures regarding the preparation and management review of footnote disclosures accompanying the Company's financial statements. As a result of these deficiencies, material errors were identified in the footnotes to the Company's preliminary 2005 consolidated financial statements. These errors were corrected by management prior to the issuance of the Company's 2005 consolidated financial statements.

Management, with oversight from the Audit Committee of the Board of Directors, has been addressing the material weakness disclosed in its 2005 10-K and is committed to effectively remediating known weaknesses as expeditiously as possible. Due to the fact that these remedial steps have not been completed, the Company performed additional analysis and procedures in order to ensure that the consolidated financial statements contained in this Form 10-Q were prepared in accordance with generally accepted accounting principles in the United States of America. Although the Company's remediation efforts are well underway, control weaknesses will not be considered remediated until new internal controls over financial reporting are implemented and operational for a sufficient period of time to allow for effective testing and are tested, and management and its independent registered certified public accounting firm conclude that these controls are operating effectively.

In order to remediate the material weaknesses described in the 2005 10-K, to date the Company has:

implemented an internal review and assessment process regarding its financial reporting and internal audit functions;

begun a reorganization and alignment of its financial reporting and internal audit functions;

engaged Protiviti to (1) review and assess current Sarbanes-Oxley process and control documentation and compliance plans, (2) recommend remediation and project plans for 2006, and (3) assist management with Sarbanes-Oxley compliance requirements during 2006; and

engaged Grant Thornton LLP to assist in identifying and recommending any necessary organization and procedural changes for improving the Company's controls for the purposes of complying with Sarbanes-Oxley.

Other than as described above, there has been no change in the Company's internal controls over financial reporting during the fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is currently involved in various routine disputes and allegations incidental to its business operations. While it is not possible to determine the ultimate disposition of these matters, the Company believes that the resolution of all such pending or threatened litigation is not likely to have a material adverse effect on the Company's financial position, or results of operations.

### **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which could materially affect our business, financial condition, or future results. Additional risks and uncertainties not currently known to us or that we deem to be immaterial also may adversely affect our business, financial condition and results of operations.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
Period					
May 1	May 31, 2006	283,417	\$ 56.29	283,417	\$984 million
June 1	June 30, 2006	1,147,157	\$ 50.03	1,147,157	\$927 million
July 1	July 31, 2006	572,858	\$ 53.14	572,858	\$896 million
Aug 1	Aug 31, 2006	278,900	\$ 53.02	278,900	\$881 million
Sept 1	Sept 30, 2006	1,198,700	\$ 46.50	1,198,700	\$826 million
TOTAL		3,481,032	\$ 50.08	3,481,032	\$826 million

On May 17, 2006, the Company announced that its Board of Directors authorized a share repurchase program for up to an aggregate \$1 billion of the Company's outstanding common stock which has been and will be funded by cash on hand and the Company's senior credit facility. Pursuant to this authorization, the Company has commenced an initial program to purchase up to \$250.0 million of shares of its common stock through open market transactions or privately negotiated transactions. At September 30, 2006, the Company had repurchased 3,481,032 shares of its common stock for an aggregate \$174.3 million at a weighted average price of \$50.08 per share.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF THE SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K****(a) Exhibits**

3.1 Articles of Incorporation of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10Q for the period ended June 30, 2001.)

3.2 By-Laws of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10Q for the period ended June 30, 2001.)

3.3 Articles of Amendment to Articles of Incorporation of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.3 of the Company's Report on Form 10-K/A for the period ended December 31, 2005)

4.1 Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10Q for the period ended June 30, 2001.)

31.1\* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1\* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2\* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* filed herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ULTRA PETROLEUM CORP.

Date: November 2, 2006

By: /s/ Michael D. Watford

Name: Michael D. Watford

Title: Chairman, President and Chief Executive Officer

Date: November 2, 2006

By: /s/ Marshall D. Smith

Name: Marshall D. Smith

Title: Chief Financial Officer

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