

ULTRA PETROLEUM CORP

Form 10-Q

August 04, 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 JUNE 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). 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 July 31, 2006 was 153,707,197.

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Certification of CEO Pursuant to Section 906

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(Expressed in U.S. Dollars)

ULTRA PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues:				
Natural gas sales	\$ 96,044,048	\$ 82,076,643	\$ 213,836,896	\$ 156,027,616
Oil sales	33,848,564	28,558,388	67,305,958	43,971,437
Total operating revenues	129,892,612	110,635,031	281,142,854	199,999,053
Expenses:				
Production expenses and taxes	24,829,212	19,626,073	49,671,838	36,240,667
Depletion and depreciation	18,047,788	12,656,404	36,687,929	23,895,913
General and administrative	3,714,045	3,516,253	7,916,390	6,692,611
Total operating expenses	46,591,045	35,798,730	94,276,157	66,829,191
Operating income	83,301,567	74,836,301	186,866,697	133,169,862
Other income (expense):				
Interest expense	(139,267)	(1,167,763)	(311,048)	(2,068,406)
Interest income	771,090	118,693	1,344,143	193,558
Total other income (expense)	631,823	(1,049,070)	1,033,095	(1,874,848)
Income, before income tax provision	83,933,390	73,787,231	187,899,792	131,295,014
Income tax provision	33,258,278	25,899,316	69,750,485	46,084,550
Net income	50,675,112	47,887,915	118,149,307	85,210,464
Retained earnings, beginning of period	461,062,753	202,610,860	393,588,558	165,288,311
Retained earnings, end of period	\$ 511,737,865	\$ 250,498,775	\$ 511,737,865	\$ 250,498,775
Income per common share basic	\$ 0.33	\$ 0.31	\$ 0.76	\$ 0.56
Income per common share fully diluted	\$ 0.31	\$ 0.30	\$ 0.72	\$ 0.53
Weighted average common shares outstanding - basic	155,223,335	152,929,693	155,222,092	151,903,632

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Weighted average common shares outstanding	fully diluted	162,966,067	161,275,842	163,114,589	161,067,073
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ULTRA PETROLEUM CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Expressed in U.S. Dollars)

	Six Months Ended June 30,	
	2006	2005
Cash provided by (used in):		
Operating activities:		
Net income for the period	\$ 118,149,307	\$ 85,210,464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and depreciation	36,687,929	23,895,913
Deferred income taxes	52,127,827	46,084,550
Excess tax benefit from stock based compensation	(8,057,700)	
Stock compensation	524,116	1,010,659
Net changes in non-cash working capital:		
Restricted cash	(1,244)	(878)
Accounts receivable	3,676,917	(14,652,671)
Inventory	794,000	(155,576)
Prepaid expenses and other current assets	14,804	(17,917)
Accounts payable and accrued liabilities	28,198,271	26,105,193
Deferred revenue	780,311	
Other long-term obligations	1,092,180	388,552
Taxes payable	3,725,010	(130,000)
Net cash provided by operating activities	237,711,728	167,738,289
Investing activities:		
Oil and gas property expenditures	(185,940,120)	(111,001,119)
Change in capital cost accrual	8,777,386	(14,171,171)
Inventory	(2,435,315)	(15,185,448)
Purchase of capital assets	(394,149)	(762,569)
Net cash used in investing activities	(179,992,198)	(141,120,307)
Financing activities:		
Borrowings on long-term debt, gross		13,000,000
Payments on long-term debt, gross		(28,000,000)
Repurchased shares	(73,346,053)	
Stock issued for compensation	1,741,003	
Excess tax benefit from stock based compensation	8,057,700	
Proceeds from exercise of options	6,682,172	8,423,075
Net cash (used in) financing activities	(56,865,178)	(6,576,925)
Increase in cash during the period	854,352	20,041,057
Cash and cash equivalents, beginning of period	44,394,775	16,932,661
Cash and cash equivalents, end of period	\$ 45,249,127	\$ 36,973,718

Supplemental disclosures of Cash Flow information:

Non-cash tax benefit of stock options exercised	\$ 24,547,479
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ULTRA PETROLEUM CORP.
CONSOLIDATED BALANCE SHEETS

(Expressed in U.S. Dollars)

	June 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 45,249,127	\$ 44,394,775
Restricted cash	215,143	213,899
Accounts receivable	71,979,114	75,656,031
Deferred tax asset	249,431	
Inventory	23,041,500	22,062,585
Prepaid expenses and other current assets	113,240	128,044
Total current assets	140,847,555	142,455,334
Oil and gas properties, net, using the full cost method of accounting		
Proved	783,841,375	612,960,790
Unproved	70,472,987	89,702,465
Capital assets	2,068,351	2,147,528
Total assets	\$ 997,230,268	\$ 847,266,117
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 77,696,130	\$ 49,297,861
Deferred revenue	780,311	
Current taxes payable	7,290,000	3,564,990
Capital cost accrual	55,656,675	46,879,289
Total current liabilities	141,423,116	99,742,140
Deferred income tax liability	200,066,014	155,746,465
Other long-term obligations	22,645,113	20,576,574
Shareholders' equity		
Share capital	122,551,810	178,806,030
Treasury stock	(1,193,650)	(1,193,650)
Retained earnings	511,737,865	393,588,558
Total shareholders' equity	633,096,025	571,200,938
Total liabilities and shareholders' equity	\$ 997,230,268	\$ 847,266,117

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ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All dollar amounts in this Quarterly Report on Form 10-Q are 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 \$23.0 million primarily includes the cost of pipe that will be utilized during the 2006 drilling program.

(h) Derivative transactions: The Company has, in the past, used derivative instruments as one way to manage its exposure to commodity prices. As of June 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 June 30, 2006. (The Company's approximate average net interest in physical gas sales is 80%.)

Remaining Contract Period	Volume MMBTU / day	Average Price / MMBTU
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:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net income	\$ 50,675,112	\$ 47,887,915	\$ 118,149,307	\$ 85,210,464
Weighted average common shares outstanding during the period	155,223,335	152,929,693	155,222,092	151,903,632
Effect of dilutive instruments	7,742,732	8,346,149	7,892,497	9,163,441
Weighted average common shares outstanding during the period including the effects of dilutive Instruments	162,966,067	161,275,842	163,114,589	161,067,073
Basic earnings per share	\$ 0.33	\$ 0.31	\$ 0.76	\$ 0.56
Diluted earnings per share	\$ 0.31	\$ 0.30	\$ 0.72	\$ 0.53

(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 six months ended June 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 six months ended June 30, 2006 was \$324,116, 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 six months ended June 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 six months ended June 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

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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 six 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.

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 the Company's employee stock options have certain characteristics that are significantly different from traded options, and because 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 June 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.

2. ASSET RETIREMENT OBLIGATIONS:

The Company has recorded a liability of \$4,577,707 (\$3,312,922 U.S and \$1,264,785 China) to account for the retirement of tangible, long-lived assets that result from the acquisition, construction, development and/or normal use of the assets.

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	June 30, 2006	December 31, 2005
Developed Properties:		
Acquisition, equipment, exploration, drilling and environmental costs Domestic	\$ 863,739,272	\$ 700,425,880
Acquisition, equipment, exploration, drilling and environmental costs China	86,869,443	43,890,413
Less accumulated depletion, depreciation and amortization Domestic	(148,220,228)	(118,172,467)
Less accumulated depletion, depreciation and amortization China	(18,547,112)	(13,183,036)
	783,841,375	612,960,790
Unproven Properties:		
Acquisition and exploration costs Domestic	27,159,855	17,647,300
Acquisition and exploration costs China	43,313,132	72,055,165
	\$ 854,314,362	\$ 702,663,255

4. LONG-TERM LIABILITIES:

	June 30, 2006	December 31, 2005
Bank indebtedness		
Other long-term obligations	22,645,113	20,576,574
	\$ 22,645,113	\$ 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 June 30, 2006, the Company had no amounts outstanding and \$200 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 June 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 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 Opinion 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 six months ended June 30, 2006 which was allocated as follows:

	Six Months Ended June 30, 2006
Total cost of share-based payment plans	\$ 610,947
Amounts capitalized in inventory and oil and gas properties	286,831
Amounts recognized in income for amounts previously capitalized in inventory and fixed assets	
Amounts charged against income, before income tax benefit	\$ 324,116
Amount of related income tax benefit recognized in income	\$ 113,765
Cumulative effect from adoption of SFAS No. 123R on :	
Income from continuing operations	\$ 324,116
Income before income taxes	\$ 324,116
Net income	\$ 210,351
Cash flow from operations	\$(8,057,700)
Cash flow from financing activities	\$ 8,057,700
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.

	Non-Executives	Executives
Expected volatility	45.0 45.8%	43.5%
Expected dividends	0%	0%
Expected term (in years)	2.75 4.70	3.58
Risk free rate	4.84 5.03%	4.84%
Expected forfeiture rate	25.0%	25.0%

Securities Authorized for Issuance Under Equity Compensation Plans

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

Number of Securities to Be Issued Upon	Weighted-	Number of Securities Remaining Available for
---	------------------	---

Plan Category	Exercise	Average	Future Issuance
	of	Exercise	Under
	Outstanding	Price of	Equity
	Options	Outstanding	Compensation
		Options	Plans (Excluding
			Securities Reflected
			in
			the First Column)
Equity compensation plans approved by security holders	9,089,266	\$ 9.94	10,924,034
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	9,089,266	\$ 9.94	10,924,034

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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 six months ended June 30, 2006:

	Number of Options	Weighted Average Exercise Price (US\$)
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	194,966	\$ 57.65 to \$ 67.73
Exercised	(494,400)	\$ 0.46 to \$ 40.00
Forfeited		
Expired		
Balance, June 30, 2006	9,089,266	\$ 0.25 to \$ 67.73

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

Range of Exercise		Options Outstanding		Aggregate Intrinsic Value
		Weighted Average	Weighted Average Exercise Price	
Price (\$US)	Number	Remaining Contractual Life	(\$US)	(\$US)
\$0.38 0.46	2,577,500	2.59	\$ 0.46	\$ 151,582,965
\$0.25 0.57	760,000	3.79	\$ 0.34	\$ 44,788,000
\$1.49 2.61	1,380,000	4.71	\$ 1.90	\$ 79,177,200
\$3.91 4.43	665,000	5.86	\$ 4.40	\$ 36,490,700
\$4.83 7.10	856,600	6.86	\$ 5.05	\$ 46,445,918
\$11.68 24.21	1,399,000	7.81	\$ 15.96	\$ 60,584,210
\$23.90 58.71	1,256,200	8.98	\$ 35.43	\$ 29,952,792
\$57.65 67.73	194,966	9.78	\$ 62.59	\$ 46,800

Range of Exercise		Options Exercisable		Aggregate Intrinsic Value
		Weighted Average	Weighted Average Exercise Price	
Price (\$US)	Number	Remaining Contractual Life	(\$US)	(\$US)
\$0.38 0.46	2,577,500	2.59	\$ 0.46	\$ 151,582,965

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\$0.25	0.57	760,000	3.79	\$ 0.34	\$ 44,788,000
\$1.49	2.61	1,380,000	4.71	\$ 1.90	\$ 79,177,200
\$3.91	4.43	665,000	5.86	\$ 4.40	\$ 36,490,700
\$4.83	7.10	856,600	6.86	\$ 5.05	\$ 46,445,918
\$11.68	24.21	1,399,000	7.81	\$ 15.96	\$ 60,584,210
\$23.90	58.71	1,256,200	8.98	\$ 35.43	\$ 29,952,792
\$57.65	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 \$59.27 on June 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 June 30, 2006 was 8,894,300.

The weighted-average grant-date fair value of share options granted during the six months ended June 30, 2006 was \$24.60. The total intrinsic value of share options exercised during the six months ended June 30, 2006 was \$24.4 million.

At June 30, 2006, there was \$2,986,533 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 1.8 years.

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Prior to adoption 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).

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income as reported:	\$ 47,887,915	\$ 85,210,464
Deduct: Stock based employee compensation, net of tax	(1,649,332)	(3,492,631)
Pro Forma	\$ 46,238,583	\$ 81,717,833
Basic Earnings per share:		
As Reported	\$ 0.31	\$ 0.56
Pro Forma	\$ 0.30	\$ 0.54
Diluted Earnings per share:		
As Reported	\$ 0.30	\$ 0.53
Pro Forma	\$ 0.29	\$ 0.51

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 June 30, 2005:

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

Expected forfeiture rate

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

In 2005, the Corporation 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 Corporation 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 Corporation, 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 Stock Plans at the end of each three-year performance period based on the overall performance of the Corporation during such period. A new three-year period begins each January, beginning January 1, 2005. Participants must be employed by the Corporation at the end of a performance period in order to receive an award. Employees joining the Corporation 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 six months ended June 30, 2006, the Company recognized \$335,678 and \$344,547 in pre-tax compensation expense related to the 2005 LTIP and 2006 LTIP, respectively. The amounts recognized during the first six 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 June 30, 2006, for the three year performance periods would be approximately \$2.1 million and \$2.3 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 employees of the Corporation, including executive officers. The purpose of the program is to recognize and financially reward the collective efforts of all the Corporation'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 Corporation received a contingent award of stock units equal to \$50,000 worth of the Corporation's common stock based on the average of the high and low share price on the date of grant. Employees joining the Corporation 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 Corporation'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 Corporation'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 six months ended June 30, 2006, the Company recognized \$544,168 in pre-tax compensation expense related to the Best in Class Incentive Compensation Plan. The amount recognized during the first six 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 June 30, 2006, for the entire three year performance period would be approximately \$4.1 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:

	Three Months Ended June 30,					
	Domestic	2006 China	Total	Domestic	2005 China	Total
Oil and gas sales	\$ 104,821,164	\$ 25,071,448	\$ 129,892,612	\$ 87,899,347	\$ 22,735,684	\$ 110,635,031
Costs and Expenses:						
Depletion and depreciation	15,376,562	2,671,226	18,047,788	10,236,718	2,419,686	12,656,404
	2,398,072	1,926,000	4,324,072	2,032,364	2,166,000	4,198,364

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Lease operating expenses						
Production taxes	12,048,702	4,093,723	16,142,425	10,204,694	1,136,784	11,341,478
Gathering	4,362,715		4,362,715	4,086,231		4,086,231
Segment operating income	70,635,113	16,380,499	87,015,612	61,339,340	17,013,214	78,352,554
General and administrative			3,714,045			3,516,253
Other expense (income)			(631,823)			1,049,070
Income before income taxes			\$ 83,933,390			\$ 73,787,231
Capital expenditures	\$ 105,645,183	\$ 7,095,005	\$ 112,740,188	\$ 53,416,720	\$ 3,768,152	\$ 57,184,872
Net oil and gas properties	\$ 742,678,899	\$ 111,635,463	\$ 854,314,362	\$ 462,252,103	\$ 100,247,513	\$ 562,499,616

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	Six Months Ended June 30,					
	Domestic	2006 China	Total	Domestic	2005 China	Total
Oil and gas sales	\$ 230,639,428	\$ 50,503,426	\$ 281,142,854	\$ 166,809,736	\$ 33,189,317	\$ 199,999,053
Costs and Expenses:						
Depletion and depreciation	30,633,491	6,054,438	36,687,929	19,906,227	3,989,686	23,895,913
Lease operating expenses	4,807,460	4,713,000	9,520,460	4,017,670	3,620,000	7,637,670
Production taxes	26,673,957	5,365,360	32,039,317	19,226,756	1,659,466	20,886,222
Gathering	8,112,061		8,112,061	7,716,775		7,716,775
Segment operating income	160,412,459	34,370,628	194,783,087	115,942,308	23,920,165	139,862,473
General and administrative			7,916,390			6,692,611
Other expense (income)			(1,033,095)			1,874,848
Income before income taxes			\$ 187,899,792			\$ 131,295,014
Capital expenditures	\$ 172,184,322	\$ 13,755,798	\$ 185,940,120	\$ 100,018,868	\$ 10,982,251	\$ 111,001,119
Net oil and gas properties	\$ 742,678,899	\$ 111,635,463	\$ 854,314,362	\$ 462,252,103	\$ 100,247,513	\$ 562,499,616

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 June 30, 2006, the Company had repurchased 1,430,574 shares of its common stock for an aggregate \$73.3 million at a weighted average price of \$51.27 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 six months ended June 30, 2006 and 2005:

	For the three months ended June 30,		For the six months ended June 30,	
	2006	2005	2006	2005
Current tax expense-China	\$ 7,290,000		13,825,000	
Withholding taxes-stock distribution	3,797,658		3,797,658	
Deferred tax expense	22,170,620	25,899,316	52,127,827	46,084,550
 Total Income Tax Expense	 \$ 33,258,278	 \$ 25,899,316	 \$ 69,750,485	 \$ 46,084,550

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 six months of 2006 was \$6.49 per Mcf, basis Opal, Wyoming. The Company's average realized crude oil price for its Bohai Bay production was \$59.33 USD per barrel for the six months ended June 30, 2006.

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 18% production growth on an Mcfe basis during the six months ended June 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.

RESULTS OF OPERATIONS

QUARTER ENDED JUNE 30, 2006 VS. QUARTER ENDED JUNE 30, 2005

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During the quarter ended June 30, 2006, production increased 10% on an equivalent basis to 19.5 Bcfe from 17.7 Bcfe for the same quarter in 2005 attributable to the Company's successful drilling activities during 2005 and in the first half of 2006 along with continued production in China. Average realized price for natural gas remained flat at \$5.85 per Mcf in the quarter ended June 30,

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2006 compared to the same period in 2005 while realized oil prices on our China production increased 44% to \$65.10 per barrel during the second quarter of 2006 from \$45.18 per barrel during the same period in 2005. The increase in production combined with higher realized oil prices contributed to a 17% increase in revenues for the quarter ended June 30, 2006 to \$129.9 million as compared to \$110.6 million in 2005.

In Wyoming, production costs increased to \$2.4 million for the quarter ended June 30, 2006 compared to \$2.0 million during the same period in 2005 due to increased production volumes. On a unit of production basis, LOE costs remained flat at \$0.14 per Mcfe during the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. During the quarter ended June 30, 2006 production taxes were \$12.0 million compared to \$10.2 million during the same period in 2005, or \$0.70 per Mcfe during both quarters ended June 30, 2006 and 2005. Production taxes are calculated based on a percentage of revenue from production. Gathering fees increased slightly to \$4.4 million during the second quarter of 2006 compared to \$4.1 million during the quarter ended June 30, 2005. On a per unit basis, gathering fees decreased to \$0.25 per Mcfe for the three months ended June 30, 2006 from \$0.28 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 \$15.4 million during the quarter ended June 30, 2006 from \$10.2 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 \$0.89 per Mcfe for the quarter ended June 30, 2006 from \$0.70 per Mcfe for the same period in 2005.

In China, production costs were \$1.9 million during the second quarter ending June 30, 2006 (\$0.83 per Mcfe or \$5.00 per BOE) compared to \$2.2 million (\$0.72 per Mcfe or \$4.30 per BOE) during the same quarter in 2005. The decrease in production costs is largely attributable to decreased production during the quarter ended June 30, 2006 compared to the same period in 2005. Severance taxes in China increased to \$4.1 million for the three months ended June 30, 2006 from \$1.1 million for the three months ended June 30, 2005. The increase is largely due to \$2.8 million in Petroleum Special Profits Tax levied by the Chinese government beginning in March 2006.

DD&A expense in China was \$2.7 million (\$1.16 per Mcfe or \$6.94 per BOE) for the quarter ended June 30, 2006 as compared to \$2.4 million (\$0.80 per Mcfe or \$4.81 per BOE) for the same period in 2005. This increase is attributable to higher DD&A rates as a result of costs being allocated from unevaluated properties to the full cost pool offset in part by decreased production volumes.

Net income before income taxes increased 14% to \$83.9 million for the quarter ended June 30, 2006 from \$73.8 million for the same period in 2005. The income tax provision increased 28% to \$33.3 million for the three months ended June 30, 2006 compared to \$25.9 million for the three months ended June 30, 2005, attributable to the increase in pre-tax income combined with \$3.8 million in withholding tax associated with the Company's share repurchase program (See Note 9). The Company's effective income tax rate was 35.1% for the quarters ended June 30, 2006 and 2005. For the quarter ended June 30, 2006, net income increased 6% to \$50.7 million or \$0.31 per diluted share as compared with \$47.9 million or \$0.30 per diluted share for the same period in 2005.

General and administrative expenses increased slightly by 6% to \$3.7 million during the quarter ended June 30, 2006 compared to \$3.5 million for the same period in 2005. On a per unit basis, general and administrative expenses decreased to \$0.19 per Mcfe during the second quarter of 2006 compared with \$0.20 per Mcfe for the same period in 2005.

SIX MONTHS ENDED JUNE 30, 2006 VS. SIX MONTHS ENDED JUNE 30, 2005

During the six-months ended June 30, 2006, production increased 18% on an equivalent basis to 39.6 Bcfe from 33.6 Bcfe for the same six-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 six-months of 2006. Increased production coupled with average realized prices for natural gas increasing 13% to \$6.49 per Mcf during the six month period ended June 30, 2006 from \$5.72 per Mcf for the same period in 2005 contributed to a 41% increase in revenues to \$281.1 million compared to \$200.0 million in 2005.

In Wyoming, production costs increased to \$4.8 million for the six months ended June 30, 2006 compared to \$4.0 million during the same period in 2005 due to increased production volumes. On a unit of production basis, LOE costs remained flat at \$0.14 per Mcfe during the six months ended June 30, 2006 as compared to the same period ended June 30, 2005. During the six months ended June 30, 2006 production taxes were \$26.7 million compared to

\$19.2 million during the same period in 2005, or \$0.77 per Mcfe during six months ended June 30, 2006 as compared to \$0.67 per Mcfe during the first half of 2005. Production taxes are calculated based on a percentage of revenue from production. Therefore, higher prices received increased the costs on a per unit basis. Gathering fees increased slightly to \$8.1 million during the first half of 2006 compared to \$7.7 million during the six months ended June 30, 2005.

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On a per unit basis, gathering fees decreased to \$0.24 per Mcfe for the six months ended June 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 \$30.6 million during the first half of 2006 from \$19.9 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 \$0.89 per Mcfe for the six months ended June 30, 2006 from \$0.70 per Mcfe for the same period in 2005.

In China, production costs were \$4.7 million during the six months ending June 30, 2006 (\$0.92 per Mcfe or \$5.54 per BOE) compared to \$3.6 million (\$0.72 per Mcfe or \$4.31 per BOE) during the same period in 2005. The increase is attributable to increased production volumes associated with six fields producing during 2006 compared with two during the same period in 2005. Severance taxes in China increased to \$5.4 million for the six months ended June 30, 2006 from \$1.7 million for the same period in 2005. The increase is due \$2.8 million in Petroleum Special Profits Tax levied by the Chinese government beginning in March 2006 combined with increase production volumes.

DD&A expense in China was \$6.1 million (\$1.19 per Mcfe or \$7.11 per BOE) for the first half of 2006 as compared to \$4.0 million (\$0.79 per Mcfe or \$4.75 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 43% to \$187.9 million for the six months ended June 30, 2006 from \$131.3 million for the same period in 2005. The income tax provision increased 51% to \$69.8 million for the six months ended June 30, 2006 as compared to \$46.1 million for the six months ended June 30, 2005, attributable to an increase in pre-tax income combined with \$3.8 million in withholding tax associated with the Company's share repurchase program (See Note 9). The Company's effective income tax rate was 35.1% for the six months ended June 30, 2006 and 2005. For the six months ended June 30, 2006, net income increased 39% to \$118.1 million or \$0.72 per diluted share as compared with \$85.2 million or \$0.53 per diluted share for the same period in 2005.

General and administrative expenses increased by 18% to \$7.9 million during the first half of 2006 compared to \$6.7 million for the same period in 2005. On a per unit basis, general and administrative expenses remained flat at \$0.20 per Mcfe during the six months ended June 30, 2006 and 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.

LIQUIDITY AND CAPITAL RESOURCES

During the six month period ended June 30, 2006, the Company relied on cash provided by operations to finance its capital expenditures. The Company participated in the drilling of 63 wells in Wyoming 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 the six month period ended June 30, 2006, net capital expenditures were \$185.9 million. At June 30, 2006, the Company reported a cash position of \$45.2 million compared to \$37.0 million at June 30, 2005. Working capital at June 30, 2006 was a deficit of \$0.6 million compared to working capital at June 30, 2005 of \$28.4 million. As of June 30, 2006, the Company had no bank indebtedness outstanding and other long-term obligations of \$22.6 million comprised of items payable in more than one year, primarily related to production taxes. 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 be \$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.

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

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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 June 30, 2006, the Company had no amounts outstanding and \$200 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 June 30, 2006, the Company was in compliance with required covenants of the bank facility.

During the six months ended June 30, 2006, net cash provided by operating activities was \$237.7 million, a 42% increase over the \$167.7 million for the six months ended June 30, 2005. The increase in net cash provided by operating activities was largely attributable to the increase in production combined with increased realized average prices during the first half of 2006.

During the six months ended June 30, 2006, net cash used in investing activities was \$180.0 million as compared to \$141.1 million for the six months ended June 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.

During the six months ended June 30, 2006, net cash used in financing activities was \$56.9 million as compared to \$6.6 million for the six months ended June 30, 2005. The change in net financing activities is primarily attributable to shares repurchased under the Company's share repurchase program during the quarter ended June 30, 2006. (See Part II, Item 2).

OFF BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements as of June 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

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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 \$6.49 per Mcf during the six months ended June 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.

The Company to a larger extent utilizes fixed price forward gas sales contracts at southwest Wyoming delivery points to manage its commodity exposure. At June 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 June 30, 2006. (The Company's approximate average net interest in physical gas sales is 80%.)

Remaining Contract Period	Volume MMBTU / day	Average Price / MMBTU
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

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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 June 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 quarter ended March 31, 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 June 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.

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.

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Other than as described above, there has been no change in the Company's internal controls over financial reporting during the fiscal quarter ended June 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

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total Number of Shares Purchased	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
April 1 April 30, 2006				
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
TOTAL	1,430,574	\$ 51.27	1,430,574	\$927 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.

ITEM 3. DEFAULTS IN SENIOR SECURITIES

None

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

The Company held its annual meeting on June 29, 2006. At the annual meeting the entire board of directors of the Company was elected. The votes cast for each of the directors proposed by the Company's definitive proxy statement on Schedule 14A was as follows:

Michael D. Watford 112,854,066 voted in favor, zero voted against and 1,796,457 votes withheld.

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W. Charles Helton	113,938,218 voted in favor, zero voted against and 712,305 votes withheld.
James E. Nielson	113,834,568 voted in favor, zero voted against and 815,955 votes withheld.
James C. Roe	113,834,138 voted in favor, zero voted against and 816,385 votes withheld.
Robert E. Rigney	113,797,774 voted in favor, zero voted against and 852,749 votes withheld.

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The shareholders of the Company approved the appointment of Ernst & Young, LLP as the Company's independent auditors for 2006. There were 114,488,383 votes in favor of approval of the appointment of Ernst & Young, LLP as the Company's auditors, zero votes against and 162,140 votes withheld.

The shareholders of the Company voted against the shareholder proposal with 51,823,501 votes against and 14,914,241 votes in favor of the proposal.

A total of 114,650,523 shares were voted by 250 shareholders, representing 74% of the Company's outstanding shares.

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: August 4, 2006

By: /s/ Michael D. Watford

Name: Michael D. Watford

Title: Chairman, President and Chief Executive Officer

Date: August 4, 2006

By: /s/ Marshall D. Smith

Name: Marshall D. Smith

Title: Chief Financial Officer

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EXHIBIT INDEX

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- 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