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PYR ENERGY CORP
Form 10QSB
July 17, 2006

U.S. Securities And Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended May 31, 2006

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-15511

PYR ENERGY CORPORATION

(Exact name of small business issuer as specified in its charter)

Maryland

95-4580642

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

1675 Broadway, Suite 2450, Denver, CO

80202

(Address of principal executive offices)

(Zip Code)

(303) 825-3748

(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (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 shell company (as
defined in Rule 12b-2 of the Exchange Act). Yes No

There were 37,993,259 shares of \$.001 par value common stock
outstanding on July 5, 2006.

Transitional Small Business Disclosure Format (Check one): Yes No

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ITEM 1. FINANCIAL STATEMENTS

PYR ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	May 31, 2006	August 31, 2005
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash	\$ 7,238	\$ 2,934
Accounts receivable	2,090	1,742
Prepaid expenses and other current assets	78	59
	-----	-----
Total current assets	9,406	4,735

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	-----	-----
PROPERTY AND EQUIPMENT		
Oil and gas properties under full cost, net	18,682	13,242
Furniture and equipment, net	44	29
	-----	-----
	18,726	13,271
	-----	-----
OTHER ASSETS		
Deferred financing costs and other assets	30	80
	-----	-----
TOTAL ASSETS	\$ 28,162	\$ 18,086
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 232	\$ 89
Amounts due oil and gas property owners	46	2
Accrued net profits interest payable	319	1,287
Other accrued liabilities	659	376
Asset retirement obligation	904	904
	-----	-----
Total current liabilities	2,160	2,658
	-----	-----
LONG TERM LIABILITIES		
Convertible notes	7,310	6,958
Asset retirement obligation	344	293
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.001 par value; authorized 1,000,000 shares; issued and outstanding - none	--	--
Common stock, \$.001 par value; authorized 75,000,000 shares; issued and outstanding - 37,993,259 at 05/31/06 and 31,640,259 shares at 8/31/05	38	32
Capital in excess of par value	51,293	43,294
Accumulated deficit	(32,983)	(35,149)
	-----	-----
Total stockholders' equity	18,348	8,177
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 28,162	\$ 18,086
	=====	=====

See notes to consolidated financial statements.

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PYR ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended May 31,	Nin
	-----	-----
	2006	2005
	-----	-----
REVENUES		

(in thousands, except share and p

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Gas and oil production revenues	\$ 3,703	\$ 1,637	\$ 7
	-----	-----	-----
OPERATING EXPENSES			
Lease operating expenses	299	180	
Production taxes, gathering and transportation	243	104	
Net profits interest expense	125	283	
Depletion, depreciation, amortization and accretion	942	251	1
Impairment of oil and gas properties	--	580	
General and administrative	530	488	1
	-----	-----	-----
Total operating expenses	2,139	1,886	5
	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	1,564	(249)	2
OTHER INCOME (EXPENSE)			
Interest and other income	64	27	
Interest (expense)	(91)	(86)	
Other (expense)	(2)	(7)	
	-----	-----	-----
Total other income (expense)	(29)	(66)	
	-----	-----	-----
NET INCOME (LOSS)	\$ 1,535	\$ (315)	\$ 2
	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE -BASIC AND DILUTED	\$ 0.04	\$ (0.01)	\$
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-			
BASIC	37,945,585	31,616,772	37,092
DILUTED	38,486,234	31,616,772	37,697

See notes to consolidated financial statements.

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PYR ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Nine months Ended May 31,

	2006	2005
	-----	-----
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 2,166	\$ (223)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depletion, depreciation, amortization and accretion	1,808	469

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Impairment of oil and gas properties	--	580
Amortization of financing costs	2	2
Interest expense converted into debt	352	335
Stock option issued for director service	--	15
Stock option expense for non-qualifying options issued	10	--
Changes in current assets and liabilities		
Increase in accounts receivable	(348)	(1,885)
(Increase) decrease in prepaids and other current assets	(18)	16
(Decrease) increase in accounts payable	(144)	122
Increase in amounts due oil and gas property owners	44	--
(Decrease) increase in net profits interest liability	(968)	638
Increase in accrued liabilities	283	49
	-----	-----
Net cash provided by operating activities	3,187	137
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions of furniture and equipment	(24)	(11)
Additions to oil and gas properties	(7,300)	(3,034)
Proceeds from exercise of exploration options	--	750
Proceeds from sale of properties	398	49
	-----	-----
Net cash used in investing activities	(6,926)	(2,246)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	8,157	--
Proceeds from exercise of stock options	33	42
Offering costs	(177)	--
Other	30	--
	-----	-----
Net cash provided by financing activities	8,043	42
	-----	-----
NET INCREASE (DECREASE) IN CASH	4,304	(2,067)
BEGINNING CASH	2,934	6,038
	-----	-----
ENDING CASH	\$ 7,238	\$ 3,971
	=====	=====

See notes to consolidated financial statements.

PYR ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(continued)

SUPPLEMENTAL CASH FLOW INFORMATION:

Nine months Ended
May 31,

2006 2005

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	-----	-----
	(Unaudited)	
Cash paid for interest and income taxes	\$--	\$--
Non-cash financing activities:		
Net increase in payables for capital expenditures	287	475
Debt issued for interest	352	335
Asset retirement obligation increase	29	14

See notes to consolidated financial statements.

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PYR ENERGY CORPORATION
Notes to Consolidated Financial Statements
May 31, 2006
(Unaudited)

The accompanying interim financial statements of PYR Energy Corporation are unaudited. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim period. The results of operations for the three and nine months ended May 31, 2006 are not necessarily indicative of the operating results for the entire year.

We have prepared the financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. We believe the disclosures made are adequate to make the information not misleading and recommend that these condensed financial statements be read in conjunction with the audited financial statements and notes included in our Form 10-KSB for the year ended August 31, 2005.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Our financial statements are based on a number of significant estimates, including collectibility of receivables, selection of the useful lives for property and equipment, timing and costs associated with its retirement obligations and oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties.

The oil and gas industry is subject, by its nature, to environmental hazards and clean-up costs. At this time, management knows of no substantial costs from environmental accidents or events for which it may be currently liable. In addition, our oil and gas business makes it vulnerable to changes in wellhead prices of crude oil and natural gas. These prices have been volatile in the past and can be expected to be volatile in the future. By definition, proved reserves are based on current oil and gas prices and estimated reserves, which are considered significant estimates by us, and which are subject to changes. Price declines reduce the estimated quantity of proved reserves and increase annual amortization expense (which is based on proved reserves) and may impact the impairment analysis of the our full cost pool.

Earnings (Loss) Per Share - Basic earnings (loss) per common share is computed by dividing net earnings (loss) attributed to common stock by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per share is computed by adjusting the average number of common shares outstanding for the dilutive effect, if any, of convertible equity instruments, such as convertible notes payable, stock options and warrants. The following table sets forth the computation of basic and diluted earnings per share (in thousands except per share data):

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	Three Months Ended May 31,		Nine Months Ended May 31,	
	2006	2005	2006	2005

Numerator:				
Numerator for basic and diluted earnings per share - income (loss) available to common stockholders	\$ 1,535	\$ (315)	\$ 2,166	\$ (223)
Denominator:				
Denominator for basic earnings per share -weighted average shares outstanding	37,946	31,617	37,092	31,582
Effect of dilutive securities - stock options and warrants	540	--	605	--
	-----	-----	-----	-----
Denominator for diluted earnings per common share	38,486	31,617	37,697	31,582
	=====	=====	=====	=====
Basic and diluted earnings (loss) per common share	\$ 0.04	\$ (0.01)	\$ 0.06	\$ (0.01)
	=====	=====	=====	=====

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Share Based Compensation - In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), effective for fiscal years beginning after December 15, 1995. This statement defines a fair value method of accounting for employee stock options and encourages entities to adopt that method of accounting for its stock compensation plans. SFAS 123 allows an entity to continue to measure compensation costs for these plans using the intrinsic value based method of accounting as prescribed in Accounting Pronouncement Bulletin Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). We have elected to continue to account for our employee stock compensation plans as prescribed under APB 25. Had compensation cost for our stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS 123, our net income and income per share for the quarters and nine months ended May 31, 2006 and 2005 would have been decreased to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2006	2005	2006	2005
Net income (loss) as reported	\$ 1,535	\$ (315)	\$ 2,166	\$ (223)
Deduct total compensation cost determined under the fair value base method for all awards	(87)	(83)	(405)	(249)
Pro forma net income (loss)	\$ 1,448	\$ (397)	\$ 1,761	\$ (472)
Net pro forma income (loss) per share:				
As reported - Basic and Dilutive	\$ 0.04	\$ (0.01)	\$ 0.06	\$ (0.01)
Pro forma - Basic and Dilutive	\$ 0.04	\$ (0.01)	\$ 0.05	\$ (0.01)

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The calculated value of stock options granted under these plans, following calculation methods prescribed by SFAS 123, uses the Black-Scholes stock option pricing model with the following assumptions used:

	May 31, 2006	May 31, 2005
Expected option life-years	5	5-10
Risk-free interest rate	4.38 - 4.5%	3.3 - 4.0%
Dividend yield	0.00%	0.00%
Volatility	48.9 - 51.83%	57 - 83%

Reclassification - Certain reclassifications have been made to the May 31, 2005 financial statements to conform to the May 31, 2006 presentation. Such reclassifications had no effect on net income.

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Recent Accounting Pronouncements - In December 2004, the Financial Accounting Standards Board ("FASB") issued its final standard on accounting for employee stock options, SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123 (R)). SFAS 123 (R) replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), and supersedes APB 25, Accounting for Stock Issued to Employees. SFAS 123 (R) requires companies to measure compensation costs for all share-based payments, including grants of employee stock options, based on the fair value of the awards on the grant date and to recognize such expense over the period during which an employee is required to provide services in exchange for the award. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. For entities that file as a small business issuer, such as PYR Energy Corporation, SFAS 123 (R) is effective for all awards granted, modified, repurchased or cancelled after, and to unvested portions of previously issued and outstanding awards vesting for annual periods beginning after December 15, 2005, which for us will be the first quarter of fiscal 2007. We are currently evaluating the effect of adopting SFAS 123 (R) on our financial position and results of operations. We currently estimate the adoption of SFAS 123 (R) will result in expenses in amounts that are similar to the current pro forma disclosures under SFAS 123.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation", as used in SFAS 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. However, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing or method of settlement. FIN 47 requires that the uncertainty about the timing or method of settlement of a conditional asset retirement obligation be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of FIN 47 had no effect on our financial position or results of operations for the nine months ended May 31, 2006.

2. STOCKHOLDERS' EQUITY

In mid-October 2005, we completed a private placement in which we sold 6,327,250 shares of common stock at a price of \$1.30 per share to a group of accredited institutional and individual investors. We received approximately \$8.0 million in net proceeds after deducting related offering expenses. In addition, we issued warrants to purchase 52,500 shares of common stock in partial payment of a commission for financial advisory services performed in connection with the private placement. The warrants have an exercise price of \$1.30 and expire in five years. The proceeds received from the private placement will be used for general corporate purposes and costs associated with our drilling portfolio.

In December 2005, we filed a registration statement to register the re-sale of the securities issued pursuant to this private placement by the investors. This registration statement became effective in January 2006.

3. CONTINGENCIES

On July 29, 2005, the Company filed a lawsuit in the U.S. District Court for the Eastern District of Texas, Beaumont Division against Samson Lone Star Limited Partnership ("Samson") and Samson's parent company, Samson Resources Corp. The Company alleged in its complaint that Samson,

the operator of a producing gas well in Jefferson County, Texas named the Sun Fee No. 1 Sidetrack Well (the "Sun Fee Well"), has breached its obligations to the Company, which owns interests in the property on which the Sun Fee Well is located, by joining, without authorization, the Sun Fee Well into a unit with other properties in which the Company has no interest, many of which are non-productive. Samson has a large interest in the properties that Samson has joined into the unit. Pursuant to Samson's proposed pooling configuration, the Company's working and overriding royalty interests in the Sun Fee Well would be reduced substantially. The Company believes that Samson has no legal or contractual right to reduce the Company's interests in this manner. The Company is seeking monetary damages for all payments due and owing to the Company based on the proper, undiluted interests in the property. On September 13, 2005, the Court entered a Preliminary Injunction ordering Samson to return the Company to pay status for the undisputed amounts upon which Samson had been paying the Company prior to the filing of the suit. On December 23, 2005, Samson filed a motion for summary judgment on the Company's claims, to which the Company filed its response on January 3, 2006, rigorously denying that Samson has grounds in law or fact for the requested relief. Further, on January 17, 2006, Samson filed a counterclaim for an unspecified overpayment to the Company, which was clarified by a subsequent filing on February 14, 2006, that it was disputing the unit interest originally attributed to the Company and now asserting that the Company's net revenue unit interest is approximately 4.7%. On March 28, 2006, the Court denied a motion by Samson to modify the present injunction to allow payment upon the lower amount. The Company has also filed additional claims against Samson for breach of contract or reformation of the certain assignment issued by Samson to the Company in April 2005 upon which Samson bases its present counterclaim. The outcome of the litigation will determine whether PYR's ownership in the Sun Fee Well consists of (a) the 5.7% net revenue interest (consisting of a 5.19% working and a 1.5% overriding royalty interest) that was formerly the portion that was not contested by Samson and represents the amount of the payments that Samson, as operator, has been paying PYR and that PYR has been recording in its financial statements; or (b) the 4.7% net revenue interest that Samson asserted in its February 14, 2006 filing; or (c) a net revenue interest higher than 5.7% as a result of the Company's prevailing on part or all of its claims that it owns an 8.33% working interest as well as an overriding royalty interest greater than 1.5%.

Samson has withdrawn its prior statement that it would dismiss the suit that it filed against the Company on August 22, 2005 in District Court for Jefferson County, Texas, 58th Judicial District seeking to enjoin or prevent the Company from drilling a planned well on the approximately 400-acre property directly east of the Sun Fee Well on the grounds that it, Samson, has the exclusive right to serve as operator to drill the proposed well. The Company holds a 100% interest in oil and gas leases that comprise the approximately 400-acre parcel on which it is planning to drill a gas well to the same reservoir from which the Sun Fee Well produces. The trial court has taken under consideration PYR's motion for summary dismissal of this suit.

On February 15, 2006, the Company filed a motion in the on-going bankruptcy proceeding involving Venus Exploration Company ("Venus") in the U.S. Bankruptcy Court for the Eastern District of Texas requesting that the Bankruptcy Court uphold its Order of April 9, 2004 approving the Company's purchase of Venus' remaining assets free and clear of any obligations under a pre-bankruptcy Operating Agreement between Venus and Trail Mountain Inc. ("Trail Mountain") that required Venus and Trail Mountain to offer each

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other participation in subsequently acquired oil and gas properties. The Company believes and has asserted in its motion that the pre-bankruptcy Operating Agreement was not listed among the contracts that were assigned to it under the sale in and under the approval of the Bankruptcy Court. Trail Mountain has filed an adversary proceeding against the Company requesting that the Bankruptcy Court find that the pre-bankruptcy Operating Agreement was still effective and that the Company is obligated to offer an opportunity to Trail Mountain to share in the lease upon which the proposed well is to be drilled. If Trail Mountain is successful, it will lead to a potential 50% reduction in the Company's interest in the lease, but could also lead to a corresponding assignment of interests in properties acquired by Trail Mountain, including certain properties assigned to the Sidetrack Unit.

The Company will continue to vigorously pursue and defend its rights with respect to the foregoing litigations.

4. PROPERTY ACQUISITION AND DIVESTITURES

In December 2005, we acquired additional working interests in the Hansford project, located in Hansford County of the Texas panhandle, from multiple private entities for \$1.7 million. The acquisition includes 1.95 Bcf of estimated proved reserves of which 86% are undeveloped and 2,265 acres of leasehold. Following this acquisition, we own 100% working interest on a majority of the acreage which includes three producing wells and a well that has been drilled, cased and is awaiting completion.

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In addition, in December 2005, we sold our interest in certain leasehold acreage located in our School Road prospect in California for approximately \$96,000.

In February 2006, we sold our interest in approximately 250 acres in the Merganser prospect located in Leon County, Texas for approximately \$280,000.

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

The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for natural gas and oil, economic and competitive conditions, regulatory changes, estimates of proved reserves, potential failure to achieve production

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from development projects, capital expenditures and other uncertainties, as well as those factors discussed below and in our Annual Report on Form 10-KSB for the year ended August 31, 2005. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.

The following discussion should be read in conjunction with the Financial Statements and Notes thereto referred to in "Item 1. Financial Statements" of this Form 10-QSB.

Overview

PYR Energy Corporation (referred to as "PYR," the "Company," "we," "us" and "our") is an independent oil and gas exploration and production company, engaged in the exploration, development and acquisition of crude oil and natural gas reserves. Our current focus is on the Rocky Mountain, Texas and Oklahoma Panhandle, East Texas and Gulf Coast regions.

Liquidity and Capital Resources

Our primary sources of liquidity historically have been from sale of our common stock, issuance of convertible notes, and net cash provided by operating activities. Our primary use of capital has been for the acquisition, development, and exploration of oil and natural gas properties. As we pursue growth, we continually monitor the capital resources available to us to meet our future financial obligations, planned capital expenditure activities and liquidity. Our future success in growing proved reserves and production is highly dependent on capital resources available to us and our success in finding or acquiring additional reserves. At May 31, 2006, we had approximately \$7.2 million in working capital and cash of \$7.2 million.

Cash Flow from Operating Activities

Net cash provided by operating activities was \$3.2 million and \$137,000 for the nine months ended May 31, 2006 and 2005, respectively. The increase in net cash provided by operating activities was substantially due to the increase in production revenues, net of increases in expenses. See "Results of Operations" for discussion of changes in revenues and expenses. Non-cash charges increased principally due to higher depreciation, depletion and amortization associated with increased production and higher depletion rates. Changes in current assets and liabilities decreased cash flow from operations by approximately \$1.2 million and \$1.1 million in the nine months ended May 31, 2006 and 2005, respectively. The decrease in current assets and liabilities for the current period is principally attributed to increases in accounts receivable and a decrease in net profits interest liability resulting from payments made. Decreases in the nine month period in 2005 are attributed to increases in accounts receivable.

Operating cash flows are impacted by many variables, the most significant of which are production levels and the volatility of prices for natural gas and oil produced. Prices for these commodities are determined primarily by prevailing market conditions. Regional and worldwide economic activity, weather and other substantially variable factors influence production levels and market conditions for these products. These factors are beyond our control and are difficult to predict.

Capital Expenditures

Our capital expenditures approximated \$7.3 million and \$3.0 million for the

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nine months ended May 31, 2006 and 2005, respectively. The total for the current nine month period includes principally \$4.2 million for drilling, development, exploration and exploitation, \$1.7 million for the purchase of additional working interest in properties located in Hansford County, Texas and \$1.4 million for leasehold costs including capitalized litigation costs incurred related to our Nome project. Drilling costs for the current period were incurred principally on three wells located in Texas, the Chisum #1 well and the Lackey Gas Unit #1 and #2, and on the exploratory Duck Federal #1-30 well located in Wyoming.

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During the nine months ended May 31, 2005, we received \$750,000 for a non-refundable option fee from Suncor Energy Natural Gas America, Inc. ("SENGAI") pursuant to an Exploration Option Agreement between the Company and SENGAI covering our Rogers Pass exploration project in the foothills of west-central Montana.

We anticipate our capital budget for the year ended August 31, 2006 will be approximately \$11.0 million of which \$7.3 million has been incurred through the third quarter for fiscal year 2006 and will be used for a diverse portfolio of development and exploration wells in our core areas of operation.

Financing Activities

In mid-October 2005, we completed a private placement in which we sold 6,327,250 shares of common stock at a price of \$1.30 per share, to a group of accredited institutional and individual investors. Net proceeds from this placement of approximately \$8.0 million will be used for general corporate purposes and costs associated with our development drilling portfolio located principally in the Rocky Mountains and Texas.

It is anticipated that the continuation and future development of our business will require additional, and possibly substantial, capital expenditures. We have no reliable source for additional funds for administration and operations to the extent our existing funds have been utilized. In addition, our capital expenditure budget for the fiscal year ending August 31, 2006 will depend on our success in selling additional prospects for cash, the level of industry participation in our exploration projects, the availability of debt or equity financing, cash on hand and the results of our activities. We anticipate spending approximately \$11.0 million, of which \$7.3 million has been spent through the third quarter of 2006, on exploration and development activities during our fiscal year ending August 31, 2006. To limit capital expenditures, we intend to form industry alliances and exchange an appropriate portion of our interest for cash and/or a carried interest in our exploration projects. We may need to raise additional funds to cover capital expenditures. These funds may come from cash flow, equity or debt financings, a credit facility, or sales of interests in our properties, although there is no assurance additional funding will be available or that it will be available on satisfactory terms.

Our future financial results continue to depend primarily on (1) our ability to discover commercial quantities of hydrocarbons; (2) the market price for oil and gas; (3) our ability to continue to source and screen potential projects; and (4) our ability to fully implement our exploration and development program with respect to these and other matters. There can be no assurance that we will be successful in any of these respects or that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production.

Off-Balance Sheet Financing

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The Company has no off-balance sheet financing arrangements at May 31, 2006.

Summary of Development and Exploration Projects

Our development, exploration, and acquisition activities are focused primarily in select areas of the Rocky Mountains, Texas and Oklahoma Panhandle, East Texas and the Gulf Coast. A number of these projects offer multiple drilling opportunities with individual wells having the potential of encountering multiple reservoirs.

The following is an update of our production and exploration areas and significant projects. While actively pursuing specific production and exploration activities in each of the following areas, we continually review additional acquisition opportunities in these core areas and in other areas that meet our production and exploration criteria. For the month of May, 2006, the latest time frame in which we have complete data, PYR's net production averaged 5.0 MMcfe per day.

Rocky Mountain Exploration

Mallard Project. At the Mallard project in Uinta County, Wyoming, the Duck Federal #1-30 well is currently flowing on a 13/64" choke, with current July production averaging 4.5 MMcf per day of gas, 85 barrels of associated condensate, and 305 barrels of water. Within the past month the well has undergone production logging and a bottom hole pressure survey. Results of the tests indicate that water production has decreased significantly in the well since initial production in mid-March (around 1200 to 1500 barrels per day at that time). Analysis of the recent logging and pressure survey is being used to

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design production tubing to be installed with the intent to stabilize and enhance flow rates, as the well continues to experience an unstable slugging flow performance through the 7" casing. We anticipate that tubing will be installed within the next couple weeks. The Company owns a 28.75% working interest in the well and surrounding acreage, and believes there are additional PUD locations to drill within its acreage position. The Duck Federal #1-30 represents a development well within the giant Whitney Canyon-Carter Creek Field complex, which has produced over 2.1 TCF to date.

It is anticipated that PYR and the working interest partners will acquire approximately 23 square miles of 3D seismic data in order to better delineate additional drilling opportunities in the area. The field surveying for the 3D has been recently completed, and barring delays, we anticipate that acquisition of the seismic should be complete by September 1.

In addition, PYR and the working interest partners are studying the feasibility of re-entering and sidetracking the now-abandoned UPRC #25-1 well, located approximately 2000' north of the Duck Federal. This well encountered the Mission Canyon approximately 400' high to the Duck Federal #1-30, but failed to penetrate the main porosity zone due to steep dips. As a result, it produced only around 587 MMcf and 5000 barrels condensate prior to being plugged and abandoned. PYR and its partners believe economic reserves can be found within the porosity zones, accessible via a sidetrack.

Ryckman Creek Project. We have leased approximately 1,820 net acres, covering the majority of the abandoned Ryckman Creek field, in the Overthrust

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region of southwestern Wyoming. Ryckman Creek, located 6 miles east of our Mallard prospect, was discovered in 1975 and produced approximately 250 Bcfe prior to abandonment. We believe that significant remaining recoverable gas reserves were stranded in Ryckman Creek upon abandonment. We are currently analyzing production and geologic data to determine potential reserves in multiple zones, including the Twin Creek, Nugget, and Thaynes Formations, in the field.

Montana Foothills Project. Following the plugging and abandonment of the Flesher Pass exploratory well in August 2005, the Company re-evaluated the exploration prospects associated with its undeveloped acreage in the project and elected to release most of its undeveloped acreage position. As a result, all remaining acreage positions will expire by August 1, 2006. As previously stated, the Company wrote down all of its costs in the amortizable base of the full cost pool in its first quarter, ended November 30th, 2005.

Texas and Gulf Coast Exploration

Nome Field was discovered in 1994, and our interpretation of subsequently acquired 3D seismic over the field indicates the presence of numerous undeveloped fault blocks. Multiple structural closures and associated bright spot locations have been identified at Nome based on the 3D seismic. One such location resulted in the Sun Fee GU #1-ST well (the "Sun Fee Well"), which was drilled in 2004 and commenced production in June 2005 from the upper Yegua and averaged approximately 19 MMcfe per day. The well continues to produce at a steady average rate of 12.8 MMcfe/day (8.9 MMcf/day and 625 BO/day). At the end of May 2006 the well had cumulative production of approximately 9.9 Bcfe. When the well reached payout on October 13, 2004, PYR was placed in pay status as a working interest participant in the well. Based on pooling of lands into the Sun Fee Gas Unit by the operator, our current net revenue interest in the well and associated lands is 5.7%, consisting of a 5.19% working interest with a 1.5% overriding royalty interest. We and our partners control approximately 4,200 acres of gross leasehold acres in the project.

We are currently in litigation with the operator of the Sun Fee Well, Samson Lone Star L.P. ("Samson"), concerning, among other matters, Samson's pooling of certain lands into the production unit and corresponding reduction in PYR's working interest. The outcome of the litigation will determine whether PYR owns a 5.7% net revenue interest, consisting of a 5.19% working interest and 1.5% overriding royalty interest, as arises from Samson's unit pooling and as PYR has reported on its financial and operating statements to date, or a 4.7% net revenue interest as has been asserted by Samson, or a higher working interest and an overriding royalty interest, in the Sun Fee well, as PYR believes it is entitled to. If the outcome of the litigation determines that PYR's net revenue interest is 4.7%, the Company's oil and gas revenues for the period of October 2004 through May 31, 2006 totaling approximately \$4.2 million would be reduced by approximately \$680,000 and the Company would be required to pay a similar amount to Samson.

Both our revenues and costs associated with the production from the Sun Fee Well, as well as our costs incurred on the Nome Project, are subject to the net profits interest agreement we hold with Venus Exploration Trust ("Trust"). The net profits interest agreement arose out of our acquisition of properties from Venus Exploration Inc. ("Venus") in May 2004. The net profit interest under the agreement varies from 25% to 50% with respect to different Venus exploration and exploitation project areas, and decreases by one-half of its original amount after payout of a total of \$3.3 million in net profits proceeds has been paid to the Trust. The amount of net profits interest liability recognized over time is subject to fluctuation, because both revenues and costs associated with production from any wells and other costs incurred on the designated exploration and exploitation project areas will increase or decrease over a given period of

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time.

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We may drill a well (Tindall #1), offsetting by approximately 1600 feet the Sun Fee GU #1-ST, in 2006 subject to drilling rig availability, industry partners and the status of the Samson lawsuit. We calculate our working interest in the Tindall #1 well to be 100%, although we anticipate that other parties may dispute this amount. Samson Lone Star L.P. ("Samson") filed a lawsuit seeking a judicial declaration of Samson's exclusive right to operate the Tindall well and injunctive relief enjoining the Company from continuing its drilling operations or serving as operator.

Samson has sent an AFE for the proposed drilling of the Nome-Long #1 exploratory well, which is located to the southeast of the Sun Fee #1 well. PYR is currently evaluating this proposal and the Company's working interest would be 8.33% should it elect to participate in the drilling of the well.

Cotton Creek prospect, located in Jefferson County, Texas, is adjacent to the Nome project. The prospect is located approximately one mile west of the productive Sun Fee #1 well in the same structural fault block. PYR owns a 50% working interest in the project and controls with its partner approximately 500 acres of leasehold. It is anticipated that an initial test well will be drilled in late 2006. PYR intends to retain approximately 25% working interest in the well and intends to farmout the remainder of its interest to an industry partner. Wells drilled in this prospect are subject to a 25% net profits interest agreement, reducing to 12.5% after the NPI reaches payout, with the Venus Exploration Trust.

Madison prospect, At the Madison project in the northern part of the Constitution Field, located in Jefferson County, Texas, the Maness Gas Unit #1 well has undergone a work-over to replace production tubing damaged by corrosion and scaling. The work-over began in mid-May, and as a result of difficulties in removal of the existing production tubing, the well was shut-in for a protracted time frame. The well is currently back on production recovering working fluids and load, and it is expected that the well will return to sales in August 2006. At the time of shut-in for the work-over, the Maness GU#1 had cumulative production of 2.6 Bcfe (since mid-August 2004) and was averaging gross production of approximately 400 BO/day and 1.5 MMcf/day (3.9 MMcfe/day). The Company has a 12.5% working interest in the Maness Gas Unit #1 well.

The drilling of the Wall #1 well, a PUD location offsetting the Maness GU#1 well, should commence in the next few days. We will participate for 17.5% working interest in the drilling of this development well, which includes our additional purchase of 5% working interest from the operator. The purchase calls for the Company to fund 6.66% of the drilling costs to casing point to earn the additional 5% working interest in the Wall #1 well and surrounding acreage. Wells drilled in this prospect are subject to a 50% net profits interest agreement, reducing to 25% after the NPI reaches payout with the Venus Exploration Trust.

Tortuga Grande prospect, At the Tortuga project in Smith County, Texas, the Chisum #1 well has been completed in the lower Rodessa section and is currently flowing to sales. As reported earlier, the initial test rates were constrained by flow into a low pressure system and as a result the well was tied into a high pressure system on May 26th. Currently, the well is producing at 1 MMcf per day with 53 barrels of associated condensate production. Rodessa production, within 3 miles to the north and northeast of the Chisum location, has yielded cumulative production ranging up to 6.4 Bcfe per well. Additional drilling locations to fully exploit the Rodessa potential in the project area have been identified and it is expected that approximately 25 square miles of 3D seismic

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data will be acquired to better delineate the additional drilling opportunities. The Company owns a 28.57% working interest in the Chisum well and surrounding acreage. PYR and its partners control approximately 9,800 acres of leasehold in the project.

Bayou Duralde Project is located in Evangeline Parish, Louisiana. The Fontenot # 1 exploration well was spud on May 12th and reached a total depth of 10,650 feet on June 6th. Based on log and core analysis, casing has been set to total depth and completion is underway. The first Yegua/Cockfield (CF-5) zone has been perforated, and is currently being tested. PYR is participating with a 15% working interest before payout and 17.5% after payout in the project, and along with its partners, controls approximately 3000 acres of leasehold. Wells drilled in this prospect are subject to a 25% net profits interest agreement, reducing to 12.5% after the NPI reaches payout, with the Venus Exploration Trust.

West Westbury prospect, located in Jefferson County, Texas, targets Yegua sand reservoirs. The prospect, based on 3D seismic amplitude, is located approximately 1.5 miles to the southwest of a high productivity well completed to Yegua sand reservoirs in October of 2004. This analog well, located in the same fault block, has cumulative production, through April, 2006 of 21.9 Bcfe and has produced on average 46 MMcfe per day. PYR owns 100% of the prospect and is currently marketing a portion of this prospect to industry partners.

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At the Wilburton Field in Latimer County, Oklahoma, the Scharff #7-1 commenced drilling operations in the first week of June and is currently drilling ahead below 14,000 feet measured depth toward a target depth of approximately 15,000 feet. It is expected that the Scharff #7-1 will reach total depth in the next few days, and will be evaluated before commencement of completion and stimulation activities. An AFE to drill the Scharff #8-1 has been received from the operator and the Company has approved its participation in the drilling of the new well. It is expected the Scharff #8-1 will begin drilling operations once the #7-1 has completed drilling. The Scharff #6-1 was recently placed on sales, and due to completion and fracture stimulation problems is currently producing at a rate of approximately 6 MMcfe per day. The Scharff #5-1 well, drilled and completed in 2005, had initial production rates of up to 54 MMcfe per day, and is currently producing at an average rate in excess of 39 MMcfe per day. The Company owns a 2.42% working interest in these wells.

Hansford Project, located in Hansford County of the Texas panhandle, is a development project at the southern end of the Houghton Embayment. Main producing horizons within the Hansford area include the upper and lower Morrow as well as the Chester. On December 20, 2005, the Company closed a strategic acquisition of additional interest in the Hansford project, from multiple private entities, for \$1.78 million in cash. The acquisition of the Hansford County property allows the Company to consolidate working interest and operations in a field which offers significant development drilling opportunities. The transaction, which has an effective date of December 1, 2005, includes externally estimated 'Total Proved' reserves of approximately 1.950 Bcf, of which 86% of the reserves are classified as 'Proved Undeveloped'. PYR owns 100% working interest on the majority of the acreage, which includes two producing wells. The Company plans to drill two additional PUD locations in the future.

Other

SAN JOAQUIN BASIN, CALIFORNIA

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The Company continues to maintain its three prospects, Blizzard, Bulldog, and Wedge in this region. PYR will decide to drill, farm out, or sell its position in the future.

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Results of Operations

The results of operations for interim periods are not necessarily indicative of the results of operations for the full fiscal year.

Three Months Ended May 31, 2006 Compared to Three Months Ended May 31, 2005

The third quarter ended May 31, 2006 resulted in net income of \$1.5 million compared to a net loss of \$315,000 for the same quarter in 2005.

	Three Months Ended May 31,		Increase
	2006	2005	Amount
(\$ in thousands, except for per unit p			
Operating Results:			
Revenues			
Gas production revenues	\$ 2,461	\$ 748	\$ 1,713
Oil production revenues	987	888	99
Natural gas liquids revenues	169	1	168
Other products	86	--	86
	-----	-----	-----
Total revenues	\$ 3,703	\$ 1,637	\$ 2,066
Operating Expenses			
Lease operating expense	299	180	119
Production taxes, gathering and transportation expense	243	104	139
Net profits expense	125	283	(158)
Depletion, depreciation, amortization and accretion	942	251	691
Impairment of oil and gas properties	--	580	(580)
General and administrative	530	488	42
	-----	-----	-----
Total operating expenses	\$ 2,139	\$ 1,886	\$ 253
Interest Expense	\$ 91	\$ 86	\$ 5
Production Data:			
Natural gas (Mcf)	331,207	104,033	227,174
Oil (Bbls)	16,138	17,455	(1,317)
Natural gas liquids (Bbls)	5,747	27	5,720
Combined volumes (Mcfe)	462,517	208,925	253,592
Daily combined volumes (Mcfe/d)	5,027	2,271	2,756
Average Prices:			

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Natural gas (per Mcf)	\$ 7.43	\$ 7.19	\$ 0.24
Oil (per Bbl)	61.15	50.86	10.29
Natural gas liquids (per Bbl)	29.45	40.64	(11.19)
Combined (per Mcfe)	8.01	7.84	0.17
Average Costs (per Mcfe):			
Lease operating expense	\$ 0.65	\$ 0.86	(\$ 0.21)
Production taxes, gathering and transportation expense	0.52	0.50	0.02
Net profit expense	0.27	1.36	(1.09)
Depletion, depreciation, amortization and accretion	2.04	1.20	0.84
General and administrative	1.15	2.34	(1.19)
Interest Expense	0.20	0.41	(0.21)

Oil and Gas Revenues. Oil and gas revenues increased 126% to approximately \$3.7 million for the three months ended May 31, 2006 from approximately \$1.6 million for the same period in 2005 due to i) a 121% increase in production and

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ii) a 2% increase in average Mcfe prices. Average price increases added approximately \$35,000 of revenues while increases in average Mcfe production volumes added approximately \$2.1 million of revenues. An increase of natural gas liquids (NGLs) production of 5,720 Bbls, principally from the Duck Federal #1-30 well, offset a 1,317 Bbl decline in oil production. Production increases were attributed to the development of three Scharff wells located in Oklahoma, the addition of production from an exploratory well located in Wyoming, the Duck Federal #1-30 and increased production from existing wells. The Duck Federal #1-30 well also generated revenues of approximately \$86,000 from the sale of sulfur.

Comparison of fiscal year 2006 second and third quarters production numbers - Total net production for third quarter was 81% higher than the second quarter of fiscal 2006 production primarily due to production from the Scharff #5 and Scharff #6 wells located in Oklahoma and from the Duck Federal #1-30 well located in Wyoming. Average prices increased in the third quarter by a nominal 2% over the second quarter.

Lease Operating Expenses. Our per unit of production lease operating expenses decreased 25% from \$0.86 per Mcfe in the third quarter of fiscal year 2005 to \$0.65 for the same period in fiscal year 2006. This per unit of production decrease is principally attributed to higher production volumes from existing wells and lower per unit operating costs on new wells. Total lease operating expenses increased 66% principally due to the addition of new producing wells.

Production Taxes, Gathering and Transportation Expenses. Production taxes as a percentage of natural gas and oil revenues were virtually unchanged at approximately 5.7% for the third quarter in fiscal year 2006 compared to the same quarter in fiscal year 2005. Production taxes are primarily based on wellhead values of production and vary across the different areas that our wells are located. Total production taxes increased \$117,000, or 123%, over the same period in 2005 as a result of higher production revenues, attributed to increased production volumes. Gathering, transportation and other sales expenses increased by \$22,000 in 2006 compared with the same period in 2005.

Net Profits Expense. The net profits interest agreement with Venus Exploration Trust ("Trust") arose out of the acquisition of properties from Venus Exploration Inc. ("Venus") in May 2004. The amount of the Venus Trust net profits interest is either 25% or 50% with respect to different Venus exploration and exploitation project areas, and decreases by one-half of its

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original amount after an aggregate total of \$3.3 million in net profits. The 56% decrease in net profits expense for the third quarter ended May 31, 2006 compared with the same period in 2005 is attributed principally to lower net revenues and higher operating costs associated with the wells subject to the net profits obligation and to increased litigation costs associated with the dispute with Samson (see Note 2 to the financial statements). As of May 31, 2006, the Company has paid net profits expenses totaling \$1.7 million.

Depletion, Depreciation, Amortization and Accretion Expense. Depletion, depreciation, amortization and accretion expense was \$942,000 for the third quarter ended May 31, 2006 compared with \$251,000 for the same period in the prior year. The increase is principally attributed to depletion expense which increased \$686,000. Depletion expense increase is the result of a 121% increase in production volumes in the third quarter in fiscal year 2006 as compared to the same period in the prior year. The weighted average depletion rate for the Company's full cost pool increased from \$1.17 per Mcfe in the third quarter of the prior year to approximately \$2.01 per Mcfe in the third quarter of the current year. The rate increase is attributed to the inclusion of costs of certain impaired unevaluated properties in the amortizable base of the full cost pool and additional costs, principally capitalized legal costs associated with the Nome prospect, for which no additional reserves have been added. Under the full cost pool method of accounting, impairment costs of unevaluated properties, previously excluded from the amortizable base of the depletable full cost pool, are added to the full cost pool depletable base resulting in an increase in the depletion rate.

General and Administrative Expenses. General and administrative expenses during the quarter ended May 31, 2006 increased by approximately \$42,000 or 9% from the same period in 2005. The principal costs contributing to the increase were higher Texas franchise taxes associated with increased sales in Texas. As a result of higher production volume levels, general and administrative costs per unit of production decreased from \$2.34 per Mcfe in the third quarter of the prior year to \$1.15 per Mcfe for the current period.

Interest Income. Interest income increased by \$38,000 to \$64,000 for the third quarter ended May 31, 2006 compared to the same period in 2005 principally due to higher cash and short-term investments balances. The increase in cash and short-term investment balances resulted primarily from the receipt of net proceeds from a private placement of our common stock in October 2005.

Interest Expense. During the quarters ended May 31, 2006 and 2005, we recorded interest expense of \$91,000 and \$86,000, respectively. The interest expense, primarily associated with the Company's convertible notes due May 24,

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2009, increased due to an increase in convertible note principal balances (resulting from adding previously accrued interest to the principal). In May 2006, the Company elected to pay accrued interest due on the convertible notes of approximately \$176,500 by increasing the outstanding balance of the Convertible Notes.

Nine Months Ended May 31, 2006 Compared to Nine Months Ended May 31, 2005

The first nine months ended May 31, 2006 resulted in net income of \$2.2 million compared to a net loss of \$223,000 for the same period in 2005.

Nine Months Ended
May 31,

Increase

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	2006	2005	Amount
	(\$ in thousands, except for per unit p		
Operating Results:			
Revenues			
Gas production revenues	\$ 4,953	\$ 1,748	\$ 3,205
Oil production revenues	2,563	2,159	404
Natural gas liquids revenues	173	8	165
Other products	86	--	86
	-----	-----	-----
Total revenues	\$ 7,775	\$ 3,915	\$ 3,860
Operating Expenses			
Lease operating expense	874	514	360
Production taxes, gathering and transportation expense	508	254	254
Net profits expense	705	638	67
Depletion, depreciation, amortization and accretion	1,808	469	1,339
Impairment of oil and gas properties	--	580	(580)
General and administrative	1,618	1,497	121
	-----	-----	-----
Total operating expenses	\$ 5,513	\$ 3,952	\$ 1,561
Interest Expense	\$ 278	\$ 254	\$ 24
Production Data:			
Natural gas (Mcf)	636,352	248,743	387,609
Oil (Bbls)	42,157	44,846	(2,689)
Natural gas liquids (Bbls)	5,880	280	5,600
Combined volumes (Mcf)	924,574	519,499	405,075
Daily combined volumes (Mcf/d)	3,387	1,903	1,484
Average Prices:			
Natural gas (per Mcf)	\$ 7.78	\$ 7.03	\$ 0.75
Oil (per Bbl)	60.79	48.15	12.64
Natural gas liquids (per Bbl)	29.55	29.00	.55
Combined (per Mcfe)	8.41	7.54	0.87
Average Costs (per Mcfe):			
Lease operating expense	\$ 0.95	\$ 0.99	(\$ 0.04)
Production taxes, gathering and transportation expense	0.55	0.49	0.06
Net profit expense	0.76	1.23	(0.47)
Depletion, depreciation, amortization and accretion	1.96	0.90	1.06
General and administrative	1.75	2.88	(1.13)
Interest Expense	0.30	0.49	(0.19)

Oil and Gas Revenues. Oil and gas revenues increased by approximately \$3.9 million, or 99%, to approximately \$7.8 million for the nine months ended May 31, 2006 from approximately \$3.9 million for the same period in 2005 due to i) a 78% increase in production and ii) a 22% increase in average price per Mcfe. Average

price increases added approximately \$453,000 of revenues while increases in average Mcfe production volumes added approximately \$3.4 million of revenues. An increase of natural gas liquids (NGLs) production of 5,600 Bbls, principally from the Duck Federal #1-30 well, offset a 2,689 Bbl decrease in oil production. Other product revenues are comprised of revenues from the sale of sulfur produced in Wyoming. Production increases resulted from the development and addition of production from four Scharff wells located in Oklahoma and the Lackey #2 well located in Texas, the addition of production from the Duck Federal #1-30, an exploratory well located in Wyoming and increased production from existing wells.

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Lease Operating Expenses. Our per unit of production lease operating expenses decreased 4% from \$0.99 per Mcfe in the first nine months of fiscal year 2005 to \$0.95 for the same period in fiscal year 2006. This per unit of production decrease is principally attributed to higher production volumes from existing wells and lower per unit operating costs on new wells. Total lease operating expenses increased 70% principally due to the addition of new producing wells.

Production Taxes, Gathering and Transportation Expenses. Production taxes as a percentage of natural gas and oil revenues averaged 5.7% and 6.1% for the first nine months of fiscal years 2006 and 2005, respectively. Production taxes are primarily based on wellhead values of production and vary across the different areas that our wells are located. The decrease in the average percent of natural gas and oil sales is attributed to increased production from locations with lower production tax rates. Total production taxes increased \$206,000, or 86%, over the same period in 2005 as a result of higher production revenues attributed to increased production volumes. Gathering, transportation and other sales expenses increased by \$47,000 in 2006 compared with the same period in 2005.

Net Profits Expense. The net profits interest agreement with Venus Exploration Trust ("Trust") arose out of the acquisition of properties from Venus Exploration Inc. ("Venus") in May 2004. The amount of the Venus Trust net profits interest is either 25% or 50% with respect to different Venus exploration and exploitation project areas, and decreases by one-half of its original amount after an aggregate total of \$3.3 million in net profits. The 10% increase for the first nine months of fiscal year 2006 compared with the same period in 2005 is attributed to increased net operating profits from wells subject to the net profits agreement, offset, in part, by capital development costs and litigation expenses associated with the Nome prospect. As of May 31, 2006, the Company has paid net profits expenses totaling \$1.7 million.

Depletion, Depreciation, Amortization and Accretion Expense. Depletion, depreciation, amortization and accretion expense was \$1.8 million for the first nine months of fiscal year 2006 compared with \$469,000 for the same period in the prior year. The increase is principally attributed to depletion expense which increased \$1.3 million. Depletion expense increase is the result of a 78% increase in production volumes in the first nine months of fiscal year 2006 as compared to the same period in the prior fiscal year. The weighted average depletion rate for the Company's full cost pool increased from \$0.86 per Mcfe in the first nine months of the prior year to \$1.92 per Mcfe in the first nine months of the current year. The rate increase is attributed to the inclusion of costs of certain impaired unevaluated properties in the amortizable base of the full cost pool and additional costs, principally capitalized legal costs associated with the Nome prospect, for which no additional reserves have been added. Under the full cost pool method of accounting, impairment costs of unevaluated properties, previously excluded from the amortizable base of the depletable full cost pool, are added to the full cost pool depletable base resulting in an increase in the depletion rate.

General and Administrative Expenses. General and administrative expenses during the first nine months for fiscal year 2006 increased by \$121,000, or 8%, from the same period in 2005. Increases are primarily due to higher office rent and Texas franchise taxes. As a result of higher production volume levels, general and administrative costs per unit of production decreased from \$2.88 per Mcfe in the first nine months of the prior year to \$1.75 per Mcfe for the current period.

Interest Income. Interest income increased by \$108,000 to \$179,000 for the first nine months of fiscal year 2006 compared to the same period in 2005 principally due to higher average cash and short-term investments balances. The

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increase in cash and short-term investment balances resulted primarily from the receipt of net proceeds from a private placement of our common stock in October 2005.

Interest Expense. During the nine month period ended May 31, 2006 and 2005, we recorded interest expense of \$278,000 and \$254,000, respectively. The interest expense, principally associated with the Company's convertible notes due May 24, 2009, increased due to an increase in convertible note principal balances (resulting from adding previously accrued interest to the principal) and payment of \$11,000 interest to the Venus Trust pertaining to net profits expense. The Company elected to pay accrued interest on the convertible notes of approximately \$352,000 and \$335,000 for the nine months ended May 31, 2006 and 2005, respectively, by increasing the outstanding balance of the Convertible Notes.

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Critical Accounting Policies And Estimates

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Financial Statements.

Reserve Estimates:

Our estimates of oil and natural gas reserves, by necessity, are projections based on geological and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected from there may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material.

Many factors will affect actual net cash flows from production, including the following: the amount and timing of actual production; curtailments due to weather; supply and demand for natural gas; curtailments or increases in consumption by natural gas purchasers; and changes in governmental regulations or taxation.

Property, Equipment and Depreciation:

We follow the full cost method to account for our oil and gas exploration and development activities. Under the full cost method, all costs associated with acquisition, exploration and development activities, including costs of

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unsuccessful exploration and legal costs incurred to defend the Company's revenue interest in the Nome prospect, are capitalized and subjected to depreciation and depletion. Depletable costs also include estimates of future development costs of proved reserves. Costs related to undeveloped oil and gas properties may be excluded from depletable costs until those properties are evaluated as either proved or unproved. The net capitalized costs are subject to a ceiling limitation based on the estimated present value of discounted future net cash flows from proved reserves. As a result, we are required to estimate our proved reserves at the end of each quarter, which is subject to the uncertainties described in the previous section. Gains or losses upon disposition of oil and gas properties are treated as adjustments to capitalized costs, unless the disposition represents a significant portion of the Company's proved reserves.

Revenue Recognition:

The Company recognizes oil and gas revenues from its interests in producing wells as oil and gas is produced and sold from these wells. The Company has no gas balancing arrangements in place. Oil and gas sold is not significantly different from the Company's product entitlement. As of May 31, 2006, the Company has sold more than its entitlement by 12 MMcfs with a fair market value of approximately \$82,000.

Deferred Tax allowance:

As of May 31, 2006, the Company has a substantial deferred tax asset, consisting principally of tax loss carryforwards valued at approximately \$15.3 million. This deferred tax asset is fully offset by a deferred tax allowance as the Company continues to believe it is more likely than not that such asset will be realized due to the historical uncertainty in the volatility of oil and gas prices, the industry in general and past historical losses. The Company continues re-evaluate this estimate.

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Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued its final standard on accounting for employee stock options, SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123 (R)). SFAS 123 (R) replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), and supersedes APB 25, Accounting for Stock Issued to Employees. SFAS 123 (R) requires companies to measure compensation costs for all share-based payments, including grants of employee stock options, based on the fair value of the awards on the grant date and to recognize such expense over the period during which an employee is required to provide services in exchange for the award. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. For entities that file as a small business issuer, such as PYR Energy Corporation, SFAS 123 (R) is effective for all awards granted, modified, repurchased or cancelled after, and to unvested portions of previously issued and outstanding awards vesting for annual periods beginning after December 15, 2005, which for us will be the first quarter of fiscal 2007. We are currently evaluating the effect of adopting SFAS 123 (R) on our financial position and results of operations. We currently estimate the adoption of SFAS 123 (R) will result in expenses in amounts that are similar to the current pro forma disclosures under SFAS 123.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation", as used in SFAS 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an

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asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. However, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing or method of settlement. FIN 47 requires that the uncertainty about the timing or method of settlement of a conditional asset retirement obligation be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of FIN 47 had no effect on our financial position or results of operations for the nine months ended May 31, 2006.

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

On July 29, 2005, the Company filed a lawsuit in the U.S. District Court for the Eastern District of Texas, Beaumont Division against Samson Lone Star Limited Partnership ("Samson") and Samson's parent company, Samson Resources Corp. The Company alleged in its complaint that Samson, the operator of a producing gas well in Jefferson County, Texas named the Sun Fee No. 1 Sidetrack Well (the "Sun Fee Well"), has breached its obligations to the Company, which owns interests in the property on which the Sun Fee Well is located, by joining, without authorization, the Sun Fee Well into a unit with other properties in which the Company has no interest, many of which are non-productive. Samson has a large interest in the properties that Samson has joined into the unit. Pursuant to Samson's proposed pooling configuration, the Company's working and overriding royalty interests in the Sun Fee Well would be reduced substantially. The Company believes that Samson has no legal or contractual right to reduce the Company's interests in this manner. The Company is seeking monetary damages for all payments due and owing to the Company based on the proper, undiluted interests in the property. On September 13, 2005, the Court entered a Preliminary Injunction ordering Samson to return the Company to pay status for

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the undisputed amounts upon which Samson had been paying the Company prior to the filing of the suit. On December 23, 2005, Samson filed a motion for summary judgment on the Company's claims, to which the Company filed its response on January 3, 2006, rigorously denying that Samson has grounds in law or fact for the requested relief. Further, on January 17, 2006, Samson filed a counterclaim for an unspecified overpayment to the Company, which was clarified by a subsequent filing on February 14, 2006, that it was disputing the unit interest originally attributed to the Company and now asserting that the Company's net revenue unit interest is approximately 4.7%. On March 28, 2006, the Court denied a motion by Samson to modify the present injunction to allow payment upon the lower amount. The Company has also filed additional claims against Samson for breach of contract or reformation of the certain assignment issued by Samson to the Company in April 2005 upon which Samson bases its present counterclaim. The outcome of the litigation will determine whether PYR's ownership in the Sun Fee Well consists of (a) the 5.7% net revenue interest (consisting of a 5.19% working and a 1.5% overriding royalty interest) that was formerly the portion that was not contested by Samson and represents the amount of the payments that Samson, as operator, has been paying PYR and that PYR has been recording in its financial statements; or (b) the 4.7% net revenue interest that Samson asserted in its February 14, 2006 filing; or (c) a net revenue interest higher than 5.7% as a result of the Company's prevailing on part or all of its claims that it owns an 8.33% working interest as well as an overriding royalty interest greater than 1.5%.

Samson has withdrawn its prior statement that it would dismiss the suit that it filed against the Company on August 22, 2005 in District Court for Jefferson County, Texas, 58th Judicial District seeking to enjoin or prevent the Company from drilling a planned well on the approximately 400-acre property directly east of the Sun Fee Well on the grounds that it, Samson, has the exclusive right to serve as operator to drill the proposed well. The Company holds a 100% interest in oil and gas leases that comprise of the approximately 400-acre parcel on which it is planning to drill a gas well to the same reservoir from which the Sun Fee Well produces. The trial court has taken under consideration PYR's motion for summary dismissal of this suit.

On February 15, 2006, the Company filed a motion in the on-going bankruptcy proceeding involving Venus Exploration Company ("Venus") in the U.S. Bankruptcy Court for the Eastern District of Texas requesting that the Bankruptcy Court uphold its Order of April 9, 2004 approving the Company's purchase of Venus' remaining assets free and clear of any obligations under a pre-bankruptcy Operating Agreement between Venus and Trail Mountain Inc. ("Trail Mountain") that required Venus and Trail Mountain to offer each other participation in subsequently acquired oil and gas properties. The Company believes and has asserted in its motion that the pre-bankruptcy Operating Agreement was not listed among the contracts that were assigned to it under the sale in and under the approval of the Bankruptcy Court. Trail Mountain has filed an adversary proceeding against the Company requesting that the Bankruptcy Court find that the pre-bankruptcy Operating Agreement was still effective and that the Company is obligated to offer an opportunity to Trail Mountain to share in the lease upon which the proposed well is to be drilled. If Trail Mountain is successful, it will lead to a potential 50% reduction in the Company's interest in the lease, but could also lead to a corresponding assignment of interests in properties acquired by Trail Mountain, including certain properties assigned to the Sidetrack Unit.

The Company will continue to vigorously pursue and defend its rights with respect to the foregoing litigations.

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The information required by this item was previously disclosed in our Current Reports on Form 8-K, filed on October 4, October 13, and October 26, 2005, respectively.

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders

The following matters were submitted to a vote of security holders at the annual meeting of stockholders which was held on June 22, 2006:

The stockholders voted to re-elect David Kilpatrick, D. Scott Singdahlsen, Bryce W. Rhodes and Dennis Swenson to continue as directors of the Company. A total of 25,155,827 votes were represented with respect to this matter, with voting on each specific nominee as follows:

	FOR ----	AGAINST -----	WITHHELD -----	BROKER NON-VOTES -----
David Kilpatrick	23,885,744	0	1,270,083	-
D. Scott Singdahlsen	23,868,586	0	1,287,241	-
Bryce W. Rhodes	23,900,744	0	1,255,083	-
Dennis Swenson	23,886,044	0	1,269,783	-

A proposal to approve the adoption of a 2006 stock incentive plan under which a maximum of 4,000,000 shares of the Company's common stock could be issued to employees, directors and other persons selected to receive equity-based compensation awards. A total of 15,314,131 votes were represented with a total of 10,492,267 (69%) shares voting for the proposal, 4,787,338 shares voting against the proposal, and 34,526 shares abstaining from voting.

A proposal to ratify the sale as part of the October 2005 private placement of 20,000 shares of common stock to a trust controlled by Kenneth R. Berry, Jr. our Vice President of Land and currently Corporate Secretary and 50,000 shares of common stock to an entity controlled by Mr. Berry. A total of 15,314,131 votes were represented with a total of 13,715,261 (90%) shares voting for the proposal, 1,552,957 shares voting against the proposal, and 45,913 shares abstaining from voting.

A proposal to ratify the selection of Hein & Associates LLP as our Certified Public Accountants was approved by the stockholders. A total of 25,155,827 votes were represented with a total of 23,070,923 (92%) shares voting for the proposal, 2,062,856 shares voting against the proposal, and 22,048 shares abstaining from voting.

Item 5. Other Information
None

Item 6. Exhibits

Exhibit Index

Number	Description
31	Rule 13a-14(a) Certifications of Chief Executive Officer and Chief Financial Officer

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Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Signatures -----	Title -----	Date -----
/s/ D. Scott Singdahlsen ----- D. Scott Singdahlsen	President, Chief Executive Officer and Chief Financial Officer	July 17, 2006
/s/ Jane M. Richards ----- Jane M. Richards	Principal Accounting Officer	July 17, 2006

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