

ULTRA PETROLEUM CORP
Form 10-Q
August 09, 2018

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, 2018

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 001-33614

ULTRA PETROLEUM CORP.

(Exact name of registrant as specified in its charter)

Yukon, Canada (State or other jurisdiction of incorporation or organization)	N/A (I.R.S. employer identification number)
400 North Sam Houston Parkway East, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distributions of securities under a plan confirmed by a court. YES NO

The number of shares, without par value, of Ultra Petroleum Corp., outstanding as of July 25, 2018 was 197,054,917.

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

ULTRA PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018 (Unaudited)	2017	June 30, 2018 (Unaudited)	2017
(Amounts in thousands of U.S. dollars, except per share data)				
Revenues:				
Natural gas sales	\$141,255	\$179,997	\$322,716	\$368,848
Oil sales	43,167	30,732	84,451	62,081
Other revenues	5,716	1,928	8,344	2,687
Total operating revenues	190,138	212,657	415,511	433,616
Expenses:				
Lease operating expenses	23,645	23,089	45,409	46,225
Facility lease expense	6,526	5,226	12,682	10,452
Production taxes	18,883	21,754	42,153	43,887
Gathering fees	24,181	20,642	47,238	41,571
Depletion, depreciation and amortization	51,742	38,673	102,282	70,427
General and administrative	2,063	25,009	14,752	26,061
Total operating expenses	127,040	134,393	264,516	238,623
Operating income	63,098	78,264	150,995	194,993
Other income (expense), net:				
Interest expense	(37,715)	(29,425)	(73,552)	(114,872)
(Loss) gain on commodity derivatives	(47,271)	20,717	(53,803)	7,499
Deferred gain on sale of liquids gathering system	2,638	2,638	5,276	5,276
Contract settlement expense	—	—	—	(52,707)
Other income (expense), net	(1,296)	27	(1,541)	(119)
Total other (expense) income, net	(83,644)	(6,043)	(123,620)	(154,923)
Reorganization items, net	—	426,816	—	369,270
(Loss) income before income tax provision	(20,546)	499,037	27,375	409,340
Income tax provision	9	—	442	2
Net (loss) income	\$(20,555)	\$499,037	\$26,933	\$409,338
Basic (loss) earnings per share:				
Net (loss) income per common share - basic	\$(0.10)	\$2.76	\$0.14	\$3.13
Fully diluted (loss) earnings per share:				
Net (loss) income per common share - fully diluted	\$(0.10)	\$2.76	\$0.14	\$3.12
Weighted average common shares outstanding - basic	197,054	180,964	196,803	130,770
Weighted average common shares outstanding - fully diluted	197,054	181,033	196,803	131,078

See accompanying notes to consolidated financial statements.

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ULTRA PETROLEUM CORP.

CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
	(Amounts in thousands of U.S. dollars, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$5,685	\$ 16,631
Restricted cash	1,688	1,638
Oil and gas revenue receivable	64,123	86,487
Joint interest billing and other receivables	20,865	16,616
Derivative assets	14,480	16,865
Income tax receivable	6,431	10,091
Inventory	17,747	13,450
Other current assets	3,143	5,647
Total current assets	134,162	167,425
Oil and gas properties, net, using the full cost method of accounting:		
Proven	1,485,980	1,325,068
Property, plant and equipment, net	10,887	9,569
Other assets	10,831	10,920
Total assets	\$1,641,860	\$ 1,512,982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$41,426	\$ 59,951
Accrued liabilities	75,806	80,268
Production taxes payable	55,048	51,352
Current portion of long-term debt	2,438	—
Interest payable	20,759	24,406
Derivative liabilities	54,891	—
Capital cost accrual	18,030	32,513
Total current liabilities	268,398	248,490
Long-term debt	2,176,408	2,116,211
Deferred gain on sale of liquids gathering system	99,912	105,189
Other long-term obligations	211,968	197,728
Total liabilities	2,756,686	2,667,618
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock - no par value; authorized - unlimited; issued and outstanding - 197,053,583 and 196,346,736 at June 30, 2018 and December 31, 2017, respectively	2,129,191	2,116,018
Treasury stock	(49)	(49)
Retained loss	(3,243,968)	(3,270,605)

Total shareholders' deficit	(1,114,826)	(1,154,636)
Total liabilities and shareholders' equity	\$1,641,860	\$1,512,982

See accompanying notes to consolidated financial statements.

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ULTRA PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands of U. S. dollars, except share data)

	Shares				Total
	Issued and				Shareholders'
	Outstanding	Common	Retained	Treasury	(Deficit)
	(000's)	Stock	Loss	Stock	Equity
Balances at December 31, 2016	80,017	\$510,063	\$(3,438,165)	\$ (49)	\$(2,928,151)
Equitization of Holdco Notes	70,579	978,230	—	—	978,230
Rights Offering, including Backstop	44,390	573,774	—	—	573,774
Employee stock plan grants	10	—	—	—	—
Stock plan grants	2,191	26,673	—	—	26,673
Net share settlements	(840)	—	(9,580)	—	(9,580)
Fair value of employee stock plan grants	—	27,278	—	—	27,278
Net income	—	—	177,140	—	177,140
Balances at December 31, 2017	196,347	\$2,116,018	\$(3,270,605)	\$ (49)	\$(1,154,636)
Stock plan grants	1,226	—	—	—	—
Net share settlements	(519)	—	(2,061)	—	(2,061)
Fair value of employee stock plan grants	—	13,173	—	—	13,173
Net income	—	—	26,933	—	26,933
Initial adoption of ASC 606	—	—	1,765	—	1,765
Balances at June 30, 2018	197,054	\$2,129,191	\$(3,243,968)	\$ (49)	\$(1,114,826)

See accompanying notes to consolidated financial statements.

ULTRA PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	
	2018	2017
	(Unaudited)	
	(Amounts in thousands of U.S. dollars)	
Operating activities - cash provided by (used in):		
Net income for the period	\$26,933	\$409,338
Adjustments to reconcile net income to cash provided by operating activities:		
Depletion, depreciation and amortization	102,282	70,427
Unrealized loss (gain) on commodity derivatives	61,539	(8,367)
Deferred gain on sale of liquids gathering system	(5,276)	(5,276)
Stock compensation	10,122	26,264
Non-cash reorganization items, net	—	(431,579)
Amortization of deferred financing costs	5,510	2,224
Other	207	(1,060)
Net changes in operating assets and liabilities:		
Accounts receivable	17,738	283
Other current assets	3,783	7,972
Other non-current assets	338	144
Accounts payable	(18,525)	30,245
Accrued liabilities	(4,116)	(3,368)
Production taxes payable	3,696	869
Interest payable	(3,647)	32,438
Other long-term obligations	(1,647)	3,808
Income taxes payable/receivable	6,844	2,099
Net cash provided by operating activities	205,781	136,461
Investing Activities - cash provided by (used in):		
Oil and gas property expenditures	(250,966)	(225,057)
Change in capital cost accrual	(14,483)	7,740
Inventory	(4,140)	(2,276)
Purchase of capital assets	(2,389)	(756)
Net cash used in investing activities	(271,978)	(220,349)
Financing activities - cash provided by (used in):		
Borrowings under Credit Agreement	450,000	144,000
Payments under Credit Agreement	(392,000)	(67,000)
Borrowings under Term Loan	—	800,000
Extinguishment of long-term debt - (chapter 11)	—	(2,459,000)
Proceeds from issuance of Senior Notes	—	1,200,000
Deferred financing costs	(638)	(61,861)
Shares issued, net of transaction costs	—	573,774
Repurchased shares/net share settlements	(2,061)	(9,581)
Net cash provided by financing activities	55,301	120,332

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(Decrease) increase in cash during the period	(10,896)	36,444
Cash, cash equivalents, and restricted cash, beginning of period	18,269	405,049
Cash, cash equivalents and restricted cash, end of period	\$7,373	\$441,493

See accompanying notes to consolidated financial statements.

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(All amounts in this Quarterly Report on Form 10-Q are expressed in thousands of U.S. dollars (except per share data) unless otherwise noted).

DESCRIPTION OF THE BUSINESS:

Ultra Petroleum Corp. (the “Company”) is an independent oil and gas company engaged in the development, production, operation, exploration and acquisition of oil and natural gas properties. The Company is incorporated under the laws of Yukon, Canada. The Company’s principal business activities are developing its long-life natural gas reserves in the Pinedale and Jonah fields of the Green River Basin of Wyoming.

1. SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements, other than the balance sheet data as of December 31, 2017, are unaudited and were prepared from the Company’s records, but do not include all disclosures required by U.S. Generally Accepted Accounting Principles (“GAAP”). Balance sheet data as of December 31, 2017 was derived from the Company’s audited financial statements. 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 GAAP 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. The Company presents its financial statements in accordance with GAAP. All inter-company transactions and balances have been eliminated upon consolidation.

(b) Cash and Cash Equivalents: The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(c) 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. Restricted cash at June 30, 2017 also includes the funds deposited in the \$400.0 million reserve fund, pending resolution of make-whole and post-petition interest claims (see Note 9) and funds deposited in the \$35.0 million reserve fund for the purpose of paying allowed and unpaid professional fees under the Plan (see Note 10).

The Company follows ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash and reports the change in cash, cash equivalents, and restricted cash in total on the Consolidated Statements of Cash Flows. See the following table for a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same amounts shown in the Consolidated Statements of Cash Flows.

Current Presentation	June 30, 2018	June 30, 2017
Cash and Cash Equivalents	\$ 5,685	\$5,992
Restricted Cash	1,688	435,501
Total cash, cash equivalents, and restricted cash	\$ 7,373	\$441,493

(d) Accounts Receivable, net: Accounts receivable are stated at the historical carrying amount net of write-offs and an allowance for uncollectible accounts. The carrying amount of the Company's accounts receivable approximates fair value because of the short-term nature of the instruments. The Company routinely assesses the collectability of all material trade and other receivables.

(e) Property, Plant and Equipment: Capital assets are recorded at cost and depreciated using the declining-balance method based on their respective useful life.

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

(f) Oil and Natural 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”) Release No. 33-8995, Modernization of Oil and Gas Reporting Requirements (“SEC Release No. 33-8995”) and Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 932, Extractive Activities – Oil and Gas (“FASB ASC 932”). Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as oil and gas properties. 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 natural 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 natural 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 natural gas properties are amortized using the units-of-production method based on the Company’s proved reserves. Oil and natural gas reserves and production are converted into equivalent units based on relative energy content. Asset retirement costs are included in the base costs for calculating depletion.

Under the full cost method, costs of unevaluated properties and major development projects expected to require significant future costs may be excluded from capitalized costs being amortized. The Company excludes significant costs until proved reserves are found or until it is determined that the costs are impaired. The Company reviews its unproved leasehold costs quarterly or when management determines that events or circumstances indicate that the recorded carrying value of the unevaluated properties may not be recoverable. The fair values of unproved properties are evaluated utilizing a discounted net cash flows model based on management’s assumptions of future oil and gas production, commodity prices, operating and development costs, as well as appropriate discount rates. The estimated prices used in the cash flow analysis are determined by management based on forward price curves for the related commodities, adjusted for average historical location and quality differentials. Estimates of cash flows related to probable and possible reserves are reduced by additional risk-weighting factors. The amount of any impairment is transferred to the capitalized costs being amortized.

Companies that use the full cost method of accounting for oil and natural gas exploration and development activities are required to perform a ceiling test calculation each quarter. The full cost ceiling test is an impairment test prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is performed quarterly, on a country-by-country basis, utilizing the average of prices in effect on the first day of the month for the preceding twelve-month period in accordance with SEC Release No. 33-8995. The ceiling limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved crude oil and natural gas reserves discounted at 10%, plus the lower of cost or market value of unproved properties, less any associated tax effects. If such capitalized costs exceed the ceiling, the Company will record a write-down to the extent of such excess as a non-cash charge to earnings. Any such write-down will reduce earnings in the period of occurrence and results in a lower depletion, depreciation and amortization (“DD&A”) rate in future periods. A write-down may not be reversed in future periods even though higher oil and natural gas prices may subsequently increase the ceiling. The Company did not incur a ceiling test write-down during the six months ended June 30, 2018 or 2017.

(g) Inventories: Inventory primarily includes \$16.4 million in pipe and production equipment that will be utilized during the 2018 drilling program and \$1.3 million in crude oil inventory as of June 30, 2018. Materials and supplies inventories are carried at lower of cost or market and include expenditures and other charges directly and indirectly incurred in bringing the inventory to its existing condition and location. Selling expenses and general and administrative expenses are reported as period costs and excluded from inventory cost. The Company uses the weighted average method of recording its materials and supplies inventory. Crude oil inventory is valued at lower of cost or market.

(h) Deferred Financing Costs: The Company follows ASU No. 2015-3, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs and includes the costs for issuing debt, including issuance discounts, except those related to the Revolving Credit Facility (as defined below), as a direct deduction from the carrying amount of the related debt liability. Costs related to the issuance of the Revolving Credit Facility are recorded as an asset in the Consolidated Balance Sheets.

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

(i) **Derivative Instruments and Hedging Activities:** The Company follows FASB ASC Topic 815, Derivatives and Hedging (“FASB ASC 815”). The Company records the fair value of its commodity derivatives as an asset or liability in the Consolidated Balance Sheets, and records the changes in the fair value of its commodity derivatives in the Consolidated Statements of Operations. The Company does not offset the value of its derivative arrangements with the same counterparty. See Note 7 for additional details.

(j) **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. Valuation allowances are recorded related to deferred tax assets based on the “more likely than not” criteria described in FASB ASC Topic 740, Income Taxes. In addition, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit.

(k) **Earnings Per Share:** Basic earnings per share is computed by dividing net earnings attributable to common stockholders 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.

Share-based payments subject to performance or market conditions are considered contingently issuable shares for purposes of calculating diluted earnings per share. Thus, they are not included in the diluted earnings per share denominator until the performance or market criteria are met. For the quarter and six months ended June 30, 2018 and 2017, the Company had 2.6 million and 4.2 million contingently issuable shares that are not included in the diluted earnings per share denominator as the performance or market criteria have not been met. See Note 5 for additional details.

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Share amounts in 000's)			
Net (loss) income	\$ (20,555)	\$ 499,037	\$ 26,933	\$ 409,338
Weighted average common shares outstanding - basic	197,054	180,964	196,803	130,770
Effect of dilutive instruments	—	69	—	308
Weighted average common shares outstanding - diluted	197,054	181,033	196,803	131,078
Net (loss) income per common share - basic	\$ (0.10)	\$ 2.76	\$ 0.14	\$ 3.13

Net (loss) income per common share - diluted	\$ (0.10)	\$ 2.76	\$ 0.14	\$ 3.12
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(l) Use of Estimates: Preparation of consolidated financial statements in accordance with GAAP 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.

(m) Accounting for Share-Based Compensation: The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values in accordance with FASB ASC Topic 718, Compensation – Stock Compensation.

(n) Fair Value Accounting: The Company follows FASB ASC Topic 820, Fair Value Measurements and Disclosures (“FASB ASC 820”), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. This statement applies under other accounting topics that require or permit fair value measurements. See Note 8 for additional details.

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

(o) **Asset Retirement Obligation:** The initial estimated retirement obligation of properties is recognized as a liability with an associated increase in oil and gas properties for the asset retirement cost. Accretion expense is recognized over the estimated productive life of the related assets. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, changes in service and equipment costs and changes in the estimated timing of settling asset retirement obligations. As a full cost company, settlements for asset retirement obligations for abandonment are adjusted to the full cost pool. The asset retirement obligation is included within other long-term obligations in the accompanying Consolidated Balance Sheets.

(p) **Revenue Recognition:** The Company generally sells oil and natural gas under both long-term and short-term agreements at prevailing market prices. On January 1, 2018, the Company adopted the new accounting standard, ASC 606, Revenue from Contracts with Customers and all related amendments. See Note 2 for additional details and disclosures related to the Company's adoption of this standard.

(q) **Other revenues:** Other revenue is comprised of fees paid to us by the operators of the gas processing plants where our gas is processed.

(r) **Capital Cost Accrual:** The Company accrues for exploration and development costs in the period incurred, while payment may occur in a subsequent period.

(s) **Reclassifications:** Certain amounts in the financial statements of prior periods have been reclassified to conform to the current period financial statement presentation.

(t) **Recent Accounting Pronouncements:**

Leases. In February 2016, the FASB issued ASU 2016-02, Leases ("ASU No. 2016-02"). The guidance requires that lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. To facilitate compliance with this ASU, the Company has formed an implementation work team, developed a project plan, educated departments affected by the standard, begun the process of reviewing its contract portfolio and continues to evaluate its systems, processes, and internal controls during 2018. In January 2018, the FASB issued ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842 ("ASU No. 2018-01"), which permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of this ASU and that were not previously accounted for as leases. For public companies, the standards will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with earlier application permitted. Ultra will adopt this ASU on January 1, 2019. As permitted by ASU 2018-11, Leases (Topic 842): Targeted Improvements, the Company does not expect to adjust comparative-period financial statements. The Company is still evaluating the impact of ASU No. 2016-02 and ASU No. 2018-01 on its consolidated financial statements.

Stock Compensation. In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) ("ASU No. 2017-09"), which is intended to clarify and reduce diversity in practice and cost and complexity when

applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The Company adopted ASU 2017-09 on January 1, 2018 and the implementation of this ASU did not have a material impact on the Company's consolidated financial statements.

Derivatives. In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) ("ASU No. 2017-12"), which makes significant changes to the current hedge accounting rules. The new guidance impacts the designation of hedging relationships; measurement of hedging relationships; presentation of the effects of hedging relationships; assessment of hedge effectiveness; and disclosures. The guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The Company does not expect the adoption of ASU No. 2017-12 to have a material impact on its consolidated financial statements.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and in 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and ASU 2016-10, Revenues from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which supersede the revenue recognition

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

requirements in Topic 605, Revenue Recognition, and industry-specific guidance in Subtopic 932-605, Extractive Activities - Oil and Gas - Revenue Recognition. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

On January 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (the “new revenue standard”) using the modified retrospective method. We recorded a net addition to beginning retained earnings of \$1.8 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact related to changing from the entitlements method to the sales method to account for wellhead imbalances. The impact to revenues for the six months ended June 30, 2018 is immaterial to the overall consolidated financial statements as a result of applying Topic 606. The comparative information has not been restated and continues to be reported under the accounting standards for those periods. See Note 2 for additional details related to the adoption of this standard. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an on-going basis.

2. IMPACT OF ASC 606 ADOPTION

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement for the six months ended June 30, 2018 is as follows:

	For the Six Months Ended June 30, 2018		
	Under ASC 606	Under ASC 605	Increase/ (Decrease)
	(Amounts in 000's)		
Revenues:			
Natural gas sales	\$322,716	\$322,879	\$ (163)
Oil sales	84,451	84,451	—
Other revenues	8,344	8,344	—
Total operating revenues	415,511	415,674	(163)
Costs and expenses:			
Production taxes	42,153	42,169	(16)
Gathering fees	47,238	47,257	(19)
Net income	\$26,933	\$27,061	\$ (128)

The change to sales of natural gas is due to the change from using the entitlements method for production imbalances to the sales method. The Company evaluated the contracts for sales of oil and natural gas utilizing the principal versus agent indicators, noting no change in revenue recognition resulted from the analysis.

Revenue Recognition

Revenue from Contracts with Customers

Sales of oil and natural gas are recognized at the point control of the product is transferred to the customer, collectability is reasonably assured, and the performance obligations are satisfied. Virtually all of our contracts' pricing provisions are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of the oil or natural gas, and prevailing supply and demand conditions. As a result, the price of the oil and natural gas fluctuates to remain competitive with other available oil and natural gas supplies.

Natural gas sales

We sell natural gas production at the tailgate of the processing plant or at a delivery point downstream, as specified in the contracts with our customers. The production is sold at set volumes and we collect (i) an agreed upon index price, (ii) a specific index price adjusted for pricing differentials, or (iii) a set price. We recognize revenue when control transfers to the purchaser at the tailgate of the processing plant or at the agreed-upon delivery point at the net price received. For these contracts, we have concluded that the Company is the principal for our net revenue interest share of the volumes being sold. Gathering fees are

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

incurred prior to the customer taking control of the product, are not considered to be promised services, and are not included in the transaction price; thus, they are presented as expenses in the Consolidated Statement of Operations.

Our working interest partners are considered the principal for their working interest shares. They have the option to take in kind their volumes. The Company may act as an agent and market the other partners' share of the natural gas production. If it does so, the Company is considered the agent and revenue is recorded at the Company's net revenue interest in the production.

Oil sales

We sell oil production at (a) the lease automatic custody transfer (LACT) meter for Wyoming condensate, (b) the tank battery for Utah wax/condensate, or (c) a delivery point downstream, as specified in the contracts with our customers. The production is sold at set volumes and we collect (i) an agreed upon index price, net of pricing differentials or (ii) a set price. We recognize revenue at the point when the customer takes control of the product. For these contracts, we have concluded that the Company is the principal for its net revenue interest share of the volumes being sold. Gathering fees are performed prior to the customer taking control of the product, are not considered to be promised services, and are not included in the transaction price; thus, they are presented as expenses in the Consolidated Statement of Operations. In conjunction with the adoption of ASC 606, for the six months ended June 30, 2018, there was no change to the method used to recognize oil sales and there was no impact to the consolidated financial statements for oil sales.

Our working interest partners are considered the principal for their working interest shares. They have the option to take in kind their volumes. The Company may act as an agent and market the other partners' share of the oil production. If it does so, the Company is considered the agent and revenue is recorded at the Company's net revenue interest in the production.

Other revenues

Our other revenue is comprised of fees paid to us by the operators of the gas processing plants where our gas is processed. Control is transferred upon completion of the processing service. The Company is considered the principal and revenue is recognized at the point in time that the control is transferred. In conjunction with the adoption of ASC 606, for the six months ended June 30, 2018, there was no change to the method used to recognize other processing revenues and there was no impact to the consolidated financial statements for other revenues.

Production imbalances

Previously, the Company elected to utilize the entitlements method to account for natural gas imbalances, which is no longer allowed under ASC 606. In conjunction with the adoption of ASC 606, for the six months ended June 30, 2018, there was no material impact to the consolidated financial statements due to this change in accounting for our production imbalances.

Transaction price allocated to remaining performance obligations

A significant number of our product sales are short-term in nature with a contract term of one year or less. For those contracts, we have utilized the practical expedient in ASC 606-10-50-14 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For our product sales that have a contract term greater than one year, we have utilized the practical expedient in ASC 606-10-50-14(a) which states that the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these sales contracts, each unit of product generally represents a separate performance obligation; therefore future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

Contract balances

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Under our product sales contracts, we invoice customers once our performance obligations have been satisfied, at which point payment is unconditional. Accordingly, our product sales contracts do not give rise to contract assets or liabilities under ASC 606.

Prior-period performance obligations

We record revenue in the month production is delivered to the purchaser. However, settlement statements for certain natural gas may not be received for 30 to 90 days after the date production is delivered, and as a result, we are required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. We record the differences between our estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. We have existing internal controls for our revenue estimation process and related accruals, and any identified differences between our revenue estimates and actual revenue received historically have not been significant. For the six months ended June 30, 2018, revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods was not material.

3. OIL AND GAS PROPERTIES AND EQUIPMENT:

	June 30, 2018	December 31, 2017
Proven Properties:		
Acquisition, equipment, exploration, drilling and abandonment costs	\$11,471,499	\$ 11,215,563
Less: Accumulated depletion, depreciation and amortization	(9,985,519)	(9,890,495)
	\$1,485,980	\$ 1,325,068

4. DEBT AND OTHER LONG-TERM OBLIGATIONS:

	June 30, 2018	December 31, 2017
Total Debt:		
Current portion of long-term debt	\$2,438	\$ —
Term loan, secured due 2024	\$972,563	\$ 975,000
6.875% Senior, unsecured Notes due 2022	700,000	700,000
7.125% Senior, unsecured Notes due 2025	500,000	500,000

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Credit Agreement	58,000	—
Long-term debt	2,230,563	2,175,000
Less: Deferred financing costs	(54,155)	(58,789)
Total long-term debt	\$2,176,408	\$ 2,116,211
Other long-term obligations:		
Other long-term obligations	\$211,968	\$ 197,728

Ultra Resources, Inc.

Credit Agreement. In April 2017, Ultra Resources, Inc. (“Ultra Resources”), as the borrower, entered into a Credit Agreement (as amended, the “Credit Agreement”) with the Company and UP Energy Corporation, as parent guarantors, with Bank of Montreal, as administrative agent, and with the other lenders party thereto from time to time, providing for a revolving credit facility (the “Revolving Credit Facility”) for an aggregate amount of \$400.0 million and an initial borrowing base of \$1.2 billion (which limits the aggregate amount of first lien debt under the Revolving Credit Facility and the Term Loan Agreement (defined below)). In September 2017, the administrative agent and the other lenders approved an increase in the borrowing base under the Credit Agreement from \$1.2 billion to \$1.4 billion as requested by the Company, which included an increase in the commitments under the Revolving Credit Facility to an aggregate amount of \$425.0 million. In April 2018, the administrative agent and the other lenders reaffirmed the borrowing base at \$1.4 billion. There are no scheduled borrowing base

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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redeterminations until October 1, 2018. At June 30, 2018, Ultra Resources had \$58.0 million in outstanding borrowings under the Revolving Credit Facility, total commitments under the Revolving Credit Facility of \$425.0 million and a borrowing base of \$1.4 billion.

The Revolving Credit Facility has capacity for Ultra Resources to increase the commitments subject to certain conditions, and has \$50.0 million of the commitments available for the issuance of letters of credit. The Revolving Credit Facility bears interest either at a rate equal to (a) a customary London interbank offered rate plus an applicable margin that varies from 250 to 350 basis points or (b) the base rate plus an applicable margin that varies from 150 to 250 basis points. If borrowings are outstanding during a period that the Company's consolidated net leverage ratio exceeds 4.00 to 1.00 at the end of any fiscal quarter as described below, the interest rate on such borrowings shall be at a per annum rate that is 0.25% higher than the rate that would otherwise apply until the Company has provided financial statements indicating that the consolidated net leverage ratio no longer exceeds 4.00 to 1.00. The Revolving Credit Facility loans mature on January 12, 2022.

The Revolving Credit Facility requires Ultra Resources to maintain (i) an interest coverage ratio of 2.50 to 1.00; (ii) a current ratio, including the unused portion of the Revolving Credit Facility, of 1.00 to 1.00; (iii) a consolidated net leverage ratio that does not exceed (a) 4.50 to 1.00, during the period ending on the last day of the fiscal quarter ending June 30, 2019, (b) 4.25 to 1.00, during the period beginning on the last day of the fiscal quarter ending September 30, 2019 and ending on the last day of the fiscal quarter ending December 31, 2019, and (c) 4.00 to 1.00 beginning on the last day of the fiscal quarter ending on March 31, 2020; and (iv) after the Company has obtained investment grade rating, an asset coverage ratio of 1.50 to 1.00. At June 30, 2018, Ultra Resources was in compliance with all of its debt covenants under the Revolving Credit Facility.

Under the Revolving Credit Facility, the Company is subject to the following minimum hedging requirements: through September 29, 2019, the Company is required to hedge a minimum of 65% of the quarterly projected volumes of natural gas from its proved developed producing ("PDP") reserves; and during the period beginning on September 30, 2019 and ending on March 30, 2020, the Company is required to hedge a minimum of 50% of the quarterly projected volumes of natural gas from PDP reserves. Beginning April 1, 2020, the Company will no longer be subject to a minimum hedging requirement. The Company expects to comply with these requirements prior to September 29, 2019 and to remain in compliance with these requirements while the requirements remain effective.

Ultra Resources is required to pay a commitment fee on the average daily unused portion of the Revolving Credit Facility, which varies based upon a borrowing base utilization grid. Ultra Resources is also required to pay customary letter of credit and fronting fees.

The Revolving Credit Facility also contains customary affirmative and negative covenants, including, among other things, as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), delivery of quarterly and annual financial statements and oil and gas engineering reports, maintenance and operation of property (including oil and gas properties), restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments, hedging requirements and other customary covenants.

The Revolving Credit Facility contains customary events of default and remedies for credit facilities of this nature. If Ultra Resources does not comply with the financial and other covenants in the Revolving Credit Facility, the lenders

may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Revolving Credit Facility and any outstanding unfunded commitments may be terminated.

Term Loan. In April 2017, Ultra Resources, as borrower, entered into a Senior Secured Term Loan Agreement with the Company and UP Energy Corporation, as parent guarantors, Barclays Bank PLC, as administrative agent, and the other lenders party thereto (the “Term Loan Agreement”), providing for senior secured first lien term loans for an aggregate amount of \$800.0 million consisting of an initial term loan in the amount of \$600.0 million and an incremental term loan in the amount of \$200.0 million to be drawn immediately after the funding of the initial term loan. In September 2017, the Company closed an incremental senior secured term loan offering of \$175.0 million, increasing total borrowings under the Term Loan Agreement to \$975.0 million. As part of the Term Loan Agreement, Ultra Resources agreed to pay an original issue discount equal to one percent of the principal amount, which is included in the deferred financing costs noted above. The Term Loan Agreement has capacity to increase the commitments subject to certain conditions. At June 30, 2018, Ultra Resources had \$975.0 million in outstanding borrowings under the Term Loan Agreement, including current maturities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The Term Loan Agreement bears interest either at a rate equal to (a) a customary London interbank offered rate plus 300 basis points or (b) the base rate plus 200 basis points. The Term Loan Agreement amortizes in equal quarterly installments in aggregate annual amounts equal to 0.25% of the aggregate principal amount beginning on June 30, 2019. The Term Loan Agreement matures on April 12, 2024.

The Term Loan Agreement is subject to mandatory prepayments and customary reinvestment rights. The mandatory prepayments include, without limitation, a prepayment requirement with the total net proceeds from certain asset sales and net proceeds on insurance received on account of any loss of Ultra Resources' property or assets, in each case subject to certain exceptions. In addition, subject to certain exceptions, there is a prepayment requirement if the asset coverage ratio is less than 2.0 to 1.0. To the extent any mandatory prepayments are required, prepayments are applied to prepay the Term Loan Agreement.

The Term Loan Agreement also contains customary affirmative and negative covenants, including as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), delivery of quarterly and annual financial statements and oil and gas engineering reports, maintenance and operation of property (including oil and gas properties), restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments and other customary covenants. At June 30, 2018, Ultra Resources was in compliance with all of its debt covenants under the Term Loan Agreement.

The Term Loan Agreement contains customary events of default and remedies for credit facilities of this nature. If Ultra Resources does not comply with the financial and other covenants in the Term Loan Agreement, the lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Term Loan Agreement.

Senior Notes. In April 2017, the Company issued \$700.0 million of its 6.875% senior notes due 2022 (the "2022 Notes") and \$500.0 million of its 7.125% senior notes due 2025 (the "2025 Notes," and together with the 2022 Notes, the "Notes") and entered into an Indenture, dated April 12, 2017 (the "Indenture"), among Ultra Resources, as issuer, and the Company and its subsidiaries, as guarantors. The Notes are treated as a single class of securities under the Indenture.

The Notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws, and unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes may be resold to qualified institutional buyers pursuant to Rule 144A under the Securities Act or to non-U.S. persons pursuant to Regulation S under the Securities Act.

The 2022 Notes will mature on April 15, 2022. The interest payment dates for the 2022 Notes are April 15 and October 15 of each year. The 2025 Notes will mature on April 15, 2025. The interest payment dates for the 2025 Notes are April 15 and October 15 of each year. Interest will be paid on the Notes from the issue date until maturity.

Prior to April 15, 2019, Ultra Resources may, at any time or from time to time, redeem in the aggregate up to 35% of the aggregate principal amount of the 2022 Notes, in an amount no greater than the net cash proceeds of certain equity offerings at a redemption price of 106.875% of the principal amount of the 2022 Notes, plus accrued and unpaid interest, if any, to the date of redemption, if at least 65% of the original principal amount of the 2022 Notes remains

outstanding and the redemption occurs within 180 days of the closing of such equity offering. In addition, before April 15, 2019, Ultra Resources may redeem all or a part of the 2022 Notes at a redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make-whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date. In addition, on or after April 15, 2019, Ultra Resources may redeem all or a part of the 2022 Notes at redemption prices (expressed as percentages of principal amount) equal to 103.438% for the twelve-month period beginning on April 15, 2019, 101.719% for the twelve-month period beginning April 15, 2020, and 100.000% for the twelve-month period beginning April 15, 2021 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable redemption date on the 2022 Notes.

Prior to April 15, 2020, Ultra Resources may, at any time or from time to time, redeem in the aggregate up to 35% of the aggregate principal amount of the 2025 Notes, in an amount no greater than the net cash proceeds of certain equity offerings at a redemption price of 107.125% of the principal amount of the 2025 Notes, plus accrued and unpaid interest, if any, to the date of redemption, if at least 65% of the original principal amount of the 2025 Notes remains outstanding and the redemption occurs within 180 days of the closing of such equity offering. In addition, before April 15, 2020, Ultra Resources may redeem all or a part of the 2025 Notes at a redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make-whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date. In addition, on or after April 15, 2019,

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(Unaudited)

Ultra Resources may redeem all or a part of the 2025 Notes at redemption prices (expressed as percentages of principal amount) equal to 105.344% for the twelve-month period beginning on April 15, 2020, 103.563% for the twelve-month period beginning April 15, 2021, 101.781% for the twelve-month period beginning April 15, 2022, and 100.000% for the twelve-month period beginning April 15, 2023 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable redemption date on the 2025 Notes.

If Ultra Resources experiences certain change of control triggering events as set forth in the Indenture, each holder of the Notes may require Ultra Resources to repurchase all or a portion of its Notes for cash at a price equal to 101% of the aggregate principal amount of such Notes, plus any accrued but unpaid interest to the date of repurchase.

The Indenture contains customary covenants that restrict the ability of Ultra Resources and the guarantors and certain of its subsidiaries to: (i) sell assets and subsidiary equity; (ii) incur indebtedness; (iii) create or incur certain liens; (iv) enter into affiliate agreements; (v) enter into agreements that restrict distributions from certain restricted subsidiaries and the consummation of mergers and consolidations; (vi) consolidate, merge or transfer all or substantially all of the assets of the Company or any Restricted Subsidiary (as defined in the Indenture); and (vii) create unrestricted subsidiaries. The covenants in the Indenture are subject to important exceptions and qualifications. Subject to conditions, the Indenture provides that the Company and its subsidiaries will no longer be subject to certain covenants when the Notes receive investment grade ratings from any two of S&P Global Ratings, Moody's Investors Service, Inc., and Fitch Ratings, Inc. At June 30, 2018, Ultra Resources was in compliance with all of its debt covenants under the Notes.

The Indenture contains customary events of default. Unless otherwise noted in the Indenture, upon a continuing event of default, the trustee under the Indenture (the "Trustee"), by notice to the Company, or the holders of at least 25% in principal amount of the then outstanding Notes, by notice to the Company and the Trustee, may, declare the Notes immediately due and payable, except that an event of default resulting from entry into a bankruptcy, insolvency or reorganization with respect to the Company, any Significant Subsidiary (as defined in the Indenture) or group of Restricted Subsidiaries (as defined in the Indenture), that taken together would constitute a Significant Subsidiary, will automatically cause the Notes to become due and payable.

Other long-term obligations: These costs primarily relate to the long-term portion of production taxes payable and asset retirement obligations.

5. SHARE BASED COMPENSATION:

Valuation and Expense Information

	For the Quarter Ended Ended June 30, 2018		For the Six Months Ended Ended June 30, 2017	
Total cost of share-based payment plans	\$2,263	\$34,679	\$13,173	\$35,890

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Amounts capitalized in oil and gas properties and equipment	\$952	\$9,266	\$3,051	\$9,626
Amounts charged against income, before income tax benefit	\$1,311	\$25,413	\$10,122	\$26,264
Amount of related income tax benefit recognized in income before valuation allowance	\$275	\$10,114	\$2,126	\$10,453

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(Unaudited)

Performance Share Plans:

2017 Stock Incentive Plan. In April 2017, the Ultra Petroleum Corp. 2017 Stock Incentive Plan (“2017 Stock Incentive Plan”) was established pursuant to which 7.5% of the equity in the Company (on a fully-diluted/fully-distributed basis) is reserved for grants to be made from time to time to the directors, officers, and other employees of the Company (the “Reserve”). During 2017, Management Incentive Plan Grants (the “Initial MIP Grants”) were made to members of the board of directors (the “Board”), officers, and other employees of the Company subject to the conditions and performance requirements provided in the grants, including the limitations that one-third of the Initial MIP Grants will vest, if at all, at such time when the total enterprise value of the Company equals or exceeds \$6.0 billion based upon the volume weighted average price of the common stock during a consecutive 30-day period, that one-third of the Initial MIP Grants will vest, if at all, at such time when the total enterprise value of the Company equals or exceeds 110% of \$6.0 billion based upon the volume weighted average price of the common stock during a consecutive 30-day period, and, that if any Initial MIP Grants do not vest before the fifth anniversary of the Effective Date, as defined in Note 10, such Initial MIP Grants shall automatically expire. The balance of the Reserve is available to be granted by the Board from time to time.

On June 8, 2018, each of the Board and the Compensation Committee of the Board (the “Committee”) approved an amendment and restatement of the 2017 Stock Incentive Plan (as amended and restated, the “A&R Stock Incentive Plan”). The A&R Stock Incentive Plan amends and restates the 2017 Stock Incentive Plan to, among other things:

- provide that consultants, independent contractors and advisors are eligible to participate and receive equity awards in the A&R Stock Incentive Plan;
- limit the aggregate incentive awards available to be granted to any outside director during a single calendar year to a maximum of \$750,000;
- revise the definition of a Change of Control to exclude a change in a majority of the members on the Board;
- provide that, with respect to awards granted on or after June 8, 2018, no such awards will vest solely as a result of a Change of Control (as defined in the A&R Stock Incentive Plan) unless expressly provided otherwise in the applicable grant agreement or unless otherwise determined by the Committee; and
- make certain other changes related to revisions to the U.S. Internal Revenue Code.

Stock-Based Compensation Cost:

Market-Based Condition Awards. When vesting of an award of stock-based compensation is dependent, at least in part, on the value of a company’s total equity, for purposes of FASB ASC 718, the award is considered to be subject to a “market condition”. Because the Company’s total equity value is a component of its enterprise value, the awards based on enterprise value are considered to be subject to a market condition. Unlike the valuation of an award that is subject to a service condition (i.e., time vested awards) or a performance condition that is not related to stock price, FASB ASC 718 requires the impact of the market condition to be considered when estimating the fair value of the award. As a result, we have used a Monte Carlo simulation model to estimate the fair value of the awards that include a market condition.

FASB ASC 718 requires the expense for an award of stock based compensation that is subject to a market condition that can be attained at any point during the performance period to be recognized over the shorter of (a) the period between the date of grant and the date the market condition is attained, and (b) the award’s derived service period. For

purposes of FASB ASC 718, the derived service period represents the duration of the median of the distribution of share price paths on which the market condition is satisfied. That median is the middle share price path (the midpoint of the distribution of paths) on which the market condition is satisfied. The duration is the period of time from the service inception date to the expected date of market condition satisfaction. Compensation expense is recognized regardless of whether the market condition is actually satisfied.

Expense. For the six months ended June 30, 2018, the Company recognized \$10.1 million in pre-tax compensation expense, of which \$10.0 million related to the Initial MIP Grants. During the six months ended June 30, 2017, the Company recognized \$26.3 million in pre-tax compensation expense, of which \$25.2 million related to the Initial MIP Grants.

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6. INCOME TAXES:

The Company's overall effective tax rate on pre-tax income was different than the statutory rate of 21% due primarily to valuation allowances.

The Company has recorded a valuation allowance against all deferred tax assets as of June 30, 2018. Some or all of this valuation allowance may be reversed in future periods against future income. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into law. The new legislation, which became effective on January 1, 2018, decreased the U.S. corporate federal income tax rate from 35% to 21%. The TCJA also included a number of provisions, including the elimination of loss carrybacks and limitations on the use of future losses, repeal of the Alternative Minimum Tax regime, the limitation on the deductibility of certain expenses, including interest expense, and changes in the way that capital costs are recovered.

Given the significant complexity of the TCJA and anticipated additional implementation guidance from the Internal Revenue Service, further implications of TCJA may be identified in future periods. Amounts recorded in the consolidated financial statements are provisional.

7. DERIVATIVE FINANCIAL INSTRUMENTS:

Objectives and Strategy: The Company's major market risk exposure is in the pricing applicable to its natural gas and oil production. Realized pricing is currently driven primarily by the prevailing price for the Company's natural gas production. Historically, prices received for natural gas production have been volatile and unpredictable. Pricing volatility is expected to continue. The prices we receive for our production depend on many factors outside of our control, including volatility in the differences between product prices at sales points and the applicable index price.

The Company relies on various types of derivative instruments to manage its exposure to commodity price risk and to provide a level of certainty in the Company's forward cash flows supporting the Company's capital investment program. These types of instruments may include fixed price swaps, costless collars, or basis differential swaps. These contracts are financial instruments, and do not require or allow for physical delivery of the hedged commodity. While mitigating the effects of fluctuating commodity prices, these derivative contracts may limit the benefits we would receive from increases in commodity prices above the fixed hedge prices.

The Company's hedging policy limits the volumes hedged to not be greater than 50% of its forecasted production volumes without Board approval. During the quarter and six months ended June 30, 2018, the Board approved all commodity derivative hedge contracts for volumes exceeding 50% of forecasted production volumes.

Fair Value of Commodity Derivatives: FASB ASC 815 requires that all derivatives be recognized on the Consolidated Balance Sheets as either an asset or liability and be measured at fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. The Company does not apply hedge accounting to any of its derivative instruments.

Derivative contracts that do not qualify for hedge accounting treatment are recorded as derivative assets and liabilities at fair value on the Consolidated Balance Sheets and the associated unrealized gains and losses are recorded as current

income or expense in the Consolidated Statements of Operations. Unrealized gains or losses on commodity derivatives represent the non-cash change in the fair value of these derivative instruments.

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(Unaudited)

Commodity Derivative Contracts: At June 30, 2018, the Company had the following open commodity derivative contracts to manage commodity price risks. For the fixed price swaps, the Company receives the fixed price for the contract and pays the variable price to the counterparty. For the basis swaps, the Company receives a fixed price for the difference between two sales points for a specified commodity volume over a specified time period. The reference prices of these commodity derivative contracts are typically referenced to index prices as published by independent third parties.

Year	Index	Total Volumes (in millions)	Weighted Average Price per Unit	Fair Value June 30, 2018 Asset (Liability)
Natural gas fixed price swaps		(Mmbtu)	(\$/Mmbtu)	
2018 (July through December)	NYMEX-Henry Hub	141.1	\$ 2.89	\$ (9,430)
2019	NYMEX-Henry Hub	167.3	\$ 2.85	(4,557)
2020	NYMEX-Henry Hub	15.5	\$ 2.76	(2,662)
Natural gas basis swaps (1)		(Mmbtu)	(\$/Mmbtu)	
2018 (July through December)	NW Rockies Basis Swap	94.6	\$ (0.68)	\$ (3,176)
2019	NW Rockies Basis Swap	84.5	\$ (0.70)	(848)
2020	NW Rockies Basis Swap	—	\$ —	—
Crude oil fixed price swaps		(Bbl)	(\$/Bbl)	
2018 (July through December)	NYMEX-WTI	1.2	\$ 60.53	\$ (12,050)
2019	NYMEX-WTI	1.7	\$ 58.83	(11,645)
2020	NYMEX-WTI	.09	\$ 60.05	(204)

⁽¹⁾ Represents swap contracts that fix the basis differentials for gas sold at or near Opal, Wyoming and the value of natural gas established on the last trading day of the month by the NYMEX for natural gas swaps for the respective period.

Subsequent to June 30, 2018 and through July 24, 2018, the Company has entered into the following open commodity derivative contracts to manage commodity price risk.

Type	Index	Total Volumes	Weighted Average Price per
------	-------	---------------	----------------------------

	(in millions)	Unit
Natural gas basis swaps (1)	(Mmbtu)	(\$/Mmbtu)
2018 (August through October) NYMEX-Henry Hub	6.4	\$ (0.48)

⁽¹⁾Represents swap contracts that fix the basis differentials for gas sold at or near Opal, Wyoming and the value of natural gas established on the last trading day of the month by the NYMEX for natural gas swaps for the respective period.

The following table summarizes the pre-tax realized and unrealized gain (loss) the Company recognized related to its derivative instruments in the Consolidated Statements of Operations for the quarter and six months ended June 30, 2018 and 2017:

Commodity Derivatives:	For the Quarter		For the Six	
	Ended		Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Realized gain (loss) on commodity derivatives - natural gas (1)	\$10,982	\$(868)	\$12,426	\$(868)
Realized loss on commodity derivatives - oil (1)	(4,320)	—	(4,690)	—
Unrealized gain (loss) on commodity derivatives (1)	(53,933)	21,585	(61,539)	8,367
Total gain (loss) on commodity derivatives	\$(47,271)	\$20,717	\$(53,803)	\$7,499

⁽¹⁾Included in (Loss) gain on commodity derivatives in the Consolidated Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The realized gain or loss on commodity derivatives relates to actual amounts received or paid or to be received or paid under the Company's derivative contracts and the unrealized gain or loss on commodity derivatives represents the change in the fair value of these derivative instruments over the remaining term of the contract.

8. FAIR VALUE MEASUREMENTS:

As required by FASB ASC 820, the Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy for measuring fair value. Fair value measurements are classified and disclosed in one of the following categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter forwards and swaps.

Level 3: Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative asset	\$ —	\$ 14,480	\$ —	\$ 14,480
Long-term derivative asset (1)	—	3,692	—	3,692
Total derivative instruments	\$ —	\$ 18,172	\$ —	\$ 18,172
Liabilities:				
Current derivative liability	\$ —	\$ 54,891	\$ —	\$ 54,891
Long-term derivative liability (2)	—	7,853	—	7,853
Total derivative instruments	\$ —	\$ 62,744	\$ —	\$ 62,744

(1)Included in other assets in the Consolidated Balance Sheet.

(2)Included in other long-term obligations in the Consolidated Balance Sheet.

The Company entered into commodity derivative contracts and as a result, we expose ourselves to counterparty credit risk. Credit risk is the potential failure of the counterparty to perform under the terms of a derivative contract. In order to minimize our credit risk in derivative instruments, we (i) enter into derivative contracts with counterparties that our management has deemed credit worthy as competent and competitive market makers and (ii) routinely

monitor and review the credit of our counterparties. In addition, each of our current counterparties are lenders under our Revolving Credit Facility. We believe that all of our counterparties are of substantial credit quality. Other than as provided in our Revolving Credit Facility, we are not required to provide credit support or collateral to any of our counterparties under our derivative contracts, nor are they required to provide credit support to us. As of June 30, 2018, we did not have any past-due receivables from, or payables to, any of the counterparties of our derivative contracts.

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Fair Value of Financial Instruments

The estimated fair value of financial instruments is the estimated amount at which the instrument could be exchanged currently between willing parties. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, restricted cash, accounts receivable, and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments. The Company uses available market data and valuation methodologies to estimate the fair value of its debt. The valuation assumptions utilized to measure the fair value of the Company's debt are considered Level 2 inputs. This disclosure is presented in accordance with FASB ASC Topic 825, Financial Instruments, and does not impact the Company's financial position, results of operations or cash flows.

	June 30, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Term loan, secured, due April 2024	\$972,563	\$889,895	\$975,000	\$975,000
6.875% Notes, unsecured, due April 2022, issued 2017	700,000	530,432	700,000	701,750
7.125% Notes, unsecured, due April 2025, issued 2017	500,000	351,250	500,000	505,000
Credit Facility, secured, due January 2022	58,000	58,000	—	—
Long-term debt	\$2,230,563	\$1,829,577	\$2,175,000	\$2,181,750

9. COMMITMENTS AND CONTINGENCIES:

The Plan (defined below) provides for the treatment of claims against our bankruptcy estates, including claims for prepetition liabilities that have not otherwise been satisfied or addressed before we emerged from chapter 11 proceedings. As noted in this Quarterly Report on Form 10-Q, the claims resolution process associated with our chapter 11 proceedings is on-going, and we expect it to continue for an indefinite period of time.

Pending Claims – Ultra Resources Indebtedness

Our chapter 11 filings as described in Note 10 constituted events of default under Ultra Resources' prepetition debt agreements. During our bankruptcy proceedings, many holders of this indebtedness filed proofs of claim with the Bankruptcy Court (as defined in Note 10), asserting various claims against us, including claims for unpaid postpetition interest (including interest at the default rates under the prepetition debt agreements), make-whole amounts, and other fees and obligations allegedly arising under the prepetition debt agreements. We disputed the claims made by the holders of the Ultra Resources' indebtedness for certain make-whole amounts and post-petition interest at the default rates provided for in the prepetition debt agreements. As previously disclosed, on September 22, 2017, the Bankruptcy Court denied our objection to the pending make-whole and postpetition interest claims. Further, on October 6, 2017, the Bankruptcy Court entered an order requiring us to distribute amounts attributable to the disputed claims to the applicable parties. Pursuant to the order, on October 12, 2017, we distributed \$399.0 million from a \$400.0 million reserve fund set up in connection with our emergence from chapter 11 proceedings to the parties asserting the

make-whole and post-petition interest claims and \$1.3 million (the balance remaining after distributions to the parties asserting claims) was returned to the Company. The disbursement of \$399.0 million was comprised of \$223.8 million representing the fees owed under the make-whole claims described above and \$175.2 million representing postpetition interest at the default rate. The Company is appealing the court order denying its objections to these claims, but it is not possible to determine the ultimate disposition of these matters at this time.

Royalties

On April 19, 2016, the Company received a preliminary determination notice from the U.S. Department of the Interior's Office of Natural Resources Revenue ("ONRR") asserting that the Company's allocation of certain processing costs and plant fuel use at certain processing plants were impermissibly charged as deductions in the determination of royalties owed under federal oil and gas leases. ONRR also filed a proof of claim in our bankruptcy proceedings asserting approximately \$35.1 million in claims related to these matters. We dispute the preliminary determination and the proof of claim. We have notified ONRR of several matters we believe ONRR may not have considered in preparing the preliminary determination notice, and we continue to be in discussions with ONRR related to these matters. This claim and the preliminary determination notice could ultimately result in us being ordered to pay additional royalty to ONRR for prior, current and future periods. The Company is

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

not able to determine the likelihood or range of any additional royalties or, if and when assessed, whether such amounts would be material.

Oil Sales Contract

On April 29, 2016, the Company received a letter from counsel to Sunoco Partners Marketing & Terminals L.P. (“SPMT”) asserting that (1) we had breached, by anticipatory repudiation, a contract for the purchase and sale of crude oil between Ultra Resources and SPMT and (2) the contract was terminated. In the letter, SPMT demanded payment for damages resulting from the breach in the amount of \$38.6 million. On August 31, 2016, SPMT filed a proof of claim with the Bankruptcy Court for \$16.9 million. On December 13, 2016, we filed an objection to SPMT’s proof of claim, and on December 14, 2016, we filed an adversary proceeding against SPMT related to matters we believe constitute breach of contract by SPMT during the prepetition period (as amended, the “Sunoco Adversary”). In its April 25, 2017 reply to the Sunoco Adversary complaint, Sunoco asserted a counterclaim for matters addressed in its proof of claim. Litigation related to this matter is proceeding in the Bankruptcy Court. At this time, we are not able to determine the likelihood or range of damages owed to SPMT, if any, related to this matter, or, if and when such amounts are assessed, whether such amounts would be material.

Other Claims

We are also party to various disputes with respect to certain overriding royalty and net profits interests in certain of our operated leases in Pinedale, Wyoming. At this time, no determination of the outcome of these claims can be made, and we cannot reasonably estimate the potential impact of these claims. We are defending all these claims vigorously, and we expect these claims to be resolved in our chapter 11 proceedings. In addition, we are currently involved in various routine disputes and allegations incidental to our business operations. While it is not possible to determine the ultimate disposition of these matters, we believe the resolution of all such routine disputes and allegations is not likely to have a material adverse effect on our financial position or results of operations.

10. CHAPTER 11 PROCEEDINGS

Voluntary Reorganization Under Chapter 11

On April 29, 2016 (the “Petition Date”), the Company and its subsidiaries filed voluntary petitions under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”). Our chapter 11 cases were jointly administered under the caption In re Ultra Petroleum Corp., et al, Case No. 16-32202 (MI) (Bankr. S.D. Tex.).

On February 13, 2017, the Bankruptcy Court approved our amended Disclosure Statement (by order subsequently amended on February 21, 2017), on March 14, 2017, the Bankruptcy Court confirmed our Debtors’ Second Amended Joint Chapter 11 Plan of Reorganization (the “Plan”), and on April 12, 2017 (the “Effective Date”), we emerged from bankruptcy.

Plan of Reorganization

Pursuant to the Plan, the significant transactions that occurred upon our emergence from chapter 11 proceedings were as follows:

● On November 21, 2016, we entered into a Plan Support Agreement (as amended, the “PSA”) with certain holders of the Company’s prepetition indebtedness and outstanding common stock as well as a Backstop Commitment Agreement (“BCA”). Pursuant to the BCA, we agreed to conduct a rights offering for new common stock in the Company to be issued upon the effectiveness of the Plan for an aggregate purchase price of \$580.0 million (the “Rights Offering”). ● On February 8, 2017, we entered into a commitment letter with Barclays Bank PLC (“Barclays”) (as amended, the “Commitment Letter”) pursuant to which, in connection with the consummation of the Plan, Barclays agreed to provide us with secured and unsecured financings in an aggregate amount of up to \$2.4 billion (the “Debt Financings”).

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ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

On the Effective Date, the principal obligations outstanding of \$999.0 million under the prepetition credit agreement and \$1.46 billion under the prepetition senior notes, as well as prepetition interest and other undisputed amounts, were paid in full. The Company’s obligations under the prepetition credit agreement and the prepetition senior notes were cancelled and extinguished as provided in the Plan.

On the Effective Date, the claims of \$450.0 million related to the unsecured 5.75% Senior Notes due 2018 (the “2018 Notes”) and \$850.0 million related to the unsecured 6.125% Senior Notes due 2024 (the “2024 Notes”) were allowed in full, each holder of a claim related to the 2018 Notes and the 2024 Notes received a distribution of common stock in the amount of such holder’s applicable claim, and the Company’s obligations under the 2018 Notes and the 2024 Notes were cancelled and extinguished as provided in the Plan.

On the Effective Date, we consummated the Rights Offering and the Debt Financings and, as noted above, emerged from bankruptcy.

Fresh Start Accounting

As previously disclosed, we were not required to apply fresh start accounting to our financial statements in connection with our emergence from bankruptcy because the reorganization value of our assets immediately prior to confirmation of the Plan exceeded our aggregate postpetition liabilities and allowed claims.

Bankruptcy Claims Resolution Process

The claims filed against us during our chapter 11 proceedings were voluminous. In addition, claimants may file amended or modified claims in the future, which modifications or amendments may be material. The claims resolution process is on-going, and the ultimate number and amount of prepetition claims are not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

As a part of the claims resolution process, we are working to resolve differences between amounts we listed in information filed during our bankruptcy proceedings and the amounts of claims filed by our creditors. We have filed, and we will continue to file, objections with the Bankruptcy Court as necessary with respect to claims we believe should be disallowed.

Costs of Reorganization

During 2017, we incurred significant costs associated with our reorganization and the chapter 11 proceedings. For additional information about the costs of our reorganization and chapter 11 proceedings, see “Reorganization items, net” below.

The following table summarizes the components included in Reorganization items, net in our Consolidated Statements of Operations for the quarter and six months ended June 30, 2017:

For the	For the
Quarter	Six
Ended	Months

	June 30, 2017	Ended June 30, 2017
Professional fees	\$(4,313)	\$(62,004)
Gains (losses) (1)	431,107	431,107
Other (2)	22	167
Total Reorganization items, net	\$426,816	\$369,270

⁽¹⁾Gains (losses) represent the net gain on the debt to equity exchange related to the 2018 Notes and 2024 Notes.

⁽²⁾Cash interest income earned for the period after the Petition Date on excess cash over normal invested capital.

11. SUBSEQUENT EVENTS:

The Company has evaluated the period subsequent to June 30, 2018 for events that did not exist at the balance sheet date but arose after that date and determined that no subsequent events arose that should be disclosed in order to keep the financial statements from being misleading, except as set forth below:

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

On July 27, 2018, UPL Three Rivers Holdings, LLC, a subsidiary of the Company entered into a Purchase and Sale Agreement with an unnamed third party. Under the agreement, the Company agreed to sell all of its Utah assets to the third party for cash consideration of \$75.0 million, subject to customary closing adjustments. The agreement contains representations and warranties, covenants and indemnification provisions that are typical for this type of transaction. The effective date of the proposed sale is May 1, 2018, and the transaction is expected to close during the third quarter of 2018. The closing is subject to satisfaction or waiver of specified conditions, including the material accuracy of the representations and warranties of the Company and the third party. There can be no assurance that these closing conditions will be satisfied. During the fiscal quarter ended June 30, 2018, the Company's Utah assets produced approximately 2,000 barrels of oil equivalent per day.

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 Company’s consolidated financial statements and related notes. Except as otherwise indicated, all amounts are expressed in U.S. dollars.

Overview

Ultra Petroleum Corp. (the “Company”) is an independent oil and gas company engaged in the development, production, operation, exploration and acquisition of oil and natural gas properties. The Company is incorporated under the laws of Yukon, Canada. The Company’s principal business activities are developing its long-life natural gas reserves in the Pinedale and Jonah fields of the Green River Basin of Wyoming.

Substantially all of the Company’s oil and natural gas activities are conducted jointly with others and, accordingly, amounts presented reflect only the Company’s proportionate interest in such activities. The Company continues to focus on improving its drilling and production results through gaining efficiencies with the use of advanced technologies, detailed technical analysis of its properties and leveraging its experience into improved operational efficiencies. Inflation has not had, nor is it expected to have in the foreseeable future, a material impact on the Company’s results of operations.

The Company currently generates its revenue, earnings and cash flow primarily from the production and sales of natural gas and condensate from its properties in southwest Wyoming with a portion of the Company’s revenues coming from oil sales from its properties in the Uinta Basin in Utah.

DESCRIPTION OF THE BUSINESS:

The prices of oil and natural gas are critical factors to the Company’s business. The prices of oil and natural gas have historically been volatile, and this volatility could be detrimental to the Company’s financial performance. As a result, from time to time, the Company tries to limit the impact of this volatility on its results by entering into swap agreements and/or fixed price forward physical delivery contracts for natural gas and oil. See Note 7 for additional details.

During the quarter ended June 30, 2018, the average price realization for the Company’s natural gas was \$2.28 per Mcf, including realized gains and losses on commodity derivatives, compared with \$2.84 per Mcf during the quarter ended June 30, 2017. The Company’s average price realization for natural gas was \$2.11 per Mcf, excluding the realized gains and losses on commodity derivatives during the quarter ended June 30, 2018, as compared with \$2.85 per Mcf during the quarter ended June 30, 2017.

During the quarter ended June 30, 2018, the average price realization for the Company’s oil was \$58.24 per barrel, including realized gains and losses on commodity derivatives, compared to \$45.51 per barrel during the quarter ended June 30, 2017. The Company’s average price realization for oil was \$64.71 per barrel, excluding the realized gains and losses on commodity derivatives during the quarter ended June 30, 2018, as compared with \$45.51 per barrel during the quarter ended June 30, 2017.

2017 Chapter 11 Proceedings

As discussed in Note 10, the Company emerged from chapter 11 proceedings during the year ended December 31, 2017. The effects of the Plan (defined below) were included in the Consolidated Financial Statements as of December

31, 2017 and the related adjustments thereto were recorded in our Consolidated Statement of Operations as reorganization items for the quarter and six months ended June 30, 2018.

Voluntary Reorganization Under Chapter 11

On April 29, 2016 (the "Petition Date"), the Company and its subsidiaries filed voluntary petitions under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"). Our chapter 11 cases were jointly administered under the caption In re Ultra Petroleum Corp., et al, Case No. 16-32202 (MI) (Bankr. S.D. Tex.).

On February 13, 2017, the Bankruptcy Court approved our amended Disclosure Statement (by order subsequently amended on February 21, 2017), on March 14, 2017, the Bankruptcy Court confirmed our Debtors' Second Amended Joint Chapter 11 Plan of Reorganization (the "Plan"), and on April 12, 2017 (the "Effective Date"), we emerged from bankruptcy. See Note 10 for additional details.

Plan of Reorganization

Pursuant to the Plan:

On November 21, 2016, we entered into a Plan Support Agreement (as amended, the "PSA") with certain holders of the Company's prepetition indebtedness and outstanding common stock as well as a Backstop Commitment Agreement ("BCA"). Pursuant to the BCA, we agreed to conduct a rights offering for new common stock in the Company to be issued upon the effectiveness of the Plan for an aggregate purchase price of \$580.0 million (the "Rights Offering").

On February 8, 2017, we entered into a commitment letter with Barclays Bank PLC ("Barclays") (as amended, the "Commitment Letter") pursuant to which, in connection with the consummation of the Plan, Barclays agreed to provide us with secured and unsecured financings in an aggregate amount of up to \$2.4 billion (the "Debt Financings").

On the Effective Date, the principal obligations outstanding of \$999.0 million under the prepetition credit agreement and \$1.46 billion under the prepetition senior notes, as well as prepetition interest and other undisputed amounts, were paid in full. The Company's obligations under the prepetition credit agreement and the prepetition senior notes were cancelled and extinguished as provided in the Plan.

On the Effective Date, the claims of \$450.0 million related to the unsecured 5.75% Senior Notes due 2018 (the "2018 Notes") and \$850.0 million related to the unsecured 6.125% Senior Notes due 2024 (the "2024 Notes") were allowed in full. Each holder of a claim related to the 2018 Notes and the 2024 Notes received a distribution of common stock in the amount of such holder's applicable claim, and the Company's obligations under the 2018 Notes and the 2024 Notes were cancelled and extinguished as provided in the Plan.

On the Effective Date, we consummated the Rights Offering and the Debt Financings and, as noted above, emerged from bankruptcy.

Fresh Start Accounting

As previously disclosed, we were not required to apply fresh start accounting to our financial statements in connection with our emergence from bankruptcy because the reorganization value of our assets immediately prior to confirmation of the Plan exceeded our aggregate postpetition liabilities and allowed claims.

Bankruptcy Claims Resolution Process

The claims filed against us during our chapter 11 proceedings were voluminous. In addition, claimants may file amended or modified claims in the future, which modifications or amendments may be material. The claims resolution process is on-going, and the ultimate number and amount of prepetition claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

As a part of the claims resolution process, we are working to resolve differences between amounts we listed in information filed during our bankruptcy proceedings and the amounts of claims filed by our creditors. We have filed, and we will continue to file, objections with the Bankruptcy Court as necessary with respect to claims we believe should be disallowed.

Costs of Reorganization

During 2017, we incurred significant costs associated with our reorganization and the chapter 11 proceedings. For additional information about the costs of our reorganization and chapter 11 proceedings, see "Reorganization items, net"

below.

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The following table summarizes the components included in Reorganization items, net in our Consolidated Statements of Operations for the quarter and six months ended June 30, 2017:

	For the Quarter Ended June 30, 2017	For the Six Months Ended June 30, 2017
Professional fees	\$(4,313)	\$(62,004)
Gains (losses) (1)	431,107	431,107
Other (2)	22	167
Total Reorganization items, net	\$426,816	\$369,270

(1) Gains (losses) represent the net gain on the debt to equity exchange related to the 2018 Notes and 2024 Notes.

(2) Cash interest income earned for the period after the Petition Date on excess cash over normal invested capital.

Critical Accounting Policies

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. Generally Accepted Accounting Principles ("GAAP"). In addition, application of GAAP 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 related to judgments and assumptions will occur as a result of future events, and, accordingly, actual results could differ from amounts estimated. Set forth below is a discussion of the critical accounting policies used in the preparation of our financial statements which we believe involve the most complex or subjective decisions or assessments.

Derivative Instruments and Hedging Activities. The Company follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging ("FASB ASC 815"). The Company records the fair value of its commodity derivatives as an asset or liability on the Consolidated Balance Sheets, and records the changes in the fair value of its commodity derivatives in the Consolidated Statements of Operations.

Fair Value Measurements. The Company follows FASB ASC Topic 820, Fair Value Measurements and Disclosures ("FASB ASC 820"). Under FASB ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date and establishes a three-level hierarchy for measuring fair value.

	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative asset	\$ —	\$ 14,480	\$ —	\$ 14,480
Long-term derivative asset (1)	—	3,692	—	3,692
Total derivative instruments	\$ —	\$ 18,172	\$ —	\$ 18,172

Liabilities:			
Current derivative liability	\$	— \$54,891	\$ — \$54,891
Long-term derivative liability (2)	—	7,853	— 7,853
Total derivative instruments	\$	— \$62,744	\$ — \$62,744

(1)Included in other assets in the Consolidated Balance Sheet.

(2)Included in other long-term obligations in the Consolidated Balance Sheet.

Asset Retirement Obligation. The Company’s asset retirement obligations (“ARO”) consist primarily of estimated costs of dismantlement, removal, site reclamation and similar activities associated with its oil and natural gas properties. FASB ASC Topic 410, Asset Retirement and Environmental Obligations (“FASB ASC 410”) requires that the fair value of a liability for an ARO be recognized in the period in which it is incurred with the associated asset retirement cost capitalized as part of the carrying cost of the oil and natural gas asset. The recognition of an ARO requires that management make numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, amounts and timing of settlements, the credit-adjusted, risk-free rate to be used, inflation rates, and future advances in technology. In periods subsequent to initial measurement of the ARO, the Company must recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Increases in the ARO liability due to the passage of time impact net income as accretion expense. The related capitalized costs, including revisions thereto, are charged to expense through depletion, depreciation and amortization (“DD&A”). As a full cost company,

settlements for asset retirement obligations for abandonment are adjusted to the full cost pool. The asset retirement obligation is included within other long-term obligations in the accompanying Consolidated Balance Sheets.

Share-Based Payment Arrangements. The Company applies FASB ASC Topic 718, Compensation – Stock Compensation (“FASB ASC 718”), 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. Share-based compensation expense recognized for the six months ended June 30, 2018 and 2017 was \$10.1 million and \$26.3 million, respectively. See Note 5 for additional details.

Property, Plant and Equipment. Capital assets are recorded at cost and depreciated using the declining-balance method based on their respective useful life.

Full Cost Method of Accounting. The Company uses the full cost method of accounting for oil and gas exploration and development activities as defined by the Securities and Exchange Commission (“SEC”) Release No. 33-8995, Modernization of Oil and Gas Reporting Requirements (“SEC Release No. 33-8995”) and FASB ASC Topic 932, Extractive Activities – Oil and Gas (“FASB ASC 932”). Under the full cost method of accounting, all costs associated with the exploration for and development of oil and gas reserves are capitalized on a country-by-country basis. 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. 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.

Companies that use the full cost method of accounting for oil and natural gas exploration and development activities are required to perform a ceiling test calculation each quarter. The full cost ceiling test is an impairment test prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is performed quarterly, on a country-by-country basis, utilizing the average of prices in effect on the first day of the month for the preceding twelve-month period in accordance with SEC Release No. 33-8995. The ceiling limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved crude oil and natural gas reserves discounted at 10% plus the lower of cost or market value of unproved properties less any associated tax effects. If such capitalized costs exceed the ceiling, the Company will record a write-down to the extent of such excess as a non-cash charge to earnings. Any such write-down will reduce earnings in the period of occurrence and results in a lower DD&A rate in future periods. A write-down may not be reversed in future periods even though higher oil and natural gas prices may subsequently increase the ceiling.

The calculation of the ceiling test is based upon estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves, in projecting the future rates of production and in the timing of development activities. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. The Company did not have any write-downs related to the full cost ceiling limitation during the six months ended June 30, 2018 or 2017.

Revenue Recognition. The Company generally sells oil and natural gas under both long-term and short-term agreements at prevailing market prices. During the six months ended June 30, 2018, the Company adopted the new accounting standard, ASC 606, Revenue from Contracts with Customers and all related amendments. See Note 2 for additional details and disclosures related to the Company’s adoption of this standard.

Valuation of Deferred Tax Assets. The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial

statement carrying values and their respective income tax basis (temporary differences).

To assess the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

During the year ended December 31, 2017, the Company recorded an expected benefit for the recovery of the Company's carryforward Alternative Minimum Tax ("AMT") credits. During the six months ended June 30, 2018, the Company recorded

income tax expense of approximately \$0.4 million related to the Internal Revenue Service effect of a 6.6% sequestration rate on the expected AMT credit.

The Company has recorded a valuation allowance against all of its deferred tax assets as of June 30, 2018. Some or all of this valuation allowance may be reversed in future periods against future income. On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted into law. The new legislation, which became effective on January 1, 2018, decreased the U.S. corporate federal income tax rate from 35% to 21%. The TCJA also included a number of provisions, including the elimination of loss carrybacks and limitations on the use of future losses, repeal of the AMT regime, the limitation on the deductibility of certain expenses, including interest expense, and changes in the way that capital costs are recovered.

Deferred Financing Costs. The Company follows ASU No. 2015-3, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, and includes the costs for issuing debt, including issuance discounts, except those related to the Revolving Credit Facility, as a direct deduction from the carrying amount of the related debt liability. Costs related to the issuance of the Revolving Credit Facility are recorded as an asset in the Consolidated Balance Sheets.

Conversion of Barrels of Oil to Mcfe of Gas. The Company converts Bbls of oil and other liquid hydrocarbons to Mcfe at a ratio of one Bbl of oil or liquids to six Mcfe. This conversion ratio, which is typically used in the oil and gas industry, represents the approximate energy equivalent of a barrel of oil or other liquids to an Mcf of natural gas. The sales price of one Bbl of oil or liquids has been much higher than the sales price of six Mcf of natural gas over the last several years, so a six to one conversion ratio does not represent the economic equivalency of six Mcf of natural gas to a Bbl of oil or other liquids.

Recent accounting pronouncements:

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (“ASU No. 2016-02”). The guidance requires that lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU will also require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. To facilitate compliance with this ASU, the Company has formed an implementation work team, developed a project plan, educated departments affected by the standard, begun the process of reviewing its contract portfolio and continues to evaluate its systems, processes, and internal controls during 2018. In January 2018, the FASB issued ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842 (“ASU No. 2018-01”), which permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity’s adoption of this ASU and that were not previously accounted for as leases. For public companies, the standards will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with earlier application permitted. Ultra will adopt this ASU on January 1, 2019. As permitted by ASU 2018-11, Leases (Topic 842): Targeted Improvements, the Company does not expect to adjust comparative-period financial statements. The Company is still evaluating the impact of ASU No. 2016-02 and ASU No. 2018-01 on its consolidated financial statements.

Stock Compensation. In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) (“ASU No. 2017-09”), which is intended to clarify and reduce diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The Company adopted ASU 2017-09 on January 1, 2018 and the implementation of this ASU did not have a material impact on the Company’s consolidated financial statements.

Derivatives. In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) (“ASU No. 2017-12”), which makes significant changes to the current hedge accounting rules. The new guidance impacts the designation of hedging relationships; measurement of hedging relationships; presentation of the effects of hedging relationships; assessment of hedge effectiveness; and disclosures. The guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The Company does not expect the adoption of ASU No. 2017-12 to have a material impact on its consolidated financial statements.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and in 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and ASU 2016-10, Revenues from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and industry-specific guidance in Subtopic 932-605, Extractive Activities - Oil and Gas - Revenue Recognition. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

On January 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (the “new revenue standard”) to all contracts entered into in 2017 using the modified retrospective method. We recorded a net addition to beginning retained earnings of \$1.8 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact related to changing from the entitlements method to the sales method to account for wellhead imbalances. The impact to revenues for the six months ended June 30, 2018 is immaterial to the overall consolidated financial statements as a result of applying Topic 606. The comparative information has not been restated and continues to be reported under the accounting standards for those periods. See Note 2 for further details related to the adoption of this standard. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an on-going basis.

RESULTS OF OPERATIONS:

	For the Quarter			For the Six Months			
	Ended Ended June 30, 2018	2017	% Variance	Ended June 30, 2018	2017	% Variance	
(Amounts in thousands, except per unit data)							
Production, Commodity Prices and Revenues:							
Production:							
Natural gas (Mcf)	66,892	63,067	6 %	135,128	123,056	10 %	
Crude oil and condensate (Bbl)	667	675	(1) %	1,345	1,338	1 %	
Total production (Mcf)	70,894	67,118	6 %	143,198	131,084	9 %	
Commodity Prices:							
Natural gas (\$/Mcf, excluding hedges)	\$2.11	\$2.85	(26) %	\$2.39	\$3.00	(20) %	
Natural gas (\$/Mcf, including realized hedges)	\$2.28	\$2.84	(20) %	\$2.48	\$2.99	(17) %	
Oil and condensate (\$/Bbl, excluding hedges)	\$64.71	\$45.51	42 %	\$62.79	\$46.39	35 %	
Oil and condensate (\$/Bbl, including realized hedges)	\$58.24	\$45.51	28 %	\$59.31	\$46.39	28 %	
Revenues:							
Natural gas sales	\$141,255	\$179,997	(22) %	\$322,716	\$368,848	(13) %	
Oil sales	43,167	30,732	40 %	84,451	62,081	36 %	
Other revenues	5,716	1,928	196 %	8,344	2,687	211 %	
Total operating revenues	\$190,138	\$212,657	(11) %	\$415,511	\$433,616	(4) %	
Derivatives:							
Realized gain (loss) on commodity derivatives	\$6,662	\$(868)	(868) %	\$7,736	\$(868)	(991) %	
Unrealized gain (loss) on commodity derivatives	(53,933)	21,585	(350) %	(61,539)	8,367	(835) %	
Total gain (loss) on commodity derivatives	\$(47,271)	\$20,717	(328) %	\$(53,803)	\$7,499	(817) %	
Operating Costs and Expenses:							
Lease operating expenses	\$23,645	\$23,089	2 %	\$45,409	\$46,225	(2) %	
Facility lease expense	\$6,526	\$5,226	25 %	\$12,682	\$10,452	21 %	
Production taxes	\$18,883	\$21,754	(13) %	\$42,153	\$43,887	(4) %	
Gathering fees	\$24,181	\$20,642	17 %	\$47,238	\$41,571	14 %	
Depletion, depreciation and amortization	\$51,742	\$38,673	34 %	\$102,282	\$70,427	45 %	
General and administrative expenses	\$2,063	\$25,009	(92) %	\$14,752	\$26,061	(43) %	

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Per Unit Costs and Expenses (\$/Mcf):								
Lease operating expenses	\$0.33	\$0.34	(3)%	\$0.32	\$0.35	(9)%
Facility lease expense	\$0.09	\$0.08	13	%	\$0.09	\$0.08	13	%
Production taxes	\$0.27	\$0.32	(16)%	\$0.29	\$0.33	(12)%
Gathering fees	\$0.34	\$0.31	10	%	\$0.33	\$0.32	3	%
Depletion, depreciation and amortization	\$0.73	\$0.58	26	%	\$0.71	\$0.54	31	%
General and administrative expenses	\$0.03	\$0.37	(92)%	\$0.10	\$0.20	(50)%

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Quarter Ended June 30, 2018 vs. Quarter Ended June 30, 2017

Production, Commodity Derivatives and Revenues:

Production. During the quarter ended June 30, 2018, total production increased on a gas equivalent basis to 70.9 Bcfe compared to 67.1 Bcfe for the same period in 2017. The increase is primarily attributable to an increase in capital investment and development activity, partially offset by a decrease in Mcf/day due to the sale of the non-core assets in Pennsylvania during the fourth quarter of 2017.

Commodity Prices – Natural Gas. During the quarter ended June 30, 2018, realized natural gas prices, including realized gains and losses on commodity derivatives, decreased 20% to \$2.28 per Mcf as compared to \$2.84 per Mcf for the same period in 2017. The Company has entered into various natural gas price commodity derivative contracts with contract periods extending through the first quarter of 2020. See Note 7 for additional details. During the quarter ended June 30, 2018, the Company's average price, excluding realized gains and losses on commodity derivatives, for natural gas was \$2.11 per Mcf as compared to \$2.85 per Mcf for the same period in 2017.

Commodity Prices – Oil. During the quarter ended June 30, 2018, the average price realization for the Company's oil, including realized gains and losses on commodity derivatives, increased to \$58.24 per barrel as compared to \$45.51 per barrel for the same period in 2017. The Company has entered into various oil price commodity derivative contracts with contract periods extending through the first quarter of 2020. See Note 7 for additional details. During the quarter ended June 30, 2018, the Company's average price for oil, excluding realized gains and losses on commodity derivatives, was \$64.71 per barrel as compared to \$45.51 per barrel for the same period in 2017.

Revenues. During the quarter ended June 30, 2018, revenues decreased to \$190.1 million as compared to \$212.7 million for the same period in 2017. This decrease is primarily attributable to the decrease in average natural gas prices and partially offset by the increase in total production and average oil prices.

Operating Costs and Expenses:

Lease Operating Expense. Lease operating expense ("LOE") increased slightly to \$23.6 million during the quarter ended June 30, 2018 as compared to \$23.1 million during the same period in 2017. On a unit of production basis, LOE costs decreased to \$0.33 per Mcfe during the quarter ended June 30, 2018 as compared with \$0.34 per Mcfe during the same period in 2017, primarily due to increased total production during the period ended June 30, 2018.

Facility Lease Expense. During December 2012, the Company sold a system of liquids gathering pipelines and central gathering facilities (the "LGS") and certain associated real property rights in the Pinedale Anticline in Wyoming. The Company entered into a long-term, triple net lease agreement with the buyer relating to the use of the LGS (the "Lease Agreement"). The Lease Agreement provides for an initial term of 15 years, and annual rent of \$20.0 million during the initial term (as adjusted annually for changes based on the consumer price index), which may increase if certain volume thresholds are exceeded. The lease is classified as an operating lease. For the quarter ended June 30, 2018, the Company recognized operating lease expense associated with the Lease Agreement of \$6.5 million, or \$0.09 per Mcfe, as compared to \$5.2 million, or \$0.08 per Mcfe for the same period in 2017.

Production Taxes. During the quarter ended June 30, 2018, production taxes decreased to \$18.9 million compared to \$21.8 million during the same period in 2017, or \$0.27 per Mcfe compared to \$0.32 per Mcfe, respectively. Production taxes are primarily calculated based on a percentage of revenue from production in Wyoming and Utah after certain deductions and were 9.9% of revenues for the quarter ended June 30, 2018 and 10.2% of revenues for the same period in 2017. The decrease in per unit taxes was primarily attributable to decreased natural gas prices during the quarter ended June 30, 2018 as compared to the same period in 2017.

Gathering Fees. During the quarter ended June 30, 2018, gathering fees increased to \$24.2 million compared to \$20.6 million during the same period in 2017, largely related to increased production. On a per unit basis, gathering fees increased to \$0.34 per Mcfe for the quarter ended June 30, 2018 compared with \$0.31 per Mcfe for the same period in 2017.

Depletion, Depreciation and Amortization. During the quarter ended June 30, 2018, DD&A expense increased to \$51.7 million compared to \$38.7 million for the same period in 2017. The increase is primarily attributable to a higher depletion rate due to a higher depletable base from the increase in capital expenditures as part of the Company's drilling program and as a result of increased production volumes during the quarter ended June 30, 2018. On a unit of production basis, the DD&A rate increased to \$0.73 per Mcfe for the quarter ended June 30, 2018 compared to \$0.58 per Mcfe for the same period in 2017.

General and Administrative Expenses. During the quarter ended June 30, 2018, general and administrative expenses decreased to \$2.1 million as compared to \$25.0 million for the same period in 2017. The decrease is primarily attributable to the \$25.4 million of non-cash stock incentive compensation expense that was incurred during the quarter ended June 30, 2017 as part of the Management Incentive Plan, in which tranche one became fully vested on the Effective Date. See Note 5 for additional details. On a per unit basis, general and administrative expenses decreased to \$0.03 per Mcfe for the quarter ended June 30, 2018 compared to \$0.37 per Mcfe for the same period in 2017.

Other Income and Expenses:

Interest Expense. During the quarter ended June 30, 2018, interest expense of \$37.7 million increased as compared to \$29.4 million during the same period in 2017. The increase is primarily attributable to an increase in interest expense on the Term Loan as the amount borrowed increased year over year and increased borrowings on the Revolving Credit Facility during the quarter ended June 30, 2018. See Note 4 for additional details related to the Revolving Credit Facility, Term Loan Agreement, and the Notes.

Deferred Gain on Sale of Liquids Gathering System. During the quarters ended June 30, 2018 and 2017, the Company recognized \$2.6 million in deferred gain on the sale of the LGS and certain associated real property rights in the Pinedale Anticline in Wyoming during December 2012.

Commodity Derivatives:

Gain (Loss) on Commodity Derivatives. During the quarter ended June 30, 2018, the Company recognized a loss of \$47.3 million, as compared to a gain of \$20.7 million related to commodity derivatives for the same period in 2017. Of this total, the Company recognized \$6.7 million related to a realized gain on commodity derivatives during the quarter ended June 30, 2018 compared with \$0.9 million related to a realized loss on commodity derivatives during the same period in 2017. The realized gain or loss on commodity derivatives relates to actual amounts received or paid under the Company's derivative contracts. This amount also includes an unrealized loss of \$53.9 million on commodity derivatives during the quarter ended June 30, 2018, as compared to an unrealized gain of \$21.6 million during the same period in 2017. The unrealized gain or loss on commodity derivatives represents the non-cash charge attributable to the change in the fair value of these derivative instruments over the remaining term of the contract. See Note 7 for additional details.

Reorganization Items:

Reorganization Items, Net. Reorganization items, net was \$426.8 million during the quarter ended June 30, 2017. The \$426.8 million incurred is comprised of expenses of \$4.3 million in professional fees, settlements, and interest income associated with the Company's chapter 11 proceedings and a gain of \$431.1 million on the debt for equity exchanged of the 2018 Notes and 2024 Notes. See Note 10 for additional details.

Income from Continuing Operations:

Pretax Income. During the quarter ended June 30, 2018, the Company recognized loss before income taxes of \$20.5 million compared to income before income taxes of \$499.0 million for the same period in 2017. The decrease in earnings is largely attributable to the gain on the debt for equity exchange of the 2018 Notes and 2024 Notes recognized in the second quarter of 2017 related to the Company's emergence from chapter 11 proceedings. See Note 10 for additional details.

Income Taxes. The Company has recorded a valuation allowance against all deferred tax assets as of June 30, 2018. Some or all of this valuation allowance may be reversed in future periods against future income.

Net Income. During the quarter ended June 30, 2018, the Company recognized net loss of \$20.6 million, or \$0.10 per diluted share, as compared to net income of \$499.0 million, or \$2.76 per diluted share, for the same period in 2017. The decrease in earnings is largely attributable to the gain on the debt for equity exchange of the 2018 Notes and 2024 Notes recognized in the second quarter of 2017 related to the Company's emergence from chapter 11 proceedings. See Note 10 for additional details.

Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017

Production, Commodity Derivatives and Revenues:

Production. During the six months ended June 30, 2018, total production increased by 9% on a gas equivalent basis to 143.2 Bcfe compared to 131.1 Bcfe for the same period in 2017, primarily attributable to an increase in capital investment and development activity and partially offset by the sale of the non-core assets in Pennsylvania during the fourth quarter of 2017.

Commodity Prices – Natural Gas. Realized natural gas prices, including realized gains and losses on commodity derivatives, decreased 17% to \$2.48 per Mcf during the six months ended June 30, 2018 as compared to \$2.99 per Mcf for the same period in 2017. During the six months ended June 30, 2018, the Company entered into additional natural gas price commodity derivative contracts with contract periods extending through the first quarter of 2020. See Note 7 for additional details. During the six months ended June 30, 2018, the Company's average price for natural gas excluding realized gains and losses on commodity derivatives was \$2.39 per Mcf as compared to \$3.00 per Mcf for the same period in 2017.

Commodity Prices – Oil. Realized oil prices, including realized gains and losses on commodity derivatives, increased to \$59.31 per barrel during the six months ended June 30, 2018 as compared to \$46.39 per barrel for the same period in 2017. During the six months ended June 30, 2018, the Company entered into additional oil price commodity derivative contracts with contract periods extending through the first quarter of 2020. See Note 7 for additional details. During the six months ended June 30, 2018, the Company's average price for oil excluding realized gains and losses on commodity derivatives was \$62.79 per barrel as compared to \$46.39 per barrel for the same period in 2017.

Revenues. Decreased average natural gas prices, partially offset by increased production and average oil prices, resulted in revenues decreasing to \$415.5 million for the six months ended June 30, 2018 as compared to \$433.6 million for the same period in 2017.

Operating Costs and Expenses:

Lease Operating Expense. LOE decreased to \$45.4 million during the six months ended June 30, 2018 compared to \$46.2 million during the same period in 2017, primarily related to field efficiencies in Wyoming and the sale of non-core assets in Pennsylvania during the fourth quarter of 2017. On a unit of production basis, LOE costs decreased to \$0.32 per Mcfe during the six months ended June 30, 2018 compared to \$0.35 per Mcfe during the same period in 2017.

Facility Lease Expense. During December 2012, the Company sold the LGS and certain associated real property rights in the Pinedale Anticline in Wyoming and the Company entered into the Lease Agreement. The Lease Agreement provides for an initial term of 15 years, and annual rent of \$20.0 million during the initial term (as adjusted annually for changes based on the consumer price index) and may increase if certain volume thresholds are exceeded. For the six months ended June 30, 2018, the Company recognized operating lease expense associated with the Lease Agreement of \$12.7 million, or \$0.09 per Mcfe, as compared to \$10.5 million, or \$0.08 per Mcfe, for the same period in 2017.

Production Taxes. During the six months ended June 30, 2018, production taxes were \$42.2 million compared to \$43.9 million during the same period in 2017, or \$0.29 per Mcfe compared to \$0.33 per Mcfe. Production taxes are primarily calculated based on a percentage of revenue from production in Wyoming and Utah after certain deductions and were 10.1% of revenues for the six months ended June 30, 2018 and 10.1% of revenues for the same period in 2017. The decrease in per unit taxes is primarily attributable to decreased natural gas prices during the six months

ended June 30, 2018 as compared to the same period in 2017.

Gathering Fees. Gathering fees increased to \$47.2 million for the six months ended June 30, 2018 compared to \$41.6 million during the same period in 2017, largely related to increased production. On a per unit basis, gathering fees increased slightly to \$0.33 per Mcfe for the six months ended June 30, 2018 compared to \$0.32 per Mcfe for the same period in 2017.

Depletion, Depreciation and Amortization. DD&A expenses increased to \$102.3 million during the six months ended June 30, 2018 from \$70.4 million for the same period in 2017, primarily attributable to a higher depletion rate due to a higher depletable base from the increase in capital expenditures as part of the Company's drilling program and the recognition of proved undeveloped properties for the six months ended June 30, 2018 as compared to the same period in 2017 as the Company did not emerge from chapter 11 proceedings until the second quarter of 2017. On a unit of production basis, the DD&A rate increased to \$0.71 per Mcfe for the six months ended June 30, 2018 compared to \$0.54 per Mcfe for the six months ended June 30, 2017.

General and Administrative Expenses. General and administrative expenses decreased to \$14.8 million for the six months ended June 30, 2018 compared to \$26.1 million for the same period in 2017. The decrease is primarily attributable to the \$25.2 million of non-cash stock incentive compensation expense that was incurred during the quarter ended June 30, 2017 as part of the Management Incentive Plan, in which tranche one became fully vested on the Effective Date. See Note 5 for additional details. On a per unit basis, general and administrative expenses decreased to \$0.10 per Mcfe for the six months ended June 30, 2018 compared to \$0.20 per Mcfe for the six months ended June 30, 2017.

Other Income and Expenses:

Interest Expense. Interest expense decreased to \$73.6 million during the six months ended June 30, 2018 compared to \$114.9 million during the same period in 2017. The decrease in interest expense is primarily attributable to recurring interest expense on the Revolving Credit Facility, Term Loan Agreement, and the Notes incurred during the six months ended June 30, 2018, as compared to non-recurring accrued postpetition interest for the period beginning from April 29, 2016 through April 12, 2017, which related to our chapter 11 proceedings, recognized in the six months ended June 30, 2017. See Note 4 for additional details related to the Revolving Credit Facility, Term Loan Agreement, and the Notes, and see Note 10 for additional details related to our chapter 11 proceedings.

Contract Settlement Expense. During the six months ended June 30, 2017, the Company incurred \$52.7 million in expense primarily related to the Sempra Rockies Marketing, LLC (“Sempra”) settlement. Sempra filed a claim in 2016 against the Company in regard to an alleged breach of contract, and the Company reached a settlement in April 2017. There were no material contract settlement expenses for the same period in 2018.

Deferred Gain on Sale of Liquids Gathering System. During the six months ended June 30, 2018 and 2017, the Company recognized \$5.3 million in deferred gain on the sale of the LGS and certain associated real property rights in the Pinedale Anticline in Wyoming during December 2012.

Commodity Derivatives:

Gain (Loss) on Commodity Derivatives. During the six months ended June 30, 2018, the Company recognized a loss of \$53.8 million related to commodity derivatives as compared to \$7.5 million related to commodity derivatives during the same period in 2017. Of this total, the Company recognized \$7.7 million related to realized gain on commodity derivatives during the six months ended June 30, 2018 as compared with \$0.9 million related to a realized loss on commodity derivatives during the same period in 2017. The realized gain or loss on commodity derivatives relates to actual amounts received or paid under the Company’s derivative contracts. This gain or loss on commodity derivatives also includes a \$61.5 million unrealized loss on commodity derivatives for the six months ended June 30, 2018 as compared to a \$8.4 million unrealized gain on commodity derivatives for the same period in 2017. The unrealized gain or loss on commodity derivatives represents the non-cash charge attributable to the change in the fair value of these derivative instruments over the remaining term of the contract. See Note 7 for additional details.

Reorganization Items:

Reorganization Items, Net. Reorganization items, net was \$369.3 million for the six months ended June 30, 2017. The \$369.3 million is primarily comprised of expenses of \$61.8 million in professional fees, settlements, and interest income associated with the Company’s chapter 11 proceedings and a gain of \$431.1 million, which represents the gain on the debt for equity exchange related to the 2018 Notes and 2024 Notes. See Note 10 for additional details.

Income from Continuing Operations:

Pretax Income. The Company recognized income before income taxes of \$27.4 million for the six months ended June 30, 2018 compared to \$409.3 million for the same period in 2017. The decrease in earnings is primarily attributable to the gain on the debt for equity exchange related to the 2018 Notes and 2024 Notes recognized during the six months ended June 30, 2017 as part of the Company's emergence from chapter 11 proceedings. See Note 10 for additional details.

Income Taxes. The Company recorded a \$0.4 million tax expense for the six months ended June 30, 2018 related to the revised sequestration rate of 6.6% on the expected AMT credit. The Company has recorded a valuation allowance against all deferred tax assets as of June 30, 2018. Some or all of this valuation allowance may be reversed in future periods against future income.

At December 31, 2017, the Company had approximately \$2.1 billion of U.S. federal tax net operating loss carryforwards that expire at various dates from 2033 through 2037 and approximately \$102.2 million of Utah state tax net operating loss carryforwards that expire at various dates from 2033 through 2037.

Given the significant complexity of the TCJA and anticipated additional implementation guidance from the Internal Revenue Service, further implications of TCJA may be identified in future periods. Amounts recorded in the consolidated financial statements are provisional.

Net Income. For the six months ended June 30, 2018, the Company recognized net income of \$26.9 million, or \$0.14 per diluted share, as compared to \$409.3 million, or \$3.12 per diluted share, for the same period in 2017. The decrease in earnings is primarily attributable to the gain on the debt for equity exchange related to the 2018 Notes and 2024 Notes recognized during the six months ended June 30, 2017 as part of the Company's emergence from chapter 11 proceedings. See Note 10 for additional details.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended June 30, 2018, we funded our operations primarily through cash flows from operating activities and borrowings under the Revolving Credit Facility (defined below). At June 30, 2018, the Company reported a cash position of \$5.7 million. At June 30, 2018, the Company had \$58.0 million in outstanding borrowings and \$367.0 million of available borrowing capacity under the Revolving Credit Facility.

Given the current level of volatility in the market and the unpredictability of certain costs that could potentially arise in our operations, the Company's liquidity needs could be significantly higher than the Company currently anticipates. The Company's ability to maintain adequate liquidity depends on the prevailing market prices for oil and natural gas, the successful operation of the business, and appropriate management of operating expenses and capital spending. The Company's anticipated liquidity needs are highly sensitive to changes in each of these and other factors.

Capital Expenditures. For the six month period ended June 30, 2018, total capital expenditures were \$251.0 million. During this period, the Company participated in 76 gross (53.3 net) wells in Wyoming that were drilled to total depth and cased. The wells drilled to total depth and cased included 61 gross (42.3 net) vertical wells and 15 gross (11.0 net) horizontal wells. No wells are scheduled to be drilled in Utah during 2018.

2018 Capital Investment Plan. For 2018, our capital expenditures are expected to be approximately \$400.0 million. We expect to fund these capital expenditures through cash flows from operations, borrowings under the Revolving Credit Facility (defined below), and cash on hand. We expect to allocate nearly all of the budget to development activities in our Pinedale field in Wyoming.

Ultra Resources, Inc.

Credit Agreement. In April 2017, Ultra Resources, Inc. ("Ultra Resources"), as the borrower, entered into a Credit Agreement (as amended, the "Credit Agreement") with the Company and UP Energy Corporation, as parent guarantors, with Bank of Montreal, as administrative agent, and with the other lenders party thereto from time to time, providing for a revolving credit facility (the "Revolving Credit Facility") for an aggregate amount of \$400.0 million and an initial borrowing base of \$1.2 billion (which limits the aggregate amount of first lien debt under the Revolving Credit Facility and the Term Loan Agreement (defined below)). In September 2017, the administrative agent and the other lenders approved an increase in the borrowing base under the Revolving Credit Facility from \$1.2 billion to \$1.4 billion as requested by the Company, which included an increase in the commitments under the Revolving Credit Facility to an aggregate amount of \$425.0 million. In April 2018, the administrative agent and the other lenders

reaffirmed the borrowing base at \$1.4 billion. There are no scheduled borrowing base redeterminations until October 1, 2018. At June 30, 2018, Ultra Resources had \$58.0 million in outstanding borrowings under the Revolving Credit Facility, total commitments under the Revolving Credit Facility of \$425.0 million and a borrowing base of \$1.4 billion.

The Revolving Credit Facility has capacity for Ultra Resources to increase the commitments subject to certain conditions, and has \$50.0 million of the commitments available for the issuance of letters of credit. The Revolving Credit Facility bears interest either at a rate equal to (a) a customary London interbank offered rate plus an applicable margin that varies from 250 to 350 basis points or (b) the base rate plus an applicable margin that varies from 150 to 250 basis points. If borrowings are outstanding during a period that the Company's consolidated net leverage ratio exceeds 4.00 to 1.00 at the end of any fiscal quarter, the interest rate on such borrowings shall be at a per annum rate that is 0.25% higher than the rate that would otherwise

apply until the Company has provided financial statements indicating that the consolidated net leverage ratio no longer exceeds 4.00 to 1.00. The Revolving Credit Facility loans mature on January 12, 2022.

The Revolving Credit Facility requires Ultra Resources to maintain (i) an interest coverage ratio of 2.50 to 1.00; (ii) a current ratio, including the unused portion of the Revolving Credit Facility, of 1.00 to 1.00; (iii) a consolidated net leverage ratio that does not exceed (a) 4.50 to 1.00, during the period ending on the last day of the fiscal quarter ending June 30, 2019, (b) 4.25 to 1.00, during the period beginning on the last day of the fiscal quarter ending September 30, 2019 and ending on the last day of the fiscal quarter ending December 31, 2019, and (c) 4.00 to 1.00 beginning on the last day of the fiscal quarter ending on March 31, 2020; and (iv) after the Company has obtained investment grade rating, an asset coverage ratio of 1.50 to 1.00. At June 30, 2018, Ultra Resources was in compliance with all of its debt covenants under the Revolving Credit Facility.

Under the Revolving Credit Facility, the Company is subject to the following minimum hedging requirements: through September 29, 2019, the Company is required to hedge a minimum of 65% of the quarterly projected volumes of natural gas from its proved developed producing (“PDP”) reserves; and during the period beginning on September 30, 2019 and ending on March 30, 2020, the Company is required to hedge a minimum of 50% of the quarterly projected volumes of natural gas from PDP reserves. Beginning April 1, 2020, the Company will no longer be subject to a minimum hedging requirement. The Company expects to comply with these requirements prior to September 29, 2019 and to remain in compliance with these requirements while the requirements remain effective.

Ultra Resources is required to pay a commitment fee on the average daily unused portion of the Revolving Credit Facility, which varies based upon a borrowing base utilization grid. Ultra Resources is also required to pay customary letter of credit and fronting fees.

The Revolving Credit Facility also contains customary affirmative and negative covenants, including, among other things, as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), delivery of quarterly and annual financial statements and oil and gas engineering reports, maintenance and operation of property (including oil and gas properties), restrictions on the incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments, hedging requirements and other customary covenants.

The Revolving Credit Facility contains customary events of default and remedies for credit facilities of this nature. If Ultra Resources does not comply with the financial and other covenants in the Revolving Credit Facility, the lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Revolving Credit Facility and any outstanding unfunded commitments may be terminated.

Term Loan. In April 2017, Ultra Resources, as borrower, entered into a Senior Secured Term Loan Agreement with the Company and UP Energy Corporation, as parent guarantors, Barclays Bank PLC, as administrative agent, and the other lenders party thereto (the “Term Loan Agreement”), providing for senior secured first lien term loans for an aggregate amount of \$800.0 million consisting of an initial term loan in the amount of \$600.0 million and an incremental term loan in the amount of \$200.0 million to be drawn immediately after the funding of the initial term loan. In September 2017, the Company closed an incremental senior secured term loan offering of \$175.0 million, increasing total borrowings under the Term Loan Agreement to \$975.0 million. As part of the Term Loan Agreement, Ultra Resources agreed to pay an original issue discount equal to one percent of the principal amount, which is included in deferred financing costs noted in the table above. The Term Loan Agreement has capacity to increase the commitments subject to certain conditions. At June 30, 2018, Ultra Resources had \$975.0 million in outstanding borrowings under the Term Loan Agreement, including current maturities.

The Term Loan Agreement bears interest either at a rate equal to (a) a customary London interbank offered rate plus 300 basis points or (b) the base rate plus 200 basis points. The Term Loan Agreement amortizes in equal quarterly

installments in aggregate annual amounts equal to 0.25% of the aggregate principal amount beginning on June 30, 2019. The Term Loan Agreement matures on April 12, 2024.

The Term Loan Agreement is subject to mandatory prepayments and customary reinvestment rights. The mandatory prepayments include, without limitation, a prepayment requirement with the total net proceeds from certain asset sales and net proceeds on insurance received on account of any loss of Ultra Resources' property or assets, in each case subject to certain exceptions. In addition, subject to certain exceptions, there is a prepayment requirement if the asset coverage ratio is less than 2.0 to 1.0. To the extent any mandatory prepayments are required, prepayments are applied to prepay the Term Loan Agreement.

The Term Loan Agreement also contains customary affirmative and negative covenants, including as to compliance with laws (including environmental laws, ERISA and anti-corruption laws), delivery of quarterly and annual financial statements and oil and gas engineering reports, maintenance and operation of property (including oil and gas properties), restrictions on the

incurrence of liens, indebtedness, asset dispositions, fundamental changes, restricted payments and other customary covenants. At June 30, 2018, Ultra Resources was in compliance with all of its debt covenants under the Term Loan Agreement.

The Term Loan Agreement contains customary events of default and remedies for credit facilities of this nature. If Ultra Resources does not comply with the financial and other covenants in the Term Loan Agreement, the lenders may, subject to customary cure rights, require immediate payment of all amounts outstanding under the Term Loan Agreement.

Senior Notes. In April 2017, the Company issued \$700.0 million of its 6.875% senior notes due 2022 (the “2022 Notes”) and \$500.0 million of its 7.125% senior notes due 2025 (the “2025 Notes,” and together with the 2022 Notes, the “Notes”) and entered into an Indenture, dated April 12, 2017 (the “Indenture”), among Ultra Resources, as issuer, and the Company and its subsidiaries, as guarantors. The Notes are treated as a single class of securities under the Indenture.

The Notes have not been registered under the Securities Act of 1933, as amended (the “Securities Act”) or any state securities laws, and unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes may be resold to qualified institutional buyers pursuant to Rule 144A under the Securities Act or to non-U.S. persons pursuant to Regulation S under the Securities Act.

The 2022 Notes will mature on April 15, 2022. The interest payment dates for the 2022 Notes are April 15 and October 15 of each year. The 2025 Notes will mature on April 15, 2025. The interest payment dates for the 2025 Notes are April 15 and October 15 of each year. Interest will be paid on the Notes from the issue date until maturity.

Prior to April 15, 2019, Ultra Resources may, at any time or from time to time, redeem in the aggregate up to 35% of the aggregate principal amount of the 2022 Notes, in an amount no greater than the net cash proceeds of certain equity offerings at a redemption price of 106.875% of the principal amount of the 2022 Notes, plus accrued and unpaid interest, if any, to the date of redemption, if at least 65% of the original principal amount of the 2022 Notes remains outstanding and the redemption occurs within 180 days of the closing of such equity offering. In addition, before April 15, 2019, Ultra Resources may redeem all or a part of the 2022 Notes at a redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make-whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date. In addition, on or after April 15, 2019, Ultra Resources may redeem all or a part of the 2022 Notes at redemption prices (expressed as percentages of principal amount) equal to 103.438% for the twelve-month period beginning on April 15, 2019, 101.719% for the twelve-month period beginning April 15, 2020, and 100.000% for the twelve-month period beginning April 15, 2021 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable redemption date on the 2022 Notes.

Prior to April 15, 2020, Ultra Resources may, at any time or from time to time, redeem in the aggregate up to 35% of the aggregate principal amount of the 2025 Notes, in an amount no greater than the net cash proceeds of certain equity offerings at a redemption price of 107.125% of the principal amount of the 2025 Notes, plus accrued and unpaid interest, if any, to the date of redemption, if at least 65% of the original principal amount of the 2025 Notes remains outstanding and the redemption occurs within 180 days of the closing of such equity offering. In addition, before April 15, 2020, Ultra Resources may redeem all or a part of the 2025 Notes at a redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make-whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date. In addition, on or after April 15, 2019, Ultra Resources may redeem all or a part of the 2025 Notes at redemption prices (expressed as percentages of principal amount) equal to 105.344% for the twelve-month period beginning on April 15, 2020, 103.563% for the twelve-month period beginning April 15, 2021, 101.781% for the twelve-month period beginning April 15, 2022, and 100.000% for the twelve-month period beginning April 15, 2023 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable

redemption date on the 2025 Notes.

If Ultra Resources experiences certain change of control triggering events as set forth in the Indenture, each holder of the Notes may require Ultra Resources to repurchase all or a portion of its Notes for cash at a price equal to 101% of the aggregate principal amount of such Notes, plus any accrued but unpaid interest to the date of repurchase.

The Indenture contains customary covenants that restrict the ability of Ultra Resources and the guarantors and certain of its subsidiaries to: (i) sell assets and subsidiary equity; (ii) incur indebtedness; (iii) create or incur certain liens; (iv) enter into affiliate agreements; (v) enter into agreements that restrict distributions from certain restricted subsidiaries and the consummation of mergers and consolidations; (vi) consolidate, merge or transfer all or substantially all of the assets of the Company or any Restricted Subsidiary (as defined in the Indenture); and (vii) create unrestricted subsidiaries. The covenants in the Indenture are subject to important exceptions and qualifications. Subject to conditions, the Indenture provides that the Company and its subsidiaries will no longer be subject to certain covenants when the Notes receive investment grade ratings

from any two of S&P Global Ratings, Moody's Investors Service, Inc., and Fitch Ratings, Inc. At June 30, 2018, Ultra Resources was in compliance with all of its debt covenants under the Notes.

The Indenture contains customary events of default. Unless otherwise noted in the Indenture, upon a continuing event of default, the trustee under the Indenture (the "Trustee"), by notice to the Company, or the holders of at least 25% in principal amount of the then outstanding Notes, by notice to the Company and the Trustee, may, declare the Notes immediately due and payable, except that an event of default resulting from entry into a bankruptcy, insolvency or reorganization with respect to the Company, any Significant Subsidiary (as defined in the Indenture) or group of Restricted Subsidiaries (as defined in the Indenture), that taken together would constitute a Significant Subsidiary, will automatically cause the Notes to become due and payable.

Other long-term obligations: These costs primarily relate to the long-term portion of production taxes payable and asset retirement obligations.

Cash flows provided by (used in):

Operating Activities. During the six months ended June 30, 2018, net cash provided by operating activities was \$205.8 million compared to \$136.5 million for the same period in 2017. The increase in net cash provided by operating activities is largely attributable to the timing of nonrecurring expenses related to the Company's reorganization under chapter 11 proceedings and partially offset by decreased oil and natural gas prices.

Investing Activities. During the six months ended June 30, 2018, net cash used in investing activities was \$272.0 million as compared to \$220.3 million for the same period in 2017. The increase in net cash used in investing activities is largely related to increased capital investments associated with the Company's drilling activities during the six months ended June 30, 2017.

Financing Activities. During the six months ended June 30, 2018, net cash provided by financing activities was \$55.3 million as compared to \$120.3 million for the same period in 2017. The change in net cash provided by financing activities is primarily due to the restructuring of debt and equity as part of the Company's emergence from chapter 11 proceedings during the six months ended June 30, 2017. See Note 10 for additional details.

OFF BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements as of June 30, 2018.

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, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") 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 the Company's 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 are forward-looking statements. The Company can give no assurances that the assumptions upon which such forward-looking statements are based will prove to be correct nor can the Company assure adequate funding will be available to execute the Company's planned future capital program.

Other risks and uncertainties include, but are not limited to, fluctuations in the price the Company receives for oil and gas production, reductions in the quantity of oil and gas sold due to increased industry-wide demand and/or curtailments in production from specific properties due to mechanical, marketing or other problems, operating and capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates and/or from the number of exploration and development opportunities being greater or fewer than currently anticipated and increased financing costs due to a significant increase in interest rates. See the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional risks related to the Company's business.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Objectives and Strategy: The Company is exposed to commodity price risk. The following quantitative and qualitative information is provided about financial instruments to which we were a party at June 30, 2018, and from which we may incur future gains or losses from changes in commodity prices. We do not enter into derivative or other financial instruments for speculative or trading purposes.

The Company's major market risk exposure is in the pricing applicable to its natural gas and oil production. Realized pricing is currently driven primarily by the prevailing price for the Company's natural gas production. Historically, prices received for natural gas production have been volatile and unpredictable. Pricing volatility is expected to continue. The prices we receive for our production depend on many factors outside of our control, including volatility in the differences between product prices at sales points and the applicable index price.

The Company relies on various types of derivative instruments to manage its exposure to commodity price risk and to provide a level of certainty in the Company's forward cash flows supporting the Company's capital investment program. These types of instruments may include fixed price swaps, costless collars, or basis differential swaps. These contracts are financial instruments, and do not require or allow for physical delivery of the hedged commodity. While mitigating the effects of fluctuating commodity prices, these derivative contracts may limit the benefits we would receive from increases in commodity prices above the fixed hedge prices.

The Company's hedging policy limits the volumes hedged to not be greater than 50% of its forecasted production volumes without Board approval. During the quarter and six months ended June 30, 2018, the Board approved all commodity derivative hedge contracts for volumes exceeding 50% of forecasted production volumes.

Fair Value of Commodity Derivatives: FASB ASC 815 requires that all derivatives be recognized on the Consolidated Balance Sheets as either an asset or liability and be measured at fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. The Company does not apply hedge accounting to any of its derivative instruments.

Derivative contracts that do not qualify for hedge accounting treatment are recorded as derivative assets and liabilities at fair value on the Consolidated Balance Sheets and the associated unrealized gains and losses are recorded as current expense or income in the Consolidated Statements of Operations. Unrealized gains or losses on commodity derivatives represent the non-cash change in the fair value of these derivative instruments and do not impact operating cash flows on the cash flow statement. See Note 7 for the detail of the fair value of the following derivatives.

Commodity Derivative Contracts: At June 30, 2018, the Company had the following open commodity derivative contracts to manage commodity price risk. For the fixed price swaps, the Company receives the fixed price for the contract and pays the variable price to the counterparty. For the basis swaps, the Company receives a fixed price for the difference between two sales points for a specified commodity volume over a specified time period. The reference prices of these commodity derivative contracts are typically referenced to index prices as published by independent third parties.

Year	Index	Total Volumes	Weighted Average Price per Unit	Fair Value June 30, 2018
				-

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		(in millions)		Asset (Liability)
Natural gas fixed price swaps		(Mmbtu)	(\$/Mmbtu)	
2018 (July through December)	NYMEX-Henry Hub	141.1	\$ 2.89	\$ (9,430)
2019	NYMEX-Henry Hub	167.3	\$ 2.85	(4,557)
2020	NYMEX-Henry Hub	15.5	\$ 2.76	(2,662)
Natural gas basis swaps (1)		(Mmbtu)	(\$/Mmbtu)	
2018 (July through December)	NW Rockies Basis Swap	94.6	\$ (0.68)	\$ (3,176)
2019	NW Rockies Basis Swap	84.5	\$ (0.70)	(848)
2020	NW Rockies Basis Swap	—	\$ —	—
Crude oil fixed price swaps		(Bbl)	(\$/Bbl)	
2018 (July through December)	NYMEX-WTI	1.2	\$ 60.53	\$ (12,050)
2019	NYMEX-WTI	1.7	\$ 58.83	(11,645)
2020	NYMEX-WTI	.09	\$ 60.05	(204)

⁽¹⁾Represents swap contracts that fix the basis differentials for gas sold at or near Opal, Wyoming and the value of natural gas established on the last trading day of the month by the NYMEX for natural gas swaps for the respective period.

Subsequent to June 30, 2018 and through July 24, 2018, the Company has entered into the following open commodity derivative contracts to manage commodity price risk.

Type	Index	Total Volumes (in millions)	Weighted Average Price per Unit
Natural gas basis swaps (1)		(Mmbtu)	(\$/Mmbtu)
2018 (August through October)	NYMEX-Henry Hub	6.4	\$ (0.48)

⁽¹⁾Represents swap contracts that fix the basis differentials for gas sold at or near Opal, Wyoming and the value of natural gas established on the last trading day of the month by the NYMEX for natural gas swaps for the respective period.

The following table summarizes the pre-tax realized and unrealized gain (loss) the Company recognized related to its derivative instruments in the Consolidated Statements of Operations for the quarter and six months ended June 30, 2018 and 2017:

	For the Quarter Ended Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Commodity Derivatives:				
Realized gain (loss) on commodity derivatives - natural gas (1)	\$ 10,982	\$(868)	\$ 12,426	\$(868)
Realized loss on commodity derivatives - oil (1)	(4,320)	—	(4,690)	—
Unrealized gain (loss) on commodity derivatives (1)	(53,933)	21,585	(61,539)	8,367
Total gain (loss) on commodity derivatives	\$(47,271)	\$ 20,717	\$(53,803)	\$ 7,499

⁽¹⁾Included in (Loss) gain on commodity derivatives in the Consolidated Statements of Operations. The realized gain or loss on commodity derivatives relates to actual amounts received or paid or to be received or paid under the Company's derivative contracts and the unrealized gain or loss on commodity derivatives represents the change in the fair value of these derivative instruments over the remaining term of the contract.

ITEM 4 — CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has performed an evaluation under the supervision and with the participation of our management, including our Interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. The Company's disclosure controls and procedures are the controls and other procedures that it has designed to ensure that it records, processes, accumulates and communicates information to the Company's management, including its Interim Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and submissions within the time periods specified in the SEC's rules and forms. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those determined to be effective can provide only a reasonable assurance with respect to financial statement preparation and presentation. Based on the evaluation, the Company's management, including its Interim Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other Claims: See Note 9 for additional discussion of on-going claims and disputes in our chapter 11 proceedings, certain of which may be material. The Company is also currently involved in various routine disputes and allegations incidental to its business operations. While it is not possible to determine or predict 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

Our business has many risks. Any of the risks discussed in this Quarterly Report on Form 10-Q or in our other SEC filings, could have a material impact on our business, financial position, or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. There have been no material changes to the risks described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. This information should be considered carefully, together with other information in this report and other reports and materials we file with the SEC.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

- 2.1 Debtors' Second Amended Joint Chapter 11 Plan of Reorganization (incorporated by reference to Exhibit A of the Order Confirming Debtors' Second Amended Joint Chapter 11 Plan of Reorganization, filed as Exhibit 99.1 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on March 16, 2017).
- 3.1 Articles of Reorganization of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 8-A filed by Ultra Petroleum Corp. on April 12, 2017).
- 3.2 Second Amended and Restated Bylaw No. 1 of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on March 12, 2018).
- 4.1 Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on April 18, 2017).
- 4.2 Indenture dated April 12, 2017 among Ultra Resources, Inc., Ultra Petroleum Corp., the subsidiary guarantors party thereto and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on April 18, 2017).
- 10.1 Second Amendment to Credit Agreement dated April 19, 2018, by and among Ultra Resources, Inc. as a Borrower, Bank of Montreal as Administrative Agent for the Lenders, and each of the Lenders party thereto. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on April 20, 2018).
- 10.2 Employment Agreement of Jerald J. "Jay" Stratton dated May 31, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on June 1, 2018).
- 10.3 Ultra Petroleum Corp. 2017 Stock Incentive Plan, as amended and restated June 8, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on June 14, 2018).
- 10.4 Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Ultra Petroleum Corp. on June 14, 2018).
- *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.
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Calculation Linkbase Document.

101.LAB* XBRL Label Linkbase Document.

101.PRE* XBRL Presentation Linkbase Document.

101.DEF* XBRL Taxonomy Extension Definition.

*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.

By: /s/ Brad Johnson
Name: Brad Johnson
Title: Interim Chief Executive Officer

Date: August 9, 2018

By: /s/ Garland R. Shaw
Name: Garland R. Shaw
Title: Senior Vice President and

Chief Financial Officer

Date: August 9, 2018