ULTRA PETROLEUM CORP
Form 10-Q
October 27, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2016

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 E., **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 x 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 x NO ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of common shares, without par value, of Ultra Petroleum Corp., outstanding as of October 19, 2016 was 153,398,599.

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30, 2016	2015	For the Nine Months Ended September 30, 2016	2015
	(Unaudited) (Amounts in thousands of U.S. dollars, except per share data)			
Revenues:				
Natural gas sales	$ 170,996	$ 188,457	$ 425,878	$ 536,477
Oil sales	28,257	34,046	79,352	113,332
Total operating revenues	199,253	222,503	505,230	649,809
Expenses:				
Lease operating expenses	19,934	28,567	67,164	82,464
Liquids gathering system operating lease expense	5,171	5,162	15,514	15,485
Production taxes	20,688	19,813	49,394	56,892
Gathering fees	21,159	23,114	65,112	65,359
Transportation charges	49	21,310	23,750	62,577
Depletion, depreciation and amortization	31,192	92,806	93,274	279,762
General and administrative	1,595	4,567	7,196	10,629
Total operating expenses	99,788	195,339	321,404	573,168
Operating income	99,465	27,164	183,826	76,641
Other income (expense), net:				
Interest expense (excludes contractual interest expense of $46.8 million and $78.8 million for the three and nine months ended September 30, 2016, respectively)		(43,137)	(66,565)	(128,426)
Gain on commodity derivatives		9,390		42,608
Deferred gain on sale of liquids gathering system	2,638	2,638	7,915	7,915
Litigation expense				(4,401)
Restructuring expenses	(28)		(7,176)	
Other (expense) income, net	(514)	(284)	(2,436)	(323)
Total other income (expense), net	2,096	(31,393)	(68,262)	(82,627)
Reorganization items, net	(3,109)		(25,292)	
Income (loss) before income tax provision (benefit)	98,452	(4,229)	90,272	(5,986)
Income tax provision (benefit)	45	(1,133)	(305)	(3,405)
Net income (loss)	$ 98,407	$ (3,096)	$ 90,577	$ (2,581)
Net income (loss) per common share basic	$ 0.64	$ (0.02)	$ 0.59	$ (0.02)

Net income (loss) per common share diluted	$	0.64	$	(0.02)	$	0.59	$	(0.02)
Weighted average common shares outstanding basic		153,392		153,250		153,368		153,171
Weighted average common shares outstanding diluted		154,121		153,250		154,077		153,171

See accompanying notes to consolidated financial statements.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (Unaudited)	December 31, 2015
	(Amounts in thousands of U.S. dollars, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 343,520	$ 4,143
Restricted cash	3,461	115
Oil and gas revenue receivable	66,892	61,881
Joint interest billing and other receivables	10,498	11,356
Deposits and retainers	13,453	236
Income tax receivable	5,384	5,150
Inventory	3,790	4,269
Other current assets	5,006	4,064
Total current assets	452,004	91,214
Oil and gas properties, net, using the full cost method of accounting:		
Proven	958,764	851,145
Property, plant and equipment, net	7,810	8,844
Deferred income taxes		1
Other	1,653	835
Total assets	$ 1,420,231	$ 952,039
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 24,336	$ 93,415
Accrued liabilities	46,067	72,428
Production taxes payable	63,255	52,273
Current portion of long-term debt		3,370,553
Interest payable		42,657
Capital cost accrual	9,761	20,571
Total current liabilities	143,419	3,651,897
Deferred gain on sale of liquids gathering system	118,380	126,295
Other long-term obligations	164,809	165,784
Total liabilities not subject to compromise	426,608	3,943,976
Liabilities subject to compromise	3,889,544	
Commitments and contingencies (Note 8)		
Shareholders equity:		
Common stock no par value; authorized unlimited; issued and outstanding 153,395,431 and 153,255,989 at September 30, 2016 and December 31, 2015, respectively	507,807	502,050
Treasury stock	(49)	(176)
Retained loss	(3,403,679)	(3,493,811)

Total shareholders deficit	(2,895,921)	(2,991,937)
Total liabilities and shareholders equity	$ 1,420,231	$ 952,039

See accompanying notes to consolidated financial statements.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(Unaudited) (Amounts in thousands of U.S. dollars)	
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the period	$ 90,577	$ (2,581)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depletion, depreciation and amortization	93,274	279,762
Deferred income tax benefit	1	(744)
Unrealized loss on commodity derivatives		84,675
Deferred gain on sale of liquids gathering system	(7,915)	(7,915)
Stock compensation	3,967	5,509
Non-cash reorganization items, net	22,588	
Other	6,618	6,295
Net changes in operating assets and liabilities:		
Restricted cash	(3,346)	2
Accounts receivable	(6,782)	49,604
Other current assets	(14,871)	(616)
Other non-current assets	(818)	
Accounts payable	(67,828)	(6,898)
Accrued liabilities	(3,102)	(4,469)
Production taxes payable	10,982	3,785
Interest payable	57,118	(4,577)
Other long-term obligations	(9,431)	7,040
Income taxes payable/receivable	(234)	2,333
Net cash provided by operating activities	170,798	411,205
Investing Activities:		
Acquisition of oil and gas properties		3,964
Oil and gas property expenditures	(189,511)	(390,874)
Change in capital cost accrual	(10,730)	(20,585)
Inventory	136	3,177
Purchase of capital assets	3	(669)
Net cash used in investing activities	(200,102)	(404,987)
Financing activities:		
Borrowings under Credit Agreement	369,000	936,000
Payments on long-term debt		(906,000)
Deferred financing costs		6
Repurchased shares/net share settlements	(319)	(2,507)
Payment of contingent consideration		(17,049)
Net cash provided by financing activities	368,681	10,450
Increase in cash and cash equivalents during the period	339,377	16,668
Cash and cash equivalents, beginning of period	4,143	8,919
Cash and cash equivalents, end of period	$ 343,520	$ 25,587

See accompanying notes to consolidated financial statements.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

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 Green River Basin of Wyoming the Pinedale and Jonah fields, its oil reserves in the Uinta Basin in Utah and its natural gas reserves in the Appalachian Basin of Pennsylvania.

Chapter 11 Proceedings, Ability to Continue as a Going Concern

Chapter 11 Proceedings

On April 29, 2016 (the Petition Date), to restructure their respective obligations and capital structures, the Company and each of its direct and indirect wholly owned subsidiaries (collectively, the Debtors) 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). The Debtors chapter 11 cases are being jointly administered for procedural purposes under the caption In re Ultra Petroleum Corp., et al, Case No. 16-32202 (MI) (Bankr. S.D. Tex.). Information about our chapter 11 cases is available at our website (www.ultrapetroleum.com) and also at a website maintained by our claims agent, Epiq Systems (http://dm.epiq11.com/UPT/Docket).

We are currently operating our business as a debtor-in-possession in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. After we filed our chapter 11 petitions, the Bankruptcy Court granted certain relief we requested enabling us to conduct our business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing us to pay employee wages and benefits, pay taxes and certain governmental fees and charges, continue to operate our cash management system in the ordinary course, remit funds we hold from time to time for the benefit of third parties (such as royalty owners), and pay the prepetition claims of certain of our vendors that hold liens under applicable non-bankruptcy law. For goods and services provided following the Petition Date, we intend to pay vendors in full under normal terms.

Subject to certain exceptions provided for in section 362 of the Bankruptcy Code, all judicial and administrative proceedings against us or our property were automatically enjoined, or stayed, as of the Petition Date. In addition, the filing of new judicial or administrative actions against us or our property for claims arising prior to the date on which our chapter 11 cases were filed were automatically enjoined. This prohibits, for example, our lenders or noteholders from pursuing claims for defaults under our debt agreements and our contract counterparties from pursuing claims for defaults under our contracts. Accordingly, unless the Bankruptcy Court agrees to lift the automatic stay, all of our prepetition liabilities and obligations should be settled or compromised under the Bankruptcy Code as part of our chapter 11 proceedings.

Our operations and ability to execute our business remain subject to the risks and uncertainties described in Item 1A, Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2015 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016. In addition, our assets, liabilities, including our capital structure, shareholders, officers and/or directors could change materially

ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

because of our chapter 11 cases. In addition, the description of our operations, properties and capital plans included in this Quarterly Report on Form 10-Q may not accurately reflect our operations, properties and capital plans after we emerge from chapter 11.

Creditors Committees Appointment & Formation

On May 5, 2016, the United States Trustee for the Southern District of Texas appointed an official committee for unsecured creditors of all of the Debtors (the UCC). On September 26, 2016, the United States Trustee for the Southern District of Texas filed a Notice of Reconstitution of the UCC. In addition, certain other stakeholders have organized for purposes of participating in the Debtors chapter 11 cases: (i) on June 8, 2016, an informal ad hoc committee of unsecured creditors of our subsidiary, Ultra Resources, Inc., notified the Bankruptcy Court it had formed and identified its members; (ii) on June 13, 2016, an informal ad hoc committee of the holders of senior notes issued by the Company notified the Bankruptcy Court it had formed and identified its members; and (iii) on July 20, 2016, an informal ad hoc committee of shareholders of the Company notified the Bankruptcy Court it had formed and identified its members. We expect each of the committees to be involved in our chapter 11 cases, and any disagreements with any of the committees may extend our chapter 11 cases, increase the cost of our chapter 11 cases, and/or delay our emergence from chapter 11.

Exclusivity; Plan of Reorganization

The Bankruptcy Code provides chapter 11 debtors-in-possession with the exclusive right to file a plan of reorganization under chapter 11 through a period of time specified in the Bankruptcy Code, which period may be extended by the Bankruptcy Court. On July 27, 2016, we filed a motion seeking an extension of the exclusive chapter 11 plan filing period. At a hearing conducted on August 25, 2016, the Bankruptcy Court extended our exclusive right to file a plan of reorganization under chapter 11 through and including March 1, 2017, and to solicit acceptances of such plan through and including May 1, 2017, subject to our producing and delivering a long-term business plan prior to December 1, 2016.

We plan to emerge from our chapter 11 cases after we obtain approval from the Bankruptcy Court for a chapter 11 plan of reorganization. Among other things, a chapter 11 plan of reorganization will determine the rights and satisfy the claims of our prepetition creditors and security holders. The terms and conditions of a chapter 11 plan of reorganization will be determined through negotiations with our stakeholders and, possibly, decisions by the Bankruptcy Court.

Under the absolute priority scheme established by the Bankruptcy Code, unless our creditors agree otherwise, all of our prepetition liabilities and postpetition liabilities must be satisfied in full before the holders of our existing common stock can receive any distribution or retain any property under a chapter 11 plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation and implementation of a plan or plans of reorganization. We can give no assurance that any recovery or distribution of any amount will be made to any of our creditors or shareholders. Our plan of reorganization could result in any of the holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. Moreover, a plan of reorganization can be confirmed, under the Bankruptcy Code, even if the holders of our common stock vote against the plan and even if the plan provides that the holders of our common stock receive no distribution on account of their equity interests.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Liabilities Subject to Compromise

We have applied Accounting Standards Codification (ASC) 852, Reorganizations, in preparing the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. In addition, the consolidated financial statements presented here include amounts classified as liabilities subject to compromise. This amount represents estimates of known or potential prepetition claims expected to be resolved in connection with our chapter 11 proceedings. Additional amounts may be included in liabilities subject to compromise in future periods if we elect to reject executory contracts and unexpired leases as part of our chapter 11 cases. Due to the uncertain nature of many of the potential claims, the magnitude of potential claims is not reasonably estimable at this time. Potential claims not currently included with liabilities subject to compromise in our Consolidated Balance Sheets may be material. In addition, differences between amounts we are reporting as liabilities subject to compromise in this Quarterly Report on Form 10-Q and the amounts attributable to such matters claimed by our creditors or approved by the Bankruptcy Court may be material. We will continue to evaluate our liabilities throughout the chapter 11 process, and we plan to make adjustments in future periods as necessary and appropriate. Such adjustments may be material.

Under the Bankruptcy Code, we may assume, assign, or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and certain other conditions. If we reject a contract or lease, such rejection generally (1) is treated as a prepetition breach of the contract or lease, (2) subject to certain exceptions, relieves the Debtors of performing their future obligations under such contract or lease, and (3) entitles the counterparty thereto to a prepetition general unsecured claim for damages caused by such deemed breach. If we assume an executory contract or unexpired lease, we are generally required to cure any existing monetary defaults under such contract or lease and provide adequate assurance of future performance to the counterparty. Accordingly, any description of an executory contract or unexpired lease in this Quarterly Report on Form 10-Q, including any quantification of our obligations under any such contract or lease, is wholly qualified by the rejection rights we have under the Bankruptcy Code. Further, nothing herein is or shall be deemed an admission with respect to any claim amounts or calculations arising from the rejection of any executory contract or unexpired lease and we expressly preserve all of our rights with respect thereto.

The following table summarizes the components of liabilities subject to compromise included in our Consolidated Balance Sheets as of September 30, 2016:

	September 30, 2016
Accounts payable	$ 1,251
Accrued liabilities	6,333
Accrued interest payable	99,774
Debt	3,759,000
Other terminated contracts	23,186
Liabilities subject to compromise	$ 3,889,544

Schedules and Statements Magnitude of Potential Claims & Claims Resolution Process

On June 8, 2016, each of the Debtors filed a Schedule of Assets and Liabilities and Statement of Financial Affairs (collectively, the Schedules and Statements) with the Bankruptcy Court setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith. On October 14, 2016, Ultra Wyoming LGS, LLC (UWLGS), one of the Debtors and our indirect, wholly owned

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

subsidiary, filed an amendment to its Schedules and Statements. The Schedules and Statements are subject to further amendment or modification. Certain holders of prepetition claims were required to file proofs of claim by the deadline for filing certain proofs of claims in the Debtors chapter 11 cases, which deadline was September 1, 2016, for prepetition general unsecured claims and October 26, 2016, for governmental claims. Differences between amounts scheduled by the Debtors and claims by creditors will be investigated and resolved in connection with the claims resolution process. In light of the expected number of creditors, the claims resolution process may take considerable time to complete and we will likely continue after our emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

To the best of our knowledge, we have notified all of our known current or potential creditors that the Debtors have filed chapter 11 cases. The Schedules and Statements set forth, among other things, the assets and liabilities of each of the Debtors, including executory contracts to which each of the Debtors is a party, are subject to the qualifications and assumptions included therein and amendment or modification as our chapter 11 cases proceed.

Through the claims resolution process, differences in amounts scheduled by the Debtors and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate.

Many of the claims identified in the Schedules and Statements are listed as disputed, contingent or unliquidated. In addition, there are differences between the amounts for certain claims listed in the Schedules and Statements and the amounts claimed by our creditors. Such differences, as well as other disputes and contingencies will be investigated and resolved as part of our claims resolution process in our chapter 11 cases. Please refer to Note 8 for additional information about contingent matters and commitments related to certain claims filed in our chapter 11 cases.

Pursuant to the Federal Rules of Bankruptcy Procedure, some creditors who wished to assert prepetition claims against us and whose claims (i) were not listed in the Schedules and Statements or (ii) were listed in the Schedules and Statements as disputed, contingent, or unliquidated, were required to file a proof of claim with the Bankruptcy Court prior to the bar date set by the court. The bar date for non-governmental creditors was September 1, 2016, and the bar date for governmental creditors was October 26, 2016.

The claims filed against the Debtors to date are voluminous. Further, it is possible that claimants will file amended or modified claims in the future, including modifications or amendments to assign values to claims originally filed with no designated value. The amended or modified claims may be material.

We plan to investigate and evaluate all filed claims in connection with our plan of reorganization. As a part of the claims resolution process, we anticipate working to resolve differences in amounts we listed in our Schedules and Statements and amounts of claims filed by our creditors. We have already identified, for example, claims that we believe should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. We will file objections with the Bankruptcy Court as necessary for claims we believe should be disallowed.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Tax Attributes; Net Operating Loss Carryforwards

We have substantial tax net operating loss carryforwards and other tax attributes. Under the U.S. Internal Revenue Code, our ability to use these net operating losses and other tax attributes may be limited if we experience a change of control, as determined under the U.S. Internal Revenue Code. Accordingly, we obtained an order from the Bankruptcy Court that is intended to protect our ability to use our tax attributes by imposing certain notice procedures and transfer restrictions on the trading of the Company s common stock.

In general, the order applies to any person or entity that, directly or indirectly, beneficially owns (or would beneficially own as a result of a proposed transfer) at least 4.5% of the Company s common stock. Such persons are required to notify us and the Bankruptcy Court before effecting a transaction that might result in us losing the ability to use our tax attributes, and we have the right to seek an injunction to prevent the transaction if it might adversely affect our ability to use our tax attributes.

Any purchase, sale or other transfer of our equity securities in violation of the restrictions of the order is null and void ab initio as an act in violation of a Bankruptcy Court order and would therefore confer no rights on a proposed transferee.

Costs of Reorganization

We have incurred and will continue to incur significant costs associated with our reorganization and the chapter 11 proceedings. We expect these costs, which are being expensed as incurred, will significantly affect our results of operations. In addition, a non-cash charge to write-off the unamortized debt issuance costs related to our funded indebtedness is included in Reorganization items, net as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases. 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 three and nine months ended September 30, 2016:

	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2016
Professional fees(1)	$ 3,215	$ 6,797
Deferred financing costs(2)		18,742
Other(3)	(106)	(247)
Total Reorganization items, net	$ 3,109	$ 25,292

(1) The nine months ended September 30, 2016 includes $3.8 million directly related to accrued, unpaid professional fees associated with the chapter 11 filings.

(2)

A non-cash charge to write-off all of the unamortized debt issuance costs related to the unsecured Credit Agreement, unsecured Senior Notes issued by Ultra Resources, Inc., the unsecured 2018 Senior Notes issued by the Company and the unsecured 2024 Senior Notes issued by the Company is included in Reorganization items, net as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Ability to Continue as a Going Concern

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of our chapter 11 proceedings. We have significant indebtedness, all of which we have reclassified to liabilities subject to compromise at September 30, 2016. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. As a result of our financial condition, the defaults under our debt agreements, and the risks and uncertainties surrounding our chapter 11 proceedings, substantial doubt exists that we will be able to continue as a going concern.

1. SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements, other than the balance sheet data as of December 31, 2015, 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, 2015 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 generally accepted accounting principles and normally included in annual reports on Form 10-K. You should read these interim financial statements together with the financial statements, summary of significant accounting policies and notes to the Company s most recent annual report on Form 10-K.

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 U.S. GAAP. All inter-company transactions and balances have been eliminated upon consolidation.

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

(b) *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.

(c) *Accounts Receivable:* 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.

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

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(e) *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 for the nine months ended September 30, 2016 or 2015.

(f) *Deferred Financing Costs:* During the quarter ended June 30, 2016, a non-cash charge to write-off all of the unamortized debt issuance costs related to the unsecured Credit Agreement, unsecured Senior Notes (as

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defined below) issued by Ultra Resources, Inc., the unsecured 2018 Senior Notes (as defined below) issued by the Company and the unsecured 2024 Senior Notes (as defined below) issued by the Company is included in Reorganization items, net in the accompanying Consolidated Statements of Operations as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases. At December 31, 2015, other current assets includes costs associated with the issuance of our revolving credit facility while costs associated with the issuance of our Senior Notes, 2018 Notes and 2024 Notes are presented as a direct deduction from the carrying amount of the related debt liability.

(g) *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 6).

(h) *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.

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(i) *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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Share amounts in 000 s)			
Net income (loss)	$ 98,407	$ (3,096)	$ 90,577	$ (2,581)
Weighted average common shares outstanding basic	153,392	153,250	153,368	153,171
Effect of dilutive instruments	729		709	
Weighted average common shares outstanding diluted	154,121	153,250	154,077	153,171
Net income (loss) per common share basic	$ 0.64	$ (0.02)	$ 0.59	$ (0.02)
Net income (loss) per common share diluted	$ 0.64	$ (0.02)	$ 0.59	$ (0.02)
Number of shares not included in dilutive earnings per share that would have been anti-dilutive because the exercise price was greater than the average market price of the commonshares(1)(2)	503		1,450	

(1) Due to the net loss for the nine months ended September 30, 2015, 1.7 million shares for options and restricted stock units were anti-dilutive and excluded from the computation of net loss per share.

(2) Due to the net loss for the three months ended September 30, 2015, 1.6 million shares for options and restricted stock units were anti-dilutive and excluded from the computation of net loss per share.

(j) *Use of Estimates:* Preparation of consolidated financial statements in accordance with U.S. 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.

(k) *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.

(l) *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 7 for additional information.

(m) *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

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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.

(n) *Revenue Recognition:* The Company generally sells oil and natural gas under both long-term and short-term agreements at prevailing market prices. The Company recognizes revenues when the oil and natural gas is delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. The Company accounts for oil and natural gas sales using the entitlements method. Under the entitlements method, revenue is recorded based upon the Company s ownership share of volumes sold, regardless of whether it has taken its ownership share of such volumes. Any amount received in excess of the Company s share is treated as a liability. If the Company receives less than its entitled share, the underproduction is recorded as a receivable.

Make-up provisions and ultimate settlements of volume imbalances are generally governed by agreements between the Company and its partners with respect to specific properties or, in the absence of such agreements, through negotiation. The value of volumes over- or under-produced can change based on changes in commodity prices. The Company prefers the entitlements method of accounting for oil and natural gas sales because it allows for recognition of revenue based on its actual share of jointly owned production, results in better matching of revenue with related operating expenses, and provides balance sheet recognition of the estimated value of product imbalances. The Company s imbalance obligations as of September 30, 2016 and December 31, 2015 were immaterial.

(o) *Capitalized Interest:* Interest is capitalized on the cost of unevaluated gas and oil properties that are excluded from amortization and actively being evaluated, if any.

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

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

(r) *Deposits and Retainers:* Deposits and retainers primarily consists of payments related to surety bonds.

(s) *Recent Accounting Pronouncements not yet Adopted:* In March 2016, the FASB issued Accounting Standards Update (ASU) 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU No. 2016-09) to simplify some of the provisions in stock compensation accounting. The update simplifies the accounting for a stock payment s tax consequences and amends how excess tax benefits and a business s payments to cover the tax bills for the shares recipients should be classified. The amendments allow companies to estimate the number of stock awards expected to vest and revises the withholding requirements for classifying stock awards as equity. For public companies, the standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 with earlier application permitted. The Company is still evaluating the impact of ASU No. 2016-09 on its financial position and results of operations.

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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. For public companies, the standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with earlier application permitted. The Company is still evaluating the impact of ASU No. 2016-02 on its financial position and results of operations.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (ASU No. 2015-11). Public companies will have to apply the amendments for reporting periods that start after December 15, 2016, including interim periods within those fiscal years. This ASU requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The company does not expect the adoption of ASU No. 2015-11 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs.* In August 2015, the FASB issued ASU 2015-15, *Interest Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. These ASUs require capitalized debt issuance costs, except for those related to revolving credit facilities, to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, rather than as an asset. The Company adopted these ASUs on January 1, 2016, using a retrospective approach. The adoption resulted in a reclassification that reduced current assets and current maturities of long-term debt by $19.4 million on the Company s Consolidated Balance Sheet at December 31, 2015. A non-cash charge to write-off all of the unamortized debt issuance costs is included in Reorganization items, net at June 30, 2016 as the related debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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* and require 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. The Company is required to adopt the new standards in the first quarter of 2018 using one of two retrospective application methods. The Company is continuing to evaluate the provisions of these ASUs, and has not determined the impact these standards may have on its consolidated financial statements and related disclosures or decided upon the method of adoption.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU No. 2014-15) that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company s ability to continue as a going concern within one year after the financial statements are issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company s ability to continue as a going concern. ASU No. 2014-15

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becomes effective for annual periods beginning after December 15, 2016 and for interim reporting periods thereafter. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

2. OIL AND GAS PROPERTIES AND EQUIPMENT:

	September 30, 2016	December 31, 2015
Proven Properties:		
Acquisition, equipment, exploration, drilling and abandonment costs	$ 10,672,172	$ 10,480,165
Less: Accumulated depletion, depreciation and amortization	(9,713,408)	(9,629,020)
	$ 958,764	$ 851,145

3. DEBT AND OTHER LONG-TERM OBLIGATIONS:

	September 30, 2016	December 31, 2015
Total Debt:		
6.125% Senior Notes due 2024	$ 850,000	$ 850,000
5.75% Senior Notes due 2018	450,000	450,000
Senior Notes issued by Ultra Resources, Inc.	1,460,000	1,460,000
Credit Agreement	999,000	630,000
Total current portion of long-term debt	3,759,000	3,390,000
Less: Deferred financing costs(1)		(19,447)
Less: Liabilities subject to compromise(2) (See Note 1)	(3,759,000)	
Total current portion of long-term debt not subject to compromise	$	$ 3,370,553
Other long-term obligations:		
Other long-term obligations	$ 164,809	$ 165,784

(1) A non-cash charge to write-off all of the unamortized debt issuance costs related to the unsecured Credit Agreement, unsecured Senior Notes issued by Ultra Resources, Inc., the unsecured 2018 Senior Notes issued by the Company and the unsecured 2024 Senior Notes issued by the Company is included in Reorganization items, net in the Consolidated Statements of Operations as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases.

(2) We have significant indebtedness, all of which we have reclassified to liabilities subject to compromise at June 30, 2016 and continued to classify as liabilities subject to compromise at September 30, 2016 in the Consolidated Balance Sheets. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. As a result of our financial condition, the defaults under our debt agreements and the risks and uncertainties surrounding our chapter 11 proceedings, substantial doubt exists that we will be able to continue as a going concern.

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Ultra Resources, Inc.

Bank indebtedness. Ultra Resources, Inc. (Ultra Resources), a wholly owned subsidiary of the Company, is a party to the Credit Agreement. Ultra Resources obligations under the Credit Agreement are guaranteed by the Company and UP Energy Corporation, a wholly owned subsidiary of the Company.

Ultra Resources filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated its obligations under the Credit Agreement. Other events of default are also present with respect to the Credit Agreement, including a failure to make interest payments and, as described below, a failure to deliver annual audited consolidated financial statements without a going concern qualification, a failure to meet the minimum PV-9 ratio covenant and a failure to comply with the consolidated leverage covenant in the Credit Agreement at the end of the first quarter of 2016. The Credit Agreement provides that upon the acceleration of Ultra Resources obligations under the Credit Agreement, the outstanding balance of loans extended under the Credit Agreement comes due, unpaid interest accrued as of the time of the acceleration comes due, and any fees or other obligations of the borrower come due. Under the Bankruptcy Code, the creditors under the Credit Agreement are stayed from taking any action against Ultra Resources or any of the other Debtors as a result of the default.

Prior to April 29, 2016, loans under the Credit Agreement bore interest, at the borrower s option, based on (A) a rate per annum equal to the prime rate or the weighted average fed funds rate on overnight transactions during the preceding business day plus a margin based on a grid of the borrower s consolidated leverage ratio, or (B) a base Eurodollar rate, substantially equal to the LIBOR rate, plus a margin based on a grid of the borrower s consolidated leverage ratio.

The Credit Agreement requires us to deliver annual audited, consolidated financial statements for the Company without a going concern or like qualification or explanation. On March 15, 2016, we delivered an audit report with respect to the financial statements in our 2015 Annual Report on Form 10-K that included an explanatory paragraph expressing uncertainty as to our ability to continue as a going concern.

The Credit Agreement contains a consolidated leverage covenant, pursuant to which Ultra Resources is required to maintain a maximum ratio of its total funded consolidated debt to its trailing four fiscal quarters EBITDAX of 3.5 to 1.0. Based on Ultra Resources EBITDAX for the trailing four fiscal quarters ended March 31, 2016, we were not in compliance with this consolidated leverage covenant at March 31, 2016 (the ratio was 4.6 times at March 31, 2016).

The Credit Agreement contains a PV-9 covenant, pursuant to which Ultra Resources is required to maintain a minimum ratio of the discounted net present value of its oil and gas properties to its total funded consolidated debt of 1.5 times. We were required to report whether we were in compliance with this covenant on April 1, 2016. Based on the PV-9 of its oil and gas properties at December 31, 2015, Ultra Resources failed to comply with the PV-9 ratio covenant under the Credit Agreement (the ratio was 0.9 times at December 31, 2015).

Senior Notes. Ultra Resources has outstanding $1.46 billion of senior notes (Senior Notes) which were issued pursuant to a certain Master Note Purchase Agreement dated as of March 6, 2008 (as amended, supplemented or otherwise modified, the MNPA). The Senior Notes rank pari passu with the Credit Agreement. Payment of the Senior Notes is guaranteed by the Company and by UP Energy Corporation. The Senior Notes are subject to representations, warranties, covenants and events of default similar to those in the Credit Agreement.

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(Unaudited)

Ultra Resources filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated its obligations under the MNPA and the Senior Notes. Other events of default are also present with respect to the MNPA, including a failure to comply with the consolidated leverage covenant at the end of the first quarter of 2016 and a failure to make principal and interest payments due under the Ultra Resources Senior Notes. The MNPA provides that upon the acceleration of Ultra Resources obligations under the MNPA and the Senior Notes, among other matters, the Senior Notes are deemed to have matured, the unpaid principal balance of the Senior Notes comes due, unpaid interest accrued as of the time of the acceleration comes due, and any applicable make-whole amount (as determined pursuant to the MNPA) comes due. Under the Bankruptcy Code, the creditors under the Senior Notes are stayed from taking any action against Ultra Resources or any of the other the Debtors as a result of the default.

The MNPA contains a consolidated leverage covenant, pursuant to which Ultra Resources is required to maintain a maximum ratio of its total funded consolidated debt to its trailing four fiscal quarters EBITDAX of 3.5 to 1.0. Based on Ultra Resources EBITDAX for the trailing four fiscal quarters ended March 31, 2016, we were not in compliance with this consolidated leverage covenant at March 31, 2016 (the ratio was 4.6 times at March 31, 2016).

On March 1, 2016, we failed to make an interest payment of approximately $40.0 million and a principal payment of $62.0 million, each of which was due March 1, 2016 under the terms of the Senior Notes. We entered into a forbearance agreement related to the failure to make these payments with the holders of the Senior Notes, and we filed the chapter 11 petitions without making the payments before the forbearance period expired.

Interest Expense. No interest expense has been recognized with respect to the Credit Agreement or the Senior Notes subsequent to the Petition Date.

Ultra Petroleum Corp. Senior Notes

The Company s filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated the Company s obligations under the 2024 Notes and the 2018 Notes. Additionally, other events of default, including cross-defaults, are present due to the failure to make interest payments and other matters. Under the indentures pursuant to which the 2024 Notes and the 2018 Notes, respectively, were issued, upon the acceleration of the Company s obligations under the 2024 Notes and the 2018 Notes, among other matters, the 2024 Notes and the 2018 Notes, respectively, are deemed to have matured, the unpaid principal balance of the 2024 Notes and the 2018 Notes, respectively, comes due, unpaid interest accrued as of the time of the acceleration comes due, and any applicable premiums (as determined pursuant to the indentures) comes due. Under the Bankruptcy Code, the creditors under the 2024 Notes and the 2018 Notes are stayed from taking any action against the Debtors as a result of the default.

Senior Notes due 2024: On September 18, 2014, the Company issued $850.0 million of 6.125% Senior Notes due 2024 (2024 Notes). The 2024 Notes are general, unsecured senior obligations of the Company and mature on October 1, 2024. The 2024 Notes rank equally in right of payment to all existing and future senior indebtedness of the Company and effectively rank junior to all future secured indebtedness of the Company (to the extent of the value of the collateral securing such indebtedness). The 2024 Notes are not guaranteed by the Company s subsidiaries and, as a result, are structurally subordinated to the indebtedness and other obligations of the Company s subsidiaries. The 2024 Notes are subject to covenants that restrict the Company s ability to incur indebtedness, make distributions and other restricted payments, grant liens, use the proceeds of asset sales, make investments and engage in affiliate transactions.

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Interest due under the 2024 Notes is payable each April 1 and October 1. On April 1, 2016, we elected to defer making an interest payment on the 2024 Notes of approximately $26.0 million due April 1, 2016. The indenture governing the 2024 Notes provides a 30-day grace period for us to make this interest payment. We did not make this interest payment before the end of the grace period, which resulted in an event of default under the indenture governing the 2024 Notes.

Senior Notes due 2018: On December 12, 2013, the Company issued $450.0 million of 5.75% Senior Notes due 2018 (2018 Notes). The 2018 Notes are general, unsecured senior obligations of the Company and mature on December 15, 2018. The 2018 Notes rank equally in right of payment to all existing and future senior indebtedness of the Company and effectively rank junior to all future secured indebtedness of the Company (to the extent of the value of the collateral securing such indebtedness). The 2018 Notes are not guaranteed by the Company s subsidiaries and, as a result, are structurally subordinated to the indebtedness and other obligations of the Company s subsidiaries. The 2018 Notes are subject to covenants that restrict the Company s ability to incur indebtedness, make distributions and other restricted payments, grant liens, use the proceeds of asset sales, make investments and engage in affiliate transactions. Interest due under the 2018 Notes is payable each June 15 and December 15.

The Company s filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated the Company s obligations under the 2024 Notes and the 2018 Notes. Additionally, other events of default, including cross-defaults resulting from the acceleration of indebtedness outstanding under the Credit Agreement and the Ultra Resources Senior Notes, are present due to the failure to make interest payments and other matters. Under the Bankruptcy Code, the creditors under the 2024 Notes and the 2018 Notes are stayed from taking any action against the Debtors as a result of the Company s bankruptcy filings.

Interest Expense. No interest expense has been recognized with respect to the 2024 Notes or the 2018 Notes subsequent to the Petition Date.

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

4. SHARE BASED COMPENSATION:

Valuation and Expense Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total cost of share-based payment plans	$ 1,706	$ 3,963	$ 5,756	$ 8,247
Amounts capitalized in oil and gas properties and equipment	$ 442	$ 1,283	$ 1,789	$ 2,738
Amounts charged against income, before income tax benefit	$ 1,264	$ 2,680	$ 3,967	$ 5,509
Amount of related income tax benefit recognized in income before valuation allowance	$ 503	$ 1,120	$ 1,579	$ 2,303

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Changes in Stock Options and Stock Options Outstanding

The following table summarizes the changes in stock options for the nine months ended September 30, 2016 and the year ended December 31, 2015:

	Number of Options (000 s)	Weighted Average Exercise Price (US Dollars)		
Balance, December 31, 2014	690	$ 25.68	to	$ 98.87
Expired or forfeited	(171)	$ 25.68	to	$ 75.18
Balance, December 31, 2015	519	$ 49.05	to	$ 98.87
Expired or forfeited	(109)	$ 50.48	to	$ 75.18
Balance, September 30, 2016	410	$ 49.05	to	$ 98.87

Performance Share Plans:

Long Term Incentive Plans. The Company offers a Long Term Incentive Plan (LTIP) in order to further align the interests of key employees with shareholders and to give key employees the opportunity to share in the long-term performance of the Company when specific corporate financial and operational goals are achieved. Each LTIP covers a performance period of three years.

Under each LTIP, the Compensation Committee establishes a percentage of base salary for each participant that is multiplied by the participant s base salary at the beginning of the performance period and individual performance level to derive a Long Term Incentive Value as a target value. This target value corresponds to the number of shares of the Company s common stock the participant is eligible to receive if the participant is employed by the Company through the date the award vests and if the target level for all performance measures are met. In addition, each participant is assigned threshold and maximum award levels in the event the Company s actual performance is below or above the target levels.

Time-Based Measure and Performance-Based Measures. For each LTIP award, the Committee establishes time-based and performance-based measures at the beginning of each three-year performance period. For the LTIP awards in 2015 and 2014, the Committee established the following performance-based measures: return on capital employed, debt level, and reserve replacement ratio. The fair value of the time-based and performance-based component of the LTIP award is based on the average high and low market price of the Company s common stock on the date of award.

Market-Based Measure. LTIP awards granted to officers during 2015 and 2014, include an additional performance metric, Total Shareholder Return. The grant-date fair value related to the market-based condition was calculated using a Monte Carlo simulation.

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Valuation Assumptions

The Company estimates the fair value of the market condition related to the LTIP awards on the date of grant using a Monte Carlo simulation with the following assumptions:

	2015 LTIP	2014 LTIP
Volatility of common stock	40.1%	39.0%
Average volatility of peer companies	46.5%	n/a
Average correlation coefficient of peer companies	0.454	n/a
Risk-free interest rate	1.02%	0.66%

Stock-Based Compensation Cost:

For the nine months ended September 30, 2016, the Company recognized $3.3 million in pre-tax compensation expense related to the 2014 and 2015 LTIP awards of restricted stock units as compared to $4.7 million during the nine months ended September 30, 2015 related to the 2013, 2014 and 2015 LTIP awards of restricted stock units. The amounts recognized during the nine months ended September 30, 2016 assume that performance objectives between less than threshold and up to maximum are attained for the 2014 and 2015 LTIP plans. If the Company ultimately attains these performance objectives, the associated total compensation, estimated at September 30, 2016, for each of the three year performance periods is expected to be approximately $9.3 million and $10.1 million related to the 2014 and 2015 LTIP awards of restricted stock units, respectively.

Based on the Company s achievement relative to the 2013 LTIP s performance-based measures, and based on the continued employment with the Company by those participants who received a payment in connection with the 2013 LTIP relative to the 2013 LTIP s time-based measures, during the first quarter of 2016 the Compensation Committee approved payment of the 2013 LTIP. This was the first payment of an LTIP since our LTIPs were modified in 2013 to include time-based and performance-based measures. As such, the Compensation Committee elected to pay the time-based portion of the LTIP awards in cash at the award value and the performance-based portion of the LTIP awards in shares of our common stock. The 2013 LTIP award of restricted stock units was paid in shares of the Company s stock to employees during the first quarter of 2016 and totaled $3.8 million (132,843 net shares).

5. INCOME TAXES:

The Company s overall effective tax rate on pre-tax income was different than the statutory rate of 35% due primarily to valuation allowances.

The Company has recorded a valuation allowance against all deferred tax assets as of September 30, 2016. Some or all of this valuation allowance may be reversed in future periods against future income.

The Company adopted ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,* on a prospective basis in 2015. As a result, the deferred tax assets and liabilities are classified as long-term in the Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. 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. As a result of its hedging activities, the Company may realize prices that are less than or greater than the spot prices that it would have received otherwise.

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.

The Company s hedging policy limits the amounts of resources hedged to not more than 50% of its forecast production without Board approval.

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 and do not impact operating cash flows on the cash flow statement.

Commodity Derivative Contracts: At September 30, 2016, the Company had no open commodity derivative contracts to manage price risk on a portion of its production.

The following table summarizes the pre-tax realized and unrealized (loss) gain the Company recognized related to its derivative instruments in the Consolidated Statements of Operations for the periods ended September 30, 2016 and 2015:

Commodity Derivatives:	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Realized gain on commodity derivatives-natural gas(1)	$	$ 45,300	$	$ 127,283
Unrealized loss on commodity derivatives(1)		(35,910)		(84,675)
Total gain on commodity derivatives	$	$ 9,390	$	$ 42,608

(1) Included in 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.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. 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.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

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.

	September 30, 2016(1)		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
7.31% Notes due March 2016, issued 2009	62,000	64,266	62,000	63,604
4.98% Notes due January 2017, issued 2010	116,000	122,371	116,000	113,420
5.92% Notes due March 2018, issued 2008	200,000	212,433	200,000	191,985
5.75% Notes due December 2018, issued 2013	450,000	389,123	450,000	111,451
7.77% Notes due March 2019, issued 2009	173,000	191,099	173,000	174,488
5.50% Notes due January 2020, issued 2010	207,000	219,783	207,000	185,052
4.51% Notes due October 2020, issued 2010	315,000	322,069	315,000	258,520
5.60% Notes due January 2022, issued 2010	87,000	92,099	87,000	73,034
4.66% Notes due October 2022, issued 2010	35,000	36,228	35,000	25,558
6.125% Notes due October 2024, issued 2014	850,000	741,912	850,000	206,321
5.85% Notes due January 2025, issued 2010	90,000	95,232	90,000	70,756
4.91% Notes due October 2025, issued 2010	175,000	183,614	175,000	115,911
Credit Facility due October 2016	999,000	999,000	630,000	630,000
	$ 3,759,000	$ 3,669,229	$ 3,390,000	$ 2,220,100

(1) At September 30, 2016, the debt included in the table above is a component of liabilities subject to compromise in our Consolidated Balance Sheets. See Note 1.

8. COMMITMENTS AND CONTINGENCIES:

The commencement of the chapter 11 proceedings automatically stayed certain actions against the Company, including actions to collect prepetition liabilities or to exercise control over the property of the Company s bankruptcy estates, and the Company has obtained from the Bankruptcy Court authority to pay certain prepetition claims in the ordinary course of business notwithstanding the commencement of the chapter 11 proceedings. A future plan of reorganization in the chapter 11 proceedings, when confirmed, will provide for the treatment of claims against the Company s bankruptcy estates, including prepetition liabilities that have not otherwise been satisfied or addressed during the chapter 11 proceedings.

Indebtedness Claims

The chapter 11 filings by the Company and its various subsidiaries, including Ultra Resources, constituted events of default under the Company s debt agreements. See Note 3 of this Quarterly Report on Form 10-Q for more information about the debt agreements. On or around September 1, 2016, many of the holders of this

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

indebtedness filed proofs of claim with the Bankruptcy Court, asserting claims for the outstanding balance of the indebtedness, unpaid interest that had accrued by the petition dates, interest that has accrued since the petition dates (including interest at the default rates under the debt agreements), make-whole amounts, and other fees and obligations under the debt agreements. At this time, we are not able to determine the likelihood or range of amounts attributable to claims for postpetition interest, make-whole amounts, or other fees and obligations under the debt agreements. We anticipate these claims will be resolved during our chapter 11 proceedings, although it is possible resolution of some of these matters could occur after we emerge from chapter 11.

Rockies Express Pipeline

On February 26, 2016, we received a letter from Sempra Rockies Marketing, LLC (Sempra) alleging that we were in breach of our Capacity Release Agreement, dated March 5, 2009 (the Capacity Agreement), resulting from nonpayment of fees for transportation service and notifying us that Sempra was authorized to recall the capacity released to us under the Capacity Agreement and to pursue any claims for damages or other remedies to which Sempra was entitled. On March 8, 2016, we received a letter from Sempra notifying us that Sempra was exercising its alleged right to permanently recall the 50,000 MMBtu/day of capacity on the Rockies Express Pipeline pursuant to the Capacity Agreement and that the recall would be effective as of March 9, 2016. On August 25, 2016, Sempra filed a proof of claim with the Bankruptcy Court for $63.8 million. We intend to object to Sempra s proof of claim. Our estimate of the potential exposure in connection with the Capacity Agreement and Sempra s claim filed in our chapter 11 proceedings ranges from $4.2 million, which represents amounts Sempra paid to Rockies Express attributable to the capacity released to us under the Capacity Agreement prior to Sempra s recalling such capacity, to $63.8 million. We anticipate Sempra s claims will be resolved through our chapter 11 proceedings.

On April 4, 2016, we received a demand for payment and notice of enforcement from Rockies Express Pipeline LLC (Rockies Express) in connection with the transportation agreement related to the Rockies Express Pipeline, pursuant to which Rockies Express demanded payment from us of $303.2 million by April 20, 2016.

On April 14, 2016, Rockies Express filed a lawsuit against us in Harris County, Texas alleging breach of contract and seeking damages related to the alleged breach. On August 26, 2016, Rockies Express filed a proof of claim with the Bankruptcy Court for $303.3 million. We intend to object to Rockies Express proof of claim. Our estimate of the potential exposure in connection with the Rockies Express lawsuit and proof of claim ranges from approximately $19.0 million, which represents accrued, unpaid invoices during the first quarter prior to contract termination, to $303.3 million, which excludes potential interest, court costs and attorney fees. Rockies Express is a member of our official committee of unsecured creditors. We anticipate Rockies Express claims will be resolved through our chapter 11 proceedings.

Royalties

On April 19, 2016, the Company received a preliminary determination notice from the 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. During the second quarter of 2016, the Company responded to the preliminary determination asserting the reasonableness of its allocation methodology of such costs, noting several matters we believed should have been considered in the preliminary determination notice. The ONRR unbundling review

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

could ultimately result in an order for payment of additional royalties under the Company s Federal oil and gas leases for current and prior periods. The Company is 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) the Company 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. We dispute SPMT s positions in the letter and its proof of claim, and we intend to object to SPMT s proof of claim. 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. SPMT is a member of our official committee of unsecured creditors. We anticipate SPMT s claims will be resolved through our chapter 11 proceedings.

On April 26, 2016, Big West Oil LLC (Big West) and the Company entered into a Temporary Suspension of Contracts and Interim Crude Oil Purchase and Sale Agreement. Pursuant to the Interim Purchase Agreement, for a period of 180 days after the Petition Date (Suspension Period), the parties suspended performance under the Crude Contracts, provided that the Company would sell and deliver crude oil to Big West during the suspension period. On October 10, 2016, Big West and the Company entered an extension of the Suspension Period through January 21, 2017. On August 30, 2016, Big West filed a proof of claim with the Bankruptcy Court for $32.6 million related to lost profits associated with the Interim Purchase Agreement. We intend to object to Big West s proof of claim. At this time, we are not able to determine the likelihood or range of damages owed to Big West, if any, or, if and when such amounts are assessed, whether such amounts would be material. We anticipate Big West s claims will be resolved through our chapter 11 proceedings.

Other Claims

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

9. SUBSEQUENT EVENTS:

The Company has evaluated the period subsequent to September 30, 2016 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.

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION:

The following are the financial statements of Ultra Petroleum Corp. (the Parent Company), which are included to provide additional information with respect to the Parent Company s results of operations, financial position and cash flows on a stand-alone basis:

CONDENSED STATEMENT OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
General and administrative expense	$ 272	$ 147	$ 334	$ 319
Other income (expense):				
Interest expense (excludes contractual interest expense of $19.5 million and $32.9 million for the three and nine months ended September 30, 2016, respectively)		(20,267)	(26,590)	(60,802)
Income from unconsolidated affiliates	98,756	12,464	191,792	39,709
Guarantee fee income		5,784	6,073	17,240
Other (expense) income	(13)	(2,091)	(64,840)	(1,888)
Reorganization items, net	(19)		(15,758)	
Income (loss) before income tax benefit	98,452	(4,257)	90,343	(6,060)
Income tax expense (benefit)	45	(1,161)	(234)	(3,479)
Net income (loss)	$ 98,407	$ (3,096)	$ 90,577	$ (2,581)

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ULTRA PETROLEUM CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

CONDENSED BALANCE SHEET

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 254	$ 523
Accounts receivable	29,939	64,542
Other current assets	5,422	5,150
Total current assets	35,615	70,215
Other non-current assets		24,197
Total assets	$ 35,615	$ 94,412
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	$	$ 1,283,232
Interest payable		14,166
Accrued and other current liabilities	536	
Total current liabilities	536	1,297,398
Advances from unconsolidated affiliates	1,591,269	1,788,951
Total liabilities not subject to compromise	1,591,805	3,086,349
Liabilities subject to compromise	1,339,732	
Total shareholders deficit	(2,895,922)	(2,991,937)
Total liabilities and shareholders equity	$ 35,615	$ 94,412

CONDENSED STATEMENT OF CASH FLOWS

	For the Nine Months Ended September 30, 2016	2015
Net cash (used in) operating activities	$ (23,927)	$ (51,939)
Investing Activities:		
Dividends received	24,089	73,021
Net cash provided by investing activities	24,089	73,021

Financing Activities:				
Shares re-issued from treasury		(337)		4,712
Deferred financing costs				6
Net share settlements		(94)		
Net cash (used in) provided by financing activities		(431)		4,718
(Decrease) increase in cash during the period		(269)		25,800
Cash and cash equivalents, beginning of period		523		772
Cash and cash equivalents, end of period	$	254	$	26,572

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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 exploration and production company focused on developing its long-life natural gas reserves in the Green River Basin of Wyoming the Pinedale and Jonah fields, its oil reserves in the Uinta Basin in Utah and its natural gas reserves in the Appalachian Basin of Pennsylvania. The Company operates in one industry segment, natural gas and oil exploration and development, within one geographical segment, the United States.

The Company currently conducts operations exclusively in the United States. Substantially all of its 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 and gas sales from wells located in the Appalachian Basin in Pennsylvania. In 2014, the Company repositioned its portfolio to higher returning assets in the western U.S. while divesting lower returning assets in the eastern U.S. Additionally, as part of the acquisition of assets in the Pinedale Field in Sublette County, Wyoming in September 2014 (the SWEPI Transaction), the Company acquired contracts related to NGLs providing the opportunity to realize the benefit of the NGLs from the gas it produces in Wyoming beginning in 2017.

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, and 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 6 to the Company s Consolidated Financial Statements).

During the quarter ended September 30, 2016, the average price realization for the Company s natural gas was $2.62 per Mcf compared with $2.68 per Mcf during the quarter ended September 30, 2015. During the third quarter of 2015, the Company s average price realization for natural gas was $3.33 per Mcf, including realized gains and losses on commodity derivatives. The Company does not currently have any open derivative contracts for natural gas production.

During the quarter ended September 30, 2016, the average price realization for the Company s oil was $41.55 per barrel compared to $39.43 per barrel for the quarter ended September 30, 2015.

Chapter 11 Proceedings, Ability to Continue as a Going Concern

Chapter 11 Proceedings

On April 29, 2016 (the Petition Date), to restructure their respective obligations and capital structures, the Company and each of its direct and indirect wholly owned subsidiaries (collectively, the Debtors) 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). The Debtors chapter 11 cases are being jointly administered for procedural purposes under the caption In re Ultra Petroleum Corp., et al, Case No. 16-32202 (MI) (Bankr. S.D. Tex.). Information about our chapter 11 cases is available at our website (www.ultrapetroleum.com) and also at a website maintained by our claims agent, Epiq Systems (http://dm.epiq11.com/UPT/Docket).

We are currently operating our business as a debtor-in-possession in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. After we filed our chapter 11 petitions, the Bankruptcy Court granted certain relief we requested enabling us to conduct our business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing us to pay employee wages and benefits, pay taxes and certain governmental fees and charges, continue to operate our cash management system in the ordinary course, remit funds we hold from time to time for the benefit of third parties (such as royalty owners), and pay the prepetition claims of certain of our vendors that hold liens under applicable non-bankruptcy law. For goods and services provided following the Petition Date, we intend to pay vendors in full under normal terms.

Subject to certain exceptions provided for in section 362 of the Bankruptcy Code, all judicial and administrative proceedings against us or our property were automatically enjoined, or stayed, as of the Petition Date. In addition, the filing of new judicial or administrative actions against us or our property for claims arising prior to the date on which our chapter 11 cases were filed were automatically enjoined. This prohibits, for example, our lenders or noteholders from pursuing claims for defaults under our debt agreements and our contract counterparties from pursuing claims for defaults under our contracts. Accordingly, unless the Bankruptcy Court agrees to lift the automatic stay, all of our prepetition liabilities and obligations should be settled or compromised under the Bankruptcy Code as part of our chapter 11 proceedings.

Our operations and ability to execute our business remain subject to the risks and uncertainties described in Item 1A, Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2015 and our Quarterly Report on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016. In addition, our assets, liabilities, including our capital structure, shareholders, officers and/or directors could change materially because of our chapter 11 cases. In addition, the description of our operations, properties and capital plans included in this Quarterly Report on Form 10-Q may not accurately reflect our operations, properties and capital plans after we emerge from chapter 11.

Creditors Committees Appointment & Formation

On May 5, 2016, the United States Trustee for the Southern District of Texas appointed an official committee for unsecured creditors of all of the Debtors (the UCC). On September 26, 2016, the United States Trustee for the Southern District of Texas filed a Notice of Reconstitution of the UCC. In addition, certain other stakeholders have organized for purposes of participating in the Debtors chapter 11 cases: (i) on June 8, 2016, an informal ad hoc committee of unsecured creditors of our subsidiary, Ultra Resources, Inc., notified the Bankruptcy Court it had formed and identified its members; (ii) on June 13, 2016, an informal ad hoc committee of the holders of senior notes issued by the Company notified the Bankruptcy Court it had formed and identified its members; and (iii) on July 20, 2016, an informal ad hoc committee of shareholders of the Company notified the Bankruptcy Court it had formed and identified its members. We expect each of the committees to be involved in our chapter 11 cases, and any disagreements with any of the committees may extend our chapter 11 cases, increase the cost of our chapter 11 cases, and/or delay our emergence from chapter 11.

Exclusivity; Plan of Reorganization

The Bankruptcy Code provides chapter 11 debtors-in-possession with the exclusive right to file a plan of reorganization under chapter 11 through a period of time specified in the Bankruptcy Code, which period may be extended by the Bankruptcy Court. On July 27, 2016, we filed a motion seeking an extension of the exclusive chapter 11 plan filing period. At a hearing conducted on August 25, 2016, the Bankruptcy Court extended our exclusive right to file a plan of reorganization under chapter 11 through and including March 1, 2017, and to solicit acceptances of such plan through and including May 1, 2017, subject to our producing and delivering a long-term business plan prior to December 1, 2016.

We plan to emerge from our chapter 11 cases after we obtain approval from the Bankruptcy Court for a chapter 11 plan of reorganization. Among other things, a chapter 11 plan of reorganization will determine the rights and satisfy the claims of our prepetition creditors and security holders. The terms and conditions of a chapter 11 plan of reorganization will be determined through negotiations with our stakeholders and, possibly, decisions by the Bankruptcy Court.

Under the absolute priority scheme established by the Bankruptcy Code, unless our creditors agree otherwise, all of our prepetition liabilities and postpetition liabilities must be satisfied in full before the holders of our existing common stock can receive any distribution or retain any property under a chapter 11 plan of reorganization. The ultimate recovery to creditors and/or shareholders, if any, will not be determined until confirmation and implementation of a plan or plans of reorganization. We can give no assurance that any recovery or distribution of any amount will be made to any of our creditors or shareholders. Our plan of reorganization could result in any of the holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. Moreover, a plan of reorganization can be confirmed, under the Bankruptcy Code, even if the holders of our common stock vote against the plan and even if the plan provides that the holders of our common stock receive no distribution on account of their equity interests.

Liabilities Subject to Compromise

We have applied Accounting Standards Codification (ASC) 852, Reorganizations, in preparing the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. In addition, the consolidated financial statements presented here include amounts classified as liabilities subject to compromise. This amount represents estimates of known or potential prepetition claims expected to be resolved in connection with our chapter 11 proceedings. Additional amounts may be included in liabilities subject to compromise in future periods if we elect to reject executory contracts and unexpired leases as part of our chapter 11 cases. Due to the uncertain nature of many of the potential claims, the magnitude of potential claims is not reasonably estimable at this time. Potential claims not currently included with liabilities subject to compromise in our Consolidated Balance Sheets may be material. In addition, differences between amounts we are reporting as liabilities subject to compromise in this Quarterly Report on Form 10-Q and the amounts attributable to such matters claimed by our creditors or approved by the Bankruptcy Court may be material. We will continue to evaluate our liabilities throughout the chapter 11 process, and we plan to make adjustments in future periods as necessary and appropriate. Such adjustments may be material.

Under the Bankruptcy Code, we may assume, assign, or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and certain other conditions. If we reject a contract or lease, such rejection generally (1) is treated as a prepetition breach of the contract or lease, (2) subject to certain exceptions, relieves the Debtors of performing their future obligations under such contract or lease, and (3) entitles the counterparty thereto to a prepetition general unsecured claim for damages caused by such deemed breach. If we assume an executory contract or unexpired lease, we are generally required to cure any existing monetary defaults under such contract or lease and provide adequate assurance of future performance to the counterparty. Accordingly, any description of an executory contract or unexpired lease in this Quarterly Report on Form 10-Q, including any quantification of our obligations under any such contract or lease, is wholly qualified by the rejection rights we have under the Bankruptcy Code. Further, nothing herein is or shall be deemed an admission with respect to any claim amounts or calculations arising from the rejection of any executory contract or unexpired lease and we expressly preserve all of our rights with respect thereto.

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The following table summarizes the components of liabilities subject to compromise included in our Consolidated Balance Sheets as of September 30, 2016:

	September 30, 2016
Accounts payable	$ 1,251
Accrued liabilities	6,333
Accrued interest payable	99,774
Debt	3,759,000
Other terminated contracts	23,186
Liabilities subject to compromise	$ 3,889,544

Schedules and Statements Magnitude of Potential Claims & Claims Resolution Process

On June 8, 2016, each of the Debtors filed a Schedule of Assets and Liabilities and Statement of Financial Affairs (collectively, the Schedules and Statements) with the Bankruptcy Court setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith. On October 14, 2016, Ultra Wyoming LGS, LLC (UWLGS), one of the Debtors and our indirect, wholly owned subsidiary, filed an amendment to its Schedules and Statements. The Schedules and Statements are subject to further amendment or modification. Certain holders of prepetition claims were required to file proofs of claim by the deadline for filing certain proofs of claims in the Debtors Chapter 11 cases, which deadline was September 1, 2016, for prepetition general unsecured claims and October 26, 2016, for governmental claims. Differences between amounts scheduled by the Debtors and claims by creditors will be investigated and resolved in connection with the claims resolution process. In light of the expected number of creditors, the claims resolution process may take considerable time to complete and we expect will continue after our emergence from bankruptcy. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

To the best of our knowledge, we have notified all of our known current or potential creditors that the Debtors have filed chapter 11 cases. These documents set forth, among other things, the assets and liabilities of each of the Debtors, including executory contracts to which each of the Debtors is a party, are subject to the qualifications and assumptions included therein, and are subject to amendment or modification as our chapter 11 cases proceed.

Through the claims resolution process, differences in amounts scheduled by the Debtors and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate.

Many of the claims identified in the Schedules and Statements are listed as disputed, contingent or unliquidated. In addition, there are differences between the amounts for certain claims listed in the Schedules and Statements and the amounts claimed by our creditors. Such differences, as well as other disputes and contingencies will be investigated and resolved as part of our claims resolution process in our chapter 11 cases. Please refer to Note 8 for additional information about contingent matters and commitments reflected in the claims filed in our chapter 11 cases.

Pursuant to the Federal Rules of Bankruptcy Procedure, some creditors who wished to assert prepetition claims against us and whose claim (i) was not listed in the Schedules and Statements or (ii) was listed in the Schedules and Statements as disputed, contingent, or unliquidated, were required to file a proof of claim with the Bankruptcy Court prior to the bar date set by the court. The bar date for non-governmental creditors was September 1, 2016, and the bar date for governmental creditors was October 26, 2016.

The claims filed against the Debtors to date are voluminous. Further, it is possible that claimants will file amended or modified claims in the future, including modifications or amendments to assign values to claims originally filed with no designated value. The amended or modified claims may be material.

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We plan to investigate and evaluate all filed claims in connection with our plan of reorganization. As a part of the claims resolution process, we anticipate working to resolve differences in amounts we listed in our Schedules and Statements and amounts of claims filed by our creditors. We have already identified, for example, claims that we believe should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. We will file objections with the Bankruptcy Court as necessary for claims we believe should be disallowed.

Tax Attributes; Net Operating Loss Carryforwards

We have substantial tax net operating loss carryforwards and other tax attributes. Under the U.S. Internal Revenue Code, our ability to use these net operating losses and other tax attributes may be limited if we experience a change of control, as determined under the U.S. Internal Revenue Code. Accordingly, we obtained an order from the Bankruptcy Court that is intended to protect our ability to use our tax attributes by imposing certain notice procedures and transfer restrictions on the trading of the Company s common stock.

In general, the order applies to any person or entity that, directly or indirectly, beneficially owns (or would beneficially own as a result of a proposed transfer) at least 4.5% of the Company s common stock. Such persons are required to notify us and the Bankruptcy Court before effecting a transaction that might result in us losing the ability to use our tax attributes, and we have the right to seek an injunction to prevent the transaction if it might adversely affect our ability to use our tax attributes.

Any purchase, sale or other transfer of our equity securities in violation of the restrictions of the order is null and void ab initio as an act in violation of a Bankruptcy Court order and would therefore confer no rights on a proposed transferee.

Costs of Reorganization

We have incurred and will continue to incur significant costs associated with our reorganization and the chapter 11 proceedings. We expect these costs, which are being expensed as incurred, will significantly affect our results of operations. In addition, a non-cash charge to write-off the unamortized debt issuance costs related to our funded indebtedness is included in Reorganization items, net as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases. 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 three and nine months ended September 30, 2016:

	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2016
Professional fees(1)	$ 3,215	$ 6,797
Deferred financing costs(2)		18,742
Other(3)	(106)	(247)
Total Reorganization items, net	$ 3,109	$ 25,292

(1) Represents professional fees related directly to the chapter 11 filings for the quarter and nine months ended September 30, 2016.

(2) A non-cash charge to write-off all of the unamortized debt issuance costs related to the unsecured Credit Agreement, unsecured Senior Notes issued by Ultra Resources, Inc., the unsecured 2018 Senior Notes issued by the Company and the unsecured 2024 Senior Notes issued by the Company is included in Reorganization items, net as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases.

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

Ability to Continue as a Going Concern

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of our chapter 11 proceedings. We have significant indebtedness, all of which we have reclassified to liabilities subject to compromise at September 30, 2016. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. As a result of our financial condition, the defaults under our debt agreements, and the risks and uncertainties surrounding our chapter 11 proceedings, substantial doubt exists that we will be able to continue as a going concern.

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.

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,

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based on estimated fair values. Share-based compensation expense recognized for the nine months ended September 30, 2016 and 2015 was $4.0 million and $5.5 million, respectively. See Note 4 for additional information.

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 nine months ended September 30, 2016 or 2015.

Capitalized Interest. Interest is capitalized on the cost of unevaluated gas and oil properties that are excluded from amortization and actively being evaluated, if any (See Note 2).

Revenue Recognition. The Company generally sells oil and natural gas under both long-term and short-term agreements at prevailing market prices. The Company recognizes revenues when the oil and natural gas is delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. The Company accounts for oil and natural gas sales using the entitlements method. Under the entitlements method, revenue is recorded based upon the Company s ownership share of volumes sold, regardless of whether it has taken its ownership share of such volumes.

Make-up provisions and ultimate settlements of volume imbalances are generally governed by agreements between the Company and its partners with respect to specific properties or, in the absence of such agreements, through negotiation. The value of volumes over- or under-produced can change based on changes in commodity prices. The Company prefers the entitlements method of accounting for oil and natural gas sales because it allows for recognition of revenue based on its actual share of jointly owned production, results in better matching of revenue with related operating expenses, and provides balance sheet recognition of the estimated value of product imbalance. The Company s imbalance obligations as of September 30, 2016 and December 31, 2015 were immaterial.

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.

The Company has recorded a valuation allowance against certain of its deferred tax assets as of September 30, 2016. Some or all of this valuation allowance may be reversed in future periods against future income.

Deferred Financing Costs. During the quarter ended June 30, 2016, a non-cash charge to write-off all of the unamortized debt issuance costs related to the unsecured Credit Agreement, unsecured Senior Notes issued by Ultra Resources, Inc., the unsecured 2018 Senior Notes issued by the Company and the unsecured 2024 Senior Notes issued by the Company is included in Reorganization items, net in the accompanying Consolidated Statements of Operations as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases. At December 31, 2015, other current assets includes costs associated with the issuance of our revolving credit facility while costs associated with the issuance of our Senior Notes, 2018 Notes and 2024 Notes are presented as a direct deduction from the carrying amount of the related debt liability.

Deposits and Retainers. Deposits and retainers primarily consists of payments related to surety bonds.

Recent accounting pronouncements not yet adopted. In March 2016, the FASB issued Accounting Standards Update (ASU) 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU No. 2016-09) to simplify some of the provisions in stock compensation accounting. The update simplifies the accounting for a stock payment s tax consequences and amends how excess tax benefits and a business s payments to cover the tax bills for the shares recipients should be classified. The amendments allow companies to estimate the number of stock awards expected to vest and revises the withholding requirements for classifying stock awards as equity. For public companies, the standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 with earlier application permitted. The Company is still evaluating the impact of ASU No. 2016-09 on its financial position and results of operations.

In February 2016, the FASB issued ASU2016-02, *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. For public companies, the standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with earlier application permitted. The Company is still evaluating the impact of ASU No. 2016-02 on its financial position and results of operations.

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In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (ASU No. 2015-11). Public companies will have to apply the amendments for reporting periods that start after December 15, 2016, including interim periods within those fiscal years. This ASU requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The company does not expect the adoption of ASU No. 2015-11 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs.* In August 2015, the FASB issued ASU 2015-15, *Interest Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. These ASUs require capitalized debt issuance costs, except for those related to revolving credit facilities, to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, rather than as an asset. The Company adopted these ASUs on January 1, 2016, using a retrospective approach. The adoption resulted in a reclassification that reduced current assets and current maturities of long-term debt by $19.4 million on the Company s Consolidated Balance Sheet at December 31, 2015. A non-cash charge to write-off all of the unamortized debt issuance costs is included in Reorganization items, net at June 30, 2016 as the related debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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* and require 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. The Company is required to adopt the new standards in the first quarter of 2018 using one of two retrospective application methods. The Company is continuing to evaluate the provisions of these ASUs, and has not determined the impact these standards may have on its consolidated financial statements and related disclosures or decided upon the method of adoption.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU No. 2014-15) that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company s ability to continue as a going concern within one year after the financial statements are issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company s ability to continue as a going concern. ASU No. 2014-15 becomes effective for annual periods beginning after December 15, 2016 and for interim reporting periods thereafter. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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.

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RESULTS OF OPERATIONS:

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	% Variance	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015	% Variance
	(Amounts in thousands, except per unit data)					
Production, Commodity Prices and Revenues:						
Production:						
Natural gas (Mcf)	65,245	70,194	-7%	200,286	200,039	0%
Crude oil and condensate (Bbls)	680	863	-21%	2,205	2,714	-19%
Total production (Mcfe)	69,325	75,375	-8%	213,517	216,323	-1%
Commodity Prices:						
Natural gas ($/Mcf, excluding hedges)	$ 2.62	$ 2.68	-2%	$ 2.13	$ 2.68	-21%
Natural gas ($/Mcf, including realized hedges)	$ 2.62	$ 3.33	-21%	$ 2.13	$ 3.32	-36%
Oil and condensate ($/Bbl)	$ 41.55	$ 39.43	5%	$ 35.98	$ 41.75	-14%
Revenues:						
Natural gas sales	$ 170,996	$ 188,457	-9%	$ 425,878	$ 536,477	-21%
Oil sales	28,257	34,046	-17%	79,352	113,332	-30%
Total operating revenues	$ 199,253	$ 222,503	-10%	$ 505,230	$ 649,809	-22%
Derivatives:						
Realized gain on commodity derivatives-natural gas	$	$ 45,300	n/a	$	$ 127,283	n/a
Unrealized (loss) on commodity derivatives		(35,910)	n/a		(84,675)	n/a
Total gain on commodity derivatives	$	$ 9,390	n/a	$	$ 42,608	n/a
Operating Costs and Expenses:						
Lease operating expenses	$ 19,934	$ 28,567	-30%	$ 67,164	$ 82,464	-19%
Liquids gathering system operating lease expense	$ 5,171	$ 5,162	0%	$ 15,514	$ 15,485	0%
Production taxes	$ 20,688	$ 19,813	4%	$ 49,394	$ 56,892	-13%
Gathering fees	$ 21,159	$ 23,114	-8%	$ 65,112	$ 65,359	0%
Transportation charges	$ 49	$ 21,310	-100%	$ 23,750	$ 62,577	-62%
Depletion, depreciation and amortization	$ 31,192	$ 92,806	-66%	$ 93,274	$ 279,762	-67%
General and administrative expenses	$ 1,595	$ 4,567	-65%	$ 7,196	$ 10,629	-32%
Per Unit Costs and Expenses ($/Mcfe):						
Lease operating expenses	$ 0.29	$ 0.38	-24%	$ 0.31	$ 0.38	-18%
Liquids gathering system operating lease expense	$ 0.07	$ 0.07	0%	$ 0.07	$ 0.07	0%
Production taxes	$ 0.30	$ 0.26	15%	$ 0.23	$ 0.26	-12%
Gathering fees	$ 0.31	$ 0.31	0%	$ 0.30	$ 0.30	0%
Transportation charges	$	$ 0.28	n/a	$ 0.11	$ 0.29	-62%
Depletion, depreciation and amortization	$ 0.45	$ 1.23	-63%	$ 0.44	$ 1.29	-66%
General and administrative expenses	$ 0.02	$ 0.06	-67%	$ 0.03	$ 0.05	-40%

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Quarter Ended September 30, 2016 vs. Quarter Ended September 30, 2015

Production, Commodity Derivatives and Revenues:

Production. During the quarter ended September 30, 2016, total production decreased on a gas equivalent basis to 69.3 Bcfe compared to 75.4 Bcfe for the same quarter in 2015. The decrease is primarily attributable to decreased capital investment during the quarter ended September 30, 2016.

Commodity Prices Natural Gas. Realized natural gas prices decreased 2% to $2.62 per Mcf in the third quarter of 2016 as compared to $2.68 per Mcf for the same quarter of 2015. The Company does not currently have any open derivative contracts for natural gas production. During the three months ended September 30, 2015, the Company s average price for natural gas including realized gains and losses on commodity derivatives was $3.33 per Mcf.

Commodity Prices Oil. During the quarter ended September 30, 2016, the average price realization for the Company s oil was $41.55 per barrel compared to $39.43 per barrel for the same period in 2015. The Company does not currently have any open derivative contracts for oil production.

Revenues. The decrease in average natural gas prices and decreased total production resulted in revenues decreasing to $199.3 million for the quarter ended September 30, 2016 as compared to $222.5 million for the same period in 2015.

Operating Costs and Expenses:

Lease Operating Expense. Lease operating expense (LOE) decreased to $19.9 million during the third quarter of 2016 compared to $28.6 million during the same period in 2015 largely related to lower costs due to improved efficiencies. On a unit of production basis, LOE costs decreased to $0.29 per Mcfe during the third quarter of 2016 compared with $0.38 per Mcfe during the third quarter of 2015.

Liquids Gathering System Operating 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 for the initial term under the Lease Agreement is $20.0 million (as adjusted annually for changes based on the consumer price index) and may increase if certain volume thresholds are exceeded. The lease is classified as an operating lease. For the three months ended September 30, 2016, the Company recognized operating lease expense associated with the Lease Agreement of $5.2 million, or $0.07 per Mcfe, as compared to $5.2 million, or $0.07 per Mcfe for the same period in 2015.

Production Taxes. During the three months ended September 30, 2016, production taxes remained relatively flat at $20.7 million compared to $19.8 million during the same period in 2015, or $0.30 per Mcfe compared to $0.26 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 10.4% of revenues for the quarter ended September 30, 2016 and 8.9% of revenues for the same period in 2015.

Gathering Fees. Gathering fees decreased to $21.2 million for the three months ended September 30, 2016 compared to $23.1 million during the same period in 2015 largely related to decreased production. On a per unit basis, gathering fees remained flat at $0.31 per Mcfe for the three months ended September 30, 2016 as compared to the same period in 2015.

Transportation Charges. As a result of termination of the Rockies Express Pipeline (Rockies Express) contract during the second quarter, there were no material transportation charges for the quarter ended September 30, 2016. Transportation charges were $21.3 million for the same period in 2015. See Note 8 for further discussion of the Rockies Express contract.

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Depletion, Depreciation and Amortization. DD&A expenses decreased to $31.2 million during the three months ended September 30, 2016 from $92.8 million for the same period in 2015, primarily attributable to a decreased DD&A rate on a unit of production basis as a result of the ceiling test impairment during the fourth quarter of 2015. On a unit of production basis, the DD&A rate decreased to $0.45 per Mcfe for the quarter ended September 30, 2016 compared to $1.23 per Mcfe for the quarter ended September 30, 2015.

General and Administrative Expenses. General and administrative expenses decreased to $1.6 million for the quarter ended September 30, 2016 compared to $4.6 million for the same period in 2015 primarily related to corporate cost cutting measures. On a per unit basis, general and administrative expenses decreased to $0.02 per Mcfe for the quarter ended September 30, 2016 compared to $0.06 per Mcfe for the quarter ended September 30, 2015.

Other Income and Expenses:

Interest Expense. During the quarter ended September 30, 2016, there was no interest expense recognized compared to $43.1 million during the same period in 2015. No interest expense has been recognized subsequent to the petition date of April 29, 2016. (See Note 3).

Deferred Gain on Sale of Liquids Gathering System. During the quarters ended September 30, 2016 and 2015, the Company recognized $2.6 million in deferred gain on sale of the liquids gathering system relating to the sale of a system of pipelines and central gathering facilities and certain associated real property rights in the Pinedale Anticline in Wyoming during December 2012.

Commodity Derivatives:

Gain/(Loss) on Commodity Derivatives. The Company does not currently have any open commodity derivative contracts. During the quarter ended September 30, 2015, the Company recognized a gain of $9.4 million related to commodity derivatives. Of this total, the Company recognized $45.3 million of realized gain on commodity derivatives during the quarter ended September 30, 2015. 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. This amount also includes an unrealized loss on commodity derivatives of $35.9 million during the quarter ended September 30, 2015. 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. See Note 6.

Reorganization Items:

Reorganization Items, Net. Reorganization items, net of $3.1 million for the quarter ended September 30, 2016 are primarily made up of professional fees associated with the pendency of the Company s chapter 11 cases.

Income (Loss) from Continuing Operations:

Pretax Income (loss). The Company recognized income before income taxes of $98.5 million for the quarter ended September 30, 2016 compared with a loss before income taxes of $4.2 million for the same period in 2015. The increase in earnings is primarily due to decreased DD&A, reduced interest expense and reduced transportation costs during the three months ended September 30, 2016 and partially offset by costs associated with the reorganization and decreased revenues as a result of decreased natural gas prices during the three months ended September 30, 2016.

Income Taxes. The Company has recorded a valuation allowance against all deferred tax assets as of September 30, 2016. Some or all of this valuation allowance may be reversed in future periods against future income.

Net Income (Loss). For the three months ended September 30, 2016, the Company recognized net income of $98.4 million, or $0.64 per diluted share, as compared with a net loss of $3.1 million or -$0.02 per diluted share, for the same period in 2015. The increase in earnings is primarily due to decreased DD&A, reduced interest expense and reduced transportation costs during the three months ended September 30, 2016 and partially offset by costs associated with the reorganization and decreased revenues as a result of decreased natural gas prices and total production during the three months ended September 30, 2016.

Nine Months Ended September 30, 2016 vs. Nine Months Ended September 30, 2015

Production, Commodity Derivatives and Revenues:

Production. During the nine months ended September 30, 2016, total production decreased slightly by -1% on a gas equivalent basis to 213.5 Bcfe compared to 216.3 Bcfe for the same period in 2015.

Commodity Prices Natural Gas. Realized natural gas prices decreased 21% to $2.13 per Mcf during the nine months ended September 30, 2016 as compared to $2.68 per Mcf for the same period in 2015. The Company does not currently have any open derivative contracts for natural gas production. During the nine months ended September 30, 2015, the Company s average price for natural gas including realized gains and losses on commodity derivatives was $3.32 per Mcf.

Commodity Prices Oil. During the nine months ended September 30, 2016, the average price realization for the Company s oil was $35.98 per barrel compared with $41.75 per barrel during the same period in 2015. The Company does not currently have any open derivative contracts for oil production.

Revenues. The decrease in average oil and natural gas prices resulted in revenues decreasing to $505.2 million for the nine months ended September 30, 2016 as compared to $649.8 million for the same period in 2015.

Operating Costs and Expenses:

Lease Operating Expense. LOE decreased to $67.2 million during the nine months ended September 30, 2016 compared to $82.5 million during the same period in 2015 largely related to lower costs due to improved efficiencies. On a unit of production basis, LOE costs decreased to $0.31 per Mcfe during the nine months ended September 30, 2016 compared to $0.38 per Mcfe during the same period in 2015.

Liquids Gathering System Operating 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 for the initial term under the Lease Agreement is $20.0 million (as adjusted annually for changes based on the consumer price index) and may increase if certain volume thresholds are exceeded. For the nine months ended September 30, 2016, the Company recognized operating lease expense associated with the Lease Agreement of $15.5 million, or $0.07 per Mcfe, as compared to $15.5 million, or $0.07 per Mcfe, for the same period in 2015.

Production Taxes. During the nine months ended September 30, 2016, production taxes were $49.4 million compared to $56.9 million during the same period in 2015, or $0.23 per Mcfe compared to $0.26 per Mcfe. Production taxes are primarily calculated based on a percentage of revenue from production in Wyoming and Utah after certain deductions and were 9.8% of revenues for the nine months ended September 30, 2016 and 8.8% of revenues for the same period in 2015. The decrease in per unit taxes is primarily attributable to decreased oil and natural gas prices during the nine months ended September 30, 2016 as compared to the same period in 2015.

Gathering Fees. Gathering fees decreased slightly to $65.1 million for the nine months ended September 30, 2016 compared to $65.4 million during the same period in 2015. On a per unit basis, gathering fees remained flat at $0.30 per Mcfe for the nine months ended September 30, 2016 and 2015.

Transportation Charges. Transportation charges decreased to $23.8 million for the nine months ended September 30, 2016 as compared to $62.6 million for the same period in 2015 primarily as a result of the termination of the Rockies Express contract during the second quarter of 2016. See Note 8 for further discussion of the Rockies Express contract.

Depletion, Depreciation and Amortization. DD&A expenses decreased to $93.3 million during the nine months ended September 30, 2016 from $279.8 million for the same period in 2015, primarily attributable to a decreased DD&A rate on a unit of production basis as a result of the ceiling test impairment during the fourth quarter of 2015. On a unit of production basis, the DD&A rate decreased to $0.44 per Mcfe for the nine months ended September 30, 2016 compared to $1.29 per Mcfe for the nine months ended September 30, 2015.

General and Administrative Expenses. General and administrative expenses decreased to $7.2 million for the nine months ended September 30, 2016 compared to $10.6 million for the same period in 2015. The decrease in general and administrative expenses is primarily attributable to corporate cost cutting measures. On a per unit basis, general and administrative expenses decreased to $0.03 per Mcfe for the nine months ended September 30, 2016 compared to $0.05 per Mcfe for the nine months ended September 30, 2015.

Other Income and Expenses:

Interest Expense. Interest expense decreased to $66.6 million during the nine months ended September 30, 2016 compared to $128.4 million during the same period in 2015. No interest expense has been recognized subsequent to the petition date of April 29, 2016. (See Note 3).

Litigation Expense. During the nine months ended September 30, 2015, the Company recognized litigation expenses of $4.4 million related to the resolution of litigation matters.

Restructuring Expenses. During the nine months ended September 30, 2016, the Company incurred $7.2 million in costs and fees in connection with its efforts to restructure its debt prior to filing the chapter 11 petitions.

Deferred Gain on Sale of Liquids Gathering System. During the nine months ended September 30, 2016 and 2015, the Company recognized $7.9 million in deferred gain on sale of the liquids gathering system relating to the sale of a system of pipelines and central gathering facilities and certain associated real property rights in the Pinedale Anticline in Wyoming during December 2012.

Commodity Derivatives:

Gain (Loss) on Commodity Derivatives. The Company does not currently have any open commodity derivative contracts. During the nine months ended September 30, 2015, the Company recognized a gain of $42.6 million related to commodity derivatives. Of this total, the Company recognized $127.3 million of realized gain on commodity derivatives. 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. This amount also includes an unrealized loss on commodity derivatives of $84.7 million. 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. See Note 6.

Reorganization Items:

Reorganization Items, Net. Reorganization items, net of $25.3 million for the nine months ended September 30, 2016 are primarily made up of professional fees and a non-cash charge to write-off all of the unamortized debt issuance costs totaling $18.7 million related to the unsecured Credit Agreement, unsecured Senior Notes issued by Ultra Resources the unsecured 2018 Senior Notes issued by the Company and the unsecured 2024 Senior Notes issued by the Company as these debt instruments are expected to be impacted by the pendency of the Company s chapter 11 cases.

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Income (Loss) from Continuing Operations:

Pretax Income (loss). The Company recognized income before income taxes of $90.3 million for the nine months ended September 30, 2016 compared with a loss before income taxes of $6.0 million for the same period in 2015. The increase in earnings is largely due to decreased DD&A, reduced interest expense and reduced transportation costs during the nine months ended September 30, 2016 and partially offset by costs associated with the reorganization and decreased revenues as a result of decreased oil and natural gas prices during the nine months ended September 30, 2016.

Income Taxes. The Company has recorded a valuation allowance against all deferred tax assets as of September 30, 2016. Some or all of this valuation allowance may be reversed in future periods against future income.

Net Income (Loss). For the nine months ended September 30, 2016, the Company recognized net income of $90.6 million, or $0.59 per diluted share, as compared with net loss of $2.6 million, or -$0.02 per diluted share, for the same period in 2015. The increase in earnings is largely due to decreased DD&A, reduced interest expense and reduced transportation costs during the nine months ended September 30, 2016 and partially offset by costs associated with the reorganization and decreased revenues as a result of decreased oil and natural gas prices during the nine months ended September 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Before Filing Under Chapter 11 of the United States Bankruptcy Code

We have historically funded our operations primarily through cash flows from operating activities, borrowings under the Credit Agreement, proceeds from the issuance of debt and proceeds from asset sales. However, future cash flows are subject to a number of variables, and are highly dependent on the prices we receive for oil and natural gas. Oil and natural gas prices declined severely during fiscal year 2015 and declined even further during the first quarter of 2016. The Henry Hub natural gas spot price dropped below $1.65 per MMBtu in March 2016 for the first time in 17 years. Although natural gas prices have improved in recent months, there is still significant volatility in commodity prices and these prices are still lower than the industry has experienced in recent years. These lower commodity prices have negatively impacted revenues, earnings and cash flows, and sustained low oil and natural gas prices will have a material and adverse effect on our liquidity position.

Liquidity After Filing Under Chapter 11 of the United States Bankruptcy Code

As described in Note 1, the filing of the chapter 11 petitions constituted an event of default with respect to our existing debt obligations. However, subject to certain exceptions under the Bankruptcy Code, the filing of the chapter 11 petitions automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the filing of the chapter 11 petitions. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the Debtors property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

The Bankruptcy Court has approved payment of certain prepetition obligations, including payments for employee wages, salaries and certain other benefits, customer programs, taxes, utilities, insurance, surety bond premiums as well as payments to possessory lien vendors. Despite the liquidity provided by our existing cash on hand, our ability to maintain normal credit terms with our suppliers may become impaired. We may be required to pay cash in advance to certain vendors and may experience restrictions on the availability of trade credit, which would further reduce our liquidity. If liquidity problems persist, our suppliers could refuse to provide key products and services in the future. In addition, due to the public perception of our financial condition and results of operations, in particular with regard to our potential failure to meet our debt obligations, some vendors could be reluctant to enter into long-term agreements with us.

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Although we have lowered our capital budget as compared to 2015, our business remains capital intensive. In addition to the cash requirements necessary to fund ongoing operations, we have incurred significant professional fees and other costs in connection with our chapter 11 proceedings and expect that we will continue to incur significant professional fees and costs throughout our chapter 11 proceedings. The Company believes it has sufficient liquidity, including approximately $343.5 million of cash on hand as of September 30, 2016 and funds generated from ongoing operations, to fund anticipated cash requirements through the chapter 11 proceedings for operating and capital expenditures and for working capital purposes and excluding principal and interest payments on our outstanding debt.

The Company does not intend to seek debtor-in-possession (DIP) financing at this time. However, given the current level of volatility in the market and the unpredictability of certain costs that could potentially arise in our operations, our liquidity needs could be significantly higher than we currently anticipate. There are no assurances that our current liquidity is sufficient to allow us to satisfy our obligations related to the chapter 11 cases, proceed with the confirmation of a chapter 11 plan of reorganization and emerge from bankruptcy. We can provide no assurance that we will be able to secure additional interim financing or exit financing sufficient to meet our liquidity needs or, if sufficient funds are available, offered to us on acceptable terms**.**

Our ability to maintain adequate liquidity through the reorganization process and beyond depends on successful operation of our business, and appropriate management of operating expenses and capital spending. Our anticipated liquidity needs are highly sensitive to changes in each of these and other factors.

Going Concern. The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not reflect any adjustments that might result from the outcome of our chapter 11 proceedings. We have significant indebtedness, all of which we have reclassified to liabilities subject to compromise at September 30, 2016. Our level of indebtedness has adversely impacted and is continuing to adversely impact our financial condition. As a result of our financial condition, the defaults under our debt agreements, and the risks and uncertainties surrounding our chapter 11 proceedings, substantial doubt exists that we will be able to continue as a going concern.

Investors should review the disclosures and other information, including the risk factors, provided in our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2016 and June 30, 2016.

Capital Expenditures. For the nine month period ended September 30, 2016, total capital expenditures were $189.5 million. During this period, the Company participated in 78 gross (54.2 net) wells in Wyoming that were drilled to total depth and cased. No wells are scheduled to be drilled in Utah or Pennsylvania during 2016.

2016 Capital Investment Plan. For 2016, our original capital budget was $260.0 million, reflecting the low commodity price environment at the beginning of the year. On April 26, 2016, our Board of Directors approved an increase to our capital budget for 2016 from $260.0 million to $295.0 million. The additional capital in our increased budget will be used to drill additional development wells in Wyoming and to complete some of our uncompleted wells in Utah. We expect to fund our 2016 capital expenditures budget through cash flows from operations and cash on hand.

Other Developments. Trading in the Company s common stock on the NYSE was suspended on May 3, 2016 and the common stock was delisted. The common stock of the Company currently trades on the OTC Pink marketplace under the symbol UPLMQ .

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Ultra Resources, Inc.

Bank indebtedness. Ultra Resources, Inc. (Ultra Resources), a wholly owned subsidiary of the Company, is a party to the Credit Agreement. Ultra Resources obligations under the Credit Agreement are guaranteed by the Company and UP Energy Corporation, a wholly owned subsidiary of the Company.

Ultra Resources filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated its obligations under the Credit Agreement. Other events of default are also present with respect to the Credit Agreement, including a failure to make interest payments and, as described below, a failure to deliver annual audited consolidated financial statements without a going concern qualification, a failure to meet the minimum PV-9 ratio covenant and a failure to comply with the consolidated leverage covenant in the Credit Agreement at the end of the first quarter of 2016. The Credit Agreement provides that upon the acceleration of Ultra Resources obligations under the Credit Agreement, the outstanding balance of loans extended under the Credit Agreement comes due, unpaid interest accrued as of the time of the acceleration comes due, and any fees or other obligations of the borrower come due. Under the Bankruptcy Code, the creditors under the Credit Agreement are stayed from taking any action against Ultra Resources or any of the other Debtors as a result of the default.

Prior to April 29, 2016, loans under the Credit Agreement bore interest, at the borrower s option, based on (A) a rate per annum equal to the prime rate or the weighted average fed funds rate on overnight transactions during the preceding business day plus a margin based on a grid of the borrower s consolidated leverage ratio, or (B) a base Eurodollar rate, substantially equal to the LIBOR rate, plus a margin based on a grid of the borrower s consolidated leverage ratio.

The Credit Agreement requires us to deliver annual audited, consolidated financial statements for the Company without a going concern or like qualification or explanation. On March 15, 2016, we delivered an audit report with respect to the financial statements in our 2015 Annual Report on Form 10-K that included an explanatory paragraph expressing uncertainty as to our ability to continue as a going concern.

The Credit Agreement contains a consolidated leverage covenant, pursuant to which Ultra Resources is required to maintain a maximum ratio of its total funded consolidated debt to its trailing four fiscal quarters EBITDAX of 3.5 to 1.0. Based on Ultra Resources EBITDAX for the trailing four fiscal quarters ended March 31, 2016, we were not in compliance with this consolidated leverage covenant at March 31, 2016 (the ratio was 4.6 times at March 31, 2016).

The Credit Agreement contains a PV-9 covenant, pursuant to which Ultra Resources is required to maintain a minimum ratio of the discounted net present value of its oil and gas properties to its total funded consolidated debt of 1.5 times. We were required to report whether we were in compliance with this covenant on April 1, 2016. Based on the PV-9 of its oil and gas properties at December 31, 2015, Ultra Resources failed to comply with the PV-9 ratio covenant under the Credit Agreement (the ratio was 0.9 times at December 31, 2015).

Senior Notes. Ultra Resources has outstanding $1.46 billion of Senior Notes which were issued pursuant to a certain Master Note Purchase Agreement dated as of March 6, 2008 (as amended, supplemented or otherwise modified, the MNPA). The Ultra Resources Senior Notes rank pari passu with the Credit Agreement. Payment of the Senior Notes is guaranteed by the Company and by UP Energy Corporation. The Ultra Resources Senior Notes are subject to representations, warranties, covenants and events of default similar to those in the Credit Agreement.

Ultra Resources filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated its obligations under the MNPA and the Senior Notes. Other events of default are also present with respect to the MNPA, including a failure to comply with the consolidated leverage covenant at the end of the first quarter of 2016 and a failure to make principal and interest payments due under the Ultra Resources Senior

Notes. The MNPA provides that upon the acceleration of Ultra Resources obligations under the MNPA and the Senior Notes, among other matters, the Senior Notes are deemed to have matured, the unpaid principal balance of the Senior Notes comes due, unpaid interest accrued as of the time of the acceleration comes due, and any applicable Make-Whole Amount (as determined pursuant to the MNPA) comes due. Under the Bankruptcy Code, the creditors under the Senior Notes are stayed from taking any action against Ultra Resources or any of the other the Debtors as a result of the default.

The MNPA contains a consolidated leverage covenant, pursuant to which Ultra Resources is required to maintain a maximum ratio of its total funded consolidated debt to its trailing four fiscal quarters EBITDAX of 3.5 to 1.0. Based on Ultra Resources EBITDAX for the trailing four fiscal quarters ended March 31, 2016, we were not in compliance with this consolidated leverage covenant at March 31, 2016 (the ratio was 4.6 times at March 31, 2016).

On March 1, 2016, we failed to make an interest payment of approximately $40.0 million and a principal payment of $62.0 million, each of which was due March 1, 2016 under the terms of the Ultra Resources Senior Notes. We entered into a forbearance agreement related to the failure to make these payments with the holders of the Ultra Resources Senior Notes, and we filed the chapter 11 petitions without making the payments before the forbearance period expired.

Interest Expense. No interest expense has been recognized with respect to the Credit Agreement or the Ultra Resources Senior Notes subsequent to the Petition Date.

Ultra Petroleum Corp. Senior Notes

The Company s filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated the Company s obligations under the 2024 Notes and the 2018 Notes (defined below). Additionally, other events of default, including cross-defaults, are present due to the failure to make interest payments and other matters. Under the indentures pursuant to which the 2024 Notes and the 2018 Notes, respectively, were issued, upon the acceleration of the Company s obligations under the 2024 Notes and the 2018 Notes, among other matters, the 2024 Notes and the 2018 Notes, respectively, are deemed to have matured, the unpaid principal balance of the 2024 Notes and the 2018 Notes, respectively, comes due, unpaid interest accrued as of the time of the acceleration comes due, and any applicable premiums (as determined pursuant to the indentures) comes due. Under the Bankruptcy Code, the creditors under the 2024 Notes and the 2018 Notes are stayed from taking any action against the Debtors as a result of the default.

Senior Notes due 2024: On September 18, 2014, the Company issued $850.0 million of 6.125% Senior Notes due 2024 (2024 Notes). The 2024 Notes are general, unsecured senior obligations of the Company and mature on October 1, 2024. The 2024 Notes rank equally in right of payment to all existing and future senior indebtedness of the Company and effectively rank junior to all future secured indebtedness of the Company (to the extent of the value of the collateral securing such indebtedness). The 2024 Notes are not guaranteed by the Company s subsidiaries and, as a result, are structurally subordinated to the indebtedness and other obligations of the Company s subsidiaries. The 2024 Notes are subject to covenants that restrict the Company s ability to incur indebtedness, make distributions and other restricted payments, grant liens, use the proceeds of asset sales, make investments and engage in affiliate transactions.

Interest due under the 2024 Notes is payable each April 1 and October 1. On April 1, 2016, we elected to defer making an interest payment on the 2024 Notes of approximately $26.0 million due April 1, 2016. The indenture governing the 2024 Notes provides a 30-day grace period for us to make this interest payment. We did not make this interest payment before the end of the grace period, which resulted in an event of default under the indenture governing the 2024 Notes.

Senior Notes due 2018: On December 12, 2013, the Company issued $450.0 million of 5.75% Senior Notes due 2018 (2018 Notes). The 2018 Notes are general, unsecured senior obligations of the Company and mature on December 15, 2018. The 2018 Notes rank equally in right of payment to all existing and future senior indebtedness of the Company and effectively rank junior to all future secured indebtedness of the Company (to the extent of the value of the collateral securing such indebtedness). The 2018 Notes are not guaranteed by the Company s subsidiaries and, as a result, are structurally subordinated to the indebtedness and other obligations of the Company s subsidiaries. The 2018 Notes are subject to covenants that restrict the Company s ability to incur indebtedness, make distributions and other restricted payments, grant liens, use the proceeds of asset sales, make investments and engage in affiliate transactions. Interest due under the 2018 Notes is payable each June 15 and December 15.

The Company s filing of the chapter 11 petitions described in Note 1 constituted an event of default that accelerated the Company s obligations under the 2024 Notes and the 2018 Notes. Additionally, other events of default, including cross-defaults resulting from the acceleration of indebtedness outstanding under the Credit Agreement and the Ultra Resources Senior Notes, are present due to the failure to make interest payments and other matters. Under the Bankruptcy Code, the creditors under the 2024 Notes and the 2018 Notes are stayed from taking any action against the Debtors as a result of the bankruptcy filing.

Interest Expense. No interest expense has been recognized with respect to the Credit Agreement or the Ultra Resources Senior Notes subsequent to the Petition Date.

Nine Months Ended September 30, 2016 vs. Nine Months Ended September 30, 2015 Cash Flow Impact

Operating Activities. During the nine months ended September 30, 2016, net cash provided by operating activities was $170.8 million, a 58% decrease from net cash provided by operating activities of $411.2 million for the same period in 2015. The decrease in net cash provided by operating activities is largely attributable to reduced interest expense and decreased revenues as a result of decreased oil and natural gas price realizations during the nine months ended September 30, 2016 as compared to the same period in 2015 and net changes in working capital.

Investing Activities. During the nine months ended September 30, 2016, net cash used in investing activities was $200.1 million as compared to $405.0 million for the same period in 2015. The decrease in net cash used in investing activities is largely related to decreased capital investments associated with the Company s drilling activities.

Financing Activities. During the nine months ended September 30, 2016, net cash provided by financing activities was $368.7 million compared to $10.5 million for the same period in 2015. The change in net cash provided by financing activities is primarily due to increased borrowings during 2016 related to drawings under the Credit Agreement.

OFF BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements as of September 30, 2016.

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

This report contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this document, including without limitation, statements in Management s Discussion and Analysis of Financial Condition and Results of Operations regarding 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 , objective , should , or similar expressions or variations on such expressions are forward-looking statements. The Company can give no assurances that the assumptions upon which such forward-looking statements are based will prove to be correct nor can the Company assure adequate funding will be available to execute the Company s planned future capital program.

Other risks and uncertainties include, but are not limited to, fluctuations in the price the Company receives for oil and gas production, reductions in the quantity of oil and gas sold due to increased industry-wide demand and/or curtailments in production from specific properties due to mechanical, marketing or other problems, operating and capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates and/or from the number of exploration and development opportunities being greater or fewer than currently anticipated and increased financing costs due to a significant increase in interest rates. See the Company s Annual Report on Form 10-K for the year ended December 31, 2015 and our Quarterly Report on Form 10-Q for the periods ended March 31, 2016 and June 30, 2016 for additional risks related to the Company s business.

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

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. As a result of its hedging activities, the Company may realize prices that are less than or greater than the spot prices that it would have received otherwise.

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.

The Company s hedging policy limits the amounts of resources hedged to not more than 50% of its forecast production without Board approval.

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.

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Commodity Derivative Contracts: At September 30, 2016, the Company had no open commodity derivative contracts to manage price risk on a portion of its production.

The following table summarizes the pre-tax realized and unrealized (loss) gain the Company recognized related to its derivative instruments in the Consolidated Statements of Operations for the periods ended September 30, 2016 and 2015:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Commodity Derivatives (000 s):	2016	2015	2016	2015
Realized gain on commodity derivatives-natural gas(1)	$	$ 45,300	$	$ 127,283
Unrealized loss on commodity derivatives(1)		(35,910)		(84,675)
Total gain on commodity derivatives	$	$ 9,390	$	$ 42,608

(1) Included in 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*

(a) Evaluation of Disclosure Controls and Procedures

The Company has performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). 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 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 Chief Executive Officer and Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of September 30, 2016. There were no changes in the Company s internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

Rockies Express Pipeline: On April 14, 2016, Rockies Express filed a lawsuit against us in Harris County, Texas alleging breach of contract and seeking damages related to the alleged breach. We intend to defend this lawsuit vigorously. On April 29, 2016, the Company filed a voluntary petition for reorganization under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. As a result of the pending bankruptcy, this matter is currently stayed.

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

ITEM 1A. *RISK FACTORS*

There have been no material changes to the risks described in the Annual Report on Form 10-K or Quarterly Report on Form 10-Q for the periods ended March 31, 2016 and June 30, 2016.

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

None.

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

The filing of the voluntary petitions seeking relief under chapter 11 of the Bankruptcy Code constituted an event of default that accelerated the Company s obligations under the following debt instruments:

- indenture governing $850,000,000 in outstanding aggregate principal amount of 6.125% senior notes due 2024, dated as of September 18, 2014, between the Company and Wilmington Trust, National Association, as successor to US Bank;

- indenture governing $450,000,000 in outstanding aggregate principal amount of 5.75% senior notes due 2018, dated as of December 12, 2013, between the Company and Wilmington Trust, National Association, as successor to US Bank;

- Credit Agreement governing $999,000,000 in outstanding principal amount, dated as of October 6, 2011, between Ultra Resources, Inc. (a wholly owned subsidiary of the Company) and a syndicate of banks led by J.P. Morgan Chase Bank N.A.; and,

- Master Note Purchase Agreement governing $1,460,000,000 in outstanding aggregate principal amount of senior notes due 2016 through 2025, dated as of March 6, 2008, between Ultra Resources, Inc. (a wholly owned subsidiary of the Company) and various parties, as supplemented by that certain First Supplement to Master Note Purchase Agreement, dated as of March 5, 2009; Second Supplement to Master Note Purchase Agreement, dated as of January 28, 2010; and Third Supplement to Master Note Purchase Agreement, dated as of October 12, 2010.

As previously disclosed, subject to certain exceptions provided for in the Bankruptcy Code, the chapter 11 filings automatically stayed all judicial or administrative actions against the Company and efforts by creditors to collect on or otherwise exercise rights or remedies with respect to pre-petition claims.

ITEM 4. *MINE SAFETY DISCLOSURES*

None.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. ***EXHIBITS***

(a) Exhibits

3.1	Articles of Incorporation of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.1 of the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2001).
3.2	By-Laws of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.2 of the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2001).
3.3	Articles of Amendment to Articles of Incorporation of Ultra Petroleum Corp. (incorporated by reference to Exhibit 3.3 of the Company s Report on Form 10-K/A for the period ended December 31, 2005).
4.1	Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 of the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2001).
10.1	Limited Waiver Agreement, dated as of March 1, 2016, by and among Ultra Petroleum Corp., Ultra Resources, Inc., UP Energy Corporation, JPMorgan Chase Bank N.A., as administrative agent under the Credit Agreement, dated as of October 6, 2011, and the Lenders party thereto (incorporated by reference to Exhibit 10.1 of the Company s Report on Form 8-K filed on March 2, 2016).
10.2	Waiver and Amendment to Master Note Purchase Agreement, Notes and Supplement, dated as of March 1, 2016, by and among Ultra Resources, Inc. and the holders of the unsecured senior notes issued by Ultra Resources under the Master Note Purchase Agreement, dated as of March 6, 2008 (incorporated by reference to Exhibit 10.2 of the Company s Report on Form 8-K filed on March 2, 2016).
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.
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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/ Michael D. Watford
Name: Michael D. Watford
Title: Chairman, President and Chief Executive Officer

Date: October 27, 2016

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

Date: October 27, 2016

EXHIBIT INDEX

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