THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

UPL - Q2 2017 Ultra Petroleum Corp Earnings Call

EVENT DATE/TIME: AUGUST 09, 2017 / 3:00PM GMT

CORPORATE PARTICIPANTS

C. Bradley Johnson *Ultra Petroleum Corp. - SVP of Operations*

Garland R. Shaw *Ultra Petroleum Corp. - CFO and SVP*

Michael D. Watford *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Sandra D. Kraemer *Ultra Petroleum Corp. - Director of IR & External Reporting*

CONFERENCE CALL PARTICIPANTS

Anup Goswami

David Michael Epstein *Cowen and Company, LLC, Research Division - MD and Analyst*

Jacob Gomolinski-Ekel

Joshua Gale

Kyle Addison Bickel *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Marshall Hampton Carver *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

PRESENTATION

Operator

Good day, everyone, and welcome to today's Ultra Petroleum Corp. Second Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note, this call may be recorded, and I'll be standing by should you need any assistance.

It is now my pleasure to turn today's program over to Ms. Sandi Kraemer, Director of Investor Relations. Please go ahead, ma'am.

Sandra D. Kraemer - *Ultra Petroleum Corp. - Director of IR & External Reporting*

Thank you, operator. I'd like to point out that many of the comments during this conference call are forward-looking statements that involve risks and uncertainties affecting outcomes, many of which are beyond our control and are discussed in more detail in the Risk Factors and Forward-looking Statements section of our annual and quarterly filings with the SEC. Although we believe these expectations expressed are based on reasonable assumptions, they are not guarantees of future performance, and actual results or developments may differ materially.

Also, this call may contain certain non-GAAP financial measures. Reconciliation and calculation schedules can be found on our website.

Now I'll turn the call over to Mike.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Thanks, Sandi. Good morning. Thanks for joining us for Ultra Petroleum's Second Quarter 2017 Earnings Teleconference. With me this morning is Garland Shaw, our Chief Financial Officer; and Brad Johnson, our Senior VP of Operations.

This is our first quarter since emerging from our in-court restructuring, and we are back to building and growing the business. Since this quarter includes the actual emergence event, it also includes some unique or one-off accounting entries. Garland will provide more clarity, although a $499 million quarterly net income number is pretty neat, I have to admit. More seriously, let me mention a few highlights before we pass it to Garland to discuss the details of the financial results.

Our second quarter cash operating margin improved by 79% over a year ago numbers to $2.11 per Mcfe. We talked last quarter about the cash benefits from reorganization, and you are now seeing it reflected in the improved margins. Our cash flow exceeded our CapEx for the 6 months -- for the first 6 months of the year by about $37 million as we stayed focused on leverage. We also are looking at increased liquidity. More from Garland on that in a moment.

Activity in the field is increasing. Operated drilling rigs in the field for the first 6 months averaged 4.5 as we continued towards our goal of 8 operated drilling rigs. We successfully grew production from a 3-year low experienced in the first quarter of 2017 by 5% and will continue to grow production by 6% to 8% each quarter through year-end. Our goal is to balance production growth with resource expansion, while being mindful of leverage. To this end, we are tweaking our capital allocation a bit in the second half of the year. Brad has some details he will share with you.

Now for Garland and a financial update.

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

Thanks, Mike. This morning we reported adjusted net income for the second quarter of $51 million as compared to $37.9 million in the same quarter in 2016. Cash flow from operations, excluding restructuring charges, was $112.5 million as compared to $62.4 million in the second quarter of 2016.

EBITDA was $141.9 million for the current year quarter as compared to $83.9 million last year. All these improved results were driven by 45% increase in revenues, which was due to higher oil and gas prices. For the second quarter, we realized a 53% cash flow margin and a 67% EBITDA margin. Capital expenditures for the quarter were $136 million.

Let me quickly mention that we did report net income of $499 million for the quarter, as Mike mentioned. This amount includes $426 million of restructuring items, of which $431 million is a noncash gain related to our debt-for-equity exchange as part of our emergence from Chapter 11 in April. Excluding the restructuring items from net income along with $21.6 million of unrealized derivative gains results in adjusted net income of $51 million. One extraordinary item that was not excluded from adjusted net income was $25 million of noncash stock compensation expense, also related to our emergence from Chapter 11.

Our overall production for the quarter was 67.1 Bcfe, which is a 5% improvement over the first quarter of 2017 production and a 5% decline as compared to the second quarter of 2016. For the quarter, natural gas volumes were at 63.1 Bcf and oil volumes at 675,000 barrels. The average realized natural gas price of $2.84 per Mcf, including the effect of hedges, was $1.08 per Mcf higher than in the second quarter of 2016. For the quarter, we had 48 Bcf or 76% of our gas production hedged at $3.34 per Mcf. The effect of the hedges in the quarter was a $0.01 decrease in our realized gas price.

The second quarter of 2017 overall corporate price differential when comparing average wellhead per Mcf prices to first of month Henry Hub prices was $0.33, or 10% of Henry Hub, which is consistent with the second quarter of 2016. Please note that we have fixed price natural gas swaps in place for 71 Bcf for the month of July through October at $3.34 per Mcf, which is approximately 80% of the company's expected natural gas production for the third quarter of this year.

The average realized oil price for the quarter was $45.51 per barrel, which was $4.97 per barrel higher than for the same period last year. Our average differential for the quarter to WTI pricing was $2.81 per barrel, or 6% of WTI, which is an improvement compared to 11% in differential for the same period last year.

All-in cash cost before interest expense for the second quarter came in at $1.04 per Mcfe and $1.47 with interest expense included. Last year, our cash cost for the second quarter before interest expense were at $0.89 per Mcfe. The $0.15 difference when compared to this year is almost entirely due to higher production taxes resulting from improved oil and gas prices, which is obviously a good thing.

For the quarter, our EBITDA margin was $2.11 per Mcfe. Wyoming, which contributed 94% of the company's production, had field oil cash margins of $2.17 per Mcfe, while in Pennsylvania they were $1.35 and in Utah they were $4.28 per Mcfe.

In regard to the company's leverage position. We ended the quarter with funded debt of $2,077,000,000 with $77 million drawn on our $400 million revolving credit facility. Considering that we did make a $150 million payment to REX pipeline in July that was funded out of the credit facility and that there is uncertainty as to how much we will recover the $400 million of restricted cash on our balance sheet related to our make-whole and post-petition interest litigation, we are currently looking to improve our liquidity.

At emergence from Chapter 11, our borrowing base was set at an artificially low $1.2 billion. Our midyear reserves valuation at our agent bank's price deck suggests that our bond base can be as large as $1.9 billion. We're currently working with our banks to increase the borrowing base, which will allow us to either increase the size of the credit facility or increase our term loan and pay down the credit facility with the proceeds.

Finally, we have received a lot of questions about QEP's sale of their Pinedale acreage and what we think that means relative to our valuation. First of all, we think that the value that QEP received is very positive for us. Given that QEP has publicly stated in the past that they only had around 200 remaining drilling locations as compared to our nearly 5,000 locations and because of our higher margins by at least $0.40 per Mcfe due to mostly better midstream contracts, it is difficult to make a direct comparison of our assets.

However, if we take their $740 million sales price for their Pinedale assets and back out our estimated value for their undeveloped reserves, we get an implied per Mcfe value for their PDP reserves of $0.98. Then if we discount by 50% our $0.40 per Mcfe better margins, and that is a number provided by our reputable third-party research firm, and add that to the $0.98 per Mcfe, we get a total PDP value of $1.18 per Mcfe for Ultra's reserves.

Applying that value to our PDP reserves of 2.6 Tcfe gives us a total PDP value of $3.1 billion. This $3.1 billion PDP value is the exact amount that we used last year in our business plan work that we performed that resulted in a $7 billion to $8 billion total enterprise value when our 4,900 undeveloped locations and other probable and possible reserves are included. So we think that the value that QEP received is at least consistent with our view of the value of our proved, developed reserves when we adjust for our higher margins.

Another way to think about the relative valuation is that it appears that QEP sold their assets at over 6x cash flow which is a material premium to our current trading level, considering our 2018 EBITDA guidance. And that is despite QEP's low future location count, declining production and onerous mainstream contracts. So overall, we think that the value that QEP received for their Pinedale assets is a positive marker for how our assets should be valued, if one considers that we have significantly more undeveloped reserves and much lower cost structure and no minimum volume requirements in our midstream contracts.

Now I'll turn the call over to Brad for an update on operations.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

During second quarter, we brought online 47 wells in Pinedale. At the beginning of the second quarter, 4 operated and 1 nonoperated rigs were drilling. As part of our 2017 ramp-up plan, we added 3 operated drilling rigs in the second quarter. We brought on 69 net wells in Pinedale in the first 6 months of the year, and we plan to bring on another 97 net wells in the second half of this year.

And although the 2017 development program is back-end loaded, we began to realize production growth during this quarter. On June 30, net production in Wyoming was 718 million cubic feet equivalent per day, up 8% from the exit rate of last quarter. We expect the production to grow another 13% by year-end.

Upon arrival of the additional rigs, operational performance has been strong, and these rigs have quickly approached the fleet average and several key operational metrics. The success started well before the rigs arrived, directly related to several planning efforts, attention to detail on rig selection, specifying important rig modifications required for our simultaneous operations protocol in Pinedale, leveraging strong relationships among our vendors to procure critical equipment and the onboarding of highly skilled personnel.

For the second quarter, drilling costs in Pinedale averaged $2.9 million per well. We have experienced some service cost increases this year with about 3.5% on average across oil services. For the rest of this year, we are expecting competition among service providers along with our ongoing drilling efficiencies to help keep well costs flat over the next 2 quarters. Looking back at the well's bottom line this quarter, we estimate the program generated an internal rate of return of 38%. We expect the next 2 quarters to deliver similar results.

Please note the updated guidance for capital and production in our news release. These adjustments take into account modest increases in service costs, an average 1-month delay among the rigs we added this summer, an acquisition of over 9,000 net acres in Pinedale that also included 80 Bcfe of reserves and our plans to test horizontal wells in the second half of this year using a rig previously assigned to vertical drilling.

Our teams have been busy evaluating resource expansion in Pinedale, with an emphasis on horizontal drilling on the flanks of the field. In 2016, we drilled and tested the first horizontal well in Pinedale. 3 horizontal wells have also been drilled on the far eastern part of the Jonah field, adjacent to Pinedale and geologically analogous to our assets in Pinedale. We are encouraged by all the results so far, and as a result, we now plan to drill and test 3 horizontal wells later this year.

In Jonah, the recent horizontals have extended that field beyond its historical boundary of vertical well development. We see the same potential for Pinedale. As a reminder, Pinedale currently produces gas and condensate from vertical wells that have a pay column that exceeds 5,000 feet. At this time, we have prioritized 4 intervals within the lower Lance and Mesaverde formations to drill horizontal tests. This could expand to include targets in the middle and upper Lance as well as potential targets in the deeper undeveloped horizons such as the Rock Springs and Hilliard shale.

Our first horizontal test was in the low Lance B. Our next 3 walls will target other intervals within the low Lance and Mesaverde formations. Last summer, when we drilled our first horizontal well, we put together a preliminary estimate of 1.3 Tcfe of net risked resources for our flank expansion of Pinedale using horizontal wells. Since that time, wells have been drilled and put online and are performing almost double what we first modeled. We have also identified additional targets that may result in 2x to 3x more wells per section. We look forward to our upcoming tests. With success, additional upside could be realized with longer laterals, increased well count per section, higher condensate yields and larger EURs per well.

Mike?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Thanks, Brad. So here we sit 3.5, 4 months after emerging from our in-court restructuring. What's it look like from the top of the funnel or the 30,000-foot level? We are a Western Basin natural gas company, serving a western market that has seen little to no gas supply growth. Our previous low cost structure has been lowered further by about $0.55 per Mcfe, expanding our cash margins.

We have an extensive inventory of high returning undrilled locations, one where the internal rate of returns of our second quarter wells average 38%. We have a very real opportunity of significant resource expansion with the horizontal program we have planned. And we are working on improving our liquidity with an eye on leverage ratios as we work towards alternatives on increasing shareholder returns.

And with that, I'll ask the operator to open the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take your first question from Jacob Gomolinski-Ekel with Morgan Stanley.

Jacob Gomolinski-Ekel

Given we haven't seen 10-Q yet, just wanted to confirm what you are saying in the prepared remarks. The approximately $450 million of restricted cash is still on the balance sheet and then the $150 million settlement payment to REX was paid primarily via revolver draw?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

Yes, that's correct.

Jacob Gomolinski-Ekel

Okay. And then just on the borrowing base, want to confirm, did you say the RBL lenders, based on your conversations, said they would be open to growing the borrowing base to $1.9 billion based on PDP value? Just asking because that's a pretty meaningful increase from the $400 million currently. So I just want to understand, what's driving that?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

They haven't said that. We just submitted our updated reserves at their price deck last week. We made an internal calculation that the borrowing base could be as high as $1.9 billion. So we have the expectation that they're going to increase the borrowing base, not necessarily to $1.9 billion, but there is potential for it to go that high.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

But the simple math suggests it could be $1.9 billion, yes.

Jacob Gomolinski-Ekel

Okay. And then just given the rig delivery delays and the change in production guidance, do you have a sense of how you're thinking about EBITDA at current strip prices as compared to the previous guidance of $650 million to $700 million?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, I guess, we have a thought that it's going to be less than that, because of less production, but that's -- yes.

Operator

We'll take our next question from Kyle Bickel with Stifel.

Kyle Addison Bickel - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

I guess now that it looks like you're going to reach that planned 8-rig program coming this quarter, I guess, how are you guys thinking about that rig count going into '18 and sort of balancing growth with balance sheet stability if we see any more of a prolonged downturn in the commodity price?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, let me take that in steps and Brad can help me. The 8th rig will arrive when, Brad?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

It will begin drilling later this month.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Right. So we will get to our 8 rigs. It's just taking longer to get the rigs on location and actually getting them turning to the right. So that's going to happen.

Secondly, we are very focused on leverage ratios and absolute debt. We aren't in a position where we want to exceed significantly cash flow for our capital program. We don't mind if it's plus or minus a few percent. So we are going to manage the business, at least in the short term, towards CapEx equal or equal to cash flow, essentially. So I'm trying to -- so I'm not -- so our activity for the second half of the year and activity going into '18 is going to be focused on where we think cash flow is going to be, if I am answering your questions at all.

Kyle Addison Bickel - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Sure. That makes sense. But -- and then I guess that 8-rig going into '18 does that seem -- is that pretty static? Or is it something you could potentially roll back, if needed?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, I -- if gas prices are where the strip is for '18, which we think they won't be, we think you're going to come back up. But if gas prices are where the '18 strip is now, we won't operate 8 rigs. So because it's -- we would spend more CapEx than we want to. So let me just kind of expand on that a bit. We've run a bunch of sensitivities based on our forecast of what wells we would drill in the development program because we don't have any production forecasts for any success in horizontal program. But we can achieve 20% per annum growth, '18 over '17, and have free cash or have cash flow equal CapEx. I'm not going to address the rig count that comes with that, but just keep that in mind that if we want cash flow neutrality and no new net debt in 2018 over '17, we can still achieve the plus or minus 20% production growth. To the extent we want less or greater production growth and you see what we have to do with dialing up or down our CapEx.

Kyle Addison Bickel - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Okay. That makes sense. And then, I guess, it seems like these 24-hour rates quarter-over-quarter kind of keep creeping up. I guess now that you're seeing some longer-term data there, is there any -- I guess, how is that looking versus sort of that 4 Bcf type curve? I mean, is there a potential to see that sort of creep up over the next few quarters?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. I think that's fair. And just to note, we included in our press release a 7.4 million a day IP, that's up considerably from the first quarter. That translates to an average EUR of about 4.1 Bcfe for the quarter. And we are seeing some of the wells that underperformed a little bit in the last couple of quarters, they have actually improved. They flattened out. So our EUR estimates on those wells have actually climbed up a bit. So looking forward, I think we're going to continue to see 4 B wells and greater than 35% returns for the balance of this year.

Operator

And we'll take our next question from Marshall Carver with Heikkinen Energy Advisors.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Yes. Regarding the horizontals, you talked about the wells exceeding your expectations with the ones drilled for the last couple of years. What are the horizontals here -- what's your expected cost on the horizontals you're planning for this year? And can you give us any hope for EUR or the EUR you saw at Jonah on any help in that direction?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. This is Brad. So the first well we drilled in Pinedale, we drilled it for $5.8 million. That was a 1-mile lateral. We had a little bit of science in that well, as you might expect, because we're in testing mode. The wells that have been drilled in the eastern edge of Jonah, we see 2 wells ranging between 8 and 10 Bcf. And as we look forward and think about the potential 2-mile laterals, 10 B, 12 B wells, $6 million. That's the target we're chasing.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Talk about the Jonah wells.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

So the 2 Jonah -- well, there are 3 wells that have been drilled in Jonah field, 2 of which are, we believe, are 8 to 10 Bcf wells. One is short and one is long.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

And by short, you mean 5,000 feet and long, 10,000 feet?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, that's correct. The other thing that ...

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Actually shortest one is what, 3,500?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, it was less than a mile.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Even the short one, you think takes 8 to 10 Bs.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

The short one may very well be have the largest EUR.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Very nice. And the acreage -- so you increased the CapEx. Does that include the cost of drilling the new wells in addition to the price of the acreage? Or is that just the cost of drilling new wells?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

It's -- the CapEx increase was largely for the acquisition of the acreage and the reserves that came with it, the 80-plus Bs that Brad mentioned. But we're basically displacing developmental verticals well drilling for the second half of the year so we can fund the horizontal experiment. And we're not proposing to see any production of any significance from the horizontal program. We're just -- this is a science project. We think it has lots of upside. So we're displacing vertical wells. So we had to move the production guidance down a bit (inaudible) percent, but the (inaudible) 80 Bs and 9,000 acres.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Okay. Have you given out any potential number of horizontal wells that you could see across your acreage position if this does work?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. Last year -- and I'll reflect back to last year because we built a rigorous layout of those wells. And we're at about 350 locations that we identified, and those locations were prior to the acreage bolt-ons that we've added over the last 9 months or so. So we do see that potential for that account to grow. But for the moment, 350 locations wrapped around the boundary of Pinedale, on the flanks.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Okay. And last question. The $6 million well cost could be for a 2-mile lateral in development mode?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Right now, I'm thinking more like $5 million for a 1-miler and $7 million for a 2-miler in development mode for $6 million average.

Operator

And we'll take our next question from David Epstein with Cowen.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

When -- you're talking about 20% growth at sort of cash flow neutrality. Can you help us a little bit, is that based on today's strip? Is it based on your view that commodity prices will be above the strip? I guess that's the -- the variable would be nice for the equation.

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

David, this is Garland. That is at strip for 2018.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. So I think last time, when you guys talk about 25% growth in May, we were probably at like 305 for next year, and -- or probably go below that. So that's a big part of the delta?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

That's right.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

And you guys aren't -- and even though your horizontals will probably deliver something because of the science experiment, you're not really including anything in the horizontals in that?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

We don't have a significant production boost from the horizontal program at this time.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. I'd appreciate that. What was the 1.3 Tcf figure that you guys mentioned earlier? And can you just repeat the details on that?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. That was a preliminary number we built out last year. Really, it went hand-in-hand with drilling the first horizontal well. We built that based on our acreage position at the time. We built that on wells that were 1 mile long. And we were assuming 4 wells per section, which I think is a pretty conservative number of laterals to assume, given that we have a 5,000-foot column to go test. We also had an EUR, risked EUR average of 6 Bs on that particular resource assessment. And so we see well potential doubling from that point, go forward with success, of course.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Doubling in terms of the EURs and doubling in terms of well count.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, independent doubling.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Thank you.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

I think it's what Mike wanted to emphasize.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

So the 1.3 Bs was a risked potential to get us to spend some capital on the first horizontal well. Now that we have the results of that, we see more production from the early horizontal wells in the eastern Jonah, essentially southern Pinedale Field and another well, very successful well down there. Our expectation is that, that risked reserve number would be much larger.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Right. So you're saying locations and EURs both double, that 1.3 could be, order of magnitude, 5.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

It could be directionally much higher, yes.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Is -- was any of this -- I should know, but is any of this in your old presentations on inventory count?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

No.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. And can I just ask you guys to talk, I'll -- then I'll leave, a little bit about realizations, whether you think bigger issues are sort of Canadian gas or Permian gas? And that the updated realizations you gave today, is that your view for the longer term as well?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

As far as though we've seen so far this year there has been definitely impact from the Aliso Canyon storage field that was shut in that's now been reopened on a limited basis. As far as Canadian gas coming down, we don't think that is harming us too much. Those pipes are pretty full as far as Canadian gas coming down to Pacific Northwest and same for Permian gas that go west. Those pipes are pretty full. So we're really not seeing much -- we don't think we're seeing that much competition from them.

The update on the guidance that you referenced really has to do more with what's happened so far this year. We think going forward for the remainder of the year, it looks like we're at about on the strip for Northwest Rock sort of about a $0.30 differential, our expectation for 2018 is that, that continues. So that's what we see right now.

Operator

And we'll take our next question from Marshall Carver with Heikkinen Energy Advisors.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Yes. One follow-up. You talked about 2 of the Jonah field's horizontals. What about the third? And what about the one you drilled in the Pinedale? How were results on those 2 wells?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. So starting the third well in Jonah, and again, we're working off of public data, but it looks like they might have been in a target zone that wasn't as favorable as the other 2. And so the performance was lower than the other 2. Our well, that we drilled to 2016, we had a lot of successes that I want to share. First, we drilled that well for less than $6 million, really ahead of time, on budget and cost. We TD-ed the well, at basically 1 mile we were still in sand. So that was good. We encountered a lot of sand. 6 months into the well, we were testing it, and were able to determine that about 70% of the production was only coming from about 40% of the lateral. So we got some work to do to improve the efficiency of our completions on our upcoming wells. But nonetheless, we did validate the presence of sands and -- off to the east flank, which was very encouraging to us and just operationally executing well under cost and time that was budgeted. That well -- our well that we operate, we haven't shared data publicly. We've been keeping it tight. It's been pretty competitive, or we believe it's been a little competitive in acquisition space. So we've been a little quiet in our efforts. But that well we did IP at 3.7 million a day. That was lower than we expected, but has remained very flat, and we think there is -- we're seeing at least 1 Bcf per thousand lateral potential when we break down the production to where it came from in the lateral. Other parts of the field, we can see that easily doubled. So we're definitely encouraged by the results. And collectively, we think the wells to date certainly support the effort to go continue to test.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Do you want to mention condensate yield.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes. Our well was testing 23 barrels per million, which is nearly 3x the average of Pinedale. So that's certainly encouraging. And actually, it will create some value as you might expect as well.

Operator

And we'll take our next question from Joshua Gale with Nomura Securities.

Joshua Gale

You answered the first one I had which is about the spending assumption for the 2018 production growth. The second one, just tell me if I'm reading too much into the numbers, but if I try to tie all the numbers together and I apply your 1Q to 4Q growth rate and then what that implies for the sequential growth from 2Q to 3Q and then 3Q to 4Q to get to the midpoint of your annual guidance, suggests that the growth rate would be higher in 3Q than 4Q. Am I just doing too much with the numbers, because it seems like based on your rig additions, the growth would accelerate as we go through the year?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Yes, a part of it has to do with the completion schedule, more so than just the rig additions. But...

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, I think quarter-over-quarter, third quarter versus second might have a little higher growth rate than fourth quarter to third quarter.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

I think that's true.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Just the nature of the ramp up.

Operator

And we'll take our next question from Kyle Bickel with Stifel.

Kyle Addison Bickel - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Just one last one for me. I guess after the QEP divestiture and this 9,000 acres you guys have picked up. I guess, what is the future of kind of A&D in Pinedale look like? I mean, do you guys still see opportunities to add acreage, whether it's more of the legacy conventional style or the newer sort of horizontal potential?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes. We are active -- we are still active on acquisition opportunities. So we do see that future potential. Given that we are active, I'd prefer not to share much more than that.

Operator

And we'll take our next question from Anup Goswami with Cantor Fitzgerald.

Anup Goswami

Yes. I was going to ask something similar regarding sector consolidation in light of a lot of the weak equities we've seen amongst E&P companies. If you could -- any comment on what you're seeing in the landscape?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

On sector consolidation, that's the question?

Anup Goswami

Yes.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, you've seen both slightly to the south of us and slightly to the north of us with the sale of Linn acreage assets to Jonah Energy, and you've seen the sale of the QEP assets to another private equity backed entity. So there is some activity going on, and that activity is largely towards those entities that really aren't in a growth mode with the assets. They're very high value PDP relatively with some modest growth, that's more so of the QEP acquisition than it is of the Linn Energy acquisition, but nonetheless. So folks that have the ability to have lower cost of funds and larger PDP are more successful in those -- than folks that have higher cost of funds and really are after the upside with development, I guess I want to say. So there's -- we've clearly seen sector consolidation as you said, but it hasn't really been moving into the public companies.

Anup Goswami

Okay. And also, I'd like to ask in light of the slightly reduced production guidance and somewhat worsening differentials, if you might want to take this time to update your 2018 EBITDA guidance?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, I mean, I think we're talking about 20% growth, not 25% growth. And strip prices have come down from where they were 3 months ago when we last spoke. You can have a lower number, but we're not going to provide a guidance number at this time.

Operator

And we'll take our next question from Jacob Gomolinski-Ekel with Morgan Stanley.

Jacob Gomolinski-Ekel

Just given you mentioned you were still active in the acquisition market, I appreciate you don't want to talk too much detail in terms of what you might be looking at, but maybe more along the lines of how you're thinking about acquisition funding and what -- how you might be thinking about funding what you would buy.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, I mean, we're not active in terms of large acquisitions, if directionally that's where you're trying to go. We're trying to sort of narrow our targets as those that can give us more upside in the horizontal opportunity and perhaps provide some vertical inventory, and that's what we've done pretty successfully for large amounts of capital at this point in time.

I mean, I think we're more focused on trying to figure out some ways to create better returns for our shareholders than we are in terms of M&A activity for its sake. We see a lot of resource expansion upside with the horizontal program. We think these next 3 wells will be key to helping us with that. We are -- obviously, we're pretty fired up about them although we're pretty calm in our conversation right now, or we wouldn't have reallocated capital in the '17 program to that effort. (inaudible) But we think it can be significant. We think we've got ourselves a nice position there. So we're going to be more focused on increasing our liquidity, making sure we manage our debt levels and then seeing what we can do to -- whether it's share repurchases or things of that nature, how we free up cash to take advantage of the low equity value that we have in our business today. I mean most similar stories have very low equity values. We certainly suffer that. We're sensitive to it. As the conversation that Garland went through as a comparison to just our PDP value to our friends at QEP's PDP value in terms of that recent transaction, our company doesn't have the value where it should relative to that. So we've got to do some things to strengthen our current value. So I don't necessarily think that large M&A transactions are part of that.

Jacob Gomolinski-Ekel

Got it. So it sounds like you just have a lot of balance in terms of bolt-on, similarly, what you've done in terms of acquisitions, maybe share buybacks and maintaining debt levels and leverage levels and liquidity?

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

I think that's where we're headed, yes.

Operator

And we'll take our next question from David Epstein with Cowen.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Sorry, my browser closed. you had $2.07 billion of net debt at the end of the quarter?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

That's correct.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

That's of debt, not net debt. If you take [$400 million] sitting in the cash reserve account, it's not net debt.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Right, right. Okay. So it's $2.07 billion if you get nothing back at $400 million?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

Yes, that's right. That was the funded debt.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Right. I guess it seems surprisingly good to me in the sense that I thought when you guys were emerging or around the time of emergence, you guys were projecting somewhere like $2.05 billion or $2.1 billion of debt with sort of only a partial loss on that litigation. So I guess, I'm surprised that now, even if you theoretically have a full loss on that litigation, you're still at only $2.07 billion.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, good for us. Thank you for the compliment.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Well, but I'm just wondering if I missing a disconnect. Am I wrong that like earlier, at the emergence, even a partial settlement, you would have still been at $2.05 billion or $2.1 billion?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

I think that's right. We have paid $150 million to REX pipeline subsequent to the balance sheet date that maybe you're not thinking about.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. All right. Okay. So today you're at just over $2.2 billion, and that will go down to the degree you get some of that back.

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

That's right.

Operator

And we have no further questions at this time.

Michael D. Watford - *Ultra Petroleum Corp. - Chairman of the Board, CEO and President*

Well, thank you very much. If anyone has additional follow-up questions, please contact Sandi Kraemer. She'll be looking forward to having a conversation with you. I thank you all for your time today. Bye-bye.

Operator

This does conclude today's call. You may disconnect at any time, and have a wonderful day.
