



Dear Fellow Shareholders

Ultra Petroleum faced difficult economic challenges in 2012 due to low natural gas prices. Early in the year, we responded to the cyclically low prices by decreasing our capital expenditures by almost 45 percent from 2011's levels, to \$839.4 million.

Even with dramatically reducing our capital investment, we achieved record production of 257.0 billion cubic feet equivalent (Bcfe) for the year, as there is a lag effect on production levels when capital is withdrawn. As low natural gas prices persisted through all of 2012, they caused the incurrence of non-cash ceiling-test write downs. But, the greater impact of low natural gas prices in 2012 was the temporary reduction in our proved reserves to 3.1 trillion cubic feet equivalent (Tcfe), a 38 percent decrease from year-end 2011. The resource and the assets didn't disappear; they are just not economic at the very low natural gas prices of \$2.63 per thousand cubic feet (Mcf). However, as a testament to the underlying quality of our assets, our 3P (proved plus probable plus possible) reserves increased to 17.1 Tcfe. In spite of low natural gas prices, we were able to maintain our low cost structure and healthy margins. We generated a 64 percent operating cash flow margin and a 29 percent net income margin (adjusted). Let's examine 2012 in more detail.

In response to decade-low natural gas prices, we dramatically reduced our capital investment program to \$839.4 million from \$1.5 billion in 2011. Following the \$226.0 million sale of our Pinedale liquids gathering system (LGS) in 2012, we posted a net capital investment less than our \$713.1 million operating cash flow. Our goal was to be net cash flow positive for the year and we achieved this goal.

On the production side we established a new corporate all time annual production record of 257.0 Bcfe, which demonstrates that 50 percent reductions in capital and rig count don't immediately impact production. There is a significant lag effect. A lag that we are just now experiencing with our own production as is the rest of our industry. U.S. onshore natural gas production is declining, which is necessary to balance the market.

Financially, we reported \$713.1 million of operating cash flow or \$4.67 per diluted share, generating free cash in comparison to our net capital investments. Our net income (adjusted) was \$328.6 million or \$2.15 per diluted share. We hedged 184 Bcfe, over 70 percent of our 2012 annual production, and achieved a realized natural gas price including hedges of \$4.01 per Mcf for the year. Our realized hedging gains contributed \$1.99 per diluted share to cash flow. Without the effects of our hedges, our average realized natural gas price was \$2.79 per Mcf for the year.

Due to low natural gas prices during 2012, a couple of unavoidable, non-routine financial events occurred. First, we incurred ceiling test write-downs totaling \$3.0 billion. While the number appears large, the significance is not. These non-cash charges say little about the long-term value of our assets, but they wreak havoc on our 2012 financial statements.

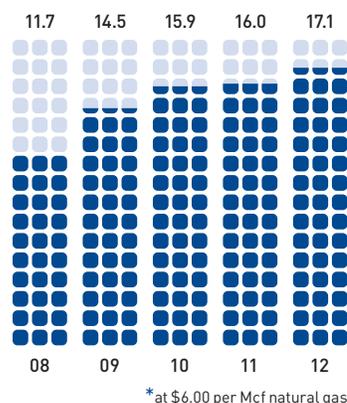
Second, our proved reserves decreased 38 percent from year-end 2011 to 3.1 Tcfe. It is instructive to note our proved reserves determination was evaluated using an unsustainably low natural gas price of \$2.63 per Mcf which was in accordance with SEC rules. As compared to year-end 2011, the gas price is down 35 percent and at levels where most of the undeveloped locations in our portfolio are not economic.

For comparative purposes, a more meaningful measure of our reserves is to restore pricing and capital to 2011 year-end levels. This restoration increases reserves up toward 5.0 Tcfe with a PV-10 value over \$5.2 billion. We believe this is a better representation of the value of our reserves as it utilizes a natural gas price that is more representative of mid-cycle prices, and it includes a capital program that we would realistically execute in an improved natural gas price environment.

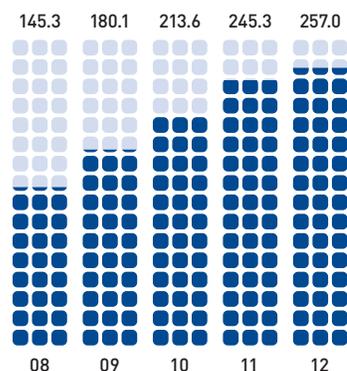
Our 2P reserves (proved plus probable) at year-end 2012, total 11.2 Tcfe with a PV-10 value of \$13.7 billion at a \$6.00 natural gas price. Using a \$5.00 price, the PV-10 value is \$9.9 billion. Both volumes and values are similar to our 2P reserves at year-end 2011.

Our 3P reserves (proved plus probable plus possible) at year-end 2012, total 17.1 Tcfe with a PV-10 value of \$18.9 billion at a \$6.00 natural gas price. Using a \$5.00 price, the PV-10 value is \$13.3 billion. We added over 1.0 Tcfe of 3P reserves in 2012. The increase is driven primarily by improved well performance in our horizontal Marcellus program. It is important to note that 3P reserves do not yet include future Geneseo development which is estimated at approximately 3.3 Tcfe of additional reserves.

3P Reserves* (tcfe)



Production (bcfe)



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With 2P reserves essentially flat and with 3P reserves growing, our asset quality and resource value is affirmed. As natural gas prices improve, many of our low-risk, economic locations will be re-classified to proved reserves.

In Pinedale, we monetized our LGS for \$226.0 million late in the year. This represented a \$158.0 million book gain on the sale which will be recognized equally over the term of the lease. We used the net proceeds to reduce our outstanding borrowings under our senior credit facility. The LGS will continue to transport our water and condensate efficiently through the field, minimizing field emissions. As a result of the transaction, we will pay an annual lease rental fee of approximately \$20.0 million.

We maintained our low cost structure in 2012. Our all-in costs were \$3.00 per thousand cubic feet equivalent (Mcf), including all cash and non-cash costs, which includes field and corporate level expenses. On a stand-alone basis, our cash costs were \$1.49 per Mcfe. Our cash flow breakeven is \$1.35 per Mcfe. Our margins remained healthy - cash flow margin (adjusted) was 64 percent and our net income margin (adjusted) was 29 percent. While we have little control over the prices for natural gas, we can apply discipline with respect to our costs.

Let's review Ultra's operational highlights for the year. In Pinedale, we suspended completion operations from April to November because economics suggest improved returns by waiting for modestly higher natural gas prices. The nearly doubling of gas prices from April to November affirmed our completion delay decision was the right thing to do. Our field operating efficiencies were not compromised, despite suspending completion operations for nearly seven months. For 2012, we placed 103 gross (44 net) wells on production while drilling 136 gross (55 net) wells in Pinedale. Drilling wells in less than 10 days is one of our key goals. In 2011, 12 percent of our operated wells reached total depth in 10 days or less. In 2012, we nearly tripled this percentage to 33 percent.

From a resource standpoint, the wells we drilled in 2012 on the eastern flank of the anticline validated our petrophysical Original Gas in Place (OGIP) models. More importantly, our third party reservoir engineering firm's resource estimates remained constant, in spite of reduced natural gas prices. Across the Pinedale Anticline, we have identified 58.7 Tcf of resource, of which 65 percent or 38.2 Tcf is estimated to be recoverable over time. Ahead of us, we have an undrilled Wyoming inventory of 2,900 future net wells and \$13.6 billion of future development capital.

Shifting to our Pennsylvania operations, our Marcellus program continued to deliver strong results. For the year, we brought 117 gross wells (47 net) on line, while drilling 68 gross (28 net) horizontal Marcellus wells. The average initial production rate was 6.9 million cubic feet equivalent (MMcf) per day. We are pleased with the very consistent performance these wells have demonstrated. With 80 percent of the activity occurring in the first half of 2012, we are continuing with our reduced pace of drilling activity and decreased investments to preserve capital. In our Anadarko joint venture, we stopped drilling in July and there is no new development planned for 2013. While our partner, Shell, has been slower to respond, they are also unwinding activity in our joint venture area and are down to one active drilling rig for the balance of 2013.

We reduced our inventory of wells waiting for completion or pipeline connection by 49 (20 net), essentially in half. We exited the year with 50 gross wells (27 net) remaining in our backlog. Our expectation is to further reduce this inventory during 2013.

We continue to be pleased by the results from the Geneseo wells drilled. To date, Ultra has participated in drilling six horizontal wells with four wells currently on line and producing. Production data from these wells,

in addition to extensive log, core and seismic data, demonstrates an estimated net Geneseo resource of 3.3 Tcf under our existing leasehold position. Two-thirds of that resource is economic at today's prices.

We made significant progress on reducing well costs throughout 2012. In our Shell joint venture, well costs decreased from \$8.8 million per well early in the year to approximately \$7.2 million at year-end 2012. There is still significant room for improvement, but well costs are heading in the right direction. Similarly, in our Anadarko joint venture, well costs decreased from \$7.5 million per well in early 2012 to \$6.0 million per well. Two key drivers of the cost reductions are increased stage spacing and target interval modifications.

We've identified 1,700 future net wells across our Marcellus acreage with \$11.3 billion of associated future development capital. These estimates do not include Geneseo development opportunities.

In Colorado's DJ Basin, our results in the Niobrara are disappointing. Although our analysis indicates the presence of oil, the petroleum system is immature, under pressured, and therefore not commercial. Our analysis is validated by completion and test results from both a vertical and a horizontal well. We continue to monitor industry activity in the region, but have no immediate plans for additional exploration in the area.

Our current New Ventures effort is focused on identifying other plays that have the ability to impact our portfolio while leveraging our expertise in unconventional plays as a low cost operator. We're evaluating those plays while actively working to identify points of entry through either acquisitions or grass roots opportunities.

In 2013, we plan to continue with our capital discipline and invest where we have positive returns at today's commodity prices. In 2012, the true size of our resource actually grew and that's without giving credit to the Geneseo. We have the resource captive and will continue to focus on returns. In 2013, we again plan to invest within our cash flow. Our natural gas production will drop slightly and we think that is the right answer in today's environment. Our extended plan for the next four years, at market natural gas prices, has us growing production by over 40 percent and EBITDA by 100 percent while maintaining capex within cash flow. We think this forecast is a base case because we see natural gas prices already improving. We are relieved to have 2012 behind us as it was a tumultuous year. We expect 2013 to be a settling out year and then we look forward to our next period of growth with increasing returns.

In closing, I would like to thank all of our talented and focused employees for their dedication to Ultra, as leveraging their knowledge and experience is crucial to our continued success. Also, I would like to welcome our newest Board member, Michael Keeffe, as I look forward to working with him in the future. But most of all, I would like to thank our loyal shareholders for their continued support. The Ultra team remains committed to executing our plan for the long-term benefit of our Company and our shareholders.

Sincerely,



Michael D. Watford
Chairman, President and
Chief Executive Officer



Certifications: In 2012, Ultra Petroleum's Chief Executive Officer (CEO) provided to the New York Stock Exchange (NYSE) the annual CEO certification regarding Ultra Petroleum's compliance with the NYSE's corporate governance listings standards. In addition, Ultra Petroleum's CEO and Ultra Petroleum's principal financial officer filed with the U.S. Securities and Exchange Commission (SEC) all the required certifications regarding the quality of Ultra Petroleum's public disclosures in its report for the fiscal year 2012.