Member FINRA/SIPC

Toll Free: 866-928-0928 s www.DawsonJames.com s 925 Federal Highway, 6th Floor s Boca Raton, FL 33432

INSTITUTIONAL RESEARCH

Energy

INITIATION REPORT

September 9, 2011

Ultra Petroleum, Inc. (NYSE/UPL)

Robert M. Wasserman
Director of Research
561-208-2905
rwasserman@dawsonjames.com

Justin S. Colatosti
Associate Research Analyst
561-208-2941
jcolatosti@dawsonjames.com

Buy Economically drilling new natural gas wells at depressed prices

Ultra Petroleum is engaged in Oil and Natural Gas Exploration and Production.

Current Price $32.20

Price Target $47.00

Estimates	F2009A	F2010A	F2011E
Revenue($mil.)	$667	$979	$1,163
1Q March	-	273	257 A
2Q June	-	228	281 A
3Q September	-	240	295 E
4Q December	-	238	330 E
EPS	($2.98)	$3.01	$2.54
1Q March	-	1.31	0.44 A
2Q June	-	0.40	0.67 A
3Q September	-	1.05	0.69 E
4Q December	-	0.25	0.73 E
P/E (x)		10.7	12.7
EBITDA/Share	($3.02)	$6.57	$6.54
EV/EBITDA (x)		6.39	6.40

Stock Data	
52-Week Range	$31.49-$51.20
Shares Outstanding (mil.)	152.9
Market Capitalization (mil.)	$4,924
Enterprise Value (mil.)	$6,477
Debt to Capital (6/11)	54.23%
Book Value/Share (6/11)	$8.61
Price/Book	3.7 X
Average Trading Volume (mil.)(3-month)	1.8
Insider Ownership	3.4%
Institutional Ownership	83.9%
Short interest (mil.)	11.51
Dividend / Yield	$0.00/0.0%

Price target and ratings changes over the past 3 years:
Initiated - September 9, 2011 – Buy – Target $47.00

Investment Highlights

1) We are initiating coverage of Ultra Petroleum, Inc. with a BUY rating. We consider Ultra Petroleum to be best in breed among independent oil and natural gas exploration and production companies based upon its industry leading $2.68/Mcfe all-in cost of production. Ultra's large reserves of dry-gas in the Green River Basin and Marcellus Shale position the Company to benefit from potential future appreciation in the price of natural gas. In the short term, we believe that natural gas prices have stabilized at current levels and are poised to trend higher over the longer term on strengthening demand. Additionally, the Company's accumulation of leaseholds on 100,000 acres in the liquids rich DJ Basin position Ultra to benefit from currently elevated oil prices. Our $47.00 price target is based upon applying a 16.3X P/E multiple to our FY2012E earnings estimate of $2.89 per share. We believe that our 16.3X multiple is conservative when compared to an industry mean of 19.4X for FY2012E.

2) Ultra Petroleum has consistently grown both production and revenue during the past two fiscal years. In Q2/2011, the Company reported sales of $281 million, a 23% increase from sales of $228 million in Q2/2010. Production in Q2/2011 was 59 Bcfe (Billion cubic feet equivalent), a 13% increase from production of 52 Bcfe in Q2/2010. Further, the midpoint of Ultra's FY2011E production guidance is 250 Bcfe, a 17% increase from production of 213 Bcfe in FY2010. We anticipate that the Company will be able to meet or exceed its FY2011E guidance based upon a 235 Bcfe annualized production rate from Q2/2011, and continued quarter to quarter production growth of 10%-13%.

3) The Company is among the lowest cost producers in its industry segment with an **all-in cost/Mcfe of $2.68 in FY2010, compared to an average of $5.62/Mcfe** for independent exploration and production companies. Ultra's cost efficient production has allowed it to continue to drill new natural gas wells economically at current prices in contrast to many of its competitors who cannot, and have instead shifted capital expenditures towards oil production. For example, for FY2011E Forest Oil (NYSE/FST/Not Rated) estimates that over 80% of capital expenditures will be directed towards liquids-rich development in the Granite Wash and the Eagle Ford Shale, while capital expenditures in the dry-gas rich Haynesville Shale are minimized.

4) Ultra's recent accumulation of 100,000 acres in the oil rich Denver-Julesburg (DJ) Basin demonstrates that while its overall focus is still on natural gas, with over 90% of Ultra's capital expenditures directed towards the dry-gas rich Green River and Appalachian Basins, the Company is actively responding to elevated oil prices and depressed natural gas prices. Reserve estimates are not yet available for the new leasehold, but we anticipate the dual benefits of **additional revenue diversification and short-term increases in revenue and net income from high priced oil**. Further, Ultra's expansion into an oil rich operating area may serve as a hedge if increases in demand for natural gas materialize over a longer than expected time horizon.

Company Business

Ultra Petroleum is an independent oil and natural gas exploration and production company with operations in the Appalachian Basin, Green River Basin, and Denver-Julesburg (DJ) Basin. The Company entered the oil and natural gas industry in 1996 and gained a major listing on the American Stock Exchange in 2001. Ultra has relied primarily on the use of debt and joint ventures to develop its properties. As of December 31, 2010, Ultra had proven reserves (1P) of 4.4 Tcfe (trillion cubic feet equivalent). For FY2010, total oil and natural gas production was 213.6 Bcfe. The Company's production mix was approximately 96% natural gas and 4% oil. Ultra's core operating areas are detailed below:

Appalachian Basin (Marcellus Shale)

Located at depths ranging from 4,000-8,500 feet, the Marcellus Shale (at right) is primarily dry-gas with a pay thickness of 150-250 feet. The Appalachian Basin's close proximity to New England and the Mid-Atlantic region of the United States provides Ultra Petroleum with a favorable market for natural gas. Prices in the Northeastern United States (Dominion South) have historically averaged 105% of the Henry Hub Spot price. Ultra began accumulating acreage in the Appalachian Basin in 2001 and completed its first well in 2005. The Company has leaseholds on 260,000 net acres in Pennsylvania and joint ventures with Shell (NYSE/RDS-A/Not Rated) and Anadarko Petroleum (NYSE/APC/Not Rated) to develop the acreage. During Q2/2011, there were 10 drilling rigs operating in the Appalachian Basin with 50 gross (23 net) new wells drilled. Other companies operating within the Marcellus Shale include Range Resources (NYSE/RRC/Not Rated), Chesapeake Energy (NYSE/CHK/Not Rated), EOG Resources (NYSE/EOG/Not Rated), and ExxonMobil's (NYSE/XOM/Not Rated) XTO Energy. With regards to midstream operations, the natural gas that Ultra Petroleum has thus far recovered from the Marcellus Shale has been dry, and has not required additional processing to remove liquids or impurities. The Company utilizes a diverse network of pipelines to connect its wells to the larger pipelines that distribute gas throughout the Northeastern U.S.

Source: oilshalegas.com

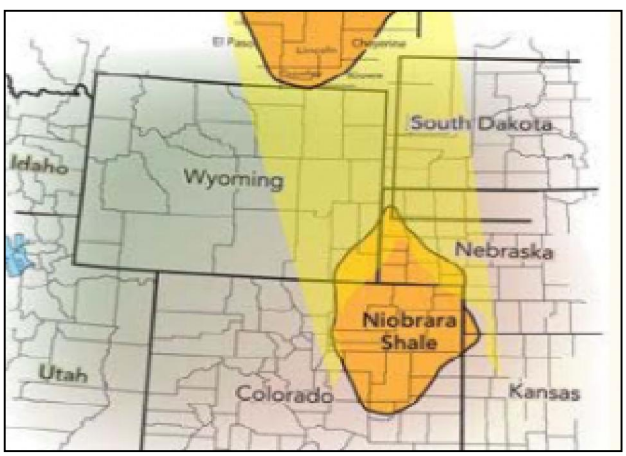
During Q2/2011, Ultra drilled a test well into the Geneseo Shale, located roughly 1,500 feet above the Marcellus Shale, which produced favorable results with an initial flow rate of 2.5 Mmcf/day. The Company estimates that 75% of its acreage in Pennsylvania is prospective for the Geneseo Shale. Ultra plans to drill an additional five lateral test wells into the Geneseo Shale during the second half of FY2011. Further, the Company's acreage in Pennsylvania is prospective for the Utica Shale, located below the Marcellus Shale, but management does not believe that it can be economically drilled at current natural gas prices due to its depths of up to 15,000 feet.

Green River Basin (Lance Pool)

Source: centerwest.org

Located at depths ranging from 12,000-14,000 feet, the Lance Pool (at right) is primarily natural gas. Ultra acquired the majority of its acreage in the Green River Basin in 1996 from Consolidated Natural Gas (NYSE/D/Not Rated), with drilling commencing in 1997. The Company has leaseholds on 54,000 net acres in the basin and joint ventures with Shell and Questar (NYSE/STR/Not Rated) to develop the acreage. During Q2/2011, there were 10 drilling rigs operating within the basin, with 83 gross (43 net) new wells drilled. Ultra's Green River Basin drilling operations averaged a spud to total depth timeframe of 12 days during Q2/2011, an improvement from 14.5 days in Q2/2010. The Company forecasts that it can ultimately achieve a spud to total depth timeframe of 10 days. Other companies operating within the Green River Basin include Cabot Oil and Gas (NYSE/COG/Not Rated), Newfield Exploration (NYSE/NFX/Not Rated), Encana (NYSE/ECA/Not Rated), and Noble Energy (NYSE/NBL/Not Rated). Historically, the price of natural gas in the Northwestern Rockies has averaged 80% of the Henry Hub Spot price. The completion of the Rockies Express Pipeline, which transports natural gas to the Northeastern United States, is enabling Ultra to market its natural gas at higher prices. Additionally, the completion of the Ruby Pipeline, which terminates in Oregon, allows the Company to market its natural gas to the West Coast. Natural gas prices in the Western United States have historically been lower than prices in the Northeast, but higher than prices in the Rockies.

Denver-Julesburg Basin (Niobrara)



Source: ogfi.com

Ultra disclosed in its Q2/2011 earnings release that it had accumulated the leaseholds on approximately 100,000 acres in the DJ Basin (at left). Although it is too early for the Company to have accurate estimates on reserves, the Niobrara Shale is known to have a high concentration of oil. It is important to note that the acreage which was leased by the Company is outside of the areas that are currently being developed and produced, such as Weld and Laramie counties. Management considers the leasehold to be an exploratory play, but notes that initial seismic data has shown similar geologic attributes to areas currently being developed. The Company plans to drill four exploratory wells during the second half of FY2011, and to test horizontal drilling in early FY2012. Other companies operating within the Niobrara Shale include Noble Energy, Chesapeake Energy, Continental Resources (NYSE/CLR/Not Rated), EOG Resources, and Anadarko Petroleum. Midstream infrastructure is currently non-existent in the DJ Basin acreage that was acquired by Ultra and would likely require additional capital expenditures during FY2012, assuming that the results of test drilling warrant additional development.

Recent Results

Ultra Petroleum reported financial results for its fiscal second quarter ended June 30, 2011 in mid-August. The Company recorded sales of $281 million for Q2/2011, an increase of 23% from sales of $228 million in Q2/2010. Growth in revenue was primarily driven by a 13% increase in production from 52.4 Bcfe in Q2/2010 to 59.1 Bcfe in Q2/2011. Production in the Marcellus Shale tripled on a year-over-year basis in Q2/2011, averaging 106 Mmcfe/day. During Q2/2011, the Company realized a natural gas price, excluding derivatives, of $4.38, a 7% increase from $4.09 in Q2/2010. Further, Ultra has been effective in controlling costs with gross margins improving from 82% in Q2/2010 to 85% in Q2/2011, and net profit margins improving from 27% to 37% over the same time period. Operating cash flow for Q2/2011 was $293 million, an increase of 44% from $204 million in Q2/2010. The Company reported net income of $104 million for Q2/2011, or $0.67 per share, an increase of 68% from net income of $61 million in Q2/2010, or $0.40 per share. Ultra's production mix was relatively unchanged from Q2/2010 to Q2/2011 at 96% natural gas and 4% oil. The table below provides selected financial data from Q2/2010 and Q2/2011:

Quarter ended ($000s)	June 30, 2010	June 30, 2011	% Change
Revenues	$228,388	$280,567	22.8%
Operating Income	$102,389	$129,202	26.2%
Net Income	$61,493	$103,505	68.3%
Earnings per share	$0.40	$0.67	67.5%
Shares outstanding	154,310	154,377	0.0%
Production (Bcfe)	52.4	59.1	12.8%
Net Profit Margin	82.2%	85.3%	3.8%
Gross Margin	26.9%	36.9%	37.2%
Natural Gas Realized Price	$4.09	$4.38	7.1%
Operating Cash Flow	$203,504	$292,758	43.8%

Source: Company filings, Dawson James estimates

Balance Sheet and Capital Expenditures

As of June 30, 2011, Ultra Petroleum had $7 million in cash and equivalents on its balance sheet, down from $71 million on December 31, 2010. Although the Company had a relatively low level of cash on hand, it is important to note that as of June 30, 2011 it had the availability of $346 million in funding from its credit facility for short-term liquidity. During Q3/2011, Ultra plans to refinance its senior credit facility to increase the borrowing capacity from $500 million to $1 billion. Debt levels were unchanged at $1.6 billion in senior notes at a weighted average interest rate of 5.6% and an average maturity of nine years. Capital expenditures for the first half of FY2011 were $717 million, with the Company forecasting total capital expenditures for FY2011E of $1.35 billion. The majority of capital expenditures are directed towards the development of Ultra's acreage in the Green River and Appalachian Basins. The table below depicts cash and equivalents, long-term debt, and shareholders' equity for the year ended December 31, 2010 and the quarter ended June 30, 2011 for Ultra Petroleum:

($000s)	December 31, 2010	June 30, 2011	% Change
Cash and Equivalents	$70,834	$6,698	-90.5%
Long-term Debt	$1,560,000	$1,560,000	0.0%
Shareholders' Equity	$1,138,976	$1,316,848	15.6%

Source: Company filings, Dawson James estimates

Merger and Acquisition Activity

The growing trend in the oil and natural gas industry has been majors such as ExxonMobil (NYSE/XOM/Not Rated) and Royal Dutch Shell (NYSE/RDS/Not Rated) diversifying into shale natural gas, while independents are further diversifying into shale oil. There have been numerous asset sales, with the most relevant to Ultra Petroleum highlighted below and summarized in Table 1:

- July 14, 2011 – BHP Billiton (NYSE/BHP/Not Rated) announced its plan to acquire Petrohawk Energy, with approximately one million acres and 3.4 Tcfe in reserves, for $15.1 billion.
- June 1, 2011 – Hilcorp Resources, a joint venture between K.K.R. (NYSE/KKR/Not Rated) and Hilcorp Energy, sold 141,000 acres in the Eagle Ford shale to Marathon Energy (NYSE/MRO/Not Rated) for $3.5 billion.
- February 21, 2011 – Chesapeake Energy (NYSE/CHK/Not Rated) sold 487,000 acres in the Fayetteville shale for $4.75 billion to BHP Billiton.
- November 9, 2010 – Chevron (NYSE/CVX/Not Rated) announced that it was acquiring formerly public Atlas Energy, with 486,000 acres in the Marcellus shale, for $4.3 billion.
- October 11, 2010 – Chesapeake Energy sold a 33% interest in its Eagle Ford shale operations to Cnooc (NYSE/CEO/Not Rated) for $2.2 billion.
- July 20, 2010 – BP (NYSE/BP/Not Rated) sold 10 natural gas fields in the Permian Basin to Apache (NYSE/APA/Not Rated) for $3.1 billion.
- June 24, 2010 – Pioneer Natural Resources (NYSE/PXD/Not Rated) sold a 45% stake in 260,000 acres in the Eagle Ford shale to Reliance Industries (Bombay/RIL/Not Rated) for $1.3 billion.
- May 28, 2010 – East Resources (Private) sold the majority of its assets, including significant acreage in the Marcellus shale, to Royal Dutch Shell for $4.7 billion.
- December 14, 2009 – ExxonMobil acquired XTO Energy, with significant assets in the Haynesville shale, for $41 billion.

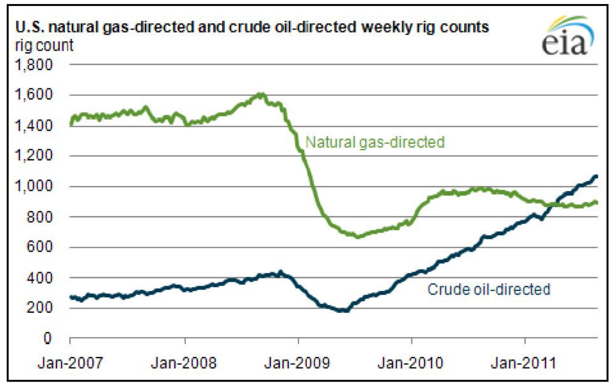
Table 1. Merger and Acquisition Summary

Date	Acquiree	Acquirer	Price (Mil's)	Acreage	Cost/Acre	Cost/Mcfe
7/14/2011	Petrohawk Energy	BHP Billiton	$15,100	1,000,000	$15,100	$4.44
6/1/2011	Hilcorp Resources	Marathon Energy	$3,500	141,000	$24,823	$5.83
2/21/2011	Chesapeake Energy	BHP Billiton	$4,750	487,000	$9,754	$1.98
1/30/2011	Chesapeake Energy	Cnooc	$1,300	264,000	$4,924	N/A
12/23/2010	Petrohawk	ExxonMobil	$575	157,000	$3,662	$1.92
11/9/2010	Atlas Energy	Chevron	$4,300	486,000	$8,848	$5.06
10/11/2010	Chesapeake Energy	Cnooc	$2,200	200,000	$11,000	N/A
7/20/2010	BP	Apache	$7,000	N/A	N/A	$3.03
6/24/2010	Pioneer Natural	Reliance Industries	$1,300	118,000	$11,017	N/A
5/28/2010	East Resources	Royal Dutch Shell	$4,700	650,000	$7,231	N/A
12/14/2009	XTO Energy	ExxonMobil	$41,000	N/A	N/A	$2.96
				Average:	$10,706	$3.60

Outlook/Growth Drivers

We regard Ultra Petroleum as the best in breed natural gas exploration and production company due to its $2.68/Mcfe cost of production in FY2010, as compared to an industry average of $5.62/Mcfe. Its cost efficient production allows the Company to drill new natural gas wells economically at current prices while many of its competitors cannot, and are instead diverting capital expenditures towards oil production. However, Ultra's long term growth prospects are closely tied to potential future appreciation in natural gas prices resulting from increases in global demand for natural gas.

In the shorter term, we believe that after declining from $11/Mcf in 2008 to $4/Mcf in 2011 on increased shale gas reserves, the price of natural gas has stabilized at current levels. Baker Hughes (NYSE/BHI/Not Rated) reported in April 2011 that the number of rigs in the United States allocated towards drilling for oil surpassed the number allocated towards natural gas for the first time since 1995. The figure at right visually depicts U.S. rig counts. Reduced levels of future production should help to alleviate the overabundance of supply and put upward pressure on prices. Ultra Petroleum has significant acreage in the dry-gas rich Marcellus Shale that will increase in profitability if natural gas prices rise.



Source: eia.gov

In a special report published in June 2011 by the International Energy Agency titled "Are We Entering a Golden Age of Gas", the agency outlines ample supplies, robust emerging markets, and uncertainty about nuclear power as key factors pointing towards a growing role of natural gas in the global energy mix. The report goes on to estimate that global natural gas usage could increase 50% by 2035 and account for greater than 25% of total energy demand. Additionally, in March 2011, President Obama announced his plan to cut oil imports 33% by 2025, while proposing expanded use of natural gas.

Further, Chesapeake Energy's $150 million dollar investment into Clean Energy (Nasdaq/CLNE/Not Rated) to fund natural gas fueling infrastructure will help to further the long term trend of increased natural gas utilization in transportation. According to NGV Global (International Association for Natural Gas Vehicles) there are approximately 12.7 million natural gas vehicles worldwide, but only 112,000 in the United States. The global annual growth rate of natural gas vehicles was 11.6% from 2009 to 2010 compared to 1.8% in the United States over the same period. We believe that there is ample room for growth in the utilization of natural gas to fuel vehicles as penetration rates in the United States increase to global levels. Additionally, the New Alternative Transportation to Give Americans Solutions Act (NAT GAS Act), which provides tax incentives to encourage natural gas vehicles, is expected to be on the legislative agenda when the U.S. Congress reconvenes in September 2011. If passed into law, the NAT GAS Act could accelerate increases in demand by subsidizing natural gas vehicles.

Finally, Ultra's accumulation of 100,000 acres in the DJ Basin demonstrates management's pragmatism in capitalizing on elevated oil prices. The Company was able to acquire the leaseholds on a low cost per acre basis by expanding outside of the current core operating area. Ultra has a history of successfully evaluating exploratory type opportunities, as it was one of the first entrants into the Green River and Appalachian Basins. Additionally, we expect that the Company will continue to economically operate as a low cost producer in the Niobrara Shale.

For Ultra Petroleum, we are forecasting Q3/2011 revenues of $295 million and net income of $107 million, or $0.69 per share. With regards to operations, we are forecasting production for Q3/2011 of 63.5 Bcfe and all-in costs of production of $2.93/Mcfe. For FY2011E we are forecasting revenues of $1.2 billion and net income of $393 million, or $2.54 per share. With regards to operations, we are forecasting production for FY2011E of 250 Bcfe and all-in costs of production of $2.90/Mcfe. For FY2012E we are forecasting revenues of $1.4 billion and net income of $451 million, or $2.89 per share. With regards to operations, we are forecasting production for

FY2012E of 290 Bcfe and all-in costs of production of $2.93/Mcfe. Our estimates are relatively in-line with consensus projections, provided by Thompson Financial, for sales of $1.3 billion and earnings of $2.58 per share for FY2011E. Tables 2 and 3 below depict our projections for production, revenue, and costs on a quarterly and annual basis, respectively:

Table 2. Quarterly Production, Revenue, and Cost Forecasts

	Q1/2010	Q2/2010	Q3/2010	Q4/2010	Q1/2011	Q2/2011	Q3/2011E	Q4/2011E
Production:								
Natural Gas (Mcf)	46,568,489	50,447,951	53,393,476	55,202,630	54,029,044	57,089,140	61,277,500	69,072,604
% of Production	96.0%	96.2%	96.3%	96.4%	96.8%	96.6%	96.5%	96.5%
Oil (Bbl)	321,874	327,919	340,689	343,931	301,224	332,774	370,417	417,537
% of Production	4.0%	3.8%	3.7%	3.6%	3.2%	3.4%	3.5%	3.5%
Total Production (Mcfe)	48,499,733	52,415,465	55,437,610	57,266,216	55,836,388	59,085,784	63,500,000	71,577,828
Revenue:								
Natural Gas Revenue	$250,538,471	$206,332,120	$217,845,382	$211,426,073	$231,784,599	$250,050,433	$265,331,575	$297,702,923
Oil Revenue	$22,376,680	$22,180,441	$22,485,474	$25,949,594	$25,375,110	$30,731,679	$30,374,167	$35,490,673
Total Revenue	$272,915,151	$228,512,561	$240,330,856	$237,375,667	$257,159,709	$280,782,112	$295,705,742	$333,193,596
Costs of Revenue:								
Lease Operating Costs	$0.21	$0.22	$0.20	$0.23	$0.22	$0.19	$0.23	$0.23
Gathering Fees	$0.25	$0.24	$0.23	$0.23	$0.23	$0.24	$0.24	$0.24
Transportation Costs	$0.33	$0.32	$0.29	$0.29	$0.29	$0.28	$0.28	$0.28
Total/Mcf	$0.79	$0.78	$0.72	$0.75	$0.74	$0.71	$0.75	$0.75
Total	$38,314,789	$40,884,063	$39,915,079	$42,949,662	$41,318,927	$41,950,907	$47,625,000	$53,683,371
Operating Expenses:								
Production Taxes	$0.59	$0.43	$0.42	$0.38	$0.42	$0.42	$0.42	$0.42
General and Admin	$0.13	$0.12	$0.11	$0.10	$0.13	$0.10	$0.12	$0.12
Depreciation	$1.06	$1.08	$1.08	$1.29	$1.32	$1.34	$1.37	$1.37
Total/Mcf	$1.78	$1.63	$1.61	$1.77	$1.87	$1.86	$1.91	$1.91
Total	$86,329,525	$85,437,208	$89,254,552	$101,361,202	$104,414,046	$109,899,558	$121,285,000	$136,713,651
Total Costs/Mcf	$2.57	$2.41	$2.33	$2.52	$2.61	$2.57	$2.66	$2.66
Total Costs	$124,644,314	$126,321,271	$129,169,631	$144,310,864	$145,732,973	$151,850,465	$168,910,000	$190,397,022
Interest Expense/Mcf	$0.24	$0.22	$0.21	$0.25	$0.26	$0.26	$0.27	$0.27
Total Interest Expense	$11,639,936	$11,531,402	$11,641,898	$14,316,554	$14,517,461	$15,362,304	$17,145,000	$19,326,014
Natural Gas Realized Price	$5.38	$4.09	$4.08	$3.83	$4.29	$4.38	$4.33	$4.31
Oil Realized Price	$69.52	$67.64	$66.00	$75.45	$84.24	$92.35	$82.00	$85.00

Source: Company filings, Dawson James estimates

Table 3. Annual Production, Revenue, and Cost Forecasts

	FY2009	FY2010	FY2011E	FY2012E
Production:				
Natural Gas (Mcf)	172,189,447	205,612,546	241,489,946	278,400,000
% of Production	95.6%	96.3%	96.6%	96.0%
Oil (Mcf)	1,320,072	1,334,413	1,418,342	1,933,333
% of Production	4.4%	3.7%	3.4%	4.0%
Total Production (Mcfe)	180,109,879	213,619,024	250,000,000	290,000,000
Revenue:				
Natural Gas Revenue	$600,941,170	$886,190,073	$1,045,047,742	$1,224,960,000
Oil Revenue	$65,739,586	$92,995,242	$121,832,057	$164,333,333
Total Revenue	$666,680,756	$979,185,315	$1,166,879,800	$1,389,293,333
Costs of Revenue:				
Lease Operating Costs	$0.23	$0.22	$0.22	$0.23
Gathering Fees	$0.25	$0.23	$0.24	$0.24
Transportation Costs	$0.32	$0.30	$0.28	$0.28
Total/Mcf	$0.80	$0.75	$0.74	$0.75
Total	$144,087,903	$160,214,268	$184,375,000	$217,500,000
Operating Expenses:				
Production Taxes	$0.37	$0.45	$0.42	$0.42
General and Admin	$0.11	$0.11	$0.12	$0.12
Depreciation	$1.12	$1.13	$1.35	$1.37
Total/Mcf	$1.60	$1.69	$1.89	$1.91
Total	$288,175,806	$361,016,151	$471,875,000	$553,900,000
Total Costs/Mcf	$2.40	$2.44	$2.63	$2.66
Total Costs	$432,263,710	$521,230,419	$656,250,000	$771,400,000
Interest Expense/Mcf	$0.21	$0.23	$0.27	$0.27
Total Interest Expense	$37,823,075	$49,132,376	$66,250,000	$78,300,000
Natural Gas Realized Price	$3.49	$4.31	$4.33	$4.40
Oil Realized Price	$49.80	$69.69	$85.90	$85.00

Source: Company filings, Dawson James estimates

Management

Michael Watford has served as Chairman of the Board, President, and Chief Executive Officer of Ultra Petroleum since 1999. He has prior experience as CEO of Nuevo Energy Company from 1995-1999, which was acquired by Plains Exploration and Production (NYSE/PXP/Not Rated) in 2004, and in various positions with Shell Oil (NYSE/RDS/Not Rated), Superior Oil (NYSE/XOM/Not Rated), and Burlington Resources (NYSE/COP/Not Rated). Mr. Watford holds a Bachelor’s degree in Finance from the University of Florida and a Master’s of Business Administration from the University of New Orleans.

Marshall Smith has served as Chief Financial Officer since 2005. He has prior experience as Vice President of Upstream Business Development for Constellation Energy (NYSE/CEG/Not Rated) from 2004-2005, as VP of Business Development for J.M. Huber Energy from 2002 to 2004, and as CFO of Gulf Liquids from 2001-2002.

William Picquet has served as Vice President of Operations since 2005. He has prior experience as CEO of M3 Energy from 2003-2005, as Managing Director of Waterous & Co. from 2002-2003, and as CEO of Advantage Energy Services from 1997-2001.

Outside directors include **Charles Helton**, CEO of privately-held Enterprise Exploration and Production; **Robert Rigney**, the former CEO and Chairman of Pendaries Petroleum; **Stephen McDaniel**, the former President and CEO of Midstates Petroleum Company; and **Roger Brown**, the former VP of Strategic Initiatives for Smith International. With regards to major insider ownership of UPL stock, officers and directors held approximately 6.4 million shares or 4% of outstanding as of the most recent proxy statement.

Stock Valuation/Comparables

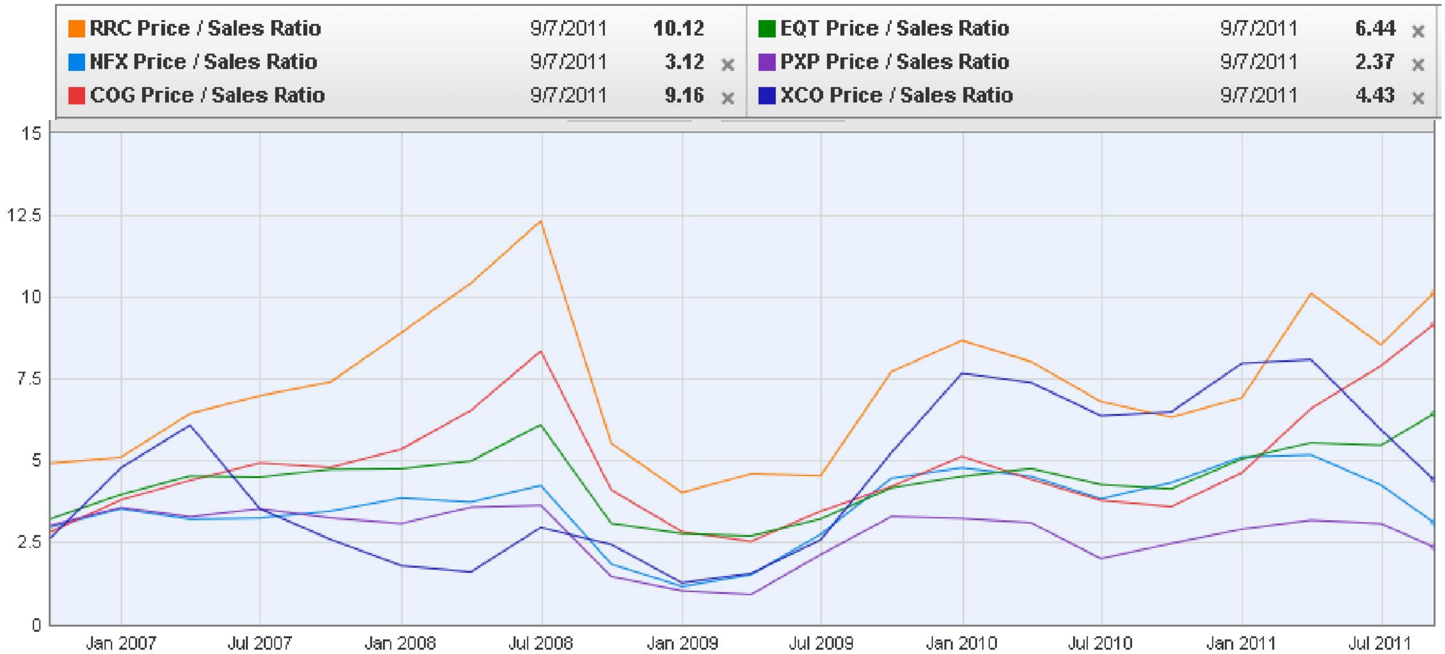
We have compiled a six stock comparison group for Ultra Petroleum, including three exploration and production companies that operate in the Marcellus Shale: EQT (NYSE/EQT/Not Rated), EXCO Resources (NYSE/XCO/Not Rated), and Range Resources; a single exploration and production company that operates in the Rockies: Plains Exploration and Production; and two exploration and production companies that operate in the Marcellus Shale and the Rockies, Newfield Exploration and Cabot Oil and Gas. Table 4 below outlines price/revenues for FY2011E; price/earnings for FY2011E and 2012E; price/production for FY2010; and price/reserves for FY2010 for Ultra Petroleum and these six comparable exploration and production companies, as well as large capitalization major integrated and independent producers of oil and natural gas:

Table 4. Independent Oil and Natural Gas Comparable Company Analysis

Company	Symbol	Price	Shares (millions)	Market Cap ($Millions)	Calendar Year EPS '11E	Calendar Year EPS '12E	Revenues ($Millions) 2011E	Calendar Year P/E '11E	Calendar Year P/E '12E	Price/Revs 2011E	Earnings Growth	Dec-10 Mmcfe/d	Dec-10 1P Bcfe	Price/ Mmcfe/d	Price/ Bcfe	52 Week Low	52 Week High	Notes
Range Resources	RRC	$65.39	161.06	$10,531.63	$1.04	$1.60	$1,110.0	62.9	40.9	9.5	53.8%	495.3	4400.0	21.26	2.39	$34.72	$67.33	Marcellus
Newfield Exploration	NFX	49.98	134.62	6,728.25	4.70	6.12	2,730.0	10.6	8.2	2.5	30.2%	776.2	3712.0	8.67	1.81	44.69	77.93	Marcellus and Rockies
Cabot Oil & Gas	COG	74.30	104.49	7,763.50	1.46	2.80	1,030.0	50.9	26.5	7.5	91.8%	358.1	2701.0	21.68	2.87	26.62	78.94	Marcellus and Rockies
EQT Corp	EQT	61.31	149.46	9,163.32	2.19	3.02	1,380.0	28.0	20.3	6.6	37.9%	380.9	5220.0	24.06	1.76	24.14	41.96	Marcellus
Plains Exploration and Production	PXP	28.60	141.00	4,032.60	1.91	2.96	1,980.0	15.0	9.7	2.0	55.0%	536.1	2496.7	7.52	1.62	11.81	21.04	Rockies
EXCO Resources	XCO	12.89	214.77	2,768.34	0.78	1.17	910.2	16.5	11.0	3.0	50.0%	306.8	1500.0	9.02	1.85	30.72	51.20	Marcellus
Average								30.6	19.4	5.2	53.1%			15.37	2.05			
Ultra Petroleum	UPL	$32.20	152.92	$4,924.13	$2.54	$2.89	$1,162.0	12.7	11.1	4.2	13.8%	585.0	4400.0	8.42	1.12	$30.72	$51.20	Marcellus and Rockies
Companies below are included as industry leaders, and are not included in the composite averages.																		
BP	BP	$37.08	3,157.19	$117,068.46	$6.77	$6.95	$377,160	5.5	5.3	0.31	2.7%					$35.15	$49.50	Major Integrated
ExxonMobil	XOM	72.82	4,862.12	354,059.21	8.75	9.07	411,950	8.3	8.0	0.86	3.7%					60.36	88.23	Major Integrated
Royal Dutch Shell	RDS.A	65.18	3,150.85	205,372.27	8.24	8.94	440,060	7.9	7.3	0.47	8.5%					55.75	77.97	Major Integrated
Chevron	CVX	98.41	2,002.98	197,113.56	12.94	12.97	239,520	7.6	7.6	0.82	0.2%					77.07	109.94	Major Integrated
ConocoPhillips	COP	65.88	1,373.03	90,454.89	8.19	8.89	229,730	8.0	7.4	0.39	8.5%					53.82	81.80	Major Integrated
Chesapeake Energy	CHK	31.96	660.84	21,120.48	2.93	3.16	10,440	10.9	10.1	2.02	7.8%					20.74	35.95	Independent Oil and Gas
Anadarko Petroleum	APC	72.29	497.81	35,986.63	3.28	4.27	13,600	22.0	16.9	2.65	30.2%					50.03	85.50	Independent Oil and Gas
Apache	APA	98.22	409.23	40,194.34	12.09	13.33	16,460	8.1	7.4	2.44	10.3%					90.35	134.13	Independent Oil and Gas

Source: DJSI Research; Thomson Financial Network

Based on valuation metrics such as price/earnings for FY2011E and FY2012E; price/reserves for FY2010; and price/production for FY2010 Ultra Petroleum shares can be considered undervalued by as much as 50%. Although our comparable company analysis indicated that a price/earnings multiple as high as 19.4X for FY2012E could be justified, we believe that a slight discount is appropriate to reflect Ultra's large degree of revenue concentration in natural gas. However, even when applying a reduced multiple to FY2012E earnings there is still significant potential upside. Thus, we are recommending that investors purchase these shares, with a 12-18 month price target of $47, or 16.3X FY2012E earnings of $2.89 per share. The chart below shows five year historical price/revenues for the six companies included in our comparable company analysis:



Source: ycharts.com

Catalysts/Investor Timeline

1) NAT-GAS Act voted on by U.S. Congress – Q4/2011
2) Q3/2011 earnings release – November 2011
3) Results of test wells in the DJ Basin – Q4/2011
4) Results of test wells in the Geneseo Shale – Q4/2011
5) Additional acreage acquisitions in the DJ Basin – FY2011 to FY2012

Risk Factors

We believe the primary risk factors to an investment in Ultra Petroleum include the following risks:

- **Lack of Revenue Diversification** – Approximately 95% of Ultra Petroleum's revenue is derived from the production and sale of natural gas. Our investment thesis is largely predicated on the idea that natural gas prices have stabilized, and have potential long term upside. If natural gas prices decline significantly it would negatively impact Ultra's profitability, and likely result in a decrease in its share price.
- **Large Degree of Volatility in Commodities –** Although Ultra uses derivative instruments to hedge prices, its revenue and profitability are affected by oil and natural gas commodity prices, which have historically been very volatile. Additionally, if commodity prices decline steeply, the Company's 1P reserve estimates may fall sharply as a portion of new wells may no longer be economical.
- **Lack of Historic Profitability** – Over the past five fiscal years, Ultra has not consistently posted positive net income and there is no guarantee that it will be able to going forward. However, the company was profitable in FY2010, and we currently estimate positive net income for FY2011E as well.

- **Concerns Regarding Hydraulic Fracturing** – The Company is dependent on hydraulic fracturing to access oil and natural gas in the majority of its wells. The US Environmental Protection Agency has raised concerns about the environmental effects of hydraulic fracturing, especially on drinking water resources, with the initial findings of the Hydraulic Fracturing Study Plan due in 2012. Additional regulations could have impacts on the Company ranging from reduced profitability from increased costs to the inability to drill for shale resources. Additionally, states such as Pennsylvania have thus far focused regulations towards the requirement that companies disclose the chemicals involved in the hydraulic fracturing process. If states tightened regulations and further restricted the use of hydraulic fracturing, it could substantially impact Ultra Petroleum's ability to develop its properties.

Justin S. Colatosti

Ultra Petroleum, Inc.
Consolidated Statements of Operations
(In Mil's)

FYE December	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E
				Mar	June	Sept	Dec		Mar	June	Sept	Dec		
Revenues	$566.6	$1,084.4	$666.8	$273.1	$228.4	$240.4	$237.5	$979.4	$257.3	$280.6	$295.0	$330.0	$1,162.9	$1,390.0
Cost of revenues (excluding depreciation)	51.9	121.1	143.8	38.2	40.6	39.7	42.6	161.0	41.5	41.3	45.0	50.0	177.8	210.0
Gross Profit	514.7	963.3	522.9	234.9	187.8	200.7	194.9	818.4	215.8	239.3	250.0	280.0	985.0	1180.0
Operating Expenses:														
Selling, general & administrative expenses	76.7	136.5	86.7	34.8	28.6	29.1	27.7	120.3	30.4	30.8	35.0	40.0	136.2	160.0
Depreciation and amortization	135.5	184.8	201.8	51.3	56.9	59.7	74.0	241.8	73.8	79.2	85.0	100.0	338.0	380.0
Impairment charges & other one-time	0.0	0.0	1,037.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total operating expenses	212.2	321.3	1,325.6	86.1	85.4	88.8	101.7	362.1	104.1	110.1	120.0	140.0	474.2	540.0
Income (loss) from operations	302.5	642.0	(802.7)	148.9	102.4	111.9	93.2	456.3	111.6	129.2	130.0	140.0	510.8	640.0
Other Income														
Interest income/(expense), net	(17.8)	(21.3)	(37.2)	(11.7)	(11.4)	(11.4)	(14.5)	(49.0)	(14.6)	(15.6)	(15.0)	(15.0)	(60.2)	(70.0)
Other expenses, including discontinued ops.	83.9	34.0	143.6	181.5	4.7	150.2	(20.6)	315.8	15.7	47.6	50.0	50.0	163.3	170.0
Income (loss) before tax	368.7	654.8	(696.2)	318.6	95.6	250.7	58.1	723.1	112.7	161.2	165.0	175.0	613.9	740.0
Provision for income taxes	105.6	240.5	(245.1)	116.3	34.1	88.1	20.1	258.6	44.0	57.7	57.8	61.3	220.7	288.6
Net income (loss)	263.0	414.3	(451.1)	202.4	61.5	162.6	37.9	464.5	68.7	103.5	107.3	113.8	393.2	451.4
Basic income per share	$1.74	$2.72	($2.98)	$1.33	$0.40	$1.07	$0.25	$3.05	$0.45	$0.68	$0.70	$0.74	$2.57	$2.93
Diluted income per share	$1.74	$2.65	($2.98)	$1.31	$0.40	$1.05	$0.25	$3.01	$0.44	$0.67	$0.69	$0.73	$2.54	$2.89
Basic shares outstanding	151.4	152.1	151.4	152.1	152.3	152.5	152.5	152.3	152.6	152.9	153.0	153.0	152.9	154.0
Diluted shares outstanding	151.4	156.5	151.4	154.4	154.3	154.2	154.1	154.3	154.5	154.4	155.0	155.0	154.7	156.0
Key ratios:														
Revenue growth		91.4%	-38.5%					46.9%	-5.8%	22.8%	22.7%	38.9%	18.7%	19.5%
Gross margin	90.8%	88.8%	78.4%	86.0%	82.2%	83.5%	82.1%	83.6%	83.9%	85.3%	84.7%	84.8%	84.7%	84.9%
S, G&S/revenues	13.5%	12.6%	13.0%	12.7%	12.5%	12.1%	11.7%	12.3%	11.8%	11.0%	11.9%	12.1%	11.7%	11.5%
Depreciation, amort, non-cash comp	135.5	184.8	201.8	51.3	56.9	59.7	74.0	241.8	73.8	79.2	85.0	100.0	338.0	380.0
Profit margin	46.4%	38.2%	-67.6%	74.1%	26.9%	67.7%	16.0%	47.4%	26.7%	36.9%	36.4%	34.5%	33.8%	32.5%
Operating margin	53.4%	59.2%	-120.4%	54.5%	44.8%	46.5%	39.2%	46.6%	43.4%	46.1%	44.1%	42.4%	43.9%	46.0%
Cash Flow/share	$2.63	$3.83	($1.65)	$1.64	$0.77	$1.44	$0.73	$4.58	$0.92	$1.18	$1.24	$1.38	$4.73	$5.33
EBITDA/share	$3.45	$5.50	($3.02)	$2.47	$1.06	$2.09	$0.95	$6.57	$1.30	$1.66	$1.71	$1.87	$6.54	$7.63

Balance Sheets

	($Mils)	
Assets:	12/31/10	6/30/11
Cash and equivalents	$71	$7
Accounts receivable	144	156
Derivative assets	134	94
Inventory	3	3
Prepaid expenses	10	8
Total current	361	267
Property & equipment, net	3,225	3,800
Long-term derivatives	2	11
Deferred financing costs	8	7
TOTAL ASSETS	3,596	4,085
Liabilities:		
Accounts payable	291	328
Deferred taxes	43	27
Derivative liabilities	1	0
Current debt	0	154
Capital cost accrual	84	111
Total current	418	620
Long-term debt	1,560	1,560
Deferred taxes	421	527
Long-term derivatives	5	2
Other	53	59
Total liabilities	2,457	2,768
Stockholders' equity	1,139	1,317
TOTAL LIAB & EQ	3,596	4,085

Quarterly Earnings Comparisons

	Mar	June	Sept	Dec	Total
Revenues (in 000's)					
2010	$273	$228	$240	$238	$979
2011E	257	281	295	330	1,163
Earnings per Share					
2010	$1.31	$0.40	$1.05	$0.25	$3.01
2011E	0.44	0.67	0.69	0.73	2.54

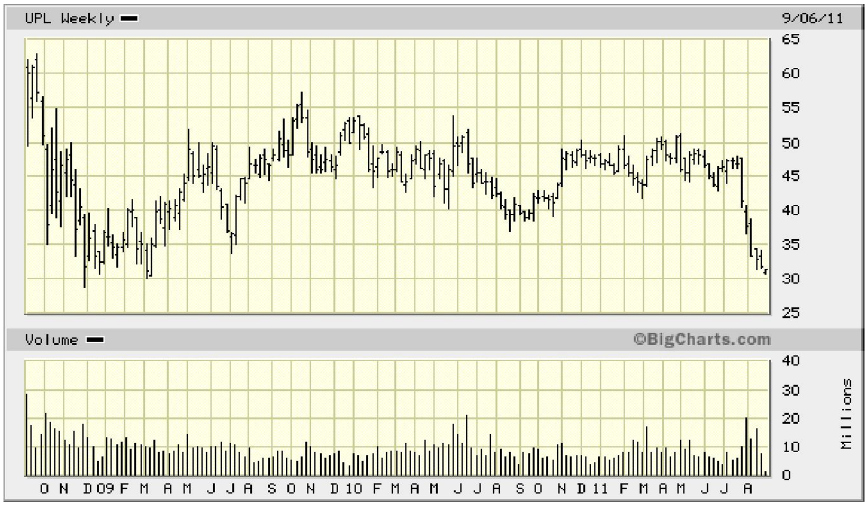
Operating Statistics

	2008	2009	2010	2011E
Revenue by Type (Mil's)				
Natural Gas	$986.4	$601.0	$886.4	$1,042.0
Oil	98.0	65.7	93.0	120.9
Total Revenue	$1,084.4	$666.8	$979.4	$1,162.9
Commodity Prices				
Natural Gas - Henry Hub (Mcf)	$9.13	$4.06	$4.52	$4.36
WTI Crude Oil (Bbl)	$99.57	$61.65	$79.40	$95.71

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:
Initiated – September 9, 2011 – BUY - Price Target $47.00

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Dawson James has not received investment banking compensation from the company mentioned in this report but may actively seek compensation for investment banking services in the future. Dawson James does not make a market in this security. Neither the research analyst whose name appears on this report nor any member of his household is an officer, director or advisory board member of the company. Dawson James did not receive any other compensation from the company in the previous 12 months. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future, but the firm as a whole does not beneficially own 1% or more of any class of common equity securities of the subject company.

Ratings definitions: 1) Buy: the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Buy	27	84%	8	30%
Neutral	4	13%	3	75%
Sell	1	3%	0	0%
Total	32	100%	11	34%

Information about valuation methods and risks can be found in the "STOCK VALUATION" and "RISK FACTORS" sections of this report.