United States 12 Month Natural Gas Fund, LP
Form POS AM
March 28, 2018

As filed with the Securities and Exchange Commission on March 28, 2018

Registration No. 333-210296

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT No. 4
to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

UNITED STATES 12 MONTH NATURAL GAS FUND, LP
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**6770**	**26-0431733**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

United States Commodity Funds LLC **1999 Harrison Street, Suite 1530** **Oakland, California 94612** **510.522.9600** **(Address, Including Zip Code, and Telephone Number, Including** **Area Code, of Registrant's Principal Executive Offices)**	**Carolyn M. Yu** **1999 Harrison Street, Suite 1530** **Oakland, California 94612** **510.522.9600** **(Name, Address, Including Zip Code, and Telephone Number,** **Including Area Code, of Agent for Service)**

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 7(a)(2)(B) of the Securities Act. o

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Commission, acting pursuant to said Section 8(a), may determine.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-210296

PROSPECTUS

United States 12 Month Natural Gas Fund, LP®*

24,650,000 Shares

***Principal U.S. Listing Exchange: NYSE Arca, Inc.**

The United States 12 Month Natural Gas Fund, LP ("UNL") is an exchange traded fund organized as a limited partnership that issues shares that trade on the NYSE Arca stock exchange ("NYSE Arca"). UNL's investment objective is to track a benchmark of short-term natural gas futures contracts. UNL pays its general partner, United States Commodity Funds LLC ("USCF"), a limited liability company, a management fee and incurs operating costs. USCF and UNL are located at 1999 Harrison Street, Suite 1530, Oakland, CA 94612. The telephone number for both USCF and UNL is 510.522.9600. In order for a hypothetical investment in shares to break even over the next 12 months, assuming a selling price of $9.12 (the net asset value as of February 28, 2018), the investment would have to generate a 0.110% return or $0.01. The amount for this breakeven analysis takes into account a fee waiver, which USCF may terminate at any time in its discretion. Please see page 31 for more information.

UNL is an exchange traded fund. This means that most investors who decide to buy or sell shares of UNL shares place their trade orders through their brokers and may incur customary brokerage commissions and charges. Shares trade on the NYSE Arca under the ticker symbol "UNL" and are bought and sold throughout the trading day at bid and ask prices like other publicly traded securities.

Shares trade on the NYSE Arca after they are initially purchased by "Authorized Participants," institutional firms that purchase and redeem shares in blocks of 50,000 shares called "baskets" through UNL's marketing agent, ALPS Distributors, Inc. (the "Marketing Agent"). The price of a basket is equal to the net asset value ("NAV") of 50,000 shares on the day that the order to purchase the basket is accepted by the Marketing Agent. The NAV per share is calculated by taking the current market value of UNL's total assets (after close of NYSE Arca) subtracting any liabilities and dividing that total by the total number of outstanding shares. The offering of UNL's shares is a "best efforts" offering, which means that neither the Marketing Agent nor any Authorized Participant is required to purchase a specific number or dollar amount of shares. USCF pays the Marketing Agent a marketing fee consisting of a fixed annual amount plus an incentive fee based on the amount of shares sold. Authorized Participants will not receive from UNL, USCF or any of their affiliates, any fee or other compensation in connection with the sale of shares. Aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with this offering of shares will not exceed ten percent (10%) of the gross proceeds of the offering.

Investors who buy or sell shares during the day from their broker may do so at a premium or discount relative to the market value of the underlying natural gas futures contracts in which UNL invests due to supply and demand forces at work in the secondary trading market for shares that are closely related to, but not identical to, the same forces influencing the prices of natural gas and the natural gas futures contracts that serve as UNL's investment benchmark. Investing in UNL involves risks similar to those involved with an investment directly in the natural gas market, the correlation risk described above, and other significant risks. See "**Risk Factors Involved with an Investment in UNL**" beginning on page 4.

The offering of UNL's shares is registered with the Securities and Exchange Commission ("SEC") in accordance with the Securities Act of 1933 (the "1933 Act"). The offering is intended to be a continuous offering and is not expected to terminate until all of the registered shares have been sold or three years from the date of the original offering, whichever is earlier, unless extended as permitted under the rules under the 1933 Act, although the offering may be temporarily suspended if and when no suitable investments for UNL are available or practicable. UNL is not a mutual fund registered under the Investment Company Act of 1940 (“1940 Act”) and is not subject to regulation under such Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OFFERED IN THIS PROSPECTUS, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

UNL is a commodity pool and USCF is a commodity pool operator subject to regulation by the Commodity Futures Trading Commission and the National Futures Association under the Commodity Exchange Act (“CEA”).

THE COMMODITY FUTURES TRADING COMMISSION HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN THIS POOL NOR HAS THE COMMISSION PASSED ON THE ADEQUACY OR ACCURACY OF THIS DISCLOSURE DOCUMENT.

The date of this prospectus is , 2018.

COMMODITY FUTURES TRADING COMMISSION

RISK DISCLOSURE STATEMENT

YOU SHOULD CAREFULLY CONSIDER WHETHER YOUR FINANCIAL CONDITION PERMITS YOU TO PARTICIPATE IN A COMMODITY POOL. IN SO DOING, YOU SHOULD BE AWARE THAT COMMODITY INTEREST TRADING CAN QUICKLY LEAD TO LARGE LOSSES AS WELL AS GAINS. SUCH TRADING LOSSES CAN SHARPLY REDUCE THE NET ASSET VALUE OF THE POOL AND CONSEQUENTLY THE VALUE OF YOUR INTEREST IN THE POOL. IN ADDITION, RESTRICTIONS ON REDEMPTIONS MAY AFFECT YOUR ABILITY TO WITHDRAW YOUR PARTICIPATION IN THE POOL.

FURTHER, COMMODITY POOLS MAY BE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT, AND ADVISORY AND BROKERAGE FEES. IT MAY BE NECESSARY FOR THOSE POOLS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THIS DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF EACH EXPENSE TO BE CHARGED THIS POOL AT PAGE 31 AND A STATEMENT OF THE PERCENTAGE RETURN NECESSARY TO BREAK EVEN, THAT IS, TO RECOVER THE AMOUNT OF YOUR INITIAL INVESTMENT, AT PAGE 31.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER FACTORS NECESSARY TO EVALUATE YOUR PARTICIPATION IN THIS COMMODITY POOL. THEREFORE, BEFORE YOU DECIDE TO PARTICIPATE IN THIS COMMODITY POOL, YOU SHOULD CAREFULLY STUDY THIS DISCLOSURE DOCUMENT, INCLUDING A DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, AT PAGE 4.

YOU SHOULD ALSO BE AWARE THAT THIS COMMODITY POOL MAY TRADE FOREIGN FUTURES OR OPTIONS CONTRACTS. TRANSACTIONS ON MARKETS LOCATED OUTSIDE THE UNITED STATES, INCLUDING MARKETS FORMALLY LINKED TO A UNITED STATES MARKET, MAY BE SUBJECT TO REGULATIONS WHICH OFFER DIFFERENT OR DIMINISHED PROTECTION TO THE POOL AND ITS PARTICIPANTS. FURTHER, UNITED STATES REGULATORY AUTHORITIES MAY BE UNABLE TO COMPEL THE ENFORCEMENT OF THE RULES OF REGULATORY AUTHORITIES OR MARKETS IN NON-UNITED STATES JURISDICTIONS WHERE TRANSACTIONS FOR THE POOL MAY BE EFFECTED.

SWAPS TRANSACTIONS, LIKE OTHER FINANCIAL TRANSACTIONS, INVOLVE A VARIETY OF SIGNIFICANT RISKS. THE SPECIFIC RISKS PRESENTED BY A PARTICULAR SWAP TRANSACTION NECESSARILY DEPEND UPON THE TERMS OF THE TRANSACTION AND YOUR CIRCUMSTANCES. IN GENERAL, HOWEVER, ALL SWAPS TRANSACTIONS INVOLVE SOME COMBINATION OF MARKET RISK, CREDIT RISK, COUNTERPARTY CREDIT RISK, FUNDING RISK, LIQUIDITY RISK, AND OPERATIONAL RISK.

HIGHLY CUSTOMIZED SWAPS TRANSACTIONS IN PARTICULAR MAY INCREASE LIQUIDITY RISK, WHICH MAY RESULT IN A SUSPENSION OF REDEMPTIONS. HIGHLY LEVERAGED TRANSACTIONS MAY EXPERIENCE SUBSTANTIAL GAINS OR LOSSES IN VALUE AS A RESULT OF RELATIVELY SMALL CHANGES IN THE VALUE OR LEVEL OF AN UNDERLYING OR RELATED MARKET FACTOR.

IN EVALUATING THE RISKS AND CONTRACTUAL OBLIGATIONS ASSOCIATED WITH A PARTICULAR SWAP TRANSACTION, IT IS IMPORTANT TO CONSIDER THAT A SWAP

TRANSACTION MAY BE MODIFIED OR TERMINATED ONLY BY MUTUAL CONSENT OF THE ORIGINAL PARTIES AND SUBJECT TO AGREEMENT ON INDIVIDUALLY NEGOTIATED TERMS. THEREFORE, IT MAY NOT BE POSSIBLE FOR THE COMMODITY POOL OPERATOR TO MODIFY, TERMINATE, OR OFFSET THE POOL'S OBLIGATIONS OR THE POOL'S EXPOSURE TO THE RISKS ASSOCIATED WITH A TRANSACTION PRIOR TO ITS SCHEDULED TERMINATION DATE.

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PROSPECTUS SUMMARY

This is only a summary of the prospectus and, while it contains material information about UNL and its shares, it does not contain or summarize all of the information about UNL and the shares contained in this prospectus that is material and/or which may be important to you. You should read this entire prospectus, including "Risk Factors Involved with an Investment in UNL" beginning on page 4, before making an investment decision about the shares. For a glossary of defined terms, see Appendix A.

United States 12 Month Natural Gas Fund, LP ("UNL"), a Delaware limited partnership, is a commodity pool that continuously issues common shares of beneficial interest that may be purchased and sold on the NYSE Arca stock exchange ("NYSE Arca"). UNL is managed and controlled by United States Commodity Funds LLC ("USCF"), a Delaware limited liability company. USCF is registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA").

UNL's Investment Objective and Strategy

The investment objective of UNL is for the daily changes in percentage terms of its shares' per share net asset value ("NAV") to reflect the daily changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the prices of specified short-term futures contracts on natural gas called the "Benchmark Futures Contracts", plus interest earned on UNL's collateral holdings, less UNL's expenses.

What are the "Benchmark Futures Contracts"?

The Benchmark Futures Contracts are the futures contracts on natural gas as traded on the New York Mercantile Exchange (the "NYMEX") that are the near month contract to expire, and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case they are measured by the futures contracts that are the next month contract to expire and the contracts for the following 11 consecutive months. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted.

UNL seeks to achieve its investment objective by investing primarily in futures contracts for natural gas that are traded on the NYMEX, ICE Futures Europe and ICE Futures U.S. (together, "ICE Futures"), or other U.S. and foreign exchanges (collectively, "Futures Contracts") and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, other natural gas investments such as cash-settled options on Futures Contracts, forward contracts for natural gas, cleared swap contracts, and non-exchange traded ("over-the-counter" or "OTC") transactions that are based on the price of natural gas, crude oil and other petroleum-based fuels, as well as futures contracts for crude oil, heating oil, gasoline, and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, "Other Natural Gas-Related Investments"). Market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing. For convenience and unless otherwise specified, Futures Contracts and Other Natural Gas-Related Investments collectively are referred to as "Natural Gas Interests" in this prospectus.

In addition, USCF believes that market arbitrage opportunities will cause daily changes in UNL's share price on the NYSE Arca on a percentage basis to closely track daily changes in UNL's per share NAV on a percentage basis. USCF further believes that the daily changes in prices of the Benchmark Futures Contracts have historically closely tracked the daily changes in the spot price of natural gas. USCF believes that the net effect of these two expected relationships will be that the daily changes in the price of UNL's shares on the NYSE Arca on a percentage basis will continue to closely track the daily changes in the spot price of natural gas on a percentage basis, less UNL's expenses.

Specifically, UNL seeks to achieve its investment objective by investing so that the average daily percentage change in UNL’s NAV for any period of 30 successive valuation days will be within plus/minus ten percent (10%) of the average daily percentage change in the price of the Benchmark Futures Contracts over the same period.

Investors should be aware that UNL’s investment objective is *not* for its NAV or market price of shares to equal, in dollar terms, the spot price of natural gas or any particular futures contract based on natural gas *nor* is UNL’s investment objective for the percentage change in its NAV to reflect the percentage change of the price of any particular futures contract as measured over a time period *greater than one day*. This is because natural market forces called contango and backwardation have impacted the total return on an investment in UNL’s shares during the past year relative to a hypothetical direct investment in natural gas and, in the future, it is likely that the relationship between the market price of UNL’s shares and changes in the spot prices of natural gas will continue to be so impacted by contango and backwardation. (It is important to note that the disclosure above ignores the potential costs associated with physically owning and storing natural gas, which could be substantial.)

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Principal Investment Risks of an Investment in UNL

An investment in UNL involves a degree of risk. Some of the risks you may face are summarized below. A more extensive discussion of these risks appears beginning on page 4.

Investment Risk

Investors may choose to use UNL as a means of investing indirectly in natural gas. There are significant risks and hazards inherent in the natural gas industry that may cause the price of natural gas to widely fluctuate.

Correlation Risk

To the extent that investors use UNL as a means of indirectly investing in natural gas, there is the risk that the daily changes in the price of UNL's shares on the NYSE Arca on a percentage basis will not closely track the daily changes in the spot price of natural gas on a percentage basis. This could happen if the price of shares traded on the NYSE Arca does not correlate closely with the value of UNL's NAV; the changes in UNL's NAV do not correlate closely with the changes in the average price of the Benchmark Futures Contracts; or the changes in the average price of the Benchmark Futures Contracts do not closely correlate with the changes in the cash or spot price of natural gas. This is a risk because if these correlations do not exist, then investors may not be able to use UNL as a cost-effective way to indirectly invest in natural gas or as a hedge against the risk of loss in natural gas-related transactions.

USCF believes that holding futures contracts whose expiration dates are spread out over a 12 month period of time will cause the total return of such a portfolio to vary compared to a portfolio that holds only a single month's contract (such as the near month contract). In particular, USCF believes that the total return of a portfolio holding contracts with a range of expiration months will be impacted differently by the price relationship between different contract months of the same commodity future compared to the total return of a portfolio consisting of the near month contract. For example, in cases in which the near month contract's price is higher than the price of contracts that expire later in time (a situation known as "backwardation" in the futures markets), then absent the impact of the overall movement in natural gas prices, the value of the near month contract would tend to rise as it approaches expiration. Conversely, in cases in which the near month contract's price is lower than the price of contracts that expire later in time (a situation known as "contango" in the futures markets), then absent the impact of the overall movement in natural gas prices, the value of the near month contract would tend to decline as it approaches expiration. The total return of a portfolio that owned the near month contract and "rolled" forward each month by selling the near month contract as it approached expiration and purchasing the next month contract to expire would be positively impacted by a backwardation market, and negatively impacted by a contango market. Depending on the exact price relationship of the different month's prices, portfolio expenses, and the overall movement of natural gas prices, the impact of backwardation and contango could have a major impact on the total return of such a portfolio over time. USCF believes that based on historical evidence, a portfolio that held futures contracts with a range of expiration dates spread out over a 12 month period of time would typically be impacted less by the positive effect of backwardation and the negative effect of contango compared to a portfolio that held contracts of a single near month. As a result, absent the impact of any other factors, a portfolio of 12 different monthly contracts would tend to have a lower return than a near month only portfolio in a backwardation market and a higher total return in a contango market. However, there can be no assurance that such historical relationships would provide the same or similar results in the future.

Tax Risk

UNL is organized and operated as a limited partnership in accordance with the provisions of its limited partnership agreement and applicable state law, and therefore, has a more complex tax treatment than conventional mutual funds.

Over-the-Counter ("OTC") Contract Risk

UNL may also invest in Other Natural Gas-Related Investments, many of which are negotiated over-the-counter or "OTC" contracts that are not as liquid as Futures Contracts and expose UNL to credit risk that its counterparty may not be able to satisfy its obligations to UNL.

Other Risks

UNL pays fees and expenses that are incurred regardless of whether it is profitable.

Unlike mutual funds, commodity pools or other investment pools that manage their investments in an attempt to realize income and gains and distribute such income and gains to their investors, UNL generally does not distribute cash to limited partners or other shareholders. You should not invest in UNL if you will need cash distributions from UNL to pay taxes on your share of income and gains of UNL, if any, or for any other reason.

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You will have no rights to participate in the management of UNL and will have to rely on the duties and judgment of USCF to manage UNL.

UNL is subject to actual and potential inherent conflicts involving USCF, various commodity futures brokers and "Authorized Participants," the institutional firms that directly purchase and redeem shares in baskets. USCF's officers, directors and employees do not devote their time exclusively to UNL. USCF's persons are directors, officers or employees of other entities that may compete with UNL for their services, including other commodity pools (funds) that USCF manages. USCF could have a conflict between its responsibilities to UNL and to those other entities. As a result of these and other relationships, parties involved with UNL have a financial incentive to act in a manner other than in the best interests of UNL and the shareholders.

UNL's Fees and Expenses

This table describes the fees and expenses that you may pay if you buy and hold shares of UNL. You should note that you may pay brokerage commissions on purchases and sales of UNL's shares, which are not reflected in the table. Authorized Participants will pay applicable creation and redemption fees. *See* "Creation and Redemption of Shares-*Creation and Redemption Transaction Fee*," page 56.

Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)

Management Fees(1)	0.75 %
Other Expenses(1)	0.74 %
Expense Waiver(2)	(0.59)%
Net Expenses Excluding Management Fees	0.15 %
Total Annual Fund Operating Expenses After Fee Waiver	0.90 %

(1) Based on amounts for the year ended December 31, 2017. The individual expense amounts in dollar terms are shown in the table below. As used in this table, (i) Professional Expenses include expenses for legal, audit, tax, accounting and printing; and (ii) Independent Director and Officer Expenses include amounts paid to independent directors and for officers' liability insurance.

Management fees	$78,805
Professional Expenses	$71,772
Brokerage commissions	$2,209
Independent Director and Officer Expenses	$1,929
License fees	$1,576

These amounts are based on UNL's average total net assets, which are the sum of daily total net assets of UNL divided by the number of calendar days in the year. For the year ended December 31, 2017, UNL's average total net assets were $10,507,374.

(2) USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL's NAV, on an annualized basis. USCF has no obligation to continue such payments. If this agreement were terminated, the Annual Fund Operating Expenses could increase, which would negatively impact your total return from an investment in UNL.

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RISK FACTORS INVOLVED WITH AN INVESTMENT IN UNL

You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included in this prospectus, as well as information found in our periodic reports, which include UNL's financial statements and related notes, that are incorporated by reference. See "Incorporation by Reference of Certain Information", page 59.

UNL's investment objective is for the daily changes in percentage terms of its shares' per share NAV to reflect the daily changes in percentage terms of the spot price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the average of the prices of 12 futures contracts on natural gas traded on the New York Mercantile Exchange (the "NYMEX"), consisting of the near month contract to expire and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months (the "Benchmark Futures Contracts"), plus interest earned on UNL's collateral holdings, less UNL's expenses. UNL seeks to achieve its investment objective by investing so that the average daily percentage change in UNL's NAV for any period of 30 successive valuation days will be within plus/minus ten percent (10%) of the average daily percentage change in the price of the Benchmark Futures Contracts over the same period. UNL's investment strategy is designed to provide investors with a means of investing indirectly in natural gas and to hedge against movements in the spot price of natural gas. An investment in UNL involves investment risk similar to a direct investment in Natural Gas Interests. An investment in UNL involves investment risk similar to a direct investment in Futures Contracts and Other Natural Gas-Related Investments, and correlation risk, or the risk that investors purchasing shares to hedge against movements in the price of natural gas will have an efficient hedge only if the price they pay for their shares closely correlates with the price of natural gas. In addition to investment risk and correlation risk, an investment UNL involves tax risks, OTC and other risks.

Investment Risk

The NAV of UNL's shares relates directly to the value of the Benchmark Futures Contracts and other assets held by UNL and fluctuations in the prices of these assets could materially adversely affect an investment in UNL's shares. Past performance is not necessarily indicative of futures results; all or substantially all of an investment in UNL could be lost.

The net assets of UNL consist primarily of investments in Futures Contracts and, to a lesser extent, in Other Natural Gas-Related Investments. The NAV of UNL's shares relates directly to the value of these assets (less liabilities, including accrued but unpaid expenses), which in turn relates to the price of natural gas in the marketplace. Natural gas prices depend on local, regional and global events or conditions that affect supply and demand for natural gas.

Economic conditions impacting natural gas. The demand for natural gas correlates closely with general economic growth rates. The occurrence of recessions or other periods of low or negative economic growth will typically have a direct adverse impact on natural gas demand and therefore may have an adverse impact on natural gas prices.

Other natural gas demand-related factors. Other factors that may affect the demand for natural gas and therefore its price, include technological improvements in energy efficiency; seasonal weather patterns, which affect the demand for natural gas associated with heating; increased competitiveness of alternative energy sources that have so far generally not been competitive with natural gas without the benefit of government subsidies or mandates; and changes in technology or consumer preferences that alter fuel choices, such as toward alternative fueled vehicles.

Other natural gas supply-related factors. Natural gas prices also vary depending on a number of factors affecting supply. For example, increased supply from the development of new natural gas sources and technologies to enhance recovery from existing sources tends to reduce natural gas prices to the extent such supply increases are not offset by commensurate growth in demand. Similarly, increases in industry refining or manufacturing capacity may impact the supply of natural gas. Natural gas supply levels can also be affected by factors that reduce available supplies, such natural disasters, disruptions in competitors' operations, or unexpected unavailability of distribution channels that may disrupt supplies. Technological change can also alter the relative costs for companies in the natural gas industry to find, produce, and transport natural gas, which in turn, may affect the supply of and demand for natural gas.

Other factors impacting the natural gas market. The supply of and demand for natural gas may also be impacted by changes in interest rates, inflation, and other local or regional market conditions, as well as by the development of alternative energy sources.

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Price Volatility May Possibly Cause the Total Loss of Your Investment. Futures contracts have a high degree of price variability and are subject to occasional rapid and substantial changes. Consequently, you could lose all or substantially all of your investment.

Correlation Risk

Investors purchasing shares to hedge against movements in the price of natural gas will have an efficient hedge only if the price investors pay for their shares closely correlates with the price of natural gas. Investing in UNL's shares for hedging purposes involves the following risks:

- The market price at which the investor buys or sells shares may be significantly less or more than NAV.
- Daily percentage changes in NAV may not closely correlate with daily percentage changes in the average of the prices of the Benchmark Futures Contracts.
- Daily percentage changes in the average of the prices of the Benchmark Futures Contracts may not closely correlate with daily percentage changes in the price of natural gas.

The market price at which investors buy or sell shares may be significantly less or more than NAV.

UNL's NAV per share will change throughout the day as fluctuations occur in the market value of UNL's portfolio investments. The public trading price at which an investor buys or sells shares during the day from their broker may be different from the NAV of the shares. Price differences may relate primarily to supply and demand forces at work in the secondary trading market for shares that are closely related to, but not identical to, the same forces influencing the prices of the natural gas and the Benchmark Futures Contracts at any point in time. USCF expects that exploitation of certain arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track NAV per share closely over time, but there can be no assurance of that.

The NAV of UNL's shares may also be influenced by non-concurrent trading hours between the NYSE Arca and the various futures exchanges on which natural gas is traded. While the shares trade on the NYSE Arca from 9:30 a.m. to 4:00 p.m. Eastern Time, the trading hours for the futures exchanges on which natural gas trades may not necessarily coincide during all of this time. For example, while the shares trade on the NYSE Arca until 4:00 p.m. Eastern Time, liquidity in the natural gas market will be reduced after the close of the NYMEX at 2:30 p.m. Eastern Time. As a result, during periods when the NYSE Arca is open and the futures exchanges on which natural gas is traded are closed, trading spreads and the resulting premium or discount on the shares may widen and, therefore, increase the difference between the price of the shares and the NAV of the shares.

Daily percentage changes in UNL's NAV may not correlate with daily percentage changes in the average of the prices of the Benchmark Futures Contracts.

It is possible that the daily percentage changes in UNL's NAV per share may not closely correlate to daily percentage changes in the average of the prices of the Benchmark Futures Contracts. Non-correlation may be attributable to disruptions in the market for natural gas, the imposition of position or accountability limits by regulators or exchanges, or other extraordinary circumstances. As UNL approaches or reaches position limits with respect to the Benchmark Futures Contracts and other Futures Contracts or in view of market conditions, UNL may begin investing in Other Natural Gas-Related Investments. In addition, UNL is not able to replicate exactly the changes in the price of the Benchmark Futures Contract because the total return generated by UNL is reduced by expenses and transaction costs, including those incurred in connection with UNL's trading activities, and increased by interest income from UNL's holdings of Treasuries (defined below). Tracking the Benchmark Futures Contracts requires trading of UNL's portfolio with a view to tracking the Benchmark Futures Contracts over time and is dependent upon the skills of USCF and its trading principals, among other factors.

Daily percentage changes in the price of the Benchmark Futures Contracts may not correlate with daily percentage changes in the spot price of natural gas.

The correlation between changes in prices of the Benchmark Futures Contracts and the spot price of natural gas may at times be only approximate. The degree of imperfection of correlation depends upon circumstances such as variations in the speculative natural gas market, supply of and demand for Futures Contracts (including the Benchmark Futures Contracts) and Other Natural Gas-Related Investments, and technical influences in natural gas futures trading.

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Natural forces in the natural gas futures market known as "backwardation" and "contango" may increase UNL's tracking error and/or negatively impact total return.

The design of UNL's Benchmark Futures Contracts is such that every month it begins by using the near month contract to expire and the contracts for the following 11 months until the near month contract is within two weeks of expiration, when, over a one day period, it transitions to the next month contract to expire and the contracts for the following 11 months as its benchmark contracts and keeps those contracts as its benchmark until it becomes the near month contract and close to expiration. In the event of a natural gas futures market where near month contracts trade at a higher price than next month to expire contracts, a situation described as "backwardation" in the futures market, then absent the impact of the overall movement in natural gas prices the value of the benchmark contract would tend to rise as it approaches expiration. Conversely, in the event of a natural gas futures market where near month contracts trade at a lower price than next month contracts, a situation described as "contango" in the futures market, then absent the impact of the overall movement in natural gas prices the value of the Benchmark Futures Contracts would tend to decline as it approaches expiration. When compared to total return of other price indices, such as the spot price of natural gas, the impact of backwardation and contango may cause the total return of UNL's per share NAV to vary significantly. Moreover, absent the impact of rising or falling natural gas prices, a prolonged period of contango could have a significant negative impact on UNL's per share NAV and total return and investors could lose part or all of their investment. See "Additional Information About UNL, its Investment Objective and Investments" for a discussion of the potential effects of contango and backwardation.

Accountability levels, position limits, and daily price fluctuation limits set by the exchanges have the potential to cause tracking error, which could cause the price of shares to substantially vary from the average of the prices of the Benchmark Futures Contracts.

Designated contract markets, such as the NYMEX and ICE Futures have established accountability levels and position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by UNL is not) may hold, own or control. These levels and position limits apply to the futures contracts that UNL invests in to meet its investment objective. In addition to accountability levels and position limits, the NYMEX and ICE Futures also set daily price fluctuation limits on futures contracts. The daily price fluctuation limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price. Once the daily price fluctuation limit has been reached in a particular futures contract, no trades may be made at a price beyond that limit.

The accountability levels for the Benchmark Futures Contracts and other Futures Contracts traded on U.S.-based futures exchanges, such as the NYMEX, are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor's positions. The current accountability level for investments for any one-month in a Benchmark Futures Contract is 6,000 contracts. In addition, the NYMEX imposes an accountability level for all months of 12,000 net futures contracts for natural gas. In addition, the ICE Futures maintains the same accountability levels, position limits and monitoring authority for its natural gas contract as the NYMEX. If UNL and the Related Public Funds exceed these accountability levels for investments in the futures contracts for natural gas, the NYMEX and ICE Futures will monitor such exposure and may ask for further information on their activities, including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of UNL and the Related Public Funds. If deemed necessary by the NYMEX and/or ICE Futures, UNL could be ordered to reduce its Natural Gas NG Futures Contracts to below the 6,000 single month and/or 12,000 all month accountability level. As of December 31, 2017, UNL held 292 Natural Gas NG Futures Contracts traded on the NYMEX and did not hold any Futures Contracts traded on ICE Futures. For the year ended December 31, 2017, UNL did not exceed accountability levels imposed by the NYMEX and ICE Futures, however, the aggregated total of the Related Public Funds did exceed the accountability levels.

Position limits differ from accountability levels in that they represent fixed limits on the maximum number of futures contracts that any person may hold and cannot allow such limits to be exceeded without express Commodity Futures Trading Commission ("CFTC") authority to do so. In addition to accountability levels and position limits that may apply at any time, the NYMEX and the ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire. It is unlikely that UNL will run up against such position limits because UNL's investment strategy is to close out its positions and "roll" from the near month contracts to expire to the next month contracts during a one day period beginning two weeks from expiration of the contracts. For the year ended December 31, 2017, UNL did not exceed any position limits imposed by the NYMEX and ICE Futures.

The CFTC has proposed to adopt limits on speculative positions in 25 physical commodity futures and option contracts as well as swaps that are economically equivalent to such contracts in the agriculture, energy and metals markets (the "Position Limit Rules"). The Position Limit Rules would, among other things: identify which contracts are subject to speculative position limits; set thresholds that restrict the size of speculative positions that a person may hold in the spot month, other individual months and all months combined; create an exemption for positions that constitute bona fide hedging transactions; impose responsibilities on designated contract markets ("DCMs") and swap execution facilities ("SEFs") to establish position limits or, in some cases, position accountability rules; and apply to both futures and swaps across four relevant venues: OTC, DCMs, SEFs as well as certain non-U.S. located platforms. The CFTC's first attempt at finalizing the Position Limit Rules, in 2011, was successfully challenged by market participants in 2012 and, since then, the CFTC has re-proposed them and solicited comments from market participants multiple times.

At this time, it is unclear how the Position Limit Rules may affect UNL, but the effect may be substantial and adverse. By way of example, the Position Limit Rules may negatively impact the ability of UNL to meet its investment objectives through limits that may inhibit USCF's ability to sell additional Creation Baskets of UNL.

Until such time as the Position Limit Rules are adopted, the regulatory architecture in effect prior to the adoption of the Position Limit Rules will govern transactions in commodities and related derivatives. Under that system, the CFTC enforces federal limits on speculation in agricultural products (e.g., corn, wheat and soy), while futures exchanges establish and enforce position limits and accountability levels for agricultural and certain energy products (e.g., oil and natural gas). As a result, UNL may be limited with respect to the size of its investments in any commodities subject to these limits.

Under existing and recently adopted CFTC regulations, for the purposes of position limits, a market participant is generally required to aggregate all positions for which that participant controls the trading decisions with all positions for which that participant has a 10 percent or greater ownership interest in an account or position, as well as the positions of two or more persons acting pursuant to an express or implied agreement or understanding with that market participant (the "Aggregation Rules"). The Aggregation Rules will also apply to the Position Limit Rules if and when such Position Limit Rules are adopted.

Tax Risk

An investor's tax liability may exceed the amount of distributions, if any, on its shares.

Cash or property will be distributed at the sole discretion of USCF. USCF has not and does not currently intend to make cash or other distributions with respect to shares. Investors will be required to pay U.S. federal income tax and, in some cases, state, local, or foreign income tax, on their allocable share of UNL's taxable income, without regard to whether they receive distributions or the amount of any distributions. Therefore, the tax liability of an investor with respect to its shares may exceed the amount of cash or value of property (if any) distributed.

An investor's allocable share of taxable income or loss may differ from its economic income or loss on its shares.

Due to the application of the assumptions and conventions applied by UNL in making allocations for tax purposes and other factors, an investor's allocable share of UNL's income, gain, deduction or loss may be different than its economic profit or loss from its shares for a taxable year. This difference could be temporary or permanent and, if permanent, could result in it being taxed on amounts in excess of its economic income.

Items of income, gain, deduction, loss and credit with respect to shares could be reallocated, UNL could be liable for U.S. federal income tax, if the U.S. Internal Revenue Service ("IRS") does not accept the assumptions and conventions applied by UNL in allocating those items, with potential adverse consequences for an investor.

The U.S. tax rules pertaining to partnerships are complex and their application to large, publicly traded partnerships such as UNL is in many respects uncertain. UNL applies certain assumptions and conventions in an attempt to comply with the intent of the applicable rules and to report taxable income, gains, deductions, losses and credits in a manner that properly reflects shareholders' economic gains and losses. These assumptions and conventions may not fully comply with all aspects of the Internal Revenue Code (the "Code") and applicable Treasury Regulations, however, and it is possible that the IRS will successfully challenge UNL's allocation methods and require UNL to reallocate items of income, gain, deduction, loss or credit in a manner that adversely affects investors.

UNL may be liable for U.S. federal income tax on any "imputed understatement" of tax resulting from an adjustment as a result of an IRS audit. The amount of the imputed understatement generally includes increases in allocations of items of income or gains to any investor and decreases in allocations of items of deduction, loss, or credit to any investor without any offset for any corresponding reductions in allocations of items of income or gain to any investor or increases in allocations of items of deduction, loss, or credit to any investor. If UNL is required to pay any U.S. federal income taxes on any imputed understatement, the resulting tax liability would reduce the net assets of UNL and would likely have an adverse impact on the value of the shares. Under certain circumstances, UNL may be eligible to make an election to cause the investors to take into account the amount of any imputed understatement, including any interest and penalties. The ability of a publicly traded partnership such as UNL to make this election is uncertain. If the election is made, UNL would be required to provide investors who owned beneficial interests in the shares in the year to which the adjusted allocations relate with a statement setting forth their proportionate shares of the adjustment (“Adjusted K-1s”). The investors would be required to take the adjustment into account in the taxable year in which the Adjusted K-1s are issued.

UNL could be treated as a corporation for federal income tax purposes, which may substantially reduce the value of the shares.

UNL has received an opinion of counsel that, under current U.S. federal income tax laws, UNL will be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, provided that (i) at least 90 percent of UNL's annual gross income consists of "qualifying income" as defined in the Code, (ii) UNL is organized and operated in accordance with its governing agreements and applicable law and (iii) UNL does not elect to be taxed as a corporation for federal income tax purposes. Although USCF anticipates that UNL has satisfied and will continue to satisfy the "qualifying income" requirement for all of its taxable years, that result cannot be assured. UNL has not requested and will not request any ruling from the IRS with respect to its classification as a partnership not taxable as a corporation for federal income tax purposes. If the IRS were to successfully assert that UNL is taxable as a corporation for federal income tax purposes in any taxable year, rather than passing through its income, gains, losses and deductions proportionately to shareholders, UNL would be subject to tax on its net income for the year at corporate tax rates. In addition, although USCF does not currently intend to make distributions with respect to shares, any distributions would be taxable to shareholders as dividend income. Taxation of UNL as a corporation could materially reduce the after-tax return on an investment in shares and could substantially reduce the value of the shares.

UNL is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law, and therefore, UNL has a more complex tax treatment than traditional mutual funds.

UNL is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law. No U.S. federal income tax is paid by UNL on its income. Instead, UNL will furnish shareholders each year with tax information on IRS Schedule K-1 (Form 1065) and each U.S. shareholder is required to report on its U.S. federal income tax return its allocable share of the income, gain, loss and deduction of UNL.

This must be reported without regard to the amount (if any) of cash or property the shareholder receives as a distribution from UNL during the taxable year. A shareholder, therefore, may be allocated income or gain by UNL but receive no cash distribution with which to pay the tax liability resulting from the allocation, or may receive a distribution that is insufficient to pay such liability.

In addition to federal income taxes, shareholders may be subject to other taxes, such as state and local income taxes, unincorporated business taxes, business franchise taxes and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which UNL does business or owns property or where the shareholders reside. Although an analysis of those various taxes is not presented here, each prospective shareholder should consider their potential impact on its investment in UNL. It is each shareholder's responsibility to file the appropriate U.S. federal, state, local and foreign tax returns.

If UNL is required to withhold tax with respect to any Non-U.S. shareholders, the cost of such withholding may be borne by all shareholders.

Under certain circumstances, UNL may be required to pay withholding tax with respect to allocations to Non-U.S. shareholders. Although the LP Agreement provides that any such withholding will be treated as being distributed to the Non-U.S. shareholder, UNL may not be able to cause the economic cost of such withholding to be borne by the Non-U.S. shareholder on whose behalf such amounts were withheld since it does not generally expect to make any distributions. Under such circumstances, the economic cost of the withholding may be borne by all shareholders, not just the shareholders on whose behalf such amounts were withheld. This could have a material impact on the value of the shares.

The impact of U.S. tax reform on UNL is uncertain.

On December 22, 2017, H.R. 1, the bill formerly known as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), was signed into law. The Tax Act substantially alters the U.S. federal tax system in a variety of ways, including significant changes to the taxation of business entities, the deductibility of interest expense, and the tax treatment of capital investment. We cannot predict with certainty how any changes in the tax laws might affect the U.S. economy or the demand for and the price of commodities. As a result, it is possible that the Tax Act, as well as any U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Act and any future legislation related to tax reform, could have unexpected or negative impacts on UNL and some or all of its shareholders. Shareholders are urged to consult with their tax advisor regarding tax legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in UNL.

OTC Contract Risk

UNL will be subject to credit risk with respect to counterparties to OTC contracts entered into by UNL or held by special purpose or structured vehicles.

UNL faces the risk of non-performance by the counterparties to the OTC contracts. Unlike in futures contracts, the counterparty to these contracts is generally a single bank or other financial institution, rather than a clearing organization backed by a group of financial institutions. As a result, there will be greater counterparty credit risk in these transactions. A counterparty may not be able to meet its obligations to UNL, in which case UNL could suffer significant losses on these contracts.

If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, UNL may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. UNL may obtain only limited recovery or may obtain no recovery in such circumstances.

Valuing OTC derivatives may be less certain than actively traded financial instruments.

In general, valuing OTC derivatives is less certain than valuing actively traded financial instruments such as exchange traded futures contracts and securities or cleared swaps because the price and terms on which such OTC derivatives are entered into or can be terminated are individually negotiated, and those prices and terms may not reflect the best price or terms available from other sources. In addition, while market makers and dealers generally quote indicative prices or terms for entering into or terminating OTC contracts, they typically are not contractually obligated to do so, particularly if they are not a party to the transaction. As a result, it may be difficult to obtain an independent value for an outstanding OTC derivatives transaction.

Other Risks

Certain of UNL's investments could be illiquid, which could cause large losses to investors at any time or from time to time.

Futures positions cannot always be liquidated at the desired price. It is difficult to execute a trade at a specific price when there is a relatively small volume of buy and sell orders in a market. A market disruption, such as a foreign government taking political actions that disrupt the market for its currency, its natural gas production or exports, or another major export, can also make it difficult to liquidate a position. Because both Futures Contracts and Other-Natural-Gas Related Investments may be illiquid, UNL's Natural Gas Interests may be more difficult to liquidate at favorable prices in periods of illiquid markets and losses may be incurred during the period in which positions are being liquidated. The large size of the positions that UNL may acquire increases the risk of illiquidity both by making its positions more difficult to liquidate and by potentially increasing losses while trying to do so.

OTC contracts that are not subject to clearing may be even less marketable than futures contracts because they are not traded on an exchange, do not have uniform terms and conditions, and are entered into based upon the creditworthiness of the parties and the availability of credit support, such as collateral, and in general, they are not transferable without the consent of the counterparty. These conditions make such contracts less liquid than standardized futures contracts traded on a commodities exchange and could adversely impact UNL's ability to realize the full value of such contracts. In addition, even if collateral is used to reduce counterparty credit risk, sudden changes in the value of OTC transactions may leave a party open to financial risk due to a counterparty default since the collateral held may not cover a party's exposure on the transaction in such situations.

UNL is not actively managed and tracks the Benchmark Futures Contracts during periods in which the prices of the Benchmark Futures Contracts are flat or declining as well as when the prices are rising.

UNL is not actively managed by conventional methods. Accordingly, if UNL's investments in Natural Gas Interests are declining in value, UNL will not close out such positions except in connection with paying the proceeds to an Authorized Participant upon the redemption of a basket or closing out futures positions in connection with the monthly change in a Benchmark Futures Contract. USCF will seek to cause the NAV of UNL's shares to track the Benchmark Futures Contracts during periods in which its price is flat or declining as well as when the price is rising.

The NYSE Arca may halt trading in UNL's shares, which would adversely impact an investor's ability to sell shares.

UNL's shares are listed for trading on the NYSE Arca under the market symbol "UNL." Trading in shares may be halted due to market conditions or, in light of NYSE Arca rules and procedures, for reasons that, in the view of the NYSE Arca, make trading in shares inadvisable. In addition, trading is subject to trading halts caused by extraordinary market volatility pursuant to "circuit breaker" rules that require trading to be halted for a specified period based on a specified market decline. Additionally, there can be no assurance that the requirements necessary to maintain the listing of UNL's shares will continue to be met or will remain unchanged.

The liquidity of the shares may also be affected by the withdrawal from participation of Authorized Participants, which could adversely affect the market price of the shares.

In the event that one or more Authorized Participants which have substantial interests in the shares withdraw from participation, the liquidity of the shares will likely decrease, which could adversely affect the market price of the shares and result in investors incurring a loss on their investment.

Shareholders that are not Authorized Participants may only purchase or sell their shares in secondary trading markets, and the conditions associated with trading in secondary markets may adversely affect investors' investment in the shares.

Only Authorized Participants may directly purchase shares from or redeem shares with UNL through Creation Baskets or Redemption Baskets. All other investors that desire to purchase or sell shares must do so through the NYSE Arca or in other markets, if any, in which the shares may be traded. Shares may trade at a premium or discount to NAV per share.

The lack of an active trading market for UNL's shares may result in losses on an investor's investment in UNL at the time the investor sells the shares.

Although UNL's shares are listed and traded on the NYSE Arca, there can be no guarantee that an active trading market for the shares will be maintained. If an investor needs to sell shares at a time when no active trading market for them exists, the price the investor receives upon sale of the shares, assuming they were able to be sold, likely would be lower than if an active market existed.

Limited partners and shareholders do not participate in the management of UNL and do not control USCF, so they do not have any influence over basic matters that affect UNL.

The limited partners and shareholders take no part in the management or control, and have a minimal voice in UNL's operations or business. Limited partners and shareholders must therefore rely upon the duties and judgment of USCF to manage UNL's affairs. Limited partners and shareholders have no right to elect USCF on an annual or any other continuing basis. If USCF voluntarily withdraws, however, the holders of a majority of UNL's outstanding shares (excluding for purposes of such determination shares owned, if any, by the withdrawing general partner and its affiliates) may elect its successor. USCF may not be removed as general partner except upon approval by the affirmative vote of the holders of at least 66 2/3 percent of UNL's outstanding shares (excluding shares, if any, owned by USCF and its affiliates), subject to the satisfaction of certain conditions set forth in the LP Agreement.

Limited partners may have limited liability in certain circumstances, including potentially having liability for the return of wrongful distributions.

Under Delaware law, a limited partner might be held liable for UNL's obligations as if it were a general partner if the limited partner participates in the control of the partnership's business and the persons who transact business with the partnership think the limited partner is the general partner.

A limited partner will not be liable for assessments in addition to its initial capital investment in any of UNL's shares. However, a limited partner may be required to repay to UNL any amounts wrongfully returned or distributed to it under some circumstances. Under Delaware law, UNL may not make a distribution to limited partners if the distribution causes UNL's liabilities (other than liabilities to partners on account of their partnership interests and nonrecourse liabilities) to exceed the fair value of UNL's assets. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated the law will be liable to the limited partnership for the amount of the distribution for three years from the date of the distribution.

The LLC Agreement provides limited authority to the Non-Management Directors, and any Director of USCF may be removed by USCF's parent company, which is wholly owned by Concierge, a controlled public company where the majority of shares are owned by Nicholas Gerber along with certain other family members and certain other shareholders.

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USCF's Board of Directors (the "Board") currently consists of four Management Directors, each of whom are also executive officers of employees of USCF ("Management Directors"), and three Non-Management Directors, each of whom are considered independent for purposes of applicable NYSE Arca and Securities and Exchange Commission ("SEC") rules. Under USCF's Sixth Amended and Restated Limited Liability Company Agreement, dated as of May 15, 2015 (as amended from time to time), the ("LLC Agreement"), the Non-Management Directors have only such authority as the Management Directors expressly confer upon them, which means that the Non-Management Directors may have less authority to control the actions of the Management Directors than is typically the case with the independent members of a company's Board. In addition, any Director may be removed by written consent of Wainwright Holdings, Inc. ("Wainwright"), which is the sole member of USCF. The sole shareholder of Wainwright is Concierge Technologies Inc., a company publicly traded under the ticker symbol "CNCG" ("Concierge"). Mr. Nicholas Gerber along with certain family members and certain other shareholders, own the majority of the shares in Concierge, which is the sole shareholder of Wainwright, the sole member of USCF. Accordingly, although USCF is governed by the Board, which consists of both Management Directors and Non-Management Directors, pursuant to the LLC Agreement, it is possible for Mr. Gerber to exercise his indirect control of Wainwright to effect the removal of any Director (including the Non-Management Directors which comprise the Audit Committee) and to replace that Director with another Director. Having control in one person could have a negative impact on USCF and UNL, including their regulatory obligations.

There is a risk that UNL will not earn trading gains sufficient to compensate for the fees and expenses that it must pay and as such UNL may not earn any profit.

UNL pays brokerage charges of approximately 0.04% of average total net assets based on brokerage fees of $3.50 per buy or sell, management fees of 0.75% of NAV on its average net assets and OTC spreads and extraordinary expenses (e.g., subsequent offering expenses, other expenses not in the ordinary course of business, including the indemnification of any person against liabilities and obligations to the extent permitted by law and required under the LP Agreement and under agreements entered into by USCF on UNL's behalf and the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expenses and the settlement of claims and litigation) that cannot be quantified.

These fees and expenses must be paid in all cases regardless of whether UNL's activities are profitable. Accordingly, UNL must earn trading gains sufficient to compensate for these fees and expenses before it can earn any profit.

Regulation of the commodity interests and energy markets is extensive and constantly changing; future regulatory developments are impossible to predict but may significantly and adversely affect UNL.

The futures markets are subject to comprehensive statutes, regulations, and margin requirements. In addition, the CFTC and futures exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. Regulation of commodity interest transactions in the United States is a rapidly changing area of law and is subject to ongoing modification by governmental and judicial action. Considerable regulatory attention has been focused on non-traditional investment pools that are publicly distributed in the United States. In addition, various national governments outside of the United States have expressed concern regarding the disruptive effects of speculative trading in the energy markets and the need to regulate the derivatives markets in general. The effect of any future regulatory change on UNL is impossible to predict, but it could be substantial and adverse.

An investment in UNL may provide little or no diversification benefits. Thus, in a declining market, UNL may have no gains to offset losses from other investments, and an investor may suffer losses on an investment in UNL while incurring losses with respect to other asset classes.

Historically, Futures Contracts and Other-Natural-Gas Related Investments have generally been non-correlated to the performance of other asset classes such as stocks and bonds. Non-correlation means that there is a low statistically valid relationship between the performance of futures and other commodity interest transactions, on the one hand, and stocks or bonds, on the other hand.

However, there can be no assurance that such non-correlation will continue during future periods. If, contrary to historic patterns, UNL’s performance were to move in the same general direction as the financial markets, investors will obtain little or no diversification benefits from an investment in UNL’s shares. In such a case, UNL may have no gains to offset losses from other investments, and investors may suffer losses on their investment in UNL at the same time they incur losses with respect to other investments.

Variables such as drought, floods, weather, embargoes, tariffs and other political events may have a larger impact on natural gas prices and natural gas-linked instruments, including Futures Contracts and Other-Natural-Gas Related Investments, than on traditional securities. These additional variables may create additional investment risks that subject UNL's investments to greater volatility than investments in traditional securities.

Non-correlation should not be confused with negative correlation, where the performance of two asset classes would be opposite of each other. There is no historical evidence that the spot price of natural gas and prices of other financial assets, such as stocks and bonds, are negatively correlated. In the absence of negative correlation, UNL cannot be expected to be automatically profitable during unfavorable periods for the stock market, or vice versa.

UNL is not a registered investment company so shareholders do not have the protections of the 1940 Act.

UNL is not an investment company subject to the Investment Company Act of 1940 ("1940 Act"). Accordingly, investors do not have the protections afforded by that statute which, for example, requires investment companies to have a majority of disinterested directors and regulates the relationship between the investment company and its investment manager.

Trading in international markets could expose UNL to credit and regulatory risk.

UNL invests primarily in Futures Contracts, a significant portion of which are traded on United States exchanges, including the NYMEX. However, a portion of UNL's trades may take place on markets and exchanges outside the United States. Some non-U.S. markets present risks because they are not subject to the same degree of regulation as their U.S. counterparts. Trading on such non-U.S. markets or exchanges presents risks because they are not subject to the same degree of regulation as their U.S. counterparts, including potentially different or diminished investor protections. In trading contracts denominated in currencies other than U.S. dollars, UNL is subject to the risk of adverse exchange-rate movements between the dollar and the functional currencies of such contracts. Additionally, trading on non-U.S. exchanges is subject to the risks presented by exchange controls, expropriation, increased tax burdens and exposure to local economic declines and political instability. An adverse development with respect to any of these variables could reduce the profit or increase the loss earned on trades in the affected international markets.

UNL and USCF may have conflicts of interest, which may permit them to favor their own interests to the detriment of shareholders.

UNL is subject to actual and potential inherent conflicts involving USCF, various commodity futures brokers and Authorized Participants. USCF's officers, directors and employees do not devote their time exclusively to UNL and also are directors, officers or employees of other entities that may compete with UNL for their services. They could have a conflict between their responsibilities to UNL and to those other entities. As a result of these and other relationships, parties involved with UNL have a financial incentive to act in a manner other than in the best interests of UNL and the shareholders. USCF has not established any formal procedure to resolve conflicts of interest. Consequently, investors are dependent on the good faith of the respective parties subject to such conflicts of interest to resolve them equitably. Although USCF attempts to monitor these conflicts, it is extremely difficult, if not impossible, for USCF to ensure that these conflicts do not, in fact, result in adverse consequences to the shareholders.

UNL may also be subject to certain conflicts with respect to the futures commission merchant ('FCM"), including, but not limited to, conflicts that result from receiving greater amounts of compensation from other clients, or purchasing opposite or competing positions on behalf of third party accounts traded through the FCM. In addition, USCF's principals, officers, directors or employees may trade futures and related contracts for their own accounts. A conflict of interest may exist if their trades are in the same markets and at the same time as UNL trades using the clearing broker to be used by UNL. A potential conflict also may occur if USCF's principals, officers, directors or employees trade their accounts more aggressively or take positions in their accounts which are opposite, or ahead of, the positions taken by UNL.

UNL could terminate at any time and cause the liquidation and potential loss of an investor's investment and could upset the overall maturity and timing of an investor's investment portfolio.

UNL may terminate at any time, regardless of whether UNL has incurred losses, subject to the terms of the LP Agreement. In particular, unforeseen circumstances, including the adjudication of incompetence, bankruptcy, dissolution, or removal of USCF as the general partner of UNL could cause UNL to terminate unless a majority interest of the limited partners within 90 days of the event elects to continue the partnership and appoints a successor general partner, or the affirmative vote of a majority in interest of the limited partners subject to certain conditions. However, no level of losses will require USCF to terminate UNL. UNL's termination would cause the liquidation and potential loss of an investor's investment. Termination could also negatively affect the overall maturity and timing of an investor's investment portfolio.

UNL does not expect to make cash distributions.

UNL has not previously made any cash distributions and intends to reinvest any realized gains in additional Natural Gas Interests rather than distributing cash to limited partners. Therefore, unlike mutual funds, commodity pools or other investment pools that actively manage their investments in an attempt to realize income and gains from their investing activities and distribute such income and gains to their investors, UNL generally does not expect to distribute cash to limited partners. An investor should not invest in UNL if the investor will need cash distributions from UNL to pay taxes on its share of income and gains of UNL, if any, or for any other reason. Nonetheless, although UNL does not intend to make cash distributions, the income earned from its investments held directly or posted as margin may reach levels that merit distribution, *e.g.*, at levels where such income is not necessary to support its underlying investments in Natural Gas Interests and investors adversely react to being taxed on such income without receiving distributions that could be used to pay such tax. If this income becomes significant then cash distributions may be made.

An unanticipated number of redemption requests during a short period of time could have an adverse effect on UNL's NAV.

If a substantial number of requests for redemption of Redemption Baskets are received by UNL during a relatively short period of time, UNL may not be able to satisfy the requests from UNL's assets not committed to trading. As a consequence, it could be necessary to liquidate positions in UNL's trading positions before the time that the trading strategies would otherwise dictate liquidation.

Money Market Reform

The SEC adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, which became effective in 2016, to reform money market funds ("MMFs"). While the new rule applies only to MMFs, it may indirectly affect institutional investors such as UNL. A portion of UNL's assets that are not used for margin or collateral in the Futures Contracts currently are invested in government MMFs. UNL does not hold any non-government MMFs and, particularly in light of recent changes to the rule governing the operation of MMFs, does not anticipate investing in any non-government MMFs. However, if UNL invests in other types of MMFs besides government MMFs in the future, UNL could be negatively impacted by investing in an MMF that does not maintain a stable $1.00 NAV or that has the potential to impose redemption fees and gates (temporary suspension of redemptions).

The failure or bankruptcy of a clearing broker could result in a substantial loss of UNL's assets and could impair UNL in its ability to execute trades.

In the event of the bankruptcy of a clearing member or an exchange's clearing house, UNL could be exposed to a risk of loss with respect to its assets that are posted as margin. If such a bankruptcy were to occur, UNL would be afforded the protections granted to customers of an FCM, and participants to transactions cleared through a clearing house, under the United States Bankruptcy Code and applicable CFTC regulations. Such provisions generally provide for a pro rata distribution to customers of customer property held by the bankrupt FCM or an exchange's clearing house if the customer property held by the FCM or the exchange's clearing house is insufficient to satisfy all customer claims. In any case, there can be no assurance that these protections will be effective in allowing UNL to recover all, or even any, of the amounts it has deposited as margin.

Bankruptcy of a clearing FCM can be caused by, among other things, the default of one of the FCM's customers. In this event the exchange's clearing house is permitted to use the entire amount of margin posted by UNL (as well as margin posted by other customers of the FCM) to cover the amounts owed by the bankrupt FCM. Consequently, UNL could be unable to recover amounts due to it on its futures positions, including assets posted as margin, and could sustain substantial losses.

CFTC regulations impose several requirements on FCMs that are designed to protect customers, including mandating certain customer protections, risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures and auditing and examination programs. There can be no assurance these regulations will prevent losses to, or not materially adversely affect, UNL or its investors.

Notwithstanding that UNL could sustain losses upon the failure or bankruptcy of its FCM, the majority of UNL's assets are held in Treasuries, cash and/or cash equivalents with Brown Brothers Harriman & Co. (the "Custodian") and would not be impacted by the bankruptcy of an FCM.

The failure or bankruptcy of UNL's Custodian could result in a substantial loss of UHN's assets.

The majority of UNL's assets are held in Treasuries, cash and/or cash equivalents with the Custodian. The failure or insolvency of the Custodian could result in a complete loss of UNL's assets held by the Custodian, which, at any given time, would likely comprise a substantial portion of UNL's total assets.

Third parties may infringe upon or otherwise violate intellectual property rights or assert that USCF has infringed or otherwise violated their intellectual property rights, which may result in significant costs and diverted attention.

It is possible that third parties might utilize UNL's intellectual property or technology, including the use of its business methods, trademarks and trading program software, without permission. USCF has a patent for UNL's business method and has registered its trademarks. UNL does not currently have any proprietary software. However, if it obtains proprietary software in the future, any unauthorized use of UNL's proprietary software and other technology could also adversely affect its competitive advantage. UNL may not have adequate resources to implement procedures for monitoring unauthorized uses of its patents, trademarks, proprietary software and other technology. Also, third parties may independently develop business methods, trademarks or proprietary software and other technology similar to that of USCF or claim that USCF has violated their intellectual property rights, including their copyrights, trademark rights, trade names, trade secrets and patent rights. As a result, USCF may have to litigate in the future to protect its trade secrets, determine the validity and scope of other parties' proprietary rights, defend itself against claims that it has infringed or otherwise violated other parties' rights, or defend itself against claims that its rights are invalid. Any litigation of this type, even if USCF is successful and regardless of the merits, may result in significant costs, divert its resources from UNL, or require it to change its proprietary software and other technology or enter into royalty or licensing agreements.

Due to the increased use of technologies, intentional and unintentional cyber-attacks pose operational and information security risks.

With the increased use of technologies such as the internet and the dependence on computer systems to perform necessary business functions, UNL is susceptible to operational and information security risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites. Cyber security failures or breaches of UNL's clearing broker or third party service provider (including, but not limited to, index providers, the administrator and transfer agent, the custodian), have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability of UNL shareholders to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs.

In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. UNL and its shareholders could be negatively impacted as a result. While UNL has established business continuity plans, there are inherent limitations in such plans.

ADDITIONAL INFORMATION ABOUT UNL, ITS INVESTMENT OBJECTIVE AND INVESTMENTS

UNL is a Delaware limited partnership organized on June 27, 2007. It operates pursuant to the terms of the Third Amended and Restated Agreement of Limited Partnership dated as of December 15, 2017, (as amended from time to time, the "LP Agreement"), which grants full management control of UNL to USCF. UNL maintains its main business office at 1999 Harrison Street, Suite 1530, Oakland, California 94612.

The net assets of UNL consist primarily of investments in Futures Contracts and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, Other Natural Gas-Related Investments. Market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing.

UNL invests substantially the entire amount of its assets in Futures Contracts while supporting such investments by holding the amounts of its margin, collateral and other requirements relating to these obligations in short-term obligations of the United States of two years or less ("Treasuries"), cash and cash equivalents. The daily holdings of UNL are available on UNL's website at *www.uscfinvestments.com*.

UNL invests in Natural Gas Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to its investments in Natural Gas Interests. In pursuing this objective, the primary focus of USCF is the investment in Futures Contracts and the management of UNL's investments in Treasuries, cash and/or cash equivalents for margining purposes and as collateral.

UNL seeks to invest in a combination of Natural Gas Interests such that the daily changes in its NAV, measured in percentage terms, will closely track the daily changes in the price of the Benchmark Futures Contracts, also measured in percentage terms. As a specific benchmark, USCF endeavors to place UNL's trades in Natural Gas Interests and otherwise manage UNL's investments so that "A" will be within plus/minus ten percent (10%) of "B", where:

- A is the average daily percentage change in UNL's per share NAV for any period of 30 successive valuation days, *i.e.*, any NYSE Arca trading day as of which UNL calculates its per share NAV; and
- B is the average daily percentage change in the average of the prices of the Benchmark Futures Contracts over the same period.

USCF believes that market arbitrage opportunities will cause the daily changes in UNL's share price on the NYSE Arca to closely track the daily changes in UNL's per share NAV. USCF further believes that the daily changes in UNL's NAV in percentage terms will closely track the daily changes in percentage terms in the average price of the Benchmark Futures Contracts, less UNL's expenses.

The following two graphs demonstrate the correlation between the changes in the NAV of UNL and the changes in the Benchmark Futures Contracts. The first graph exhibits the daily changes for the last 30 valuation days ended December 31, 2017; the second graph measures monthly changes from December 2012 through December 2017.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

USCF employs a "neutral" investment strategy in order to track changes in the average of the prices of the Benchmark Futures Contracts regardless of whether the price goes up or goes down. UNL's "neutral" investment strategy is designed to permit investors generally to purchase and sell UNL's shares for the purpose of investing indirectly in natural gas in a cost-effective manner, and/or to permit participants in the natural gas or other industries to hedge the risk of losses in their natural gas-related transactions. Accordingly, depending on the investment objective of an individual investor, the risks generally associated with investing in natural gas and/or the risks involved in hedging may exist. In addition, an investment in UNL involves the risk that the daily changes in the average of the prices of UNL's shares, in percentage terms, will not accurately track the daily changes in the average prices of the Benchmark Futures Contracts, in percentage terms, and that daily changes in the Benchmark Futures Contracts, in percentage terms, will not closely correlate with daily changes in the spot prices of natural gas, in percentage terms.

An alternative tracking measurement of the return performance of UNL versus the return of the Benchmark Futures Contracts can be calculated by comparing the actual return of UNL, measured by changes in its per share NAV, versus the expected changes in its per share NAV under the assumption that UNL's returns had been exactly the same as the daily changes in its Benchmark Futures Contracts.

For the year ended December 31, 2017, the actual total return of UNL as measured by changes in its per share NAV was (21.19)%. This is based on an initial per share NAV of $11.75 as of December 31, 2016 and an ending per share NAV as of December 31, 2017 of $9.26. During this time period, UNL made no distributions to its shareholders. However, if UNL's daily changes in its per share NAV had instead exactly tracked the changes in the daily total return of the Benchmark Futures Contracts, UNL would have had an estimated per share NAV of $9.22 as of December 31, 2017, for a total return over the relevant time period of (21.53)%. The difference between the actual per share NAV total return of UNL of (21.19)% and the expected total return based on the Benchmark Futures Contracts of (21.53)% was an error over the time period of 0.34%, which is to say that UNL's actual total return underperformed the benchmark result by that percentage. UNL incurs expenses primarily composed of the management fee, brokerage commissions for the buying and selling of futures contracts, and other expenses.

Impact of Contango and Backwardation on Total Returns

Several factors determine the total return from investing in futures contracts. One factor arises from "rolling" futures contracts that will expire at the end of the current month (the "near" or "front" month contract) forward each month prior to expiration. For a strategy that entails holding the near month contract, the price relationship between that futures contract and the next month futures contract will impact returns. For example, if the price of the near month futures contract is higher than the next futures month contract (a situation referred to as "backwardation"), then absent any other change, the price of a next month futures contract tends to rise in value as it becomes the near month futures contract and approaches expiration. Conversely, if the price of a near month futures contract is lower than the next month futures contract (a situation referred to as "contango"), then absent any other change, the price of a next month futures contract tends to decline in value as it becomes the near month futures contract and approaches expiration.

As an example, assume that the price of natural gas for immediate delivery, is $3 per MMBtu, and the value of a position in the near month futures contract is also $3. Over time, the price of natural gas will fluctuate based on a number of market factors, including demand for oil relative to supply. The value of the near month futures contract will likewise fluctuate in reaction to a number of market factors. If an investor seeks to maintain a position in a near month futures contract and not take delivery of physical MMBtu of natural gas, the investor must sell the current near month futures contract as it approaches expiration and invest in the next month futures contract. In order to continue holding a position in the current near month futures contract, this “roll” forward of the futures contract must be executed every month.

Contango and backwardation are natural market forces that have impacted the total return on an investment in UNL’s shares during the past year relative to a hypothetical direct investment in natural gas. In the future, it is likely that the relationship between the market price of UNL’s shares and changes in the spot prices of natural gas will continue to be impacted by contango and backwardation. It is important to note that this comparison ignores the potential costs associated with physically owning and storing natural gas, which could be substantial.

If the futures market is in backwardation, *e.g.*, when the price of the near month futures contract is higher than the price of the next month futures contract, the investor would buy a next month futures contract for a lower price than the current near month futures contract. Assuming the price of the next month futures contract was $2.94 per MMBtu, or 2% cheaper than the $3 near month futures contract, then, hypothetically, and assuming no other changes (e.g., to either prevailing natural gas prices or the price relationship between the spot price, the near month contract and the next month contract, and, ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the $2.94 next month futures contract would rise to $3 as it approaches expiration. In this example, the value of an investment in the next month futures contract would tend to outperform the spot price of natural gas. As a result, it would be possible for the new near month futures contract to rise 12% while the spot price of natural gas may have risen a lower amount, e.g., only 10%. Similarly, the spot price of natural gas could have fallen 10% while the value of an investment in the futures contract might have fallen another amount, e.g., only 8%. Over time, if backwardation remained constant, this difference between the spot price and the futures contract price would continue to increase.

If the futures market is in contango, an investor would be buying a next month futures contract for a higher price than the current near month futures contract. Again, assuming the near month futures contract is $3 per MMBtu, the price of the next month futures contract might be $3.06 per MMBtu, or 2% more expensive than the front month futures contract. Hypothetically, and assuming no other changes, the value of the $3.06 next month futures contract would fall to $3 as it approaches expiration. In this example, the value of an investment in the second month would tend to underperform the spot price of natural gas. As a result, it would be possible for the new near month futures contract to rise only 10% while the spot price of natural gas may have risen a higher amount, e.g., 12%. Similarly, the spot price of natural gas could have fallen 10% while the value of an investment in the second month futures contract might have fallen another amount, e.g., 12%. Over time, if contango remained constant, this difference between the spot price and the futures contract price would continue to increase.

The chart below compares the daily price of the near month natural gas futures contract to the price of 13th month natural gas futures contract (i.e. a contract one year forward) over the last 10 years. When the price of the near month futures contract is higher than the price of the 13th month futures contract, the market would be described as being in backwardation. When the price of the near month futures contract is lower than the 13th month futures contract, the market would be described as being in contango. Although the price of the near month futures contract and the price of the 13th month futures contract tend to move together, it can be seen that at times the near month futures contract prices are higher than the 13th month futures contract prices (backwardation) and, at other times, the near month futures contract prices are lower than the 13th month futures contract prices (contango).

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***PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

An alternative way to view the same data is to subtract the dollar price of the 13th month natural gas futures contract from the dollar price of the near month natural gas futures contract, as shown in the chart below. When the difference is positive, the market is in backwardation. When the difference is negative, the market is in contango. The natural gas market spent time in both backwardation and contango during the last ten years. The chart below shows the results from subtracting the average dollar price of the near 12 month contracts from the near month price for the 10 year period between December 31, 2007 and December 31, 2017. Investors will note that the natural gas market spent time in both backwardation and contango.

***PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

An investment in a portfolio that owned only the near month natural gas futures contract would likely produce a different result than an investment in a portfolio that owned an equal number of each of the near 12 months' of natural gas futures contracts. Generally speaking, when the natural gas futures market is in backwardation, a portfolio of only the near month natural gas futures contract may tend to have a higher total return than a portfolio of 12 months' of the natural gas futures contract. Conversely, if the natural gas futures market was in contango, the portfolio containing only 12 months' of natural gas futures contracts may tend to outperform the portfolio holding only the near month natural gas futures contract.

Historically, the natural gas futures markets have experienced periods of contango and backwardation, with backwardation being in place roughly as often as contango since oil futures trading started in 1982. Following the global financial crisis in the fourth quarter of 2008, the natural gas market moved into contango and remained in contango for a period of several years. During parts of 2009, the level of contango was unusually steep as a combination of slack U.S. and global demand for natural gas and issues involving the physical transportation and storage of natural gas at Cushing, Oklahoma, the primary pricing point for oil traded in the U.S., led to unusually high inventories of natural gas. A combination of improved transportation and storage capacity, along with growing demand for natural gas globally, moderated the inventory build-up and led to reduced levels of contango by 2011. However, at the end of November, 2014, global natural gas inventories grew rapidly after OPEC decided to defend its market share against U.S. shale-oil producers, resulting in another period during which the natural gas market remained primarily in contango, sometimes steep contango. This period of contango continued through December 31, 2016. In addition, the natural gas markets are expected to remain in contango until U.S. and global oil inventories decline significantly. If OPEC's recent cuts in oil production have their intended effect on the natural gas market then such a decline may occur in 2017.

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Periods of contango or backwardation do not materially impact UNL's investment objective of having the daily percentage changes in its per share NAV track the daily percentage changes in the price of the Benchmark Futures Contract since the impact of backwardation and contango tend to equally impact the daily percentage changes in price of both UNL's shares and the Benchmark Futures Contract. It is impossible to predict with any degree of certainty whether backwardation or contango will occur in the future. It is likely that both conditions will occur during different periods and, because of the seasonal nature of natural gas demand, both may occur within a single year's time.

In managing UNL's assets USCF does not use a technical trading system that issues buy and sell orders. USCF employs a quantitative methodology whereby each time a Creation Basket is sold, USCF purchases Natural Gas Interests, such as the Benchmark Futures Contracts, that have an aggregate market value that approximates the amount of Treasuries and/or cash received from the sale of the Creation Basket.

The specific Futures Contracts purchased depend on various factors, including a judgment by USCF as to the appropriate diversification of UNL's investments in futures contracts with respect to the month of expiration, and the prevailing price volatility of particular contracts. While USCF has made significant investments in NYMEX Futures Contracts, for various reasons, including the ability to enter into the precise amount of exposure to the natural gas market, position limits or other regulatory requirements limiting UNL's holdings, and market conditions, it may invest in Futures Contracts traded on other exchanges or invest in Other Natural Gas-Related Investments. To the extent that UNL invests in Other Natural Gas-Related Investments, it would prioritize investments in contracts and instruments that are economically equivalent to the Benchmark Futures Contracts, including cleared swaps that satisfy such criteria, and then, to a lesser extent, it would invest in other types of cleared swaps and other contracts, instruments and non-cleared swaps, such as swaps in the over-the-counter (or commonly referred to as the OTC market). If UNL is required by law or regulation, or by one of its regulators, including a futures exchange, to reduce its position in the Futures Contracts to the applicable position limit or to a specified accountability level or if market conditions dictate it would be more appropriate to invest in Other Natural Gas-Related Investments, a substantial portion of UNL's assets could be invested in accordance with such priority in Other Natural Gas-Related Investments that are intended to replicate the return on the Benchmark Futures Contracts. As UNL's assets reach higher levels, it is more likely to exceed position limits, accountability levels or other regulatory limits and, as a result, it is more likely that it will invest in accordance with such priority in Other Natural Gas-Related Investments at such higher levels. In addition, market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing. See *"Risk Factors Involved with an Investment in UNL*" for a discussion of the potential impact of regulation on UNL's ability to invest in OTC transactions and cleared swaps.

USCF may not be able to fully invest UNL's assets in the Benchmark Futures Contracts having an aggregate notional amount exactly equal to UNL's NAV. For example, as standardized contracts, the Futures Contracts are for a specified amount of a particular commodity, and UNL's NAV and the proceeds from the sale of a Creation Basket are unlikely to be an exact multiple of the amounts of those contracts. As a result, in such circumstances, UNL may be better able to achieve the exact amount of exposure to changes in price of the Benchmark Futures Contracts through the use of Other Natural Gas-Related Investments, such as OTC contracts that have better correlation with changes in price of the Benchmark Futures Contracts.

UNL anticipates that to the extent it invests in Futures Contracts other than contracts on natural gas (such as futures contracts for light, sweet crude oil, diesel-heating oil and other petroleum-based fuels) and Other Natural Gas-Related Investments, it will enter into various non-exchange-traded derivative contracts to hedge the short-term price movements of such Natural Gas Interests against the current Benchmark Futures Contracts.

USCF does not anticipate letting UNL's Futures Contracts expire and taking delivery of the underlying commodity. Instead, USCF closes existing positions, *e.g.,* when it changes the Benchmark Futures Contracts or Other Natural

Gas-Related Investments or it otherwise determines it would be appropriate to do so and reinvests the proceeds in new Natural Gas Interests. Positions may also be closed out to meet orders for Redemption Baskets and in such case proceeds for such baskets will not be reinvested.

The Benchmark Futures Contracts are changed from the near month contract to expire and the 11 following months to the next month contract to expire and the 11 following months during one day each month. On that day, USCF anticipates it will “roll” UNL’s positions by closing, or selling, its natural gas interests and reinvests the proceeds from closing these positions in new natural gas interests.

The anticipated dates that the monthly roll period will commence are posted on UNL’s website at *www.uscfinvestments.com*, and are subject to change without notice.

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By remaining invested as fully as possible in Natural Gas Interests, USCF believes that the daily changes in percentage terms in UNL’s per share NAV will continue to closely track the daily changes in percentage terms in the average of the prices of the Benchmark Futures Contracts. USCF believes that certain arbitrage opportunities result in the price of the shares traded on the NYSE Arca closely tracking the per share NAV of UNL. Additionally, Futures Contracts traded on the NYMEX have closely tracked the spot price of natural gas. Based on these expected interrelationships, USCF believes that the daily changes in the price of UNL’s shares traded on the NYSE Arca, on a percentage basis, have closely tracked and will continue to closely track on a daily basis, the changes in the spot price of natural gas on a percentage basis.

What are the Trading Policies of UNL?

Investment Objective

The investment objective of UNL is for the daily changes in percentage terms of its shares’ per share net asset value (“NAV”) to reflect the daily changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the price of a specified short-term futures contracts on natural gas called the “Benchmark Futures Contracts,” plus interest earned on UNL's collateral holdings, less UNL’s expenses. The Benchmark Futures Contracts are the futures contracts on natural gas as traded on the NYMEX that is the near month contract to expire, and the contracts for the following 11 months, for a total of 12 consecutive months’ contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted.

Liquidity

UNL invests only in Futures Contracts and Other Natural Gas-Related Investments that, in the opinion of USCF, are traded in sufficient volume to permit the ready taking and liquidation of positions in these financial interests and Other Natural Gas-Related Investments that, in the opinion of USCF, may be readily liquidated with the original counterparty or through a third party assuming the position of UNL.

Spot Commodities

While the Futures Contracts traded can be physically settled, UNL does not intend to take or make physical delivery. UNL may from time to time trade in Other Natural Gas-Related Investments, including contracts based on the spot price of natural gas.

Leverage

USCF endeavors to have the value of UNL’s Treasuries, cash and cash equivalents, whether held by UNL or posted as margin or other collateral, at all times approximate the aggregate market value of its obligations under its Futures Contracts and Other Natural Gas-Related Investments. Commodity pools’ trading positions in futures contracts or other related investments are typically required to be secured by the deposit of margin funds that represent only a small percentage of a futures contract’s (or other commodity interest’s) entire market value. While USCF has not and does not intend to leverage UNL’s assets, it is not prohibited from doing so under the LP Agreement.

Borrowings

Borrowings are not used by UNL, unless UNL is required to borrow money in the event of physical delivery, if UNL trades in cash commodities, or for short-term needs created by unexpected redemptions.

OTC Derivatives (including Spreads and Straddles)

In addition to Futures Contracts, there are also a number of listed options on the Futures Contracts on the principal futures exchanges. These contracts offer investors and hedgers another set of financial vehicles to use in managing exposure to the natural gas market. Consequently, UNL may purchase options on natural gas Futures Contracts on these exchanges in pursuing its investment objective.

In addition to the Futures Contracts and options on the Futures Contracts, there also exists an active non-exchange-traded market in derivatives tied to natural gas. These derivatives transactions (also known as OTC contracts) are usually entered into between two parties in private contracts. Unlike most of the exchange-traded Futures Contracts or exchange-traded options on the Futures Contracts, each party to such contract bears the credit risk of the other party, *i.e.,* the risk that the other party may not be able to perform its obligations under its contract.

To reduce the credit risk that arises in connection with such contracts, UNL will generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA") that provides for the netting of its overall exposure to its counterparty.

USCF assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC contract pursuant to guidelines approved by the Board.

UNL may enter into certain transactions where an OTC component is exchanged for a corresponding futures contract (an "Exchange for Related Position" or "EFRP" transactions). In the most common type of EFRP transaction entered into by UNL, the OTC component is the purchase or sale of one or more baskets of UNL shares. These EFRP transactions may expose UNL to counterparty risk during the interim period between the execution of the OTC component and the exchange for a corresponding futures contract. Generally, the counterparty risk from the EFRP transaction will exist only on the day of execution.

UNL may employ spreads or straddles in its trading to mitigate the differences in its investment portfolio and its goal of tracking the price of the Benchmark Futures Contract. UNL would use a spread when it chooses to take simultaneous long and short positions in futures written on the same underlying asset, but with different delivery months.

During all of 2017 and through February 28, 2018, UNL limited its derivatives activities to Futures Contracts and EFRP transactions.

UNL did not engage in trading in futures contracts listed on a foreign exchange or forward contracts, including options on such contracts. UNL does not anticipate engaging in trading in futures contracts listed on a foreign exchange, forward contracts or options on such contracts, but it may do so as outlined in UNL's listing exemptive order or as permitted under current regulations.

Pyramiding

UNL has not and will not employ the technique, commonly known as pyramiding, in which the speculator uses unrealized profits on existing positions as variation margin for the purchase or sale of additional positions in the same or another commodity interest.

Prior Performance of UNL

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

USCF manages UNL which is a commodity pool that issues shares traded on the NYSE Arca. The chart below shows, as of February 28, 2018, the number of Authorized Participants, the total number of baskets created and redeemed since inception and the number of outstanding shares for UNL.

# of Authorized Participants	Baskets Redeemed	Baskets Purchased	Outstanding Shares
10	86	86	800,000

Since the commencement of the offering of UNL shares to the public on November 18, 2009 to February 28, 2018, the simple average daily change in the average price of its Benchmark Futures Contracts was (0.064)%, while the simple average daily change in the per share NAV of UNL over the same time period was (0.066)%. The average daily difference was (0.002)% (or (0.2) basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the average price of the Benchmark Futures Contracts, the average error in daily tracking by the per share NAV was (0.062)%, meaning that over this time period UNL's tracking error was within the plus or minus 10% range established as its benchmark tracking goal.

The table below shows the relationship between the trading prices of the shares and the daily NAV of UNL, since inception through February 28, 2018. The first row shows the average amount of the variation between UNL's closing market price and NAV, computed on a daily basis since inception, while the second and third rows depict the maximum daily amount of the end of day premiums and discounts to NAV since inception, on a percentage basis. USCF believes that maximum and minimum end of day premiums and discounts typically occur because trading in the shares continues on the NYSE Arca until 4:00 p.m. New York time while regular trading in the Benchmark Futures Contracts on the NYMEX ceases at 2:30 p.m. New York time and the value of the relevant Benchmark Futures Contracts, for purposes of determining its end of day NAV, can be determined at that time.

	UNL
Average Difference	$0.00
Max Premium %	6.15 %
Max Discount %	(6.58)%

For more information on the performance of UNL, see the Performance Tables below.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

COMPOSITE PERFORMANCE DATA FOR UNL

Name of Commodity Pool: United States 12 Month Natural Gas Fund, LP

Type of Commodity Pool: Exchange traded security

Inception of Trading: November 18, 2009

Aggregate Subscriptions (from inception through February 28, 2018): $139,082,689

Total Net Assets as of February 28, 2018: $7,298,481.23

NAV per Share as of February 28, 2018: $9.12

Worst Monthly Percentage Draw-down: December 2014 (19.94)%

Worst Peak-to-Valley Draw-down: December 2009 - February 2016 (85.18)%

	Rates of Return*					
Month	2013	2014	2015	2016	2017	2018
January	0.23 %	7.81 %	(5.99)%	(1.95)%	(8.94)%	4.32 %
February	1.22 %	2.58 %	1.09 %	(16.37)%	(8.22)%	(5.59)%
March	10.30%	(3.11)%	(3.15)%	9.66 %	8.45 %	
April	6.74 %	7.69 %	1.19 %	9.61 %	1.78 %	
May	(8.02)%	(6.34)%	(3.69)%	(0.63)%	(5.81)%	
June	(9.09)%	(1.21)%	4.40 %	11.76 %	(1.86)%	
July	(1.63)%	(10.38)%	(3.12)%	(0.75)%	(4.59)%	
August	2.07 %	3.76 %	(3.95)%	(2.65)%	5.13 %	
September	(2.14)%	(0.82)%	(5.45)%	(1.36)%	0.40 %	
October	(3.13)%	(5.88)%	(9.04)%	1.78 %	(3.90)%	
November	6.67 %	0.71 %	(5.26)%	3.88 %	0.62 %	
December	5.05 %	(19.94)%	0.00 %	9.61 %	(4.34)%	
Annual Rate of Return	6.33 %	(25.27)%	(29.00)%	20.88 %	(21.19)%	(1.51)%**

* The monthly rate of return is calculated by dividing the ending NAV of a given month by the ending NAV of the previous month, subtracting 1 and multiplying this number by 100 to arrive at a percentage increase or decrease.
** Through February 28, 2018.
Draw-down: Losses experienced by the fund over a specified period. Draw-down is measured on the basis of monthly returns only and does not reflect intra-month figures.

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Worst Monthly Percentage Draw-down: The largest single month loss sustained during the most recent five calendar years and year-to-date.

Worst Peak-to-Valley Draw-down: The largest percentage decline in the NAV per share over the history of the fund. This need not be a continuous decline, but can be a series of positive and negative returns where the negative returns are larger than the positive returns. Worst Peak-to-Valley Draw-down represents the greatest cumulative percentage decline in month-end per share NAV is not equaled or exceeded by a subsequent month-end per share NAV.

UNL'S OPERATIONS

USCF and its Management and Traders

USCF is a single member limited liability company that was formed in the state of Delaware on May 10, 2005. USCF maintains its main business office at 1999 Harrison Street, Suite 1530, Oakland, California 94612. USCF is a wholly-owned subsidiary of Wainwright Holdings, Inc., a Delaware corporation ("Wainwright"), which is a wholly owned subsidiary of Concierge Technologies, Inc. (publicly traded under the ticker CNCG) ("Concierge"). Mr. Nicholas Gerber (discussed below), along with certain family members and certain other shareholders, owns the majority of the shares in Concierge. Wainwright is a holding company that currently holds both USCF, as well as USCF Advisers LLC, an investment adviser registered under the Investment Advisers Act of 1940, as amended. USCF Advisers LLC serves as the investment adviser for the USCF SummerHaven SHPEN Index Fund ("BUYN"), the USCF SummerHaven SHPEI Index Fund ("BUY"), each a series of the USCF ETF Trust, as well as the USCF Commodity Strategy Fund, a series of the USCF Mutual Funds Trust. USCF ETF Trust and USCF Mutual Funds Trust are registered under the Investment Company Act of 1940, as amended (the "1940 Act"). USCF Advisers LLC was also the investment adviser for the Stock Split Index Fund ("TOFR") and the USCF Restaurant Leaders Fund ("MENU"), each a series of the USCF ETF Trust, until October 2017 when both funds liquidated all of their assets and distributed cash pro rata to all remaining shareholders. The Board of Trustees for the USCF ETF Trust and USCF Mutual Funds Trust consist of different independent trustees than those independent directors who serve on the Board of Directors of USCF. USCF is a member of the National Futures Association (the "NFA") and registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission (the "CFTC") on December 1, 2005 and as a swaps firm on August 8, 2013.

USCF serves as general partner of UNL. USCF also serves as the general partner of the United States Natural Gas Fund, LP ("UNG"), the United States 12 Month Oil Fund, LP ("USL"), the United States Gasoline Fund, LP ("UGA"), the United States Diesel-Heating Oil Fund, LP ("UHN"), the United States Oil Fund, LP ("USO"), the United States Short Oil Fund, LP ("DNO") and the United States Brent Oil Fund, LP ("BNO"). USCF is also the sponsor of the United States Commodity Index Fund ("USCI"), the United States Copper Index Fund ("CPER"), the United States Agriculture Index Fund ("USAG"), and the USCF Canadian Crude Oil Index Fund ("UCCO"), each a series of the United States Commodity Index Funds Trust. UCCO is currently in registration and has not commenced operations.

In addition, USCF is the sponsor of the USCF Funds Trust, and two of its series: the United States 3x Oil Fund ("USOU") and the United States 3x Short Oil Fund ("USOD"), which commenced operations on July 20, 2017.

All funds listed previously, other than UCCO, are referred to collectively herein as the "Related Public Funds."

The Related Public Funds are subject to reporting requirements under the Securities Exchange Act of 1934, as amended ("Exchange Act") and, if registered under the 1940 Act, a Related Public Fund also must comply with the reporting requirements under the 1940 Act. For more information about each of the Related Public Funds, investors in UNL may call 1-800-920-0259 or visit www.uscfinvestments.com or the Securities and Exchange Commission's (the "SEC") website at www.sec.gov.

USCF is required to evaluate the credit risk of UNL to the futures commission merchant ("FCM"), oversee the purchase and sale of UNL's shares by certain authorized participants ("Authorized Participants"), review daily positions and margin requirements of UNL and manage UNL's investments. USCF also pays the fees of ALPS Distributors, Inc., which serves as the marketing agent for UNL (the "Marketing Agent"), and Brown Brothers Harriman & Co. ("BBH&Co."), which serves as the administrator (the "Administrator") and the custodian (the "Custodian") for UNL. In no event may the aggregate compensation paid for the Marketing Agent and any affiliate of USCF for distribution-related services in connection with the offering of shares exceed ten percent (10%) of the gross proceeds of this offering.

The limited partners take no part in the management or control, and have a minimal voice in UNL's operations or business. Limited partners have no right to elect USCF on an annual or any other continuing basis. If USCF voluntarily withdraws, however, the holders of a majority of UNL's outstanding shares (excluding for purposes of such determination shares owned, if any, by the withdrawing general partner and its affiliates) may elect its successor. USCF may not be removed as general partner except upon approval by the affirmative vote of the holders of at least 66 2/3 percent of UNL's outstanding shares (excluding shares, if any, owned by USCF and its affiliates), subject to the satisfaction of certain conditions set forth in the LP Agreement.

The business and affairs of USCF are managed by the Board, which is comprised of the Management Directors, each of whom are also executive officers and employees of USCF, and three independent directors who meet the independent director requirements established by the NYSE Arca Equities Rules and the Sarbanes-Oxley Act of 2002. The Management Directors have the authority to manage USCF pursuant to the terms of the LLC Agreement. Through its Management Directors, USCF manages the day-to-day operations of UNL. The Board has an audit committee, which is made up of the three independent directors (Gordon L. Ellis, Malcolm R. Fobes III and Peter M. Robinson,). The audit committee is governed by an audit committee charter that is posted on UNL's website at *www.uscfinvestments.com*. The Board has determined that each member of the audit committee meets the financial literacy requirements of the NYSE Arca and the audit committee charter. The Board has further determined that each of Messrs. Ellis and Fobes have accounting or related financial management expertise, as required by the NYSE Arca, such that each of them is considered an "Audit Committee Finance Expert" as such term is defined in Item 407(d)(5) of Regulation S-K.

UNL has no executive officers. Pursuant to the terms of the LP Agreement, UNL's affairs are managed by USCF.

The following are individual Principals, as that term is defined in CFTC Rule 3.1, for USCF: John P. Love, Stuart P. Crumbaugh, Nicholas D. Gerber, Melinda D. Gerber, Andrew Ngim, Robert Nguyen, Peter Robinson, Scott Schoenberger, Gordon Ellis, Malcolm Fobes, Ray Allen, Kevin Baum, Carolyn Yu, and Wainwright Holdings Inc. The individuals who are Principals due to their positions are John P. Love, Stuart P. Crumbaugh, Nicholas D. Gerber, Andrew Ngim, Robert Nguyen, Peter Robinson, Gordon Ellis, Malcolm Fobes, Ray Allen, Kevin Baum and Carolyn Yu. In addition, Wainwright is a Principal because it is the sole member of USCF. None of the Principals owns or has any other beneficial interest in UNL. Ray Allen and Andrew Ngim make trading and investment decisions for UNL. Andrew Ngim and Ray Allen direct the execution of trades on behalf of UNL. In addition, Nicholas D. Gerber, John P. Love, Robert Nguyen, Ray Allen, Kevin Baum, Kathryn Rooney, Maya Lowry, and Ryan Katz are registered with the CFTC as Associated Persons of USCF and are NFA Associate Members. John P. Love, Robert Nguyen, Ray Allen, Kevin Baum, Kathryn Rooney, Maya Lowry, and Ryan Katz are also registered with the CFTC as Swaps Associated Persons.

Ray W. Allen, 61, Portfolio Manager of USCF since January 2008. Mr. Allen was the portfolio manager of: (1) UGA from February 2008 until March 2010, and then portfolio manager since May 2015, (2) UHN from April 2008 until March 2010, and then portfolio manager since May 2015, (3) UNL from November 2009 until March 2010, and then portfolio manager since May 2015. In addition, he has been the portfolio manager of: (1) DNO since September 2009, (2) USO and USL since March 2010, (3) BNO since June 2010, (4) UNG since May 2015, and (5) USOU and USOD since July 2017. Mr. Allen also has served as the portfolio manager of the USCF Commodity Strategy Fund, a series of USCF Mutual Funds Trust, since October 2017. Mr. Allen has been a principal of USCF listed with the CFTC and NFA since March 2009 and has been registered as an associated person of USCF since July 2015 and from March 2008 to November 2012. Additionally, Mr. Allen has been approved as an NFA swaps associated person of USCF since July 2015. As of February 2017, he also is an associated person and swap associated person of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Allen earned a B.A. in Economics from the University of California at Berkeley and holds an NFA Series 3 registration.

Kevin A. Baum, 47, has served as a Portfolio Manager of USCF since March 2016 and as the Chief Investment Officer of USCF since September 1, 2016. Prior to joining USCF, Mr. Baum temporarily retired from December 2015 to March 2016. Mr. Baum served as the Vice President and Senior Portfolio Manager for Invesco PowerShares Capital Management LLC, an investment manager that manages a family of exchange-traded funds, from October 2014 through December 2015. Mr. Baum was temporarily retired from May 2012 through September 2014. From May 1993 to April 2012, Mr. Baum worked as the Senior Portfolio Manager, Head of Commodities for OppenheimerFunds, Inc., a global asset manager. Mr. Baum has been an NFA member since March 2016 and a principal, swap associated person, and associated person of USCF since April 2016 and, as of January 2017, a branch manager of USCF. As of February 2017, he also is an associated person, swap associated person, and branch manager of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Baum is a CFA Charterholder, CAIA Charterholder, and earned a B.B.A. in Finance from Texas Tech University.

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Stuart P. Crumbaugh, 54, Chief Financial Officer, Secretary and Treasurer of USCF since May 2015 and also the Chief Financial Officer of Concierge Technologies, Inc., the parent of Wainwright Holdings, Inc. ("Wainwright") since December 2017. In addition, Mr. Crumbaugh has served as a director of Wainwright, the parent and sole member of USCF, since December 2016. Mr. Crumbaugh has been a principal of USCF listed with the CFTC and NFA since July 1, 2015 and, as of January 2017, he is a principal of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Since June 2015, Mr. Crumbaugh has been the Treasurer and Secretary of USCF Advisers LLC. He also serves as a Management Trustee of USCF ETF Trust from May 2015 to present and as Management Trustee of the USCF Mutual Funds Trust from October 2016 to present. Mr. Crumbaugh joined USCF as the Assistant Chief Financial Officer on April 6, 2015. Prior to joining USCF, Mr. Crumbaugh was the Vice President Finance and Chief Financial Officer of Sikka Software Corporation, a software service healthcare company providing optimization software and data solutions from April 2014 to April 6, 2015. Mr. Crumbaugh served as a consultant providing technical accounting, IPO readiness and M&A consulting services to various early stage companies with the Connor Group, a technical accounting consulting firm, for the periods of January 2014 through March 2014; October 2012 through November 2012; and January 2011 through February 2011. From December 2012 through December 2013, Mr. Crumbaugh was Vice President, Corporate Controller and Treasurer of Auction.com, LLC, a residential and commercial real estate online auction company. From March 2011 through September 2012, Mr. Crumbaugh was Chief Financial Officer of IP Infusion Inc., a technology company providing network routing and switching software enabling software-defined networking solutions for major mobile carriers and network infrastructure providers. Mr. Crumbaugh earned a B.A. in Accounting and Business Administration from Michigan State University in 1987 and is a Certified Public Accountant – Michigan (inactive).

Nicholas D. Gerber, 55, Chairman of the Board of Directors of USCF since June 2005. Mr. Gerber also served as President and Chief Executive Officer of USCF from June 2005 through June 2015 and Vice President since June 2015. Mr. Gerber co-founded USCF in 2005 and prior to that, he co-founded Ameristock Corporation in March 1995, a California-based investment adviser registered under the Investment Advisers Act of 1940 from March 1995 until January 2013. From January 26, 2015 to the present, Mr. Gerber is also the Chief Executive Officer, President and Secretary of Concierge Technologies, Inc. ("Concierge"), which is a company publicly traded under the ticker symbol "CNGC." Concierge is the sole shareholder of Wainwright. From August 1995 to January 2013, Mr. Gerber served as Portfolio Manager of Ameristock Mutual Fund, Inc. On January 11, 2013, the Ameristock Mutual Fund, Inc. merged with and into the Drexel Hamilton Centre American Equity Fund, a series of Drexel Hamilton Mutual Funds. Drexel Hamilton Mutual Funds is not affiliated with Ameristock Corporation, the Ameristock Mutual Fund, Inc. or USCF. From the period June 2014 to the present, Mr. Gerber also serves as Chairman of the Board of Trustees of USCF ETF Trust, an investment company registered under the Investment Company Act of 1940, as amended, and has previously served as President of USCF Advisers LLC. From October 2016 to the present, Mr. Gerber also serves as Chairman of the Board of Trustees of USCF Mutual Funds Trust, an investment company registered under the Investment Company Act of 1940, as amended. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. In addition to his role as Chairman of the Board of USCF ETF Trust, he also served as its President and Chief Executive Officer from June 2014 until December 2015. Mr. Gerber also has served USCF Advisers on the Board of Managers since June 2013 and as the Vice President since June 2015. In the above roles, Mr. Gerber has gained extensive experience in evaluating and retaining third-party service providers, including custodians, accountants, transfer agents, and distributors. Mr. Gerber has been a principal of USCF listed with the CFTC and NFA since November 2005, an NFA associate member and associated person of USCF since December 2005 and a Branch Manager of USCF since May 2009. Mr. Gerber is a principal of USCF Advisers LLC as of January 2017. Additionally, as of February 2017, he is an associated person, swap associated person, and branch manager of USCF Advisers LLC. Mr. Gerber earned an MBA degree in finance from the University of San Francisco, a B.A. from Skidmore College and holds an NFA Series 3 registration.

John P. Love, 46, President and Chief Executive Officer of USCF since June 2015 and Management Director of USCF since October 2016. Mr. Love previously served as a Senior Portfolio Manager for the Related Public Funds from March 2010 through June 2015. Prior to that, while still at USCF, he was a Portfolio Manager beginning with the launch of USO in April 2006. Mr. Love was the portfolio manager of USO from April 2006 until March 2010 and the portfolio manager for USL from December 2007 until March 2010. Mr. Love has been the portfolio manager of UNG since April 2007, and the portfolio manager of UGA, UHN, and UNL since March 2010. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. He also acted as co-portfolio manager of the Stock Split Index Fund, a series of the USCF ETF Trust for the period from September 2014 to December 2015, when he was promoted to the position of President and Chief Executive Officer upon Mr. Gerber's resignation from those positions. In addition, Mr. Love has served as on the Board of Managers of USCF Advisers LLC since November 2016 and as its President since June 2015. Mr. Love also is a director of Wainwright Holdings Inc., a position he has held since December 2016. Mr. Love has been a principal of USCF listed with the CFTC and NFA since January 17, 2006. Mr. Love has been registered as an associated person of USCF since February 2015 and from December 1, 2005 to April 16, 2009. Mr. Love has also been registered as a branch manager of USCF since March 2016. Additionally, Mr. Love has been approved as an NFA swaps associated person since February 2015. Mr. Love is a principal of USCF Advisers LLC as of January 2017. Additionally, as of February 2017, he is an associated person, swap associated person, and branch manager of USCF Advisers LLC. Mr. Love earned a B.A. from the University of Southern California, holds an NFA Series 3 and FINRA Series 7 registrations and is a CFA Charterholder.

Andrew F Ngim, 57, co-founded USCF in 2005 and has served as a Management Director since May 2005 and, since August 15, 2016, has served as the Chief Operating Officer of USCF. Mr. Ngim has served as the portfolio manager for USCI, CPER and USAG since January 2013. Mr. Ngim also served as USCF's Treasurer from June 2005 to February 2012. In addition, he has been on the Board of Managers and has served as the Assistant Secretary and Assistant Treasurer of USCF Advisers since its inception in June 2013. Prior to and concurrent with his services to USCF and USCF Advisers, from January 1999 to January 2013, Mr. Ngim served as a Managing Director for Ameristock Corporation, a California-based investment adviser, which he co-founded in March 1995, and was Co-Portfolio Manager of Ameristock Mutual Fund, Inc. from January 2000 to January 2013. Mr. Ngim also served as portfolio manager of (1) the Stock Split Index Fund from September 2014 to October 2017, and (2) the USCF Restaurant Leaders Fund from November 2016 to October 2017, both series of the USCF ETF Trust. From December 2017 to the present, Mr. Ngim also serves as the portfolio manager for the USCF SummerHaven SHPEI Index Fund and the USCF SummerHaven SHPEN Index Fund, both of which are series of the USCF ETF Trust. Mr. Ngim serves as a Management Trustee of the USCF ETF Trust from August 2014 to the present and as a Management Trustee for the USCF Mutual Funds Trust from October 2016 to present. Mr. Ngim has been a principal of USCF listed with the CFTC and NFA since November 2005 and a principal of USCF Advisers LLC since January 2017. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Ngim earned his B.A. from the University of California at Berkeley.

Robert L. Nguyen, 58, Management Director and principal since July 2015. Mr. Nguyen served on the Board of Wainwright from December 2014 to December 2016. Mr. Nguyen co-founded USCF in 2005 and served as a Management Director until March 2012. Mr. Nguyen was an Investment Manager with Ribera Investment Management, an investment adviser registered under the Investment Advisers Act of 1940, from January 2013 to March 2015. Prior to and concurrent with his services to USCF, from January 2000 to January 2013, Mr. Nguyen served as a Managing Principal for Ameristock Corporation, a California-based investment adviser registered under the Investment Advisers Act of 1940, which he co-founded in March 1995. Mr. Nguyen was a principal of USCF listed with the CFTC and NFA from November 2005 through March 2012 and an associated person of USCF listed with the CFTC and NFA from November 2007 through March 2012. Mr. Nguyen has been a principal of USCF listed with the CFTC and NFA since July 2015 and an associated person and a swap associated person of USCF listed with the CFTC and NFA since December 2015. As of February 2017, he also is an associated person and swap associated person of USCF Advisers LLC. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Mr. Nguyen earned his B.S. from California State University at Sacramento, and holds NFA Series 3 and FINRA Series 7 registrations.

Carolyn M. Yu, 59, General Counsel and Chief Compliance Officer of USCF since May 2015 and February 2013, respectively, and from August 2011 through April 2015, Ms. Yu served as Assistant General Counsel. Since May 2015, Ms. Yu has served as Chief Legal Officer and Chief Compliance Officer of USCF Advisers LLC and USCF ETF Trust as well as Chief AML Officer of USCF ETF Trust. Prior to May 2015, Ms. Yu was the Assistant Chief Compliance Officer and AML Officer of the USCF ETF Trust. Previously, Ms. Yu served as Branch Chief with the Securities Enforcement Branch for the State of Hawaii, Department of Commerce and Consumer Affairs from February 2008 to August 2011. Since August 2013, in the case of USCF, and January 2017, in the case of USCF Advisers LLC, Ms. Yu has been a principal listed with the CFTC and NFA. USCF Advisers LLC, an affiliate of USCF, is an investment adviser registered under the Investment Advisers Act of 1940, and, as of February 2017, is registered as a commodity pool operator, NFA member and swap firm. Ms. Yu earned her JD from Golden Gate University School of Law and a B.S. in business administration from San Francisco State University.

Gordon L. Ellis, 71, Independent Director of USCF since September 2005. Previously, Mr. Ellis was a founder of International Absorbents, Inc., Director and Chairman since July 1985 and July 1988, respectively, and Chief

Executive Officer and President since November 1996. He also served as Chairman of Absorption Corp., a wholly-owned subsidiary of International Absorbents, Inc., which is a leading developer and producer of environmentally friendly pet care and industrial products, from May July 1985 until July 2010 when it was sold to Kinderhook Industries, a private investment banking firm and remained as a director until March 2013 when Absorption Corp was sold again to J. Rettenmaier & Söhne Group, a German manufacturing firm. Concurrent with that, he founded and has served as Chairman from November 2010 to present of Lupaka Gold Corp., a firm that acquires, explores, develops, and evaluates gold mining properties in Peru, South America. Mr. Ellis has his Chartered Directors designation from The Director's College (a joint venture of McMaster University and The Conference Board of Canada). He has been a principal of USCF listed with the CFTC and NFA since November 2005. Mr. Ellis is an engineer and earned an MBA in international finance.

Malcolm R. Fobes III, 53, Independent Director of USCF and Chairman of USCF's audit committee since September 2005. He founded and is the Chairman and Chief Executive Officer of Berkshire Capital Holdings, Inc., a California-based investment adviser registered under the Investment Advisers Act of 1940 that has been sponsoring and providing portfolio management services to mutual funds since June 1997. Mr. Fobes serves as Chairman and President of The Berkshire Funds, a mutual fund investment company registered under the Investment Company Act of 1940. Since 1997, Mr. Fobes has also served as portfolio manager of the Berkshire Focus Fund, a mutual fund registered under the Investment Company Act of 1940, which concentrates its investments in the electronic technology industry. He was also contributing editor of Start a Successful Mutual Fund: The Step-by-Step Reference Guide to Make It Happen (JV Books, 1995). Mr. Fobes has been a principal of USCF listed with the CFTC and NFA since November 2005. He earned a B.S. in finance with a minor in economics from San Jose State University in California.

Peter M. Robinson, 60, Independent Director of USCF since September 2005. Mr. Robinson has been a Research Fellow since 1993 with the Hoover Institution, a public policy think tank located on the campus of Stanford University. He authored three books and has been published in the New York Times, Red Herring, and Forbes ASAP and is the editor of Can Congress Be Fixed?: Five Essays on Congressional Reform (Hoover Institution Press, 1995). Mr. Robinson has been a principal of USCF listed with the CFTC and NFA since December 2005. He earned an MBA from the Stanford University Graduate School of Business, graduated from Oxford University in 1982 after studying politics, philosophy, and economics and graduated summa cum laude from Dartmouth College in 1979.

UNL's Service Providers

Custodian, Registrar, Transfer Agent, and Administrator

In its capacity as the Custodian for UNL, BBH&Co holds UNL's Treasuries, cash and/or cash equivalents pursuant to a custodial agreement. In addition, in its capacity as Administrator for UNL, BBH&Co. performs certain administrative and accounting services for UNL and prepares certain SEC, NFA and CFTC reports on behalf of UNL.

Currently, USCF pays BBH & Co. for its services, in the foregoing capacities, a minimum amount of $75,000 annually for its custody, fund accounting and fund administration services rendered to UNL and each of the Related Public Funds, as well as a $20,000 annual fee for its transfer agency services. In addition, USCF pays BBH&Co. an asset-based charge of (a) 0.06% for the first $500 million of UNL and the Related Public Funds' combined net assets, (b) 0.0465% for UNL and the Related Public Funds' combined net assets greater than $500 million but less than $1 billion, and (c) 0.035% once UNL and the Related Public Funds' combined net assets exceed $1 billion. The annual minimum amount will not apply if the asset-based charge for all accounts in the aggregate exceeds $75,000. USCF also pays transaction fees ranging from $7 to $15 per transaction.

BBH&Co.'s principal business address is 50 Post Office Square, Boston, MA 02110. BBH&Co. is a private bank founded in 1818 and is not a publicly held company nor is it insured by the Federal Deposit Insurance Corporation. BBH&Co. is authorized to conduct a commercial banking business in accordance with the provisions of Article IV of the New York State Banking Law, New York Banking Law §§160 § 181, and is subject to regulation, supervision, and examination by the New York State Department of Financial Services. BBH&Co. is also licensed to conduct a commercial banking business by the Commonwealths of Massachusetts and Pennsylvania and is subject to supervision and examination by the banking supervisors of those states.

Marketing Agent

UNL also employs ALPS Distributors, Inc. ("ALPS Distributors") as the Marketing Agent, which is further discussed under "What is the Plan of Distribution?" USCF pays the Marketing Agent an annual fee. In no event may the aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with the offering of shares exceed ten percent (10%) of the gross proceeds of the offering.

ALPS Distributors' principal business address is 1290 Broadway, Suite 1100, Denver, CO 80203. ALPS Distributors is a broker-dealer registered with the FINRA and a member of the Securities Investor Protection Corporation.

Relationship with Charles Schwab & Co., Inc.

USCF or the Marketing Agent, or an affiliate of USCF or the Marketing Agent, may directly or indirectly make cash payments to certain broker-dealers for participating in activities that are designed to make registered representatives and other professionals more knowledgeable about exchange-traded funds and exchange-traded products, including UNL and the Related Public Funds, or for other activities, such as participation in marketing activities and presentations, educational training programs, conferences, the development of technology platforms and reporting systems. USCF and/or the Marketing Agent have, or may in the future have, arrangements to make payments, other than for the educational programs and marketing activities described above, to Charles Schwab & Co., Inc. (“Schwab”). Pursuant to the arrangement between USCF and Schwab, Schwab has agreed to promote certain exchange-traded funds and exchange-traded products to Schwab’s customers, which may include UNL and certain of the Related Public Funds, and not to charge certain of its customers any commissions when those customers purchase or sell shares of participating exchange-traded funds and exchange-traded products. Payments to a broker-dealer or intermediary may create potential conflicts of interest between the broker-dealer or intermediary and its clients. These amounts, which may be significant, are paid by USCF and/or the Marketing from their own resources and not from the assets of UNL or the Related Public Funds.

Futures Commission Merchant

On October 8, 2013, USCF entered into a Futures and Cleared Derivatives Transactions Customer Account Agreement with RBC Capital Markets, LLC (“RBC Capital” or “RBC”) to serve as UNL’s FCM, effective October 10, 2013. This agreement requires RBC Capital to provide services to UNL, as of October 10, 2013, in connection with the purchase and sale of Futures Contracts and Other Natural Gas-Related Investments that may be purchased or sold by or through RBC Capital for UNL’s account. For the period October 10, 2013 and after, UNL pays RBC Capital commissions for executing and clearing trades on behalf of UNL.

RBC Capital’s primary address is 3 World Financial Center 200 Vesey St. New York, New York 10281. Effective October 10, 2013, RBC Capital became the futures clearing broker for UNL. RBC Capital is registered in the United States with FINRA as a broker-dealer and with the CFTC as a FCM. RBC Capital is a member of various U.S. futures and securities exchanges.

RBC Capital (“RBC Capital”), is a large broker dealer subject to many different complex legal and regulatory requirements. As a result, certain of RBC Capital’s regulators may from time to time conduct investigations, initiate enforcement proceedings and/or enter into settlements with RBC Capital with respect to issues raised in various investigations. RBC Capital complies fully with its regulators in all investigations being conducted and in all settlements it reaches. In addition, RBC Capital is and has been subject to a variety of civil legal claims in various jurisdictions, a variety of settlement agreements and a variety of orders, awards and judgments made against it by courts and tribunals, both in regard to such claims and investigations. RBC Capital complies fully with all settlements it reaches and all orders, awards and judgments made against it.

RBC Capital has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation including those described below, arising in connection with its activities as a broker-dealer. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. RBC Capital is also involved, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding RBC Capital’s business, including among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

RBC Capital contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, RBC Capital cannot predict the loss or range of loss, if any, related to such matters; how or if such matters will be resolved; when they will ultimately be resolved; or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, RBC Capital believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of RBC Capital.

On April 27, 2017, pursuant to an offer of settlement, a Panel of the Chicago Board of Trade Business Conduct Committee (“Panel”) found that RBC Capital engaged in EFRP transactions which failed to satisfy the Rules of the Chicago Board of Trade (the “Exchange”) in one or more ways. Specifically, the Panel found that RBC Capital traders entered into EFRP trades in which RBC Capital accounts were on both sides of the transactions. While the purpose of the transactions was to transfer positions between the RBC Capital accounts, the Chicago Mercantile Exchange Group found that the manner in which the trades occurred violated the Exchange’s prohibition on wash trades. The Panel found that RBC Capital thereby violated CBOT Rules 534 and (legacy) 538.B. and C. In accordance with the settlement offer, the Panel ordered RBC Capital to pay a $175,000 fine.

On June 18, 2015, in connection with the Municipalities Continuing Disclosure Cooperation initiative of the U.S. Securities and Exchange Commission ("SEC"), the SEC commenced and settled an administrative proceeding against RBC Capital for willful violations of Sections 17(a)(2) of the Securities Act of 1933, as amended ("1933 Act") after the firm self-reported instances in which it conducted inadequate due diligence in certain municipal securities offerings and as a result, failed to form a reasonable basis for believing the truthfulness of certain material representations in official statements issued in connection with those offerings. RBC Capital paid a fine of $500,000.

RBC Capital and certain affiliates were named as defendants in a lawsuit relating to their role in transactions involving investments made by a number of Wisconsin school districts in certain collateralized debt obligations. These transactions were also the subject of a regulatory investigation, which was resolved in 2011. RBC Capital reached a final settlement with all parties in the civil litigation, and the civil action against RBC Capital was dismissed with prejudice on December 6, 2016.

On July 31, 2015, RBC Capital was added as a new defendant in a pending putative class action initially filed in November 2013 in the United States District Court for the Southern District of New York. The action is brought against multiple foreign exchange dealers and alleges collusive behavior, among other allegations, in foreign exchange trading. Various regulators are also conducting inquiries regarding potential violations of law by a number of banks and other entities, including RBC Capital, regarding foreign exchange trading. In September 2017, the U.S. District Court entered an order preliminarily approving a pending settlement with class plaintiffs. Canadian class actions and one other U.S. action that is purportedly brought on behalf of different classes of plaintiffs remain pending.

On April 13, 2015, RBC Capital's affiliate, Royal Bank of Canada Trust Company (Bahamas) Limited (RBC Bahamas), was charged in France with complicity in tax fraud. RBC Bahamas believes that its actions did not violate French law and contested the charge in the French court. The trial of this matter has concluded and a verdict was delivered on January 12, 2017, acquitting the company and the other defendants. The French prosecutor's office has appealed.

Thornburg Mortgage Inc. (now known as "TMST") and RBC Capital were parties to a master repurchase agreement executed in September 2003 whereby TMST financed its purchase of residential mortgage-backed securities. Upon TMST's default during the financial crisis, RBC Capital valued TMST's collateral at allegedly deflated prices. After TMST's bankruptcy filing, TMST's trustee brought suit against RBC Capital in 2011 for breach of contract. In 2015, TMST was awarded more than $45 million in damages. RBC Capital has appealed. The appeals court set a briefing schedule and simultaneously ordered the parties to participate in a mediation. The parties have subsequently reached an agreement to settle the matter; a motion to approve the settlement was filed with the bankruptcy court on January 10, 2016 and granted on February 27, 2017.

On October 14, 2014, the Delaware Court of Chancery (the "Court of Chancery") in a class action brought by former shareholders of Rural/Metro Corporation, held RBC Capital liable for aiding and abetting a breach of fiduciary duty by three Rural/Metro directors, but did not make an additional award for attorney's fees. A final judgment was entered on February 19, 2015 in the amount of US$93 million plus post judgment interest. RBC Capital appealed the Court of Chancery's determination of liability and quantum of damages, and the plaintiffs cross-appealed the ruling on additional attorneys' fees. On November 30, 2015, the Delaware Supreme Court affirmed the Court of Chancery with respect to both the appeal and cross-appeal. RBC Capital is cooperating with an investigation by the SEC relating to this matter. In particular, the SEC contended that RBC Capital caused materially false and misleading information to be included in the proxy statement that Rural filed to solicit shareholder approval for the sale in violation of section 14(A) of the Exchange Act and Rule 14A-9 thereunder. On August 31, 2016, RBC Capital was ordered by the SEC to cease and desist and paid $500,000 in disgorgement, plus interest of $77,759 and a civil penalty of $2 million.

On March 11, 2013, the New Jersey Bureau of Securities entered a consent order settling an administrative complaint against RBC Capital, which alleged that RBC Capital failed to follow its own procedures with respect to monthly account reviews and failed to maintain copies of the monthly account reviews with respect to certain accounts that James Hankins Jr. maintained at the firm in violation of N.J.S.A. 49:3-58(a)(2)(xi) and 49:3-59(b). Without admitting or denying the findings of fact and conclusions of law, RBC Capital consented to a civil monetary penalty of $150,000 (of which $100,000 was suspended as a result of the firm's cooperation) and to pay disgorgement of $300,000.

Please see RBC Capital's Form BD, which is available on the FINRA BrokerCheck program, for more details.

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RBC Capital will act only as clearing broker for UNL and as such will be paid commissions for executing and clearing trades on behalf of UNL. RBC Capital has not passed upon the adequacy or accuracy of this prospectus. RBC Capital will not act in any supervisory capacity with respect to USCF or participate in the management of USCF or UNL.

RBC Capital is not affiliated with UNL or USCF. Therefore, neither USCF nor UNL believes that there are any conflicts of interest with RBC Capital or its trading principals arising from its acting as UNL's FCM.

Currently, USCF does not employ commodity trading advisors for the trading of UNL contracts. USCF currently does, however, employ SummerHaven Investment Management, LLC as a commodity trading advisor for USCF's own account and for USCI, CPER and USAG. If, in the future, USCF does employ commodity trading advisors for UNL, it will choose each advisor based on arm's-length negotiations and will consider the advisor's experience, fees and reputation.

UNL's Fees and Expenses

This table describes the fees and expenses that you may pay if you buy and hold shares of UNL. You should note that you may pay brokerage commissions on purchases and sales of UNL's shares, which are not reflected in the table. Authorized Participants will pay applicable creation and redemption fees. *See* "Creation and Redemption of Shares-*Creation and Redemption Transaction Fee*," page 56.

Annual Fund Operating Expenses
(expenses that you pay each year as a percentage of the value of your investment)

Management Fees(1)	0.75 %
Other Expenses(1)	0.74 %
Expense Waiver(2)	(0.59)%
Net Expenses Excluding Management Fees	0.15 %
Total Annual Fund Operating Expenses After Fee Waiver	0.90 %

(1) Based on amounts for the year ended December 31, 2017, which is incorporated by reference into this prospectus. See "Incorporation By Reference of Certain Information," page 59. The individual expense amounts in dollar terms are shown in the table below. As used in this table, (i) Professional Expenses include expenses for legal, audit, tax, accounting and printing; and (ii) Independent Director and Officer Expenses include amounts paid to independent directors and for officers' liability insurance.

Management fees	$78,805
Professional Expenses	$71,772
Brokerage commissions	$2,209
Independent Director and Officer Expenses	$1,929
License fees	$1,576

These amounts are based on UNL's average total net assets, which are the sum of daily total net assets of UNL divided by the number of calendar days in the year. For the year ended December 31, 2017, UNL's average total net assets were $10,507,374.

(2) USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL's NAV, on an annualized basis. USCF has no obligation to continue such payment. If this agreement were terminated, the Annual Fund Operating Expenses could increase, which would negatively impact your total return from an investment in UNL.

Breakeven Analysis

The breakeven analysis below indicates the approximate dollar returns and percentage required for the redemption value of a hypothetical initial investment in a single share to equal the amount invested twelve months after the investment was made. For purposes of this breakeven analysis, we have assumed an initial selling price of $9.12 per share which equals the NAV per share on February 28, 2018. In order for a hypothetical investment in shares to break even over the next 12 months, assuming a selling price of $9.12, the investment would have to generate a 0.110% return or $0.01.

This breakeven analysis refers to the redemption of baskets by Authorized Participants and is not related to any gains an individual investor would have to achieve in order to break even. The breakeven analysis is an approximation only.

Assumed initial selling price per share	$9.12
Management Fee (0.750%)(1)	$0.068
Creation Basket Fee (0.01%)(2)	$(0.001)
Estimated Brokerage Fee (0.025%)(3)	$0.002
Interest Income (0.770%)(4)	$(0.070)
New York Mercantile Exchange Licensing Fee (0.015%)(5)	$0.001
Independent Director and Officer Expenses (0.018%)(6)	$0.002
Professional Expenses (0.683%)(7)	$0.062
Amount of trading income (loss) required for the redemption value at the end of one year to equal the initial selling price of the share	$0.064
Percentage of initial selling price per share	0.702 %
Expense Waiver (0.59)%(8)	$(0.054)
Amount of trading income (loss) required for the redemption value at the end of one year to equal the initial selling price of the unit (inclusive of credit)	$0.01
Percentage of initial selling price per unit (inclusive of credit)	0.110 %

(1) UNL is contractually obligated to pay USCF a management fee of 0.750% per annum on its average total net assets. "Average total net assets" are the sum of the daily total net assets of UNL (the NAV of UNL calculated as set forth in "Calculating Per Share NAV" beginning on page 52) divided by the number of calendar days in the year. On days when markets are closed, the daily total net assets are the daily total net assets from the last day when the market was open. See page 52 for a discussion of net assets of UNL.

(2) Authorized Participants are required to pay a Creation Basket fee of $350 for each order they place to create one or more baskets. This breakeven analysis assumes a hypothetical investment in a single share, which would equal the $350 Creation Basket fee divided by the total number of outstanding shares plus the 50,000 shares created by the Creation Basket. This calculation will always result in a value that is below 0.010%, but for purposes of this breakeven analysis we assume a creation basket fee of 0.010%.

(3) This amount is based on the actual brokerage fees for UNL calculated on an annualized basis and includes an estimated half-turn commission of $3.50. A half-turn commission is the commissions liability related to FCM transaction fees for futures contracts on a half-turn basis.

(4) UNL earns interest on cash and cash equivalents held at the FCM and Custodian, treasuries, and money market funds at an estimated interest rate of 0.770%. This is a blended rate based on the rate of interest earned on all of the foregoing as of December 31, 2017. The actual rate may vary.

(5) The NYMEX Licensing Fee is 0.015% of the aggregate net assets of UNL and the Related Public Funds (except for BNO, USCI, CPER, USAG, USOU and USOD). For more information see "UNL's Fees and Expenses."

(6) Independent Director and Officer Expenses include amounts paid to independent directors and for officers' liability insurance. The foregoing assumes that the average total net assets of UNL as of December 31, 2017, which were $10,507,374, were aggregated with the average total net assets of the Related Public Funds as of December 31, 2017, that the aggregate fees paid to the independent directors for 2017 was $536,375 and that the allocable portion of the fees borne by UNL based on the proportion of its average total net assets when aggregated with the average total net assets of the Related Public Funds equals $1,929.

(7) Professional Expenses include expenses for legal, audit, tax accounting and printing. UNL estimates the costs attributable to Professional Expenses for 2017 is $71,772. The number in the break-even table assumes UNL had $10,507,374 in average total net assets during the calendar year ended December 31, 2017.

(8) USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL's NAV, on an annualized basis.

Conflicts of Interest

There are present and potential future conflicts of interest in UNL's structure and operation you should consider before you purchase shares. USCF will use this notice of conflicts as a defense against any claim or other proceeding made.

If USCF is not able to resolve these conflicts of interest adequately, it may impact UNL and the Related Public Funds' ability to achieve their investment objectives.

UNL and USCF may have inherent conflicts to the extent USCF attempts to maintain UNL's asset size in order to preserve its fee income and this may not always be consistent with UNL's objective of having the value of its share's NAV track changes in the average price of the Benchmark Future Contracts.

USCF's officers, directors and employees, do not devote their time exclusively to UNL. These persons are directors, officers or employees of other entities which may compete with UNL for their services, including the Related Public Funds. They could have a conflict between their responsibilities to UNL and to those other entities.

USCF has adopted policies that prohibit their principals, officers, directors and employees from trading futures and related contracts in which either UNL or any of the Related Public Funds invests. These policies are intended to prevent conflicts of interest occurring where USCF, or their principals, officers, directors or employees could give preferential treatment to their own accounts or trade their own accounts ahead of or against UNL or any of the Related Public Funds.

USCF has sole current authority to manage the investments and operations of UNL, and this may allow it to act in a way that furthers its own interests which may create a conflict with your best interests. Limited partners have limited voting control, which will limit their ability to influence matters such as amendment of the LP Agreement, change in UNL's basic investment policy, dissolution of UNL, or the sale or distribution of UNL's assets.

USCF serves as the general partner to UNL and general partner or sponsor to the Related Public Funds, UCCO and the REX Funds. USCF may have a conflict to the extent that its trading decisions for UNL may be influenced by the effect they would have on the other funds it manages. By way of example, if, as a result of reaching position limits imposed by the NYMEX, UNL purchased gasoline futures contracts, this decision could impact UNL's ability to purchase additional gasoline futures contracts, if the number of contracts held by funds managed by USCF reached the maximum allowed by the NYMEX. Similar situations could adversely affect the ability of any fund to track its benchmark futures contract.

In addition, USCF is required to indemnify the officers and directors of the other funds, if the need for indemnification arises. This potential indemnification will cause USCF's assets to decrease. If USCF's other sources of income are not sufficient to compensate for the indemnification, then USCF may terminate and you could lose your investment.

Whenever a conflict of interest exists or arises between USCF on the one hand, and the partnership or any limited partner, on the other hand, any resolution or course of action by USCF in respect of such conflict of interest shall be permitted and deemed approved by all partners and shall not constitute a breach of the LP Agreement or of any agreement contemplated hereby or of a duty stated or implied by law or equity, if the resolution or course of action is, or by operation of the LP Agreement is deemed to be, fair and reasonable to the partnership. If a dispute arises, under the LP Agreement it will be resolved either through negotiations with USCF or by courts located in the State of Delaware.

Under the LP Agreement, any resolution is deemed to be fair and reasonable to the partnership if the resolution is:

- approved by the audit committee, although no party is obligated to seek approval and USCF may adopt a resolution or course of action that has not received approval;
- on terms no less favorable to the limited partners than those generally being provided to or available from unrelated third parties; or
- fair to the limited partners, taking into account the totality of the relationships of the parties involved including other transactions that may be particularly favorable or advantageous to the limited partners.

The previous risk factors and conflicts of interest are complete as of the date of this prospectus; however, additional risks and conflicts may occur which are not presently foreseen by USCF. You may not construe this prospectus as legal or tax advice. Before making an investment in this fund, you should read this entire prospectus, which can be found on UNL's website at *www.uscfinvestments.com.* You should also consult with your personal legal, tax, and other professional advisors.

Interests of Named Experts and Counsel

USCF has employed Eversheds Sutherland (US) LLP to prepare this prospectus. Neither the law firm nor any other expert hired by UNL to give advice on the preparation of this offering document has been hired on a contingent fee basis. None of them have any present or future expectation of interest in USCF, Marketing Agent, Authorized Participants, Custodian, Administrator or other service providers to UNL.

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Ownership or Beneficial Interest in UNL

As of February 28, 2018, no person owned more than five percent (5%) of the shares of UNL. Also, as of such date, USCF and the principals of USCF do not own any of the shares of UNL.

USCF's Responsibilities and Remedies

Pursuant to the DRULPA ("Delaware Revised Uniform Limited Partnership Act"), parties may contractually modify or even eliminate fiduciary duties in a limited partnership agreement to the limited partnership itself, or to another partner or person otherwise bound by the limited partnership agreement. Parties may not, however, eliminate the implied covenant of good faith and fair dealing. Where parties unambiguously provide for fiduciary duties in a limited partnership agreement, those expressed duties become the standard that courts will use to determine whether such duties were breached. For this reason, UNL's limited partnership agreement does not explicitly provide for any fiduciary duties so that common law fiduciary duty principles will apply to measure USCF's conduct.

A prospective investor should be aware that USCF has a responsibility to limited partners of UNL to exercise good faith and fairness in all dealings. The fiduciary responsibility of a general partner to limited partners is a developing and changing area of the law and limited partners who have questions concerning the duties of USCF should consult with their counsel. In the event that a limited partner of UNL believes that USCF has violated its fiduciary duty to the limited partners, he may seek legal relief individually or on behalf of UNL under applicable laws, including under DRULPA and under commodities laws, to recover damages from or require an accounting by USCF. Limited partners may also have the right, subject to applicable procedural and jurisdictional requirements, to bring class actions in federal court to enforce their rights under the federal securities laws and the rules and regulations promulgated thereunder by the SEC. Limited partners who have suffered losses in connection with the purchase or sale of the shares may be able to recover such losses from USCF where the losses result from a violation by USCF of the federal securities laws. State securities laws may also provide certain remedies to limited partners.

Limited partners should be aware that performance by USCF of its fiduciary duty to is measured by the terms of the LP Agreement as well as applicable law. Limited partners are afforded certain rights to institute reparations proceedings under the Commodity Exchange Act ("CEA") for violations of the CEA or of any rule, regulation or order of the CFTC by USCF.

Liability and Indemnification

Under the LP Agreement, neither a general partner nor any employee or other agent of UNL nor any officer, director, stockholder, partner, employee or agent of a general partner (a "Protected Person") shall be liable to any partner or UNL for any mistake of judgment or for any action or inaction taken, nor for any losses due to any mistake of judgment or to any action or inaction or to the negligence, dishonesty or bad faith of any officer, director, stockholder, partner, employee, agent of UNL or any officer, director, stockholder, partner, employee or agent of such general partner, provided that such officer, director, stockholder, partner, employee, or agent of the partner or officer, director, stockholder, partner, employee or agent of such general partner was selected, engaged or retained by such general partner with reasonable care, except with respect to any matter as to which such general partner shall have been finally adjudicated in any action, suit or other proceeding not to have acted in good faith in the reasonable belief that such Protected Person's action was in the best interests of UNL and except that no Protected Person shall be relieved of any liability to which such Protected Person would otherwise be subject by reason of willful misfeasance, gross negligence or reckless disregard of the duties involved in the conduct of the Protected Person's office.

UNL shall, to the fullest extent permitted by law, but only out of UNL assets, indemnify and hold harmless a general partner and each officer, director, stockholder, partner, employee or agent thereof (including persons who serve at UNL's request as directors, officers or trustees of another organization in which UNL has an interest as a shareholder, creditor or otherwise) and their respective Legal Representatives and successors (hereinafter referred to as a "Covered Person") against all liabilities and expenses, including but not limited to amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees reasonably incurred by any Covered Person in connection with the defense or disposition of any action, suit or other proceedings, whether civil or criminal, before any court or administrative or legislative body, in which such Covered Person may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office or thereafter, by reason of an alleged act or omission as a general partner or director or officer thereof, or by reason of its being or having been such a general partner, director or officer, except with respect to any matter as to which such Covered Person shall have been finally adjudicated in any such action, suit or other proceeding not to have acted in good faith in the reasonable belief that such Covered Person's action was in the best interest of UNL, and except that no Covered Person shall be indemnified against any liability to UNL or limited partners to which such Covered Person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such Covered Person's office. Expenses, including counsel fees so incurred by any such Covered Person, may be paid from time to time by UNL in advance of the final disposition of any such action, suit or proceeding on the condition that the amounts so paid shall be repaid to UNL if it is ultimately determined that the indemnification of such expenses is not authorized hereunder.

Meetings

Meetings of limited partners may be called by USCF and may be called by it upon the written request of limited partners holding at least 20% of the outstanding shares of UNL. USCF shall deposit written notice to all limited partners of the meeting and the purpose of the meeting, which shall be held on a date not less than 30 nor more than 60 days after the date of mailing of such notice, at a reasonable time and place. USCF may also call a meeting upon not less than 20 and not more than 60 days prior notice.

Each limited partner appoints USCF and each of its authorized officers as its attorney-in-fact with full power and authority in its name, place and stead to execute, swear to, acknowledge, deliver, file and record all ballots, consents, approval waivers, certificates and other instruments necessary or appropriate, in the sole discretion of USCF, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the partner of UNL. However, when the LP Agreement establishes a percentage of the limited partners required to take any action, USCF may exercise such power of attorney made only after the necessary vote, consent or approval of the limited partners.

Termination Events

UNL will dissolve at any time upon the happening of any of the following events:

- The bankruptcy, dissolution, withdrawal, or removal of USCF, unless a majority in interest of the limited partners within 90 days after such event elects to continue UNL and appoints a successor general partner; or
- The affirmative vote of a majority in interest of the limited partners, provided that prior to or concurrently with such vote, there shall have been established procedures for the assumption of UNL's obligations arising under any agreement to which UNL is a party and which is still in force immediately prior to such vote regarding termination, and there shall have been an irrevocable appointment of an agent who shall be empowered to give and receive notices, reports and payments under such agreements, and hold and exercise such other powers as are necessary to permit all other parties to such agreements to deal with such agent as if the agent were the sole owner of UNL's interest, which procedures are agreed to in writing by each of the other parties to such agreements.

Provisions of Law

According to applicable law, indemnification of USCF is payable only if USCF determined, in good faith, that the act, omission or conduct that gave rise to the claim for indemnification was in the best interest of UNL and the act, omission or activity that was the basis for such loss, liability, damage, cost or expense was not the result of negligence or misconduct and such liability or loss was not the result of negligence or misconduct by USCF, and such indemnification or agreement to hold harmless is recoverable only out of the assets of UNL and not from the members, individually.

Provisions of Federal and State Securities Laws

This offering is made pursuant to federal and state securities laws. The SEC and state securities agencies take the position that indemnification of USCF that arises out of an alleged violation of such laws is prohibited unless certain conditions are met.

Those conditions require that no indemnification of USCF or any underwriter for UNL may be made in respect of any losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws unless: (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the party seeking indemnification and the court approves the indemnification; (ii) such claim has been dismissed with prejudice on the merits by a court of competent jurisdiction as to the party seeking indemnification; or (iii) a court of competent jurisdiction approves a settlement of the claims against the party seeking indemnification and finds that indemnification of the settlement and related costs should be made, provided that, before seeking such approval, USCF or other indemnitee must apprise the court of the position held by regulatory agencies against such indemnification. These agencies are the SEC and the securities administrator of the State or States in which the plaintiffs claim they were offered or sold membership interests.

Provisions of the 1933 Act and NASAA Guidelines

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to USCF or its directors, officers, or persons controlling UNL, UNL has been informed that SEC and the various State administrators believe that such indemnification is against public policy as expressed in the 1933 Act and the North American Securities Administrators Association, Inc. (“NASAA”) commodity pool guidelines and is therefore unenforceable.

Books and Records

UNL keeps its books of record and account at its office located at 1999 Harrison Street, Suite 1530 Oakland, California 94612 or at the offices of the Administrator at its office located at 50 Post Office Square, Boston, Massachusetts, 02110, or such office, including of an administrative agent, as it may subsequently designate upon notice. These books and records are open to inspection by any person who establishes to UNL's satisfaction that such person is a limited partner upon reasonable advance notice at all reasonable times during the usual business hours of UNL.

UNL keeps a copy of UNL's LP Agreement on file in its office which is available for inspection on reasonable advance notice at all reasonable times during its usual business hours by any limited partner.

Statements, Filings, and Reports

At the end of each fiscal year, UNL will furnish to banks, broker dealers and trust companies ("DTC Participants") for distribution to each person who is a shareholder at the end of the fiscal year an annual report containing UNL's audited financial statements and other information about UNL. USCF is responsible for the registration and qualification of the shares under the federal securities laws and federal commodities laws and any other securities and blue sky laws of the United States or any other jurisdiction as USCF may select. USCF is responsible for preparing all reports required by the SEC, CFTC and the NYSE Arca, but has entered into an agreement with the Administrator to prepare these reports as required by the SEC, CFTC and the NYSE Arca on UNL's behalf.

The financial statements of UNL will be audited, as required by law and as may be directed by USCF, by an independent registered public accounting firm designated from time to time by USCF. The accountants report will be furnished by UNL to shareholders upon request. UNL will make such elections, file such tax returns, and prepare, disseminate and file such tax reports, as it is advised by its counsel or accountants are from time to time required by any applicable statute, rule or regulation.

Reports to Limited Partners

In addition to periodic reports filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, all of which can be accessed on the SEC's website at *www.sec.gov* or on UNL's website at *www.uscfinvestments.com*, UNL, pursuant to the LP Agreement, will provide the following reports to limited partners in the manner prescribed below:

Annual Reports. Within 90 days after the end of each fiscal year, USCF shall cause to be delivered to each limited partner who was a limited partner at any time during the fiscal year, an annual report containing the following:

(i) financial statements of the partnership, including, without limitation, a balance sheet as of the end of the partnership's fiscal year and statements of income, partners' equity and changes in financial position, for such fiscal year, which shall be prepared in accordance with accounting principles generally accepted in the United States of America consistently applied and shall be audited by a firm of independent certified public accountants registered with the Public Company Accounting Oversight Board,

(ii) a general description of the activities of the partnership during the period covered by the report, and

(iii) a report of any material transactions between the partnership and USCF or any of its affiliates, including fees or compensation paid by the partnership and the services performed by USCF or any such affiliate for such fees or compensation.

Quarterly Reports. Within 45 days after the end of each quarter of each fiscal year, USCF shall cause to be delivered to each limited partner who was a limited partner at any time during the quarter then ended, a quarterly report containing a balance sheet and statement of income for the period covered by the report, each of which may be unaudited but shall be certified by USCF as fairly presenting the financial position and results of operations of the partnership during the period covered by the report. The report shall also contain a description of any material event regarding the business of the partnership during the period covered by the report.

Monthly Reports. Within 30 days after the end of each month, USCF shall cause to be posted on UNL's website and upon request, to be delivered to each limited partner who was a limited partner at any time during the month then ended, a monthly report containing an account statement, which will include a statement of income (loss) and a statement of changes in NAV, for the prescribed period. In addition, the account statement will disclose any material business dealings between the partnership, USCF, commodity trading advisor (if any), FCM, or the principals thereof that previously have not been disclosed in this prospectus or any amendment thereto, other account statements or annual reports.

UNL will provide information to its shareholders to the extent required by applicable SEC, CFTC, and NYSE Arca requirements. An issuer, such as UNL, of exchange-traded securities may not always readily know the identities of the investors who own those securities. UNL will post the same information that would otherwise be provided in UNL's reports to limited partners described above including its monthly account statements, which will include, without limitation, UNL's NAV, on UNL's website *www.uscfinvestments.com.*

Fiscal Year

The fiscal year of UNL is the calendar year. USCF may select an alternate fiscal year.

Governing Law; Consent To Delaware Jurisdiction

The rights of USCF, UNL, DTC (as registered owner of UNL's global certificate for shares) and the shareholders, are governed by the laws of the State of Delaware. USCF, UNL and DTC and, by accepting shares, each DTC Participant and each shareholder, consent to the jurisdiction of the courts of the State of Delaware and any federal courts located in Delaware. Such consent is not required for any person to assert a claim of Delaware jurisdiction over USCF or UNL.

Legal Matters

Litigation and Claims

Within the past 5 years of the date of this prospectus, there have been no material administrative, civil or criminal actions against USCF, DNO, or any principal or affiliate of any of them. This includes any actions pending, on appeal, concluded, threatened, or otherwise known to them.

Legal Opinion

Eversheds Sutherland (US) LLP is counsel to advise UNL and USCF with respect to the shares being offered hereby and has passed upon the validity of the shares being issued hereunder. Eversheds Sutherland (US) LLP has also provided USCF with its opinion with respect to federal income tax matters addressed herein.

Experts

Spicer Jeffries LLP, an independent registered public accounting firm, has audited the statements of financial condition of UNL as of December 31, 2017 and December 31, 2016, including the schedule of investments as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' capital and cash flows for the years ended December 31, 2017, 2016 and 2015, that appear in the annual report on Form 10-K that is incorporated by reference. The financial statements of UNL in the Form 10-K were included herein in reliance upon the report of Spicer Jeffries LLP dated March 21, 2018, given on its authority of such firm as experts in accounting and auditing.

BPM LLP, an independent registered public accounting firm, has audited the statements of financial condition of United States Commodity Funds, LLC as of December 31, 2017 and December 31, 2016 that appear in the annual report on Form 10-K of UNL that is incorporated by reference herein. Such financial statements are included in reliance upon the report of such firm, dated February 28, 2018, given their authority as experts in accounting and auditing.

U.S. Federal Income Tax Considerations

The following discussion summarizes the material U.S. federal income tax consequences of the purchase, ownership and disposition of shares in UNL, and the U.S. federal income tax treatment of UNL, as of the date hereof. This discussion is applicable to a beneficial owner of shares who purchases shares in the offering to which this prospectus relates, including a beneficial owner who purchases shares from an Authorized Participant. Except where noted otherwise, it deals only with shares held as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, tax-exempt entities, insurance companies, persons holding shares as a part of a position in a “straddle” or as part of a “hedging,” “conversion” or other integrated transaction for federal income tax purposes, traders in securities or commodities that elect to use a mark-to-market method of accounting, or holders of shares whose “functional currency” is not the U.S. dollar. Furthermore, the discussion below is based upon the provisions of the Code, as amended, and regulations (“Treasury Regulations”), rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below.

Persons considering the purchase, ownership or disposition of shares should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, a “U.S. shareholder” of a share means a beneficial owner of a share that is a U.S. person. A “U.S. person,” for United States federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust (X) that is subject to the supervision of a court within the United States and the control of one or more United States persons as described in section 7701(a)(30) of the Code or (Y) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person. A “non-U.S. shareholder” is a holder that is not a U.S. shareholder and a “non-U.S. person” is an individual or entity that is not a U.S. person. If a partnership holds our shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our shares, you should consult your own tax advisor regarding the tax consequences.

USCF on behalf of UNL, has received the opinion of Eversheds Sutherland (US) LLP, counsel to UNL, that the material U.S. federal income tax consequences to UNL and to U.S. shareholders and non-U.S. shareholders will be as described below. In rendering its opinion, Eversheds Sutherland (US) LLP has relied on the facts descFONT>18,497 27,050

Gathering, transportation and other

16,187 2,030 14,157

General and administrative:

General and administrative

35,827 21,214 14,613

Stock-based compensation

8,242 3,820 4,422

Depletion, depreciation and amortization:

Depletion Full cost

257,593 72,716 184,877

Depreciation Other

2,135 666 1,469

Accretion expense

1,544 1,157 387

Net gain (loss) on derivative contracts:

124,442 (100,380) 224,822

Interest expense and other

(89,884) (29,207) (60,677)

Income tax (provision) benefit

(72,535) 9,063 (81,598)

Production:

Natural Gas MMcf (1)

63,643 20,219 43,424

Crude Oil MBbl

2,703 1,555 1,148

Natural Gas Equivalent MMcfe

79,863 29,549 50,314

Average Daily Production MMcfe

219 81 138

Average price per unit (2):

Gas price per Mcf (1)

$6.57 $8.46 $(1.89)

Oil price per Bbl

62.27 55.62 6.65

Equivalent per Mcfe

7.34 8.73 (1.39)

Average cost per Mcfe:

Production:

Lease operating	0.73	1.04	(0.31)
Workover and other	0.10	0.11	(0.01)
Taxes other than income	0.57	0.63	(0.06)
Gathering, transportation and other	0.20	0.07	0.13
General and administrative:			
General and administrative	0.45	0.72	(0.27)
Stock-based compensation	0.10	0.13	(0.03)
Depletion expense	3.23	2.46	0.77

(1) *Approximately 5% and 7% of natural gas production represents natural gas liquids (calculated with a 6:1 equivalent ratio) with an average price of $36.88 per Bbl and $40.50 per Bbl for the years ended December 31, 2006 and 2005, respectively.*

(2) *Amounts exclude the impact of cash paid on settled contracts as we did not elect to apply hedge accounting.*

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For the year ended December 31, 2006, oil and natural gas sales increased $329.7 million, from the same period in 2005, to $587.8 million. The increase for the year was primarily due to the increase in production of 50,314 MMcfe, of which 31,290 MMcfe related to our merger with KCS. The remaining increase in volumes was due to the inclusion of a full year of production for Mission as well as the closing of the North Louisiana Acquisitions in January 2006 as well as our increased drilling success. This increase in production led to an approximate $440.7 million increase in revenues from the prior year which was offset by a decrease in commodity prices that led to an approximate $111.0 million decrease in revenues from the prior year. Our realized average price per Mcfe decreased $1.39 in 2006 to $7.34 from $8.73 in 2005.

Lease operating expenses increased $27.2 million from the prior year. The increase was primarily due to the increase in production volumes as a result of our recent acquisition and divestiture activities, as well as a continued increase in overall activity in 2006. We drilled 330 gross wells in 2006 compared to 146 gross wells in 2005. On a per unit basis, lease operating expenses decreased 29.8% from $1.04 per Mcfe in 2005 to $0.73 per Mcfe in 2006. The decrease on a per unit basis is primarily due to our continued cost control efforts to lower our lease operating expenses. We continue to identify divestment prospects which tend to be outlying, higher operating cost properties as evident by the transactions that closed during the fourth quarter of 2006. Also contributing to decrease on a per unit basis was our acquisition of lower cost properties as a consequence of our merger with KCS and properties acquired in the North Louisiana Acquisitions.

Workover and other expense increased $4.9 million for the year ended December 31, 2006 as compared to 2005. The increase was primarily due to the increase in major maintenance activities in 2006. On a per unit basis, workover and other expense decreased $0.01 per Mcfe to $0.10 per Mcfe in 2006 as our increase in production volume has exceeded the increase in workover expense.

Taxes other than income increased $27.1 million for the year ended December 31, 2006 as compared to the same period in 2005. The largest components of taxes other than income are production and severance taxes which are generally assessed as a percentage of gross oil and natural gas sales. On a per unit basis, taxes other than income decreased $0.06 per Mcfe to $0.57 per Mcfe in 2006 as compared to $0.63 per Mcfe in 2005. As a percentage of oil and natural gas sales, taxes other than income remained substantially consistent at 7%.

Gathering, transportation and other expense increased $14.2 million for the year ended December 31, 2006 as compared to the same period in 2005. This increase is due to our recent acquisition activities including the completion of our merger with KCS as well as the North Louisiana Acquisitions.

General and administrative expense for the year ended December 31, 2006 increased $14.6 million to $35.8 million compared to $21.2 million in the same period in 2005. This increase was due to our continued growth over the past two years. In 2006, we completed the North Louisiana Acquisitions as well as our merger with KCS which increased compensation and other costs associated with increased staffing levels to meet the demands of our expanding operations. General and administrative expense has decreased significantly on a per Mcfe basis from $0.72 per Mcfe in 2005 to $0.45 per Mcfe in 2006 as production increases have exceeded our administrative expense increases. Operating in concentrated areas helps us to better control our overhead by enabling us to manage a greater amount of acreage with fewer employees and minimize incremental costs of increased drilling and production. Our strategy of targeting our operations in relatively focused areas permits us to more efficiently manage our general and administrative expenses.

Stock-based compensation increased $4.4 million for the year ended December 31, 2006 as compared to the same period in the prior year. This increase is primarily related to additional stock options and restricted stock grants assumed as part of our merger with KCS in July 2006, as well as the stock options and restricted stock grants given to employees and non-employee directors during 2006 and a full year of amortization for those grants that were issued during 2005.

Depletion expense increased $184.9 million from the same period in 2005 to $257.6 million for the year ended December 31, 2006. Depletion for oil and natural gas properties is calculated using the unit of production method, which essentially depletes the capitalized costs associated with the evaluated properties plus future development costs based on the ratio of production volume for the current period to total remaining reserve volume for the evaluated properties. On a per unit basis, depletion expense increased $0.77 per Mcfe to $3.23 from $2.46. This increase was due to our merger with KCS in July 2006, the North Louisiana Acquisitions in January 2006 and our merger with Mission in July 2005.

We enter into derivative commodity instruments to hedge our exposure to price fluctuations on our anticipated oil and natural gas production. Consistent with the prior year, we have elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, we recorded the net change in the mark-to-market valuation of these derivative contracts in the consolidated statement of operations. At December 31, 2006, we had a $75.2 million derivative asset, $68.2 million of which was classified as current, and a $19.8 million derivative liability, $8.0 million of which was classified as current. We recorded a net derivative gain of $124.4 million ($134.4 million unrealized gain and $10.0 million cash paid on settled contracts) for the year ended December 31, 2006 compared to a net derivative loss of $100.4 million in the prior year. The increase in our net derivative gain in the current year over the net derivative loss in the prior year is due to the decrease in commodity prices, primarily natural gas as the weighted average of the forward strip used to value our natural gas derivatives decreased from $10.41 per million British thermal unit (MMbtu) at December 31, 2005 to $7.29 per MMbtu at December 31, 2006.

Interest expense and other increased $60.7 million for the year ended December 31, 2006 compared to the same period in 2005. This increase was primarily due to additional debt we incurred in conjunction with our merger with KCS in July 2006, our merger with Mission in July 2005 and the closing of the North Louisiana Acquisitions in January 2006, as well as premiums paid to extinguish previously assumed Mission debt.

Income tax expense for the year ended December 31, 2006 increased $81.6 million from the prior year. The increase in income tax expense from prior year is primarily due to our pre-tax income of $189.1 million in 2006 compared to a pre-tax net loss of $25.7 million in 2005. The effective tax rates for the years ended December 31, 2006 and 2005 were 38.4% and 35.3%, respectively. The increase in our effective tax rate from the prior year is primarily due to changes in state apportionment percentages due to the merger of KCS properties with historical Petrohawk properties. Also adding to this increase was an increase in our effective tax rate for the recognition of a change in the Texas state franchise tax rate due to a change in the tax law. In May 2006, the State of Texas enacted substantial changes to its tax structure beginning in 2007 by imposing a new tax based upon modified gross revenue referred to as the Margin Tax. We determined the Margin Tax to be an income tax as defined under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes.*

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Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

We had a net loss of $16.6 million for the year ended December 31, 2005 compared to net income of $8.1 million for 2004. The net loss in 2005 resulted from a pre-tax loss on derivative contracts of $100.4 million.

The following table summarizes key items of comparison and their related increase (decrease) for the years ended December 31 for the periods indicated.

	Years Ended December 31,		Increase
In thousands (except per unit and per Mcfe amounts)	**2005**	**2004**	**(Decrease)**
Net (loss) income	$ (16,634)	$ 8,117	$ (24,751)
Oil and gas sales	258,039	33,577	224,462
Expenses:			
Production:			
Lease operating	30,784	5,540	25,244
Workover and other	3,265	294	2,971
Taxes other than income	18,497	2,319	16,178
Gathering, transportation and other	2,030	26	2,004
General and administrative:			
General and administrative	21,214	7,802	13,412
Stock-based compensation	3,820	3,529	291
Depletion, depreciation and amortization:			
Depletion Full cost	72,716	9,117	63,599
Depreciation Other	666	114	552
Accretion expense	1,157	137	1,020
Net (loss) gain on derivative contracts:	(100,380)	7,441	(107,821)
Interest expense and other	(29,207)	(2,894)	(26,313)
Income tax benefit (provision)	9,063	(1,129)	10,192
Production:			
Natural Gas MMcf [1]	20,219	3,569	16,650
Crude Oil MBbl	1,555	244	1,311
Natural Gas Equivalent MMcfe	29,549	5,030	24,519
Average Daily Production MMcfe	81	14	67
Average price per unit [2]:			
Gas price per Mcf [1]	$ 8.46	$ 6.53	$ 1.93
Oil price per Bbl	55.62	40.71	14.91
Equivalent per Mcfe	8.73	6.61	2.12
Average cost per Mcfe:			
Production:			
Lease operating	1.04	1.10	(0.06)
Workover and other	0.11	0.06	0.05
Taxes other than income	0.63	0.46	0.17
Gathering, transportation and other	0.07	0.01	0.06
General and administrative:			
General and administrative	0.72	1.55	(0.83)
Stock-based compensation	0.13	0.70	(0.57)
Depletion expense	2.46	1.81	0.65

(1) *Approximately 7% of natural gas production represents natural gas liquids (calculated with a 6:1 equivalent ratio) with an average price of $40.50 per Bbl for the year ended December 31, 2005. Natural gas liquids represented less than 1% of natural gas production for the year ended December 31, 2004.*

(2) *Amounts exclude the impact of cash paid on settled contracts as we did not elect to apply hedge accounting.*

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For the year ended December 31, 2005, oil and natural gas sales increased $224.5 million, from the same period in 2004, to $258.0 million. The increase for the year was primarily due to the increase in production of 24,519 MMcfe, of which 8,798 MMcfe related to our merger with Mission in July 2005 and 1,907 MMcfe related to the acquisition of Proton in 2005. The remaining increase in volumes was due to the inclusion of a full year of production for Wynn-Crosby as well as our increased drilling success. Higher commodity prices led to an approximate $62.6 million increase in revenues from the prior year as our realized average price per Mcfe increased $2.12 in 2005 to $8.73 from $6.61 in 2004. Prices continued to be strong in 2005 due to a number of factors including Hurricanes Rita and Katrina, inventory storage levels and continued supply concerns due to both domestic and global events.

Lease operating expenses increased $25.2 million for the year ended December 31, 2005 as compared to the same period in 2004. The increase was primarily due to the acquisition of Wynn-Crosby in November 2004, Mission in July 2005 and Proton in February 2005, as well as an increase in overall activity in 2005. We drilled 146 gross wells in 2005 compared to only 71 gross wells in 2004. On a per unit basis, lease operating expenses decreased 5% from $1.10 per Mcfe in 2004 to $1.04 per Mcfe in 2005 primarily as our increase in production of 24,519 Mcfe offset the increase in overall costs.

Workover and other expense increased $3.0 million for the year ended December 31, 2005 as compared to the same period in 2004. The increase was primarily due to the increase in major maintenance activities as commodity prices have remained high as well as the acquisitions of Wynn-Crosby in 2004 and Proton and Mission in 2005. On a per unit basis, workover and other expense increased $0.05 per Mcfe to $0.11 per Mcfe in 2005 due to a number of higher cost activities that were undertaken by us based on the current period price environment.

Taxes other than income increased $16.2 million for the year ended December 31, 2005 as compared to the same period in 2004. A significant component of such increase related to production taxes which are generally assessed as a percentage of gross oil and/or natural gas sales. In general, production taxes increase as revenue and production increase.

Gathering, transportation and other expense increased $2.0 million for the year ended December 31, 2005 as compared to the same prior in 2004, due to the acquisition of Wynn-Crosby in November 2004 and Mission in July 2005.

General and administrative expense for the twelve months ended December 31, 2005 increased $13.4 million to $21.2 million compared to $7.8 million in the same period in 2004. This increase was directly related to our continued growth over the past two years. Office expenses increased with our relocation of the corporate office to Houston, Texas and the subsequent expansion of the office following the July 2005 acquisition of Mission. Salaries and benefits increased with the addition of new staff and annual salary increases for existing employees. Overall headcount increased to 154 full time employees in 2005 as compared to 43 in 2004, driven by the decision to bring the previously outsourced accounting function back in house as well as the recent acquisition activity. On an Mcfe basis, general and administrative costs decreased $0.83 per Mcfe in 2005 to $0.72 per Mcfe as compared to $1.55 per Mcfe in 2004 due to the synergies achieved from the Wynn-Crosby, Proton and Mission acquisitions. For the year ended December 31, 2005, stock-based compensation was $3.8 million, an increase of $0.3 million over prior year.

Accretion expense increased $1.0 million from the same period in 2004 to $1.2 million for the year ended December 31, 2005. The increase was due to the inclusion of a full year of accretion expense for Wynn-Crosby which increased the overall liability $10.8 million in 2004 and the acquisitions of Proton and Mission in 2005 which increased the liability $38.5 million in 2005.

Depletion expense increased $63.6 million from the same period in 2004 to $72.7 million for the year ended December 31, 2005. Depletion for oil and natural gas properties is calculated using the unit of production method, which essentially depletes the capitalized costs associated with the evaluated properties based on the ratio of production volume for the current period to total remaining reserve volume for the evaluated properties. On a per unit basis, depletion expense increased 36% from $1.81 to $2.46. This increase was due to our acquisition and divestiture activities in 2005.

Periodically, we enter into derivative commodity instruments to hedge our exposure to price fluctuations on oil and natural gas production. At December 31, 2005, we had a $3.5 million derivative asset, $1.3 million of which was classified as current, and an $86.8 million derivative liability, $51.1 million of which was classified as current. The change in the unrealized fair value of these derivative positions was included in earnings along with the realized losses incurred. We recorded a net derivative loss of $100.4 million for the year ended December 31, 2005 compared to a net gain of $7.4 million at December 31, 2004.

Interest expense and other increased $26.3 million for the year ended December 31, 2005 compared to the same period in 2004. This increase was primarily due to the assumption of $130 million of Mission s 9 7/8% notes due 2011, the expensing of debt issue costs, a one-time payment made upon conversion of the $35 million PHAWK Note during the second quarter of 2005 and to the $55 million increase in our senior revolving credit facility and the $100 million increase in our second lien term loan facility, most of which were used to fund the Mission acquisition.

Income tax benefit increased $10.2 million. This increase was primarily due to the increase in our pre-tax loss from prior year. Our 2005 effective tax rate was 35.3% compared to 12.2% in 2004. The difference in the rate is the result of a valuation allowance reversal of $2.4 million in 2004.

Related Party Transactions

A description of our related party transactions is included in Item 8. *Consolidated Financial Statements and Supplementary Data* Note *10, Related Party Transactions,* and is incorporated herein by reference.

Recently Issued Accounting Standards

We discuss recently adopted and issued accounting standards in Item 8. *Consolidated Financial Statements and Supplementary Data* Note 1, *Financial Statement Presentation.*

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Instruments and Hedging Activity

We are exposed to various risks including energy commodity price risk. We expect energy prices to remain volatile and unpredictable. If energy prices were to decline significantly, revenues and cash flow would significantly decline, and our ability to borrow to finance our operations could be adversely impacted. We have designed our hedging policy to reduce the risk of price volatility for our production in the natural gas and crude oil markets. Our risk management policy provides for the use of derivative instruments to manage these risks. The types of derivative instruments that we utilize include futures, swaps and options. The volume of derivative instruments that we may utilize is governed by the risk management policy and can vary from year to year, but under most circumstances will apply to only a portion of our current and anticipated production and provide only partial price protection against declines in oil and natural gas prices. We are exposed to market risk on our open contracts, to the extent of changes in market prices of oil and natural gas. However, the market risk exposure on these hedged contracts is generally offset by the gain or loss recognized upon the ultimate sale of the commodity that is hedged. Further, if our counterparties defaulted, this protection might be limited as we might not receive the benefits of the hedges. Please refer to Item 8. *Consolidated Financial Statements and Supplementary Data* Note 7, *Derivative Activities* for additional information.

Fair Market Value of Financial Instruments

The estimated fair values for financial instruments under Financial Accounting Standards Board Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, cash equivalents, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. Please refer to Fair Value of Financial Instruments in Item 8. *Consolidated Financial Statements and Supplementary Data* Note 1, *Summary of Significant Events and Accounting Policies* for additional information.

Interest Sensitivity

We are also exposed to market risk related to adverse changes in interest rates. Our interest rate risk exposure results primarily from fluctuations in short-term rates, which are LIBOR and ABR based and may result in reductions of earnings or cash flows due to increases in the interest rates we pay on these obligations.

At December 31, 2006, total debt was $1.3 billion, of which approximately 78.1%, or $1.0 billion, bears interest at a weighted average fixed interest rate of 8.6% per year. The remaining 21.9% of our total debt balance at December 31, 2006, or $295.0 million, bears interest at floating or market interest rates that at our option are tied to prime rate or LIBOR. Fluctuations in market interest rates will cause our annual interest costs to fluctuate. At December 31, 2006, the interest rate on our variable rate debt was 6.4% per year. If the balance of our bank debt at December 31, 2006 were to remain constant, a 10% change in market interest rates would impact our cash flow by approximately $0.5 million per quarter.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, including the Company s Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Petrohawk Energy Corporation s internal control over financial reporting was effective as of December 31, 2006. Management excluded the acquisition of KCS Energy, Inc. (KCS) from its assessment of internal control over financial reporting as of December 31, 2006 because KCS was acquired in a business combination on July 12, 2006. KCS total assets, revenues and operating expenses constitute 55, 37 and 10 percent, respectively, of the related consolidated financial statements of the Company as of and for the year ended December 31, 2006.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, was audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ FLOYD C. WILSON	/s/ SHANE M. BAYLESS
Floyd C. Wilson	**Shane M. Bayless**
Chairman of the Board, President and Chief Executive Officer	**Executive Vice President, Chief Financial Officer and Treasurer**

Houston, Texas

February 27, 2007

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Petrohawk Energy Corporation

Houston, Texas

We have audited the accompanying consolidated balance sheets of Petrohawk Energy Corporation and subsidiaries (formerly Beta Oil and Gas, Inc.) (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, cash flows, and comprehensive income (loss) for each of the three years in the period ended December 31, 2006. We also have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting (Report of Management), that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Report of Management, management excluded from their assessment the internal control over financial reporting at KCS Energy, Inc. (KCS), which was acquired on July 12, 2006 and whose consolidated financial statements reflect total assets, revenues and operating expenses constituting 55, 37 and 10 percent, respectively, of the related consolidated financial statements of the Company as of and for the year ended December 31, 2006. Accordingly, our audit did not include the internal control over financial reporting at KCS. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal

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control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petrohawk Energy Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

February 27, 2007

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PETROHAWK ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Years Ended December 31,		
	2006	**2005**	**2004**
Operating revenues:			
Oil and gas	$ 587,762	$ 258,039	$ 33,577
Operating expenses:			
Production:			
Lease operating	58,029	30,784	5,540
Workover and other	8,118	3,265	294
Taxes other than income	45,547	18,497	2,319
Gathering, transportation and other	16,187	2,030	26
General and administrative:			
General and administrative	35,827	21,214	7,802
Stock-based compensation	8,242	3,820	3,529
Depletion, depreciation and amortization	261,272	74,539	9,368
Total operating expenses	433,222	154,149	28,878
Income from operations	154,540	103,890	4,699
Other income (expenses):			
Net gain (loss) on derivative contracts	124,442	(100,380)	7,441
Interest expense and other	(89,884)	(29,207)	(2,894)
Total other income (expenses)	34,558	(129,587)	4,547
Income (loss) before income taxes	189,098	(25,697)	9,246
Income tax (provision) benefit	(72,535)	9,063	(1,129)
Net income (loss)	116,563	(16,634)	8,117
Preferred dividends	(217)	(440)	(445)
Net income (loss) available to common stockholders	$ 116,346	$ (17,074)	$ 7,672
Earnings (loss) per share of common stock:			
Basic	$ 0.95	$ (0.31)	$ 0.71
Diluted	$ 0.92	$ (0.31)	$ 0.36
Weighted average shares outstanding:			
Basic	122,452	54,752	10,808
Diluted	126,135	54,752	25,690

The accompanying notes are an integral part of these consolidated financial statements.

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PETROHAWK ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2006	December 31, 2005
Current assets:		
Cash	$ 5,593	$ 12,911
Accounts receivable	155,582	68,087
Current portion of deferred income taxes		18,304
Receivables from derivative contracts	68,234	1,286
Prepaid expenses and other	17,303	5,393
Total current assets	246,712	105,981
Oil and gas properties (full cost method):		
Evaluated	2,901,649	1,096,810
Unevaluated	537,611	162,133
Gross oil and gas properties	3,439,260	1,258,943
Less accumulated depletion	(379,017)	(121,456)
Net oil and gas properties	3,060,243	1,137,487
Other operating property and equipment:		
Gas gathering system and equipment	1,512	1,508
Other	8,030	3,555
Gross other operating property and equipment	9,542	5,063
Less accumulated depreciation	(3,742)	(1,600)
Net other operating property and equipment	5,800	3,463
Other noncurrent assets:		
Goodwill	938,584	132,029
Debt issuance costs, net of amortization	14,987	1,969
Receivables from derivative contracts	6,995	2,252
Other	6,335	26,993
Total assets	$ 4,279,656	$ 1,410,174
Current liabilities:		
Accounts payable and accrued liabilities	$ 295,951	$ 90,017
Current portion of deferred income taxes	22,382	
Liabilities from derivative contracts	7,986	51,081
Current portion of long-term debt	5,700	2,788
Total current liabilities	332,019	143,886
Long-term debt	1,326,239	495,801
Liabilities from derivative contracts	11,803	35,695

Asset retirement obligations	45,326	50,133
Deferred income taxes	633,883	153,155
Other noncurrent liabilities	2,042	5,046
Commitments and contingencies (Note 6)		
Stockholders equity:		
Convertible preferred stock: 5,000,000 shares of $.001 par value authorized; no shares issued or outstanding at December 31, 2006 and 593,271 at December 31, 2005;		1
Common stock: 300,000,000 and 125,000,000 shares of $.001 par value authorized at December 31, 2006 and 2005, respectively; 168,486,732 and 73,566,117 shares issued and outstanding at December 31, 2006 and 2005, respectively	169	74
Additional paid-in capital	1,843,862	558,452
Treasury stock, at cost, 8,382 shares at December 31, 2005, retired at December 31, 2006		(36)
Retained earnings (accumulated deficit)	84,313	(32,033)
Total stockholders equity	1,928,344	526,458
Total liabilities and stockholders equity	$ 4,279,656	$ 1,410,174

The accompanying notes are an integral part of these consolidated financial statements.

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PETROHAWK ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Preferred		Common		Additional Paid in	Treasury	Accumulated	Total Stockholders
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Stock**	**Deficit**	**Equity**
Balances at December 31, 2004	604	$ 1	6,223	$ 6	$ 51,930	$ (36)	$ (22,631)	$ 29,270
Equity compensation vesting			179		2,131			2,131
Warrants					2,027			2,027
Preferred stock acquired	(6)				(55)			(55)
Preferred stock private placement	2,581	3			199,997			200,000
Preferred stock private placement conversion to common stock	(2,581)	(3)	25,806	26	(23)			
Return of Capital to PHAWK, LLC					(3,550)			(3,550)
Offering costs					(15,466)			(15,466)
Preferred stock dividends							(445)	(445)
Common stock issuances			7,580	8	25,054			25,062
Net income							8,117	8,117
Balances at December 31, 2004	598	$ 1	39,788	$ 40	$ 262,045	$ (36)	$ (14,959)	$ 247,091
Equity compensation vesting					3,449			3,449
Common stock issued for purchase of Mission Resources			19,565	19	209,909			209,928
Conversion of PHAWK LLC Note			8,750	9	34,991			35,000
Warrants exercised			1,645	2	(2)			
Equity related to Mission s vested options					27,302			27,302
Preferred stock dividends							(440)	(440)
Repurchase of preferred stock	(5)				(46)			(46)
Common stock issuances			3,818	4	12,517			12,521
Tax benefit from exercise of stock options					8,287			8,287
Net loss							(16,634)	(16,634)
Balances at December 31, 2005	593	$ 1	73,566	$ 74	$ 558,452	$ (36)	$ (32,033)	$ 526,458
Equity compensation vesting					10,618			10,618
Common stock issued for purchase of KCS Energy, Inc.			83,862	84	1,146,518			1,146,602
Issuance of common stock			13,000	13	188,487			188,500
Encap shares retired			(3,322)	(3)	(46,197)			(46,200)
Preferred stock dividends							(217)	(217)
Repurchase of preferred stock	(593)	(1)			(5,487)			(5,488)
Retirement of Treasury shares			(8)		(36)	36		
Common stock issuances			1,389	1	2,449			2,450
Offering costs					(10,942)			(10,942)
Net income							116,563	116,563
Balances at December 31, 2006			168,487	$ 169	$ 1,843,862	$	$ 84,313	$ 1,928,344

The accompanying notes are an integral part of these consolidated financial statements.

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PETROHAWK ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31, 2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	$ 116,563	$ (16,634)	$ 8,117
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depletion, depreciation and amortization	261,272	74,539	9,368
Income tax provision (benefit)	72,535	(9,063)	1,129
Stock-based compensation	8,242	3,820	3,529
Net unrealized (gain) loss on derivative contracts	(134,428)	64,180	(8,603)
Net realized loss on derivative contracts acquired	14,646	28,931	
Other	1,469	(64)	273
Change in assets and liabilities, net of acquisitions:			
Accounts receivable	(16,664)	(17,472)	3,266
Prepaid expenses and other	(6,373)	114	(815)
Accounts payable and accrued liabilities	(19,231)	7,828	1,679
Other	(1,138)	(733)	
Net cash provided by operating activities	296,893	135,446	17,943
Cash flows from investing activities:			
Oil and gas capital expenditures	(395,479)	(121,041)	(12,842)
Acquisition of KCS, net of cash acquired of $8,260	(512,344)		
Acquisition of Winwell Resources, Inc., net of cash acquired of $14,965	(177,264)		
Acquisition of Mission Resources, net of cash acquired of $48,359		(96,545)	
Acquisition of Proton Oil & Gas Corp., net of cash acquired of $870		(52,625)	
Acquisition of Wynn-Crosby, net of cash acquired of $2,584			(384,521)
Acquisition of oil and gas properties	(87,893)		(2,636)
Proceeds reveived from sale of oil and gas properties	192,424	88,900	839
Other	7,990	(24,798)	(1,321)
Net cash used in investing activities	(972,566)	(206,109)	(400,481)
Cash flows from financing activities:			
Proceeds from exercise of options	2,850	12,055	
Proceeds from issuance of common stock and warrants	188,500		25,629
Proceeds from issuance of subordinated convertible note payable			35,000
Acquisition of common stock	(46,200)		
Proceeds from borrowings	1,681,183	375,000	220,000
Repayment of borrowings	(1,111,644)	(279,510)	(68,689)
Proceeds from Series B preferred stock private placement			200,000
Debt issue costs	(14,438)		(4,089)
Return of capital to PHAWK, LLC			(5,684)
Net realized loss on derivative contracts acquired	(14,646)	(28,931)	
Offering costs	(10,942)		(15,466)
Buyback of 8% cumulative preferred stock	(5,340)		
Dividends paid on 8% cumulative preferred stock	(328)	(331)	(558)
Other	(640)	(369)	(55)

Net cash provided by financing activities	668,355	77,914	386,088
Net (decrease) increase in cash	(7,318)	7,251	3,550
Cash at beginning of period	12,911	5,660	2,110
Cash at end of period	$ 5,593	$ 12,911	$ 5,660

The accompanying notes are an integral part of these consolidated financial statements.

PETROHAWK ENERGY CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT EVENTS AND ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

Petrohawk Energy Corporation (Petrohawk or the Company) is an independent oil and natural gas company engaged in the acquisition, development, production and exploration of oil and natural gas properties located in onshore North America. The Company operates in one segment, oil and natural gas exploration and exploitation. The consolidated financial statements include the accounts of all majority-owned, controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

On July 12, 2006, the Company completed its merger with KCS Energy, Inc. (KCS). Refer to Note 2, *Acquisitions and Divestitures*, for more details on the Company s merger with KCS and various related transactions.

On May 18, 2004, the Company s Board of Directors approved a one-for-two reverse stock split that was effective May 26, 2004. The reverse stock split was implemented to effect the conditional approval by the NASDAQ National Market of the Company s listing application, which was later formally approved.

Use of Estimates

The preparation of the Company s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. These estimates include oil and natural gas reserve quantities which form the basis for the calculation of amortization of oil and natural gas properties. Management emphasizes that reserve estimates are inherently imprecise and that estimates of more recent reserve discoveries are more imprecise than those for properties with long production histories. Actual results may differ from the estimates and assumptions used in the preparation of our consolidated financial statements.

Allowance for Doubtful Accounts

The Company establishes provisions for losses on accounts receivable if it determines that it will not collect all or part of the outstanding balance. The Company regularly reviews collectibility and establishes or adjusts the allowance as necessary using the specific identification method. There is no significant allowance for doubtful accounts at December 31, 2006 and 2005.

Oil and Natural Gas Properties

The Company accounts for its oil and natural gas producing activities using the full cost method of accounting as prescribed by the United States Securities and Exchange Commission (SEC). Accordingly, all costs incurred in the acquisition, exploration, and development of proved oil and natural gas properties, including the costs of abandoned properties, dry holes, geophysical costs, and annual lease rentals are capitalized. All general and administrative corporate costs unrelated to drilling activities are expensed as incurred. Sales or other dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded unless the ratio of cost to proved reserves would significantly change. Depletion of evaluated oil and natural gas properties is computed on the units of production method based on proved reserves. The net capitalized costs of proved oil and natural gas properties are subject to a full cost ceiling limitation in which the

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costs are not allowed to exceed their related estimated future net revenues discounted at 10%, net of tax considerations. Refer to Note 3 *Oil and Natural Gas Properties* for more details on the Company s December 31, 2006 ceiling test calculation.

Costs associated with unevaluated properties are excluded from the full cost pool until we have made a determination as to the existence of proved reserves. We review our unevaluated properties at the end of each quarter to determine whether the costs incurred should be transferred to the full cost pool and thereby subject to amortization.

Property, Plant and Equipment Other than Oil and Natural Gas Properties

Other operating property and equipment are stated at the lower of cost or fair market value. Provision for depreciation and amortization on property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets. The cost of normal maintenance and repairs is charged to operating expense as incurred. Material expenditures, which increase the life of an asset, are capitalized and depreciated over the estimated remaining useful life of the asset. The cost of properties sold, or otherwise disposed of, and the related accumulated depreciation or amortization are removed from the accounts and any gains or losses are reflected in current operations.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that the costs of long-lived assets, other than oil and natural gas properties, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset s carrying amount to determine if a writedown to market value or discounted cash flow value is required. Impairment of oil and natural gas properties is evaluated subject to the full cost ceiling as described under the Oil and Natural Gas Properties section above.

Revenue Recognition

The Company recognizes oil and natural gas sales upon delivery to the purchaser. Under the sales method, the Company and other joint owners may sell more or less than their entitled share of the natural gas volume produced. Should the Company s excess sales of natural gas exceed its share of estimated remaining recoverable reserves, a liability is recorded by the Company and revenue is deferred.

Concentrations of Credit Risk

The Company operates a substantial portion of its oil and natural gas properties. As the operator of a property, the Company makes full payments for costs associated with the property and seeks reimbursement from the other working interest owners in the property for their share of those costs. The Company s joint interest partners consist primarily of independent oil and natural gas producers. If the oil and natural gas exploration and production industry in general were adversely affected, the ability of the Company s joint interest partners to reimburse the Company could be adversely affected.

The purchasers of the Company s oil and natural gas production consist primarily of independent marketers, major oil and natural gas companies and gas pipeline companies. The Company has not experienced any significant losses from uncollectible accounts. In 2006 and 2004, the Company had no individual purchasers accounting for more than 10% of total sales. In 2005, the Company had one individual purchaser that accounted for approximately 12% of total sales. The Company does not believe the loss of any one of its purchasers would materially affect the Company s ability to sell the oil and natural gas it produces. The Company believes other purchasers are available in the Company s areas of operations.

Price Risk Management Activities

The Company follows Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging* Activities, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133* and as amended by SFAS No. 149, *Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities*. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company has elected to not designate any of its positions for hedge accounting for the years ended December 31, 2006, 2005 and 2004. Accordingly, the Company records the net change in the mark-to-market valuation on its derivative contracts in current earnings as a component of other income and expenses on the consolidated statements of operations.

Income Taxes

The Company accounts for income taxes using the asset and liability method wherein deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Asset Retirement Obligation

In August 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). The Company was required to adopt this new standard beginning January 1, 2003. SFAS 143 requires that the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. Upon adoption, the Company recorded an asset retirement obligation to reflect the Company s legal obligations related to future plugging and abandonment of its oil and natural gas wells. The Company estimated the expected cash flow associated with the obligation and discounted the amount using a credit-adjusted, risk-free interest rate. The transition adjustment resulting from the adoption of SFAS 143 was reported as a cumulative effect of a change in accounting principle. At least annually, the Company reassesses the obligation to determine whether a change in the estimated obligation is necessary. The Company evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should those indicators suggest the estimated obligation may have materially changed on an interim basis (quarterly), the Company will accordingly update its assessment. Additional retirement obligations increase the liability associated with new oil and natural gas wells as these obligations are incurred.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired net of the fair value of liabilities assumed in the acquisition. SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142) requires that intangible assets with indefinite lives, including goodwill, be evaluated on an annual basis for impairment or more frequently if an event occurs or circumstances change could potentially result in an impairment.

The impairment test requires the allocation of goodwill and all other assets and liabilities to reporting units. If the fair value of the reporting unit is less than the book value (including goodwill) then goodwill is reduced to its implied fair value and the amount of the writedown is charged against earnings.

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The Company completed its annual impairment review during the third quarter of 2006. No impairment was deemed necessary. Downward revisions of estimated reserves or production, increases in estimated future costs or decreases in oil and natural gas prices could lead to an impairment of all or a portion of the Company s goodwill in future periods.

Fair Value of Financial Instruments

The estimated fair values for financial instruments under FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, cash equivalents, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. The estimated fair value of the Company s senior revolving credit facility and the Company s second lien term loan facility approximate carrying value because the facilities carry interest rates that approximate current market rates. The following table presents the estimated fair values of the Company s fixed interest rate debt instruments as of December 31, 2006:

	December 31, 2006	
Debt *(In thousands)*	**Carrying Amount**	**Estimated Fair Value**
9 $^7/8$% senior notes	$ 254	$ 254
9 $^1/8$% $775 mm senior notes	775,000	807,938
7 $^1/8$% $275 mm senior notes	275,000	266,750
	$ 1,050,254	$ 1,074,942

We account for our derivative activities under the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. This statement, as amended, establishes accounting and reporting that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. See Note 7, *Derivative and Hedging Activities* for more details.

Stock-Based Compensation

In January 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) revises SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and focuses on accounting for share-based payments for services provided by employee to employer. The statement requires companies to expense the fair value of employee stock options and other equity-based compensation at the grant date. The statement does not require a certain type of valuation model, and either a binomial or Black-Scholes model may be used. The Company used the modified prospective application method as detailed in SFAS No. 123(R).

Prior to adopting SFAS 123(R), the Company adopted SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) prospectively, using the fair value recognition method to all employee and director awards granted, modified or settled after January 1, 2003. Prior to the adoption, the Company elected to follow Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its employee stock options. However, as required by SFAS 123, the Company disclosed on a pro forma basis the impact of the fair value accounting for employee stock options. Transactions in equity instruments with non-employees for goods or services have been accounted for using the fair value method as prescribed by SFAS 123.

Since the Company adopted the fair value recognition provisions of SFAS 123 prospectively for all employee awards granted, modified or settled after January 1, 2003, the cost related to stock-based compensation included in the determination of income for the year ended December 31, 2004, is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS 123. Awards granted vest over a period ranging from one to three years; therefore, some grants made before January 1, 2003 vested in later periods and would represent costs in those periods.

The fair value of each option grant is calculated on the date of grant using the Black-Scholes option pricing model. The following table illustrates the approximated pro forma effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period (in thousands).

	Year Ended December 31, 2004
Net income available to common stockholders as reported	$ 7,672
Add: Stock-based compensation expense included in reported net income, net of tax	2,201
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of tax	(2,330)
Pro forma net income available to common stockholders	$ 7,543
Earnings per share of common stock:	
Basic as reported	$ 0.71
Basic pro forma	$ 0.70
Diluted as reported	$ 0.36
Diluted pro forma	$ 0.35

There were no costs accounted for under APB 25 during the years ended December 31, 2006 and 2005.

The assumptions used in calculating the fair value of the Company s stock-based compensation are disclosed in the following table:

	Years Ended December 31,		
	2006 (1)(2)	2005	2004
Weighted average value per option granted during the period (3)	$ 6.95	$ 2.31	$ 3.77
Assumptions (4):			
Stock price volatility	39.0%	29.3%	73.9%
Risk free rate of return	4.9%	3.6%	3.0%
Expected term	2.9 years	3.0 years	3.0 years

(1) *Includes assumptions from valuation related to the Company s merger with KCS. Refer to Note 8, Stockholders Equity for further details on these assumptions.*

(2) *The Company s estimated future forfeiture is 5% based on the Company s historical forfeiture rate.*

(3) *Calculated using the Black-Scholes fair value based method.*

(4) *The Company does not pay dividends on its common stock.*

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The following table sets forth the option transactions for the years ended December 31, 2006, 2005 and 2004 (in thousands, except share and per share amounts).

	Number of Options	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (1)	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2003	1,716,542	$ 10.11		
Granted	5,717,500	3.83		
Exercised	(178,292)	3.51		
Forfeited	(254,867)	11.90		
Outstanding at December 31, 2004	7,000,883	$ 5.08	$ 24,363	5.4
Assumed in Merger with Mission	3,852,433	3.76		
Granted	1,404,300	9.37		
Exercised	(5,986,635)	3.26		
Forfeited	(572,434)	15.01		
Outstanding at December 31, 2005	5,698,547	$ 6.16	$ 40,232	5.6
KCS options assumed in merger	2,585,950	3.96		
Granted	1,877,270	11.97		
Exercised	(507,342)	6.08		
Forfeited	(428,212)	14.83		
Outstanding at December 31, 2006	9,226,213	$ 6.34	$ 47,607	6.0
Exercisable at December 31, 2004	6,525,224	$ 4.91	$ 23,817	4.9
Exercisable at December 31, 2005	4,417,331	$ 5.30	$ 34,985	4.3
Exercisable at December 31, 2006	6,814,387	$ 4.63	$ 46,829	4.9

(1) *The intrinsic value of a stock option is the amount by which the current market value of the underlying stock exceeds the exercise price of the option. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2006, 2005 and 2004 was approximately $2.8 million, $44.0 million and $0.9 million, respectively.*

There were 500 options which expired in 2006, and none in 2005 or 2004. The weighted average grant date fair value of options granted in 2006 was $30.7 million. At December 31, 2006 the unrecognized compensation expense related to non-vested stock options totaled $5.1 million and will be recognized on a straight line basis over the weighted average remaining vesting period of 1.8 years.

In conjunction with the Company s merger with KCS, KCS stock options were converted into 2.6 million of Petrohawk stock options.

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The following table sets forth the restricted stock transactions for the years ended December 31, 2006, 2005 and 2004 (in thousands, except share and per share amounts).

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value [(1)]
Unvested outstanding shares at December 31, 2003		$	
Granted	45,000	8.25	
Unvested outstanding shares at December 31, 2004	45,000	$ 8.25	$ 385
Granted	100,000	10.31	
Vested	(71,666)	8.44	
Unvested outstanding shares at December 31, 2005	73,334	$ 10.87	$ 969
KCS shares assumed in merger	616,238	13.44	
Granted	888,888	11.72	
Vested	(116,121)	11.52	
Forfeited	(19,494)	10.72	
Unvested outstanding shares at December 31, 2006	1,442,845	$ 12.38	$ 16,593

(1) *The intrinsic value of restricted stock was calculated as the closing market price on December 31, 2006 of the underlying stock multiplied by the number of restricted shares. The intrinsic value of the shares vested for the year ended December 31, 2006 was $16.6 million.*

The weighted average grant date fair value of the shares granted in 2006 was $18.3 million. At December 31, 2006, the unrecognized compensation expense related to non-vested restricted stock totaled $10.4 million and will be recognized on a straight line basis over the weighted average remaining vesting period of 1.9 years.

In conjunction with the Company s merger with KCS, KCS restricted stock was converted into 0.6 million shares of Petrohawk restricted stock.

Earnings per Share

Basic earnings per share is calculated by dividing the income or loss available to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

401(k) Plan

The Company sponsors a 401(k) tax deferred savings plan, whereby the Company matches a portion of employees contributions in cash. Participation in the plan is voluntary and all regular employees of the Company are eligible to participate. The Company charged to expense plan contributions of $1.7 million in 2006, $0.7 million in 2005 and $0.3 million in 2004. The Company began matching employee contributions dollar-for-dollar on the first 10% of an employee s pretax earnings in September 2004. Prior contributions were matched dollar-for-dollar on the first 3% of an employee s pretax earnings.

Recently Issued Accounting Pronouncements

During July 2006, the FASB issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48).* FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes specific criteria for the financial statement recognition and

measurement of the tax effects of a position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of previously recognized tax benefits, classification of tax liabilities on the balance sheet, recording interest and penalties on tax underpayments, accounting in interim periods, and disclosure requirements. FIN 48 is effective for fiscal periods beginning after December 15, 2006. The Company expects that the financial impact, if any, of applying the provisions of FIN 48 to all tax positions will not be material upon the initial adoption of FIN 48.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) revises SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and focuses on accounting for share-based payments for services provided by employee to employer. The statement requires companies to expense the fair value of employee stock options and other equity-based compensation at the grant date. The statement does not require a certain type of valuation model, and either a binomial or Black-Scholes model may be used. During the first quarter of 2005, the SEC approved a new rule for public companies to delay the adoption of this standard. In April 2005, the SEC took further action to amend Regulation S-X to state that the provisions of SFAS No. 123(R) will be effective beginning with the first annual or interim reporting period of the registrant s first fiscal year beginning on or after June 15, 2005 for all non-small business issuers. As a result, the Company did not adopt this SFAS until January 1, 2006. The Company used the modified prospective application method as detailed in SFAS No. 123(R). The adoption of this pronouncement did not materially impact the Company s operating results, financial position or cash flows. See Stock-Based Compensation above for further information.

In September 2006, the SEC Staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, in an effort to address diversity in the accounting practice of quantifying misstatements and the potential for improper amounts on the balance sheet. Prior to the issuance of SAB No. 108, the two methods used for quantifying the effects of financial statement errors were the roll-over and iron curtain methods. Under the roll-over method, the primary focus is the income statement, including the reversing effect of prior year misstatements. The criticism of this method is that misstatements can accumulate on the balance sheet. On the other hand, the iron curtain method focuses on the effect of correcting the ending balance sheet, with less importance on the reversing effects of prior year errors in the income statement. SAB No. 108 establishes a dual approach which requires the quantification of the effect of financial statement errors on each financial statement, as well as related disclosures. Public companies are required to record the cumulative effect of initially adopting the dual approach method in the first year ending after November 16, 2006 by recording any necessary corrections to asset and liability balances with an offsetting adjustment to the opening balance of retained earnings. The use of this cumulative effect transition method also requires detailed disclosures of the nature and amount of each error being corrected and how and when they arose. The adoption of this pronouncement did not materially impact the Company s operating results, financial position or cash flows.

2. ACQUISITIONS AND DIVESTITURES

Acquisitions

KCS Energy, Inc.

On April 21, 2006, the Company and KCS announced they had entered into a definitive agreement to merge the companies. This merger was consummated on July 12, 2006 and was consistent with management s goals of acquiring properties within the Company s core operating areas that have a significant proved reserve component and which management believes have additional development and exploration opportunities.

Upon the closing of the merger, KCS stockholders became entitled to receive a combination of $9.00 cash and 1.65 shares of Petrohawk common stock for each share of KCS common stock. At the time of the merger, there were approximately 50.0 million shares of unrestricted KCS common stock outstanding that converted into approximately 82.6 million shares of unrestricted Petrohawk common stock. Total consideration for the shares of KCS common stock was comprised of approximately $1.1 billion of Petrohawk common stock, calculated based on the five day average of Petrohawk s common stock around the merger announcement date, or $13.44, approximately $450 million of cash and the assumption of $275 million of KCS debt. In addition, all outstanding options to purchase KCS common stock and restricted shares of KCS common stock were converted into options to purchase the Company s common stock or restricted shares of the Company s common stock using an exchange ratio of approximately 2.3706 shares of Petrohawk common stock to one share of KCS common stock.

The merger was accounted for using the purchase method of accounting under the accounting standards established in SFAS No. 141, *Business Combinations* (SFAS 141) and SFAS 142. As a result, the assets and liabilities of KCS were first reported in the Company s September 30, 2006 consolidated balance sheet. The Company reflected the results of operations of KCS beginning July 12, 2006. The Company recorded the estimated fair values of the assets acquired and liabilities assumed at July 12, 2006, which primarily consisted of oil and natural gas properties of $1.6 billion, asset retirement obligations of $15.1 million, a deferred income tax liability of $421.6 million, a deferred income tax asset of $49.1 million and goodwill of $767.1 million. The deferred income tax liability recognizes the difference between the tax basis and the fair value of the acquired oil and natural gas properties. The recorded book value of the oil and natural gas properties was increased and goodwill was recorded to recognize this tax basis differential. The deferred income tax asset pertains to net operating loss carry-forwards and alternative minimum tax credits in the amounts of $44 million, net of tax, and $5.1 million, respectively.

North Louisiana Acquisitions

On January 27, 2006, the Company completed the acquisition of all of the issued and outstanding common stock of Winwell Resources, Inc. (Winwell). The aggregate consideration paid was approximately $208 million in cash after certain closing adjustments.

The Winwell acquisition was accounted for using the purchase method of accounting under the accounting standards established in SFAS 141 and SFAS 142. As a result, the assets and liabilities of Winwell were first reported in the Company s March 31, 2006 consolidated balance sheet. The Company reflected the results of operations of Winwell beginning January 27, 2006. The Company recorded the estimated fair values of the assets acquired and liabilities assumed at January 27, 2006, which primarily consisted of oil and natural gas properties of $219.8 million, asset retirement obligations of $0.5 million, a net deferred tax liability of $78.9 million, and goodwill of $33.5 million. The deferred tax liability recognizes the difference between the historical tax basis of Winwell s assets and the acquisition cost recorded for book purposes. The recorded book value of the oil and natural gas properties was increased and goodwill was recorded to recognize this tax basis differential.

Also on January 27, 2006, the Company completed the acquisition of certain oil and natural gas assets from Redley Company (together with the Winwell acquisition, the North Louisiana Acquisitions). The aggregate consideration paid in this asset acquisition was approximately $86.1 million ($86.2 million after certain closing adjustments). The Company reflected the results of operations of the acquired assets beginning January 27, 2006. The Company deposited $15 million in earnest money in connection with the Winwell acquisition, and $7.5 million in connection with the asset acquisition. The $22.5 million in deposits were included in other non-current assets at December 31, 2005 and applied to the overall purchase price in January 2006.

Mission Resources Corporation

On July 28, 2005, the Company and Mission Resources Corporation (Mission), completed a two-step merger transaction which resulted in Mission s merger with and into the Company. Total consideration for the shares of Mission common stock was comprised of 60.1% Company common stock and 39.9% cash. Accordingly, consideration paid to Mission stockholders consisted of approximately $139.5 million in cash and approximately 19.565 million shares of the Company s common stock. In addition, all outstanding options to purchase Mission common stock were converted into options to purchase Petrohawk common stock using the exchange ratio of 0.7641 shares of Petrohawk common stock per share of Mission common stock underlying each option. The Company assumed Mission s long-term debt of approximately $184 million.

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The Company s merger with Mission was accounted for using the purchase method of accounting under the accounting standards established in SFAS 141 and SFAS 142. As a result, the assets and liabilities of Mission were included in the Company s September 30, 2005 consolidated balance sheet. The Company reflected the results of operations of Mission beginning July 28, 2005. The Company recorded the estimated fair values of the assets acquired and liabilities assumed at July 28, 2005, which primarily consisted of oil and natural gas properties of $606.7 million, derivative liabilities of $29.4 million, asset retirement obligations of $37.7 million, a net deferred income tax liability of $134.8 million, and goodwill of $138.9 million. The deferred income tax liability recognizes the difference between the historical tax basis of Mission s assets and the acquisition cost recorded for book purposes. The recorded book value of the oil and natural gas properties was increased and goodwill was recorded to recognize this tax basis differential.

Pro Forma Results of Operations for the Company s Mergers with KCS and Mission

The Company s unaudited pro forma results of operations for the years ended December 31, 2006 and 2005 are presented below to illustrate the approximated pro forma effects on the Company s results of operations under the purchase method of accounting as if the Company had completed the mergers with KCS and Mission on January 1, 2005. The unaudited pro forma results of operations do not purport to represent what the results of operations would actually have been if the transactions had in fact occurred on such date or to project the Company s results of operations for any future date or period.

	For the Years Ended December 31,	
	2006	2005
	(Unaudited)	(Unaudited)
	(In thousands, except per share amounts)	
Pro forma:		
Oil and gas sales	$ 813,138	$ 821,089
Net income (loss) available to common stockholders	194,463	(20,064)
Basic earnings (loss) per share	$ 1.17	$ (0.13)
Diluted earnings (loss) per share	$ 1.14	$ (0.13)

Other Transactions

Proton Oil & Gas Corporation

On February 25, 2005, the Company acquired the stock of Proton Oil & Gas Corporation (Proton) for $53 million in cash. This privately negotiated transaction had an effective date of January 1, 2005. The properties acquired were located in South Louisiana and South Texas.

The acquisition of Proton was accounted for using the purchase method of accounting. As a result, the assets and liabilities of Proton were included in the Company s March 31, 2005 consolidated balance sheet. The transaction had an effective date of January 1, 2005 and closed on February 25, 2005. As such, the Company reflected the results of operations of Proton beginning February 25, 2005. The Company recorded a purchase price of approximately $80.4 million of which $26.0 million reflected a non-cash item pertaining to the deferred income taxes attributable to the differences between the tax basis and the fair value of the acquired oil and natural gas properties. Substantially all of the $80.4 million was allocated to oil and natural gas properties.

Wynn-Crosby Transaction

On November 23, 2004, the Company acquired Wynn-Crosby Energy, Inc. and eight of the limited partnerships it managed for a purchase price of approximately $425 million after closing adjustments. The transaction was funded with proceeds from a $200 million private equity placement, $210 million in borrowings from its commercial bank group, and cash.

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PHAWK, LLC Transaction

On August 11, 2004, the Company acquired from PHAWK, LLC (formerly known as Petrohawk Energy, LLC) (PHAWK) certain oil and natural gas properties in the Breton Sound area, Plaquemines Parish, Louisiana and in the West Broussard field in Lafayette Parish, Louisiana. The purchase price for all of the proved reserves, seismic data, undeveloped acreage, pipelines, production facility and other assets was $8.5 million. The effective date of the acquisition was June 1, 2004 and the effects of this transaction were first reported in results for the quarter ended September 30, 2004. Refer to Note 10, *Related Party Transactions*, for more details.

Recapitalization by PHAWK, LLC

On May 25, 2004, PHAWK, LLC, which is owned by affiliates of EnCap Investments, L.P., Liberty Energy Holdings LLC, Floyd C. Wilson and other members of the Company s management, recapitalized the Company with $60 million in cash. The $60 million investment was structured as the purchase by PHAWK of 7.576 million new shares of common stock for $25 million, a $35 million five year 8% subordinated note convertible into approximately 8.75 million shares of common stock at a conversion price of $4.00 per share and warrants to purchase 5.0 million shares of common stock at a price of $3.30 per share. At the annual stockholders meeting held July 15, 2004, the stockholders approved changing the name of the Company to Petrohawk Energy Corporation (from Beta Oil & Gas, Inc.), reincorporating the Company in Delaware, and the adoption of new incentive plans. On June 30, 2005, the Company entered into an agreement with PHAWK, LLC to convert the PHAWK note to common stock as stipulated in the original agreement. Refer to Note 10, *Related Party Transactions*, for more details.

Divestitures

Michigan, Wyoming and California

During the fourth quarter of 2006 the Company sold certain of its oil and natural gas assets in Michigan, Wyoming and California. The majority of these assets were acquired in the Company s merger with KCS. Proceeds from these three separate transactions were approximately $135 million, before adjustments, and were recorded as a decrease to the Company s full cost pool.

Gulf of Mexico

On March 21, 2006, the Company completed the sale of substantially all of its Gulf of Mexico properties for $52.5 million ($43.2 million after certain closing adjustments). These proceeds were recorded as a decrease to the Company s full cost pool.

Royalty Interest Properties

On February 25, 2005, the Company completed the disposition of certain royalty interest properties previously acquired from Wynn-Crosby Energy, Inc. to Noble Royalties, Inc. d/b/a Brown Drake Royalties for approximately $80 million in cash. The proceeds from sale were recorded as a decrease to the Company s full cost pool.

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3. OIL AND NATURAL GAS PROPERTIES

Oil and natural gas properties as of December 31, 2006 and 2005 consisted of the following:

	December 31, 2006	December 31, 2005
	(In thousands)	
Subject to depletion	$ 2,901,649	$ 1,096,810
Not subject to depletion:		
Exploration wells in progress	6,020	14,006
Other capital costs:		
Incurred in 2006	457,889	
Incurred in 2005	44,728	113,215
Incurred in 2004 and prior	28,974	34,912
Total not subject to depletion	537,611	162,133
Gross oil and gas properties	3,439,260	1,258,943
Less accumulated depletion	(379,017)	(121,456)
Net oil and gas properties	$ 3,060,243	$ 1,137,487

The Company uses the full cost method of accounting for its investment in oil and natural gas properties. Under this method of accounting, all costs of acquisition, exploration and development of oil and natural gas reserves (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs, tangible and intangible development costs and direct internal costs) are capitalized as the cost of oil and natural gas properties when incurred. To the extent that capitalized costs of oil and natural gas properties, net of accumulated depletion exceed the discounted future net revenues of proved oil and natural gas reserves net of deferred taxes, such excess capitalized costs would be charged to expense. Full cost companies must use the prices in effect at the end of each accounting quarter to calculate the ceiling test value of their reserves. However, subsequent commodity price increases may be utilized to calculate the ceiling value and reserves. At December 31, 2006, the ceiling test value of the Company s reserves was calculated based on the December 31, 2006 West Texas Intermediate posted price of $57.75 per barrel adjusted by lease for quality, transportation fees, and regional price differentials, and the December 31, 2006 Henry Hub spot market price of $5.63 per MMBtu adjusted by lease for energy content, transportation fees, and regional price differentials. Using these prices, the Company s net book value of oil and natural gas properties would have exceeded the ceiling amount by approximately $224 million (net of tax) at December 31, 2006. However, subsequent to year-end, the market price for Henry Hub gas and West Texas Intermediate oil increased significantly. As a consequence, prior to February 22, 2007, the Company elected to use prices on February 22, 2007, which were $7.51 per MMbtu for Henry Hub gas and $60.95 per barrel for West Texas Intermediate, adjusted for certain items as discussed above. Utilizing these prices, the Company s net book value of oil and natural gas properties at December 31, 2006 would not have exceeded the ceiling amount. As a result of the increase in the ceiling amount using the subsequent prices, the Company has not recorded a writedown of its oil and natural gas property costs. Decreases in product price levels, as well as changes in production rates, levels of reserves, the evaluation of costs excluded from amortization, future development costs, and service costs and other factors could result in significant future ceiling test impairments.

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4. LONG-TERM DEBT

Long-term debt as of December 31, 2006 and 2005 consisted of the following:

	December 31, 2006	December 31, 2005
	(In thousands)	
Senior revolving credit facility	$ 295,000	$ 210,000
Second lien term loan facility (1)		148,500
9 7/8% senior notes (2)	254	134,484
9 1/8% $650mm senior notes (3)	642,176	
9 1/8% $125mm senior notes (4)	126,338	
7 1/8% $275mm senior notes (5)	262,471	
Deferred premiums on derivatives (6)		2,817
	$ 1,326,239	$ 495,801

(1) *Amount excludes $1.5 million of the total facility which was classified as current at December 31, 2005. The facility was repaid in conjunction with the closing of the Company s merger with KCS. See Repayment of the Second Lien Term Loan Facility below for more details.*

(2) *The December 31, 2005 amount includes a $10 million premium recorded by the Company in conjunction with the assumption of $130 million face value of 9 7/8% notes payable from Mission which was written off in conjunction with the repayment of the notes in 2006. See 9 7/8% Senior Notes below for more details*

(3) *Amount includes a $7.8 million discount recorded by the Company in conjunction with the issuance of the notes. See 9 1/8% Senior Notes below for more details.*

(4) *Amount includes a $1.3 million premium recorded by the Company in conjunction with the issuance of the notes. See 9 1/8% Senior Notes below for more details.*

(5) *Amount includes a $12.5 million discount recorded by the Company in conjunction with the assumption of the notes. See 7 1/8% Senior Notes below for more details.*

(6) *Amount excludes $5.7 million and $1.3 million of deferred premiums on derivatives which have been classified as current at December 31, 2006 and 2005, respectively.*

Senior Revolving Credit Facility

In connection with the Company s merger with KCS, the Company amended and restated its senior revolving credit facility. The facility provides for a $1 billion commitment with a borrowing base that will be redetermined on a semi-annual basis. The Company and the lenders each have the right to one annual interim unscheduled redetermination to adjust the borrowing base based on the Company s oil and natural gas properties, reserves, other indebtedness and other relevant factors. At December 31, 2006, the borrowing base was $710 million. Amounts outstanding bear interest at specified margins over LIBOR of 1.00% to 1.75% for Eurodollar loans or at specified margins over ABR of 0.00% to 0.50% for ABR loans. Such margins fluctuate based on the utilization of the facility. Borrowings are secured by first priority liens on substantially all of the Company s assets and all of the assets of, and equity interest in, the Company s subsidiaries. Amounts drawn on the facility will mature on July 12, 2010.

The revolving credit facility contains customary financial and other covenants, including minimum working capital levels, minimum coverage of interest expense, and a maximum leverage ratio. In addition, the Company is subject to covenants limiting dividends and other restricted payments, transactions with affiliates, incurrence of debt, changes of control, asset sales, and liens on properties. At December 31, 2006, the Company is in compliance with all of its debt covenants under the revolving credit facility.

7 1/8% Senior Notes

Upon effectiveness of the Company s merger with KCS, the Company assumed (pursuant to the Second Supplemental Indenture relating to the 7 1/8% Senior Notes, also referred to as the 2012 Notes), and subsidiaries

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of the Company guaranteed (pursuant to the Third Supplemental Indenture relating to such notes), all the obligations (approximately $275 million) of KCS under the 2012 Notes and the Indenture dated April 1, 2004 (the 2012 Indenture) among KCS, U.S. Bank National Association, as trustee, and the subsidiary guarantors named therein, which governs the terms of the 7 $^{1}/8$% senior notes due 2012. The 2012 Notes are guaranteed on an unsubordinated, unsecured basis by all of the Company s current subsidiaries, including the subsidiaries of KCS that the Company acquired in the merger. Interest on the 2012 Notes is payable semi-annually, on each April 1 and October 1. At any time prior to April 1, 2007, the Company may redeem up to 35% of the aggregate original principal amount of the 2012 Notes, using the net proceeds of equity offerings, at a redemption price equal to 107.125% of the principal amount of the 2012 Notes, plus accrued and unpaid interest. On or after April 1, 2008, the Company may redeem all or a portion of the 2012 Notes. If the notes are redeemed during any 12-month period beginning on April 1 of the year indicated below, the Company must pay 100% of the principal price, plus a specified premium (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if nay, to the applicable redemption date:

Year	Percentage
2008	103.568
2009	101.784
2010	100.000
2011	100.000
2012	100.000

The 2012 Indenture contains a provision requiring the Company to offer to purchase the 2012 Notes at 101% of face value in the event of a change of control (as defined in the 2012 Indenture). Certain 2012 Note holders have alleged that the merger constituted a change of control as set forth in the 2012 Indenture. Based upon consultation with counsel, the Company does not believe that a change of control occurred. See Note 6, *Commitments and Contingencies* for more details. At December 31, 2006, the Company is in compliance with all of its debt covenants under the 7 $^{1}/8$% Senior Notes.

In conjunction with the assumption of the 7 $^{1}/8$% Senior Notes from KCS, the Company recorded a discount of $13.6 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized discount is $12.5 million at December 31, 2006.

The Notes are jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by all of the Company s current subsidiaries. Petrohawk Energy Corporation, the issuer of the Notes, has no material independent assets or operations apart from the assets and operations of its subsidiaries.

9 $^{1}/8$% Senior Notes

On July 12, 2006, the Company consummated its private placement of 9 $^{1}/8$% Senior Notes, also referred to as the 2013 Notes, pursuant to an Indenture dated as of July 12, 2006 (2013 Indenture) and the First Supplemental Indenture to the 2013 Notes (the 2013 First Supplemental Indenture), among the Company, the Company s subsidiaries named therein as guarantors, and U.S. Bank National Association, as trustee. The 2013 Notes were issued at 98.735% of the face amount for gross proceeds of approximately $642.0 million, before estimated offering expenses and the initial purchasers discount. The Company applied a portion of the net proceeds from the sale of the 2013 Notes to fund the cash consideration paid by the Company to the KCS stockholders in connection with the Company s merger with KCS and the Company s repurchase of the 9 $^{7}/8$% Senior Notes due 2011 pursuant to a tender offer the Company concluded in July 2006.

The 2013 Notes bear interest at the rate of 9.125% per annum, payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2007. The 2013 Notes mature on July 15, 2013. The 2013 Notes are senior unsecured obligations of the Company and rank equally with all of its current and future senior indebtedness, including the 2012 Notes. The 2013 Notes rank effectively subordinate to the Company s secured debt to the extent of the collateral, including secured debt under the revolving credit facility, and senior to any future subordinated indebtedness. The 2013 Notes are jointly and severally guaranteed on a senior unsecured basis by the Company s subsidiaries, including, pursuant to the 2013 First Supplemental Indenture, the KCS subsidiaries acquired in the Company s merger with KCS.

On or before July 15, 2009, the Company may redeem up to 35% of the aggregate principal amount of the 2013 Notes with the net cash proceeds of certain equity offerings at a redemption price of 109.13% of the principal amount plus accrued interest and unpaid interest to the redemption date provided that: (i) at least 65% in aggregate principal amount of the 2013 Notes originally issued under the 2013 Indenture remain outstanding immediately after the redemption (excluding 2013 Notes held by the Company and its subsidiaries); and (ii) each redemption must occur within 90 days of the date of the closing of the related equity offering.

In addition, on or before July 15, 2010, the Company may redeem all or part of the 2013 Notes upon not less than 30 nor more than 60 days notice, at a redemption price equal to the sum of (i) the principal amount, plus (ii) accrued and unpaid interest, if any, to the redemption date, plus (iii) the make whole premium at the redemption date.

On or after July 15, 2010, the Company may redeem some or all of the 2013 Notes at any time. If any of the 2013 Notes are redeemed during any 12-month period beginning on July 15 of the year indicated below, the Company must pay the following redemption prices (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, to the applicable redemption date:

Year	Percentage
2010	104.563
2011	102.281
2012	100.000

The Company may be required to offer to repurchase the 2013 Notes at a purchase price of 101% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, in the event of a change of control as defined in the 2013 Indenture. Additionally, the Company may be required to offer to repurchase the 2013 Notes and, to the extent required by the terms thereof, all other indebtedness (as defined in the 2013 Indenture) that is pari passu with the 2013 Notes at a purchase price of 100% of the principal amount (or accreted value in the case of any such other pari passu indebtedness issued with a significant original issue discount) plus accrued and unpaid interest, if any, to the date of purchase, in the event net proceeds from assets sales are not applied as required by the 2013 Indenture.

The 2013 Indenture contains covenants that, among other things, restrict or limit the ability of the Company and its subsidiaries to: (i) borrow money; (ii) pay dividends on stock; (iii) purchase or redeem stock or subordinated indebtedness; (iv) make investments; (v) create liens; (vi) enter into transactions with affiliates; (vii) sell assets; and (viii) merge with or into other companies or transfer all or substantially all of the Company s assets. Additionally, the Indenture covering the 2013 Notes contains a provision which provides for a rate increase of 1/8 of one percent if the Company refinances any part of its 2012 Notes on or before July 11, 2007.

The Company issued the 2013 Notes in two tranches, $650 million on July 12, 2006 and $125 million on July 27, 2006. The additional $125 million in 2013 Notes were issued pursuant to the same Indenture at 101.125% of the face amount. The Company applied the net proceeds from the sale of the additional 2013 Notes to repay indebtedness outstanding under its revolving credit facility. At December 31, 2006, the Company is in compliance with all of its debt covenants relating to the 2013 Senior Notes.

In conjunction with the issuance of the $650 million 2013 Notes, the Company recorded a discount of $8.2 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized discount was $7.8 million at December 31, 2006. In conjunction with the issuance of the

$125 million 2013 Notes, the Company recorded a premium of $1.4 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized premium was $1.3 million at December 31, 2006.

Repayment of the Second Lien Term Loan Facility

On July 12, 2006, in connection with its entry into the revolving credit facility and the closing of its sale of the 2013 Notes, the Company repaid all amounts outstanding under, and terminated, its Amended and Restated Second Lien Term Loan, dated as of July 28, 2005, between the Company, each of the Lenders from time to time party thereto and BNP Paribas, as administrative agent for the Lenders.

9 ^{7}/8% Senior Notes

On April 8, 2004, Mission issued $130.0 million of its 9 ^{7}/8% senior notes due 2011 (the 2011 Notes). The Company assumed these notes upon the closing of the Company s merger with Mission. In conjunction with the Company s merger with KCS, the Company extinguished substantially all of its 2011 Notes for a premium of $14.9 million plus accrued interest of $3.5 million. There were approximately $0.3 million of the notes which were not redeemed and are still outstanding as of December 31, 2006. In connection with the extinguishment of substantially all of the 2011 Notes, the Company requested and received from the noteholders consent to eliminate most significant debt covenants associated with the 2011 Notes.

Aggregate maturities required on long-term debt at December 31, 2006 are due in future years as follows (amounts in thousands):

2007	$
2008	
2009	
2010	295,000
2011	254
Thereafter	1,050,000
Total	$ 1,345,254

Debt Issuance Costs

The Company capitalizes certain direct costs associated with the issuance of long-term debt. At December 31, 2006, the Company has approximately $15.0 million of net debt issuance costs being amortized over the lives of the respective debt. Debt issuance costs increased $13.0 million from December 31, 2005 primarily due to the issuance of additional debt in the third quarter of 2006.

5. ASSET RETIREMENT OBLIGATION

If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, the Company records a liability (an asset retirement obligation or ARO) on the consolidated balance sheet and capitalizes the asset retirement cost in oil and natural gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for the company. After recording these amounts, the ARO is accreted to its future estimated value using the same assumed cost of funds and the additional capitalized costs are depreciated on a unit-of-production basis.

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The Company recorded the following activity related to the ARO liability for the years ended December 31, 2006 and 2005 (in thousands):

Liability for asset retirement obligation as of January 1, 2005	$ 12,726
Liabilities settled and divested	(1,562)
Additions	455
Acquisitions [(1)]	38,473
Accretion expense	1,157
Liability for asset retirement obligation as of December 31, 2005	51,249
Liabilities settled and divested	(25,675)
Additions	2,223
Acquisitions [(1)]	15,985
Accretion expense	1,544
Liability for asset retirement obligation as of December 31, 2006	$ 45,326

[(1)] *Refer to Note 2 Acquisitions and Divestitures for more details on these acquisitions.*

6. COMMITMENTS, CONTINGENCIES AND LITIGATION

Contingencies

From time to time we may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of our business. All known liabilities are accrued based on our best estimate of the potential loss. While the outcome and impact of currently pending legal proceedings cannot be predicted with certainty, our management and legal counsel believe that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on our consolidated financial position, results of operations or cash flow.

In connection with the KCS Merger, we assumed by operation of law all liabilities of KCS, including the 2012 Notes, which were originally issued by KCS in April 2004. U.S. Bank National Association served as Trustee under the indenture governing the 2012 Notes (the 2012 Indenture) from and after the date of issuance until October 13, 2006, when we believe it resigned.

Prior to the merger, we carefully considered the Change of Control provisions of the 2012 Indenture and, at the consummation of the merger, we concluded that the transaction did not trigger a Change of Control based upon the facts and the specific language of the 2012 Indenture. Consequently, we did not make a Change of Control Offer within 30 days of the merger.

On September 14, 2006, Law Debenture Trust Company of New York filed suit in the Court of Chancery of the State of Delaware, New Castle County, against us, members of our board of directors, certain of our officers, KCS and certain former members of the board of directors and past management of KCS, based on the assertion that a Change of Control occurred as a consequence of our merger with KCS and requesting, among other things, that we offer to repurchase the 2012 Notes at 101% face value. On October 9, 2006, we received a letter from Law Debenture alleging that an Event of Default had occurred as a result of our failure to make a Change of Control Offer. We filed a motion to dismiss Law Debenture s complaint arguing, among other things, that we had never received a valid Notice of Default. On November 22, 2006, Law Debenture sent us a letter again purporting to constitute a Notice of Default. On December 26, 2006, Law Debenture sent us a letter purporting to declare all unpaid principal, premium and interest due under the 2012 Notes due and payable in full. On December 27, 2006, Law Debenture served an amended complaint dropping all of the individual defendants from the suit and one of the claims it previously asserted against us and KCS. We have moved to dismiss the amended complaint, and briefing on the motion is underway. We intend to vigorously defend ourselves against these claims and to aggressively pursue all legal remedies available to us.

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Prior to the acquisition of Mission Resources Corporation by the Company, Mission entered into agreements with a surety company and other third parties. All parties involved agreed to be jointly and severally liable to the surety company for certain liabilities arising under the agreement and limited to approximately $35 million. As of December 31, 2006, there have been no payments made, or liabilities recorded, as a result of these agreements.

Lease Commitments

The Company leases corporate office space in Houston, Texas and Tulsa, Oklahoma. In addition, the Company also has lease commitments related to certain vehicles, machinery and equipment under long-term operating leases. Rent expense was $2.0 million, $0.7 million and $0.3 million for the years ended December 31, 2006, 2005, and 2004, respectively. Future minimum lease payments for all non-cancelable operating leases are as follows (in thousands):

2007	$ 3,324
2008	3,104
2009	2,900
2010	2,890
2011	2,717
Thereafter	4,972
Total	$ 19,907

The Company also has 9 drilling rigs under contract. As of December 31, 2006, the Company is obligated over the next 4 years to pay $78.9 million as follows (in thousands):

2007	$ 45,724
2008	19,648
2009	11,788
2010	1,786
2011	
Thereafter	
Total	$ 78,946

7. DERIVATIVE AND HEDGING ACTIVITIES

Periodically, the Company enters into derivative commodity instruments to hedge its exposure to price fluctuations on anticipated oil and natural gas production. Under collar arrangements, if the index price rises above the ceiling price, the Company pays the counterparty. If the index price falls below the floor price, the counterparty pays the Company. Under price swaps, the Company is required to make payments to, or receive payments from, the counterparties based upon the differential between a specified fixed price and a price related to those quoted on the New York Mercantile Exchange for each respective period. Under put options, the Company pays a fixed premium to lock in a specified floor price. If the index price falls below the floor price, the counterparty pays the Company net of the fixed premium. If the index price rises above floor price, the Company pays the fixed premium.

At December 31, 2006, the Company had 94 open positions summarized in the tables below: 73 natural gas price collar arrangements, six natural gas price swap arrangements, two natural gas put options, two crude oil price swap arrangements and 11 crude oil collar arrangements. The Company elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, recorded the net change in the mark-to-market valuation of these derivative contracts in the consolidated statement of operations.

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At December 31, 2006, the Company had a $75.2 million derivative asset, $68.2 million of which is classified as current, and a $19.8 million derivative liability, $8.0 million of which is classified as current. The weighted average of the forward strip prices used to value the derivative liability were $65.40 per barrel of oil (Bbl) and $7.29 per million British thermal unit (MMBtu) of natural gas. The Company recorded a net derivative gain of $124.4 million ($10.0 million cash paid on settled contracts) for the year ended December 31, 2006.

At December 31, 2005, the Company had 48 open positions: 20 natural gas price collar arrangements, one natural gas price swap arrangement, four natural gas put options, one crude oil price swap arrangement and 22 crude oil collar arrangements. The Company elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, recorded the net change in the mark-to-market valuation of these derivative contracts in the consolidated statement of operations.

At December 31, 2005, the Company had a $3.5 million derivative asset, $1.3 million of which is classified as current, and an $86.8 million derivative liability, $51.1 million of which is classified as current. The weighted average of the forward strip prices used to value the derivative liability were $63.14 per Bbl of oil and $10.41 per MMBtu of natural gas. On the July 28, 2005 merger date, the Company acquired a $29.4 million derivative liability from Mission. At December 31, 2005, the fair value of the derivatives acquired from Mission was $22.7 million. The Company recorded a net derivative loss of $100.4 million for the year ended December 31, 2005.

At December 31, 2004, the Company had 90 open positions: 35 natural gas price collar arrangements, 12 natural gas price swap arrangements, seven natural gas put options, nine crude oil price swap arrangements and 27 crude oil collar arrangements. During 2004, the Company elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, recorded the change in mark-to-market valuation of these derivative contracts in the consolidated statement of operations.

At December 31, 2004, the Company had an $8.3 million derivative receivable and a $2.1 million derivative liability. In addition, the Company recorded a net derivative gain of $7.4 million for the year ended December 31, 2004.

Natural Gas

At December 31, 2006, the Company had the following natural gas costless collar positions:

		Collars			
		Floors		Ceilings	
Period	Volume in MMBtu s	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price
January 2007 December 2007	55,385,000	$ 5.30 $9.00	$ 7.12	$ 7.12 $18.15	$ 11.55
January 2008 December 2008	20,980,000	5.00 8.00	6.75	6.45 19.15	11.05

At December 31, 2006, the Company had the following natural gas swap position:

		Swaps	
Period	Volume in MMBtu s	Price / Price Range	Weighted Average Price
January 2007 December 2007	3,455,000	$ 6.06 $8.87	$ 7.18

At December 31, 2006, the Company had the following natural gas put option positions:

	Floors	
Period	Volume in MMBtu s	Weighted Average Price
January 2007 December 2007	7,250,000	$ 8.00

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The Company has recorded a deferred premium liability of $5.7 million of long-term debt which has been classified as current at December 31, 2006 based on a weighted average deferred premium of $0.79 per MMBtu in 2007. The natural gas put option contracts contain deferred premiums that will be paid as the contracts expire.

Crude Oil

At December 31, 2006, the Company had the following crude oil costless collar positions:

		Collars			
		Floors		Ceilings	
Period	Volume in Bbls	Price / Price Range	Weighted Average Price	Price / Price Range	Weighted Average Price
January 2007 December 2007	1,736,000	$ 35.00 $70.00	$ 63.04	$ 43.20 $90.10	$ 81.53
January 2008 December 2008	792,000	34.00 70.00	64.96	45.30 85.05	80.26

At December 31, 2006, the Company had the following crude oil swap positions:

		Swaps	
Period	Volume in Bbls	Price / Price Range	Weighted Average Price
January 2007 December 2007	36,000	$ 63.85	$ 63.85
January 2008 December 2008	144,000	38.10	38.10

8. STOCKHOLDERS EQUITY

In conjunction with the Company s merger with KCS on July 12, 2006, the Company issued approximately 83.8 million shares of its common stock as consideration to the former stockholders of KCS. In 2005, the Company issued 19.6 million shares of common stock as merger consideration to holders of Mission stock.

In connection with the North Louisiana Acquisitions, on February 1, 2006, the Company issued and sold 13.0 million shares of its common stock for $14.50 per share, for an aggregate offering amount of approximately $188.5 million. The Company received approximately $180.4 million in net proceeds from the offering. Contemporaneously with the offering, the Company agreed to repurchase, and EnCap agreed to sell, approximately 3.3 million shares for $46.2 million, which represents the price equal to the net proceeds received for those 3.3 million shares by the Company from the private offering. These shares of common stock were privately placed in the offering and were not registered under the Securities Act of 1933, as amended (the Act), or any state securities laws. The common stock was offered and sold pursuant to the private placement exceptions from registration provided by Regulation D, Rule 506, under Section 4(2) of the Act and Regulation S of the Act. Shares of the common stock were offered and sold only to accredited investors (as defined in Rule 501(a) of the Act) and non-United States persons pursuant to the offers and sales outside the United States within the meaning of Regulation S under the Act. The placement agents for this offering received a cash payment of approximately $7.7 million as compensation for services provided in connection with the offering and to reimburse them for certain expenses. These shares were registered for resale on March 20, 2006 in conjunction with the filing of a Registration Statement on Form S-3 (No. 33-132565) in accordance with the terms of a registration rights agreement entered into by the Company.

Restricted Stock

In 2006, the Company granted 0.9 million shares of restricted common stock to employees and non-employee directors of the Company. These restricted shares were granted at prices ranging from $9.80 to $16.04 with a weighted average price of $11.72. Employee shares vest over a three-year period at a rate of one-third on the annual anniversary date of the grant and the directors shares cliff vest after a six-month period.

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In connection with the Company s merger with KCS, the Company converted legacy KCS restricted stock into 0.6 million shares of Petrohawk restricted stock on July 12, 2006. These shares cliff vest after a three-year period and expire ten years after the date of grant. The Company recognized $1.1 million in compensation cost for the year ended December 31, 2006 and will recognize $3.2 million in future periods related to these shares.

In 2005, the Company issued 0.1 million shares of restricted common stock to employees and non-employee directors of the Company. These restricted shares were granted at prices ranging from $8.51 to $11.00 with a weighted average price of $10.31. Employee shares vest over a three-year period at a rate of one-third on the annual anniversary date of the grant and the directors shares cliff vest after a six-month period.

Performance Shares

In conjunction with the Company s merger with KCS, the Company adopted a plan under which performance share awards are granted under the KCS 2005 Plan (defined below). Performance awards contain a contingent right to receive shares of common stock. The grantee would earn between 0% and 200% of the target amount of performance shares upon the achievement of pre-determined objectives over a three-year performance period. The objectives relate to the Company s total stockholder return (as defined in the form of performance share agreement) as compared to the total stockholder return of a group of peer companies during the performance period. The Company does not anticipate the issuance of any additional performance share awards in future periods.

The fair value of the awards using a Monte Carlo technique was $10.89 per share. The Company will recognize compensation cost of $1.5 million over the expected service life of the performance share awards whether or not the threshold is achieved. The Company recognized $0.3 million in compensation cost for the period between the Company s merger with KCS and December 31, 2006.

Warrants and Options

The number of shares reserved for the exercise of common stock purchase warrants and stock options under the Company s Incentive Plans (as defined below) as of December 31, 2006 is 9.23 million at a weighted average price of $6.34, as detailed in the table in Note 1.

Warrants and options outstanding at December 31, 2006 consisted of the following:

	Outstanding Warrants and Options			Exercisable Options	
Range of Exercise Prices Per Share	Number of Options	Weighted Average Exercise Price per share	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Exercise Price per share
$ 0.50 3.80	4,330,923	$ 2.77	3.5	4,330,923	$ 2.77
4.06 6.18	594,586	5.30	7.0	545,230	5.28
6.60 11.00	3,287,156	9.01	8.3	1,827,881	8.37
11.08 19.00	1,013,854	13.52	8.6	110,353	12.32

During the second quarter of 2004, and in connection with the recapitalization of the Company by PHAWK, LLC transaction, the Company issued PHAWK, LLC 5 million five-year common stock purchase warrants at a price of $3.30 per share. The warrants are exercisable at any time and expire on May 25, 2009. On August 31, 2005, 2.3 million warrants were exercised. The exercise was cashless, reducing number of shares issued by the value of the $3.30 exercise price, so that the Company issued 1.6 million shares of company stock. On July 8, 2005, shares and warrants held by PHAWK, LLC were distributed to its members, including certain members of our management.

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Incentive Plans

The Company s Incentive Plans include the Second Amended and Restated 2004 Employee Incentive Plan (2004 Employee Plan), Second Amended and Restated 2004 Non-Employee Director Incentive Plan (2004 Non-Employee Director Plan), Mission Resources Corporation 1994 Stock Incentive Plan (Mission 1994 Plan), Mission Resources Corporation 1996 Stock Incentive Plan (Mission 1996 Plan) and Mission Resources Corporation 2004 Stock Incentive Plan (Mission 2004 Plan), KCS Energy, Inc. 2001 Employee and Directors Stock Plan (KCS 2001 Plan) and the KCS Energy, Inc. 2005 Employee and Directors Stock Plan (KCS 2005 Plan) as of December 31, 2006.

2004 Employee Incentive Plan

Upon stockholder approval and effective July 28, 2005, the Company s Amended and Restated 2004 Employee Incentive Plan was amended and restated to be the Second Amended and Restated 2004 Employee Incentive Plan (the 2004 Plan) to increase the aggregate number of shares that can be issued under the 2004 Plan from 2.75 million to 4.25 million. The 2004 Plan permits the Company to grant to management and other employees shares of common stock with no restrictions, shares of common stock with restrictions, and options to purchase shares of common stock.

On July 12, 2006, the Company and its stockholders approved an amendment to the 2004 Plan to increase the number of shares available for issuance thereunder from 4.25 million shares to 7.05 million shares.

In 2006, the Company granted stock options covering 1.88 million shares of common stock to employees of the Company. The options have exercise prices ranging from $9.80 to $16.04 with a weighted average price of $11.94. These options vest over a three year period at a rate of one-third on the annual anniversary date of the grant and expire ten years from the grant date.

In connection with the Company s merger with KCS, the Company converted legacy KCS stock options into a total of 2.59 million Petrohawk stock options on July 12, 2006. These options vest over a three-year period and expire ten years after the date of grant. Weighted average grant date fair value of the options was determined to be $9.81 per share, using the Black-Scholes fair value method. The Company recognized $0.9 million in compensation cost for the year ended December 31, 2006 and will recognize $1.2 million in future periods related to these options.

In 2005, the Company granted stock options covering 1.40 million shares of common stock to employees of the Company. The options vest over a three-year period with one-third vesting on the date of grant, one-third one year from the date of the grant and the remaining one-third two years from the date of the grant. The options have exercise prices ranging from $0.52 to $11.52 with a weighted average price of $9.37. These options expire ten years from the grant date.

In 2004, the Company granted stock options out of the 2004 Plan covering 0.72 million shares of common stock to employees of the Company. The options will vest over a two-year period with one-third vesting on the date of grant, one-third in one year from the date of the grant and the remaining one-third in two years from the date of the grant. The options have an average exercise price of $7.53 per share and will expire ten years from the date of grant.

For the years ended December 31, 2006, 2005 and 2004, respectively, the Company has recognized $8.2 million, $3.8 million and $3.5 million respectively, of non-cash stock compensation expense.

At December 31, 2006, 2.50 million options were available under the Plan for future issuance.

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2004 Non-Employee Director Incentive Plan

In July 2004 the Company adopted the 2004 Non-Employee Director Plan covering 0.20 million shares. The plan provides for the grant of both incentive stock options and restricted shares of the Company s stock. This plan was designed to attract and retain the services of directors. At the adoption of the plan each non-employee director received 7,500 restricted shares of the Company s common stock and each new non-employee director would receive 7,500 shares of the Company s common stock. Additional grants of 5,000 restricted shares of the Company s common stock were issued to each non-employee director on each anniversary of his or her service. These shares vest over a six month period from the date of grant. Shares were issued under this plan for the years-ended December 31, 2006, 2005 and 2004, were 72,500 shares, 45,000 shares and 45,000 shares, respectively and there had been no forfeited or cancelled shares.

On July 12, 2006, the Company and its stockholders approved an amendment to the Company s 2004 Non-Employee Director Plan to increase the number of shares available for issuance thereunder from 0.4 million to 0.6 million shares. At December 31, 2006, 0.44 million options were available under the Plan for future issuance.

KCS and Mission Incentive Plans

Upon consummation of the Company s merger with KCS, the Company assumed the KCS 2001 Plan, as amended, the KCS 2005 Plan, as amended, and associated obligations relating to grants of restricted stock, stock options and performance shares under those plans which were granted prior to the closing of the Company s merger with KCS. At December 31, 2006, 7.77 million Petrohawk options were available under the Plan for future issuance.

In conjunction with the Merger on July 28, 2005, the Company assumed three incentive plans related to Mission Resources. The three plans were the Mission 1994 Plan, Mission 1996 Plan and Mission 2004 Plan. At December 31, 2006, there were 0.3 million Petrohawk options available under these plans for future issuance.

8% Cumulative Convertible Preferred Stock

On June 29, 2001 the Company completed its Private Placement Offering of 8% cumulative convertible preferred stock and common stock purchase warrants, offered as units of one preferred share and one-half of one warrant at $9.25 per unit. Net proceeds received from the offering were approximately $5.0 million net of estimated offering expenses, including brokers commissions and other fees and expenses of $0.5 million. The Company issued 0.6 million preferred shares and 0.15 million warrants to purchase a like number of shares of the Company s common stock at a price equal to the offering price or $9.25 per share. Brokers were issued 29,888 non-callable warrants as part of their commission. All investors participating in the offering were accredited. The proceeds were used by the Company to help meet its capital requirements, including drilling costs and for other general corporate purposes.

In April 2006, the Company initiated a buyback of the preferred stock for $9.25 per unit. On June 9, 2006, the Company sent the holders of the preferred shares notice of redemption as set forth in the certificate of designation for the preferred stock. On July 10, 2006, the Company completed the redemption of the preferred stock. As of December 31, 2006, there were no remaining preferred shares outstanding. All Class A and Class B warrants associated with the preferred stock expired on June 29, 2006.

Series B Preferred Stock

In connection with the acquisition of Wynn-Crosby on November 23, 2004, the Company issued and sold 2.58 million shares of Series B 8% Automatically Convertible Preferred Stock (Series B Preferred Stock) for $77.50 per share, for an aggregate offering amount of approximately $200 million. The Company received approximately $185 million in net proceeds from the offering. The Series B Preferred Stock was offered and sold pursuant to the private placement exception from registration provided in Regulation D, Rule 506, under Section 4(2) of the Act. Shares of the Series B preferred stock were offered and sold only to qualified institutional buyers as defined in Rule 144A of the Act with whom the placement agent had pre-existing relationships in reliance on applicable exemptions from registration provided under the Act. The placement agent received a commission of 6.0% in connection with the offering.

On December 31, 2004 each outstanding share of the Series B Preferred Stock converted into ten shares of common stock. Accordingly, 2.6 million shares of the Company s Series B Preferred Stock converted into 25.8 million shares of common stock.

Treasury Stock

In August 2004, the Company s Board of Directors terminated the stock repurchase program. During the quarter ended September 30, 2006, the Company retired its 8,382 treasury shares.

9. INCOME TAXES

Income tax (provision) benefit for the indicated periods is comprised of the following:

	Years Ended December 31, 2006	2005	2004
		(In thousands)	
Current:			
Federal	$ (2,069)	$ (217)	$ 24
State	(65)	(253)	
	(2,134)	(470)	24
Deferred:			
Federal	(66,337)	9,088	(641)
State	(4,064)	445	(512)
	(70,401)	9,533	(1,153)
Total (provision) benefit	$ (72,535)	$ 9,063	$ (1,129)

The actual income tax (provision) benefit differs from the expected tax (provision) benefit as computed by applying the U.S. Federal corporate income tax rate of 35% for each period as follows:

	Years Ended December 31, 2006	2005	2004
		(In thousands)	
Amount of expected tax (provision) benefit	$ (66,184)	$ 8,994	$ (3,144)
State taxes, net	(3,818)	625	(338)
Valuation allowance	(191)	(500)	2,352
Other	(2,342)	(56)	1
Total (provision) benefit	$ (72,535)	$ 9,063	$ (1,129)

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The components of net deferred tax assets and liabilities recognized are as follows:

	December 31, 2006	December 31, 2005
	(In thousands)	
Deferred current tax assets:		
Unrealized hedging transactions	$	$ 18,304
Deferred current tax assets	$	$ 18,304
Deferred current tax liabilities:		
Unrealized hedging transactions	$ (22,382)	$
Deferred current tax liabilities	$ (22,382)	$
Deferred noncurrent tax assets:		
Net operating loss carry-forwards	$ 112,175	$ 45,825
Stock-based compensation expense	4,189	2,596
Unrealized hedging transactions	3,772	12,294
Alternative minimum tax credit carryforwards	7,368	217
Other	(2,312)	94
Gross deferred noncurrent tax assets	125,192	61,026
Valuation allowance	(692)	(500)
Net deferred noncurrent tax assets	$ 124,500	$ 60,526
Deferred noncurrent tax liabilities:		
Book-tax differences in property basis	$ (758,383)	$ (213,681)
Net long-term deferred tax liabilities	$ (633,883)	$ (153,155)

As of December 31, 2006, the Company had available, to reduce future taxable income, a U.S. federal regular net operating loss (NOL) carryforward of approximately $309.3 million, and a U.S. federal alternative minimum tax NOL carryforward of approximately $44.5 million, which expire in the years 2017 through 2024. Utilization of NOL carryforwards is subject to annual limitations due to stock ownership changes. The tax net operating loss carryforward may be limited by other factors as well. The Company also has various state NOL carryforwards, reduced by the valuation allowance for losses that the Company anticipates will expire before they can be utilized, totaling approximately $66.5 million at December 31, 2006, with varying lengths of allowable carryforward periods ranging from five to 20 years that can be used to offset future state taxable income. It is expected that these deferred tax benefits will be utilized prior to their expiration.

10. RELATED PARTY TRANSACTIONS

On May 25, 2004, PHAWK, LLC (formerly known as Petrohawk Energy, LLC) (PHAWK), which is owned by affiliates of EnCap Investments, L.P., Liberty Energy Holdings LLC, Floyd C. Wilson and other members of the Company s management, purchased a controlling interest in the Company for $60 million in cash. The $60 million investment was structured as the purchase by PHAWK of 7.576 million shares of common stock for $25 million, a $35 million five year 8% subordinated note convertible into approximately 8.75 million shares of common stock and warrants to purchase 5 million shares of common stock at a price of $3.30 per share (after giving effect to a one-for-two reverse split of the Company s common stock implemented in May 2004). In connection with the investment by PHAWK, Mr. Wilson was named Chairman, President and Chief Executive Officer, the Company s board of directors and other management was changed, and the corporate offices were relocated from Tulsa, Oklahoma to Houston, Texas. Also, at the annual stockholders meeting held July 15, 2004, the Company s stockholders approved changing the name of the company to Petrohawk Energy Corporation (from Beta Oil & Gas, Inc.), reincorporating the company in Delaware, and the adoption of new stock option plans.

On June 30, 2005, the Company entered into an agreement with PHAWK to convert the Company s $35 million note payable to PHAWK to common stock as stipulated in the original agreement. The original agreement contained a provision providing for conversion into 8.75 million shares of Petrohawk common stock at any time after May 25, 2006. In consideration of the early conversion, the Company agreed to make a payment of $2.4 million, which represented the interest payable on the note through May 25, 2006, discounted at 10%. In conjunction with the conversion, the Company expensed $1.1 million of net debt issuance costs that were being amortized over the remaining life of the note. These charges are reflected in interest expense and other on the consolidated statement of operations.

A Special Committee of one disinterested director was formed by the Company s board of directors to evaluate the transaction. On June 30, 2005, the Special Committee approved the transaction.

On August 11, 2004 the Company purchased working interests in certain oil and natural gas properties and various other assets from PHAWK for $8.5 million. The effective date of the acquisition was June 1, 2004. Since the Company and PHAWK were under common control, the assets were recorded by the Company at the net book value of PHAWK at the time of the sale. The purchase price exceeded the net book value by approximately $5.6 million. The excess was reflected as a return of capital to PHAWK on the consolidated statement of operations.

A special committee of one disinterested director was formed by the Company s board of directors to evaluate, negotiate and complete the purchase. The Special Committee hired an independent reservoir engineering firm to provide a reserve evaluation and engaged an independent financial advisor to evaluate the fairness, from a financial point of view, to the Company. The independent financial advisor rendered a fairness opinion to the Special Committee.

In February 2006, the Company repurchased approximately 3.3 million shares of its common stock held by EnCap Investments, L.P., and certain of its affiliates, at a price per share equal to the net proceeds per share that the Company received from a private offering of 13.0 million of its common shares that closed on the same day as the EnCap purchase. The 3.3 million shares were repurchased for $46.2 million.

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11. NET INCOME (LOSS) PER COMMON SHARE

The following represents the calculation of net income (loss) per common share (in thousands, except per share data):

	Years Ended December 31, 2006	2005	2004
	(In thousands, except per share amounts)		
Basic			
Net income (loss)	$ 116,563	$ (16,634)	$ 8,117
Less: preferred dividends	(217)	(440)	(445)
Net income (loss) available to common stockholders	$ 116,346	$ (17,074)	$ 7,672
Weighted average number of shares	122,452	54,752	10,808
Basic earnings (loss) per share	$ 0.95	$ (0.31)	$ 0.71
Diluted			
Net income (loss)	$ 116,346	$ (17,074)	$ 7,672
Plus: preferred dividends	217		445
Plus: Interest on 8% subordinated convertible note payable (net of tax)			1,072
Net income (loss) available to common stockholders	$ 116,563	$ (17,074)	$ 9,189
Weighted average number of shares	122,452	54,752	10,808
Common stock equivalent shares representing shares issuable upon exercise of stock options	989	Anti-dilutive	327
Common stock equivalent shares representing shares issuable upon exercise of warrants	1,251	Anti-dilutive	2,826
Common stock equivalent shares representing shares included upon vesting of restricted shares	1,443	Anti-dilutive	
Common stock equivalent shares representing shares as-if conversion of note payable		Anti-dilutive	8,750
Common stock equivalent shares representing shares as-if conversion of preferred shares		Anti-dilutive	2,979
Weighted average number of shares used in calculation of diluted income (loss) per share	126,135	54,752	25,690
Diluted earnings (loss) per share	$ 0.92	$ (0.31)	$ 0.36

The following common stock equivalents were not included in the computation for diluted earnings (loss) per share because their effects would be antidilutive.

Common Stock Equivalents:	Years Ended December 31, 2006	2005	2004
		(In thousands)	
Options	894	2,779	99
Warrants	18	2,919	805
As-if conversion of Preferred stock		294	
	912	5,992	904

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12. ADDITIONAL FINANCIAL STATEMENT INFORMATION

Certain balance sheet amounts are comprised of the following:

	December 31, 2006	December 31, 2005
	(In thousands)	
Accounts receivable:		
Oil and gas sales	$ 107,003	$ 48,369
Joint interest accounts	37,056	15,954
Income taxes receivable	5,453	
Other	6,070	3,764
	$ 155,582	$ 68,087
Accounts payable and accrued liabilities:		
Trade payables	$ 31,565	$ 16,379
Revenues and royalties payable to others	69,383	22,273
Accrued capital costs	111,252	23,610
Accrued interest expense	40,906	3,664
Accrued lease operating expenses	10,601	5,854
Accrued ad valorem taxes payable	7,086	2,690
Accrued employee compensation	2,649	1,610
Other	22,509	13,937
	$ 295,951	$ 90,017

Certain cash and non-cash related items:

	Years Ended December 31, 2006	2005	2004
		(In thousands)	
Cash payments:			
Interest payments	$ 43,714	$ 26,507	$ 2,766
Income tax payments	$ 4,847	$ 24	$
Non-cash items excluded from the statement of cash flows:			
Accrued capital expenditures	$ 87,642	$ 6,005	$ 1,915

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SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED)

Oil and Natural Gas Reserves

Users of this information should be aware that the process of estimating quantities of proved and proved developed oil and natural gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserve estimates may occur from time to time. Although every reasonable effort is made to ensure reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various reservoirs make these estimates generally less precise than other estimates included in the financial statement disclosures.

Proved reserves represent estimated quantities of natural gas, crude oil and condensate that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions in effect when the estimates were made. Proved developed reserves are proved reserves expected to be recovered through wells and equipment in place and under operating methods used when the estimates were made.

Estimates of proved reserves at December 31, 2006 and 2005 were prepared by Netherland, Sewell & Associates, Inc. (Netherland, Sewell), the Company s independent consulting petroleum engineers. The December 31, 2004 proved reserve estimates were prepared by Netherland, Sewell with the exception of 26.2 Bcfe of proved reserves associated with royalty interest properties acquired from Wynn-Crosby and subsequently sold on February 25, 2005 which were not part of Netherland, Sewell s report. All proved reserves are located in the United States of America.

The following table illustrates the Company s estimated net proved reserves, including changes, and proved developed reserves for the periods indicated, as estimated by Netherland, Sewell. Natural gas liquids are included in oil reserves. Oil and natural gas liquids are based on the December 31, 2006 West Texas Intermediate posted price of $57.75 per barrel and are adjusted by lease for quality, transportation fees, and regional price differentials. Gas prices are based on a December 31, 2006 Henry Hub spot market price of $5.63 per MMBtu and are adjusted by lease for energy content, transportation fees, and regional price differentials. All prices are held constant in accordance with SEC guidelines.

		Proved Reserves	
	Oil (MBbls)	**Gas (MMcf)**	**Equivalent (MMcfe)**
Proved reserves, January 1, 2004	1,308	22,400	30,245
Extensions and discoveries	93	3,902	4,458
Purchase of minerals in place	8,205	138,835	188,064
Production	(244)	(3,569)	(5,030)
Revision of previous estimates	339	(690)	1,347
Proved reserves, December 31, 2004	9,701	160,878	219,084
Extensions and discoveries	1,409	19,905	28,359
Purchase of minerals in place	20,285	111,079	232,789
Production	(1,555)	(20,219)	(29,549)
Sale of minerals in place	(2,723)	(12,670)	(29,008)
Revision of previous estimates	2,115	2,904	15,594
Proved reserves, December 31, 2005	29,232	261,877	437,269

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	Proved Reserves		
	Oil (MBbls)	Gas (MMcf)	Equivalent (MMcfe)
Extensions and discoveries	4,379	268,906	295,180
Purchase of minerals in place	9,015	482,762	536,852
Production	(3,203)	(60,642)	(79,863)
Sale of minerals in place	(7,024)	(37,677)	(79,821)
Technical revisions	(775)	5,790	1,140
Price revisions	(460)	(31,880)	(34,637)
Proved reserves, December 31, 2006	31,164	889,136	1,076,120

	Proved Developed Reserves		
	Oil (Mbls)	Gas (MMcf)	Equivalent (MMcfe)
December 31, 2004	8,504	119,733	170,756
December 31, 2005	22,398	177,603	311,990
December 31, 2006	23,188	534,561	673,688

Capitalized Costs Relating to Oil and Natural Gas Producing Activities

The following table illustrates the total amount of capitalized costs relating to oil and natural gas producing activities and the total amount of related accumulated depreciation, depletion and amortization (in thousands).

	December 31,		
	2006	2005	2004
Evaluated properties	$ 2,903,763	$ 1,098,553	$ 485,251
Unevaluated properties	537,611	162,133	49,547
	3,441,374	1,260,686	534,798
Accumulated depreciation, depletion and amortization	(379,984)	(122,301)	(49,473)
	$ 3,061,390	$ 1,138,385	$ 485,325

Costs Incurred in Oil and Natural Gas Property Acquisition, Exploration and Development Activities

The Costs Incurred in Oil and Natural Gas Property Acquisition, Exploration and Development Activities table has been restated to combine asset retirement costs with Property acquisition costs, proved and Development costs.

Costs incurred in property acquisition, exploration and development activities were as follows (in thousands):

	Years Ended December 31,					
	2006		2005		2004	
	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported	As Restated
Property acquisition costs, proved	$ 1,390,504	$ 1,406,489	$ 562,499	$ 600,972	$ 387,063	$ 397,888
Property acquisition costs, unproved	517,695	517,695	107,664	107,664	50,423	50,423
Exploration and extension well costs	337,076	337,076	35,083	35,083	5,972	5,972
Development costs	150,112	152,335	67,457	67,912	5,395	5,936
Asset retirement costs	18,208		38,928		11,366	

Total costs	$ 2,413,595	$ 2,413,595	$ 811,631	$ 811,631	$ 460,219	$ 460,219

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Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves

The following information has been developed utilizing SFAS 69, *Disclosures about Oil and Gas Producing Activities*, (SFAS 69) procedures and based on oil and natural gas reserve and production volumes estimated by the Company s engineering staff. It can be used for some comparisons, but should not be the only method used to evaluate the Company or its performance. Further, the information in the following table may not represent realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flow be viewed as representative of the current value of the Company.

The Company believes that the following factors should be taken into account when reviewing the following information:

- future costs and selling prices will probably differ from those required to be used in these calculations;
- due to future market conditions and governmental regulations, actual rates of production in future years may vary significantly from the rate of production assumed in the calculations;
- a 10% discount rate may not be reasonable as a measure of the relative risk inherent in realizing future net oil and natural gas revenues; and
- future net revenues may be subject to different rates of income taxation.

Under the Standardized Measure, future cash inflows were estimated by applying year-end oil and natural gas prices to the estimated future production of year-end proved reserves. Estimates of future income taxes are computed using current statutory income tax rates including consideration for estimated future statutory depletion and tax credits. The resulting net cash flows are reduced to present value amounts by applying a 10% discount factor. Use of a 10% discount rate and year-end prices are required by SFAS 69.

The Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves table has been restated to correct the amount of future income tax expense recognized and correct the methodology utilized in the discount calculation including consideration of the annual impact of income taxes in future periods.

The Standardized Measure is as follows (in thousands):

	Years Ended December 31,					
	2006		2005		2004	
	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported	As Restated
Future cash inflows	$ 6,492,900	$ 6,492,900	$ 3,636,669	$ 3,636,669	$ 1,347,069	$ 1,347,069
Future production costs	(1,703,787)	(1,703,787)	(988,796)	(988,796)	(376,814)	(376,814)
Future development costs	(1,044,147)	(1,044,147)	(255,800)	(255,800)	(78,825)	(78,825)
Future net cash flows before income taxes	3,744,966	3,744,966	2,392,073	2,392,073	891,430	891,430
Future income tax expense	(827,000)	(1,004,896)	(620,660)	(669,018)	(171,148)	(171,201)
Future net cash flows before 10% discount	2,917,966	2,740,070	1,771,413	1,723,055	720,282	720,229
10% annual discount for estimated timing of cash flows	(1,734,085)	(1,170,023)	(1,029,372)	(699,336)	(337,265)	(307,359)
	$ 1,183,881	$ 1,570,047	$ 742,041	$ 1,023,719	$ 383,017	$ 412,870

Standardized measure of discounted future net
cash flows

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Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves

The Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves table has been restated to correct Changes in income taxes, net and add Development costs incurred in addition to line items miscalculated in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, originally filed on February 28, 2007.

The following is a summary of the changes in the Standardized Measure of discounted future net cash flows for the Company s proved oil and natural gas reserves during each of the years in the three year period ended December 31, 2006 (in thousands).

	Years Ended December 31,					
	2006		2005		2004	
	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported	As Restated
Beginning of year	$ 742,041	$ 1,023,719	$ 383,017	$ 412,870	$ 48,333	$ 48,333
Sale of oil and gas produced, net of production costs	(84,180)	(459,881)	(257,622)	(203,463)	(25,219)	(25,398)
Purchase of minerals in place	1,484,511	1,484,511	695,811	695,811	476,716	476,716
Sales of minerals in place	(284,411)	(265,315)	(71,585)	(71,585)	(162)	(162)
Extensions and discoveries	340,975	353,392	148,154	148,154	13,196	13,196
Changes in income taxes, net	(110,795)	(84,094)	(256,222)	(288,240)	(71,488)	(65,224)
Changes in prices and costs	(817,917)	(486,834)	222,188	286,069	(20,183)	(14,247)
Development costs incurred		(152,335)		(67,912)		(5,936)
Revisions of previous quantities	(28,961)	(48,142)	(147,275)	53,179	(65,451)	(65,451)
Accretion of discount	136,270	225,683	47,470	79,868	4,833	10,443
Changes in production rates and other	(193,652)	(20,657)	(21,895)	(21,032)	22,442	40,600
End of year	$ 1,183,881	$ 1,570,047	$ 742,041	$ 1,023,719	$ 383,017	$ 412,870

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SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents selected quarterly financial data derived from the Company s consolidated financial statements. The following data is only a summary and should be read with the Company s historical consolidated financial statements and related notes contained in this document. The acquisition of KCS in 2006 and of Mission in 2005 affects the comparability between the consolidated financial data for the periods presented.

	Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
2006				
Oil and gas sales	$ 103,006	$ 86,414	$ 196,439	$ 201,903
Income from operations	36,430	18,364	50,691	49,055
Net income[1]	32,939	4,853	52,656	26,115
Earnings per share of common stock:				
Basic	$ 0.40	$ 0.06	$ 0.34	$ 0.16
Diluted	$ 0.39	$ 0.06	$ 0.33	$ 0.15
2005				
Oil and gas sales	$ 32,326	$ 36,184	$ 81,447	$ 108,082
Income from operations	9,030	11,427	34,018	49,415
Net (loss) income[1]	(14,252)	(2,202)	(36,424)	36,244
(Loss) earnings per share of common stock:				
Basic	$ (0.36)	$ (0.06)	$ (0.56)	$ 0.49
Diluted	$ (0.36)	$ (0.06)	$ (0.56)	$ 0.48

(1) *The volatility in net income (loss) is substantially due to the Company s accounting policy to mark derivative positions to market and not apply cash flow hedge accounting. See Note 7, Derivative and Hedging Activity for additional information.*

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management s Evaluation of Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2006 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Management s Report on Internal Control over Financial Reporting

Management s report on internal control over financial reporting as of December 31, 2006 can be found on page 46 of the Financial Section of this report.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, was audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included on page 47 of the Financial Section of this report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the three months ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Consolidated Financial Statements:
The consolidated financial statements of the Company and its subsidiaries and report of independent public accountants listed in Section 8 of this Form 10-K/A are filed as a part of this Form 10-K/A.

(2) Consolidated Financial Statements Schedules:
All schedules are omitted because they are inapplicable or because the required information is contained in the financial statements or included in the notes thereto.

(3) Exhibits:
The following documents are included or incorporated as exhibits to this Form 10-K/A.

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated April 3, 2005 (and as amended through June 8, 2005), by and among Petrohawk Energy Corporation, Petrohawk Acquisition Corporation, and Mission Resources Corporation (Incorporated by reference to Annex A of our Registration Statement on Form S-4/A filed on June 22, 2005).
2.2	Agreement and Plan of Merger, dated October 13, 2004, among Petrohawk Energy Corporation, Wynn-Crosby Energy, Inc., Ronald W. Crosby and Paige L. Crosby (Incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on November 24, 2004).
2.3	Agreement and Plan of Mergers, dated October 13, 2004, among Petrohawk Energy Corporation, Wynn-Crosby Energy, Inc., Wynn-Crosby 1994, Ltd.; Wynn-Crosby 1995, Ltd.; Wynn-Crosby 1996, Ltd.; Wynn-Crosby 1997, Ltd.; Wynn-Crosby 1998, Ltd.; Wynn-Crosby 1999, Ltd.; Wynn-Crosby 2000, Ltd.; Wynn-Crosby 2002, Ltd.; WCOG Properties, Ltd.; Kara Nicole Limited; Kristen Lee Limited; Eric Wynn Limited; Christopher David Limited; Paige Lee Limited; Bernadien Wynn Limited; Roger Lee Limited; and George Heaps Limited, and Ronald W. Crosby (Incorporated by reference to Exhibit 2.2 of our Current Report on Form 8-K filed on November 24, 2004).
2.4	Amendment to Agreement and Plan of Mergers among Petrohawk Energy Corporation, Wynn-Crosby Energy, Inc., Wynn-Crosby 1994, Ltd.; Wynn-Crosby 1995, Ltd.; Wynn-Crosby 1996, Ltd.; Wynn-Crosby 1997, Ltd.; Wynn-Crosby 1998, Ltd.; Wynn-Crosby 1999, Ltd.; Wynn-Crosby 2000, Ltd.; Wynn-Crosby 2002, Ltd.; WCOG Properties, Ltd.; Kara Nicole Limited; Kristen Lee Limited; Eric Wynn Limited; Christopher David Limited; Paige Lee Limited; Bernadien Wynn Limited; Roger Lee Limited; and George Heaps Limited, and Ronald W. Crosby, dated October 26, 2004 (Incorporated by reference to Exhibit 2.3 of our Current Report on Form 8-K filed on November 24, 2004).
2.5	Stock Purchase Agreement among Winwell Resources, Inc. and all of its Shareholders, as Sellers, and Petrohawk Energy Corporation, as Buyer, dated as of December 14, 2005 (Incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed December 20, 2005).
2.6	Asset Purchase Agreement among Redley Company, Burris Run Company and Red Clay Minerals, collectively as Seller, and Petrohawk Energy Corporation, as Buyer, dated as of December 14, 2005 (Incorporated by reference to Exhibit 2.2 of our Current Report on Form 8-K filed December 20, 2005).
2.7	First Amendment to Asset Purchase Agreement among Redley Company, Burris Run Company and Red Clay Minerals, collectively as Seller, and Petrohawk Energy Corporation, as Buyer, effective as of December 14, 2005 (Incorporated by reference to Exhibit 2.7 of our Annual Report on Form 10-K filed March 14, 2006).

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Exhibit No.	Description
2.8	Assignment Agreement between Petrohawk Properties, L.P. and Petrohawk Energy Corporation effective January 27, 2006 (Incorporated by reference to Exhibit 2.8 of our Annual Report on Form 10-K filed March 14, 2006).
2.9	Purchase and Sale Agreement executed January 14, 2005, by and between Wynn-Crosby 1994, Ltd., et al and Noble Royalties, Inc. d/b/a Brown Drake Royalties (Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on March 3, 2005).
2.10	Amendment to Purchase and Sale Agreement executed on February 15, 2005, by and between Wynn-Crosby 1994, Ltd., et al and Noble Royalty, Inc. d/b/a Brown Drake Royalties (Incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed on March 3, 2005).
2.11	Stock Purchase Agreement dated February 4, 2005 by and among Petrohawk Energy Corporation and Proton Oil & Gas Corporation, et al (Incorporated by reference to Exhibit 2.3 to our Current Report on Form 8-K filed on March 3, 2005).
2.12	Purchase and Sale Agreement between Petrohawk Energy Corporation and Petrohawk Properties, LP, together, as Seller, and Northstar GOM, LLC, as Buyer, dated February 3, 2006 (Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed February 9, 2006).
2.13	Amended and Restated Agreement and Plan of Merger executed as of May 16, 2006, and effective as of April 20, 2006 by and among KCS Energy, Inc., Petrohawk Energy Corporation and Hawk Nest Corporation (Incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed May 18, 2006).
3.1	Certificate of Incorporation for Petrohawk Energy Corporation (Incorporated by reference to Exhibit 3.1 to our Form S-8 filed on July 29, 2004).
3.2	Certificate of Amendment to Certificate of Incorporation for Petrohawk Energy Corporation (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on November 24, 2004).
3.3	Certificate of Amendment of Certificate of Incorporation of Petrohawk Energy Corporation (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 3, 2005).
3.6	Amended and Restated Bylaws of Petrohawk Energy Corporation effective as of July 12, 2006 (Incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K filed on July 17, 2006).
3.7	Certificate of Amendment to Certificate of Incorporation of Petrohawk Energy Corporation (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on July 17, 2006).
4.15	Indenture dated April 1, 2004 among KCS Energy, Inc., U.S. Bank National Association, as trustee, and the subsidiary guarantors named therein, relating to KCS Energy, Inc. s 7 1/8% senior notes due 2012 (Incorporated by reference to Exhibit 4.1 to KCS Energy, Inc. s Quarterly Report on Form 10-Q filed on May 10, 2004.)
4.16	First Supplemental Indenture, dated as of April 8, 2005, to Indenture dated as of April 1, 2004, among KCS Energy, Inc., certain of its subsidiaries and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 of KCS Energy, Inc. s Form 8-K filed on April 11, 2005.)
4.17	Second Supplemental Indenture dated July 12, 2006 among Petrohawk Energy Corporation, the successor by way of merger to KCS Energy, Inc., the parties named therein as guarantors, and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K filed July 17, 2006).

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Exhibit No.	Description
4.18	Third Supplemental Indenture dated as of July 12, 2006 among Petrohawk Energy Corporation, the successor by way of merger to KCS Energy, Inc., the parties named therein as existing guarantors, the parties named therein as new guarantors, and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.5 to our Current Report on Form 8-K filed July 17, 2006).
4.19	Indenture dated July 12, 2006 among Petrohawk Energy Corporation, U.S. Bank National Association, as trustee, and the subsidiary guarantors named therein, relating to Petrohawk Energy Corporation s 9 1/8 % senior notes due 2013 (Incorporated by reference to Exhibit 4.6 to our Current Report on Form 8-K filed July 17, 2006).
4.20	First Supplemental Indenture dated July 12, 2006 among Petrohawk Energy Corporation, U.S. Bank National Association, as trustee, and the subsidiary guarantors named therein (Incorporated by reference to Exhibit 4.7 to our Current Report on Form 8-K filed July 17, 2006).
4.21	Registration Rights Agreement dated July 12, 2006 among Petrohawk Energy Corporation, the Guarantors named therein, and the Initial Purchasers named therein (Incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-4 filed September 1, 2006)
4.22	Registration Rights Agreement dated July 12, 2006 among Petrohawk Energy Corporation, the Guarantors named therein, and the Initial Purchasers named therein (Incorporated by reference to Exhibit 4.4 to our Registration Statement on Form S-4 filed September 1, 2006).
10.1	The Petrohawk Energy Corporation Amended and Restated 1999 Incentive and Nonstatutory Stock Option Plan (Incorporated by reference to Exhibit 99.3 of our Current Report on Form 8-K filed on August 18, 2004).
10.2	The Petrohawk Energy Corporation Second Amended and Restated 2004 Non-Employee Director Incentive Plan (Incorporated by reference to Exhibit 4.1 to our Registration Statement No. 333-117733 on Form S-8 filed July 29, 2005).
10.3	Form of Stock Option Agreement for the Second Amended and Restated 2004 Non-Employee Director Incentive Plan (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed August 11, 2005).
10.4	Form of Restricted Stock Agreement for the Second Amended and Restated 2004 Non-Employee Director Incentive Plan (Incorporated by reference to Exhibit 10.4 of our Second Quarter 2005 Form 10-Q filed on August 11, 2005).
10.5	Form of Incentive Stock Agreement for the Second Amended and Restated 2004 Non-Employee Director Incentive Plan (Incorporated by reference to Exhibit 10.5 of our Second Quarter 2005 Form 10-Q filed on August 11, 2005).
10.6	The Petrohawk Energy Corporation Second Amended and Restated 2004 Employee Incentive Plan (Incorporated by reference to Exhibit 4.2 to our Registration Statement No. 333-117733 on Form S-8 filed July 29, 2005).
10.7	Form of Stock Option Agreement for the Second Amended and Restated 2004 Employee Incentive Plan (Incorporated by reference to Exhibit 10.3 of our Annual Report on Form 10-K filed March 14, 2006).
10.8	Form of Restricted Stock Agreement for the Second Amended and Restated 2004 Employee Incentive Plan (Incorporated by reference to Exhibit 10.8 of our Second Quarter 2005 Form 10-Q filed on August 11, 2005).
10.9	Form of Incentive Stock Agreement for the Second Amended and Restated 2004 Employee Incentive Plan (Incorporated by reference to Exhibit 10.9 of our Second Quarter 2005 Form 10-Q filed on August 11, 2005).

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Exhibit No.	Description
10.10	Mission Resources Corporation 1994 Stock Incentive Plan (Incorporated by reference to Exhibit 10.9 of Mission Resources Corporation s Registration Statement No. 33-76570 filed on March 17, 1994).
10.11	Mission Resources Corporation 1996 Stock Incentive Plan (Incorporated by reference to Exhibit A of Mission Resources Corporation s Proxy Statement on Schedule 14A filed on October 21, 1996).
10.12	Mission Resources Corporation 2004 Incentive Plan (Incorporated by reference to Appendix C to Mission Resources Corporation s Proxy Statement on Schedule 14A filed on March 30, 2004).
10.15	Form of Director and Officer Indemnity Agreement (Incorporated by reference to Exhibit 10.11 of our Annual Report on Form 10-K filed on March 31, 2005).
10.18	Stock Purchase Agreement between Petrohawk Energy Corporation and EnCap Investments, L.P., *et al*., effective as of January 10, 2006 (Incorporated by reference to Exhibit 10.30 of our Annual Report on Form 10-K filed on March 14, 2006).
10.23	Second Amended and Restated Senior Revolving Credit Agreement dated July 12, 2006, among Petrohawk Energy Corporation, each of the Lenders from time to time party thereto, BNP Paribas, as administrative agent for the lenders, Bank of America, N.A. and BMO Capital Markets Financing, Inc., as co-syndication agents for the Lenders, and JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A. and Fortis Capital Corp., as co-documentation agents for the Lenders (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed July 17, 2006).
10.24	Amended and Restated Guarantee and Collateral Agreement dated July 12, 2006, made by Petrohawk Energy Corporation and each of its subsidiaries, as Grantors, in favor of BNP Paribas, as Administrative Agent (Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed July 17, 2006).
10.25	First Amendment to Second Amended and Restated Senior Revolving Credit Agreement, dated as of July 12, 2006, between Petrohawk Energy Corporation, each of the lenders from time to time party thereto, BNP Paribas, as administrative agent for the lenders, Bank of America, N.A. and BMO Capital Markets Financing, Inc. as co-syndication agents for the lenders, and JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A. and Fortis Capital Corp. as co-documentation agents for the lenders (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed July 28, 2006).
10.26	First Amendment to the Petrohawk Energy Corporation Second Amended and Restated 2004 Employee Incentive Plan (Incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q filed August 9, 2006).
10.27	First Amendment to the Petrohawk Energy Corporation Second Amended and Restated 2004 Non-Employee Director Incentive Plan (Incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q filed August 9, 2006).
10.28	KCS Energy, Inc. 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit (10)iii to KCS Energy, Inc. s Annual Report on Form 10-K filed April 2, 2001), as amended by the Amendment to the KCS Energy, Inc. 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.4 to KCS Energy, Inc. s Current Report on Form 8-K filed April 25, 2006).
10.29	Form of Supplemental Stock Option Agreement under KCS Energy, Inc. 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.6 of KCS Energy, Inc s Quarterly Report on Form 10-Q filed November 9, 2004).
10.30	Form of Directors Supplemental Stock Option Agreement under KCS Energy, Inc. 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.7 of KCS Energy, Inc. s Quarterly Report on Form 10-Q filed November 9, 2004).

Exhibit No.	Description
10.31	Form of Restricted Stock Award Agreement under KCS Energy, Inc. 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.8 of KCS Energy, Inc. s Quarterly Report on Form 10-Q filed November 9, 2004).
10.32	Form of Restricted Stock Award Agreement (with accelerated vesting provision) under 2001 KCS Energy, Inc. Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.9 of KCS Energy, Inc. s Quarterly Report on Form 10-Q filed November 9, 2004).
10.33	KCS Energy, Inc. 2005 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 4.8 to KCS Energy, Inc s Registration Statement on Form S-8 (File No. 333-125690) filed June 10, 2005), as amended by the First Amendment to KCS Energy, Inc. 2005 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.1 to KCS Energy, Inc. s Current Report on Form 8-K filed May 19, 2005).
10.34	Form of Supplemental Stock Option Agreement under KCS Energy, Inc. 2005 Employee and Directors Stock Plan and related Stock Option Exercise Agreement (Incorporated by reference to Exhibit 10.3 of KCS Energy, Inc. s Current Report on Form 8-K filed June 16, 2005).
10.35	Form of Supplemental Stock Option Agreement for Non-Employee Directors under KCS Energy, Inc. 2005 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.4 of KCS Energy, Inc s Current Report on Form 8-K filed June 16, 2005).
10.36	Form of Restricted Stock Award Agreement under KCS Energy, Inc. 2005 Employee and Directors Stock Plan (without accelerated vesting provision) and related Restricted Stock Award Certificate (Incorporated by reference to Exhibit 10.5 of KCS Energy, Inc s Current Report on Form 8-K filed June 16, 2005).
10.37	Form of Restricted Stock Award Agreement under KCS Energy, Inc. 2005 Employee and Directors Stock Plan (with accelerated vesting provision) and related Restricted Stock Award Certificate (Incorporated by reference to Exhibit 10.6 of KCS Energy, Inc. s Current Report on Form 8-K filed June 16, 2005).
10.38	Form of Amended and Restated Performance Share Award Certificate under KCS Energy, Inc. 2005 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.19 to our Quarterly Report on Form 10-Q filed November 3, 2006).
10.39	Form of Amendment to Restricted Stock Agreement under the KCS Energy, Inc. 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.5 to KCS Energy, Inc. s Current Report on Form 8-K filed April 25, 2006).
10.40	Form of Amendment to Supplemental Stock Option Agreement under KCS Energy, Inc. s 2001 Employee and Directors Stock Plan (Incorporated by reference to Exhibit 10.5 to KCS Energy, Inc. s Current Report on Form 8-K filed April 25, 2006).
10.41	Executive Employment Agreement Form A for certain executives and Petrohawk Energy Corporation (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).
10.42	Executive Employment Agreement Form B for certain executives and Petrohawk Energy Corporation (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).
10.43	Amendment No. 2 to the KCS Energy, Inc. 2005 Employees and Directors Stock Plan (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).
10.44	Amendment No. 2 to the KCS Energy, Inc. 2001 Employees and Directors Stock Plan (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).

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Exhibit No.	Description
10.45	Amendment No. 1 to the Mission Resources Corporation 1996 Stock Incentive Plan (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preference Dividends (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).
14.1	Code of Ethics (Incorporated by reference to Exhibit D of the Definitive Proxy on Schedule 14A filed on June 23, 2004).
21.1	Subsidiaries of the Registrant (incorporated by reference to the exhibit of the same number filed with the Registrants Annual Report on Form 10-K filed with the SEC on February 28, 2007).
23.1*	Consent of Deloitte & Touche LLP
23.2*	Consent of Netherland, Sewell & Associates, Inc.
31.1*	Certificate of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certificate of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) under the Securities and Exchange Act of 1934 and 18 U.S.C. Section 1350.
99.1	Netherland, Sewell & Associates, Inc. Reserve Report

* Exhibits designated by the symbol * are filed with this Annual Report on Form 10-K/A. All exhibits not so designated are incorporated by reference to a prior filing with the SEC as indicated

The registrant has not filed with this report copies of the instruments defining rights of all holders of long-term debt of the registrant and its consolidated subsidiaries based upon the exception set forth in Item 601 (b)(4)(iii)(A) of Regulation S-K. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PETROHAWK ENERGY CORPORATION

Date: June 1, 2007

By: /s/ FLOYD C. WILSON
Floyd C. Wilson
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FLOYD C. WILSON **Floyd C. Wilson**	Chairman of the Board, President and Chief Executive Officer	June 1, 2007
/s/ SHANE M. BAYLESS **Shane M. Bayless**	Executive Vice President, Chief Financial Officer and Treasurer	June 1, 2007
/s/ MARK J. MIZE **Mark J. Mize**	Vice President, Chief Accounting Officer and Controller	June 1, 2007
/s/ JAMES W. CHRISTMAS **James W. Christmas**	Vice Chairman and Director	June 1, 2007
/s/ TUCKER S. BRIDWELL **Tucker S. Bridwell**	Director	June 1, 2007
/s/ THOMAS R. FULLER **Thomas R. Fuller**	Director	June 1, 2007
/s/ JAMES L. IRISH, III **James L. Irish, III**	Director	June 1, 2007
/s/ GARY A. MERRIMAN **Gary A. Merriman**	Director	June 1, 2007
/s/ ROBERT G. RAYNOLDS **Robert G. Raynolds**	Director	June 1, 2007

/s/ ROBERT C. STONE, JR. **Robert C. Stone, Jr.**	Director	June 1, 2007
/s/ CHRISTOPHER A. VIGGIANO **Christopher A. Viggiano**	Director	June 1, 2007