

PETROHAWK ENERGY CORP  
Form S-4  
May 18, 2006

As filed with the Securities and Exchange Commission on May 18, 2006

Registration No. 333-

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM S-4

### REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

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# PETROHAWK ENERGY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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**DELAWARE**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**1311**  
(Primary Standard Industrial  
Classification Code Number)  
**1100 Louisiana, Suite 4400**

**86-0876964**  
(I.R.S. Employer  
Identification Number)

**Houston, Texas 77002**

**(832) 204-2700**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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**Floyd C. Wilson**

Chairman, President and Chief Executive Officer

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Petrohawk Energy Corporation

1100 Louisiana, Suite 4400

Houston, Texas 77002

(832) 204-2700

(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 the effectiveness of this Registration Statement and the effective time of the merger as described in the Amended and Restated Agreement and Plan of Merger, effective as of April 20, 2006, included as Annex A to the joint proxy statement/prospectus forming a part of this Registration Statement.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

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

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

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**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
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		<b>Offering Price</b>	
		<b>Per Share</b>	
Common Stock, par value \$0.001	88,000,000	\$ 1,115,023,324	\$ 119,308

- (1) Represents the number of shares of the common stock of the registrant that may be issued to former stockholders of KCS Energy, Inc. ( KCS ) pursuant to the merger described herein.
- (2) Pursuant to Securities Act Rule 457(c), (f)(1) and (f)(3), and estimated solely for purposes of calculating the registration fee, the proposed maximum aggregate offering price is \$1,115,023,324, which equals (1) the product of (a) the average of the high and low prices of the common stock of KCS of \$29.065, as reported on the New York Stock Exchange on May 16, 2006 and (b) the maximum total number of shares of common stock of KCS to be canceled (which is 53,845,633 shares), less (2) the maximum amount of cash to be paid by the Registrant in exchange for shares of KCS common stock (which equals \$450,000,000).

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 that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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**The information in this document is not complete and may be changed. Petrohawk may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED MAY 18, 2006**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Petrohawk Energy Corporation ( Petrohawk ) and KCS Energy, Inc. ( KCS ) have entered into an amended and restated agreement and plan of merger effective as of April 20, 2006 (the merger agreement ). Under the merger agreement, Petrohawk will combine with KCS through a merger of KCS with and into Petrohawk (the merger ). The merger agreement is attached as *Annex A* to this joint proxy statement/prospectus and is incorporated into this joint proxy statement/prospectus by reference. In the merger, each issued and outstanding share of KCS common stock will be converted into the right to receive \$9.00 in cash and 1.65 shares of Petrohawk common stock, other than issued and outstanding shares of KCS restricted stock issued to employees under KCS stock plans. Issued and outstanding shares of restricted common stock of KCS will be converted into issued and outstanding shares of restricted common stock of Petrohawk, outstanding options to purchase KCS common stock will be converted into options to purchase Petrohawk common stock and outstanding performance share awards of KCS will be converted into performance share awards to earn shares of Petrohawk common stock, in each case in such amounts and on such terms as set forth in the merger agreement. In total, Petrohawk will issue approximately 83.7 million shares of common stock and will pay approximately \$450 million in cash based on the shares of KCS common stock outstanding on April 20, 2006.

Your vote is important. We cannot complete the merger unless the KCS stockholders and Petrohawk stockholders approve and adopt the merger agreement and the Petrohawk stockholders approve an amendment to Petrohawk s certificate of incorporation increasing its authorized shares of common stock at their respective stockholder meetings. The obligations of Petrohawk and KCS to complete the merger are also subject to the satisfaction or waiver of certain other conditions to the merger. The places, dates and times of the respective stockholder meetings of Petrohawk and KCS are as follows:

For Petrohawk stockholders:

a.m., Houston, Texas time,

, 2006

[Address]

Houston, Texas

This joint proxy statement/prospectus gives you detailed information about the respective stockholder meetings of Petrohawk and KCS and the proposed merger. **We urge you to read this joint proxy statement/prospectus carefully, including Risk Factors on page 17 for a discussion of the risks relating to the merger.** Whether or not you plan to attend your meeting, to ensure your shares are represented at the meeting, please vote as soon as possible by either completing and submitting the enclosed proxy card or voting using the telephone or Internet voting procedures described on your proxy card.

Each of our boards of directors recommends that you vote **FOR** the approval and adoption of the merger agreement, the amendment to Petrohawk s certificate of incorporation and the other matters contemplated to be voted upon at the annual meeting of Petrohawk and the special meeting of KCS.

Petrohawk common stock is quoted on the Nasdaq National Market under the symbol **HAWK**. KCS common stock is traded on the New York Stock Exchange under the symbol **KCS**.

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**Neither the SEC nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement/prospectus or has passed upon the adequacy or accuracy of the disclosure in this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

This joint proxy statement/prospectus is dated \_\_\_\_\_, 2006 and is first being mailed to Petrohawk stockholders and KCS stockholders on or about \_\_\_\_\_, 2006.

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**PETROHAWK ENERGY CORPORATION**

**1100 Louisiana, Suite 4400**

**Houston, Texas 77002**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on \_\_\_\_\_, 2006**

TO THE STOCKHOLDERS OF PETROHAWK ENERGY CORPORATION:

We will hold the annual meeting of stockholders of Petrohawk Energy Corporation ( Petrohawk ) at \_\_\_\_\_, Houston, Texas, on \_\_\_\_\_, 2006, at \_\_\_\_\_ a.m. local time, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Amended and Restated Agreement and Plan of Merger effective as of April 20, 2006 by and between Petrohawk and KCS Energy, Inc. and the transactions contemplated therein, including the issuance of shares of common stock, par value \$0.001 per share, of Petrohawk in the merger.
2. To consider and vote upon a proposal to amend Petrohawk's certificate of incorporation to increase the number of authorized shares of common stock from 125 million shares to 300 million shares.
3. To elect three nominees to the board of directors to serve as Class II directors until their successors are duly elected or until their earlier death, resignation, or removal.
4. To consider and vote upon a proposal to amend Petrohawk's Second Amended and Restated 2004 Employee Incentive Plan to increase the number of authorized shares of common stock under the plan from 4.25 million shares to 7.05 million shares.
5. To consider and vote upon a proposal to amend Petrohawk's Second Amended and Restated 2004 Non-Employee Director Incentive Plan to increase the number of authorized shares of common stock under the plan from 400,000 shares to 600,000 shares.
6. To transact any other business as may properly be brought before the annual meeting or any adjournment or postponement of the annual meeting.

The Petrohawk board of directors has fixed the close of business on May 30, 2006 as the record date for determining those Petrohawk stockholders entitled to vote at the annual meeting and any adjournment or postponement thereof. Accordingly, only stockholders of record at the close of business on that date are entitled to notice of, and to vote at, the annual meeting. A complete list of the Petrohawk stockholders will be available for examination at the offices of Petrohawk in Houston, Texas during ordinary business hours for a period of 10 days prior to the annual meeting.

The board of directors of Petrohawk recommends that Petrohawk stockholders vote **FOR** each of the proposals to be voted on at the annual meeting.

To ensure your representation at the annual meeting, please complete and promptly mail your proxy card in the return envelope enclosed, or authorize the individuals named on your proxy card to vote your shares by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card or voting instruction card. This will not prevent you from voting in person, but will help to secure a quorum and avoid added solicitation costs. If your shares are held in street name by your broker or other nominee, only that holder can vote your shares and the vote cannot be cast unless you provide instructions to your broker. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Your proxy may be revoked at any time before it is voted. Please review the joint proxy statement/prospectus accompanying this notice for more complete information regarding the matters to be voted on at the meeting.

By Order of the Board of Directors

of Petrohawk Energy Corporation

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Floyd C. Wilson

Chairman, President and Chief Executive Officer

Houston, Texas

, 2006

**KCS ENERGY, INC.**

**5555 San Felipe Road, Suite 1200**

**Houston, Texas 77056**

**(713) 877-8006**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held on \_\_\_\_\_, 2006**

TO THE STOCKHOLDERS OF KCS ENERGY, INC.:

We will hold a special meeting of stockholders of KCS Energy, Inc. ( KCS ) at \_\_\_\_\_ Houston, Texas, on \_\_\_\_\_, 2006, at \_\_\_\_\_ a.m. local time, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Amended and Restated Agreement and Plan of Merger effective as of April 20, 2006 by and between Petrohawk Energy Corporation ( Petrohawk ) and KCS.
2. To transact any other business as may properly be brought before the special meeting or any adjournment or postponement of the special meeting.

The KCS board of directors has fixed the close of business on May 30, 2006 as the record date for determining those KCS stockholders entitled to vote at the special meeting and any adjournment or postponement thereof. Accordingly, only stockholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting. A complete list of the KCS stockholders will be available for examination at the offices of KCS in Houston, Texas during ordinary business hours for a period of 10 days prior to the special meeting.

The board of directors of KCS recommends that KCS stockholders vote **FOR** the proposal to be voted on at the special meeting.

Under Delaware law, if the merger is completed, holders of KCS common stock who do not vote in favor of, or consent in writing to, approval and adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with the other Delaware law procedures and requirements explained in the accompanying joint proxy statement/prospectus.

To ensure your representation at the special meeting, please complete and promptly mail your proxy card in the return envelope enclosed, or authorize the individuals named on your proxy card to vote your shares by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card or voting instruction card. This will not prevent you from voting in person, but will help to secure a quorum and avoid added solicitation costs. If your shares are held in street name by your broker or other nominee, only that holder can vote your shares and the vote cannot be cast unless you provide instructions to your broker. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Your proxy may be revoked at any time before it is voted. Please review the joint proxy statement/prospectus accompanying this notice for more complete information regarding the merger and the special meeting.

By Order of the Board of Directors

of KCS Energy, Inc.

James W. Christmas

Chairman and Chief Executive Officer

Houston, Texas

, 2006



**ADDITIONAL INFORMATION**

This joint proxy statement/prospectus incorporates by reference important business and financial information about Petrohawk and KCS from documents that are not included in or delivered with this joint proxy statement/prospectus. See "Where You Can Find More Information" on page 141. This information is available to you without charge upon your written or oral request. You can obtain documents incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone from Petrohawk or KCS at the following addresses:

Petrohawk Energy Corporation  
1100 Louisiana, Suite 4400  
Houston, Texas 77002  
(832) 204-2700  
Attention: Investor Relations

KCS Energy, Inc.  
5555 San Felipe Road, Suite 1200  
Houston, Texas 77056  
(713) 877-8006  
Attention: Secretary

You also may obtain these documents at the Securities and Exchange Commission's website, [www.sec.gov](http://www.sec.gov), and you may obtain certain of these documents at Petrohawk's website, [www.petrohawk.com](http://www.petrohawk.com), by selecting "Investor Relations" and then selecting "SEC Filings," and at KCS's website, [www.kcsenergy.com](http://www.kcsenergy.com), by selecting "Investor Relations" and then selecting "SEC Filings." Information contained on the Petrohawk and KCS websites is expressly not incorporated by reference into this joint proxy statement/prospectus. To receive timely delivery of the documents in advance of the Petrohawk annual meeting of stockholders or the KCS special meeting of stockholders, your request should be received no later than \_\_\_\_\_, 2006.

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Annex A	Amended and Restated Agreement and Plan of Merger
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**QUESTIONS AND ANSWERS ABOUT VOTING PROCEDURES**

**FOR THE ANNUAL AND SPECIAL MEETINGS**

**Q: What am I voting on?**

A: Petrohawk and KCS are proposing to combine the two companies. You are being asked to vote to approve and adopt the merger agreement and, in the case of Petrohawk, to approve an amendment to its certificate of incorporation to increase its authorized shares of common stock in connection with the merger. In the proposed merger, KCS will merge into Petrohawk, Petrohawk will be the surviving entity and KCS will no longer be a separate company.

If you are a Petrohawk stockholder, you are also being asked to approve certain other proposals described in this joint proxy statement/prospectus.

**Q: Why is my vote important?**

A: Under the Delaware General Corporation Law (the "DGCL"), which governs KCS, the merger agreement must be approved and adopted by the holders of a majority of the outstanding shares of KCS common stock entitled to vote. Accordingly, if a KCS stockholder fails to vote, or if a KCS stockholder abstains, that will have the same effect as a vote against approval and adoption of the merger agreement.

In addition, under the DGCL, which also governs Petrohawk, approval and adoption of the merger agreement and the proposed amendment to Petrohawk's certificate of incorporation to increase the number of authorized shares of common stock from 125 million shares to 300 million shares must be approved by the holders of a majority of the outstanding shares of Petrohawk common stock and preferred stock entitled to vote. Accordingly, if a Petrohawk stockholder fails to vote, or if a Petrohawk stockholder abstains, that will have the same effect as a vote against these proposals. Approval of the amendment to the Petrohawk certificate of incorporation is a condition to the merger.

Under the rules of the Nasdaq National Market, the amendments to increase the shares available for issuance under Petrohawk's Second Amended and Restated 2004 Employee Incentive Plan (the "2004 Employee Incentive Plan") and Second Amended and Restated 2004 Non-Employee Director Incentive Plan (the "2004 Non-Employee Director Incentive Plan") require the affirmative vote of a majority of the shares of common stock voted at the Petrohawk annual meeting so long as the shares voted represent over 50% of the shares entitled to vote at the meeting. Accordingly, assuming that a quorum is present and that the total votes cast at the Petrohawk annual meeting represent more than 50% of all Petrohawk common stock entitled to vote, the failure of a Petrohawk stockholder to vote or a decision by a Petrohawk stockholder to abstain will have no effect in determining whether these proposals are approved.

**Q: Should I send in my proxy card even if I plan to attend the stockholder meeting?**

A: Yes. Although you are invited to attend the stockholder meeting and vote your shares in person rather than by signing and returning your proxy card, you can help ensure that your shares will be represented at the meeting by submitting your proxy card as soon as possible.

**Q: What do I need to do now?**

A: After you have carefully read this joint proxy statement/prospectus, please respond by completing, signing and dating your proxy card and returning it in the enclosed postage-paid envelope or, if available, by submitting your proxy or voting instruction by telephone or through the Internet as soon as possible so that your shares will be represented and voted at your stockholders' meeting.

**Q: What do I do if I want to change my vote after I have delivered my proxy card?**

A: You may change your vote at any time before your proxy is voted at your meeting. You can do this in any of the three following ways:

by sending a written notice to the Secretary of Petrohawk or KCS, as appropriate, in time to be received before your meeting stating that you would like to revoke your proxy;

by completing, signing and dating another proxy card and returning it by mail in time to be received before your stockholders' meeting or, if you submitted your proxy through the Internet or by telephone, you can change your vote by submitting a proxy card at a later date, in which case your later-submitted proxy will be recorded and your earlier proxy revoked; or

if you are a holder of record, by attending your stockholders' meeting and voting in person.

If your shares are held in an account at a broker or other nominee, you should contact your broker or other nominee to change your vote.

**Q: If my shares are held in street name by my broker or other nominee, will my broker or other nominee vote my shares for me?**

A: If you are a KCS stockholder, your broker will NOT vote your shares held in street name unless you instruct your broker how to vote. The failure to vote will have the same effect as a vote AGAINST approval and adoption of the merger agreement.

If you are a Petrohawk stockholder, your broker will NOT vote your shares held in street name on the approval and adoption of the merger agreement, the amendment of the certificate of incorporation to increase the number of authorized shares of common stock, or the amendments to Petrohawk's incentive plans to increase the shares of common stock available thereunder unless you instruct your broker how to vote. Accordingly, the failure to vote will have the same effect as a vote AGAINST approval and adoption of the merger agreement and the amendment of the certificate of incorporation and will make it more difficult for Petrohawk to satisfy the NASDAQ requirement that more than 50% of the Petrohawk common stock cast votes on the proposals to amend Petrohawk's incentive plans. You should therefore provide your broker or other nominee with instructions as to how to vote your shares.

**Q: What will I receive in exchange for my KCS shares?**

A: Upon completion of the merger, you will receive a combination of 1.65 shares of Petrohawk common stock and \$9.00 in cash, without interest, for each share of KCS common stock that you own, unless you hold KCS restricted shares issued under a KCS stock plan. In that case, you will receive restricted shares of Petrohawk common stock for each restricted share of KCS you hold determined by adding the exchange ratio (1.65) to the result obtained by dividing the cash consideration (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs.

**Q: Do I have the option to receive all cash consideration or all stock consideration for my KCS shares?**

A: No. KCS stockholders will receive the fixed combination of \$9.00 in cash and 1.65 shares of Petrohawk common stock for each share of KCS common stock that they own. Holders of KCS restricted shares issued to employees under KCS stock plans will receive Petrohawk restricted shares as described above.

**Q: If I am a KCS stockholder, should I send in my stock certificates with my proxy card?**

A: No. Please DO NOT send your KCS stock certificates with your proxy card. After the merger is completed, you will receive written instructions informing you how to send in your stock certificates to receive the merger consideration. In the event the merger agreement is terminated, any KCS stock certificates you previously sent to the exchange agent will be promptly returned to you without charge.

**Q: Do I have dissenters rights?**

A: Under the DGCL, if the merger is completed, holders of KCS common stock who do not vote in favor of, or consent in writing to, the approval and adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with the other Delaware law procedures and requirements explained in the accompanying joint proxy statement/prospectus.

**Q: Who can I call with questions about the stockholders meetings, the merger and the other matters to be voted upon?**

A: If you have any questions about these matters or how to submit your proxy or voting instruction card, or if you need additional copies of this document or the enclosed proxy card or voting instruction card, you should contact:

if you are a Petrohawk stockholder:  
Petrohawk Energy Corporation

1100 Louisiana, Suite 4400

Houston, Texas 77002

(832) 204-2700

Attention: Investor Relations

if you are a KCS stockholder:  
KCS Energy, Inc.

5555 San Felipe Road, Suite 1200

Houston, Texas 77056

(713) 877-8006

Attention: Secretary

## SUMMARY

This brief summary highlights selected information from this joint proxy statement/prospectus. It does not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this joint proxy statement/prospectus refers you to fully understand the merger and the other matters discussed in this joint proxy statement/prospectus. See **Where You Can Find More Information** on page 141. Each item in this summary refers to the page where that subject is discussed in more detail. We have defined certain oil and gas industry terms used in this document in the **Glossary of Oil and Gas Terms** beginning on page 144.

### **Information about Petrohawk and KCS (Pages 28 and 30)**

#### **Petrohawk Energy Corporation**

1100 Louisiana, Suite 4400

Houston, Texas 77002

(832) 204-2700

Petrohawk is a Delaware corporation. Petrohawk's common stock is quoted on the Nasdaq National Market under the symbol **HAWK**. Petrohawk is an independent oil and gas company engaged in the acquisition, development, production and exploration of natural gas and oil properties located in North America. Petrohawk's properties are concentrated in the East Texas/North Louisiana, Gulf Coast, South Texas, Permian Basin, Anadarko and Arkoma regions.

#### **KCS Energy, Inc.**

5555 San Felipe Road, Suite 1200

Houston, Texas 77056

(713) 877-8006

KCS is a Delaware corporation. KCS's common stock is traded on the New York Stock Exchange under the symbol **KCS**. KCS is an independent oil and gas company engaged in the acquisition, exploration, development and production of natural gas and oil properties primarily located in the Mid-Continent and onshore Gulf Coast regions of the United States. KCS also has interests in producing properties in Michigan, California, Wyoming and offshore Gulf of Mexico.

## **The Merger**

### **KCS Will Merge with Petrohawk, and Petrohawk will be the Surviving Entity (Page 31)**

We propose a merger of KCS with and into Petrohawk, and Petrohawk will be the surviving entity. We have attached the merger agreement to this joint proxy statement/prospectus as *Annex A*. Please read the merger agreement carefully. It is the legal document that governs the merger. **Subject to satisfaction of other conditions to the merger, we anticipate that the closing of the merger will occur within five days after the approval and adoption of the merger agreement by the requisite votes of the KCS stockholders and the Petrohawk stockholders and, in the case of Petrohawk, the approval of the amendment of the certificate of incorporation of Petrohawk to increase the authorized shares of common stock of Petrohawk by the requisite vote of the Petrohawk stockholders.**

### **Ownership of Petrohawk After the Merger**

KCS stockholders will receive a total of approximately 83.7 million shares of Petrohawk common stock and approximately \$450 million in cash in the merger. The shares of Petrohawk to be received by KCS stockholders



in the merger will represent approximately 50% of the outstanding shares of Petrohawk common stock after the merger. Upon completion of the merger, Petrohawk will have approximately 167 million shares of common stock outstanding. This information is based upon the number of Petrohawk and KCS shares outstanding on April 20, 2006 and does not take into account the exercise of appraisal rights, adjustments for fractional shares, or the issuance of shares pursuant to stock options or other equity-based awards or other issuances before the merger as permitted by the merger agreement.

### Governance

The merger agreement provides that immediately following the effective time, Petrohawk will take all corporate action necessary or advisable to cause the election to Petrohawk's board of directors a total of nine persons, five individuals to be designated by Petrohawk (one of which to be Mr. Wilson) and four individuals to be designated by KCS (one of which to be Mr. Christmas). All individuals to be designated, other than Mr. Wilson and Mr. Christmas, must be outside, independent members of Petrohawk's or KCS's current board or must have been approved by the other party. The merger agreement further provides that the persons designated by KCS must be appointed or elected in such a manner as to cause each class of Petrohawk's board of directors to include at least one of KCS's designees and that Mr. Christmas must be appointed or elected to the class having the longest term. In addition, Petrohawk must also cause the Petrohawk board of directors to appoint to each of its committees at least one of its members who is a KCS designee and at least one member who is a Petrohawk designee.

The four individuals (including Mr. Christmas) designated by KCS to serve on the Petrohawk board of directors will not be nominated for election to the Petrohawk board at the annual meeting. When the merger is consummated, it is anticipated that four members of Petrohawk's board of directors will resign and the remaining Petrohawk board members will appoint Mr. Christmas and three other persons designated by KCS to the Petrohawk board. Petrohawk expects that Messrs. Miller, Brown, Williamson and Rioux will resign from the Petrohawk board and KCS expects to designate four of its current directors, Messrs. Christmas, Merriman, Reynolds and Viggiano, for appointment to the Petrohawk board of directors.

### Market Prices and Share Information

The following table shows the closing sale prices of Petrohawk and KCS common stock as reported on the Nasdaq and the New York Stock Exchange, or NYSE, respectively, on April 20, 2006, the last business day preceding the press release announcing the merger agreement, and on May 1, 2006, the last practicable day before the distribution of this joint proxy statement/prospectus. This table also shows the merger consideration equivalent proposed for each non-restricted share of KCS common stock, which we calculated by multiplying the closing price of Petrohawk common stock on those dates by the exchange ratio of 1.65 and adding the cash consideration of \$9.00.

	Closing Price per Share	
	April 20, 2006	May 1, 2006
Petrohawk common stock	\$ 13.58	\$
KCS common stock	\$ 28.66	\$
KCS merger consideration equivalent	\$ 31.41	\$

Because the 1.65 exchange ratio is fixed and will not be adjusted as a result of changes in the market price of Petrohawk common stock, the merger consideration equivalent will fluctuate with the market price of Petrohawk common stock. The merger agreement does not include a price-based termination right or provisions that would limit the impact of increases or decreases in the market price of Petrohawk common stock. You should obtain current market quotations for the shares of both companies from a newspaper, the Internet or your broker prior to voting on the merger agreement.

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Holders of restricted shares of KCS common stock issued under KCS stock plans will receive restricted shares of Petrohawk common stock having a value equivalent to the merger consideration. The number of shares of Petrohawk restricted stock to be issued for each restricted share of KCS will be determined by adding the exchange ratio (1.65) to the result obtained by dividing the cash amount (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs.

**Dividend Policy of Petrohawk (Page 97)**

Petrohawk has never paid any cash dividends on its common stock. Petrohawk does not expect to declare or pay any cash or other dividends in the foreseeable future on its common stock. Holders of Petrohawk's 8% cumulative convertible preferred stock are entitled to receive cumulative dividends at the annual rate of \$0.74 per share when and as declared by the board of directors of Petrohawk. No dividends may be paid on Petrohawk's common stock unless all cumulative dividends due on all of the 8% cumulative convertible preferred stock have been declared and paid. Petrohawk's existing revolving credit facility restricts the payment of cash dividends on common stock and preferred stock (other than the 8% cumulative convertible preferred stock). Petrohawk's current senior note indenture restricts the payment of dividends, and Petrohawk may also enter into credit agreements or other borrowing arrangements in the future that restrict the ability to declare and pay cash dividends. Upon consummation of the merger, the KCS indenture will become binding on Petrohawk and will restrict Petrohawk's ability to declare and pay cash dividends.

**The Meetings and Voting**

**Petrohawk Annual Meeting of Stockholders (Page 23)**

The Petrohawk annual meeting will be held in Houston on \_\_\_\_\_, 2006 at \_\_\_\_\_ a.m., local time. At the annual meeting, you will be asked:

1. To consider and vote upon a proposal to approve and adopt the Amended and Restated Agreement and Plan of Merger effective as of April 20, 2006 by and between Petrohawk and KCS Energy, Inc. and the transactions contemplated therein, including the issuance of shares of common stock, par value \$0.001 per share, of Petrohawk in the merger.
2. To consider and vote upon a proposal to amend Petrohawk's certificate of incorporation to increase the number of authorized shares of common stock from 125 million shares to 300 million shares.
3. To elect three nominees to the board of directors to serve as Class II directors until their successors are duly elected or until their earlier death, resignation, or removal.
4. To consider and vote upon a proposal to amend Petrohawk's Second Amended and Restated 2004 Employee Incentive Plan to increase the number of authorized shares of common stock under the plan from 4.25 million shares to 7.05 million shares.
5. To consider and vote upon a proposal to amend Petrohawk's Second Amended and Restated 2004 Non-Employee Director Incentive Plan to increase the number of authorized shares of common stock under the plan from 400,000 shares to 600,000 shares.
6. To transact any other business as may properly be brought before the annual meeting or any adjournment or postponement of the annual meeting.

You can vote at the Petrohawk annual meeting if you owned Petrohawk common stock or 8% cumulative convertible preferred stock at the close of business on May 30, 2006. On that date, there were \_\_\_\_\_ shares of Petrohawk common stock outstanding and entitled to vote, approximately \_\_\_\_\_ % of which were owned and entitled

to be voted by Petrohawk directors and executive officers and their affiliates. Also on that date, there were 593,271 shares of Petrohawk 8% cumulative convertible preferred stock outstanding and entitled to vote, none of which were owned by Petrohawk directors and executive officers and their affiliates. Additionally, parties owning approximately 4% of Petrohawk common stock have entered into separate voting agreements with Petrohawk and KCS pursuant to which they have agreed, among other things, to vote all shares owned by each of them in favor of the transactions contemplated in the merger agreement. You can cast one vote for each share of Petrohawk common stock you owned on that date. Each holder of Petrohawk's 8% cumulative convertible preferred stock is entitled to one vote for every two shares of 8% cumulative convertible preferred stock owned on that date.

Approval and adoption of the merger agreement and approval of the amendment to the certificate of incorporation by the Petrohawk stockholders requires the affirmative vote of holders of a majority of the outstanding shares of Petrohawk stock entitled to vote. Consequently, broker non-votes and abstentions on these matters have the effect of a vote AGAINST the matter.

Each of the directors nominated to serve on Petrohawk's board of directors as Class II directors are elected by a plurality of the votes of Petrohawk's stockholders present in person or represented by written proxy at the annual meeting. Any shares not voted (whether by withholding the vote, broker non-vote or otherwise) have no impact in the election of directors, except to the extent the failure to vote for an individual results in another candidate receiving a larger number of votes.

Approval of the amendment to the 2004 Employee Incentive Plan and the amendment to the 2004 Non-Employee Director Incentive Plan requires affirmative vote of a majority of the votes cast at the meeting. Broker non-votes and abstentions on these matters have no impact, provided that a quorum is present.

#### **KCS Special Stockholder Meeting (Page 25)**

The KCS special meeting will be held in Houston, Texas on \_\_\_\_\_, 2006 at \_\_\_\_\_ a.m., local time. At the special meeting, you will be asked:

1. To consider and vote upon a proposal to approve and adopt the Amended and Restated Agreement and Plan of Merger effective as of April 20, 2006 by and between Petrohawk Energy Corporation and KCS Energy, Inc.
2. To transact any other business as may properly be brought before the special meeting or any adjournment or postponement of the special meeting.

You can vote at the KCS special meeting if you owned KCS common stock at the close of business on May 30, 2006. On that date, there were \_\_\_\_\_ shares of KCS common stock outstanding and entitled to vote, approximately \_\_\_\_\_% of which were owned and entitled to be voted by KCS directors and executive officers and their affiliates. Certain KCS executive officers owning approximately 3% of KCS common stock have entered into separate voting agreements with Petrohawk and KCS pursuant to which they have agreed, among other things, to vote all shares owned by each of them in favor of the merger. You can cast one vote for each share of KCS common stock you owned on that date. Approval and adoption of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of KCS common stock entitled to vote. Consequently, broker non-votes and abstentions on this matter have the effect of a vote AGAINST the matter.

#### **Boards of Directors Recommendations to Stockholders (Page 37)**

The Petrohawk board of directors believes that the merger and the transactions contemplated in the merger agreement are fair to and in the best interests of the Petrohawk stockholders, and recommends that Petrohawk

stockholders vote FOR the approval and adoption of the merger agreement and the transactions contemplated therein. In addition, the Petrohawk board of directors believes that the amendment to Petrohawk's certificate of incorporation, which is also a condition of the merger, and the amendment of the 2004 Non-Employee Director Incentive Plan and the 2004 Employee Incentive Plan and the election of the persons nominated as directors to the board of directors are in the best interests of the Petrohawk stockholders and recommends that the Petrohawk stockholders vote FOR each of these proposals.

The KCS board of directors believes that the merger is fair to and in the best interests of the KCS stockholders, and recommends that KCS stockholders vote FOR the approval and adoption of the merger agreement.

To review the background and reasons for the merger in greater detail see The Merger Background of the Merger beginning on page 32 of this document, and to review certain risks related to the merger, see Risk Factors beginning on page 17 of this document, The Merger Recommendation of Petrohawk's Board of Directors and Reasons for the Merger, beginning on page 37 of this document and The Merger Recommendation of KCS's Board of Directors and Reasons for the Merger beginning on page 39 of this document. Please refer to Proposed Amendment to Petrohawk's Certificate of Incorporation beginning on page 106 of this document, Election of Petrohawk Directors beginning on page 108 of this document, Proposed Amendment to Petrohawk's 2004 Employee Incentive Plan beginning on page 125 of this document and Proposed Amendment To Petrohawk's 2004 Non-Employee Director Incentive Plan beginning on page 128 of this document for a more complete discussion of the other Petrohawk proposals.

### **Matters to Be Considered in Deciding How to Vote**

#### **Fairness Opinion of Petrie Parkman & Co., Inc. to the Petrohawk Board of Directors (Page 41)**

In connection with the merger, Petrohawk engaged Petrie Parkman & Co., Inc. ( Petrie Parkman ) solely to render an opinion to Petrohawk as to the fairness, from a financial point of view, to Petrohawk of the consideration to be paid by Petrohawk in a potential transaction with KCS. In deciding to approve the merger agreement, the Petrohawk board of directors considered the opinion of Petrie Parkman provided to the Petrohawk board of directors on April 20, 2006, that, based upon and subject to the assumptions made, matters considered, qualifications, and limitations set forth in the written opinion, as of that date, the financial consideration to be paid by Petrohawk in the merger was fair, from a financial point of view, to Petrohawk.

The full text of the written opinion of Petrie Parkman, dated April 20, 2006, which sets forth, among other things, the assumptions made, matters considered, qualifications, and limitations on the review undertaken by Petrie Parkman in connection with the opinion, is attached to this document as *Annex B*. Petrie Parkman provided its opinion for the information and assistance of the Petrohawk board of directors in connection with its consideration of the transactions contemplated in the merger agreement. The Petrie Parkman opinion is not a recommendation as to how any stockholder of Petrohawk or KCS should vote or act with respect to any matter relating to the merger.

#### **Fairness Opinion of Morgan Stanley to the KCS Board of Directors (Page 50)**

In connection with the merger, KCS retained Morgan Stanley & Co. Incorporated ( Morgan Stanley ) to opine on the fairness of the consideration to be received by the holders of shares of KCS common stock pursuant to the merger agreement from a financial point of view to the KCS stockholders. In deciding to approve the merger agreement, the KCS board of directors considered, among other things, the opinion of Morgan Stanley provided to the KCS board of directors on April 20, 2006, that, as of the date of the opinion and based upon and subject to the matters set forth in its opinion, the consideration to be received by holders of KCS common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of the written opinion of Morgan Stanley, dated April 20, 2006, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations of the review undertaken by Morgan Stanley in rendering its opinion, is attached to this document as *Annex C*. Morgan Stanley provided its opinion for the information and assistance of the KCS board of directors in connection with its consideration of the transaction contemplated in the merger agreement. The Morgan Stanley opinion is not a recommendation as to how any stockholder of KCS or Petrohawk should vote on the merger.

**The Merger Generally Will Be Tax-Free to U.S. Holders and Certain Non-U.S. Holders of KCS Common Stock to the Extent They Receive Petrohawk Common Stock (Page 74)**

Based on the opinions of Andrews Kurth LLP, outside counsel to KCS, and Thompson & Knight LLP, outside counsel to Petrohawk, we expect that the material U.S. federal income tax consequences of the merger to KCS stockholders that are U.S. persons will be as follows:

You generally will recognize (i.e., take into account for tax purposes) gain (but not loss) equal to the lesser of (1) the excess of the sum of the cash (including cash instead of a fractional share of Petrohawk common stock) and the fair market value of the Petrohawk common stock received over your adjusted tax basis in the KCS stock surrendered, or (2) the amount of cash received.

Your holding period for the Petrohawk common stock received in the merger generally will include your holding period for the KCS common stock exchanged in the merger.

Your aggregate tax basis of the shares of Petrohawk common stock received in exchange for your KCS common stock pursuant to the merger will be the same as the aggregate tax basis of your KCS common stock surrendered in the merger decreased by the amount of cash received in the merger and increased by the amount of gain recognized in the merger.

If you are a non-U.S. person that owns or has owned more than 5% of the outstanding shares of KCS common stock at any time during the shorter of (1) the five-year period ending on the effective time of the merger or (2) the period during which you held such KCS common stock (referred to as the Testing Period), and you exchange your KCS common stock for Petrohawk common stock constituting 5% or less of the outstanding shares of Petrohawk common stock immediately after the merger, we expect the U.S. federal income tax consequences to you to be as follows:

You will recognize gain or loss measured by the difference between (1) the amount of any cash received (including cash instead of a fractional share of Petrohawk common stock) and the fair market value of the Petrohawk common stock received in the merger, and (2) the adjusted tax basis in the KCS common stock you surrender in the merger.

The aggregate tax basis of the Petrohawk common stock received in the merger will equal the fair market value of such Petrohawk common stock as of the effective time of the merger.

The holding period for the Petrohawk common stock received in the merger will begin the day after the effective time of the merger. If you are a non-U.S. person that has owned more than 5% of the outstanding shares of KCS common stock at any time during the Testing Period, and you own more than 5% of the outstanding shares of Petrohawk common stock immediately after the merger, we expect the U.S. federal income tax consequences to you generally to be the same as previously described with respect to a U.S. person.

We expect the tax consequences to a KCS stockholder that is a non-U.S. person and who has not held more than 5% of KCS's outstanding common stock at any time during the Testing Period to be as follows:

You will not be subject to U.S. federal income tax on any gain or loss you realize if you exchange your KCS common stock for cash and Petrohawk common stock in the merger.



The aggregate tax basis of the Petrohawk common stock received in the merger will be equal to the aggregate tax basis of the KCS common stock surrendered, decreased (but not below zero) by the amount of cash received in the merger.

The holding period for shares of Petrohawk common stock received in exchange for shares of KCS common stock in the merger will include the holding period of your KCS common stock exchanged in the merger.

Please refer to *The Merger Material U.S. Federal Income Tax Consequences* beginning on page 74 of this document for a more complete discussion of the U.S. federal income tax consequences of the merger. Determining the actual tax consequences of the merger to you may be complex and will depend on your specific situation. You should consult your tax advisor for a full understanding of the merger's tax consequences for you.

**Certain KCS Directors and Executive Officers May Have Interests in the Merger that are in Addition to their Interests as Stockholders (Page 82)**

In considering the recommendation of the KCS board of directors with respect to approval and adoption of the merger agreement, KCS stockholders should be aware that certain executive officers and directors of KCS may have interests in the merger that are in addition to the interests of other stockholders of KCS generally. Certain executive officers of KCS, for example, are parties to change in control or employment agreements with KCS that, in certain circumstances, and among other benefits, provide for severance payments, accelerated vesting of stock options and performance stock awards and the lapse of restrictions on restricted stock upon a termination of employment following a change in control of KCS.

**The Merger is Expected to Occur in the Third Quarter of 2006 (Page 60)**

The merger will occur after all the conditions to its completion have been satisfied or, if permissible, waived. Currently, we anticipate that the merger will occur in the third quarter of 2006. However, we cannot assure you when or if the merger will occur. If the merger has not been completed on or before December 31, 2006, either Petrohawk or KCS may terminate the merger agreement unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to fulfill any material obligations under the merger agreement or a material breach of the merger agreement by such party.

**Completion of the Merger is Subject to Certain Conditions (Page 61)**

The completion of the merger is subject to a number of customary conditions being met, including approval and adoption of the merger agreement by the stockholders of KCS and Petrohawk, the approval by Petrohawk stockholders of the amendment to the certificate of incorporation of Petrohawk to increase the authorized shares of common stock to 300 million and the approvals of regulatory agencies. Additional conditions to the completion of the merger include the satisfaction by Petrohawk of certain liquidity requirements and the absence of defaults under the Petrohawk and KCS indentures.

Where the law permits, a party to the merger agreement could elect to waive a condition to its obligation to complete the merger, even if that condition has not been satisfied. We cannot be certain when (or if) the conditions to the merger will be satisfied or waived or that the merger will be completed.

**Termination of the Merger Agreement; Fees Payable (Page 72)**

We may terminate the merger agreement by mutual written consent at any time. Either of us also may terminate the merger agreement if:

the merger is not completed on or before December 31, 2006 (although this termination right is not available to a party whose failure to fulfill any material obligations under, or material breach of, the merger agreement resulted in the failure to complete the merger by that date);

a court or other governmental entity of competent jurisdiction issues a final nonappealable order having the effect of permanently enjoining or otherwise prohibiting the merger;

the stockholders of KCS do not approve and adopt the merger agreement at the KCS stockholders' meeting;

the other party is in breach of its representations, warranties, covenants or agreements set forth in the merger agreement and the breach rises to a level that would excuse the terminating party's obligation to complete the merger and is not cured in 30 days or cannot be cured by December 31, 2006;

the stockholders of Petrohawk do not approve and adopt the merger agreement and the amendment of the certificate of incorporation of Petrohawk to increase the authorized shares of common stock to 300 million at the Petrohawk stockholders' meeting; or

the other party has undergone a material adverse effect at any time prior to completion of the merger.

Additionally, Petrohawk may terminate the merger agreement if, prior to obtaining the requisite approval of the KCS stockholders to approve and adopt the merger agreement, there occurs a change in KCS's recommendation that its stockholders approve and adopt the merger agreement. KCS may terminate the merger agreement if, prior to obtaining the requisite approval of the KCS stockholders to approve and adopt the merger agreement, KCS enters into an agreement or its board recommends that KCS enter into an agreement with a third party that would result in the third party owning or controlling 10% or more of KCS's common stock or assets.

The merger agreement provides that in limited circumstances described more fully beginning on page 70 of this document, if there occurs a change in KCS's recommendation that its stockholders approve and adopt the merger agreement, or if the merger agreement is otherwise terminated after KCS shall have received a third party acquisition proposal and KCS enters into an agreement with respect to that proposal within 12 months of termination of the merger agreement, then in either event KCS will be required to pay a termination fee of \$45 million to Petrohawk. The effect of this termination fee could be to discourage other companies from seeking to acquire or merge with KCS prior to completion of the merger, and could cause KCS to reject any acquisition proposal from a third party which does not take into account the termination fee.

#### **We May Amend the Terms of the Merger and Waive Rights Under the Merger Agreement (Page 80)**

We may jointly amend the terms of the merger agreement, and either party may waive its right to require the other party to adhere to any of those terms, to the extent legally permissible. However, after the KCS stockholders approve and adopt the merger agreement, they must approve any amendment or waiver that alters or changes the form of the consideration that will be received by them or any alteration or change that adversely affects the KCS stockholders.

#### **Appraisal Rights (Page 82)**

Shares of KCS common stock outstanding immediately prior to the effective time of the merger and held by a holder who has not voted in favor of, or consented in writing to, the approval and adoption of the merger agreement and who has delivered a written demand for appraisal of such shares in accordance with Section 262 of the DGCL will not be converted into the right to receive the merger consideration, unless and until the dissenting holder fails to perfect or effectively withdraws or otherwise loses his or her right to appraisal and payment under the DGCL. If, after the effective time of the merger, a dissenting stockholder fails to perfect or effectively withdraws or loses his or her right to appraisal, his or her shares of KCS common stock will be treated as if they had been converted as of the effective time of the merger into the right to receive the merger consideration without interest.



**Comparison of the Rights of KCS Stockholders and Petrohawk Stockholders (Page 99)**

KCS stockholders will become Petrohawk stockholders upon the effective time of the merger, and their rights as such will be governed by Petrohawk's certificate of incorporation and bylaws. See Comparison of Rights of Holders of Petrohawk Common Stock and KCS Common Stock beginning on page 99 for a description of the material differences between the rights of Petrohawk stockholders and KCS stockholders.

**PETROHAWK ENERGY CORPORATION**

**SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA**

Set forth below are highlights from Petrohawk's unaudited consolidated financial data as of and for the quarters ended March 31, 2006 and 2005 derived from the unaudited consolidated financial statements filed on Form 10-Q for each respective period, and audited consolidated financial data for the years ended December 31, 2003 through 2005 derived from the audited consolidated financial statements filed on Form 10-K for each respective period. This information should be read together with Petrohawk's consolidated financial statements and related notes included in Petrohawk's quarterly report on Form 10-Q for the quarter ended March 31, 2006 and Annual Report on Form 10-K, as amended, for the year ended December 31, 2005, which are incorporated by reference in this document and from which this information is derived. The completion of the acquisitions of Winwell Resources, Inc. in January 2006, of Mission Resources Corporation in July 2005 and of Wynn-Crosby Energy, Inc. and certain of its affiliates in November 2004 affects the comparability of financial data for the periods presented.

	Quarter Ended March 31,		Year Ended December 31,		
	2006	2005	2005	2004	2003(3)
(In thousands, except per share amounts)					
<b>Income Statement Data:</b>					
<b>Operating revenues:</b>					
Oil and gas sales	\$ 103,006	\$ 32,326	\$ 258,039	\$ 33,577	\$ 12,925
<b>Operating expenses:</b>					
Production expenses	14,140	5,278	36,079	5,860	2,587
Taxes other than income	8,298	2,326	18,497	2,319	875
General and administrative expenses (including stock compensation)	6,688	4,879	25,034	11,331	2,930
Full cost ceiling impairment					129
Depreciation, depletion and amortization	37,450	10,814	74,539	9,368	4,908
Total operating expenses	66,576	23,297	154,149	28,878	11,429
<b>Income from operations:</b>	36,430	9,029	103,890	4,699	1,496
<b>Other income (expenses):</b>					
Net gain (loss) on derivative contracts	24,803	(28,652)	(100,380)	7,441	
Interest expense and other	(9,072)	(3,349)	(29,207)	(2,894)	(506)
<b>Total other income (expenses)</b>	15,731	(32,001)	(129,587)	4,547	(506)
Income before income taxes and cumulative effect of accounting	52,161	(22,972)	(25,697)	9,246	990
Income tax (provision) benefit	(19,222)	8,720	9,063	(1,129)	(24)
Net income (loss) before cumulative effect of accounting change	32,939	(14,252)	(16,634)	8,117	966
Cumulative effect of accounting change, net of tax					2
Net income (loss)	32,939	(14,252)	(16,634)	8,117	968
Preferred dividends	(108)	(109)	(440)	(445)	(447)
Net income (loss) available (applicable) to common shareholders	\$ 32,831	\$ (14,361)	\$ (17,074)	\$ 7,672	\$ 521
<b>Earnings (loss) per common share:</b>					
Basic	\$ 0.40	\$ (0.36)	\$ (0.31)	\$ 0.71	\$ 0.08
Diluted	\$ 0.39	\$ (0.36)	\$ (0.31)	\$ 0.36	\$ 0.08
<b>Other Financial Data:</b>					
Net cash provided by operating activities	53,921	20,557	135,446	17,943	5,793
Capital expenditures(2)	51,560	18,156	123,339	13,747	4,095
<b>Balance Sheet Data (at end of period):</b>					
Total assets	1,688,073	542,610	1,410,174	534,199	46,115
Long-term debt(1)	544,099	213,000	494,484	240,000	13,285
Stockholders' equity	692,858	235,154	526,458	247,091	29,270

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- (1) Includes current portion of long-term debt. Excludes deferred premiums on derivatives.
- (2) Excludes acquisitions.
- (3) Cumulative effect of change in accounting method for 2003 relates to the adoption of SFAS No. 143, Asset Retirement Obligations, on January 1, 2003.

## KCS ENERGY, INC.

## SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

Set forth below are highlights derived from KCS's unaudited consolidated financial data as of and for the quarters ended March 31, 2006 and 2005 derived from the unaudited consolidated financial statements filed on Form 10-Q for each respective period, and audited consolidated financial data for the years ended December 31, 2003 through 2005 derived from the audited consolidated financial statements filed on Form 10-K for each respective period. This information should be read together with KCS's consolidated financial statements and related notes included in KCS's quarterly report on Form 10-Q for the quarter ended March 31, 2006 and Annual Report on Form 10-K, as amended, for the year ended December 31, 2005, which are incorporated by reference in this joint proxy statement/prospectus and from which this information is derived.

	Quarter Ended March 31,		Year Ended December 31,		
	2006	2005	2005	2004(2)	2003(3)
	(In thousands, except per share amounts)				
<b>Income Statement Data:</b>					
<b>Operating revenues:</b>					
Oil and gas sales	\$ 102,514	\$ 61,675	\$ 347,552	\$ 197,385	\$ 131,940
Amortization of deferred revenue	1,177	4,607	16,149	21,370	27,886
Other, net	895	(44)	955	(345)	5,033
Total revenue and other	104,586	66,238	364,656	218,410	164,859
<b>Operating expenses:</b>					
Production expenses	10,902	7,516	35,399	28,600	24,596
Taxes other than income	5,292	3,043	21,357	14,208	10,010
General and administrative expenses (including stock compensation)(1)	3,759	3,133	13,493	11,896	11,065
Depreciation, depletion and amortization	28,430	18,018	93,728	58,338	49,001
Total operating expenses	48,383	31,710	163,977	113,042	94,672
<b>Income from operations:</b>	56,203	34,528	200,679	105,368	70,187
<b>Other income (expenses):</b>					
Net gain (loss) on derivative contracts	7,045	(1,396)	(9,679)	(1,121)	(32)
Redemption premium on early extinguishment of debt				(3,698)	
Interest expense and other	(4,676)	(3,301)	(18,442)	(14,019)	(20,858)
Income before income taxes and cumulative effect of accounting	58,572	29,831	172,558	86,530	49,297
Income tax (provision) benefit	(22,729)	(10,411)	(66,698)	13,905	20,229
Net income before cumulative effect of accounting change	35,843	19,420	105,860	100,435	69,526
Cumulative effect of accounting change, net of tax					(934)
Net income	35,843	19,420	105,860	100,435	68,592
Preferred dividends					(909)
Net income available to common shareholders	\$ 35,843	\$ 19,420	\$ 105,860	\$ 100,435	\$ 67,683
<b>Earnings per common share:</b>					
Basic income	\$ 0.72	\$ 0.39	\$ 2.13	\$ 2.06	\$ 1.71
Diluted income	\$ 0.71	\$ 0.39	\$ 2.11	\$ 2.03	\$ 1.61
<b>Other Financial Data:</b>					
Net cash provided by operating activities	86,270	38,072	239,090	134,066	71,022
Capital expenditures	86,889	61,368	380,667	167,176	88,791
<b>Balance Sheet Data (at end of period):</b>					
Total assets	819,897	534,330	796,242	487,308	342,966
Long-term debt	275,536	188,000	291,058	175,000	142,000
Deferred revenue		12,719	1,177	17,326	38,696
Stockholders' equity	356,337	212,671	293,647	207,049	98,031

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- (1) Includes stock compensation of \$1.0 million in the quarter year ended March 31, 2006, \$0.4 million in the quarter year ended March 31, 2005, \$2.4 million in 2005, \$2.6 million in 2004 and \$2.7 million in 2003.
  - (2) Includes a \$13.9 million income tax benefit related to the reversal of the remaining portion of KCS's valuation allowance against net deferred income tax assets.
  - (3) Includes a \$20.2 million income tax benefit related to the reversal of a portion of KCS's valuation allowance against net deferred tax assets and a \$0.9 million non-cash charge related to the cumulative effect of an accounting change as a result of the adoption of SFAS No. 143, Accounting for Asset Retirement Obligations.

**SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA**

The following table shows information about Petrohawk's financial condition and results of operations, including per share data, on a pro forma basis after giving effect to the acquisition of Mission Resources Corporation in July 2005, the acquisition of the stock of Winwell Resources, Inc. in January 2006, and the pending merger with KCS. This information is called pro forma financial information in this document. The table sets forth the information as if the KCS merger had become effective on March 31, 2006 (using currently available fair value information), with respect to balance sheet data, and January 1, 2005, with respect to statement of operations data. This unaudited pro forma financial information assumes that the merger with KCS will be accounted for using the purchase method of accounting and represents a current estimate based on available information of the combined company's results of operations. The unaudited pro forma balance sheet data includes adjustments to record the assets and liabilities of KCS at their estimated fair values and is subject to further adjustment as additional information becomes available and as additional analyses are performed.

The merger agreement with KCS was announced on April 21, 2006 and provides for Petrohawk to issue approximately 83.7 million shares of common stock and pay approximately \$450 million in cash as consideration to KCS common stockholders. In addition, as a result of the merger Petrohawk will assume all outstanding KCS debt, which was approximately \$275 million as of March 31, 2006. This table should be read together with, and is qualified in its entirety by, the historical financial statements, including the notes thereto, of Petrohawk and KCS incorporated by reference in this joint proxy statement/prospectus and the more detailed unaudited pro forma condensed combined financial information, including the notes thereto, appearing under "Unaudited Pro Forma Condensed Combined Financial Statements" beginning on page 87.

The unaudited pro forma financial information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods.

	<b>As of March 31, 2006 (In thousands)</b>	
<b>Pro Forma Balance Sheet Data</b>		
Total assets		\$ 4,074,233
Long-term debt		\$ 1,298,523
Shareholders' equity		\$ 1,848,690
	<b>Quarter Ended March 31, 2006</b>	<b>Year Ended December 31, 2005</b>
	<b>(In thousands, except per share amounts)</b>	
<b>Pro Forma Statement of Operations Data</b>		
Revenues	\$ 214,719	\$ 821,089
Net income (loss)	\$ 79,626	\$ (17,073)
Net income (loss) per share:		
Basic	\$ 0.48	\$ (0.11)
Diluted	\$ 0.47	\$ (0.11)

**Comparative Per Share Data**

The following table sets forth certain historical per share data of Petrohawk and KCS and per share data on an unaudited pro forma combined basis after giving effect to the merger. This table should be read together with, and is qualified in its entirety by, the historical financial statements, including the notes thereto, of Petrohawk and KCS incorporated by reference in this joint proxy statement/prospectus and the more detailed unaudited pro forma condensed combined financial information, including the notes thereto, appearing under Unaudited Pro Forma Condensed Combined Financial Statements as if the merger occurred on January 1, 2005 beginning on page 87:

	Quarter Ended March 31, 2006	Year Ended December 31, 2005
	(In thousands, except per share amounts)	
<b>Petrohawk Historical Per Share Data:</b>		
Net income (loss)	\$ 32,939	\$ (16,634)
Basic	\$ 0.40	\$ (0.31)
Diluted	\$ 0.39	\$ (0.31)
Book value(a)	\$ 8.23	\$ 9.62
<b>KCS Historical Per Share Data:</b>		
Net income	\$ 35,843	\$ 105,860
Basic	\$ 0.72	\$ 2.13
Diluted	\$ 0.71	\$ 2.11
Book value(a)	\$ 7.04	\$ 5.84
<b>Petrohawk Pro Forma Combined Per Share Data(b):</b>		
Net income (loss)	\$ 79,626	\$ (17,073)
Basic	\$ 0.48	\$ (0.11)
Diluted	\$ 0.47	\$ (0.11)
Book value(c)	\$ 10.80	\$ 11.44

- (a) Computed by dividing shareholders' equity by the weighted average number of shares of common stock at the end of such period plus the weighted average dilutive effect of interests in securities (options and other convertible securities).
- (b) This data includes the pro forma impact of the acquisition of Mission Resources Corporation in July 2005, the acquisition of the stock of Winwell Resources, Inc. in January 2006 and the pending merger with KCS.
- (c) Computed by dividing shareholders' equity by the number of outstanding shares of Petrohawk common stock at the end of such period, adjusted to include the estimated number of shares of Petrohawk common stock to be issued in the merger plus the dilutive effect of interests in securities (options and other convertible securities) at the end of such period.

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## RISK FACTORS

In addition to the other information contained in or incorporated by reference into this document, including, without limitation, Petrohawk's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2005, and Form 10-Q for the quarter ended March 31, 2006, and KCS's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2005, and Form 10-Q for the quarter ended March 31, 2006, you should carefully consider the following risk factors in deciding whether to vote to approve and adopt the merger agreement and, in the case of Petrohawk, to approve the amendment to the certificate of incorporation to increase Petrohawk's authorized shares of common stock.

**Because the market price of Petrohawk common stock will fluctuate, KCS stockholders cannot be sure of the value of the merger consideration they will receive.**

Upon the effective time of the merger, each share of KCS common stock will be converted into the right to receive merger consideration consisting of 1.65 shares of Petrohawk common stock and \$9.00 in cash pursuant to the terms of the merger agreement, except for restricted shares of KCS common stock issued to employees under KCS stock plans, which will be converted into restricted shares of Petrohawk common stock. Because the 1.65 exchange ratio is fixed and will not be adjusted as a result of changes in the market price of Petrohawk common stock, the value of the merger consideration you will receive will fluctuate with the market price of Petrohawk common stock. The merger agreement does not include a price-based termination right or provisions that would limit the impact of increases or decreases in the market price of Petrohawk common stock or adjust the portion of the merger consideration to be paid in Petrohawk common stock as a result of any change in the market price of shares of Petrohawk common stock between the date of this joint proxy statement/prospectus and the date that you receive shares of Petrohawk common stock in exchange for your shares of KCS common stock. The market price of Petrohawk common stock will likely be different, and may be lower, on the date you receive your shares of Petrohawk common stock than the market price of shares of Petrohawk common stock as of the date of this joint proxy statement/prospectus.

During the 12-month period ending on \_\_\_\_\_, 2006, the date of this joint proxy statement/prospectus, Petrohawk common stock traded in a range from a low of \$ \_\_\_\_\_ to a high of \$ \_\_\_\_\_ and ended that period at \$ \_\_\_\_\_. See "Price Range of Common Stock and Dividends" beginning on page 97 for more detailed share price information. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in oil and natural gas prices, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond our control. If the market price of Petrohawk common stock declines after you vote, you may receive less value than you expected when you voted. Neither Petrohawk nor KCS is permitted to terminate the merger agreement, adjust the merger consideration or resolicit the vote of KCS stockholders because of changes in the market price of their respective common stock.

**The merger agreement limits KCS's ability to pursue alternatives to the merger.**

The merger agreement contains provisions that could adversely impact competing proposals to acquire KCS. These provisions include the prohibition on KCS generally from soliciting any acquisition proposal or offer for a competing transaction and the requirement that KCS pay a termination fee of \$45 million in cash if the merger agreement is terminated in specified circumstances in connection with an alternative transaction. In addition, even if the board of directors of KCS determines that a competing proposal to acquire KCS is superior, KCS may not exercise its right to terminate the merger agreement unless it notifies Petrohawk of its intention to do so and gives Petrohawk at least four business days to propose revisions to the terms of the merger agreement or to make another proposal in response to the competing proposal. See "KCS's Ability to Make an Adverse Recommendation Change in Response to a Superior Proposal" beginning on page 70.

Petrohawk required KCS to agree to these provisions as a condition to Petrohawk's willingness to enter into the merger agreement. These provisions, however, might discourage a third party that might have an interest in acquiring all or a significant part of KCS from considering or proposing that acquisition, even if that party were



prepared to pay consideration with a higher value than the current proposed merger consideration. Furthermore, the termination fee may result in a potential competing acquiror proposing to pay a lower per share price to acquire KCS than it might otherwise have proposed to pay.

**The combined company's debt level may limit its financial flexibility.**

As of March 31, 2006, Petrohawk had approximately \$545 million of total debt. As of the same date, KCS had approximately \$275 million of total debt. Assuming that the merger had been completed on March 31, 2006, the combined company would have had approximately \$1.3 billion of total debt on a pro forma basis. The combined company may incur additional debt in the future, including debt in connection with future acquisitions. The level of the combined company's debt could have several important effects on the combined company's future operations, including, among other things:

a significant portion of the combined company's cash flow from operations will be dedicated to the payment of interest on outstanding debt and will not be available for other purposes;

credit rating agencies may in the future view the combined company's debt level negatively;

covenants contained in Petrohawk's and KCS's existing debt arrangements will require the combined company to continue to meet financial tests that may affect the combined company's flexibility in planning for and reacting to changes in its business, including possible acquisition opportunities;

the combined company's ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited;

the combined company may be at a competitive disadvantage to similar companies that have less debt; and

the combined company may be more vulnerable to adverse economic and industry conditions as a result of its significant debt level.

**We may not be able to successfully integrate the businesses of Petrohawk and KCS following the merger.**

The success of the merger depends in large part upon our ability to integrate our organizations, operations, systems and personnel. The integration of two previously independent companies is a challenging, time-consuming and costly process. Petrohawk and KCS have operated and, until the effective time of the merger, will continue to operate, independently. Petrohawk has grown rapidly through recent acquisitions and will be required to integrate its recent acquisitions with KCS. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with suppliers, customers and employees or to achieve the anticipated benefits of the merger. In addition, successful integration of the companies will require the dedication of significant management resources, which will temporarily detract attention from the day-to-day businesses of the combined company. If we are not able to integrate our organizations, operations, systems and personnel in a timely and efficient manner, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

**Petrohawk may be required to take non-cash asset writedowns if natural gas and oil prices decline.**

Petrohawk may be required under full cost accounting rules to write down the carrying value of natural gas and oil properties if natural gas and oil prices decline or if there are substantial downward adjustments to its estimated proved reserves, increases in its estimates of development costs or deterioration in its exploration results.

Petrohawk utilizes the full cost method of accounting for natural gas and oil exploration and development activities. Under full cost accounting, Petrohawk is required by SEC regulations to perform a ceiling test each



quarter. The ceiling test is an impairment test and generally establishes a maximum, or ceiling, of the book value of natural gas and oil properties that is equal to the expected after tax present value (discounted at 10%) of the future net cash flows from proved reserves, including the effect of cash flow hedges, calculated using prevailing natural gas and oil prices on the last day of the period. If the net book value of natural gas and oil properties (reduced by any related net deferred income tax liability and asset retirement obligation) exceeds the ceiling limitation, SEC regulations require Petrohawk to impair or writedown the book value of its natural gas and oil properties. Depending on the magnitude, a ceiling test writedown could significantly reduce income, or produce a loss. As ceiling test computations involve the prevailing natural gas and oil prices on the last day of the quarter, it is impossible to predict the likelihood, timing and magnitude of any future impairments. The book value of Petrohawk's proved natural gas and oil properties increased in 2005 as a function of higher acquisition, exploration and development costs for the year and the increase in future development costs associated with reserves added during the year. To the extent finding and development costs continue to increase, Petrohawk will become more susceptible to ceiling test writedowns in lower price environments.

**Petrohawk's results of operations could be adversely affected as a result of non-cash goodwill impairments.**

Goodwill represents the excess of the purchase price paid by Petrohawk for KCS plus liabilities assumed, including deferred taxes recorded in connection with the merger, over the estimated fair market value of the tangible net assets acquired. Petrohawk currently estimates that the goodwill to be recorded in connection with the merger will be approximately \$820 million.

Goodwill is not amortized, but instead must be tested at least annually for impairment by applying a fair value based test. Goodwill is deemed impaired to the extent of any excess of its carrying amount over the residual fair value of the business. Such non-cash impairment could significantly reduce earnings during the period in which the impairment occurs, and would result in a corresponding reduction to goodwill and stockholders' equity.

**The costs of the merger could adversely affect the combined company's operating results.**

Petrohawk and KCS estimate the total merger-related costs, exclusive of employee severance and benefit costs, to be approximately \$36 million, primarily consisting of investment banking, legal and accounting fees and financial printing and other related charges. The foregoing estimate is preliminary and is subject to change. In addition, the combined company will incur certain expenses in connection with the integration of Petrohawk's and KCS's businesses.

**Certain of KCS's directors and executive officers may have interests in the merger in addition to those of the KCS stockholders.**

In considering the recommendations of the KCS board of directors with respect to the merger agreement, you should be aware that KCS's directors and executive officers may have financial and other interests in the merger in addition to their interests as KCS stockholders. The receipt of compensation or other benefits in connection with the merger (including possible severance payments and the potential accelerated vesting of stock options, the potential lapsing of restrictions on restricted stock and possible accelerated award of performance stock) or the continuation or extension of indemnification arrangements and directors' and officers' insurance policies for current directors and executive officers of KCS following completion of the merger, may have influenced these directors and executive officers in making their recommendations to approve and adopt the merger agreement. You should consider these interests in connection with your vote on the merger agreement, including whether these interests may have influenced these directors and executive officers to recommend or support the merger. For a detailed description of the interests of the directors and executive officers of KCS, see "Certain of KCS's Directors and Executive Officers May Have Interests in the Merger that are in Addition to their Interests as Stockholders" beginning on page 82 of this document.

**Business uncertainties and contractual restrictions while the merger is pending may have an adverse effect on KCS.**

Uncertainty about the effect of the merger on employees, suppliers, partners, regulators and customers may have an adverse effect on KCS. These uncertainties may impair the ability of KCS to attract, retain and motivate key personnel until the merger is consummated, and could cause suppliers, customers and others that deal with KCS to defer purchases or other decisions concerning KCS, or seek to change existing business relationships with KCS. Employee retention may be particularly challenging while the merger is pending, as employees may experience uncertainty about their future roles with Petrohawk. In addition, the merger agreement restricts KCS from making certain acquisitions and taking other specified actions without Petrohawk's approval. These restrictions could prevent KCS from pursuing attractive business opportunities that may arise prior to the completion of the merger.

**Failure to complete the merger or delays in completing the merger could negatively impact Petrohawk's and KCS's stock prices and future business and operations.**

If the merger is not completed for any reason, Petrohawk and KCS may be subject to a number of material risks, including the following:

the individual companies will not realize the benefits expected from the merger, including a potentially enhanced financial and competitive position;

under certain circumstances, KCS may be required to pay Petrohawk a termination fee of \$45 million;

the current market price of Petrohawk common stock or KCS common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the stock market of the applicable company generally and a resulting decline in the market price of its common stock;

certain costs relating to the merger, including certain investment banking fees and expenses and legal and accounting fees and expenses, must be paid even if the merger is not completed;

there may be substantial disruption to each of Petrohawk's and KCS's business and a distraction of each such company's management and employees from day-to-day operations because matters related to the merger (including integration planning) may require substantial commitments of time and resources, which could otherwise have been devoted to other opportunities that could have been beneficial to Petrohawk or KCS, as applicable; and

the businesses of Petrohawk and KCS could be adversely affected if either company is unable to retain key employees or attract qualified replacements.

**Ownership by Petrohawk stockholders will be diluted by the merger.**

The merger will dilute the ownership position of the current stockholders of Petrohawk. Based on the number of shares of KCS common stock outstanding as of April 20, 2006, Petrohawk would issue to KCS stockholders approximately 83.7 million shares of Petrohawk common stock in the merger. As a result, Petrohawk stockholders and KCS stockholders would each hold approximately 50% of the combined company's common stock outstanding after the completion of the merger.

**If the merger is completed, the date that you will receive your merger consideration is uncertain.**

If the merger is completed, the date that you will receive your merger consideration depends on the completion date of the merger, which is uncertain. While we expect to complete the merger on \_\_\_\_\_, 2006, the completion date of the merger might be later than expected due to unforeseen events.



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**Petrohawk could elect to waive certain conditions to the merger, which could give third parties the right to terminate or alter existing contracts, declare a default under existing contracts, or otherwise result in liabilities of the combined company to third parties.**

The obligation of Petrohawk to consummate the merger is conditioned, among other things, upon the receipt of all material consents and approvals that each of KCS and Petrohawk is required to obtain in connection with the merger. Certain agreements between KCS and Petrohawk and their respective lenders, suppliers, customers or other business partners require the consent or approval of these other parties in connection with the merger. Petrohawk and KCS have agreed to use reasonable best efforts to secure any necessary consents and approvals. However, Petrohawk and KCS may not be successful in obtaining all necessary consents or approvals. If these consents and approvals are not obtained and Petrohawk elects to waive the related closing condition and consummate the merger, the failure to have obtained such consent or approval could give third parties the right to terminate or alter existing contracts, declare a default under existing contracts, demand payment on outstanding obligations or result in some other liability of the combined company to such third parties, which in each instance could have a material adverse effect on the business and financial condition of the combined company after the merger.

**Foreign persons who own or have owned a significant amount of KCS common stock may be subject to U.S. federal income tax on gain realized upon the exchange of their KCS stock in the merger.**

If a foreign stockholder owns or has owned more than 5% of KCS's common stock at any time during the last five years, then gain realized by such person upon the exchange of KCS common stock in the merger may be subject to U.S. federal income tax. See Material U.S. Federal Income Tax Consequences; U.S. Federal Income Tax Consequences to Non-U.S. Persons; Non-U.S. Persons That Currently Hold or Have Held More Than 5% of KCS's Common Stock.

#### **FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus, including information included or incorporated by reference in this document, contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, intentions, future performance and business of each of Petrohawk and KCS and other statements that are not historical facts, as well as certain information relating to the merger, including, without limitation:

statements relating to the benefits of the merger, including the cost savings and accretion to reported earnings estimated to result from the merger;

statements relating to revenues, production and expenses of the combined company after the merger; and

statements preceded by, followed by or that include the words believes, anticipates, plans, predicts, expects, envisions, hopes, estimates, intends, will, continue, may, potential, achieve, should, project, could or similar expressions.

These forward-looking statements involve certain risks and uncertainties. Actual results may differ materially from those contemplated in the forward-looking statements due to, among others, the factors discussed under Risk Factors beginning on page 17 of this document, as well as the following factors:

the possibility that the companies may be unable to obtain stockholder approvals required for the merger;

the possibility that problems may arise in successfully integrating the businesses of the two companies;

the possibility that the merger may involve unexpected costs;

the possibility that the combined company may be unable to achieve cost-cutting synergies;



the possibility that the businesses may suffer as a result of uncertainty surrounding the merger;

the possibility that the industry may be subject to future regulatory or legislative actions (including any additional taxes);

the volatility in commodity prices for oil and gas and in the supply of and demand for oil and natural gas;

the presence or recoverability of estimated oil and gas reserves and the actual future production rates and associated costs;

the ability to replace oil and gas reserves;

environmental risks;

drilling and operating risks;

exploration and development risks;

competition;

the ability of the combined company's management to execute its plans to meet its goals;

the ability of the combined company to retain key members of its senior management and key employees;

general economic conditions, whether internationally, nationally or in the regional and local market areas in which Petrohawk and KCS are doing business, may be less favorable than expected;

continued hostilities in the Middle East and other sustained military campaigns or acts of terrorism or sabotage; and

other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors may negatively impact our businesses, operations or pricing.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports filed with the SEC by Petrohawk and KCS. See "Where You Can Find More Information" beginning on page 141 of this document.

Forward-looking statements speak only as of the date of this joint proxy statement/prospectus or the date of any document incorporated by reference in this document. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this joint proxy statement/prospectus and attributable to Petrohawk or KCS or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, neither Petrohawk nor KCS undertakes any obligation to update forward-looking statements to reflect events or circumstances after the date of this joint proxy statement/prospectus or to reflect the occurrence of unanticipated events.





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**PETROHAWK ANNUAL MEETING**

**General**

This joint proxy statement/prospectus is being furnished to Petrohawk stockholders in connection with the solicitation of proxies by the Petrohawk board of directors to be used at the annual meeting of stockholders to be held at \_\_\_\_\_, on \_\_\_\_\_, 2006 at \_\_\_\_\_ a.m., local time, and at any adjournment or postponement of that meeting. This joint proxy statement/prospectus and the enclosed form of proxy are being sent to Petrohawk stockholders on or about \_\_\_\_\_, 2006.

**Record Date and Voting**

The Petrohawk board of directors has fixed the close of business on May 30, 2006 as the record date for determining the holders of shares of Petrohawk common stock entitled to receive notice of and to vote at the Petrohawk annual meeting and any adjournments or postponements thereof. Only holders of record of shares of Petrohawk common stock and 8% cumulative convertible preferred stock at the close of business on that date will be entitled to vote at the Petrohawk annual meeting and at any adjournment or postponement of that meeting. At the close of business on the record date, there were \_\_\_\_\_ shares of Petrohawk common stock outstanding, held by approximately \_\_\_\_\_ holders of record, and \_\_\_\_\_ shares of 8% cumulative convertible preferred stock outstanding, held by approximately \_\_\_\_\_ holders of record.

Each holder of shares of Petrohawk common stock outstanding on the record date will be entitled to one vote for each share held of record, and each holder of shares of Petrohawk 8% cumulative convertible preferred stock outstanding on the record date will be entitled to one vote for every two shares of 8% cumulative convertible preferred stock held of record, upon each matter properly submitted at the Petrohawk annual meeting and at any adjournment or postponement thereof. In order for Petrohawk to satisfy its quorum requirements, the holders of at least a majority of the total number of outstanding shares of Petrohawk common stock and preferred stock entitled to vote at the meeting must be present. You will be deemed to be present if you attend the meeting or if you submit a proxy card (including through the Internet or telephone) that is received at or prior to the meeting (and not revoked).

If your proxy card is properly executed and received by Petrohawk in time to be voted at the Petrohawk annual meeting, the shares represented by your proxy card (including those given through the Internet or by telephone) will be voted in accordance with the instructions that you mark on your proxy card. If you execute your proxy but do not provide Petrohawk with any instructions, your shares will be voted FOR the proposals set forth in the notice of annual meeting. If your shares are held in \_\_\_\_\_ street name by your broker or other nominee and you do not provide that holder with instructions on how to vote your shares, your broker or other nominee will be permitted to vote your shares only on the election of directors and not on the other proposals to be voted on at the annual meeting.

The only matters that we expect to be presented at the Petrohawk annual meeting are set forth in the notice of annual meeting. If any other matters properly come before the Petrohawk annual meeting, the persons named in the proxy card will vote the shares represented by all properly executed proxies on such matters in their best judgment.

**Quorum; Vote Required**

If you vote in person or by proxy at the Petrohawk annual meeting, you will be counted for purposes of determining whether there is a quorum at the meeting. Shares of Petrohawk common stock and preferred stock present in person or by proxy at the Petrohawk annual meeting that are entitled to vote but are not voted and broker non-votes will be counted for the purpose of determining whether there is a quorum for the transaction of business at the Petrohawk annual meeting. A broker non-vote occurs when a bank, broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

The approval of the amendments to the 2004 Employee Incentive Plan and 2004 Non-Employee Director Incentive Plan require the affirmative vote of a majority of the shares voted, so long as the shares voted represent over 50% of the shares entitled to vote. Accordingly, assuming a quorum is present and the total votes cast at the Petrohawk annual meeting represent more than 50% of all Petrohawk common stock and preferred stock entitled to vote at the meeting, the failure of a Petrohawk stockholder to vote or a decision by a Petrohawk stockholder to abstain will have no effect in determining whether these proposals are approved.

Approval and adoption of the merger agreement and approval of the amendment to Petrohawk's certificate of incorporation require the affirmative vote of a majority of the outstanding shares of Petrohawk common stock and preferred stock entitled to vote. Accordingly, the failure of a Petrohawk stockholder to submit a proxy card or to vote in person, or a decision by a Petrohawk stockholder to abstain from voting will have the same effect as a vote AGAINST approval of these proposals.

The election of directors is by a plurality of affirmative votes cast at a meeting at which a quorum is present, and, assuming a quorum is present at the annual meeting, the failure of a Petrohawk stockholder to vote or a decision by a Petrohawk stockholder to abstain will have no effect in determining the election of directors except to the extent the failure to vote for an individual results in another candidate receiving a larger number of votes.

As of the record date:

Petrohawk directors and executive officers and their affiliates owned and were entitled to vote approximately \_\_\_\_\_ shares of Petrohawk common stock, representing approximately \_\_\_\_\_ % of the outstanding shares of Petrohawk common stock; and

KCS directors and executive officers and their affiliates did not own any shares of Petrohawk common stock or preferred stock.

Floyd C. Wilson, Stephen W. Herod, Shane M. Bayless, Larry L. Helm, and Richard K. Stoneburner have entered into separate voting agreements with Petrohawk and KCS pursuant to which these individuals have agreed, among other things, to vote all shares of Petrohawk common stock owned by each of them in favor of the transactions contemplated in the merger agreement and to grant an irrevocable proxy to KCS empowering it to vote all such shares of Petrohawk common stock at any meeting of Petrohawk's stockholders called for the purpose of voting on the merger. As of \_\_\_\_\_, 2006, these stockholders owned approximately 4% of the issued and outstanding common stock of Petrohawk.

We currently expect that Petrohawk's other directors and executive officers will vote their shares of Petrohawk common stock FOR all proposals set forth in the notice of annual meeting, although none of them has entered into any agreement obligating them to do so.

#### **Revocability of Proxies**

The presence of a stockholder at the Petrohawk annual meeting will not automatically revoke that stockholder's proxy. However, a stockholder may revoke a proxy at any time prior to its exercise by:

submitting a written revocation prior to the annual meeting to David Elkouri, Secretary, Petrohawk Energy Corporation, 1100 Louisiana, Suite 4400, Houston, Texas, 77002;

submitting another proxy prior to the annual meeting by telephone, via the Internet or by mail that is dated later than the original proxy; or

attending the Petrohawk annual meeting and voting in person.

If your shares are held of record by a broker or other nominee, you must follow the instructions on the form you receive from your broker or other nominee with respect to changing or revoking your proxy.



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**Voting Electronically or by Telephone**

Petrohawk stockholders of record and many stockholders who hold their shares through a broker or other nominee will have the option to submit their proxy cards or voting instruction cards electronically through the Internet or by telephone. Please note that there are separate arrangements for using the Internet and telephone depending on whether your shares are registered in Petrohawk's stock records in your name or in the name of a broker or other nominee. If you hold your shares through a broker or other nominee, you should check your proxy card or voting instruction card forwarded by your broker or other nominee to see which voting options are available.

Petrohawk stockholders of record may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www. .com> and following the instructions; or

by telephone by calling the toll-free number 1-800- in the U.S., Puerto Rico, Canada or Mexico on a touch-tone phone and following the recorded instructions.

**Solicitation of Proxies**

In addition to solicitation by mail, directors, officers and employees of Petrohawk may solicit proxies for the annual meeting from Petrohawk stockholders personally or by telephone and other electronic means without additional remuneration for soliciting such proxies. We will provide persons, firms, banks and corporations holding shares in their names or in the names of nominees, which in either case are beneficially owned by others, proxy material for transmittal to such beneficial owners and will reimburse such record owners for their expenses in taking such actions. We have also made arrangements with Georgeson Shareholder Communications, Inc. to assist us in soliciting proxies and have agreed to pay them \$7,500, plus reasonable expenses, for these services. Petrohawk and KCS will equally share the expenses incurred in connection with the printing and mailing of this document.

**KCS SPECIAL MEETING**

**General**

This joint proxy statement/prospectus is being furnished to KCS stockholders in connection with the solicitation of proxies by the KCS board of directors to be used at the special meeting of stockholders to be held on , 2006 at a.m., local time, at , and at any adjournment or postponement of that meeting. This joint proxy statement/prospectus and the enclosed form of proxy are being sent to KCS stockholders on or about , 2006.

**Record Date and Voting**

The KCS board of directors has fixed the close of business on May 30, 2006 as the record date for determining the holders of shares of KCS common stock entitled to receive notice of and to vote at the special meeting and any adjournment or postponement thereof. Only holders of record of shares of KCS common stock at the close of business on that date will be entitled to vote at the special meeting and at any adjournment or postponement of that meeting. At the close of business on the record date, there were shares of KCS common stock outstanding, held by approximately holders of record.

Each holder of shares of KCS common stock outstanding on the record date will be entitled to one vote for each share held of record upon each matter properly submitted at the special meeting and at any adjournment or postponement thereof. In order for KCS to satisfy its quorum requirements, the holders of at least a majority of

the total number of outstanding shares of KCS common stock entitled to vote at the meeting must be present. You will be deemed to be present if you attend the meeting or if you submit a proxy card (including through the Internet or telephone) that is received at or prior to the meeting (and not revoked).

If your proxy card is properly executed and received by KCS in time to be voted at the special meeting, the shares represented by your proxy card (including those given through the Internet or by telephone) will be voted in accordance with the instructions that you mark on your proxy card. If you execute your proxy but do not provide KCS with any instructions, your shares will be voted FOR the proposal set forth in the notice of special meeting. If your shares are held in street name by your broker or other nominee and you do not provide that holder with instructions on how to vote your shares, your broker or other nominee will not be permitted to vote your shares on the proposal to be voted on at the special meeting, which will have the same effect as a vote AGAINST the merger.

The only matter that we expect to be presented at the KCS special meeting is the proposal to approve and adopt the merger agreement. If any other matters properly come before the special meeting, the persons named in the proxy card will vote the shares represented by all properly executed proxies on such matters in their best judgment.

#### **Quorum; Vote Required**

Approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of KCS common stock. If you vote in person or by proxy at the special meeting, you will be counted for purposes of determining whether there is a quorum at the special meeting. Shares of KCS common stock present in person or by proxy at the special meeting that are entitled to vote but are not voted and broker non-votes will be counted for the purpose of determining whether there is a quorum for the transaction of business at the special meeting. A broker non-vote occurs when a broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

The required vote of KCS stockholders on the merger agreement is based upon the number of outstanding shares of KCS common stock, and not the number of shares that are actually voted. Accordingly, the failure to submit a proxy card or to vote in person at the special meeting, or a decision by a KCS stockholder to abstain from voting, will have the same effect as an AGAINST vote with respect to this matter.

As of the record date:

KCS directors and executive officers and their affiliates owned and were entitled to vote approximately \_\_\_\_\_ million shares of KCS common stock, representing approximately \_\_\_\_\_ % of the outstanding shares of KCS common stock.

Petrohawk directors and executive officers and their affiliates did not own and were not entitled to vote any shares of KCS common stock.

James W. Christmas, William N. Hahne, Harry Lee Stout and Joseph T. Leary have entered into separate voting agreements with Petrohawk and KCS pursuant to which they have agreed, among other things, to vote all shares of KCS common stock owned by each of them in favor of approval and adoption of the merger agreement. The voting agreements also grant an irrevocable proxy to Petrohawk empowering it to vote all such shares of KCS common stock at any meeting of KCS's stockholders called for the purpose of voting on the merger. As \_\_\_\_\_, 2006, such stockholders collectively owned \_\_\_\_\_ shares, or approximately 3%, of the issued and outstanding common stock of KCS.

We currently expect that KCS's other directors and executive officers will vote their shares FOR approval and adoption of the merger agreement, although none of them has entered into any agreement obligating them to do so.

### Revocability of Proxies

The presence of a stockholder at the special meeting will not automatically revoke that stockholder's proxy. However, a stockholder may revoke a proxy at any time prior to its exercise by:

submitting a written revocation prior to the special meeting to Frederick Dwyer, Secretary, KCS Energy, Inc., 5555 San Felipe Road, Suite 1200, Houston, Texas 77056;

submitting another proxy prior to the special meeting by telephone, via the Internet or by mail that is dated later than the original proxy; or

attending the special meeting and voting in person.

If your shares are held of record by a broker or other nominee, you must follow the instructions on the form you receive from your broker or other nominee with respect to changing or revoking your proxy.

### Voting Electronically or by Telephone

KCS stockholders of record and many stockholders who hold their shares through a broker or other nominee will have the option to submit their proxy cards or voting instruction cards electronically through the Internet or by telephone. Please note that there are separate arrangements for using the Internet and telephone depending on whether your shares are registered in KCS's stock records in your name or in the name of a broker or other nominee. If you hold your shares through a broker or other nominee, you should check your proxy card or voting instruction card forwarded by your broker or other nominee to see which voting options are available.

KCS stockholders of record may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www. .com> and following the instructions; or

by telephone by calling the toll-free number 1-800- in the U.S., Puerto Rico, Canada or Mexico on a touch-tone phone and following the recorded instructions.

### Solicitation of Proxies

In addition to solicitation by mail, directors, officers and employees of KCS may solicit proxies for the special meeting from KCS stockholders personally or by telephone and other electronic means without additional remuneration for soliciting such proxies. We also will provide persons, firms, banks and corporations holding shares in their names or in the names of nominees, which in either case are beneficially owned by others, proxy material for transmittal to such beneficial owners and will reimburse such record owners for their expenses in taking such actions. We have also made arrangements with Georgeson Shareholder Communications, Inc. to assist us in soliciting proxies and have agreed to pay them \$7,500, plus reasonable expenses, for these services. KCS and Petrohawk will equally share the expenses incurred in connection with the printing and mailing of this document.

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## INFORMATION ABOUT PETROHAWK

Petrohawk Energy Corporation, a Delaware corporation, is an independent oil and gas company engaged in the acquisition, development, production and exploration of natural gas and oil properties located in North America. Petrohawk was formed in June 1997 as Beta Oil & Gas, Inc., a Nevada corporation. Petrohawk reincorporated in the state of Delaware during 2004 at which time it changed its name to Petrohawk Energy Corporation. Petrohawk's properties are concentrated in the East Texas/North Louisiana, Gulf Coast, South Texas, Permian Basin, Anadarko and Arkoma regions.

At December 31, 2005, Petrohawk's estimated total proved oil and gas reserves were approximately 437.3 billion cubic feet of natural gas equivalent (Bcfe), consisting of 29.2 million barrels of oil (Mmbbl) and 261.9 billion cubic feet of natural gas (Bcf) of natural gas. Approximately 71% of Petrohawk's proved reserves were classified as proved developed. Year-end prices used to determine proved reserves were \$57.75 per barrel of oil and \$10.075 per million British thermal units of gas (Mmbtu), adjusted for quality and basis differentials.

Petrohawk has increased its proved reserves and production principally through acquisitions. Since November 2004, Petrohawk has acquired approximately 535 Bcfe of estimated proved reserves for approximately \$1.2 billion, including the recently completed North Louisiana Acquisitions discussed below. Petrohawk focuses on properties within its core operating areas that have a significant proved reserve component and which management believes have additional development and exploration opportunities.

### **Recent Developments**

Petrohawk has recently completed several transactions:

#### ***Gulf of Mexico Divestiture***

On February 3, 2006, Petrohawk entered into a definitive agreement with Northstar GOM, LLC to sell substantially all of Petrohawk's Gulf of Mexico properties for \$52.5 million in cash. The transaction closed in March 2006. These properties had estimated proved reserves as of December 31, 2005 of approximately 25 Bcfe, were approximately 70% gas, 59% proved developed and 27% operated. Production at closing was estimated to be approximately 10 million cubic feet of gas equivalent per day (Mmcfe/d).

#### ***North Louisiana Acquisitions***

On January 27, 2006, Petrohawk completed the acquisition of all of the issued and outstanding common stock of Winwell Resources, Inc. (Winwell). Petrohawk paid aggregate consideration of approximately \$208 million in cash after certain closing adjustments. Also on January 27, 2006, in a related transaction, Petrohawk completed an acquisition of assets from Redley Company (Redley), paying aggregate consideration of approximately \$86 million in cash after certain closing adjustments. Through the Winwell and Redley transactions (North Louisiana Acquisitions), Petrohawk acquired oil and gas properties in the Elm Grove and Caspiana fields in North Louisiana with approximately 106 Bcfe of internally estimated proved reserves (98% gas, 29% proved developed) at December 31, 2005 and production of 16 Mmcfe/d for December 2005.

#### ***Mission Resources Corporation Acquisition***

Petrohawk acquired Mission Resources Corporation (Mission) by merger on July 28, 2005. In the merger, Petrohawk issued approximately 19.565 million shares of common stock and paid approximately \$139.5 million in cash to the former stockholders of Mission. In addition, all outstanding options to purchase Mission common stock were converted into options to purchase Petrohawk common stock using an exchange ratio of 0.7641 shares of Petrohawk common stock per share of Mission common stock underlying each option. Petrohawk also assumed Mission's long-term debt of approximately \$184 million. At December 31, 2004, Mission's estimated net proved reserves were approximately 226 Bcfe.



**Properties**

The following table sets forth, by operating area, a summary of Petrohawk's estimated net proved reserve information as of December 31, 2005, the estimated average net daily production for March 2006 and budgeted capital expenditures for 2006.

**Petrohawk Property Summary by Region**

Region	Estimated Net Proved Reserves at December 31, 2005(1)(2)(3)			March 2006	Budgeted 2006 Capital
	Total (Bcfe)	% of Total	Gas %	Estimated Average Net Daily Production (Mmcfe/d)	Expenditures (Millions)
East Texas/North Louisiana	122.2	24	96	19.3	\$ 51.4
South Texas	70.1	14	92	34.2	67.2
Gulf Coast	66.0	13	60	30.1	42.7
Permian	176.6	34	35	24.9	18.2
Anadarko	56.2	11	80	16.4	25.5
Arkoma	17.6	3	89	5.6	5.0
Other Basins	8.0	1	48	3.4	0.0
Totals	516.7	100%	67%	133.9	\$ 210.0

- (1) Reserves as of December 31, 2005 pro-forma for the North Louisiana Acquisitions and Gulf of Mexico divestment.
- (2) Reserve estimates prepared by Netherland, Sewell & Associates, Inc. except for the North Louisiana Acquisitions which are internally estimated.
- (3) Based on spot market prices of \$57.75 per Bbl Nymex WTI and \$10.075 per Mmbtu Henry Hub natural gas as of December 31, 2005, adjusted for basis and quality differentials.

### INFORMATION ABOUT KCS

KCS Energy, Inc., a Delaware corporation, is an independent oil and gas company engaged in the acquisition, exploration, development and production of natural gas and crude oil. KCS's properties are primarily located in the Mid-Continent and onshore Gulf Coast regions of the United States. KCS also has interests in producing properties in Michigan, California, Wyoming and offshore Gulf of Mexico. As of December 31, 2005, KCS's oil and natural gas properties were estimated to have net proved reserves of approximately 452 Bcfe. Approximately 88% of KCS's net proved reserve base was natural gas and approximately 74% was classified as proved developed. KCS operates approximately 86% of its proved oil and natural gas reserve base.

#### Recent Developments

##### *Production Payment Obligation Completed*

In January 2006, KCS made the final deliveries of natural gas and oil production under a production payment transaction whereby it sold 43.1 Bcfe in 2001 to be delivered over a five-year period. In 2005, 3.9 Bcfe, or approximately 8% of the production from KCS's producing fields was dedicated to the production payment. Final deliveries of 0.3 Bcfe, or 8.6 Mmcfe per day, were made in January 2006.

##### *Terryville Acquisition*

In April 2006, KCS completed an acquisition of oil and gas properties located in its core area of operations in north Louisiana for \$26.2 million. The acquisition included approximately 10,300 gross acres located in Lincoln Parish, Louisiana and proved reserves internally estimated at approximately 11.2 Bcfe, of which approximately 50% are proved developed. This acquisition is consistent with KCS's strategy of acquiring properties with multiple drilling locations that are in or adjacent to areas it is developing. KCS has been active in drilling and acquiring acreage in the Elm Grove and Terryville fields in north Louisiana. This acreage compliments and expands KCS's leasehold position in a core area where last year it drilled seven wells and have 31 wells and a 3-D seismic survey planned for 2006.

The following table sets forth, by operating area, a summary of KCS's estimated net proved reserve information as of December 31, 2005, the estimated average net daily production for March 2006 and budgeted capital expenditures for 2006.

#### KCS Property Summary by Region

Region	Estimated Net Proved Reserves			March	
	Total (Bcfe)	Total % of	Gas %	Estimated Average Net Daily Production (Mmcfe/d)	Budgeted 2006 Capital Expenditures (Millions)
East Texas/North Louisiana	244.5	54	98	74.3	\$ 158.0
Onshore Gulf Coast	90.3	20	77	32.9	72.0
Permian	63.0	14	96	13.5	40.0
Oklahoma	13.9	3	99	13.6	28.0
Other Basins	40.5	9	57	15.0	17.0
Totals	452.2	100%	88%	149.3	\$ 315.0

(1) Reserve estimates prepared internally and audited by Netherland, Sewell & Associates, Inc.

(2) Based on spot market prices of \$57.75 per Bbl Nymex WTI and \$10.075 per Mmbtu Henry Hub natural gas as of December 31, 2005, adjusted for basis and quality differentials.



## THE MERGER

The following description of material information about the merger, including the summary of material terms and provisions of the merger agreement and descriptions of the opinions of the parties' financial advisors, is qualified in its entirety by reference to the more detailed annexes to this joint proxy statement/prospectus. We urge you to read all of the annexes to this joint proxy statement/prospectus in their entirety.

**The merger agreement has been included as *Annex A* to provide you with information regarding its terms. It is not intended to provide any other factual information about either Petrohawk or KCS. Such information can be found elsewhere in this joint proxy statement/prospectus and in the other public filings each of us makes with the SEC, which are available without charge at [www.sec.gov](http://www.sec.gov).**

**The merger agreement contains representations and warranties we made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure letters that we have exchanged in connection with signing the merger agreement. While we do not believe that they contain information securities laws require us to publicly disclose, other than information that has already been so disclosed, the disclosure letters do contain information that modifies, quantifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified in important part by the underlying disclosure letters. These disclosure letters contain information that has been included in Petrohawk's and KCS's prior public disclosures, as well as potential additional nonpublic information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in our public disclosures.**

### Transaction Structure

The Petrohawk board of directors and the KCS board of directors each has approved the merger agreement, which provides for the merger of KCS with and into Petrohawk. We expect to complete the merger in the third quarter of 2006. Each share of Petrohawk common stock issued and outstanding at the effective time of the merger will remain issued and outstanding as one share of common stock of Petrohawk. Each share of KCS common stock issued and outstanding at the effective time of the merger will be converted into the right to receive 1.65 shares of Petrohawk common stock and \$9.00 in cash, other than issued and outstanding shares of KCS restricted common stock issued to employees under KCS stock plans. Each restricted share of KCS common stock issued and outstanding at the effective time of the merger will be converted into the right to receive a number of restricted shares of Petrohawk common stock determined by adding the exchange ratio (1.65) to the result obtained by dividing the cash consideration (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs. See Merger Consideration.

Upon KCS's merger into Petrohawk, Petrohawk's certificate of incorporation and bylaws will be the governing charter documents of the surviving corporation.

### Source of Funds for Cash Portion of Merger Consideration

Petrohawk intends to pay the cash portion of the merger consideration to the KCS stockholders and to repay indebtedness under KCS's existing credit facility from funds available to Petrohawk immediately prior to closing. Petrohawk currently intends these funds to be comprised of funds available from its revolving credit facility, second lien facility and other sources of debt financing.

## Background of the Merger

Petrohawk's business strategy includes the acquisition of oil and gas reserves and exploration and development projects through merger and acquisition. Its management and board of directors have discussed and pursued potential business combination transactions since Petrohawk's formation. The management and board of directors of KCS have also from time to time discussed the benefits of oil and gas property acquisitions and business combination transactions, and in 2004 KCS engaged Morgan Stanley & Co. Incorporated to consult with the board with respect to industry conditions and to evaluate and advise KCS with respect to strategic alternatives that KCS could pursue, including potential business combinations. Following such engagement, KCS's management from time to time had preliminary discussions with third parties and, in some cases, provided or exchanged information about its or their respective businesses under confidentiality agreements.

During Petrohawk's annual meeting with its bankers on September 13, 2005, a representative of Harris Nesbitt, which was subsequently engaged to serve as financial advisor to Petrohawk, and Mr. Stephen W. Herod, Executive Vice President - Corporate Development of Petrohawk, suggested in general terms a potential business combination opportunity for Petrohawk. In follow up discussions on November 8, 2005, Harris Nesbitt advised Mr. Floyd C. Wilson, Chairman, President and Chief Executive Officer of Petrohawk, that KCS was the potential counterparty to the business combination. Mr. Wilson indicated interest in exploring such a combination further.

On December 16, 2005, Mr. Wilson, Mr. Herod and representatives of Harris Nesbitt met to review and discuss a presentation prepared by Harris Nesbitt based upon publicly available information regarding the potential operational synergies and various financial aspects of a potential combination of Petrohawk and KCS.

On January 15, 2006, a representative of Harris Nesbitt contacted Mr. James W. Christmas, Chairman and Chief Executive Officer of KCS, to arrange a meeting for January 18, 2006. In advance of the meeting, Harris Nesbitt sent a copy of its presentation regarding a potential combination of Petrohawk and KCS to Mr. Joseph T. Leary, Senior Vice President and Chief Financial Officer of KCS.

On January 18, 2006, representatives of Harris Nesbitt held an informal meeting with Mr. Christmas and Mr. Leary regarding a potential combination of Petrohawk and KCS. Mr. Christmas and Mr. Leary indicated that KCS was open to discussions about a possible business combination, but that any such combination must include a premium reflecting the value of KCS's core holdings and growth potential. They also indicated a willingness to consider a cash and equity transaction, subject to additional information regarding Petrohawk's properties, drilling program and prospects.

On January 25, 2006, Mr. Wilson and Mr. Christmas met in New York City to discuss in general terms a possible business combination. Messrs. Wilson and Christmas agreed to continue gathering background information necessary to assess the merits of a possible combination.

On January 26, 2006, at its regularly scheduled board meeting, Mr. Christmas informed the KCS board of directors of Petrohawk's general expression of interest.

On February 3, 2006, Mr. Wilson and Mr. Christmas had a meeting in Houston at which they engaged in preliminary discussions regarding the consideration to be paid to KCS stockholders. These discussions involved possible merger consideration consisting of 60% Petrohawk common stock and 40% cash and a 15% premium to the 10-day average stock price of KCS, which was then \$28.13. Petrohawk's 10-day average stock price at the time was \$15.59.

On February 6, 2006, Petrohawk held its regularly scheduled board and management update call. The Petrohawk board of directors was advised of the potential for a business combination with KCS and the substance of the February 3rd meeting between Messrs. Wilson and Christmas.

On February 9, 2006, Messrs. Wilson and Christmas spoke by telephone and concluded that there was sufficient interest in a potential combination to justify the exchange of confidential business information. A confidentiality agreement was prepared and executed on February 13, 2006.

On February 15, 2006, representatives of KCS and Petrohawk met in Houston, Texas, for a technical overview meeting. Mr. Wilson, Mr. Herod, Mr. Shane M. Bayless, Executive Vice President Chief Financial Officer and Treasurer of Petrohawk, Mr. Richard Stoneburner, Executive Vice President Exploration of Petrohawk, and Ms. Joan Dunlap, Assistant Treasurer of Petrohawk, and certain technical staff from Petrohawk attended. Also in attendance were Mr. William N. Hahne, President and Chief Operating Officer of KCS, Mr. Leary and certain technical staff from KCS. Each company presented information regarding its reserves and properties, and preliminary discussions regarding technical details of each company ensued. The representatives of each company concluded that a combination of the properties of the companies should create operational synergies.

From February 15, 2006 through April 20, 2006, the parties conducted due diligence, including review by their respective management, technical staff, engineers and selected advisors of detailed information relating to the other party's business, assets and operations.

On February 16, 2006, Petrohawk executed a letter agreement and engaged Harris Nesbitt as its financial advisor with respect to the potential combination with KCS Energy.

On February 21, 2006, Mr. Wilson and Mr. Christmas again discussed by telephone the general terms of a potential business combination.

On February 23, 2006, at KCS's regularly scheduled board meeting, Mr. Christmas, other members of management of KCS and representatives of Morgan Stanley outlined for the KCS board of directors the status of discussions with Petrohawk and presented an overview of Petrohawk and the potential advantages of a combination with Petrohawk. Also on February 23, 2006, Mr. Wilson met with Mr. Christmas in Houston to further discuss the potential business combination. In particular, they discussed the adequacy of the amount of cash and Petrohawk common stock to be received by KCS shareholders in connection with such a combination.

On February 25, 2006, Mr. Wilson sent to Mr. Christmas a non-binding letter of indicative interest in a business combination between Petrohawk and KCS. The letter contemplated an exchange ratio utilizing a 20-day average of each company's share prices (at that time, \$25.81 for KCS and \$14.83 for Petrohawk) and indicated that KCS stockholders would receive 1.4 shares of Petrohawk common stock and \$8.90 in cash for each share of KCS common stock owned by them. The letter also contemplated that the combined company would have a nine person board, of which two members would be designated by KCS, subject to approval by Petrohawk.

On March 1, 2006, Mr. Wilson and Mr. Christmas discussed by telephone the proposals set forth in the February 25th letter of interest. Each determined to continue evaluating a possible business combination.

On March 8, 2006, Petrohawk and KCS exchanged their respective 2005 year-end reserve reports.

On March 9, 2006, Petrohawk held a board meeting during which management reported the status of discussions regarding a potential business combination with KCS.

On March 17, 2006, Mr. Herod delivered to Mr. Leary an initial draft of a merger agreement prepared by Hinkle Elkouri Law Firm L.L.C., legal advisors to Petrohawk.

On March 20 and March 21, 2006, meetings were held in Houston, Texas between technical representatives of Petrohawk and KCS. Discussions at these meetings focused on each company's properties and proved and unproved reserves.

On March 22, 2006, technical representatives from Petrohawk and KCS met at the office of Netherland, Sewell & Associates, Inc., independent reservoir engineers to both KCS and Petrohawk, in Dallas, Texas. Each company's properties and reserves were discussed with representatives of Netherland Sewell.

On March 27, 2006, Petrohawk held its regularly scheduled monthly telephonic update for members of management and board members. Prior to the call, board members received information on KCS and the potential business combination. During the call, Petrohawk's management team discussed the proposed terms and reasons for the potential combination.

On March 28, 2006, Petrohawk delivered a revised non-binding letter of indicative interest to KCS. The letter of interest contemplated merger consideration consisting of a fixed exchange ratio of 1.50 shares of Petrohawk common stock and \$9.00 cash per share of KCS common stock.

On the evening of March 29, 2006, Mr. Christmas and Mr. Hahne met with a representative of a third party at which such representative expressed his company's interest in a possible transaction with KCS. Mr. Hahne and Mr. Leary met the following morning with representatives of the third party to provide an overview of KCS and to determine a timeframe for a more specific proposal.

On March 30, 2006, Mr. Leary transmitted Petrohawk's draft merger agreement to Andrews Kurth LLP, outside counsel to KCS, with a request that the firm review and comment on the draft.

On March 31, 2006, Mr. Wilson and Mr. Christmas met at Petrohawk's office to discuss the March 28th non-binding letter of indicative interest. At that meeting, Mr. Christmas indicated that he would discuss the matter with the KCS board over the weekend and respond to Mr. Wilson on April 4, 2006, but that he was not prepared to recommend a transaction on the basis of the proposed merger consideration and board representation.

On April 3, 2006, Messrs. Herod and Bayless spoke by telephone with Messrs. Leary and Hahne during which due diligence was discussed and Mr. Herod and Mr. Bayless responded to various due diligence questions regarding Petrohawk. Also, on April 3, 2006, Petrohawk engaged Petrie Parkman to render an opinion to Petrohawk as to the fairness to Petrohawk, from a financial point of view, of the consideration to be paid by Petrohawk in the proposed business combination with KCS in the event the parties agreed to such a combination. On the same day, several KCS senior officers and representatives of Andrews Kurth held a conference call to discuss the proposed transaction and the issues presented by the draft Petrohawk merger agreement.

On April 4, 2006, Petrohawk requested additional due diligence materials from KCS, and Mr. Wilson and Mr. Christmas met in Petrohawk's offices to discuss the terms of the letter of interest. Among other items, the parties discussed merger consideration consisting of \$9.00 cash and 1.65 shares of Petrohawk common stock for each share of KCS common stock outstanding. The parties tentatively agreed to conclude all due diligence by April 10, 2006. Later that day, Petrohawk delivered a revised non-binding letter of indicative interest to KCS in which Petrohawk proposed consideration consisting of 1.65 shares of Petrohawk common stock and \$9.00 cash for each KCS share of common stock outstanding. The letter also contemplated that KCS would have the right to designate four of the nine members of the combined company's board, subject to Petrohawk's approval.

On April 5, 2006, Andrews Kurth delivered a revised version of the draft merger agreement to Petrohawk and Hinkle Elkouri, and Mr. Leary delivered an additional due diligence request list to Petrohawk. Also, on April 5, 2006, a formal due diligence organization meeting was held between senior management and technical personnel from Petrohawk and KCS, and representatives of Andrews Kurth commenced a review of information that Petrohawk made available in its offices. That same day, representatives of Petrie Parkman met with representatives of KCS to conduct due diligence and discuss properties, reserves and other information regarding KCS.

On April 6, 2006, management and other employees of Petrohawk met with representatives of Morgan Stanley, during which Petrohawk provided a detailed presentation regarding its financial condition and prospects and its proved and unproved oil and gas reserves.

On April 6, 2006, representatives of KCS and Petrohawk and their respective financial and legal advisors met in Houston, Texas to discuss and begin negotiation of issues with respect to the merger agreement and related matters and to discuss Petrohawk and KCS reserves and the status of the parties' due diligence investigations.

On April 7, 2006, several Petrohawk representatives, including Messrs. Wilson, Herod and Bayless, met with Mr. Hahne and representatives of each party's legal advisors to continue discussion of selected issues under the merger agreement, including severance policies and employee related issues. Later that day, Petrohawk held a board meeting at which Petrohawk's management provided board members with information regarding the proposed business combination, including a presentation regarding the status of due diligence and economics of the proposed merger. Also on this date, Hinkle Elkouri delivered a revised draft of the merger agreement to Andrews Kurth. Negotiation and the exchange of drafts of the merger agreement and the agreements and disclosure letters contemplated in the merger agreement continued until April 20, 2006.

On April 7, 2006, KCS received a proposal from the third party for an all cash transaction, subject to due diligence, among other matters.

On April 8, 2006, Mr. Wilson and Mr. Christmas exchanged email correspondence and held a telephone conference in which Mr. Wilson expressed his desire to conclude an agreement and established a deadline for KCS to respond to the April 4th letter of interest.

On April 9, 2006, the KCS board met, and KCS management reported on the status of the proposed combination with Petrohawk and the proposed all cash transaction with a third party. A representative of Andrews Kurth advised the board regarding its fiduciary duties in considering these matters and participated with Mr. Christmas in a review of the terms of the draft merger agreement with Petrohawk. Representatives of Morgan Stanley reviewed for the board their financial analysis to date of the Petrohawk transaction and the all cash transaction with the third party. In addition, Mr. Hahne described the status of due diligence by Petrohawk and the third party and by KCS. Mr. Leary outlined the status and proposed sources of financing required for Petrohawk and the third party to complete their respective transactions.

On April 10, 2006, representatives of the third party and KCS and their respective legal counsel, financial advisors, reservoir engineers and accountants met in Andrews Kurth's offices to conduct due diligence discussions and document reviews. Such discussions and reviews (including reviews by lender's counsel for the third party) continued for the next several days. Also on April 10, 2006, Andrews Kurth delivered a draft merger agreement to counsel for the third party. Throughout the week of April 10, 2006, representatives of Petrohawk and KCS and their respective legal and financial advisors continued to review and comment on the parties' disclosure letters, as well as drafts of the merger agreement and its exhibits. At the end of the week, Andrews Kurth delivered drafts of these documents to the members of the board of directors of KCS.

On April 12, 2006, a KCS representative met with a Harris Nesbitt representative in New York City to discuss outstanding issues, possible next steps and potential timing of a transaction with Petrohawk.

Mr. Wilson and Mr. Christmas met in New York City on April 13, 2006 to discuss outstanding issues under the merger agreement, and also discussed these issues by conference call with representatives of Hinkle Elkouri and Andrews Kurth.

On April 13, 2006, Petrohawk held a telephonic board meeting to discuss the status and terms of the potential transaction with KCS. Mr. Wilson informed the board that KCS was considering at least one other offer and that the KCS board had not made a decision to proceed with Petrohawk on an exclusive basis.

On April 14, 2006, Mr. Christmas and a representative of the third party held a telephone conference in which the representative advised Mr. Christmas that such party was interested in pursuing a combination with KCS on a basis other than an all cash transaction. After discussing this change and other aspects of the proposed transaction (including the complexity of the proposed transaction, timing and governance issues and other completion risks) with its financial and legal advisors, and with members of the KCS board of directors, KCS determined that it would not pursue further discussions with the third party.



On April 17, 2006, Petrohawk management delivered the latest draft of the merger agreement, a summary of the merger agreement prepared by Hinkle Elkouri and a presentation containing updated information on the potential transaction to its board of directors. On that day and continuing over the next several days, representatives of the parties also continued to negotiate and revise the merger agreement, exhibits and disclosure letters. Also on that day, KCS scheduled a board meeting for April 20, 2006 to consider and possibly vote on the potential business combination.

On April 18, 2006, a meeting was held at Petrohawk's office with representatives of Harris Nesbitt and Morgan Stanley to discuss and review liquidity and de-levering financial models. Also on April 18, 2006, Petrohawk tentatively scheduled a board meeting for April 20, 2006 to consider and possibly vote on the potential business combination.

On April 19, 2006, Petrie Parkman conducted follow-up due diligence with Petrohawk management representatives and KCS management representatives. The following day, representatives of Morgan Stanley conducted follow-up due diligence with Petrohawk management representatives and KCS management representatives.

On April 20, 2006, the parties finalized the terms of the merger agreement and the Petrohawk and KCS disclosure letters. Later that day, Petrohawk's board of directors met to consider the terms of the proposed business combination between Petrohawk and KCS. Mr. Wilson, Mr. Stone, Mr. Irish, Mr. Fuller and certain Petrohawk officers and legal counsel attended the meeting in person at Petrohawk's offices and Mr. Miller, Mr. Brown, Mr. Williamson and Mr. Bridwell attended by telephone. Prior to the meeting, Petrohawk's board of directors was provided with a substantially final draft of the merger agreement and other materials related to the transaction. At the meeting:

Hinkle Elkouri reviewed the board's fiduciary duties in the context of its deliberations on the proposed transaction.

Hinkle Elkouri and management of Petrohawk provided a detailed presentation regarding the provisions of the proposed merger agreement and the results of due diligence.

Harris Nesbitt discussed the negotiation process and issues associated with the proposed business combination.

Petrie Parkman presented its analysis and rendered an oral opinion, subsequently confirmed by delivery of its written opinion dated April 20, 2006, that based upon and subject to the assumptions made, matters considered, qualifications, and limitations set forth in the written opinion, as of that date, the financial consideration to be paid by Petrohawk in the merger was fair, from a financial point of view, to Petrohawk.

The Petrohawk board of directors discussed and considered the factors weighing in favor of and the risks associated with the combination as set forth under Recommendation of Petrohawk's Board of Directors and Reasons for the Merger. After discussion, the Petrohawk board of directors unanimously approved the merger, the merger agreement, and the other transactions contemplated in the merger agreement and unanimously resolved to recommend that Petrohawk's stockholders vote to approve the issuance of Petrohawk common stock in connection with the merger and the other transactions contemplated in the merger agreement.

Also on April 20, 2006, the KCS board of directors held a special meeting to consider the final terms of the proposed merger transaction between Petrohawk and KCS. Prior to the meeting, KCS's board of directors was provided with a substantially final draft of the merger agreement and other materials related to the proposed transaction. Mr. Christmas and Mr. Hahne attended the meeting in person at KCS's offices and the other members of the board of directors attended by telephone. Also in personal attendance were Mr. Leary, certain other KCS officers and representatives of Morgan Stanley and Andrews Kurth. At the meeting:

KCS's management gave a presentation regarding the terms of the proposed transaction and the results of due diligence.

A representative of Andrews Kurth updated the board of directors regarding changes to the merger agreement since the draft discussed at the meeting on April 9, 2006 and reviewed the provisions of the agreements constituting exhibits to the merger agreement.

Morgan Stanley discussed the negotiation process and the potential market reaction to an announcement of the transaction.

Morgan Stanley presented its analysis and rendered an oral opinion, subsequently confirmed by delivery of its written opinion dated April 20, 2006, that as of such date, and based upon and subject to the factors set forth in its opinion, the consideration to be received by the holders of KCS common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The KCS board of directors discussed and considered the factors weighing in favor of and the risks associated with the combination as set forth under Recommendation of KCS's Board of Directors and Reasons for the Merger. After discussion, KCS's board of directors unanimously approved the merger, the merger agreement and the other transactions contemplated therein, and unanimously resolved to recommend that KCS's stockholders approve and adopt the merger agreement.

Following these board meetings, Mr. Wilson and Mr. Christmas each advised the other that the merger had been approved by the respective boards of Petrohawk and KCS and the definitive merger agreement was executed on behalf of Petrohawk and KCS on April 20, 2006. Concurrently with the execution of the merger agreement, each of Mr. Wilson, Mr. Herod, Mr. Bayless, Mr. Helm and Mr. Stoneburner executed a voting agreement with KCS and Petrohawk in which he agreed to vote in favor of the merger, and each of Mr. Christmas, Mr. Leary, Mr. Hahne and Mr. Stout executed a voting agreement with KCS and Petrohawk in which he agreed to vote in favor of the merger, and each of Mr. Christmas, Mr. Leary, Mr. Hahne, Mr. Stout and Mr. Dwyer executed non-solicitation agreements with Petrohawk in which each agreed to certain restrictions regarding employees of KCS.

The parties issued a joint press release announcing the execution of the merger agreement on the morning of April 21, 2006. Subsequently, on May 16, 2006 and effective as of April 20, 2006, the parties amended the merger agreement to provide for a direct merger of KCS with and into Petrohawk and eliminate the two-step merger contemplated in the originally executed merger agreement.

#### **Recommendation of Petrohawk's Board of Directors and Reasons for the Merger**

Petrohawk's board of directors has determined that the merger is fair to, and in the best interests of, Petrohawk and its stockholders. In deciding to approve the merger agreement and to recommend that Petrohawk's stockholders vote to approve and adopt the merger agreement, Petrohawk's board of directors consulted with Petrohawk's management and legal and financial advisors and considered a number of material factors, including:

*Quality Asset Base.* The combined company will have a concentrated, high quality property portfolio and the two companies have virtual overlay of key operating areas. On a pro-forma basis, the combined company will have approximately 1 Tcfe of estimated proved reserves of which 77% will be natural gas, 68% will be proved developed and 74% will be operated;

*Basin Excellence.* The combined company's ownership in North Louisiana's Elm Grove and Caspiana fields will create a substantial operating platform in an evolving natural gas basin. In addition, the combined company will be a significant operator in the onshore Gulf Coast region, allowing it to compete more effectively for acreage, seismic data and other services;

*Platform For Growth.* Petrohawk believes the merger will create a leading onshore independent exploration and production company with greater financial, operational and technical strengths that should enable it to consider and more effectively pursue additional opportunities in its core operating areas;

*Operating Efficiencies.* A substantial number of the combined company's properties are in the same geographic areas which will permit an integration of those properties and a possible reduction in the combined operating and administrative cost relative to those properties. The merger will lower Petrohawk's per unit operating and administrative costs, increasing its operating margins. In addition, the combined company is currently running 26 rigs (18 operated and 8 non-operated), which provides much more control over timing and the selection of drilling opportunities;

*Balance Drilling Opportunities.* The merger will provide Petrohawk with a larger portfolio of exploitation and exploratory opportunities, thereby giving management more flexibility in its capital allocation decisions;

*Provide Meaningful Accretion to Cash Flow.* The merger will significantly increase Petrohawk's cash flow and increase Petrohawk's cash flow per share and should permit an acceleration of Petrohawk's capital program;

*Improve Financial Flexibility.* The merger will create a larger company that is expected to have more liquidity in its common stock and better access to capital markets, which should provide more financial flexibility;

*Staffing Additions.* The merger will give Petrohawk the opportunity to add to its technical and operational expertise by adding employees from KCS and otherwise hiring qualified individuals;

*Divestment Opportunities.* The combined company will have properties that should be attractive candidates for divestment, and given expected market conditions there should be significant opportunities to use the proceeds from the sale of such properties to reduce overall debt of the combined company; and

*Fair Merger Consideration.* Petrie Parkman presented its analysis and rendered its oral opinion, subsequently confirmed in writing, that as of April 20, 2006 and based upon and subject to the assumptions made, matters considered, qualifications, and limitations set forth in its written opinion, the financial consideration to be paid by Petrohawk in the merger was fair, from a financial point of view, to Petrohawk.

Petrohawk's board of directors considered a number of additional factors in reaching its decision including:

information concerning the financial condition, results of operations, prospects and businesses of Petrohawk and KCS, including the respective companies' reserves, production volumes, cash flows from operations, recent performance of common stock and the ratio of Petrohawk's common stock price to KCS's common stock price over various periods, as well as current industry, economic and market conditions;

the net asset value per share of the common stock of both Petrohawk and KCS; and

the results of business, legal and financial due diligence investigations of KCS conducted by Petrohawk's management and legal advisors.

Petrohawk's board of directors also considered a variety of risks and other potentially negative factors concerning the merger and the transactions contemplated by the merger agreement, including the merger. These factors included:

the increased amount of debt that the combined company would have compared to Petrohawk on a stand-alone basis and the effect of that debt on Petrohawk's future operations;

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the fact that a decrease in oil and gas prices would make the merger less desirable from a financial point of view;

a decrease in oil and gas prices would reduce the expected proceeds from expected divestitures and leave the company with a higher than projected debt balance;

the fact that there are significant risks inherent in combining and integrating two companies, including that the companies may not be successfully integrated, and that successful integration of the companies will require the dedication of significant management resources, which will temporarily detract attention from the day-to-day businesses of the combined company;

the fact that Petrohawk has experienced rapid growth and integrating KCS with Petrohawk may be made more difficult because of acquisitions made by Petrohawk in 2004, 2005 and the first quarter of 2006;

the fact that the capital requirements necessary to achieve the expected growth of the combined company's businesses will be significant, and there can be no assurance that the combined company will be able to fund all of its capital requirements from operating cash flows, and the fact that the combined company would have substantially more total long-term debt than Petrohawk on a stand-alone basis; and

other matters described under the caption "Risk Factors."

This discussion of the information and factors considered by Petrohawk's board of directors in reaching its conclusions and recommendations includes all of the material factors considered by the board but is not intended to be exhaustive. In view of the wide variety of factors considered by Petrohawk's board of directors in evaluating the merger agreement and the transactions contemplated by it, including the merger, and the complexity of these matters, Petrohawk's board of directors did not find it practicable to, and did not attempt to, quantify, rank or otherwise assign relative weight to those factors. In addition, different members of Petrohawk's board of directors may have given different weight to different factors.

It should be noted that this explanation of the reasoning of Petrohawk's board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Forward-Looking Statements" beginning on page 21 of this document.

Petrohawk's board of directors determined that the merger, the merger agreement and the other transactions contemplated in the merger agreement are in the best interests of Petrohawk and its stockholders. Accordingly, Petrohawk's board of directors unanimously approved and adopted the merger agreement and recommends that Petrohawk stockholders vote "FOR" approval and adoption of the merger agreement.

#### **Recommendation of KCS's Board of Directors and Reasons for the Merger**

KCS's board of directors has unanimously approved and adopted the merger agreement and determined that it is advisable and in the best interest of KCS and its stockholders. Accordingly, the board recommends that KCS stockholders vote "FOR" the approval of the merger agreement.

KCS's board of directors consulted with KCS's management, as well as its financial and legal advisors, and considered various factors, including the following, in unanimously approving the merger agreement and the merger (the order does not reflect the relative significance):

*Complementary Organic and Acquisition Growth Strategies.* KCS has had and continues to have very strong organic growth complemented by several recent core area acquisitions, while Petrohawk has grown steadily through acquisitions. KCS believes that combining these two growth strategies will result in a more sustainable growth vehicle for the future, as well as a larger market capitalization and a more liquid trading market for the combined company's stock, and should result in increased analyst coverage and potentially better trading multiples.

*Core Area Asset Growth of Complementary Property Base.* KCS believes that the combination of its core areas (North Louisiana, the Texas Gulf Coast and the Permian Basin) with Petrohawk's core areas (North Louisiana, Gulf Coast/South Texas and Permian Basin) will allow for accelerated developmental and exploration growth opportunities and is expected to provide KCS shareholders with greater long term value than KCS could achieve independent of the merger. This is especially evident in the Elm

Grove/Caspiana fields, which comprise approximately 40% of KCS's reserves and production, where Petrohawk recently acquired significant reserves, acreage and future drilling potential.

*Merger Consideration.* The market value of the merger consideration as of April 19, 2006 (the last trading day prior to the execution of the merger agreement) represented an approximate 12% premium over the closing price of KCS's common stock on that date and approximately a 30% premium over KCS's stock price over the preceding 90 and 180 day averages. The holders of KCS common stock and KCS restricted stock will each receive merger consideration that includes or consists of Petrohawk common stock, providing an opportunity for KCS shareholders to participate significantly in any post-merger appreciation in the market value of Petrohawk common stock.

*Board Representation.* KCS will be appointing four out of nine directors on the post-merger board of Petrohawk, and Mr. Christmas will serve as vice-chairman. KCS believes that this level of representation on the board is appropriate considering KCS shareholders will own approximately 50% of the post-merger Petrohawk at the exchange ratio of 1.65x in addition to the \$9.00 per share in cash.

*Strategic Options.* KCS's board has reviewed the advantages and disadvantages of several alternative strategic directions over the last 18 months and feels that a merger with Petrohawk provides the most attractive combination of immediate value and long term potential gain for KCS shareholders. The merger agreement does not prohibit consideration of a superior offer from a third party, but does provide for a \$45 million termination payment if, among other conditions, KCS terminates the merger agreement to pursue a superior proposal.

*Scope and Scale of Combined Company.* The combination of KCS and Petrohawk has estimated proved reserves of approximately 1 Tcfe (77% natural gas) and estimated current daily production of approximately 290 Mmcfe/d, more than twice the size of KCS. The percent of oil in the reserve profile increases from KCS's 12% to 23% on a combined basis, thereby providing an opportunity to have more balance between oil and gas markets. KCS believes that the scope and scale of the combined company will result in greater marketing, purchasing and operational strength, facilitate internal growth and promote long-term shareholder value. In addition, it strengthens the technical capability of the combined company by effectively doubling the technical staff focused on the same areas.

*Tax Consequences of the Merger.* The merger is expected to be treated as a reorganization for U.S. federal income tax purposes.

*Opinion of Financial Advisor.* KCS's board of directors also considered the opinion of its financial advisor, Morgan Stanley, described elsewhere in this document to the effect that, as of April 20, 2006, based on the assumptions and other matters stated in its opinion, the consideration to be received by the holders of KCS common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

KCS's board of directors considered a number of additional factors in reaching its decision, including:

information concerning the financial condition, results of operations, business and prospects of each of KCS and Petrohawk, including each company's reserves, production volumes, cash flow from operations and recent performance of common stock;

the net asset value per share of common stock of each of KCS and Petrohawk;

the results of business, legal and financial due diligence investigations of Petrohawk conducted by KCS's management, financial and legal advisors; and

current industry, economic and market conditions



KCS's board of directors recognized that there are risks associated with the merger and an investment in the combined company, including the following risks:

*Fixed Exchange Ratio.* KCS shareholders will receive 1.65 shares of Petrohawk common stock and \$9.00 per share of cash for each share of KCS common stock, other than employee holders of restricted stock who will receive restricted shares of Petrohawk common stock for each restricted share of KCS the employee holds, determined by adding the exchange ratio (1.65) to the result obtained by dividing the cash consideration (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs. Therefore, a portion (or, in the case of employee holders of restricted stock, all) of the value of the consideration to be received by KCS stockholders at the effective time of the merger will depend on the trading price of Petrohawk common stock at that time.

*Increased Indebtedness.* Following the merger, the combined company is expected to have approximately \$1.3 billion in total debt and a higher debt to proved reserves ratio than KCS on a stand-alone basis. This increased indebtedness could limit the combined company's flexibility as a result of debt service requirements and restrictive covenants and may limit the combined company's business strategy or its ability to access additional capital.

*Integration Risks.* Petrohawk has grown rapidly by acquisitions. The combined company will face risks typical to business combinations, including challenges associated with integrating personnel, operations, information technologies and financial reporting. Unintended and unforeseen financial and operational consequences could develop in the process of that integration, including the loss by the combined company of key management and employees, customers or suppliers.

*Disparate Shareholder Bases.* The shareholder bases of KCS and Petrohawk are very different, with different investment styles and investment horizons, which could lead to near-term pressure on Petrohawk shares. Since the exchange ratio is fixed, this could cause the nominal value being received by KCS shareholders at closing to be diminished until any resulting selling pressure subsides.

*Execution Risk.* The merger might not be completed as a result of a failure to satisfy the conditions contained in the merger agreement or other reasons. Neither KCS nor Petrohawk is obligated to complete the merger unless the conditions in the merger agreement are satisfied or, in some cases, waived.

*Other Risk Factors.* Other matters described under the caption "Risk Factors".

The preceding discussion of the information and factors considered and given weight by KCS's board of directors is not intended to be exhaustive. However, KCS believes that the discussions included all of the material factors that the board considered. In reaching its decision to approve and to recommend approval to KCS shareholders of the merger agreement, KCS's board of directors did not assign any relative or specific weights to the factors it considered.

#### **Opinion of Petrie Parkman to the Petrohawk Board of Directors**

*Opinion of Petrie Parkman to the Petrohawk Board of Directors.* Petrohawk engaged Petrie Parkman as of March 31, 2006 solely to render an opinion to Petrohawk as to the fairness, from a financial point of view, to Petrohawk of the consideration to be paid by Petrohawk in a potential transaction with KCS. On April 20, 2006, Petrie Parkman rendered to the Petrohawk board of directors its oral opinion, and subsequently confirmed in writing that, as of April 20, 2006, and based upon and subject to the matters set forth therein, the merger consideration to be paid by Petrohawk in the merger was fair, from a financial point of view, to Petrohawk.

**The full text of the Petrie Parkman opinion, dated April 20, 2006, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations of the review undertaken by Petrie Parkman in rendering its opinion is, with Petrie Parkman's consent,**



**attached as *Annex B* to this proxy statement / prospectus and is incorporated in this document by reference. The summary of the Petrie Parkman opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Petrohawk stockholders are urged to read the Petrie Parkman opinion carefully and in its entirety.**

Petrie Parkman's opinion was provided to the Petrohawk board of directors for its use and benefit in connection with its consideration of the merger and relates solely to the fairness, from a financial point of view, to Petrohawk of the merger consideration to be paid by Petrohawk in the merger. The Petrie Parkman opinion does not constitute a recommendation to any holder of Petrohawk common stock as to how such holder should vote on the merger. Petrie Parkman's opinion does not address the relative merits of the merger as compared to any alternative business transaction or strategic alternative that might be available to Petrohawk nor does it address the underlying business decision of Petrohawk to engage in the merger. Petrie Parkman was not asked to and did not solicit offers from other persons to acquire all or a part of Petrohawk. Petrie Parkman's opinion and its presentation to the Petrohawk board of directors were among many factors taken into consideration by the Petrohawk board of directors in approving the merger agreement and making its recommendation regarding the merger.

In arriving at its opinion, Petrie Parkman, among other things:

reviewed certain publicly available business and financial information relating to Petrohawk and KCS, including Annual Reports on Form 10-K and related audited financial statements for the fiscal years ended December 31, 2003, December 31, 2004 and December 31, 2005;

reviewed certain estimates of Petrohawk's oil and gas reserves, including (i) estimates of proved reserves prepared by the independent engineering firm of Netherland, Sewell & Associates, Inc. (NSAI) as of December 31, 2005, and (ii) internal estimates of certain proved reserves prepared by the management and staff of Petrohawk as of December 31, 2005 associated with an acquisition made by Petrohawk in January 2006;

reviewed certain estimates of KCS's oil and gas reserves, including internal estimates of proved reserves prepared by the management and staff of KCS and audited by NSAI as of December 31, 2005;

analyzed certain historical and projected financial and operating data of Petrohawk and KCS prepared by the management and staff of Petrohawk and KCS, respectively;

discussed the current and projected operations and prospects of KCS with the managements and staffs of Petrohawk and KCS, and discussed the current and projected operations and prospects of Petrohawk with the management and staff of Petrohawk;

reviewed the historical market prices and trading history of Petrohawk common stock and KCS common stock;

compared recent stock market capitalization indicators for Petrohawk and KCS with recent stock market capitalization indicators for certain other publicly-traded independent energy companies;

compared the financial terms of the merger with the financial terms of other transactions that Petrie Parkman deemed to be relevant;

reviewed a draft dated April 20, 2006 of the Merger Agreement; and

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reviewed such other financial studies and analyses and performed such other investigations and took into account such other matters as Petrie Parkman deemed necessary or appropriate.

In connection with its opinion, Petrie Parkman assumed and relied upon, without assuming any responsibility for, or independently verifying, the accuracy and completeness of all information supplied or otherwise made available to Petrie Parkman by Petrohawk and KCS. Petrie Parkman further relied upon the assurances of representatives of the management of Petrohawk and KCS that they were unaware of any facts that

would make the information provided incomplete or misleading in any material respect. With respect to projected financial and operating data, Petrie Parkman assumed that it had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements and staffs of Petrohawk and KCS, respectively, relating to the future financial and operational performance of each company. With respect to the estimates of oil and gas reserves, Petrie Parkman assumed that they have been reasonably prepared on bases reflecting the best available estimates and judgments of the managements and staffs of Petrohawk and KCS (and NSAI, as applicable) relating to the oil and gas properties of Petrohawk and KCS, respectively. Petrie Parkman did not make an independent evaluation or appraisal of the assets or liabilities of Petrohawk or KCS, nor, except for the estimates of oil and gas reserves referred to above, was Petrie Parkman furnished with any such evaluations or appraisals. In addition, Petrie Parkman did not assume any obligation to conduct, nor did Petrie Parkman conduct, any physical inspection of the properties or facilities of Petrohawk or KCS. Petrie Parkman also assumed that the final form of the merger agreement would be substantially similar to the last draft reviewed by Petrie Parkman, and that the merger would be consummated in accordance with the terms of the merger agreement without waiver of any of the conditions precedent to the merger contained in the merger agreement. Petrie Parkman did not participate in the discussions concerning the merger agreement among Petrohawk, KCS and their representatives.

Petrie Parkman's opinion was rendered on the basis of conditions in the securities markets and the oil and gas markets as they existed and could be evaluated on the date of its opinion and the conditions and prospects, financial and otherwise, of Petrohawk and KCS as they were represented to Petrie Parkman as of the date of its opinion or as they were reflected in the materials and discussions described in Petrie Parkman's opinion.

The following is a summary of the financial analyses performed by Petrie Parkman in connection with the preparation of its opinion dated April 20, 2006 and presented to the Petrohawk board of directors on that date.

This summary includes information presented in tabular format. In order to fully understand these financial analyses, the tables must be read together with the text accompanying each summary. The tables alone do not constitute a complete description of these financial analyses. Considering the data set forth in the tables without considering the full narrative description of these analyses, including the methodologies and assumptions underlying these analyses, could create a misleading or incomplete view of these financial analyses performed by Petrie Parkman.

*Discounted Cash Flow Analysis.* Petrie Parkman conducted a discounted cash flow analysis for proved reserves for the purpose of determining equity reference value ranges per share of Petrohawk and KCS common stock. Petrie Parkman calculated the net present value of estimates of future after-tax cash flows of Petrohawk's and KCS's respective proved oil and gas reserve assets based on the proved reserves for Petrohawk and for KCS referred to above.

Petrie Parkman evaluated five scenarios in which the principal variables were oil and gas prices. The five pricing scenarios—Pricing Case I, Pricing Case II, Pricing Case III, Strip Pricing Case Escalated, and Strip Pricing Case Flat—were based on benchmarks for spot sales of West Texas Intermediate crude oil and for spot sales of Henry Hub gas. The Strip Pricing Cases were based upon the average of oil and gas futures contract prices quoted on the New York Mercantile Exchange. Benchmark prices for Pricing Cases I, II and III were projected to be \$50.00, \$60.00 and \$70.00 per barrel of oil and \$6.50, \$7.50 and \$8.50 per million British thermal unit for gas, respectively, in 2007 and were escalated annually following 2008 at the rate of 3%. All pricing cases for the fiscal year ended 2006 reflected strip pricing for the remainder of 2006 blended with actual prices from January 1, 2006 through April 18, 2006. The Strip Pricing Case Escalated was escalated annually following the year 2010 for oil and gas at the rate of 3%. Petrie Parkman applied appropriate quality, transportation, contract and index adjustments to these benchmarks.

References to oil and gas equivalents are for purposes of comparing quantities of oil with quantities of gas or to express these different commodities in a common unit. The term "Mcf" means thousand cubic feet. The

term Bbl means barrel. In calculating Mcf and Bbl equivalents, Petrie Parkman used a generally recognized standard in which one Bbl is equal to six Mcf. The term Mcfe means thousand cubic feet equivalent of gas, calculated by converting Bbl of oil to equivalent Mcf using the six Mcf to one Bbl ratio.

Applying various after-tax discount rates, ranging from 8.0% to 11.0% depending on reserve category for proved reserves, to the after-tax cash flows, assuming a carry-over of existing tax positions, adding probable, possible and additional potential reserve value based on 50% 75%, 25% 30%, and 10% 15%, of the proved undeveloped dollar per Mcfe value to Petrohawk and KCS probable, possible and additional potential reserve estimates, respectively, adjusting for other assets and liabilities, convertible preferred stock (for Petrohawk), long-term debt and net working capital for Petrohawk and KCS, Petrie Parkman calculated the following equity reference value ranges for each pricing case:

	Strip Pricing		Strip Pricing		Pricing		Pricing		Pricing	
	Case (Escalated)		Case (Flat)		Case I		Case II		Case III	
<b>Petrohawk Equity</b>	\$13.03	\$18.15	\$11.49	\$15.91	\$7.28	\$10.89	\$10.49	\$15.04	\$13.52	\$19.00

**Reference Value**

**Range per Share**

<b>KCS Equity</b>	\$28.32	\$37.63	\$26.41	\$34.84	\$18.21	\$24.60	\$23.19	\$31.17	\$28.17	\$37.76
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**Reference Value**

**Range per Share**

These per share equity reference value ranges were then used to derive the implied exchange ratio ranges shown in the table below. The low end of the implied exchange ratio range is calculated by dividing the low end of the KCS equity reference value range by the high end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration implied by the 1.65 shares of Petrohawk and \$9.00 of cash for each KCS share proposed in the transaction. The high end of the implied exchange ratio range is calculated by dividing the high end of the KCS equity reference value range by the low end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction.

	Strip Pricing		Strip Pricing		Pricing		Pricing		Pricing	
	Case (Escalated)		Case (Flat)		Case I		Case II		Case III	
<b>Implied Exchange</b>	1.12	2.07	1.19	2.18	1.20	2.43	1.11	2.13	1.06	2.01

**Ratio Range**

Petrie Parkman noted the proposed exchange ratio of 1.65 and the implied merger consideration of \$31.87 per KCS share were supported by its analysis.

*Property Transactions Analysis.* Petrie Parkman reviewed selected publicly available information for 104 oil and gas property transactions announced between January 2004 and April 2006 in the East Texas / North Louisiana, Gulf Coast / South Texas, Mid Continent, Permian and Other regions of the United States. Based on a review of the purchase price multiples of proved reserves for the acquired assets in each transaction, Petrie Parkman selected appropriate benchmark multiples for Petrohawk's and KCS's corresponding proved reserve figures to yield enterprise reference value ranges for Petrohawk's and KCS's proved reserves. The number of transactions per region and the maximum, mean, median and minimum implied multiples for these transactions are set forth in the following tables together with certain benchmark multiples chosen by Petrie Parkman based on a review of these implied multiples.

Petrie Parkman determined that the following property transactions were relevant to an evaluation of Petrohawk and KCS:

	Permian	Gulf Coast / South Texas	East Texas / North Louisiana	Mid-Continent	Other				
Number of Transactions	26	17	13	20	28				
Purchase Price of Reserves / Proved Reserves (\$/Mcf)									
<i>Maximum</i>	\$2.80	\$2.91	\$2.50	\$3.28	\$5.77				
<i>Mean</i>	\$1.62	\$1.87	\$2.12	\$1.77	\$1.59				
<i>Median</i>	\$1.45	\$1.86	\$2.29	\$1.64	\$1.28				
<i>Minimum</i>	\$0.42	\$0.42	\$1.37	\$0.27	\$0.19				
Selected Benchmark Multiples (\$/Mcf)	\$2.00	\$2.50	\$1.85	\$2.25	\$2.50	\$2.00	\$2.50	\$2.50	\$3.00

Petrie Parkman multiplied the benchmark multiples set forth above by Petrohawk's and KCS's respective proved reserve figures and, after adjusting for other assets and liabilities, determined enterprise reference value ranges of \$1,468 million to \$1,920 million for Petrohawk and \$1,458 million to \$1,906 million for KCS. Petrie Parkman adjusted the enterprise reference value ranges for long-term debt, convertible preferred stock (for Petrohawk), and net working capital for Petrohawk and KCS and divided by the diluted number of shares of common stock outstanding, to calculate per share equity reference value ranges of \$10.49 to \$15.70 for Petrohawk and \$22.30 to \$31.03 for KCS.

These per share equity reference value ranges were then used to derive the implied exchange ratio range of 1.02 to 2.12. The low end of the implied exchange ratio range is calculated by dividing the low end of the KCS equity reference value range by the high end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction. The high end of the implied exchange ratio range is calculated by dividing the high end of the KCS equity reference value range by the low end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction.

Petrie Parkman noted the proposed exchange ratio of 1.65 and the implied merger consideration of \$31.87 per KCS share were supported by its analysis.

*Company Transaction Analysis.* Petrie Parkman reviewed selected publicly available information on 14 company acquisition transactions and offers for control that Petrie Parkman deemed appropriate for Petrohawk and KCS, involving companies in the oil and gas exploration and production industry that were announced between February 2004 and January 2006.

Using publicly available information, Petrie Parkman calculated purchase price of equity multiples of latest twelve months ( LTM ), current year's and next year's estimated discretionary cash flow ( DsCF ) and total investment, which Petrie Parkman defined for the purposes of this analysis as purchase price of equity plus net obligations assumed, multiples of LTM, current year's and next year's estimated earnings before interest, taxes, depreciation, depletion and amortization and exploration expense ( EBITDX ). Petrie Parkman also calculated the implied purchase price of reserves, which Petrie Parkman defined for the purposes of this analysis as total investment less undeveloped acreage value and other assets at book value, multiples of proved reserves and the standardized measure of future net cash flows ( SEC Value ). In each case, estimated discretionary cash flow and EBITDX were based on First Call consensus estimates and proved reserves and SEC Value were based on the target company's public disclosures.

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Petrie Parkman determined that the following company acquisition transactions were relevant to an evaluation of Petrohawk and KCS:

Acquirer or Bidder for Control	Target	Date of Announcement
Cal Dive International, Inc.	Remington Oil and Gas Corporation	January 23, 2006
ConocoPhillips	Burlington Resources Inc.	December 12, 2005
Occidental Petroleum Corporation	Vintage Petroleum, Inc.	October 13, 2005
Norsk Hydro ASA	Spinnaker Exploration Company	September 19, 2005
Chevron Corporation	Unocal Corporation	April 4, 2005
Petrohawk Energy Corporation	Mission Resources Corporation	April 4, 2005
Cimarex Energy Co.	Magnum Hunter Resources, Inc.	January 26, 2005
Noble Energy, Inc.	Patina Oil & Gas Corporation	December 16, 2004
Petro-Canada	Prima Energy Corporation	June 9, 2004
Forest Oil Corporation	Wiser Oil Company	May 24, 2004
Pioneer Natural Resources Company	Evergreen Resources, Inc.	May 4, 2004
EnCana Corporation	Tom Brown, Inc.	April 15, 2004
Kerr-McGee Corporation	Westport Resources Corporation	April 7, 2004
Plains Exploration & Production Company	Nuevo Energy Company	February 12, 2004

The maximum, mean, median and minimum implied multiples in these transactions are set forth below. The table below also includes benchmark multiple ranges selected by Petrie Parkman based on a review of the implied multiples in the selected transactions.

	Implied Multiples in Selected Transactions				Selected
	Maximum	Mean	Median	Minimum	Ranges
Purchase Price / LTM DsCF	12.2x	7.6x	7.6x	4.1x	7.0 8.0x
Purchase Price / Current Year's Estimated DsCF	10.2x	6.5x	6.5x	2.8x	6.0 7.0x
Purchase Price / Next Year's Estimated DsCF	10.3x	6.0x	6.3x	2.5x	4.5 6.0x
Total Investment / LTM EBITDX	14.6x	7.9x	7.6x	5.0x	7.0 8.0x
Total Investment / Current Year's Estimated EBITDX	10.1x	6.7x	6.5x	4.7x	5.5 6.5x
Total Investment / Next Year's Estimated EBITDX	8.4x	6.1x	5.9x	4.3x	5.0 6.0x
Implied Purchase Price of Reserves / Proved Reserves (\$/Mcf)	\$6.83	\$ 2.59	\$ 2.18	\$ 0.66	\$3.00 3.50
Implied Purchase Price of Reserves / SEC Value	3.2x	1.8x	1.8x	0.8x	1.5 1.8x

Petrie Parkman applied the benchmark multiples to Petrohawk's and KCS's December 31, 2005 LTM, current year's and next year's estimated discretionary cash flow and EBITDX, SEC Value and proved reserves and adjusted for long-term debt, convertible preferred stock (for Petrohawk), and net working capital, where appropriate, to determine enterprise reference value ranges for Petrohawk and KCS.

Petrie Parkman also performed a premium analysis for the same universe of company acquisition transactions and offers for control, which compared the offer price per target company share with the target company's share price measured one day, 30 days and 60 days prior to the public announcement of the transaction or offer for control. The maximum, mean, median and minimum premiums (which Petrie Parkman defined for the purposes of this analysis as excess of offer price over target company's stock price stated as a percentage above the target company's stock price), together with benchmark premium ranges selected by Petrie Parkman based on a review of the implied premiums for these periods, were as follows:

	Implied Premiums in Selected Transactions				Selected
	Maximum	Mean	Median	Minimum	Ranges
One Day Prior	34.4%	16.7%	20.0%	3.2%	20% 30%
30 Days Prior	54.6%	21.7%	18.4%	3.7%	15% 30%
60 Days Prior	73.6%	32.5%	30.5%	9.1%	25% 35%

Petrie Parkman applied the range of benchmark premiums to the corresponding stock prices of Petrohawk and KCS for the periods of one day, 30 days and 60 days prior to April 18, 2006 and adjusted for long-term debt,



convertible preferred stock (for Petrohawk), and net working capital, where appropriate, to determine enterprise reference value ranges for Petrohawk and KCS.

Petrie Parkman determined from the enterprise reference value ranges implied by these multiples a composite reference value range of \$1,900 million to \$2,200 million for Petrohawk and \$1,900 million to \$2,200 million for KCS. After deducting long-term debt, convertible preferred stock (for Petrohawk), and net working capital from the enterprise reference value ranges and dividing by the diluted number of shares of common stock outstanding, the resulting equity reference value ranges were \$15.10 to \$18.56 for Petrohawk and \$30.40 to \$36.23 for KCS.

These per share equity reference value ranges were then used to derive the implied exchange ratio range of 1.18 to 1.72. The low end of the implied exchange ratio range is calculated by dividing the low end of the KCS equity reference value range by the high end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction. The high end of the implied exchange ratio range is calculated by dividing the high end of the KCS equity reference value range by the low end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction.

Petrie Parkman noted the proposed exchange ratio of 1.65 and the implied merger consideration of \$31.87 per KCS share were supported by its analysis.

*Capital Market Comparison.* Using publicly available information, Petrie Parkman calculated market capitalization multiples of LTM, 2006 and 2007 estimated DsCF for seven publicly traded companies for Petrohawk and seven publicly traded companies for KCS. Petrie Parkman also calculated enterprise value multiples of LTM, 2006 and 2007 estimated EBITDX, proved reserves, and SEC Value for both companies. In each case, estimated DsCF and EBITDX were based on First Call consensus estimates. Petrie Parkman defined market value for purposes of this analysis as the market value of common equity as of April 18, 2006. Petrie Parkman obtained the enterprise value of each company by adding the sum of its long-term and short-term debt to the sum of the market value of its common equity, the market value of its preferred stock (or, if not publicly traded, liquidation or book value) and the book value of its minority interest in other companies and subtracting net working capital.

Petrie Parkman determined that the following companies were relevant to an evaluation of Petrohawk based on Petrie Parkman's view of the comparability of the operating and financial characteristics of these companies to those of Petrohawk:

Cabot Oil & Gas Corporation	KCS Energy, Inc.
Comstock Resources, Inc.	Rosetta Resources, Inc.
EXCO Resources, Inc.	St. Mary Land & Exploration Company
Forest Oil Corporation	

The maximum, mean, median and minimum multiples for the seven companies are set forth below. The table also includes benchmark multiple ranges selected by Petrie Parkman based on a review of the comparable company multiples.

Measure	Comparable Company Multiples				Petrohawk	
	Maximum	Mean	Median	Minimum	Selected	
					Benchmark Ranges	
Market Value / LTM DsCF	13.2x	7.0x	6.4x	3.8x	5.5	6.5x
Market Value / 2006 Estimated DsCF	7.0x	5.7x	6.0x	4.7x	4.5	5.5x
Market Value / 2007 Estimated DsCF	6.5x	5.4x	6.0x	4.0x	4.5	5.5x
Enterprise Value / LTM EBITDX	15.2x	7.4x	6.5x	4.8x	5.0	6.0x
Enterprise Value / 2006 Estimated EBITDX	6.9x	5.6x	5.6x	4.6x	5.0	6.0x
Enterprise Value / 2007 Estimated EBITDX	6.2x	5.1x	4.9x	4.2x	4.5	5.5x
Enterprise Value / Proved Reserves (\$/Mcf)	\$3.86	\$ 3.13	\$ 3.28	\$ 2.16	\$3.00	3.50
Enterprise Value / SEC Value	1.9x	1.5x	1.5x	1.1x	1.5	1.9x



Petrie Parkman applied the benchmark multiples to Petrohawk's December 31, 2005 LTM, 2006 and 2007 estimated DsCF and EBITDX, proved reserves and SEC Value and adjusted for long-term debt, convertible preferred stock and net working capital, where appropriate, to determine enterprise reference value ranges for Petrohawk.

Petrie Parkman determined from the enterprise reference value ranges implied by these multiples a composite enterprise reference value range of \$1,650 million to \$1,900 million. After deducting long-term debt, convertible preferred stock and net working capital from the enterprise reference value range and dividing by the diluted number of shares of common stock outstanding, the resulting equity reference value range was \$12.22 to \$15.10.

Petrie Parkman determined that the following companies were relevant to an evaluation of KCS based upon Petrie Parkman's view of the comparability of the operating and financial characteristics of these companies to those of KCS:

Cabot Oil & Gas Corporation	Petrohawk Energy Corporation
Comstock Resources, Inc.	Rosetta Resources, Inc.
EXCO Resources, Inc.	St. Mary Land & Exploration Company
Forest Oil Corporation	

The maximum, mean, median and minimum multiples for the seven companies are set forth below. The table also includes benchmark multiple ranges selected by Petrie Parkman based on a review of the comparable company multiples.

Measure	Comparable Company Multiples				KCS Selected	
	Maximum	Mean	Median	Minimum	Benchmark Ranges	
Market Value / LTM DsCF	13.2x	7.3x	6.9x	3.8x	5.5	6.5x
Market Value / 2006 Estimated DsCF	7.0x	5.7x	6.0x	4.4x	4.5	5.5x
Market Value / 2007 Estimated DsCF	6.5x	5.4x	6.0x	3.8x	4.5	5.5x
Enterprise Value / LTM EBITDX	15.2x	7.9x	6.5x	4.8x	5.0	6.0x
Enterprise Value / 2006 Estimated EBITDX	6.9x	5.8x	6.0x	4.6x	5.0	6.0x
Enterprise Value / 2007 Estimated EBITDX	6.2x	5.2x	5.0x	4.2x	4.5	5.5x
Enterprise Value / Proved Reserves (\$/Mcf)	\$3.47	\$ 3.07	\$ 3.28	\$ 2.16	\$3.00	3.50
Enterprise Value / SEC Value	2.4x	1.6x	1.5x	1.1x	1.5	1.9x

Petrie Parkman applied the benchmark multiples to KCS's LTM, 2006 and 2007 estimated DsCF and EBITDX, proved reserves and SEC Value and adjusted for long-term debt and net working capital, where appropriate, to determine enterprise reference value ranges for KCS.

Petrie Parkman determined from the enterprise reference value ranges implied by these multiples a composite reference value range of \$1,700 million to \$2,000 million. After deducting long-term debt and net working capital from the enterprise reference value range and dividing by the diluted number of shares of common stock outstanding, the resulting equity reference value range was \$26.50 to \$32.34.

The per share equity reference value ranges were then used to derive the implied exchange ratio range of 1.26 to 1.90. The low end of the implied exchange ratio range is calculated by dividing the low end of the KCS equity reference value range by the high end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction. The high end of the implied exchange ratio range is calculated by dividing the high end of the KCS equity reference value range by the low end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction.

Petrie Parkman noted the proposed exchange ratio of 1.65 and the implied merger consideration of \$31.87 per KCS share were supported by its analysis.

*Going Concern Analysis.* Petrie Parkman projected the potential financial performance of Petrohawk and KCS, without giving effect to the proposed merger, for the five year period beginning on January 1, 2006 using Pricing Cases I, II, III and the Strip Pricing Escalated Case, each as referred to in the subsection entitled "Discounted Cash Flow Analysis" above. Petrie Parkman prepared these projections using financial, operating and reserve projections prepared and/or provided by Petrohawk's and KCS's management and staff and certain assumptions based upon discussions with the managements of Petrohawk and KCS regarding Petrohawk's and KCS's potential future operating and financial performance, respectively.

For each of Petrohawk and KCS, Petrie Parkman analyzed two cases of operating projections, a Case I and Case II, in which the principal variable was the finding and development cost related to reinvestment of excess cash flow into additional exploration opportunities. Petrie Parkman calculated a range of terminal equity values by applying different terminal multiples to projected 2010 discretionary cash flow and applying after-tax discount rates of 11.0% to 13.0% to the terminal equity values.

From the equity reference values implied by this analysis, Petrie Parkman determined composite per share equity reference value ranges of \$14.00 to \$16.50 and \$17.50 to \$21.00 for Case I and Case II, respectively, for Petrohawk and \$29.00 to \$35.00 and \$37.00 to \$44.00 for Case I and Case II, respectively for KCS.

The per share equity reference value ranges for Petrohawk and KCS were then used to derive implied exchange ratios of 1.26 to 1.80 and 1.27 to 1.81 for Case I and Case II, respectively. The low end of the implied exchange ratio range is calculated by dividing the low end of the KCS equity reference value range by the high end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction. The high end of the implied exchange ratio range is calculated by dividing the high end of the KCS equity reference value range by the low end of the Petrohawk equity reference value range and multiplying by the 71.8% stock consideration proposed in the transaction.

Petrie Parkman noted the proposed exchange ratio of 1.65 and the implied merger consideration of \$31.87 per KCS share were supported by its analysis.

*Pro Forma Analysis.* Petrie Parkman analyzed the pro forma financial effects of the proposed merger as of December 31, 2005 and for the fiscal years ended 2006 and 2007 using First Call consensus estimates for Petrohawk and KCS. For purposes of its analysis, Petrie Parkman assumed \$10 million of pre-tax synergies in 2006. This analysis indicated that the merger would be accretive to Petrohawk's 2006 and 2007 estimated earnings and DsCF. This analysis also indicated that the merger would result in a higher net debt plus preferred to 2006 EBITDX and a slightly lower debt to total book capitalization ratio than for Petrohawk on a stand-alone basis.

The description set forth above constitutes a summary of the analyses employed and factors considered by Petrie Parkman in rendering its opinion to the Petrohawk board of directors. Petrie Parkman believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all analyses and factors, could create an incomplete view of the process underlying its opinion. The preparation of a fairness opinion is a complex, analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Petrie Parkman did not attribute any particular weight to any analysis considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis. Any estimates resulting from the analyses are not necessarily indicative of actual values, which may be significantly more or less favorable than as set forth in this document. In addition, analyses based on forecasts of future results are not necessarily indicative of future results, which may be significantly more or less favorable than suggested by these analyses. Estimates of reference values of companies do not purport to be appraisals or necessarily reflect the prices at which companies may actually be sold. Because the estimates are inherently subject to uncertainty and based upon numerous factors or events beyond the control of the parties and Petrie Parkman, Petrie Parkman cannot assure that the estimates will prove to be accurate.

No company used in the analyses of other publicly traded companies nor any transaction used in the analyses of comparable transactions is identical to Petrohawk, KCS or the proposed merger. Accordingly, these analyses must take into account differences in the financial and operating characteristics of the selected publicly traded companies and differences in the structure and timing of the selected transactions and other factors that would affect the public trading values and acquisition values of the companies considered.

Pursuant to the terms of an engagement letter agreement dated effective as of March 31, 2006, Petrohawk paid Petrie Parkman a customary fee upon the delivery of Petrie Parkman's fairness opinion dated April 20, 2006. In addition, Petrohawk agreed to reimburse Petrie Parkman for reasonable out-of-pocket expenses incurred in connection with the engagement, including fees and reasonable expenses of legal counsel. Petrohawk has also agreed to indemnify Petrie Parkman and its affiliates and its and their respective directors, officers, partners, agents, employees and controlling persons to the full extent lawful, from and against certain liabilities related to or arising out of its rendering of services under its engagement, including liabilities under the federal securities laws. Petrie Parkman has, in the past, provided financial advisory services to Petrohawk and has received customary fees for such services. Furthermore, in the ordinary course of business, Petrie Parkman or its affiliates may trade in the debt or equity securities of Petrohawk or KCS for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Petrie Parkman, as part of its investment banking business, is continually engaged in the evaluation of energy-related businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and evaluations for corporate and other purposes. Petrohawk selected Petrie Parkman to provide a fairness opinion to Petrohawk because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger.

#### **Opinion of Morgan Stanley to the KCS Board of Directors**

KCS Energy, Inc. retained Morgan Stanley to act as its financial advisor and to provide a financial fairness opinion to the board of directors of KCS in connection with the merger. The KCS board of directors selected Morgan Stanley to act as KCS's financial advisor based on Morgan Stanley's qualifications, experience, reputation and its knowledge of the business of KCS. At the meeting of the KCS board of directors on April 20, 2006, Morgan Stanley rendered its oral and written opinion, that, based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the holders of shares of KCS common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

**The full text of Morgan Stanley's opinion, dated April 20, 2006, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations of the review undertaken in rendering its opinion, is attached as *Annex C* to this joint proxy statement/prospectus. The summary of Morgan Stanley's fairness opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. KCS stockholders should read this opinion carefully and in its entirety. Morgan Stanley's opinion is directed to the board of directors of KCS, addresses only the fairness from a financial point of view of the consideration to be received by holders of KCS common stock pursuant to the merger agreement, and does not address any other aspect of the merger. Morgan Stanley's opinion does not constitute a recommendation to any stockholders of KCS as to how such stockholders should vote with respect to the proposed transaction.**

In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of KCS and Petrohawk, respectively;

reviewed certain internal financial statements and other financial and operating data, including internal oil and gas reserve and production estimates, concerning KCS and Petrohawk prepared by the managements of KCS and Petrohawk, respectively;

reviewed certain financial projections prepared by the managements of KCS and Petrohawk, respectively;

discussed the past and current operations and financial condition and the prospects of KCS, including internal oil and gas reserve and production estimates, with senior management of KCS;

reviewed the pro forma impact of the merger on Petrohawk's earnings per share, cash flow, consolidated capitalization and financial ratios;

reviewed the reported prices and trading activity for KCS common stock and Petrohawk common stock;

compared the financial performance of KCS and Petrohawk and the prices and trading activity of KCS common stock and Petrohawk common stock with that of certain other comparable publicly-traded companies and their securities;

reviewed the financial terms, to the extent publicly available, of certain acquisition transactions comparable to the merger;

reviewed certain reserve reports separately prepared by the managements of KCS and Petrohawk, respectively and their respective reserve engineers;

discussed certain information prepared by the management of KCS relating to strategic, financial and operational benefits anticipated from the merger and the strategic rationale for the merger with senior management of KCS;

participated in discussions and negotiations among representatives of KCS, Petrohawk and certain other parties and their respective legal and financial advisors;

reviewed the merger agreement; and

performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information supplied or otherwise made available to Morgan Stanley by KCS and Petrohawk for the purposes of its opinion. With respect to the financial projections and other financial and operating data, including information relating to certain strategic, financial and operational benefits anticipated from the merger, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the then best currently available estimates and judgments of the future financial performance of KCS and Petrohawk. Morgan Stanley relied upon, without independent verification, the assessment by the management of KCS of the strategic rationale of the merger, including information related to certain strategic, financial and operational benefits anticipated from the merger. In addition, Morgan Stanley assumed that the merger would be consummated in accordance with the terms set forth in the merger agreement without modification, waiver or delay of any terms or conditions including, among other things, that the merger will be treated as a tax free reorganization, pursuant to the Internal Revenue Code of 1986, as amended. Morgan Stanley assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the proposed merger, no delays, limitations, conditions or restrictions would be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the proposed merger. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of KCS or Petrohawk. With respect to the reserve estimates and reports referred to above, Morgan Stanley is not an expert in the engineering evaluation of oil and gas properties and, with the KCS board's consent, it relied, without independent verification, solely upon the internal reserve estimates of KCS and Petrohawk contained in the reserve reports prepared by the managements



of KCS and Petrohawk and their respective independent reserve engineers with respect to the oil and gas properties of KCS and Petrohawk. In addition, Morgan Stanley is not a legal, regulatory or tax expert and it relied, without independent verification, on the assessment of KCS and its advisors with respect to such matters. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of April 20, 2006. Events occurring after April 20, 2006 may affect Morgan Stanley's opinion and the assumptions used in preparing it, and Morgan Stanley did not assume any obligation to update, revise or reaffirm its opinion. Morgan Stanley's opinion did not address the underlying business decision to enter into the merger. Additionally, Morgan Stanley's opinion did not address the relative merits of the merger as compared to any other alternative business transaction, or whether or not such alternatives could be achieved.

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its opinion dated as of April 20, 2006. In connection with arriving at its opinion, Morgan Stanley considered all of its analyses as a whole and did not attribute any particular weight to any analysis described below.

**Some of these summaries include information in tabular format. To understand fully the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses.**

In arriving at its opinion regarding the consideration to be paid to holders of KCS common stock, Morgan Stanley calculated the implied consideration per share of KCS common stock on the basis that the consideration for shares of KCS common stock in the merger would consist of \$9.00 in cash and 1.65 shares of Petrohawk common stock. As a result, Morgan Stanley calculated that the implied consideration was \$31.87 per share of KCS common stock as of April 18, 2006, which was the sum of \$9.00 in cash plus \$22.87 (which equals 1.65 multiplied by \$13.86, the closing price of Petrohawk common stock on April 18, 2006, the last trading day prior to preparation of the fairness opinion letter).

#### ***Historical Share Price Analysis***

Morgan Stanley performed a historical share price analysis to obtain background information and perspective with respect to the relative historical share prices of KCS and of Petrohawk's common stock. Consequently, Morgan Stanley reviewed the historical price performance of KCS and Petrohawk common stock from April 19, 2004 through April 18, 2006. For the period from April 19, 2004 through April 18, 2006, the closing price of KCS common stock ranged from \$11.05 to \$29.03 and for Petrohawk common stock, from \$5.62 to \$16.08. Morgan Stanley noted that the closing price of KCS common stock on April 18, 2006 was \$27.71 per share and the closing price of Petrohawk common stock was \$13.86 per share. Morgan Stanley also noted that the implied consideration per share was \$31.87 as of April 18, 2006.

#### ***Analyst Price Targets***

Morgan Stanley reviewed the range of publicly available equity research analyst price targets for KCS. Morgan Stanley discounted these twelve month price targets by an estimated cost of equity of 10%. This analysis resulted in a range of values of \$21.82 to \$33.64 per share of KCS common stock. Morgan Stanley noted that the implied consideration per share was \$31.87 as of April 18, 2006.

#### ***Comparable Company Analysis***

Morgan Stanley performed a comparable company analysis, which attempted to provide an implied value for KCS by comparing it to similar companies. For purposes of its analysis, Morgan Stanley reviewed certain public market trading multiples for the following seven public companies which, based on its experience with companies in the energy industry, Morgan Stanley considered similar to KCS in size and business mix:

Brigham Exploration Company  
Cimarex Energy Co.

Comstock Resources Inc.  
 Edge Petroleum Corporation  
 Petrohawk Energy Corporation  
 Petroquest Energy Inc.  
 St. Mary Land & Exploration Co.

Selected multiples, which are commonly used by participants and investors in the energy industry, for KCS and each of the comparable companies were reviewed in this analysis. The selected multiples analyzed for these companies included the following:

the per share price divided by 2006 and 2007 estimated cash flow per share;

the aggregate market value divided by 2006 and 2007 estimated earnings before interest, taxes, depreciation and amortization ( EBITDA );

the aggregate market value divided by 2005 proved reserves (including adjustments for certain acquisition and divestiture activity where available); and

the aggregate market value divided by 2006 estimated production.

Morgan Stanley calculated these financial multiples and ratios based on publicly available financial data as of April 18, 2006. A summary of the range of market trading multiples of the comparable companies and those multiples calculated for KCS are set forth below:

Metric	Comparable Companies		Implied Transaction Multiple	KCS
	Range of Multiples			
Price / 06E Cash Flow	4.2	7.1x	5.3x	4.6x
Price / 07E Cash Flow	3.5	6.2x	4.5x	3.9x
Agg. Val. / 06E EBITDA	3.9	7.4x	5.6x	5.0x
Agg. Val. / 07E EBITDA	3.2	6.5x	4.9x	4.3x
Agg. Val. / Proved Reserves (\$/mcf)	\$2.26	\$5.50	\$ 4.21	\$ 3.75
Agg. Val. / 06E Production (\$000 s/mcfepd)	\$8.6	\$18.7	\$ 12.8	\$ 11.4

Morgan Stanley, based on its experience with mergers and acquisitions and companies in the energy industry and taking into account the ranges expressed above, selected for its comparable company analysis of KCS, a representative multiple range of per share price divided by 2006 estimated cash flow per share of 4.0x to 5.0x, a range of per share price divided by 2007 estimated cash flow per share of 3.5x to 4.5x, a range of aggregate value divided by 2006 estimated EBITDA of 4.5x to 5.5x, a range of aggregate value divided by 2007 estimated EBITDA of 4.0x to 5.0x, a range of aggregate value divided by total proved reserves of \$3.50 to \$4.00 per thousand cubic feet of gas equivalent, or mcf and a range of aggregate value divided by 2006 estimated production of \$10,000 to \$12,000 per mcf produced per day.

Based upon and subject to the foregoing, Morgan Stanley calculated an implied valuation range for KCS common stock of \$24.16 to \$30.20 per share based on price divided by 2006 estimated cash flow multiple range, \$24.64 to \$31.68 based on price divided by 2007 estimated cash flow multiple range, \$24.35 to \$31.11 based on aggregate value divided by 2006 estimated EBITDA multiple range, \$25.04 to \$32.82 based on aggregate value divided by 2007 estimated EBITDA multiple range, \$25.49 to \$29.99 based on aggregate value divided by total proved reserves multiple range, and \$23.52 to \$29.44 based on aggregate value divided by 2006 estimated production multiple range. Morgan Stanley noted that the implied consideration per share was \$31.87 as of April 18, 2006.

Morgan Stanley also reviewed and analyzed certain public market trading multiples for public companies similar to Petrohawk from a size and business mix perspective. For purposes of this analysis, Morgan Stanley

identified the following seven publicly traded companies which, based on its experience with companies in the energy industry, Morgan Stanley considered similar to Petrohawk in size and business mix:

Brigham Exploration Company  
 Cimarex Energy Co.  
 Comstock Resources Inc.  
 Edge Petroleum Corporation  
 KCS Energy, Inc.  
 Petroquest Energy Inc.  
 St. Mary Land & Exploration Co.

The selected multiples analyzed for these companies included the following:

the per share price divided by 2006 and 2007 estimated cash flow per share;

the aggregate market value divided by 2006 and 2007 estimated earnings before interest, taxes, depreciation and amortization ( EBITDA );

the aggregate market value divided by 2005 proved reserves (including adjustments for certain acquisition and divestiture activity where available); and

the aggregate market value divided by 2006 estimated production.

Morgan Stanley calculated these financial multiples and ratios based on publicly available financial data as of April 18, 2006. A summary of the range of market trading multiples of the comparable companies and those multiples calculated for Petrohawk are set forth below:

Metric	Comparable Companies		Average	Petrohawk
	Range of Multiples			
Price / 06E Cash Flow	4.2	7.1x	5.1x	4.5x
Price / 07E Cash Flow	3.5	6.2x	4.6x	3.9x
Agg. Val. / 06E EBITDA	3.9	7.4x	5.1x	5.8x
Agg. Val. / 07E EBITDA	3.2	6.5x	4.5x	4.7x
Agg. Val. / Proved Reserves (\$/mcf)	\$2.26	\$5.50	\$ 3.92	\$ 3.40
Agg. Val. / 06E Production (\$000 s/mcfepd)	\$8.6	\$18.7	\$ 11.8	\$ 11.7

Although the foregoing companies were compared to KCS and Petrohawk for purposes of this analysis, Morgan Stanley noted that no company utilized in this analysis is identical to KCS or Petrohawk because of differences between the business mix, regulatory environment, operations and other characteristics of KCS, Petrohawk and the comparable companies. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, regulatory, market and financial conditions and other matters, many of which are beyond the control of KCS and Petrohawk, such as the impact of competition on the businesses of KCS and Petrohawk and on the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of KCS and Petrohawk or the industry or in the markets generally. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.



*Selected Precedent Transactions Analysis*

Morgan Stanley reviewed and compared the proposed financial terms and the premium implied in the Petrohawk/KCS merger to corresponding publicly available financial terms and premia of selected corporate and asset transactions. In selecting these transactions, Morgan Stanley reviewed certain corporate transactions from February 24, 2003 to April 17, 2006 in the energy industry. In its analysis, Morgan Stanley reviewed the following precedent transactions as of the announcement date for each transaction:

Pogo Producing Co. / Latigo Petroleum Inc.  
 Forest Oil Corp. / Chalker Energy Partners LLC  
 XTO Energy Inc. / Total E&P USA  
 ConocoPhillips / Burlington Resources, Inc.  
 Petrohawk Energy Corp. / Winwell Resources Inc.  
 Apache Corp. / Amerada Hess Corp.  
 Occidental Petroleum Corp. / Vintage Petroleum, Inc.  
 EXCO Resources / ONEOK Inc.  
 Whiting Petroleum Corp. / Celero Energy / Quantum Energy Partners  
 Occidental Petroleum Corp. / ExxonMobil Corp.  
 Chesapeake Energy Corp. / Laredo Energy II  
 KCS Energy Inc. / Devon Energy Corp.  
 XTO Energy Inc. / Plains Exploration & Production Co.  
 Cimarex Energy Co. / Magnum Hunter Resources, Inc.  
 Noble Energy Inc. / Patina Oil & Gas Corp.  
 EnCana Corporation / Progress Energy Inc.  
 Merit Energy Co. / Anadarko Petroleum Corp.  
 Whiting Petroleum Corp. / CrownQuest Operating LLC  
 PetroCanada / Prima Energy  
 Range Resources Corp. / First Energy Corp.  
 Apache Corp. / ExxonMobil Corp.  
 Chesapeake Energy Corp. / Greystone Petroleum LLC  
 Forest Oil Corp. / The Wiser Oil Company  
 Pioneer Natural Resources Co. / Evergreen Resources, Inc.  
 EnCana Corporation / Tom Brown Inc.  
 Kerr-McGee Corp. / Westport Resources Corp.  
 Plains Exploration & Production Co. / Nuevo Energy Co.  
 Devon Energy Corp. / Ocean Energy Inc.

Morgan Stanley derived from the above listed selected transactions a reference multiple range of aggregate value divided by one year forward EBITDA. The aggregate value divided by one year forward EBITDA multiple range for the selected transactions ranged from 4.0x to 8.3x. Morgan Stanley selected an aggregate value divided by one year forward EBITDA multiple range of 5.0x to 6.0x based on the precedent transactions as listed above and applied such range to KCS's 2006 estimated EBITDA which resulted in a valuation range of \$27.73 to \$34.49. Morgan Stanley noted that the implied consideration per share was \$31.87 as of April 18, 2006.

Morgan Stanley also derived from these selected transactions a reference range of aggregate value per proved mcfe of reserves. Multiples ranged from \$0.76 per proved mcfe to \$3.75 per proved mcfe for the selected transactions. Morgan Stanley selected an aggregate value per proved reserve multiple range of \$2.50 to \$3.50 per proved mcfe based on the precedent transactions as listed above and applied such range to KCS's 2005 year-end proved reserves adjusted for certain acquisition activity, which resulted in a valuation range of \$16.47 to \$25.49. Morgan Stanley noted that the implied consideration per share was \$31.87 as of April 18, 2006.

Morgan Stanley also derived from these selected transactions a reference range of premia paid relative to the trading share prices four weeks prior, and trading share prices one day prior, to the deal. Morgan Stanley then

selected a premia range of 15% to 35% based on the precedent transactions listed above and applied such range to the KCS common stock price of \$27.71 as of April 18, 2006, which resulted in a valuation range of approximately \$31.87 to \$37.41 per share of KCS common stock. Morgan Stanley noted that the implied consideration per share was \$31.87 as of April 18, 2006.

No transaction utilized in the selected precedent transactions analysis is identical to the merger. In evaluating the transactions, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of KCS or Petrohawk, such as the impact of competition on KCS or Petrohawk and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of KCS or Petrohawk or in the financial markets in general, which could affect the public trading value of the companies and the aggregate value of the transactions to which they are being compared. Mathematical analysis, such as determining the mean or median, or the high or the low, is not in itself a meaningful method of using comparable transaction data.

#### ***Net Asset Value Analysis***

Morgan Stanley analyzed the net asset value of KCS and Petrohawk using a discounted cash flow analysis based on KCS's 2005 Form 10-K reserve report provided by KCS management and based on Petrohawk's 2005 Form 10-K reserve report provided by Petrohawk management. This analysis was based on three different cases for long term commodity prices starting in year 2010 and beyond, as follows: \$6.00/mcf gas and \$45/bbl oil in Case 1, \$7.00/mcf gas and \$50/bbl oil in Case 2 and \$8.00/mcf gas and \$55/bbl oil in Case 3. In each case, Morgan Stanley used the Forward curve/Strip pricing of \$8.57/mcf gas and \$70.87/bbl oil in 2006, \$10.50/mcf gas and \$74.14/bbl oil in 2007, \$9.81/mcf gas and \$71.92/bbl oil in 2008 and \$8.93/mcf gas and \$70.77/bbl oil in 2009. The discount rate used in this analysis was 10%, which was chosen based upon SEC PV10 guidelines.

Based upon and subject to the foregoing, Morgan Stanley calculated for Petrohawk common stock a pre-tax net asset value range of \$15.30 to \$17.16 per share and a post-tax net asset value range of \$11.33 to \$12.48 per share. With respect to KCS common stock, Morgan Stanley calculated a pre-tax net asset value range of \$27.63 to \$30.88 per share and a post-tax net asset value range of \$20.50 to \$22.53 per share. Morgan Stanley noted that the implied consideration per share was \$31.87 as of April 18, 2006.

#### ***Contribution Analysis***

Morgan Stanley compared the contribution, based on I/B/E/S consensus estimates and management estimates, of each of KCS and Petrohawk to pro forma combined company statistics. The implied equity contribution by KCS adjusted for leverage, based on a variety of operating and market statistics, ranged from 51% to 60%. Morgan Stanley noted that an implied consideration price of \$31.87 per share of KCS common stock implied a 2.30x exchange ratio based on the closing price of Petrohawk's common stock on April 18, 2006 of \$13.86 per share, and assuming 100% stock consideration, implied the pro forma ownership of the combined company by KCS common stockholders of approximately 58%.

#### ***Pro Forma Analysis***

Morgan Stanley analyzed the pro forma impact of the acquisition on Petrohawk's pro forma earnings per share and pro forma cash flow per share. Such analysis was based on 2006 and 2007 earnings and cash flow projections based on I/B/E/S consensus estimates and management estimates for each of KCS and Petrohawk using an \$8.50/mcf gas price and a \$55.00/bbl oil price in 2006 and 2007. The analysis was based on transaction consideration consisting of \$9.00 in cash and 1.65 shares of Petrohawk common stock for each share of KCS common stock and assumed annual pre-tax synergies of \$10 million. Based upon and subject to the foregoing, Morgan Stanley observed that the earnings per share impact of the merger for Petrohawk stockholders ranged from 1.7% dilution to 12.3% dilution in 2006 and 7.7% dilution to 10.6% dilution in 2007. Morgan Stanley also

observed that the cash flow per share impact of the acquisition for Petrohawk stockholders ranged from 5.3% accretion to 7.7% accretion in 2006 and 1.5% dilution to 6.2% accretion in 2007. The analysis did not take into account any one-time charges.

Morgan Stanley performed a variety of financial and comparable analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered. Furthermore, Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of them, would create an incomplete view of the process underlying Morgan Stanley's analysis and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above should not be taken to be the view of Morgan Stanley with respect to the actual value of KCS or Petrohawk or their common stock. In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business, regulatory and economic conditions and other matters, many of which are beyond the control of Morgan Stanley, KCS or Petrohawk. Any estimates contained in the analysis of Morgan Stanley are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of the analyses of Morgan Stanley of the fairness of the consideration to be received by holders of shares of KCS common stock pursuant to the merger agreement from a financial point of view, and were prepared in connection with the delivery by Morgan Stanley of its opinion on April 20, 2006 to KCS's board of directors. The merger consideration was determined through arm's-length negotiations between KCS and Petrohawk and was approved by KCS's board of directors. Morgan Stanley provided advice to KCS during these negotiations. Morgan Stanley did not, however, recommend any specific merger consideration to KCS or that any specific merger consideration constituted the only appropriate merger consideration for the merger.

Morgan Stanley's opinion and its presentation to KCS's board of directors was one of many factors taken into consideration by KCS's board of directors in deciding to approve, adopt and authorize the merger agreement. Consequently, the analyses as described above should not be viewed as determinative of the opinion of KCS's board of directors with respect to the merger consideration or of whether KCS's board of directors would have been willing to agree to a different merger consideration. Moreover, these analyses do not purport to be appraisals or to reflect the prices at which shares of common stock of KCS might actually trade. The foregoing summary does not purport to be a complete description of the analyses performed by Morgan Stanley.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the ordinary course of its business, Morgan Stanley and its affiliates may from time to time trade in the securities or the indebtedness of KCS, Petrohawk and their affiliates or any currencies or commodities (or derivative thereof) for its own account, the accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and accordingly, may at any time hold a long or short position in such securities, indebtedness, currencies or commodities (or derivative thereof) for any such account. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for KCS and have received fees from KCS for the rendering of these services.

Pursuant to the terms of an engagement letter, KCS has agreed to pay Morgan Stanley a customary transaction fee, which is contingent upon the consummation of the merger. KCS has also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services. In addition, KCS has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each

person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions.

### **Merger Consideration**

The merger agreement provides that at the effective time of the merger each share of KCS common stock issued and outstanding immediately prior to the effective time will be converted into the right to receive 1.65 shares of Petrohawk common stock and cash of \$9.00 per share, other than outstanding shares of KCS restricted common stock issued to employees under KCS stock plans. Shares of KCS restricted stock issued and outstanding immediately prior to the effective time will be converted into the right to receive restricted shares of Petrohawk in an amount determined by adding the exchange ratio (1.65) to the result obtained by dividing the cash consideration (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs. See Conversion of Shares; Exchange of Certificates.

In the merger, Petrohawk will issue approximately 83.7 million shares of common stock and will pay approximately \$450 million in cash based on the outstanding shares of KCS common stock on April 20, 2006. No assurance can be given that the current fair market value of Petrohawk common stock will be equivalent to the fair market value of Petrohawk common stock on the date that the merger consideration is received by a KCS stockholder or at any other time. The actual fair market value of the Petrohawk common stock received by KCS stockholders depends upon the fair market value of Petrohawk common stock upon receipt, which may be higher or lower than the market price of Petrohawk common stock on the date the merger was announced, on the date that this document is mailed to KCS's stockholders, or on the date of the special meeting of KCS stockholders.

If, between the date of the merger agreement and the effective time, the shares of Petrohawk common stock are changed into a different number or class of shares by reason of reclassification, split-up, combination, exchange of shares or similar readjustment, or a stock dividend is declared with a record date within that period, appropriate adjustments will be made to the per share cash consideration and the per share stock consideration.

No fractional shares of Petrohawk common stock will be issued to any holder of KCS common stock in connection with the merger. For each fractional share that would otherwise be issued, Petrohawk will pay cash in an amount equal to the fraction multiplied by the average of the closing sale prices of Petrohawk common stock on the Nasdaq National Market for the five trading days preceding the date on which the merger occurs. No interest will be paid or accrued on cash payable in lieu of fractional shares of Petrohawk common stock.

### **Conversion of Shares; Exchange of Certificates**

The conversion of KCS common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. As soon as reasonably practicable after the effective time of the merger, American Stock Transfer & Trust Company, as exchange agent, will exchange certificates formerly representing shares of KCS common stock for merger consideration to be received in the merger pursuant to the terms of the merger agreement.

### ***Letter Of Transmittal***

Soon after the effective time of the merger, the exchange agent will send a letter of transmittal to each person who was a KCS stockholder at the effective time of the merger who has not previously and properly surrendered certificates representing shares of KCS common stock to the exchange agent. This mailing will contain instructions on how to surrender certificates formerly representing shares of KCS common stock (if these certificates have not already been surrendered) in exchange for the merger consideration the holder is entitled to receive under the merger agreement.

If certificates formerly representing shares of KCS common stock are presented for transfer after the effective time of the merger, they will be exchanged for the merger consideration into which the shares of KCS common stock formerly represented by that certificate shall have been converted.

If a certificate formerly representing shares of KCS common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification.

#### ***Dividends and Distributions***

Until you surrender your KCS stock certificates for exchange, any dividends or other distributions declared after the effective time with respect to Petrohawk common stock into which any of your shares may have been converted will accrue, but will not be paid. When you surrender your certificates, Petrohawk will pay any unpaid dividends or other distributions, without interest. After the effective time, there will be no transfers on the stock transfer books of KCS of any shares of KCS common stock.

#### ***Withholding***

Petrohawk and the exchange agent will be entitled to deduct and withhold from the merger consideration payable to any KCS stockholder the amounts it is required to deduct and withhold under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code) or any state, local or foreign tax law. Withheld amounts will be treated for all purposes of the merger as having been paid to the stockholders from whom they were withheld.

#### **Treatment of Stock Options, Restricted Stock and Performance Stock Awards**

Each outstanding option to acquire KCS common stock granted under KCS's stock option plans that is outstanding and unexercised immediately prior to the effective time of the merger will be converted automatically at the effective time of the merger into an option to purchase Petrohawk common stock and will continue to be governed by the terms of the KCS stock plan and related agreement under which it was granted, except that:

the number of shares of Petrohawk common stock subject to the new Petrohawk stock option will be equal to the product of the number of shares of KCS common stock subject to the KCS stock option and the stock option exchange ratio (determined in the same manner as the exchange ratio is determined for restricted stock, as described above under the heading Merger Consideration), rounded down to the nearest whole share; and

the exercise price per share of Petrohawk common stock subject to the new Petrohawk stock option will be equal to the exercise price per share of KCS common stock under the KCS stock option divided by the stock option exchange ratio, rounded down to the nearest whole cent.

In any event, all options to acquire KCS common stock will be adjusted in a manner that satisfies the requirements of Section 424(a) of the Internal Revenue Code and the regulations thereunder. If an option holder ceases to be a director, officer, or employee, or consultant of the combined company or any of its affiliates, such option shall remain exercisable in accordance with the terms of KCS's stock option plans, change in control agreements and employment agreements, if applicable. Additionally, each option plan shall not be amended or modified in a manner that would result in a termination of or have an adverse effect on options previously granted or in a manner that would result in any option becoming deferred compensation under Section 409A of the Internal Revenue Code.

Holders of KCS restricted stock issued and outstanding immediately prior to the effective time of the merger will have their KCS restricted stock automatically converted at the effective time of the merger into restricted stock of Petrohawk, which will continue to be governed by the terms of its original issuance, in an amount equal to:

the number of shares of KCS restricted stock held by such holder, multiplied by:

the sum of (x) exchange ratio (1.65), plus (y) the quotient obtained by dividing the cash consideration (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs; and

rounding down to the nearest whole share.

In any event, all rights to receive Petrohawk restricted stock will be adjusted in a manner that satisfies the requirements of Section 424(a) of the Internal Revenue Code and the regulations thereunder. If a holder of KCS restricted stock ceases to be an officer, employee or consultant of the combined company or any of its affiliates, such restricted stock will be forfeited except to the extent there exists a contractual obligation to terminate the restricted period, accelerate vesting or lift the restrictions.

Each performance stock award of KCS restricted stock issued and outstanding immediately prior to the effective time of the merger will be assumed by Petrohawk at the effective time of the merger will continue to be governed by the terms of the agreement under which it was granted, and shall thereafter represent the right to receive stock of Petrohawk in an amount equal to:

the number of shares of KCS stock that were included in such performance award immediately prior to the effective time of the merger, multiplied by:

the sum of (x) exchange ratio (1.65), plus (y) the quotient obtained by dividing the cash consideration (\$9.00) by the average closing price of Petrohawk common stock for the five trading days preceding the date on which the merger occurs; and

rounding down to the nearest whole share.

In any event, all rights to receive Petrohawk common stock pursuant to performance stock awards will be adjusted in a manner that satisfies the requirements of Section 424(a) of the Internal Revenue Code and the regulations thereunder. If a holder of a KCS performance stock award ceases to be a director, officer, or employee, or consultant of the combined company or any of its affiliates, such award shall remain exercisable in accordance with the terms of KCS's plans, change in control agreements and employment agreements, if applicable.

### **Effective Time**

The merger will be completed when we file a certificate of merger with the Secretary of State of the State of Delaware.

Subject to satisfaction of the other conditions to the merger, we anticipate that the closing of the merger will occur within five business days after approval and adoption of the merger agreement by the requisite votes of the KCS stockholders and the Petrohawk stockholders and the approval of Petrohawk stockholders of the amendment to the certificate of incorporation of Petrohawk to increase the authorized shares of common stock to 300 million by the requisite vote of the Petrohawk stockholders. However, the effective time of the merger could be delayed if there is a delay in satisfying any conditions to the merger. There can be no assurances as to whether, or when, Petrohawk and KCS will obtain the required approvals or complete the merger. If the merger is not completed on or before December 31, 2006, either Petrohawk or KCS may terminate the merger agreement, unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to fulfill any material obligations under the merger agreement or a material breach of the merger agreement by such party. See

Conditions to the Completion of the Merger below.

### **Board of Directors of the Combined Company**

The merger agreement provides that immediately following the effective time, Petrohawk will take all corporate action necessary or advisable to cause the election to Petrohawk's board of directors a total of nine persons, five individuals to be designated by Petrohawk (one of which to be Mr. Wilson) and four individuals to be designated by KCS (one of which to be Mr. Christmas). All individuals to be designated, other than Mr. Wilson and Mr. Christmas, must be outside, independent members of Petrohawk's or KCS's current board or must have been approved by the other party. The merger agreement further provides that the persons designated by KCS must be appointed or elected in such a manner as to cause each class of Petrohawk's board of directors to include at least one of KCS's designee and that Mr. Christmas must be appointed or elected to the class having the longest term. In addition, Petrohawk must also cause the Petrohawk board of directors to appoint to each of its committees at least one of its members who is a KCS designee and at least one member who is a Petrohawk designee.

### **Conditions to the Completion of the Merger**

The completion of the merger is subject to various conditions. While it is anticipated that all of these conditions will be satisfied, there can be no assurance as to whether or when all of the conditions will be satisfied or, where permissible, waived.

#### ***Conditions to Each Party's Obligations***

Each party's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

adoption and approval by KCS's stockholders of the merger agreement;

adoption and approval by Petrohawk's stockholders of the merger agreement and the amendment to Petrohawk's certificate of incorporation;

approval by the Nasdaq National Market of listing of the shares of Petrohawk common stock to be issued in the merger, subject to official notice of issuance;

other than the filing of the certificate of merger in accordance with Delaware law, the receipt of all authorizations, consents and approvals of all governmental entities required to be obtained prior to consummation of the merger, except for such authorizations, consents and approvals the failure of which to be obtained individually or in the aggregate has not had, and would not be reasonably likely to have or result in, a material adverse effect on any party to the merger agreement;

effectiveness of the registration statement, of which this joint proxy statement/prospectus constitutes a part, and absence of any stop order or proceedings for such purpose pending before or threatened by the SEC; and

absence of any statute, rule, order, decree or regulation, and of any action taken by any court or other governmental entity of competent jurisdiction, which temporarily, preliminarily or permanently restrains, precludes, enjoins or otherwise prohibits the consummation of the merger or makes the merger illegal.

#### ***Additional Conditions to KCS's Obligations***

The obligation of KCS to complete the merger is subject to the satisfaction or waiver of the following conditions:

accuracy of Petrohawk's representations and warranties contained in the merger agreement both at and as of the date of the merger agreement and at and as of the closing date of the merger, as if made at and as of the closing date of the merger (except to the extent expressly made as of an earlier date, in which





case as of such date), except where, in the case of all representations and warranties except those regarding Petrohawk's capitalization, corporate power and authority, tax matters, validity of the merger agreement and SEC reports, the failure to be accurate individually or in the aggregate has not had, and would not be reasonably likely to have or result in, a material adverse effect on Petrohawk;

the performance in all material respects by Petrohawk of its obligations contained in the merger agreement;

absence of any suit, action or proceeding by any court or other governmental entity seeking to restrain, preclude, enjoin or prohibit the merger or any of the other transactions contemplated by the merger agreement;

the receipt by KCS of an opinion of its counsel, dated as of the date this joint proxy statement/prospectus is filed and as of the closing date of the merger, to the effect that the merger will be treated as a reorganization under Section 368(a) of the Internal Revenue Code and that Petrohawk and KCS each will be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code;

during the period from the execution of the merger agreement until the closing there shall not have occurred a material adverse effect on Petrohawk;

on a pro forma basis and after giving effect to all transactions contemplated in the merger agreement (i) Petrohawk must have funds available under its credit agreements equal to at least \$100 million plus, in the event the KCS stockholders do not own a majority of the outstanding stock of the combined company or there otherwise exists a change of control as defined in KCS's indenture, a commitment to fund any dollar amount of notes under the KCS indenture whose holders exercise their put rights by reason of the change in control caused by the transactions contemplated by the merger; (ii) no default or event of default will exist under Petrohawk's credit agreements; and (iii) additional debt in an amount equal to at least the amount set forth in (i) above will not result in a default or event of default under Petrohawk's credit agreements;

to the extent notes remain outstanding under the Petrohawk indenture, Petrohawk shall have complied with the terms of such indenture such that, on a pro forma basis and after giving effect to the transactions contemplated under the merger agreement, no default or event of default will have occurred under the Petrohawk indenture; and

on a pro forma basis and after giving effect to the transactions contemplated under the merger agreement, no default or event of default will have occurred under the KCS indenture (excluding defaults or events of default in existence under the KCS indenture immediately prior to the consummation of the merger) provided this condition shall be deemed waived if the default or event of default is caused by KCS's failure to comply with the provisions of the KCS indenture.

***Additional Conditions to Petrohawk's Obligations***

The obligations of Petrohawk to complete the merger are subject to the satisfaction or waiver of the following conditions:

accuracy of KCS's representations and warranties contained in the merger agreement both at and as of the date of the merger agreement and at and as of the closing date of the merger, as if made at and as of the closing date of the merger (except to the extent expressly made as of an earlier date, in which case as of such date), except where, in the case of all representations and warranties except those regarding KCS's capitalization, corporate power and authority, tax matters, validity of the merger agreement and SEC reports, the failure to be accurate individually or in the aggregate has not had, and would not be reasonably likely to have or result in, a material adverse effect on KCS;

the performance in all material respects by KCS of its obligations contained in the merger agreement;



absence of any suit, action or proceeding by any court or other governmental entity seeking to (1) restrain, preclude, enjoin or prohibit the merger or any of the other transactions contemplated by the merger agreement, or (2) prohibit or limit in any material respect the ownership or operation of any of the parties to the merger agreement or any of their respective affiliates of a substantial portion of the business or assets of KCS and its subsidiaries, taken as a whole, or to require any person to dispose of or hold separate any material portion of the business or assets of KCS and its subsidiaries, taken as a whole, as a result of the merger or any of the other transactions contemplated by the merger agreement;

the receipt by Petrohawk of an opinion of its counsel, dated as of the date this joint proxy statement/prospectus is filed and as of the closing date of the merger, to the effect that the merger will be treated as a reorganization under Section 368(a) of the Internal Revenue Code and that Petrohawk and KCS each will be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code;

the number of dissenting shares not exceeding 10% of the outstanding shares of KCS's common stock;

receipt of all material consents and approvals of any person that KCS or Petrohawk or any of their respective subsidiaries are required to obtain in connection with the consummation of the merger, including consents and approvals from parties to loans, contracts, leases or other agreements, except for such consents and approvals the failure of which to be obtained individually or in the aggregate would not be reasonably likely to have or result in a material adverse effect on KCS or Petrohawk, as applicable; and

during the period from the execution of the merger agreement until the closing there shall not have occurred a material adverse effect on KCS.

#### **Representations and Warranties**

The merger agreement contains representations and warranties made by each of the parties regarding aspects of their respective businesses, financial condition and structure, as well as other facts pertinent to the merger. Each of KCS and Petrohawk has made representations and warranties to the other in the merger agreement with respect to the following subject matters:

corporate existence, good standing and qualification to conduct business;

capitalization, including ownership of subsidiary capital stock and the absence of restrictions or encumbrances with respect to capital stock of any subsidiary;

corporate power and authorization to enter into and carry out the obligations of the merger agreement and the enforceability of the merger agreement;

absence of any conflict or violation of organizational documents, third party agreements or law or regulation as a result of entering into and carrying out the obligations of the merger agreement;

governmental, third party and regulatory approvals or consents required to complete the merger;

filings and reports with the SEC, and financial information;

absence of certain changes, events or circumstances;

absence of undisclosed liabilities;

accuracy of the information supplied for inclusion in this joint proxy statement/prospectus;

employee benefit plans;

litigation, government orders, judgments and decrees;

compliance with laws;

intellectual property;

material contracts;

taxes;

environmental matters;

real property and operating equipment;

insurance;

labor and employment matters;

transactions with affiliates;

derivative and hedging transactions;

disclosure controls and procedures;

oil and gas reserves, assets and operations;

investment company status;

recommendations of merger by boards of directors;

receipt of fairness opinions;

required vote;

fees payable to brokers in connection with the merger;

tax matters relating to the merger; and

no other representations or warranties.

The representations and warranties contained in the merger agreement will not survive beyond the effective time of the merger.

**Conduct of Business Pending the Merger**

*Operations of KCS*

KCS has agreed that it will, and will cause its subsidiaries to, during the period from the date of the merger agreement until the effective time of the merger or the date, if any, on which the merger agreement is terminated, except as expressly contemplated or permitted by the merger agreement, required by applicable law, or agreed to in writing by Petrohawk:

conduct the business of KCS and its subsidiaries only in the ordinary course consistent with past practice;

use commercially reasonable efforts to preserve intact its business organization and goodwill and the business organization and goodwill of its subsidiaries; and

use commercially reasonable efforts to keep available the services of its current officers and employees and preserve and maintain existing relations with customers, suppliers, officers, employees and creditors.

KCS has also agreed that it will not, and will not permit any of its subsidiaries to, during the period from the date of the merger agreement until the effective time of the merger or the date, if any, on which the merger agreement is terminated, except as expressly contemplated or permitted by the merger agreement, required by applicable law, or agreed to in writing by Petrohawk:

enter into any new line of business, incur or commit to any capital expenditures, or any obligations or liabilities in connection with any capital expenditures during calendar year 2006 other than capital

expenditures and obligations or liabilities incurred or committed to in an amount not greater in the aggregate than KCS's current capital budget of \$315 million approved by the board of directors of KCS in January 2006, plus \$10 million and plus amounts spent on acquisitions that individually do not exceed \$1 million; provided that KCS shall not commit to incur any expenditure, obligation or commitment related to an exploration well to the extent KCS's share of the initial authorization for expenditure exceeds \$3 million and provided further during any three month period it shall not incur or commit to any capital expenditures which are contemplated by the KCS budget in an amount that exceeds by more than 30% the amounts contemplated in such budget to be incurred or committed to during such three month period;

amend its certificate of incorporation or bylaws or similar organizational documents;

declare, set aside or pay any dividend or other distribution, whether payable in cash, stock or any other property or right, with respect to its capital stock, except that KCS may permit any direct or indirect wholly-owned subsidiary to do any of the foregoing;

adjust, split, combine or reclassify any capital stock or issue, grant, sell, transfer, pledge, dispose of or encumber any additional shares of, or securities convertible into or exchangeable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of capital stock of any class or of any other such securities or agreements of KCS or any of its subsidiaries, other than issuances by KCS (1) of options and awards of restricted stock to directors or new employees of KCS in the ordinary course of KCS's business consistent with past practices, (2) pursuant to KCS options or KCS performance stock awards outstanding as of the date of the merger agreement, or issued thereafter in accordance with the merger agreement;

except as required pursuant to the terms of the KCS benefit plans in effect on the date of the merger agreement, redeem, purchase or otherwise acquire directly or indirectly any of its capital stock or any other securities or agreements of the type described in the preceding paragraph;

except as required pursuant to the terms of the KCS benefit plans in effect on the date of the merger agreement, pursuant to the terms of the merger agreement or in connection with grants of retention bonuses or adoption of retention plans not to exceed a total of \$250,000 in connection with the transactions contemplated in the merger agreement, grant any increase in the compensation or benefits payable or to become payable by KCS or any of its subsidiaries to any former or current director, officer or employee of KCS or any of its subsidiaries other than to non-officer employees in the ordinary course of business consistent with past practice;

except as required pursuant to the terms of the KCS benefit plans in effect on the date of the merger agreement, adopt, enter into, amend or otherwise increase, or accelerate the payment or vesting of the amounts, benefits or rights payable or accrued or to become payable or accrued under, any KCS benefit plan (other than entry into employment agreements with new hires in the ordinary course of business consistent with past practice; provided that such employment agreement shall be terminable at will, without penalty to KCS or any of its subsidiaries);

grant any severance or termination pay to any officer, director or employee of KCS or any of its subsidiaries (other than severance pay to non-contract employees related to termination of such employee's employment in the ordinary course of KCS's business consistent with its past practices);

change its methods of accounting (other than tax accounting) in effect as of the date of the merger agreement, except in accordance with changes in U.S. generally accepted accounting principles ( GAAP ) as concurred to by KCS's independent auditors;

acquire any business organization, division or business by merger, consolidation, purchase of an equity interest or assets, or by any other manner, or acquire any assets (other than in the ordinary course of business consistent with past practice or pursuant to agreements in effect on the date of the merger agreement);





sell, lease, exchange, transfer or otherwise dispose of, or agree to sell, lease, exchange, transfer or otherwise dispose of, any material assets (other than the sale of inventory, hydrocarbons or obsolete assets in the ordinary course of business consistent with past practice or the sale of any assets pursuant to agreements in effect on the date of the merger agreement);

mortgage, pledge, hypothecate, grant any security interest in, or otherwise subject any of its assets to any liens, subject to limited exceptions;

pay, discharge or satisfy any claims (including claims of stockholders), liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) where such payment, discharge or satisfaction would require any payment except for the payment, discharge or satisfaction of liabilities or obligations in accordance with the terms of agreements in effect on the date of the merger agreement or entered into after the date of the merger agreement in the ordinary course of business consistent with past practice, and except for any payments, discharges or settlements that do not exceed \$2 million individually or \$5 million in the aggregate;

compromise, settle or grant any waiver or release relating to any litigation, other than settlements or compromises of litigation where the amount paid or to be paid does not exceed \$2 million individually or \$5 million in the aggregate;

engage in any transaction with (except pursuant to agreements in effect at the time of the merger agreement), or enter into any agreement, arrangement, or understanding with, directly or indirectly, any of KCS's affiliates (not including any employees of KCS or any of its subsidiaries, other than the directors and executive officers thereof);

make or change any material tax election, change any material method of tax accounting, grant a material extension of time to assess any tax or settle any tax claim, amend any tax return in any material respect or settle or compromise any material tax liability;

intentionally take any action that would, or could reasonably be expected to, result in any of its representations and warranties set forth in the merger agreement becoming untrue in a manner that would give rise to the failure of the closing condition relating to the satisfaction of the representations and warranties of KCS (see Conditions to the Completion of the Merger );

adopt or enter into a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of KCS or any of its subsidiaries (other than the merger or with respect to an inactive wholly-owned subsidiary of KCS) or any agreement relating to an acquisition proposal;

modify the terms of any indebtedness to increase KCS's obligations with respect to such indebtedness, provided KCS may increase the amount borrowed under the KCS credit agreement and provided KCS may incur additional indebtedness outside the KCS credit agreement in an amount not to exceed \$20 million;

incur or assume any long-term debt (other than any advances, loans or other obligations under the current KCS credit agreement) or incur or assume any short-term indebtedness (except for short-term indebtedness in the ordinary course of business consistent with past practice or under the current KCS credit agreement), or assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, except in the ordinary course of business consistent with past practice and in no event exceeding \$2 million individually;

make any loans, advances or capital contributions to, or investments in, any other person (other than to wholly-owned subsidiaries of KCS, or by wholly-owned subsidiaries to KCS, or customary loans or advances to employees in accordance with past practice);

enter into any material commitment or transaction, except in the ordinary course of business consistent with past practice or as allowed under the merger agreement;

enter into any agreement, understanding or commitment that materially restrains, limits or impedes KCS's or any of its subsidiaries' ability to compete with or conduct any business or line of business, including geographic limitations on KCS's or any of its subsidiaries' activities (other than confidentiality agreements and area of mutual interest agreements in the ordinary course of business consistent with past practice);

modify or amend in any material respect, or terminate, any material contract to which it is a party or waive in any material respect or assign any of its material rights or claims, except in the ordinary course of business consistent with past practice;

fail to maintain in full force and effect the existing insurance policies covering KCS or its subsidiaries or their respective properties, assets and businesses or insurance with respect to its assets and businesses against such liabilities, casualties, risks and contingencies as is customary in the domestic or applicable foreign oil and gas exploration industry; or

enter into an agreement, contract, commitment or arrangement to take any of the prohibited actions described above.

In addition, KCS has agreed that it shall not, nor shall it permit any of its subsidiaries to, enter into any transaction or take any other action that would be reasonably likely to have a material adverse impact on, or materially delay, the consummation of the transactions contemplated in the merger agreement or that would be reasonably likely to have a material adverse effect on KCS.

#### *Operations of Petrohawk*

Petrohawk has agreed that it will, and will cause its subsidiaries to, during the period from the date of the merger agreement until the effective time of the merger or the date, if any, on which the merger agreement is terminated, except as expressly contemplated or permitted by the merger agreement, required by applicable law, or agreed to in writing by Petrohawk:

conduct the business of Petrohawk and its subsidiaries only in the ordinary course consistent with past practice;

use commercially reasonable efforts to preserve intact its business organization and goodwill and the business organization and goodwill of its subsidiaries; and

use commercially reasonable efforts to keep available the services of its current officers and employees and preserve and maintain existing relations with customers, suppliers, officers, employees and creditors.

Petrohawk has also agreed that it will not, and will not permit any of its subsidiaries to, during the period from the date of the merger agreement until the effective time of the merger or the date, if any, on which the merger agreement is terminated, except as expressly contemplated or permitted by the merger agreement, required by applicable law, or agreed to in writing by KCS:

enter into any new line of business, incur or commit to any capital expenditures, or any obligations or liabilities in connection with any capital expenditures during calendar year 2006 other than capital expenditures and obligations or liabilities incurred or committed to in an amount not greater in the aggregate than, and during the same time period set forth in, Petrohawk's current capital budget of \$210 million approved by the board of directors of Petrohawk in December 2005, plus \$10 million and plus amounts spent on acquisitions that individually do not exceed \$40 million; provided that Petrohawk shall not commit to incur any expenditure, obligation or commitment related to an exploration well to the extent Petrohawk's share of the initial authorization for expenditure exceeds \$3 million;

amend its certificate of incorporation or bylaws or similar organizational documents;

declare, set aside or pay any dividend or other distribution, whether payable in cash, stock or any other property or right, with respect to its capital stock, except that Petrohawk may permit any direct or indirect wholly-owned subsidiary to do any of the foregoing and Petrohawk is permitted pay quarterly cash dividends on its outstanding preferred stock;

adjust, split, combine or reclassify any capital stock or issue, grant, sell, transfer, pledge, dispose of or encumber any additional shares of, or securities convertible into or exchangeable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of capital stock of any class or of any other such securities or agreements of Petrohawk or any of its subsidiaries, other than issuances by Petrohawk (1) of options or restricted stock to directors or employees of Petrohawk pursuant to Petrohawk's benefit plans consistent with past practice, (2) pursuant to Petrohawk options outstanding as of the date of the merger agreement, or issued thereafter in accordance with Petrohawk's ordinary course of business consistent with past practice;

except as required pursuant to the terms of the Petrohawk benefit plans in effect on the date of the merger agreement or permitted pursuant to the terms of the certificate of designation relating to Petrohawk's preferred stock, redeem, purchase or otherwise acquire directly or indirectly any of its capital stock or any other securities or agreements of the type described in the preceding paragraph;

change its methods of accounting (other than tax accounting) in effect as of the date of the merger agreement, except in accordance with changes in U.S. generally accepted accounting principles ( GAAP ) as concurred to by Petrohawk's independent auditors;

acquire any business organization, division or business by merger, consolidation, purchase of an equity interest or assets, or by any other manner, or acquire any assets (other than in the ordinary course of business consistent with past practice, pursuant to agreements in effect on the date of the merger agreement or where the purchase price for such acquisitions does not exceed \$40 million in the aggregate);

sell, lease, exchange, transfer or otherwise dispose of, or agree to sell, lease, exchange, transfer or otherwise dispose of, any material assets (other than the sale of inventory and hydrocarbons in the ordinary course of business consistent with past practice, the sale of any assets pursuant to agreements in effect on the date of the merger agreement or to the extent such sale price does not exceed \$50 million in the aggregate);

pay, discharge or satisfy any claims (including claims of stockholders), liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) where such payment, discharge or satisfaction would require any payment except for the payment, discharge or satisfaction of liabilities or obligations in accordance with the terms of agreements in effect on the date of the merger agreement or entered into after the date of the merger agreement in the ordinary course of business consistent with past practice, and except for any payments, discharges or settlements that do not exceed \$2 million individually or \$5 million in the aggregate;

compromise, settle or grant any waiver or release relating to any litigation, other than settlements or compromises of litigation where the amount paid or to be paid does not exceed \$2 million individually or \$5 million in the aggregate;

make or change any material tax election, change any material method of tax accounting, grant a material extension of time to assess any tax or settle any tax claim, amend any tax return in any material respect or settle or compromise any material tax liability;

intentionally take any action that would, or could reasonably be expected to, result in any of its representations and warranties set forth in the merger agreement becoming untrue in a manner that would give rise to the failure of the closing condition relating to the satisfaction of the representations and warranties of Petrohawk (see Conditions to the Completion of the Merger );

adopt or enter into a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of Petrohawk or any of its subsidiaries (other than the merger or with respect to an inactive wholly-owned subsidiary of Petrohawk);

incur or assume any long-term debt (other than any advances, loans or other obligations under the current Petrohawk credit agreement) or incur or assume any short-term indebtedness (except for short-term indebtedness in the ordinary course of business consistent with past practice or under the current Petrohawk credit agreement), or assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, except in the ordinary course of business consistent with past practice and in no event exceeding \$2 million individually;

modify the terms of any indebtedness to increase Petrohawk's obligations with respect to such indebtedness, provided Petrohawk may increase the amount borrowed under the Petrohawk credit agreement and provided Petrohawk may incur additional indebtedness outside the Petrohawk credit agreement in an amount not to exceed \$20 million or in accordance with the terms of the merger agreement;

make any loans, advances or capital contributions to, or investments in, any other person (other than to wholly-owned subsidiaries of Petrohawk, or by wholly-owned subsidiaries to Petrohawk, or customary loans or advances to employees in accordance with past practice);

enter into any material commitment or transaction, except in the ordinary course of business consistent with past practice or as allowed under the merger agreement;

fail to maintain in full force and effect the existing insurance policies covering Petrohawk or its subsidiaries or their respective properties, assets and businesses or insurance with respect to its assets and businesses against such liabilities, casualties, risks and contingencies as is customary in the domestic or applicable foreign oil and gas exploration industry; or

enter into an agreement, contract, commitment or arrangement to take any of the prohibited actions described above.

In addition, Petrohawk has agreed that it shall not, nor shall it permit any of its subsidiaries to, enter into any transaction or take any other action that would be reasonably likely to have a material adverse impact on, or materially delay, the consummation of the transactions contemplated by the merger agreement or that would be reasonably likely to have a material adverse effect on Petrohawk.

#### **Reasonable Best Efforts to Obtain Required Stockholder Vote**

The merger agreement requires each of KCS and Petrohawk to promptly and duly call, give notice of, convene and hold a meeting of its stockholders as soon as is reasonably practicable after the date on which the registration statement of which this document is part becomes effective for the purpose of voting to approve and adopt the merger agreement, and, in the case of Petrohawk stockholders, to approve the amendment to Petrohawk's certificate of incorporation. Each of KCS and Petrohawk must, through its board of directors, use its reasonable best efforts to obtain the approval of its respective stockholders in respect of the foregoing. Notwithstanding any adverse recommendation, change or similar circumstance, nothing in the merger agreement is intended to relieve the parties of their respective obligations to hold a meeting of their stockholders for the approval required to complete the merger.

### No Solicitation of Alternative Transactions

The merger agreement provides, subject to limited exceptions described below, that KCS will not, and will cause its subsidiaries and representatives not to:

directly or indirectly initiate, solicit, knowingly encourage or facilitate (including by way of furnishing non-public information), any inquiries or the making or submission of any proposal that constitutes, or is reasonably likely to lead to, any acquisition proposal (as defined below);

participate or engage in any discussions or negotiations with, disclose any non-public information or data relating to itself or any of its subsidiaries, or afford access to its properties, books or records to any person that has made or is contemplating making an acquisition proposal; or

accept or enter into any agreement that (1) constitutes, relates to, or could reasonably be expected to lead to any acquisition proposal or (2) requires, intends to cause or could reasonably be expected to cause KCS to abandon, terminate or fail to consummate the merger.

The merger agreement permits KCS to take and disclose to its stockholders a position with respect to an acquisition proposal from a third party to the extent required under applicable federal securities laws. If KCS receives a bona fide unsolicited written acquisition proposal at any time prior to obtaining the required KCS stockholder vote approving and adopting the merger agreement and approving the merger and the other transactions contemplated by the merger agreement, then KCS and its board of directors may participate and engage in negotiations with, furnish non-public information to, and afford access to its properties, books or records to, the third party making the acquisition proposal if:

the acquisition proposal was not solicited, initiated, knowingly encouraged or facilitated by KCS, its subsidiaries, or any of its officers or directors, investment bankers, attorneys, accountants, financial advisors, agents or other representatives;

the board of directors of KCS determines in good faith, after consultation with its financial advisors and outside legal counsel, that such acquisition proposal constitutes or could reasonably be expected to lead to a superior proposal (as defined below); and

the person making the acquisition proposal has entered into a confidentiality agreement on specified terms with KCS.

#### ***KCS's Ability to Make an Adverse Recommendation Change in Response to a Superior Proposal***

At any time prior to obtaining the required KCS stockholder vote approving and adopting the merger agreement, and subject to KCS's compliance at all times with the non-solicitation provisions described above, and to its ability to terminate the agreement in certain circumstances, (discussed below), the board of directors of KCS may make an adverse recommendation change (as defined below) in response to a superior proposal if:

four business days before making such change, KCS provides written notice to Petrohawk (a notice of superior proposal) that:

advises Petrohawk that the board of directors of KCS or any of its committees has received a superior proposal;

specifies the material terms and conditions of the superior proposal;

identifies the person or group making such superior proposal; and

in the event that Petrohawk proposes any alternative transaction during such four business day period, the board of directors of KCS determines in good faith, after consultation with its financial advisors and outside legal counsel, that such alternative transaction is not at least as favorable to KCS and its stockholders from a financial point of view as the superior proposal, taking into account all financial, legal and regulatory terms and conditions of the alternative transaction proposed by Petrohawk.

KCS has also agreed to:

advise Petrohawk in writing of any request for information or any acquisition proposal received from any person, or any inquiry, discussions or negotiations with respect to any acquisition proposal, the terms and conditions of any request, acquisition proposal, inquiry, discussions or negotiations, and the identity of the person or group making any request or acquisition proposal or with whom any discussions or negotiations are taking place;

provide Petrohawk any non-public information concerning KCS provided to any other person or group in connection with any acquisition proposal that was not previously provided to Petrohawk and copies of any written materials received from that person or group;

keep Petrohawk fully informed of the status of any acquisition proposals (including any changes to any material terms and conditions); and

not release any third party from, or waive any provisions of, any confidentiality or standstill agreement to which KCS is a party.

*Acquisition Proposal.* For purposes of the merger agreement, the term *acquisition proposal* means any bona fide proposal for the:

direct or indirect acquisition or purchase of a business or assets that constitutes 10% or more of the net revenues, net income or the assets (based on fair market value) of KCS and its subsidiaries, taken as a whole;

direct or indirect acquisition or purchase of 10% or more of any class of equity securities or capital stock of KCS or any of its subsidiaries whose business constitutes 10% or more of the net revenues, net income or assets of KCS and its subsidiaries, taken as a whole; or

merger, consolidation, restructuring, transfer of assets or other business combination, sale of shares of capital stock, tender offer, exchange offer, recapitalization, stock repurchase program or other similar transaction that if consummated would result in any person beneficially owning 10% or more of any class of equity securities of KCS or any of its subsidiaries whose business constitutes 10% or more of the net revenues, net income or assets of KCS and its subsidiaries, taken as a whole, other than the transactions contemplated by the merger agreement.

*Superior Proposal.* For purposes of the merger agreement, the term *superior proposal* means any bona fide written acquisition proposal, made by a third party to purchase, directly or indirectly, 50% or more of the assets of KCS and its subsidiaries, taken as a whole, or 50% or more of the outstanding equity securities of KCS pursuant to a tender offer, exchange offer or merger on terms that a majority of the board of directors of KCS determines in good faith to be superior to KCS and its stockholders (in their capacity as stockholders) from a financial point of view as compared to the transactions contemplated by the merger agreement and to any alternative transaction or changes to the terms of the merger agreement proposed by Petrohawk (after the board of directors of KCS consults with its financial advisors and takes into account all financial, legal and regulatory terms and conditions of the acquisition proposal and the merger agreement, including any changes to the terms of the merger agreement offered by Petrohawk in response to the superior proposal, including any conditions to and expected timing of consummation, and any risks of non-consummation, of the acquisition proposal).

*Adverse Recommendation Change.* For purposes of the merger agreement, the term *adverse recommendation change* means a direct or indirect action or public proposal made by KCS's board of directors or a committee of its board of directors, in response to a superior proposal, to:

withdraw (or amend or modify in a manner adverse to Petrohawk) its approval, recommendation or declaration of advisability of the merger agreement; or



recommend, adopt or approve any acquisition proposal.

## Termination of the Merger Agreement

### *General*

The merger agreement may be terminated by written notice at any time prior to the effective time of the merger in any of the following ways:

by mutual written consent of Petrohawk and KCS;

by either Petrohawk or KCS:

if the merger is not completed on or before December 31, 2006, unless the failure of the closing to occur by this date is due to the failure of the party seeking to terminate the merger agreement to fulfill any material obligation under the merger agreement or a material breach of the merger agreement by such party;

if any court or other governmental entity shall have issued a statute, rule, order, decree or regulation or taken any other action (which Petrohawk and KCS will use their reasonable best efforts to lift), in each case permanently restraining, enjoining or otherwise prohibiting the consummation of the merger or making the merger illegal and such statute, rule, order, decree, regulation or other action has become final and nonappealable, provided that the terminating party is not in breach of its obligation to use reasonable best efforts to complete the merger;

if the KCS stockholders fail to approve and adopt the merger agreement by the requisite vote, provided that this right to terminate is not available to KCS if it has breached any of its obligations relating to non-solicitation of offers described above under *No Solicitation of Alternative Transactions* or breached any of its obligations relating to completing this joint proxy statement/prospectus and convening a stockholders meeting described above under *Reasonable Best Efforts to Obtain Required Stockholder Vote* ;

if there has been a material breach of or any inaccuracy in any of the representations or warranties set forth in the merger agreement on the part of any of the other parties, which breach has not been cured within 30 days following receipt by the breaching party of written notice of such breach from the terminating party, or which breach, by its nature, cannot be cured prior to December 31, 2006 (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement); provided, however, that no party will have the right to terminate the merger agreement for the foregoing purposes unless the breach of representation or warranty, together with all other such breaches, would entitle the party receiving such representation not to consummate the transactions contemplated by the merger agreement;

if there has been a material breach of any of the covenants or agreements set forth in the merger agreement on the part of any of the other parties, which breach has not been cured within 30 days following receipt by the breaching party of written notice of such breach from the terminating party, or which breach, by its nature, cannot be cured prior to December 31, 2006 (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement); or

if the Petrohawk stockholders fail to approve and adopt the merger agreement or approve the increase in the number of authorized shares of common stock; provided that this right to terminate is not available to Petrohawk if it has breached any of its obligations relating to completing this joint proxy statement/prospectus and convening a stockholders meeting described above under *Reasonable Best Efforts to Obtain Required Stockholder Vote* ;

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by KCS if, prior to obtaining the required vote of the KCS stockholders to approve and adopt the merger agreement, KCS or its board of directors has entered into an agreement with respect to an acquisition proposal (other than a permissible confidentiality agreement) or approved or recommended an acquisition proposal (as defined above under "No Solicitation of Alternative Transactions");

by Petrohawk if, prior to obtaining the required vote of the KCS stockholders to approve and adopt the merger agreement, (i) KCS or its board of directors or any committee thereof has resolved to do any of the foregoing, or (ii) an adverse recommendation change shall have occurred in response to a superior proposal or KCS's board of directors, or any committee thereof, has resolved to make an adverse recommendation change; or

the other party has undergone a material adverse effect at any time prior to completion of the merger.

***Termination Fees***

Except for the termination fee set forth in the merger agreement and as described below, all costs and expenses incurred in connection with the merger agreement and the transactions contemplated therein shall be paid by the party incurring such costs or expenses.

KCS must pay Petrohawk a termination fee of \$45 million if:

the merger agreement is terminated by Petrohawk or KCS due to an adverse recommendation change by KCS in response to a superior proposal; or

the merger agreement is terminated by Petrohawk or KCS because KCS or its board of directors has entered into an agreement with respect to an acquisition proposal (other than a permissible confidentiality agreement) or approved or recommended an acquisition proposal, or KCS or its board of directors has resolved to do any of the foregoing;

an acquisition proposal with respect to KCS has been proposed by any person (other than by Petrohawk or any of its respective affiliates) or any person has publicly announced its intention (whether or not conditional) to make such acquisition proposal and such acquisition proposal or such intention has otherwise become publicly known to KCS's stockholders generally; and

thereafter the merger agreement is terminated by either Petrohawk or KCS for failure to close the merger on or before December 31, 2006 or because the KCS stockholders failed to approve and adopt the merger agreement by the required vote, and

within 12 months after termination of the merger agreement, KCS or any of its subsidiaries enters into any definitive agreement providing for an acquisition proposal (as described above under "No Solicitation of Alternative Transactions", except that all references to 10% therein are deemed to be references to 40% for the purposes of the provision described in this paragraph), or an acquisition proposal with respect to KCS or any of its subsidiaries is consummated.

***Mutual Right to Acquire Certain Properties in the Event of Termination***

The merger agreement provides that in the event the merger fails to close for any reason, each party shall have the option to purchase from the other party 50% of any oil and gas properties (the value of which exceeds \$1 million) in which the other party acquired or entered into an agreement to acquire during the period from the date of the merger agreement until the termination of the merger agreement. In the event of the exercise of such option, the purchase price for such oil and gas properties will be equal to 50% of the original amount paid for such oil and gas properties based on the value allocated to such oil and gas properties in the original purchase (including all reasonable expenses incurred in connection with such purchase, and adjusted to reflect the economic effective date of the original purchase) and must be paid in cash. The merger agreement also provides that KCS will not have this right with respect to any oil and gas properties purchased by Petrohawk in the Flower Prospect in Scott, Logan and Yell Counties, Arkansas, and Petrohawk will not have this right with respect to any oil and gas properties purchased by KCS in the Terryville Field in Lincoln Parish, Louisiana.

***Effect of Termination***

In the event of the termination of the merger agreement as described above, written notice must be given by the terminating party to the other parties specifying the provision of the merger agreement pursuant to which such termination is made, and except as described in this paragraph, the merger agreement shall become null and void after the expiration of any applicable period following such notice. In the event of the termination of the merger agreement, there will be no liability on the part of Petrohawk or KCS, except as described above under Termination Fees above and except with respect to the requirement to comply with the confidentiality agreement; provided that no party will be relieved from any liability or obligation with respect to any willful breach of the merger agreement.

**Material U.S. Federal Income Tax Consequences**

The following is a summary of the expected material U.S. federal income tax consequences of the merger to KCS stockholders who are U.S. persons or non-U.S. persons (as defined below). This summary is based on provisions of the Internal Revenue Code, Treasury Regulations promulgated thereunder, and administrative and judicial interpretations of the Internal Revenue Code, all as in effect as of the date of this joint proxy statement/prospectus, and all of which are subject to change, possibly with retroactive effect. This summary does not address all aspects of U.S. federal income taxation that may be applicable to KCS stockholders in light of their particular circumstances or to KCS stockholders subject to special treatment under U.S. federal income tax law, such as:

entities treated as partnerships for U.S. federal income tax purposes or KCS stockholders that hold their shares through entities treated as partnerships for U.S. federal income tax purposes;

certain former citizens or long-term residents of the U.S.;

persons who hold KCS common stock as part of a straddle, hedging transaction, synthetic security, conversion transaction or other integrated investment or risk reduction transaction;

U.S. persons, as defined below, whose functional currency is not the U.S. dollar;

persons who acquired KCS common stock through the exercise of employee stock options or otherwise as compensation;

persons subject to the U.S. alternative minimum tax;

mutual funds;

banks, insurance companies, and other financial institutions;

regulated investment companies;

tax-exempt organizations;

dealers in securities or foreign currencies; and

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traders in securities that mark-to-market.

This summary is also limited to persons who hold KCS common stock as a capital asset. The following summary does not address the tax consequences of the merger under state, local and foreign laws and U.S. federal laws other than U.S. federal income tax laws. KCS stockholders are urged to consult their tax advisors as to the specific tax consequences to them of the merger, including the applicability and effect of U.S. federal, state, local and foreign income and other tax laws to their particular circumstances.

For purposes of this discussion, a "U.S. person" means:

a citizen or individual resident of the U.S., including an alien individual who meets one of the resident-alien tests under Section 7701(b) of the Internal Revenue Code;

a corporation or other entity taxable as a corporation created or organized under the laws of the U.S. or any of its political subdivisions;

a trust if (A) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) the trust has made a valid election under the applicable Treasury Regulations to be treated as a U.S. person; or

an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

For purposes of this discussion, a non-U.S. person means a beneficial owner of shares of KCS common stock that is not a U.S. person.

### *Tax Opinions*

Petrohawk and KCS have structured the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The obligation of KCS to consummate the merger is conditioned on its receipt of an opinion from Andrews Kurth LLP, dated as of the closing date of the merger, to the effect that, on the basis of the facts, assumptions, representations, and covenants set forth or referred to therein, for U.S. federal income tax purposes:

the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; and

Petrohawk and KCS will each be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code. In addition, the obligation of Petrohawk to consummate the merger is conditioned on its receipt of an opinion from Thompson & Knight LLP, dated as of the closing date of the merger, to the effect that, on the basis of the facts, assumptions, representations, and covenants set forth or referred to therein, for U.S. federal income tax purposes:

the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; and

Petrohawk and KCS will each be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code. An opinion of counsel represents counsel's best legal judgment and is not binding on the Internal Revenue Service or any court. No ruling has been, or will be, sought from the Internal Revenue Service as to the tax consequences of the merger. Accordingly, there can be no certainty that the Internal Revenue Service will not challenge the conclusions set forth in any of the opinions stated or referred to herein or that a court would not sustain such a challenge.

The opinions of Andrews Kurth and Thompson & Knight and the opinions set forth below have been rendered on the basis of certain assumptions, representations, and covenants, including those contained in officers' certificates of KCS and Petrohawk, all of which must be true and accurate in all respects as of the effective date of the registration statement and must continue to be true and accurate in all respects as of the effective time of the merger. If any of those assumptions or representations are inaccurate, incomplete, or untrue or any of the covenants are breached, the conclusions contained in the opinions referred to in this paragraph or stated below could be affected.

*U.S. Federal Income Tax Consequences to U.S. Persons*

Subject to the limitations and qualifications set forth herein, the following discussion constitutes the opinion of Andrews Kurth and of Thompson & Knight as to the material U.S. federal income tax consequences of the merger to a KCS stockholder that is a U.S. person:

Each KCS stockholder generally will recognize gain (but not loss) equal to the lesser of: (1) the amount of cash received by the stockholder in the merger and (2) the excess, if any, of (a) the sum of the amount of cash and the fair market value of the Petrohawk common stock received by the stockholder in the merger over (b) that stockholder's adjusted tax basis in the KCS common stock exchanged by the stockholder in the merger. For this purpose, a KCS stockholder must calculate gain separately for each identifiable block of KCS common stock exchanged by the stockholder in the merger. Cash received instead of fractional shares of Petrohawk stock is excluded from the calculations discussed in (1) and (2) above, and instead is treated as discussed below under *Cash Received Instead of a Fractional Share*. Except as discussed under *Possible Treatment of Cash as a Dividend*, any gain recognized by a KCS stockholder in the merger generally will constitute capital gain.

The aggregate tax basis of the shares of Petrohawk common stock received by a KCS stockholder in exchange for KCS common stock pursuant to the merger will be the same as the aggregate tax basis of the stockholder's KCS common stock surrendered in the merger, decreased by the amount of cash received by the stockholder in the merger and increased by the amount of gain or dividend income recognized by the stockholder in the merger.

The holding period of the shares of Petrohawk common stock received by a KCS stockholder in the merger generally will include the holding period of the stockholder's KCS common stock exchanged for Petrohawk common stock.

If a KCS stockholder has differing bases or holding periods in respect of his or her shares of KCS common stock, such stockholder should consult his or her tax advisor prior to the exchange to identify the bases or holding periods of the particular shares of Petrohawk common stock received in the merger.

*Possible Treatment of Cash as a Dividend*

There are certain circumstances, generally involving a KCS stockholder who is also a substantial holder of Petrohawk common stock, in which all or part of the gain recognized by such stockholder would be treated as a dividend rather than as capital gain. Each KCS stockholder should consult his or her tax advisor about the possibility that all or a portion of any cash received in exchange for KCS common stock will be treated as a dividend, based on the stockholder's specific circumstances.

*Cash Received Instead of a Fractional Share*

Petrohawk will not issue any fractional shares of Petrohawk common stock in the merger. Rather, each holder of KCS common stock exchanged in the merger who otherwise would have received a fraction of a share of Petrohawk common stock will receive cash. A KCS stockholder who receives cash instead of a fractional share of Petrohawk common stock generally will recognize capital gain or loss based on the difference between the amount of cash received and the tax basis that the stockholder would have had in such fractional share.

*Capital Gain and Dividend Income of Individuals*

Capital gain recognized by an individual holder of KCS common stock in connection with the merger generally will be subject to a maximum U.S. federal income tax rate of 15% if the individual's holding period for the KCS common stock is more than one year at the effective time of the merger. Capital gain on stock held for one year or less may be taxed at regular rates of up to 35%. The deductibility of capital losses is subject to limitations. Any dividend income recognized in the merger by individual KCS stockholders generally will be subject to tax at a maximum rate of 15%.



*Reporting Requirements*

KCS stockholders receiving Petrohawk common stock in the merger must file a statement with their U.S. federal income tax returns setting forth their tax basis in the KCS common stock exchanged in the merger and the fair market value of the Petrohawk common stock and the amount of any cash received in the merger. In addition, KCS stockholders will be required to retain permanent records of these facts relating to the merger.

*U.S. Federal Income Tax Consequences to Non-U.S. Persons*

*General*

This discussion does not address the U.S. federal income tax consequences to stockholders that are subject to special rules such as:

a stockholder that is a non-U.S. person and that holds its KCS common stock in connection with a trade or business conducted in the U.S. or in connection with an office or fixed place of business located in the U.S.;

a stockholder that is a nonresident alien individual and that either is present in the U.S. for 183 days or more in the taxable year or is subject to provisions of the Internal Revenue Code applicable to expatriates; or

a stockholder that is affected by the provisions of an income tax treaty to which the U.S. is a party.

If you are a non-U.S. person and you may be subject to special tax rules because you conduct business in the U.S., you have been present in the U.S. for 183 days or more in the taxable year, you are an expatriate of the U.S., or you are affected by the provisions of an income tax treaty to which the U.S. is a party, you are urged to consult your tax advisor to determine the tax consequences of the merger to you.

*Non-U.S. Persons That Have Not Held More Than 5% of KCS's Common Stock During the Testing Period*

Gain or loss realized by a non-U.S. person that exchanges KCS common stock in the merger will not be subject to U.S. federal income tax if that stockholder has not actually or constructively held more than 5% of the outstanding shares of KCS common stock at any time during the shorter of (1) the five-year period ending on the effective date of the merger or (2) the period during which such stockholder held such KCS common stock, the shorter of such periods referred to as the Testing Period. For purposes of determining whether a non-U.S. person owns or has owned more than 5% of the outstanding shares of KCS, the applicable constructive ownership rules treat a foreign stockholder as owning shares that are (1) owned by (or that are subject to an option held by) certain family members, corporations, partnerships, estates or trusts or (2) subject to an option held by that foreign stockholder.

The material U.S. federal income tax consequences of the merger to a non-U.S. person that has not held more than 5% of the outstanding shares of KCS's common stock during the Testing Period are as follows:

Any gain realized by that non-U.S. person will not be subject to U.S. federal income tax.

A non-U.S. person will have an aggregate tax basis in the Petrohawk common stock received in the merger equal to the aggregate tax basis of the stockholder's KCS common stock surrendered decreased (but not below zero) by the amount of cash received by the stockholder in the merger.

A non-U.S. person's holding period for shares of Petrohawk common stock received in exchange for shares of KCS common stock in the merger will include the holding period of the stockholder's KCS common stock exchanged for Petrohawk common stock.

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If you are a non-U.S. person and you have differing bases or holding periods in your shares of KCS common stock to be exchanged in the merger, you should consult your tax advisor prior to the exchange

to identify the bases or holding periods of the particular shares of Petrohawk common stock that you will receive in the merger.

If all or part of the gain recognized by a non-U.S. person would be treated as a dividend rather than as capital gain, then the non-U.S. person would be subject to a U.S. income tax of 30% of the amount of such dividend, which rate may be reduced by an applicable income tax treaty. A non-U.S. person should consult his or her tax advisor about the possibility that all or a portion of any cash received in exchange for KCS common stock will be treated as a dividend, based on the stockholder's specific circumstances.

*Non-U.S. Persons That Currently Hold or Have Held More Than 5% of KCS's Common Stock*

If a non-U.S. person has actually or constructively owned more than 5% of the outstanding shares of KCS common stock, but such ownership was not held at any time during the Testing Period, then the U.S. federal income tax consequences to such a stockholder should be the same as those previously described with respect to a non-U.S. person that has never held more than 5% of the outstanding shares of KCS common stock.

Generally, if a non-U.S. person owns or has owned (either actually or constructively) more than 5% of the outstanding shares of KCS common stock at any time during the Testing Period (referred to here as a Significant Non-U.S. Person), then gain or loss realized by such person upon the exchange of KCS common stock in the merger will be subject to U.S. federal income tax. There is an exception from tax if a Significant Non-U.S. Person exchanges its KCS common stock for stock in a U.S. real property holding corporation (a USRPHC) in a reorganization under section 368(a) of the Internal Revenue Code (such as the merger) and the stock received in the exchange would be subject to U.S. federal income tax if it was sold immediately after the exchange. Petrohawk believes that it is a USRPHC and expects to be a USRPHC after the effective time of the merger.

Assuming that Petrohawk's common stock continues to be traded on the NASDAQ National Market immediately after the merger, Petrohawk stock received in the merger by a Significant Non-U.S. Person would qualify for the exception from tax only if that Significant Non-U.S. Person owns more than 5% of the outstanding shares of Petrohawk common stock immediately after the merger. The U.S. federal income tax consequences to a Significant Non-U.S. Person who owns more than 5% of the outstanding shares of Petrohawk common stock immediately after the merger should generally be the same as previously described with respect to a U.S. person.

If a Significant Non-U.S. Person exchanges his or her shares of KCS common stock solely for cash and Petrohawk common stock constituting 5% or less of the outstanding shares of Petrohawk common stock immediately after the merger:

such stockholder will recognize gain or loss measured by the difference between (1) the sum of the amount of any cash received (including cash instead of a fractional share of Petrohawk common stock) and the fair market value of the Petrohawk common stock received in the merger over (2) that Significant Non-U.S. Person's tax basis in its KCS common stock surrendered in the merger. Except as discussed under U.S. Federal Income Tax Consequences to U.S. Persons Possible Treatment of Cash as a Dividend, any gain or loss recognized by a Significant Non-U.S. Person in the merger generally will constitute capital gain or loss effectively connected with the conduct of a U.S. trade or business.

the aggregate tax basis of the Petrohawk common stock received in the merger will equal the fair market value of that Petrohawk common stock as of the effective time of the merger;

such stockholder's holding period for the Petrohawk common stock received in the merger will begin the day after the effective time of the merger; and

A Significant Non-U.S. Person subject to U.S. federal income tax also may be required to:

file a U.S. federal income tax return reporting the gain or loss subject to tax as income effectively connected with the conduct of a trade or business within the U.S. and taxable as either ordinary income or capital gain; and

pay any tax due upon the filing of the return or, depending upon the circumstances, earlier through estimated payments.

***FIRPTA Withholding***

Under Section 1445 of the Internal Revenue Code, a person acquiring stock in a USRPHC from a foreign person generally is required to deduct and withhold a tax equal to 10% of the amount realized by that foreign person on the sale or exchange of that stock, referred to here as FIRPTA Withholding. However, Section 1445(b)(6) of the Internal Revenue Code exempts from FIRPTA Withholding stock that is regularly traded on an established securities market.

KCS believes that it has continuously been a USRPHC and that it will be a USRPHC as of the effective time of the merger. KCS also believes that KCS common stock will continue to be regularly traded on the New York Stock Exchange at all times leading up to and as of the effective time of the merger, such that KCS common stock should be considered to be regularly traded on an established securities market for purposes of Section 1445(b)(6) of the Internal Revenue Code. Assuming that this expectation proves to be correct, neither Petrohawk nor the exchange agent will be required to deduct and withhold amounts on account of FIRPTA Withholding with respect to a non-U.S. person's exchange of KCS common stock in the merger.

***U.S. Federal Income Tax Consequences to Stockholders That Exercise Appraisal Rights***

A U.S. person who receives cash pursuant to the exercise of appraisal rights generally will recognize capital gain or loss measured by the difference between the cash received and its adjusted tax basis in its KCS common stock.

If a non-U.S. person that is not a Significant Non-U.S. Person receives cash pursuant to the exercise of appraisal rights, any gain realized by such person generally will not be subject to U.S. federal income tax.

If a Significant Non-U.S. Person receives cash pursuant to the exercise of appraisal rights, that Significant Non-U.S. Person generally will be subject to U.S. federal income tax on capital gain or loss measured by the difference between the amount of cash received and his or her tax basis in KCS common stock.

***Backup Withholding***

Certain holders of KCS common stock may be subject to backup withholding (currently at a rate of 28%) on amounts received pursuant to the merger. Backup withholding will not apply, however, to a KCS stockholder who provides a correct taxpayer identification number or a certificate of foreign status and certain other required information or comes within certain exempt categories and, in each case, complies with applicable certification requirements. In addition to being subject to backup withholding, if a KCS stockholder does not provide Petrohawk (or the exchange agent) with his or her correct taxpayer identification number or a certificate of foreign status or other required information, the stockholder may be subject to penalties imposed by the Internal Revenue Service. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the stockholder's U.S. federal income tax liability, provided that the stockholder furnishes certain required information to the Internal Revenue Service.

***Obtain Personal Tax Advice***

The summary of material U.S. federal income tax consequences set forth above is intended to provide only a general summary of the merger and is not intended to be a complete analysis or description of all potential U.S.

federal income tax consequences of the merger. In addition, the summary does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, the summary does not address any non-income tax or any foreign, state, local or other tax consequences of the merger. **Accordingly, each KCS stockholder is urged to consult his or her own tax advisor to determine the particular federal, state, local or foreign income, reporting or other tax consequences of the merger to that stockholder.**

#### **Extension, Waiver and Amendment of the Merger Agreement.**

##### *Extension and Waiver*

At any time prior to the effective time of the merger, Petrohawk and KCS may, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other parties under the merger agreement;

waive any inaccuracies in the other parties' representations and warranties contained in the merger agreement or in any document, certificate or writing delivered pursuant to the merger agreement by the other parties; and

waive the other parties' compliance with any of its agreements or conditions contained in the merger agreement.

Any such waiver or extension is subject to the following conditions:

any agreement allowing an extension or waiver must be set forth in a written instrument signed on behalf of the party allowing the extension or waiver;

any waiver will only waive the respective matter described in the writing and will not impair the rights of the party granting the waiver in any other respect or at any other time;

neither any waiver by any party to the merger agreement, nor the failure by any party to enforce any provisions of the merger agreement or to exercise any rights will be construed as a waiver of any other breach or default, or as a waiver of any such provisions, rights or privileges under the merger agreement; and

the rights and remedies provided under the merger agreement are cumulative and none is exclusive of any other, or of any rights or remedies that any party may otherwise have.

##### *Amendment*

Subject to compliance with applicable law, Petrohawk and KCS may amend the merger agreement at any time before or after adoption of the merger agreement by KCS stockholders. However, after any adoption of the merger agreement by KCS stockholders there may not be, without their further approval, any amendment of the merger agreement that alters or changes, in a way that adversely affects the holders of any shares of KCS capital stock or alters or changes the merger consideration to be received by the KCS stockholders in the merger.

#### **Employee Benefit Plans and Existing Agreements**

The merger agreement provides that the severance policy and practices of KCS as set forth in its employee handbook as of April 20, 2006 will remain in effect and, except as required by the merger agreement, shall not be modified or amended for a period of 24 months after the effective time of the merger. Prior to the effective time of the merger, KCS must cause the severance policy of KCS to be modified to provide that (i) any eligible employee of KCS who is terminated for any reason other than cause, or who resigns for good reason, as defined in the merger agreement, will be entitled to severance payments and other benefits of the type and in the amount set forth in the severance policy of KCS and (ii) eligible employees must resign within ten business days of



receiving notice of an event constituting good reason in order to be entitled to such severance payments and benefits.

The service of each KCS employee with KCS or its subsidiaries (or any predecessor employer) prior to the effective time of the merger will be treated as service with Petrohawk and its subsidiaries for purposes of each employee benefit plans of Petrohawk in which such KCS employee is eligible to participate after the effective time of the merger, including for purposes of eligibility, vesting and benefit levels and accruals.

Petrohawk has agreed in the merger agreement to pay to certain KCS employees such person's protected vacation hours and to provide to each KCS employee the benefits of Petrohawk's vacation policies; provided that each such employee shall be entitled to no less annual vacation time than such employee was entitled to prior to the merger and such employee will receive credit for all unused vacation balances as of the effective time of the merger. Following the effective time of the merger, for purposes of each Petrohawk plan in which any continuing employee or his or her eligible dependents is eligible to participate, Petrohawk shall, or shall cause its subsidiaries to, (1) waive any pre-existing condition, exclusion, actively-at-work requirement or waiting period to the extent such condition, exclusion, requirement or waiting period was satisfied or waived under the comparable KCS plan as of the effective time of the merger (or, if later, any applicable plan transition date), (2) provide full credit for any co-payments, deductibles or similar payments made or incurred prior to the effective time of the merger for the plan year in which the effective time of the merger (or such transition date) occurs and (3) credit the existing 2006 personal time off hours granted by KCS to Petrohawk's sick leave plan.

At the effective time of the merger, with respect to each senior officer who is terminated for any reason other than cause or who terminates his or her employment for good reason in each case as defined in his or her employment agreement, each of the employment agreements of the senior officers will be terminated and any nonsolicitation provisions therein will also be terminated and will not survive the effective time of the merger.

After the effective time of the merger, KCS's employee benefit plans may not be amended or modified in a manner that would result in the termination of, or have an adverse effect on, options or awards previously granted thereunder or in a manner that would result in any such option or award becoming deferred compensation.

The merger agreement acknowledges that it contains no requirement that Petrohawk or any of its affiliates continue to employ any employee of KCS for any length of time following the effective time of the merger. The merger agreement also does not prevent Petrohawk or its affiliates from terminating, or modifying the terms of employment of, any KCS employee following the effective time of the merger.

#### **Nasdaq National Market Listing of Petrohawk Common Stock; Delisting and Deregistration of KCS Common Stock**

It is a condition to completion of the merger that the shares of Petrohawk common stock issuable in the merger be authorized for listing on the Nasdaq National Market, subject to official notice of issuance. If the merger is completed, KCS common stock will cease to be traded on the New York Stock Exchange and KCS's shares will be deregistered under the Exchange Act.

#### **Expenses**

The merger agreement provides that each of Petrohawk and KCS will pay its own costs and expenses in connection with the transactions contemplated in the merger agreement, except as described above in Termination of the Merger Agreement Termination Fees and Expenses.

### **Dividends**

The merger agreement provides that, prior to the effective time:

KCS or any of its subsidiaries may not declare, set aside or pay any dividend or other distribution, whether payable in cash, stock or any other property or right, with respect to its capital stock, except that KCS may permit any direct or indirect wholly-owned subsidiary to do any of the foregoing; and

Petrohawk or any of its subsidiaries may not declare, set aside or pay any dividend or other distribution (other than in the case of any wholly owned subsidiary of Petrohawk), whether payable in cash, stock or any other property or right, with respect to its capital stock except that Petrohawk may pay quarterly cash dividends on its preferred stock.

### **Appraisal Rights**

Shares of KCS common stock outstanding immediately prior to the effective time of the merger and held by a holder who has not voted in favor of, or consented in writing to, the approval and adoption of the merger agreement and who has delivered a written demand for appraisal of such shares in accordance with Section 262 of the DGCL will not be converted into the right to receive the merger consideration, unless and until the dissenting holder fails to perfect or effectively withdraws or otherwise loses his or her right to appraisal and payment under the DGCL. If, after the effective time of the merger, a dissenting stockholder fails to perfect or effectively withdraws or loses his or her right to appraisal, his or her shares of KCS common stock will be treated as if they had been converted as of the effective time of the merger into the right to receive the merger consideration without interest.

### **Regulatory Filings and Approvals Required to Complete the Merger**

We are not aware of any material governmental or regulatory approval required for the completion of the merger, other than filings required under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 and compliance with the applicable corporate law of the State of Delaware.

### **Accounting Treatment**

The merger will be accounted for as a purchase, as that term is used under GAAP, for accounting and financial reporting purposes. KCS will be treated as the acquired corporation for accounting and financial reporting purposes. KCS's assets, liabilities and other items will be adjusted to their estimated fair value on the closing date of the merger and combined with the historical book values of the assets and liabilities of Petrohawk. Applicable income tax effects of these adjustments will be included as a component of the combined company's deferred tax asset or liability. The difference between the estimated fair value of the assets (including separately identifiable intangible assets), liabilities and other items (adjusted as discussed above) and the purchase price will be recorded as goodwill. Financial statements of Petrohawk issued after the merger will reflect the values and will not be restated retroactively to reflect the historical financial position or results of operations of KCS.

### **Certain KCS Directors and Executive Officers May Have Interests in the Merger that are in Addition to their Interests as Stockholders**

In considering the recommendation of the KCS board of directors with respect to the approval and adoption of the merger agreement, KCS stockholders should be aware that certain executive officers and directors of KCS may have interests in the merger that are in addition to the interests of other stockholders of KCS generally. Certain executive officers of KCS, for example, are parties to change in control or employment agreements with KCS that, in certain circumstances and among other benefits, provide for severance payments, accelerated vesting of stock options and performance stock awards and the lapse of restrictions on restricted stock upon a termination of employment following a change in control of KCS.



**Board of Directors**

The merger agreement provides that immediately following the effective time, Petrohawk will take all corporate action necessary or advisable to cause the election to Petrohawk's board of directors a total of nine persons, five individuals to be designated by Petrohawk (one of which to be Mr. Wilson) and four individuals to be designated by KCS (one of which to be Mr. Christmas). All individuals to be designated, other than Mr. Wilson and Mr. Christmas, must be outside, independent members of Petrohawk's or KCS's current board or must have been approved by the other party. The merger agreement further provides that the persons designated by KCS must be appointed or elected in such a manner as to cause each class of Petrohawk's board of directors to include at least one of KCS's designee and that Mr. Christmas must be appointed or elected to the class having the longest term. In addition, Petrohawk must also cause the Petrohawk board of directors to appoint to each of its committees at least one of its members who is a KCS designee and at least one member who is a Petrohawk designee.

**Stock Options, Restricted Stock and Performance Stock Awards**

The merger agreement provides that each KCS stock option, share of restricted stock and performance stock award that is outstanding and unexercised immediately prior to the effective time of the merger will be converted into an option to acquire shares of Petrohawk common stock, shares of restricted stock of Petrohawk or performance stock award of Petrohawk, respectively. For a more complete description, see above under the heading Treatment of Stock Options, Restricted Stock and Performance Stock Awards.

The following table sets forth, as of April 20, 2006 the number of shares of KCS common stock subject to vested and unvested stock options held by KCS's directors and executive officers and the assumed value of those stock options based on the closing price of Petrohawk of \$13.58 per share on that date:

Name	Title	Number of	Estimated	Number of	Estimated
		Shares Subject	Value of	Shares Subject	Value of
		to Unvested	Unvested	to Vested	Vested
		Options	Options	Options	Options
James W. Christmas	Chairman and Chief Executive Officer	127,534	\$ 2,000,363	236,625	\$ 6,084,622
William N. Hahne	President and Chief Operating Officer	86,665	1,395,248	196,168	5,083,418
Harry Lee Stout	Senior Vice President Marketing and Risk Management	33,080	601,714	64,700	1,833,566
Joseph T. Leary	Senior Vice President and Chief Financial Officer	24,080	391,094	3,700	72,186
Frederick Dwyer	Vice President, Controller and Secretary	12,465	208,468	21,882	579,780

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The following table sets forth, as of April 20, 2006 the number of restricted shares of KCS common stock held by KCS's directors and executive officers and the estimated value of those restricted shares based on the closing price of Petrohawk of \$13.58 per share on the same date:

Name	Title	Number of	Estimated
		Shares of	Value of
		Unvested	Unvested
Name	Title	Restricted Stock	Restricted Stock
James W. Christmas	Chairman and Chief Executive Officer	80,008	\$ 2,513,051
William N. Hahne	President and Chief Operating Officer	59,821	1,878,978
Harry Lee Stout	Senior Vice President Marketing and Risk Management	25,219	792,129
Joseph T. Leary	Senior Vice President and Chief Financial Officer	28,682	900,902
Frederick Dwyer	Vice President, Controller and Secretary	11,525	362,000

The following table sets forth, as of April 20, 2006 the number of shares of unvested performance stock held by KCS's directors and executive officers and the estimated value of those shares based on the closing price of Petrohawk of \$13.58 per share on the same date:

Name	Title	Number of	Estimated
		Shares of	Value of
		Unvested	Unvested
Name	Title	Performance Stock	Performance Stock
James W. Christmas	Chairman and Chief Executive Officer	8,258	\$ 259,384
William N. Hahne	President and Chief Operating Officer	6,441	202,312
Harry Lee Stout	Senior Vice President Marketing and Risk Management	4,459	140,057
Joseph T. Leary	Senior Vice President and Chief Financial Officer	3,922	123,190
Frederick Dwyer	Vice President, Controller and Secretary	2,245	70,515

Under the employment agreements and change of control agreements entered into by KCS and its officers, a termination of employment by KCS without cause, or by the officer with good reason (as defined in such agreements), which occurs within a specified number of years following a change of control of KCS will result in, among other benefits, the right of the affected officer to receive a severance payment, pro rated bonus payment, payment for accumulated vacation pay, acceleration of the vesting of stock options and performance awards and the early expiration of restrictions on restricted stock.

In the merger agreement, Petrohawk has acknowledged that a termination of Messrs. Christmas, Hahne's and Leary's employment will occur in connection with the merger, although Messrs. Christmas and Hahne will



subsequently serve as Vice Chairman and Executive Vice President and Chief Operating Officer, respectively, of the combined company. As a consequence, the shares reflected above as underlying unvested options, restricted stock, and performance stock awards for Messrs. Christmas, Hahne and Leary will vest upon the consummation of the merger. These individuals will also become entitled to receive payment in cash within 30 days following the consummation of the merger for the respective amounts owed to them for severance, pro rated bonuses and accumulated vacation pay aggregating approximately \$3.2 million, \$2.3 million and \$385,000 respectively (subject to final adjustment).

#### ***Indemnification and Insurance***

The merger agreement provides that, after the effective time of the merger, Petrohawk will indemnify, defend and hold harmless the present and former officers, directors, employees and agents of KCS and its subsidiaries in such capacities to the fullest extent permitted by applicable law, in each case against any losses, damages, expenses or liabilities resulting from any claim, liability, loss, damage, cost or expense, asserted against, or incurred by, any such individual that is based on the fact that such individual is or was a director, officer, employee or agent of KCS or its subsidiaries and arising out of actions or omissions or alleged actions or omissions occurring at or prior to the effective time of the merger. Petrohawk will also take all necessary actions to ensure that its director's and officer's liability insurance continues to cover each officer and director of KCS, in each case so long as they remain employed or retained by Petrohawk or any affiliate of Petrohawk (including the surviving corporation) as an officer or director.

In addition, the merger agreement provides that at the effective time of the merger, Petrohawk will maintain, directors' and officers' liability insurance under a policy and with a company reasonably acceptable to KCS covering, for a period of six years after the effective time of the merger, the directors and officers of KCS and its subsidiaries who are currently or were at any time prior to the effective time of the merger, covered by KCS's existing directors' and officers' liability insurance with respect to claims arising from facts or events that occurred before the effective time of the merger, with coverage substantially similar to those in effect on April 20, 2006.

#### **Restrictions on Resales by Affiliates; Rule 145 Affiliate Letters; Registration Rights Agreement**

Shares of Petrohawk common stock to be issued to KCS stockholders in the merger will be registered under the Securities Act, as amended, and may be traded freely and without restriction by those stockholders not deemed to be affiliates (as that term is defined under the Securities Act) of KCS. Any subsequent transfer of shares, however, by any person who is an affiliate of KCS at the time the merger is submitted for a vote of the KCS stockholders will, under existing law, require either:

the further registration under the Securities Act of the Petrohawk common stock to be transferred;

compliance with Rule 145 promulgated under the Securities Act, which permits limited sales under certain circumstances; or

the availability of another exemption from registration.

An affiliate of KCS is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, KCS. These restrictions are expected to apply to the directors and executive officers of KCS and the holders of 10% or more of the outstanding KCS common stock. The same restrictions apply to the spouses and certain relatives of those persons and any trusts, estates, corporations or other entities in which those persons have a 10% or greater beneficial or equity interest. Petrohawk will give stop transfer instructions to the transfer agent with respect to the shares of Petrohawk common stock to be received by persons subject to these restrictions, and the certificates for their shares will be appropriately legended.

KCS has agreed prior to the effective time of the merger to provide Petrohawk with a list identifying all persons who KCS believes may be deemed affiliates of KCS. In addition, KCS has agreed to cause each such

affiliate on the list provided to Petrohawk to execute a Rule 145 affiliate letter. Pursuant to the terms of such letter, each KCS affiliate will agree not to offer or sell any shares of Petrohawk common stock unless such sale is made in compliance with Rule 145, such sale is pursuant to an effective registration statement or such sale is made pursuant to another available exemption from registration. In addition, each KCS affiliate will agree that a legend may be placed upon its Petrohawk stock certificates. By accepting such letter, Petrohawk will agree to use its reasonable best efforts to file, on a timely basis, all reports required to be filed with the Securities and Exchange Commission and otherwise use its reasonable best efforts to permit such sales pursuant to Rule 145 and Rule 144 promulgated under the Securities Act. The form of Rule 145 affiliate letter is attached to the merger agreement as Exhibit C.

As an inducement to such Rule 145 affiliate letters, Petrohawk has agreed to enter a written registration rights agreement with such KCS affiliates in substantially the form attached to the merger agreement as Exhibit D. Pursuant to the terms of such registration rights agreement, Petrohawk agrees to use reasonable best efforts to file with the Securities and Exchange Commission a registration statement covering the offer and resale of the shares of KCS common stock held by the KCS affiliates who have executed the Rule 145 affiliate letters within three business days of the effective time of the merger and to cause such registration statement to be declared effective as soon as practicable after the filing.

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined financial information and explanatory notes present how the combined financial statements of Petrohawk and KCS may have appeared had the businesses actually been combined as of March 31, 2006 (with respect to the balance sheet information using currently available fair value information) and as of January 1, 2005 (with respect to the statements of operations information for the three months ended March 31, 2006 and year ended December 31, 2005). The unaudited pro forma condensed combined financial information shows the impact of the merger of Petrohawk and KCS on the historical financial position and results of operations under the purchase method of accounting with Petrohawk treated as the acquirer. Under this method of accounting, the assets and liabilities of KCS are recorded by Petrohawk at their estimated fair values as of the date the merger is completed.

The merger agreement with KCS provides for Petrohawk to issue approximately 83.7 million shares of common stock and pay approximately \$450 million in cash as consideration to KCS common stockholders (in each case subject to upward adjustment in the event that any shares of KCS common stock are issued in accordance with the merger agreement pursuant to the exercise of KCS stock options or otherwise).

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined companies had the companies actually been combined and had the impact of possible revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors, been considered. This financial information has been derived from and should be read together with the historical consolidated financial statements and the related notes of Petrohawk and KCS, which are incorporated in this document by reference. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial information, the allocation of the purchase price reflected in the pro forma condensed combined financial information is preliminary and is subject to adjustment and will vary from the actual purchase price allocation that will be recorded upon the effective time of the merger.

## Petrohawk Energy Corporation and Subsidiaries

## Unaudited Pro Forma Condensed Combined Balance Sheet

As of March 31, 2006

(In thousands)

Assets	Petrohawk Historical	KCS Historical	Merger Adjustments	Petrohawk Pro Forma Combined
<b>Current assets:</b>				
Cash	\$ 3,642	\$ 7,108	\$ (7,108)(1)	\$ 3,642
Accounts receivable	65,394	51,750		117,144
Deferred income taxes	25,333	4,755		30,088
Receivables from derivative contracts	3,951			3,951
Prepaid expenses and other	5,152	5,640		10,792
<b>Total current assets</b>	<b>103,472</b>	<b>69,253</b>	<b>(7,108)</b>	<b>165,617</b>
<b>Oil and gas properties (full cost method):</b>				
Evaluated	1,379,818	1,797,891	(1,797,891)(1) 1,232,000 (1)	2,611,818
Unevaluated	186,924	40,552	(40,552)(1) 246,400 (1)	433,324
Gross oil and gas properties	1,566,742	1,838,443	(360,043)	3,045,142
Less accumulated depletion	(158,207)	(1,109,544)	1,109,544 (1)	(158,207)
<b>Net oil and gas properties</b>	<b>1,408,535</b>	<b>728,899</b>	<b>749,501</b>	<b>2,886,935</b>
<b>Other operating property and equipment:</b>				
Net other operating property and equipment	3,505	7,672		11,177
<b>Other noncurrent assets:</b>				
Goodwill	165,475		820,619 (1)	986,094
Debt issuance costs, net of amortization	2,556	7,749	(7,749)(1) 11,000 (1)	13,556
Receivables from derivative contracts	2,159			2,159
Other	2,371	6,324		8,695
<b>Total assets</b>	<b>\$ 1,688,073</b>	<b>\$ 819,897</b>	<b>\$ 1,566,263</b>	<b>\$ 4,074,233</b>
<b>Liabilities and Stockholders Equity</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	\$ 100,121	\$ 113,172	\$	\$ 213,293
Liabilities from derivative contracts	31,153	6,529		37,682
Current portion of long-term debt	3,173			3,173
<b>Total current liabilities</b>	<b>134,447</b>	<b>119,701</b>		<b>254,148</b>
<b>Long-term debt:</b>				
Petrohawk historical debt	542,599		153,811 (1)	696,410
Petrohawk new debt			325,000 (1)	325,000
KCS historical debt		275,536	(536)(1)	275,000
Other	2,113			2,113
<b>Long-term debt</b>	<b>544,712</b>	<b>275,536</b>	<b>478,275</b>	<b>1,298,523</b>

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<b>Liabilities from derivative contracts</b>	27,240	791		28,031
<b>Asset retirement obligations</b>	29,642	14,134		43,776
<b>Deferred income taxes</b>	256,933	52,707	(52,707)(1)	598,133
			369,835 (1)	
			(28,635)(1)	
<b>Other noncurrent liabilities</b>	2,241	691		2,932
<b>Commitments and contingencies</b>				
<b>Stockholders' equity:</b>				
Preferred stock	1			1
Common stock	83	527	(527)(1)	167
			84 (1)	
Additional paid-in capital	692,012	250,756	904,992 (1)	1,847,760
Treasury stock	(36)	(4,741)	4,741 (1)	(36)
Accumulated other comprehensive (income) loss		(3,711)	3,711 (1)	
Retained earnings	798	113,506	(113,506)(1)	798
<b>Total stockholders' equity</b>	<b>692,858</b>	<b>356,337</b>	<b>799,495</b>	<b>1,848,690</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,688,073</b>	<b>\$ 819,897</b>	<b>\$ 1,566,263</b>	<b>\$ 4,074,233</b>

See Accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements



## Petrohawk Energy Corporation and Subsidiaries

## Unaudited Pro Forma Condensed Combined Statement of Operations

For the Three Months Ended March 31, 2006

(In thousands, except per share amounts)

	Petrohawk Pro Forma	KCS Historical	Merger Adjustments	Petrohawk Pro Forma Combined
<b>Operating revenues:</b>				
Oil and gas sales	\$ 105,848	\$ 104,586	\$ 4,285 (2)	\$ 214,719
<b>Operating expenses:</b>				
Production expenses	14,498	10,902		25,400
Taxes other than income	8,409	5,292		13,701
General and administrative:				
General and administrative expense	6,479	2,748		9,227
Stock-based compensation	644	1,011		1,655
Accretion expense	438	349		787
Depreciation, depletion and amortization	37,627	28,081	(65,708)(3)	83,116
			83,116 (3)	
Total operating expenses	68,095	48,383	17,408	133,886
<b>Income (loss) from operations</b>	<b>37,753</b>	<b>56,203</b>	<b>(13,123)</b>	<b>80,833</b>
<b>Other income (expenses):</b>				
Gain on derivative contracts	24,803	7,045	(7,045)(2)	68,583
			(4,285)(2)	
			48,065 (2)	
Interest expense and other	(9,311)	(4,676)	14,738 (4)	(23,326)
			(24,077)(4)	
Total other income (expenses)	15,492	2,369	27,396	45,257
Income before income taxes	53,245	58,572	14,273	126,090
Income tax provision	(19,621)	(22,729)	42,350 (5)	(46,464)
			(46,464)(5)	
Net income	33,624	35,843	10,159	79,626
Preferred dividends	(108)			(108)
Net income available to common shareholders	\$ 33,516	\$ 35,843	\$ 10,159	\$ 79,518
<b>Earnings per share of common stock:</b>				
Basic	\$ 0.40			\$ 0.48
Diluted	\$ 0.39			\$ 0.47
<b>Weighted average shares outstanding:</b>				
Basic	83,261		83,755 (1)	167,016
Diluted	85,491		83,755 (1)	171,178
			1,932 (6)	

See Accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements



## Petrohawk Energy Corporation and Subsidiaries

## Unaudited Pro Forma Condensed Combined Statement of Operations

For the Year Ended December 31, 2005

(In thousands, except per share amounts)

	Petrohawk Pro Forma	KCS Historical	Merger Adjustments	Petrohawk Pro Forma Combined
<b>Operating revenues:</b>				
Oil and gas sales	\$ 413,846	\$ 364,656	\$ 42,587 (2)	\$ 821,089
<b>Operating expenses:</b>				
Production expenses	60,385	35,399		95,784
Taxes other than income	26,301	21,357		47,658
General and administrative:				
General and administrative expense	34,257	11,102		45,359
Stock-based compensation	24,912	2,391		27,303
Accretion expense	2,044	964		3,008
Depreciation, depletion and amortization	138,151	92,764	(230,915)(3)	290,167
			290,167 (3)	
Total operating expenses	286,050	163,977	59,252	509,279
<b>Income (loss) from operations</b>	127,796	200,679	(16,665)	311,810
<b>Other income (expenses):</b>				
Loss on derivative contracts	(128,229)	(9,679)	9,679 (2)	(226,264)
			(42,587)(2)	
			(55,448)(2)	
Interest expense and other	(42,596)	(18,442)	57,190 (4)	(112,450)
			(108,602)(4)	
Total other income (expenses)	(170,825)	(28,121)	(139,768)	(338,714)
(Loss) income before income taxes	(43,029)	172,558	(156,433)	(26,904)
Income tax benefit (provision)	15,723	(66,698)	50,975 (5)	9,831
			9,831 (5)	
Net (loss) income	(27,306)	105,860	(95,627)	(17,073)
Preferred dividends	(440)			(440)
Net (loss) income (applicable) available to common shareholders	\$ (27,746)	\$ 105,860	\$ (95,627)	\$ (17,513)
<b>Loss per share of common stock:</b>				
Basic	\$ (0.37)			\$ (0.11)
Diluted	\$ (0.37)			\$ (0.11)
<b>Weighted average shares outstanding:</b>				
Basic	75,633		83,755 (1)	159,388
Diluted	75,633		83,755 (1)	159,388

See Accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

### Notes to Unaudited Pro Forma Condensed Combined Financial Statements

The unaudited Petrohawk Pro Forma Combined financial data has been prepared to give effect to Petrohawk's acquisition of KCS Energy. Information under the heading Merger Adjustments gives effect to the adjustments related to the acquisition of KCS. The unaudited pro forma condensed combined financial statements are not necessarily indicative of the results of Petrohawk's future operations.

Petrohawk and KCS use the full cost method of accounting for their oil and gas producing activities. Petrohawk will account for this merger using the purchase method of accounting for business combinations. Under the purchase method of accounting, Petrohawk is deemed to be the acquirer for accounting purposes based on a number of factors determined in accordance with GAAP. The purchase method of accounting requires that assets acquired and liabilities assumed by Petrohawk be recorded at their estimated fair values.

#### Pro Forma Adjustments Related to the Merger

The unaudited pro forma condensed combined balance sheet includes the following adjustments:

(1) These adjustments reflect the elimination of the components of KCS's historical stockholders' equity, the purchase price paid by Petrohawk and adjustments to the historical book values of KCS's assets and liabilities as of March 31, 2006 to their estimated fair values, in accordance with purchase accounting. The following table represents the preliminary allocation of the total purchase price of KCS to the assets acquired and the liabilities assumed based on the preliminary estimates of fair value.

	<b>Amount</b> <i>(In thousands, except stock price)</i>
Shares of Petrohawk common stock to be issued to KCS	83,755(i)
Average Petrohawk common stock price	\$ 13.44(i)
Fair value of common stock to be issued	\$ 1,125,665
Cash consideration paid to KCS stockholders	449,920(i)
Plus: estimated merger costs	36,000(ii)
Plus: estimated fair value of KCS employee stock-based awards	30,166(v)
<b>Total purchase price</b>	<b>\$ 1,641,751</b>
Plus: Estimated Fair Value of KCS Liabilities	
Debt assumed by Petrohawk, net of cash acquired	\$ 267,892(iv)
Current liabilities	119,701
Asset retirement obligations	14,134
Other non-current liabilities	1,482
Deferred income taxes	341,200(iii)
<b>Total Purchase Price Plus Liabilities Assumed</b>	<b>\$ 2,386,160</b>
Estimated Fair Value of KCS Assets	
Current assets	62,145
Proved oil and gas properties	1,232,000
Unproved oil and gas properties	246,400
Other operating property and equipment	7,672
Other non-current assets	6,324
Estimated debt issue costs	11,000
Goodwill	820,619(iii)
<b>Total Fair Value of KCS Assets</b>	<b>\$ 2,386,160</b>

(i) Under the terms of the merger agreement, total consideration for the shares of KCS is fixed at \$9.00 per share in cash and 1.65 shares of Petrohawk common stock for each share of KCS stock issued and outstanding at the date of closing (approximately 83.7 million Petrohawk shares.) Total cash consideration of approximately \$450 million consists of \$9.00 per share of KCS common stock



outstanding as of March 31, 2006 of 52.7 million, less KCS treasury shares held at March 31, 2006 of 2.2 million. The average Petrohawk common stock price of \$13.44 per share was based on the average of the closing prices of Petrohawk common stock during the five business days commencing two days before the merger was announced.

(ii) The total purchase price includes \$36 million of estimated merger costs to be incurred by Petrohawk. These costs include investment banking expenses, legal and accounting fees, printing expenses and other merger related costs.

(iii) The preliminary allocation of purchase price includes approximately \$820 million of goodwill. Goodwill represents the excess of the purchase price paid by Petrohawk for KCS plus liabilities assumed, including deferred taxes recorded in connection with the merger, over the estimated fair market value of the tangible net assets acquired. The purchase price allocation is preliminary and is subject to change due to several factors, including, but not limited to: (1) changes in the fair values of KCS's assets and liabilities as of the effective time of the merger; (2) the actual merger costs incurred; (3) the number of KCS shares outstanding at the closing date, and (4) changes in Petrohawk's valuation estimates that may be made between now and the time the purchase price allocation is finalized. These changes will not be known until after the closing date of the merger.

(iv) This represents the assumption of KCS's Senior Notes net of \$7.1 million cash acquired by Petrohawk as of March 31, 2006.

(v) All KCS stock based awards will be converted in the merger into Petrohawk stock based awards. The fair values of the KCS options were estimated using Black-Scholes valuation assumptions, including expected life, volatility, risk free interest rates and the expected dividend yield. The total future expense to be recognized related to unvested stock based awards is \$15.6 million.

The unaudited pro forma condensed combined statements of operations include the following adjustments:

(2) To reflect Petrohawk's recognition of mark-to-market losses associated with derivative liabilities assumed in the merger (\$41.0 million realized loss and \$57.0 million unrealized loss for the year ended December 31, 2005; \$4.6 million realized loss and \$48.4 million unrealized gain for the three months ended March 31, 2006). These derivative positions are presented at fair value on the balance sheet with changes in fair value reflected in the combined statement of operations.

(3) To adjust historical depletion expense associated with oil and gas properties based on the preliminary allocation of the purchase price to the KCS properties' fair value. Depletion expense is calculated using the unit of production method under full cost accounting. Adjustment assumes no material changes in the estimated useful lives or amortization periods for acquired assets as a result of the preliminary purchase price allocation.

(4) This adjustment increases interest expense for the effect of the additional debt assumed from the merger and the amounts borrowed as well as to recognize amortization expense associated with Petrohawk's projected debt issuance costs. The interest rate used in the calculation of interest expense is based on expected actual interest rates and the life used in the calculation of amortization expense is based on the expected life of the new debt facilities. A  $\frac{1}{8}$  percentage point change in the interest rate would result in an adjustment to pro forma interest expense of \$0.4 million and \$1.6 million for the three months ended March 31, 2006 and for the year ended December 31, 2005, respectively.

(5) To record income tax expense on the combined company results of operations based on the Petrohawk effective tax rate of 36.54% for the year ended December 31, 2005 and 36.85% for the three months ended March 31, 2006.

(6) To incorporate the dilutive impact of common stock equivalents (using the treasury stock method) and unvested restricted stock.

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2006 and year ended December 31, 2005 presents the historical results of operations of Petrohawk on a pro forma basis, taking into consideration Petrohawk's July 28, 2005 acquisition of Mission Resources Corporation and the January 27, 2006 acquisition of Winwell Resources, Inc. These unaudited pro forma condensed combined statements of operations present how the results of operations of Petrohawk, Mission and Winwell may have historically appeared had these transactions actually been consummated on January 1, 2005.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined companies had the companies actually been combined and had the impact of possible revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors, been considered. This financial information has been derived from and should be read together with the historical consolidated financial statements and the related notes of Petrohawk, Mission Resources Corporation and Winwell Resources, Inc., which have been filed with the Securities and Exchange Commission.

## Petrohawk Energy Corporation and Subsidiaries

## Unaudited Pro Forma Condensed Combined Statement of Operations

For the Three Months Ended March 31, 2006

(In thousands, except per share amounts)

	Petrohawk Historical	Winwell Historical	Acquisition Adjustments	Petrohawk Pro Forma
<b>Operating revenues:</b>				
Oil and gas sales	\$ 103,006	\$ 2,842	\$	\$ 105,848
<b>Operating expenses:</b>				
Production expenses	14,140	358		14,498
Taxes other than income	8,298	111		8,409
General and administrative:				
General and administrative expense	6,044	435		6,479
Stock-based compensation	644			644
Accretion expense	438			438
Depreciation, depletion and amortization	37,012	732	(37,744)(3)	37,627
			37,627 (3)	
Total operating expenses	66,576	1,636	(117)	68,095
<b>Income from operations</b>	<b>36,430</b>	<b>1,206</b>	<b>117</b>	<b>37,753</b>
<b>Other income (expenses):</b>				
Gain on derivative contracts	24,803			24,803
Interest expense and other	(9,072)	104	541 (4)	(9,311)
			(884)(4)	
Total other income (expenses)	15,731	104	(343)	15,492
Income (loss) before income taxes	52,161	1,310	(226)	53,245
Income tax (provision) benefit	(19,222)	(498)	19,720 (5)	(19,621)
			(19,621)(5)	
Net income (loss)	32,939	812	(127)	33,624
Preferred dividends	(108)			(108)
Net income (loss) available (applicable) to common shareholders	\$ 32,831	\$ 812	\$ (127)	\$ 33,516
<b>Earnings per share of common stock:</b>				
Basic	\$ 0.40			\$ 0.40
Diluted	\$ 0.39			\$ 0.39
<b>Weighted average shares outstanding:</b>				
Basic	81,961		1,300 (6)	83,261
Diluted	84,191		1,300 (6)	85,491

See Accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements



## Petrohawk Energy Corporation and Subsidiaries

## Unaudited Pro Forma Condensed Combined Statement of Operations

For the Year Ended December 31, 2005

(In thousands, except per share amounts)

	Petrohawk Historical	Mission Historical	Winwell Historical	Acquisition Adjustments	Petrohawk Pro Forma
<b>Operating revenues:</b>					
Oil and gas sales	\$ 258,039	\$ 90,856	\$ 54,585	\$ 10,366 (1)	\$ 413,846
<b>Operating expenses:</b>					
Production expenses	36,079	18,803	5,503		60,385
Taxes other than income	18,497	6,672	1,132		26,301
General and administrative:					
General and administrative expense	21,214	10,536	4,517	(2,010)(2)	34,257
Stock-based compensation	3,820		21,092		24,912
Accretion expense	1,157	842	45		2,044
Depreciation, depletion and amortization	73,382	23,226	12,585	(109,193)(3)	138,151
				138,151 (3)	
Total operating expenses	154,149	60,079	44,874	26,948	286,050
<b>Income (loss) from operations</b>	<b>103,890</b>	<b>30,777</b>	<b>9,711</b>	<b>(16,582)</b>	<b>127,796</b>
<b>Other income (expenses):</b>					
Loss on derivative contracts	(100,380)			(10,366)(1)	(128,229)
				(17,483)(1)	
Interest expense and other	(29,207)	(11,318)	795	10,182 (4)	(42,596)
				(9,510)(4)	
				(3,538)(4)	
Total other income (expenses)	(129,587)	(11,318)	795	(30,715)	(170,825)
(Loss) income before income taxes	(25,697)	19,459	10,506	(47,297)	(43,029)
Income tax benefit (provision)	9,063	(4,661)	(3,091)	(1,311)(5)	15,723
				15,723 (5)	
Net (loss) income	(16,634)	14,798	7,415	(32,885)	(27,306)
Preferred dividends	(440)				(440)
Net (loss) income (applicable) available to common shareholders	\$ (17,074)	\$ 14,798	\$ 7,415	\$ (32,885)	\$ (27,746)
<b>Loss per share of common stock:</b>					
Basic	\$ (0.31)				\$ (0.37)
Diluted	\$ (0.31)				\$ (0.37)
<b>Weighted average shares outstanding:</b>					
Basic	54,752			11,203 (7)	75,633
				9,678 (6)	
Diluted	54,752			11,203 (7)	75,633
				9,678 (6)	

See Accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements



**Notes to Unaudited Pro Forma Condensed Combined Financial Statements**

The unaudited Petrohawk Pro Forma financial data has been prepared to give effect to Petrohawk's acquisition of Winwell Resources, Inc. in January 2006 and Mission Resources Corporation in July 2005. Information under the heading Acquisition Adjustments gives effect to the adjustments related to the acquisitions of Winwell and Mission as if the transactions had occurred on January 1, 2005. The unaudited pro forma condensed combined financial statements are not necessarily indicative of the results of Petrohawk's future operations.

**Pro Forma Adjustments Related to the Acquisitions**

The unaudited pro forma condensed combined statements of operations include the following adjustments:

- (1) To reflect Petrohawk's recognition of mark-to-market losses associated with derivative liabilities assumed in the acquisition of Mission (\$10.4 million realized loss and \$17.5 million unrealized loss for the year ended December 31, 2005). These derivative positions are presented at fair value on the balance sheet with changes in fair value reflected in the combined statement of operations.
- (2) Consulting and legal fees of approximately \$2 million were reported by Mission in general and administrative expenses. These costs are directly attributable to the transaction and have been excluded from the pro forma financial statements as they represent material nonrecurring charges.
- (3) To adjust historical depletion expense associated with oil and gas properties based on the pro forma allocation of purchase price for each respective transaction using the unit of production method under the full cost method of accounting.
- (4) This adjustment increases interest expense for the effect of the additional debt assumed from the transactions and the additional amounts borrowed. The interest rate used in the calculation of interest expense is based on actual interest rates.
- (5) To record income tax expense on the combined company results of operations based on the Petrohawk effective tax rate of 36.54% for the year ended December 31, 2005 and 36.85% for the three months ended March 31, 2006.
- (6) To record the incremental share impact on Petrohawk's basic and diluted weighted average shares outstanding as a result of its acquisition of Winwell on January 27, 2006. This adjustment is recorded to reflect the issuance of 9.678 million shares of common stock as if the transaction had occurred at the beginning of each respective period.
- (7) To record the incremental share impact of 11.2 million on Petrohawk's basic and diluted weighted average shares outstanding as a result of its acquisition of Mission on July 27, 2005. This adjustment is recorded to reflect the issuance of 19.565 million shares of common stock as if the transaction had occurred on January 1, 2005.

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**PRICE RANGE OF COMMON STOCK AND DIVIDENDS**
**Petrohawk**

Petrohawk common stock is listed on the Nasdaq National Market and traded under the symbol HAWK. The following table sets forth, for the calendar quarters indicated, the high and low reported sales prices per share of Petrohawk common stock on the Nasdaq National Market, as adjusted for a one-for-two reverse stock split on May 26, 2004.

<b>Quarter Ended</b>	<b>Petrohawk Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>2004</b>		
March 31	\$ 7.84	\$ 3.70
June 30	9.57	5.50
September 30	8.80	6.40
December 31	9.89	7.85
<b>2005</b>		
March 31	\$ 10.98	\$ 7.45
June 30	11.94	7.57
September 30	14.91	10.45
December 31	15.17	11.02
<b>2006</b>		
March 31	\$ 16.25	\$ 11.75
June 30 (through May 16, 2006)	14.64	12.12

**KCS**

KCS common stock is listed on the NYSE and traded under the symbol KCS. The following table sets forth, for the calendar quarters indicated, the high and low reported sales prices per share of KCS common stock on the NYSE.

<b>Quarter Ended</b>	<b>KCS Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>2004</b>		
March 31	\$ 11.50	\$ 8.68
June 30	13.60	10.50
September 30	14.99	11.26
December 31	15.09	12.29
<b>2005</b>		
March 31	\$ 19.00	\$ 13.10
June 30	17.68	12.84
September 30	28.45	17.37
December 31	28.87	20.91
<b>2006</b>		
March 31	\$ 29.37	\$ 21.15
June 30 (through May 16, 2006)	29.60	28.75

**Petrohawk Future Dividend Policy**

The holders of Petrohawk common stock receive dividends if and when declared by the Petrohawk board of directors out of legally available funds. Petrohawk has never paid any cash dividends on its common stock. Petrohawk does not expect to declare or pay any cash or other dividends in the foreseeable future on its common stock. Holders of its 8% cumulative convertible preferred stock are entitled to receive cumulative dividends at the annual rate of \$0.74 per share when and as declared by Petrohawk's board of directors. No dividends may be paid on the common stock unless all cumulative dividends due on all of Petrohawk's 8% cumulative convertible preferred stock have been declared and paid. Petrohawk's existing revolving credit facility restricts its ability to pay cash dividends on its preferred stock and common stock (other than on its 8% cumulative convertible preferred stock), and Petrohawk may also enter into credit agreements or other borrowing arrangements in the future that restrict Petrohawk's ability to declare cash dividends on its preferred stock and common stock.

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## COMPARISON OF RIGHTS OF HOLDERS OF PETROHAWK AND KCS COMMON STOCK

After the effective time of the merger, to the extent KCS stockholders receive Petrohawk common stock in the merger, the rights of former stockholders of KCS will be determined by reference to Petrohawk's certificate of incorporation, as amended, and bylaws and the DGCL. The material differences between the rights of holders of KCS common stock and the rights of holders of Petrohawk common stock, resulting from the differences in their governing documents, are summarized below.

The following summary does not purport to be a complete statement of the rights of holders of Petrohawk common stock under Petrohawk's certificate of incorporation, as amended, and bylaws or the rights of the holders of KCS common stock, under KCS's restated certificate of incorporation and restated by-laws, each as amended, or a complete description of the specific provisions referred to below. This summary contains a list of the material differences but is not meant to be relied upon as an exhaustive list or a detailed description of the provisions discussed and is qualified in its entirety by reference to the governing corporate instruments of Petrohawk and KCS, to which the holders of KCS common stock are referred. Copies of the governing corporate instruments of Petrohawk and KCS are available, without charge, to any person, including any beneficial owner to whom this joint proxy statement/prospectus is delivered, by following the instructions listed under "Where You Can Find More Information" beginning on page 141 of this document.

### *Corporate Governance*

*Petrohawk.* The rights of Petrohawk stockholders are governed by the DGCL and Petrohawk's certificate of incorporation, as amended, and bylaws.

*KCS.* The rights of KCS stockholders are governed by the DGCL and KCS's restated certificate of incorporation and restated by-laws, each as amended.

### *Authorized Capital Stock*

*Petrohawk.* The authorized capital stock of Petrohawk currently consists of 125 million shares of Petrohawk common stock, par value \$0.001 per share, and five million shares of Petrohawk preferred stock, par value \$0.001 per share, 1.5 million shares of which have been designated 8% Cumulative Convertible Preferred Stock. Petrohawk is also proposing that its stockholders approve an amendment to its certificate of incorporation to increase Petrohawk's authorized common stock from 125 million shares to 300 million shares in connection with the merger.

*KCS.* The authorized capital stock of KCS consists of 80 million shares of capital stock, comprised of 75 million shares of common stock, par value \$0.01 per share, and five million shares of preferred stock, par value \$0.01 per share, 30,000 shares of which have been designated Series A Convertible Preferred Stock.

### *Number and Election of Board of Directors*

*Petrohawk.* Petrohawk's certificate of incorporation, as amended, and bylaws provide that the board of directors of Petrohawk shall consist of not less than one nor more than eleven members, as such number may be designated by the board of directors from time to time. Petrohawk's board of directors currently has nine members.

The board of directors of Petrohawk is divided into three classes: Class I, Class II, and Class III. According to Petrohawk's certificate of incorporation, no one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the authorized number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class III, and if such fraction is two-thirds, one of the extra directors shall be a member of Class II and one of the extra directors shall be a member of Class III, unless otherwise provided from time to time by resolution adopted by the board of directors.

Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected and until said director's successor is duly elected and qualified, or until his or her earlier death, resignation or removal.

Pursuant to the merger agreement, upon consummation of the merger, Petrohawk's board of directors will continue to consist of nine members, five of whom will be designated by Petrohawk and four of whom will be designated by KCS.

*KCS.* KCS's restated certificate of incorporation and restated by-laws, each as amended, provide that the board of directors of KCS shall have not be less than three nor more than twelve members, as such number may be designated by the board of directors from time to time. KCS's board of directors currently has seven members.

The board of directors of KCS is divided into three classes, as nearly equal in number as possible. Each director serves for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected and until said director's successor is duly elected and qualified.

#### ***Vacancies and Newly Created Directorships***

*Petrohawk.* Petrohawk's certificate of incorporation, as amended, and bylaws state that, unless and until filled by the stockholders, any vacancy in the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may be filled by a vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If there are no directors in office, the vacancies may be filled by the stockholders. A director elected to fill a vacancy shall be elected to hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his successor and to his earlier death, resignation or removal. The entire board of directors, or any individual director, may be removed from office as provided by Section 141 of the DGCL.

*KCS.* KCS's restated certificate of incorporation and restated by-laws, each as amended, state that newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the board of directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum of the board of directors. If any applicable provision of the DGCL expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be filled at such a meeting only by the affirmative vote of at least 75% of the combined voting powers of the then-outstanding shares of voting stock, voting together as a single class. Any director elected in accordance with the two preceding sentences shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. Any director, or the entire board of directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 75% of the combined voting power of all of the then-outstanding shares of voting stock, voting together as a single class.

#### ***Annual Meetings of Stockholders***

*Petrohawk.* Petrohawk's bylaws provide that the annual meeting of Petrohawk stockholders shall be held at such date, time and place as may be designated from time to time by resolution of the board of directors. The purpose of the annual meeting shall be to elect members of the board of directors and to transact such other business as may properly be brought before the meeting. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting. Such notice should also detail those matters that the board of directors intends to present for action by the stockholders.

*KCS.* KCS's restated by-laws, as amended, provide that the annual meeting of the stockholders for the election of directors and for the transaction of any other business as may properly come before the meeting is to

be held at such place as shall be designated by the board of directors on the second Tuesday of May of each year at 10:00 a.m., or on such other day or such time as shall be designated by the board of directors. Written notice of the annual meeting shall be given to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting.

***Special Meetings of Stockholders***

*Petrohawk.* Petrohawk's bylaws provide that special meetings of the stockholders, for any purpose or purposes, may be called by the board of directors, the chairman of the board, or by Petrohawk's chief executive officer and president. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called (and stating that no other business may be transacted) shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting.

*KCS.* KCS's restated certificate of incorporation, as amended, provides that special meetings of the stockholders may only be called by a majority vote of the board of directors. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting.

***Stockholder Action by Written Consent***

*Petrohawk.* Petrohawk's bylaws provide that any action required or permitted to be taken at any annual or special stockholder meeting may be taken without a meeting, without prior notice and without a vote, if consented to in writing by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take such action at a meeting at which all shares entitled to vote thereon were present and voted.

*KCS.* KCS's restated certificate of incorporation, as amended, requires that any action required or permitted to be taken by the stockholders must be effected at an annual or special meeting and may not be effected by written consent.

***Power to Amend the Certificate of Incorporation***

*Petrohawk.* Petrohawk's certificate of incorporation may be amended, altered changed or repealed by holders of a majority of the outstanding stock entitled to vote on the amendment in the manner and as provided by the DGCL.

*KCS.* KCS's restated certificate of incorporation, as amended, provides that it may be amended, altered, changed or repealed in the manner now or thereafter prescribed by statute. The DGCL currently provides for amendment by holders of a majority of the outstanding stock entitled to vote on the amendment. However, any revisions relating to the following matters require the affirmative vote of the holders of at least 75% of the combined voting power of all of the then-outstanding shares of voting stock: classification of the board of directors, filling of vacancies on the board of directors, removal of directors, stockholder action by written consent, calling of special meetings of the stockholders, indemnification, interested party transactions and the ability of the board of directors to make, alter or repeal the restated by-laws.

***Power to Amend the Bylaws***

*Petrohawk.* Petrohawk's bylaws provide that they may be altered, amended or repealed or new bylaws may be adopted by the stockholders or by the board of directors at any annual or special meeting of the stockholders or of the board of directors, if notice of such alteration, amendment, repeal or adoption of new bylaws is contained in the notice of such meeting.



*KCS*. *KCS*'s restated certificate of incorporation, as amended, expressly authorizes the board of directors to make, alter or repeal the restated by-laws of the corporation. *KCS*'s restated by-laws, as amended, provide that they may also be amended or repealed or new by-laws may be adopted by the stockholders or by the board of directors of *KCS* at any annual or special meeting of the stockholders or of the board of directors if notice of the amendment or repeal is contained in the notice of such meeting.

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## DESCRIPTION OF PETROHAWK CAPITAL STOCK

### General

The authorized capital stock of Petrohawk consists of 125 million shares of Petrohawk common stock, par value \$0.001 per share, and 5 million shares of Petrohawk preferred stock, par value \$0.001 per share, 1.5 million shares of which have been designated 8% cumulative convertible preferred stock. As of April 19, 2006, 83,589,192 shares of Petrohawk common stock were outstanding, and 593,271 shares of preferred stock were outstanding. As of April 19, 2006, approximately 2,903,154 shares of Petrohawk common stock were reserved for issuance upon exercise of outstanding warrants and 3,461,036 shares of Petrohawk common stock were available for delivery in the future in respect of awards that have been or are authorized to be made under Petrohawk's stock-based compensation plans.

The following summary of the terms of the capital stock of Petrohawk is not intended to be complete and is subject in all respects to the applicable provisions of the DGCL, and is qualified by reference to the certificate of incorporation and bylaws of Petrohawk. To obtain copies of these documents, see [Where You Can Find More Information](#) beginning on page 141 of this document.

### Common Stock

*Voting rights.* Each share of common stock is entitled to one vote in the election of directors and on all other matters submitted to a vote of stockholders. Stockholders do not have the right to cumulate their votes in the election of directors.

*Dividends, distributions and stock splits.* Holders of common stock are entitled to receive dividends if, as and when such dividends are declared by the board of directors out of assets legally available therefore after payment of dividends required to be paid on shares of preferred stock, if any. Petrohawk's credit facility restricts its ability to pay cash dividends.

*Liquidation.* In the event of any dissolution, liquidation, or winding up of Petrohawk's affairs, whether voluntary or involuntary, after payment of debts and other liabilities and making provision for any holders of its preferred stock who have a liquidation preference, Petrohawk's remaining assets will be distributed ratably among the holders of common stock.

*Fully paid.* All shares of common stock outstanding are fully paid and nonassessable.

*Other rights.* Holders of common stock have no redemption or conversion rights and no preemptive or other rights to subscribe for Petrohawk securities.

### Preferred Stock

Petrohawk's board of directors has the authority to issue up to five million shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rates, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of that series, which may be superior to those of the common stock, without further vote or action by the stockholders. One of the effects of undesignated preferred stock may be to enable Petrohawk's board of directors to render more difficult or to discourage an attempt to obtain control of Petrohawk by means of a tender offer, proxy contest, merger or otherwise, and as a result to protect the continuity of Petrohawk management. The issuance of shares of the preferred stock by the board of directors as described above may adversely affect the rights of the holders of common stock. For example, preferred stock issued by Petrohawk may rank superior to the common stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of common stock. Accordingly, the issuance of shares of preferred stock may discourage bids for Petrohawk common stock or may otherwise adversely affect the market price of its common stock.

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### 8% Cumulative Convertible Preferred Stock

As of April 19, 2006, 593,271 shares of 8% cumulative convertible preferred stock were outstanding. The 8% cumulative convertible preferred stock entitles holders of such shares to the right to receive quarterly dividends of 8% per annum. The following discussion summarizes some, but not all, of the provisions of the certificate of designation governing the 8% cumulative convertible preferred stock. You should read the certificate of designation, because it, and not this description, defines the rights of holders of the 8% cumulative convertible preferred stock. A copy of the certificate of designation governing the 8% cumulative convertible preferred stock is filed as Exhibit 3.2 to Petrohawk's Form S-8 filed with the SEC on July 29, 2004 and is incorporated by reference herein.

*Ranking.* The 8% cumulative convertible preferred stock ranks senior to the common stock and any other series of Petrohawk stock with respect to dividend rights and rights upon liquidation, dissolution or winding up.

*Dividend Rights.* Each holder of the 8% cumulative convertible preferred stock is entitled to receive cumulative dividends at an annual rate of 8% of the liquidation value per share of 8% cumulative convertible preferred stock, or \$0.74 per year. The dividends are cumulative from the original issue date of the 8% cumulative convertible preferred stock, whether or not in any period Petrohawk was legally permitted to pay such dividends or such dividends were declared. Dividends are payable quarterly, within 15 days of the end of the calendar quarters ending March 31, June 30, September 30 and December 31 of each year.

Petrohawk may not declare or pay any dividend or other distribution to holders of common stock or any other class or series of Petrohawk stock, unless all accrued and unpaid dividends on the 8% cumulative convertible preferred stock have been paid or declared and set apart for payment.

*Liquidation Rights.* Upon any liquidation, dissolution or winding up, no distribution will be made to any holders of common stock or any other series of stock, unless the holders of 8% cumulative convertible preferred stock have received an amount equal to \$9.25 per share, plus any accrued but unpaid dividends and cumulated dividends, an amount referred to as the liquidation preference. The following transactions will not be deemed to be a liquidation, dissolution or winding up for purposes of determining the rights of holders of the 8% cumulative convertible preferred stock (so long as the holders of 8% cumulative convertible preferred stock have essentially equivalent rights following any such transaction, as determined by Petrohawk's board of directors in the reasonable exercise of its discretion):

a consolidation or merger with or into any other corporation or corporations,

a sale of all or substantially all of its assets, or

a series of related transactions in which more than 50% of its voting power is disposed of.

Any other reorganization, consolidation, merger or sale will be deemed to be a liquidation and entitle the holders of the 8% cumulative convertible preferred stock to a liquidation preference.

*Conversion.* The 8% cumulative convertible preferred stock is convertible into common stock at the option of a holder at any time. In addition, the 8% cumulative convertible preferred stock automatically converts into common stock effective on the first trading day after the reported high selling price for the common stock is at least 150% of the initial liquidation price, or \$27.75 per share, for any 10 trading days. Initially, each share of 8% cumulative convertible preferred stock is convertible at a rate of one-half share of common stock for each share of 8% cumulative convertible preferred stock converted, although this conversion rate is subject to adjustment in certain circumstances, including stock splits or combinations of Petrohawk common stock.

The holder of any shares of 8% cumulative convertible preferred stock may exercise the conversion right by surrendering to Petrohawk or its transfer agent the certificate or certificates for the shares to be converted, though in the case of an optional conversion, the holder must first give Petrohawk notice that such holder elects to

convert. Petrohawk will deliver to such holder the certificate or certificates for the number of shares of its common stock to which the holder is entitled. In the case of an optional conversion, conversion will be deemed to have been effected immediately prior to the close of business on the day Petrohawk receives notice of conversion; otherwise, conversion will be deemed to have occurred at the close of business on the day the automatic conversion occurs.

No fractional shares of common stock will be issued upon conversion of shares of 8% cumulative convertible preferred stock. All shares, including fractional shares, of common stock issuable to a holder of 8% cumulative convertible preferred stock will be aggregated. If after such aggregation, the conversion would result in the issuance of a fractional share of common stock, the fraction will be rounded up or down to the nearest whole number of shares.

Upon any reorganization or reclassification of Petrohawk's capital stock or any consolidation or merger of Petrohawk with or into another company or any sale of all or substantially all of its assets to another company, and if such transaction is not treated as a liquidation, dissolution or winding up, Petrohawk or such successor entity, as the case may be, will make appropriate provision so that each share of 8% cumulative convertible preferred stock then outstanding will be convertible into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale, reclassification, change or conveyance by a holder of the number of shares of common stock into which such share of 8% cumulative convertible preferred stock might have been converted immediately before such transaction, subject to such adjustment which will be as nearly equivalent as may be practicable to the adjustments described above. These provisions will similarly apply to successive consolidations, mergers, conveyances or transfers.

*Redemption.* Petrohawk has the unilateral right to redeem all or any of the outstanding 8% cumulative convertible preferred stock from the date of issuance; however, it must pay a premium for any shares of 8% cumulative convertible preferred stock redeemed on or before June 2006. The holders of the 8% cumulative convertible preferred stock will be entitled to a liquidation preference equal to the stated value of the 8% cumulative convertible preferred stock plus any unpaid and accrued dividends through the date of any liquidation or dissolution. At April 19, 2006, the liquidation preference was approximately \$5.5 million.

Petrohawk may purchase shares of 8% cumulative convertible preferred stock from the holders of such shares on such terms as may be agreeable among the holders and Petrohawk, so long as Petrohawk is not in default of its obligations to holders of 8% cumulative convertible preferred stock, and any such purchase does not adversely affect other holders of outstanding 8% cumulative convertible preferred stock.

*Consent Rights and Voting Rights.* Petrohawk must receive the approval of the holders of a majority of the 8% cumulative convertible preferred stock to undertake any of the following:

modify its certificate of incorporation or bylaws so as to amend or change any of the rights, preferences or privileges of, or applicable to, the 8% cumulative convertible preferred stock;

authorize or issue any other preferred equity security senior to any of the rights or preferences applicable to the 8% cumulative convertible preferred stock; or

purchase or otherwise acquire for value any of its common stock or other equity security while there exists any arrearages in the payment of dividends to the holders of the 8% cumulative convertible preferred stock.

The holders of Petrohawk's 8% cumulative convertible preferred stock may vote with the holders of common stock on all matters presented to the stockholders for a vote. Each holder of Petrohawk 8% cumulative convertible preferred stock is entitled to a number of votes on any matter equal to the whole number of shares of common stock into which one share of Petrohawk 8% cumulative convertible preferred stock is convertible as of the record date for any vote by Petrohawk's stockholders.

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**PROPOSED AMENDMENT TO PETROHAWK S CERTIFICATE OF INCORPORATION**

Petrohawk presently is authorized to issue 125 million shares of common stock and 5 million shares of preferred stock. As of April 19, 2006, 83,589,192 shares of Petrohawk common stock were issued and outstanding. A total of 1,695,254 million shares of Petrohawk common stock were available for delivery in the future in respect of awards that have been or are authorized to be made under Petrohawk s stock-based compensation plans. As of April 19, 2006, 593,271 shares of 8% cumulative convertible preferred stock of Petrohawk were issued and approximately million shares of Petrohawk common stock will be issued in the merger upon the conversion of KCS common stock. Additional shares of Petrohawk common stock will be issued in the event that any additional shares of KCS common stock are issued in accordance with the merger agreement pursuant to the exercise of KCS stock options.

The Petrohawk board of directors has approved an amendment to Petrohawk s certificate of incorporation, attached as *Annex E*, to increase the number of authorized shares of Petrohawk common stock from 125 million to 300 million. Petrohawk does not have a sufficient number of authorized shares under Petrohawk s certificate of incorporation to complete the merger, and approval of the amendment to increase the number of authorized shares of common stock is a condition to the consummation of the merger.

The Petrohawk board of directors believes that an increase is advisable and in the best interests of Petrohawk and Petrohawk stockholders. Following the merger, Petrohawk will have approximately 125 million authorized and unissued shares of Petrohawk common stock. In addition, Petrohawk will have outstanding securities convertible or exercisable for a total of approximately 9.0 million shares of Petrohawk common stock, including approximately 2.6 million shares that will be issued upon exercise of KCS stock options converted in the merger. The Petrohawk board of directors believes that an increase in authorized shares of Petrohawk common stock to 300 million will give Petrohawk greater flexibility in the future by allowing Petrohawk the latitude to declare stock dividends or stock splits, to use its common stock to acquire other assets (for example, the merger), or to issue its common stock for other corporate purposes, including stock dividends, raising additional capital, issuance pursuant to employee and director stock plans and possible future acquisitions. Other than in connection with the merger and as required under the merger agreement, there are no current plans, understandings or arrangements for issuing a material number of additional shares of Petrohawk common stock from the additional shares proposed to be authorized pursuant to the amendment.

The issuance of shares of Petrohawk common stock, including the additional shares that would be authorized if the proposed amendment is adopted, may dilute the present equity ownership position of current holders of Petrohawk common stock and may be made without stockholder approval, unless otherwise required by applicable laws or stock exchange regulations. The amendment might also have the effect of discouraging an attempt by another person or entity through the acquisition of a substantial number of shares of Petrohawk common stock, to acquire control of Petrohawk with a view to consummating a merger, sale of all or any part of Petrohawk s assets, or a similar transaction, because the issuance of new shares could be used to dilute the stock ownership of such person or entity.

All shares of Petrohawk common stock, including those now authorized and those that would be authorized by the proposed amendment to Petrohawk s certificate of incorporation, are equal in rank and have the same voting, dividend and liquidation rights. Holders of Petrohawk common stock do not have preemptive rights.

**The Petrohawk board of directors unanimously recommends that Petrohawk stockholders vote FOR approval of the amendment to Petrohawk s certificate of incorporation.**

To effect the increase in authorized shares of Petrohawk common stock, it is proposed that the first sentence of Article Fourth of Petrohawk s Certificate of Incorporation be amended to read in its entirety as follows:

The aggregate number of shares of stock the Corporation is authorized to issue is 300,000,000 shares of a class designated as common stock par value \$0.001 per share, and 5,000,000 shares of a class designated as

Preferred Stock, par value \$0.001 per share, and the relative rights of the shares of each class are as follows:

The affirmative vote of the holders of a majority of the outstanding shares of Petrohawk common stock and preferred stock, voting together as a single class, is required to approve the amendment to Petrohawk's certificate of incorporation. Unless a contrary choice is specified, proxies solicited by the Petrohawk board of directors will be voted for the amendment.

### ELECTION OF PETROHAWK DIRECTORS

Petrohawk's Amended and Restated Bylaws specify that the authorized number of directors of Petrohawk shall not be less than one and not more than eleven. As of the date of this joint proxy statement/prospectus, Petrohawk's board of directors consists of nine directors, seven of whom have been determined to be independent directors as set forth in Nasdaq Marketplace Rule 4200(a)(15). As discussed more fully below, three of Petrohawk's current directors, Messrs. Irish, Stone and Williamson, have been nominated for reelection at Petrohawk's 2006 Annual Meeting because of the expiration of the term of their class, Class II, on Petrohawk's classified board of directors.

**The Petrohawk board of directors unanimously recommends that Petrohawk stockholders vote FOR all nominees.**

Mr. Irish, Mr. Stone and Mr. Williamson have been nominated as directors of Petrohawk. Mr. Christmas, Mr. Merriman, Mr. Raynolds and Mr. Viggiano, the four individuals designated by KCS to serve on the Petrohawk board, will not be nominated for election to the Petrohawk board at the annual meeting. When the merger is consummated, it is anticipated that Messrs. Miller, Rioux, Brown and Williamson will resign from the Petrohawk board, and pursuant to the terms of the merger agreement, and upon closing of the merger, the remaining members of Petrohawk's board will appoint Messrs. Christmas, Merriman, Raynolds and Viggiano to Petrohawk's board of directors, with Mr. Christmas occupying a Class II position which will expire in 2009 and the remaining designees occupying one Class I position whose term will expire in 2008 and two Class III positions whose terms will expire in 2007. One of the requirements relating to KCS's designation of individuals for appointment to Petrohawk's board of directors, however, is that such individuals, other than Mr. Christmas, would be considered independent directors under Nasdaq rules and SEC regulations once appointed to Petrohawk's board of directors.

Directors are elected by plurality vote of the shares present at the annual meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot. Any shares not voted (whether by withholding the vote, broker non-vote or otherwise) have no impact in the election of directors, except to the extent the failure to vote for an individual results in another candidate receiving a larger number of votes in person and represented by proxy at the annual meeting. If you sign your proxy card but do not give instructions with respect to the voting of directors, your shares will be voted for Messrs. Irish, Stone and Williamson.

Prior to the merger, the board of directors has established the number of directors at nine. If either nominee becomes unavailable for any reason, Petrohawk's board of directors may propose a substitute nominee and the shares represented by proxy will be voted for any substitute nominee, unless the board reduces the number of directors. The board has no reason to expect that any nominee will become unavailable.

The following table sets forth the names and ages of all directors and director nominees for election, the length of their continuous service as a director of Petrohawk, their membership in board committees, and the positions in Petrohawk held by them:

Directors	Since	Age	Position	Expiration of Term
Floyd C. Wilson	May 2004	59	Chairman of the Board, President, Chief Executive Officer, Director	2008
Tucker S. Bridwell(1)	May 2004	54	Director	2008
James L. Irish III(1)	May 2004	61	Director	2006
David B. Miller	May 2004	56	Director	2007
Thomas R. Fuller	March 2006	58	Director	2007
Daniel A. Rioux(2)(3)	July 2004	38	Director	2007
Robert C. Stone, Jr.(1)	September 2000	57	Director	2006
Herbert C. Williamson, III(2)(3)	July 2005	57	Director	2006
David A.B. Brown(2)(3)	July 2005	62	Director	2008

- (1) Member of the audit committee
- (2) Member of the compensation committee
- (3) Member of the nominating committee

Petrohawk's Board of Directors recommends a vote FOR the election to the Board of Directors of both of the following nominees who were recommended for reelection by Petrohawk's nominating committee:

**Floyd C. Wilson** was elected as the Chairman of the Board, President and Chief Executive Officer, and appointed Director, of Petrohawk on May 25, 2004 and was elected as a director on July 15, 2004. He is an owner, President and Chief Executive Officer of PHAWK, LLC which he founded in June 2003. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Wilson founded W/E Energy Company L.L.C., formerly known as 3TEC Energy Company L.L.C. in 1998 and served as its President until August 1999. Mr. Wilson began his career in the energy business in Houston, Texas in 1970 as a completion engineer. He moved to Wichita, Kansas in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of W/E Energy Company L.L.C. Mr. Wilson founded Hugoton Energy Corporation in 1987, and served as its Chairman, President and Chief Executive Officer. In 1994, Hugoton completed an initial public offering and was merged into Chesapeake Energy Corporation in 1998.

**James L. Irish III** was appointed as a director on May 25, 2004 and was elected as a director on July 15, 2004. Mr. Irish served as a director of 3TEC Energy Corporation from 2002 until June 2003. Mr. Irish is currently of counsel with Thompson & Knight LLP, a Texas based law firm. Mr. Irish has been an attorney with Thompson & Knight LLP serving in various capacities, including Managing Partner, since 1969.

**Robert C. Stone, Jr.** has served as a director since September 2000 and was reelected as a director on July 15, 2004. Currently, Mr. Stone serves as Senior Vice President/Manager of Energy Lending at Whitney National Bank in New Orleans, Louisiana and has been employed there since 2000. Prior to this position, Mr. Stone was Manager of Energy Technical Services, Energy/Maritime Division at Hibernia National Bank from 1998 to 2000 that included evaluation responsibilities for all syndicated and direct lending E&P segment clients. Mr. Stone has held senior management positions in energy banking for over 20 years, with emphasis on small-cap, public and private producers. His experience includes underwriting and managing senior debt, mezzanine and private equity to the independent sector. He began his banking career as an engineer with First National Bank of Commerce in New Orleans in 1983 after working in various engineering positions with Exxon Company, U.S.A. for seven years. He was also a Founding Governor of the City Energy Club of New Orleans and is involved with many civic organizations in New Orleans where he still resides. Mr. Stone holds both a B.S. and M.S. in Engineering from the University of Houston.

**Herbert C. Williamson, III** was appointed as a director on July 28, 2005. Mr. Williamson has over 30 years of experience in the oil and gas industry and investment banking business. Most recently, he served as director and chairman of the special committee of Pure Resources in connection with the tender offer made by Unocal. He was also both a director and chief financial officer of Merlon Petroleum Company, a private oil and gas company engaged in exploration and production in East Texas and Egypt. Mr. Williamson also served as vice chairman and executive vice president for Parker & Parsley Petroleum Company, now Pioneer Natural Resources Company. Mr. Williamson has had a distinguished career in the investment banking business. He was an investment banker with Petrie Parkman and prior to that he was director of the Energy Group at Credit Suisse First Boston. He has also held positions with Lehman Brothers and Jones, Loyd & Webster Inc. Mr. Williamson also currently serves on the board of directors of Toreador Resources Corp. and Westside Energy Corp.

**Tucker S. Bridwell** was appointed as a director on May 25, 2004 and was elected as a director on July 15, 2004. Mr. Bridwell has been the President of Mansefeldt Investment Corporation and the Dian Graves Owen



Foundation since September 1997 and manages investments for both entities. He has been in the energy business in various capacities for over 25 years. Mr. Bridwell served as chairman of First Permian, LLC from 2000 until its sale to Energen Corporation in April 2002. He is a certified public accountant and holds B.B.A and M.B.A degrees from Southern Methodist University.

**David B. Miller** was appointed as a director on May 25, 2004 and was elected as a director on July 15, 2004. He is Senior Managing Director and co-founder of EnCap Investments L.P., an investment management and merchant banking firm focused on the upstream and midstream sectors of the oil and gas industry that was founded in 1988. Prior to the formation of EnCap Investments L.P., Mr. Miller co-founded and served as President and Managing General Partner of PMC Reserve Acquisition Company, a partnership with Pitts Energy Group. Prior to the establishment of EnCap, Mr. Miller served as Co-Chief Executive Officer of MAZE Exploration Inc., a Denver, Colorado, based oil and gas company he co-founded in 1981. Before forming MAZE, Mr. Miller was a Vice President in the Energy Department of Republic National Bank of Dallas from 1974 to 1980. Mr. Miller served as a director of 3TEC Energy Corporation from 1999 until June 2003 and of Denbury Resources, Inc. from July, 2001 to February, 2004. Mr. Miller holds M.B.A. and B.B.A. degrees from Southern Methodist University, and he currently sits on the Executive Board of the Edwin L. Cox School of Business at SMU. Mr. Miller currently serves on the board of directors of Stroud Energy, Ltd, Cordillera Energy Partners II, LLC, and CornerStone Natural Resources.

**Daniel A. Rioux** was elected as a member of Petrohawk's board of directors on July 15, 2004. Mr. Rioux is the Vice President and Treasurer of Liberty Energy Holdings, LLC, which invests in oil and gas exploration and production, as well as related private equity transactions, on behalf of its insurance company parent. Prior to joining Liberty Energy Holdings, LLC, Mr. Rioux was Vice President of Liberty Energy Corporation, now a subsidiary of Liberty Energy Holdings, LLC, which invests in oil and gas exploration and production, as well as related private equity transactions, on behalf of its insurance company parent. Mr. Rioux holds a B.S. in Finance from Bryant College and an M.B.A from Babson College (F.W. Olin School of Business). Mr. Rioux is on the board of directors of LE GP, LLC, general partner of Energy Transfer Equity, L.P.

**Thomas R. Fuller** was appointed as a director on March 6, 2006. Mr. Fuller is a principal of Diverse Energy Management Co., a private upstream acquisition, drilling and production company which also invests in other energy-related companies. Mr. Fuller has over 30 years of experience in the energy and financing industries and is a Registered Professional Engineer in Texas. Mr. Fuller received degrees from the University of Wyoming and the Louisiana State University School of Banking of the South.

**David A.B. Brown** was appointed as a director on July 28, 2005. Mr. Brown has 30 years of experience in the energy industry including financial and strategic direction, mergers and acquisitions, and reorganization. Mr. Brown served as president of The Windsor Group, Inc., a consulting firm that focuses on energy related issues facing oilfield services and engineering companies, from 1984 to 2005. Prior to his position at The Windsor Group, Inc., Mr. Brown was with Touche Ross & Co., Braxton Associates and The Boston Consulting Group. Mr. Brown also currently serves on the board of directors for EMCOR Group, Inc., NS Group, Inc., Pride International Inc. and Layne Christensen Co.

Five of Petrohawk's current directors, Messrs. Wilson, Irish, Miller, Rioux and Bridwell, were originally nominated to serve in such capacity, at least in part, due to their affiliation with PHAWK, LLC, which acquired control of Petrohawk in May of 2004.

#### **Board of Directors; Independence and Corporate Governance**

On June 3, 2004, Petrohawk's board of directors adopted Petrohawk's Corporate Governance Guidelines, a copy of which is posted on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com). The Corporate Governance Guidelines set forth Petrohawk's policy with respect to qualifications of the members of the board of directors and its audit, compensation, and nominating committees, and director responsibilities. The Corporate Governance Guidelines

also set forth Petrohawk's categorical standards policy regarding director independence, to assist Petrohawk's board of directors in determining director independence under the applicable NASDAQ rules and federal laws. As required under the NASDAQ Marketplace Rules and Petrohawk's Corporate Governance Guidelines, all of the members of Petrohawk's audit committee must be and are currently independent directors, subject to heightened independence requirements pursuant to the applicable NASDAQ rules and federal law. Petrohawk's board of directors has determined that each of Messrs. Bridwell, Irish, Rioux, Fuller, Brown, Williamson and Stone is an independent director satisfying all the requirements for independence set forth in the NASDAQ Marketplace Rules and consistent with Petrohawk's Corporate Governance Guidelines. Pursuant to NASDAQ Marketplace Rule requirements, Petrohawk's nominating and compensation committees are currently comprised of independent directors. Messrs. Bridwell, Irish and Stone are the members of Petrohawk's board's audit committee and also satisfy independence requirements as set forth in applicable federal law.

### **Board Meetings and Committees**

During 2005, nine meetings of Petrohawk's board of directors were held. All directors who served on Petrohawk's board during 2005 attended at least 75% of the total meetings of the board and each committee on which they serve. Petrohawk's directors also took action by unanimous written consent on seven occasions. Petrohawk's Corporate Governance Guidelines require Petrohawk's independent directors to hold periodic executive sessions (in accordance with applicable NASDAQ rules).

### **Audit Committee**

Petrohawk's board of directors has established an audit committee whose purpose is to oversee its financial reporting and controls and to recommend to the board each year the appointment of an independent auditor. This committee met on four occasions during 2005. The members of Petrohawk's board of directors on the audit committee are: Messrs. Tucker S. Bridwell, Robert C. Stone and James L. Irish III. Mr. Irish is the current chairman of the audit committee. Petrohawk's board of directors adopted an amended charter for the audit committee on May 8, 2006. A copy of the audit committee charter is attached as *Annex H* and is posted on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com). In accordance with the audit committee's charter, the primary functions of the audit committee are to monitor internal accounting controls and financial reporting practices, review financial statements and related information, select and retain Petrohawk's independent auditors, review and evaluate the performance, services, and fees of the independent auditors, pre-approve all audit and permitted non-audit services to be provided by the independent auditors, monitor the independence of the independent auditors, and produce a report for inclusion in Petrohawk's proxy statement. Petrohawk's independent auditors report directly to the audit committee. Additionally, the audit committee discusses with management Petrohawk's earnings releases, including the use of pro-forma financial information, and the information and earnings guidance provided to analysts and rating agencies. The audit committee also reviews and discusses quarterly reports from independent auditors regarding critical accounting policies and practices, alternative treatments of financial information within generally accepted accounting principles, and other material written communication between the independent auditors and management.

Petrohawk's board of directors has determined that each of the current members of the audit committee is independent for purposes of serving on the audit committee under the applicable NASDAQ rules and federal law, and otherwise meets the requirements of the audit committee charter, the applicable NASDAQ rules, and the Corporate Governance Guidelines applicable to audit committee members. Petrohawk's board of directors has also determined that each current member of the audit committee is financially literate under the applicable NASDAQ rules and that Mr. Stone qualifies as an audit committee financial expert under such NASDAQ rules and Item 401(a) of Regulation S-K.

### **Compensation Committee**

Petrohawk's board of directors established a compensation committee of the board of directors. The compensation committee is responsible for formulating and recommending to the full board of directors the

compensation paid to Petrohawk's executive officers, and to produce an annual report for inclusion in Petrohawk's proxy statement. The compensation committee also administers Petrohawk's stock option plans, including the Amended and Restated 1999 Incentive and Nonstatutory Stock Option Plan, the 2004 Non-Employee Director Incentive Plan, the 2004 Employee Incentive Plan, the Mission Resources Corporation 2004 Incentive Plan, the Mission Resources Corporation 1996 Stock Incentive Plan and the Mission Resources Corporation 1994 Stock Incentive Plan. The current members of the compensation committee are Messrs. David A.B. Brown, Daniel A. Rioux and Herbert C. Williamson, III with Mr. Brown serving as the current chair of the compensation committee. Petrohawk's board of directors has determined that each of the current members of the compensation committee is a non-employee director in accordance with Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and an outside director in accordance with Section 162(m) of the Internal Revenue Code, as required in the compensation committee charter. Petrohawk's board of directors has also determined that all members of the compensation committee are independent pursuant to the applicable NASDAQ rules and federal law. This committee met three times and took action by unanimous written consent one time during 2005. Petrohawk's board of directors adopted a new written charter for the compensation committee on May 25, 2004. A copy of the compensation committee charter is posted on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com).

#### **Nominating Committee**

Petrohawk's board of directors established a nominating committee of the board of directors in October of 2002. Current members of the nominating committee are Messrs. David A.B. Brown, Daniel A. Rioux and Herbert C. Williamson, with Mr. Rioux serving as chairman. A copy of the nominating committee charter is posted on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com). The committee took action by unanimous consent one time during 2005. The primary functions of the nominating committee are to recommend candidates to the board of directors as nominees for election at the annual meeting of stockholders or to fill vacancies as they may occur, and to perform an annual performance evaluation of the board of directors. This committee will also review candidates suggested for nomination by the stockholders. With respect to procedures for stockholders to suggest candidates for consideration by the committee for the 2007 annual meeting of stockholders, see Board of Directors; Corporate Governance Matters Nomination Process and Submission of Stockholder Proposals for the 2006 Annual Meeting of Stockholders. Petrohawk's board of directors has also determined that Messrs. Brown, Williamson and Rioux are independent pursuant to applicable NASDAQ rules.

#### **Board of Directors; Corporate Governance Matters**

##### ***Code of Ethics and Code of Conduct***

Petrohawk's board of directors has adopted a code of ethics for its chief executive officer and senior financial officers and a code of conduct for all directors, officers, and employees of Petrohawk. Petrohawk's code of ethics was filed with the Securities and Exchange Commission (SEC) as an exhibit to Petrohawk's annual report on Form 10-K/A on April 20, 2004, and is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com). Petrohawk's code of conduct was adopted by its board of directors on June 7, 2004, and is available on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com). Petrohawk is required to promptly disclose any amendments to, or waivers under, the codes with respect to executive officers and directors, in accordance with applicable federal law. Petrohawk will also provide any person, without charge, a copy of the code of ethics and the code of conduct. Requests for a copy of the code of ethics or the code of conduct may be made by writing to Petrohawk at Petrohawk Energy Corporation, 1100 Louisiana, Suite 4400, Houston, Texas 77002, Attention: Chief Ethics Officer.

##### ***Nomination Process***

Petrohawk's nominating committee has been established to review possible candidates for nomination to the board of directors and to recommend candidates for nomination to the board for approval. The committee and the board have adopted the Corporate Governance Guidelines that describe specific traits, abilities, and experience

for which the committee and the board look in determining candidates for election to the board. Among the standards and qualifications the committee and the board seek are individuals of high ethical character who share in the values of Petrohawk. They also seek individuals with a variety of experience, including chief executive officers, entrepreneurs, independent business owners, licensed attorneys, and certified public accountants. Additionally, the board is expected to have some members with specialized skills in the oil and gas exploration and development industry, including individuals with strong technical backgrounds. Absent special circumstances, Petrohawk is generally of the view that the continuing service of qualified incumbents promotes stability and continuity in the board room, giving Petrohawk the benefit of the familiarity and insight into Petrohawk's affairs that the directors have accumulated during their tenure, while contributing to the board's ability to work as a collective body. Accordingly, it is the general policy of the committee, absent special circumstances, to nominate qualified incumbent directors who continue to satisfy the committee's membership on the board, whom the committee believes will continue to make important contributions to the board and who consent to stand for reelection, and if reelected, continue their service on the board. The nominating committee is responsible for assessing the appropriate mix of skills and characteristics required of directors in the context of perceived needs of the board at any given point in time and will review and update the criteria as deemed necessary. A copy of the Corporate Governance Guidelines can be found on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com).

Petrohawk's nominating committee considers suggestions from many sources, including management, directors, stockholders, and stockholders with contractual rights to nominate and appoint directors, regarding possible candidates for nomination to the board of directors. Any such suggestion by a stockholder for consideration by the committee for nomination as a candidate to be elected at an upcoming annual meeting of stockholders should be submitted to the nominating committee in writing, c/o David S. Elkouri, Secretary, at 1100 Louisiana, Suite 4400, Houston, Texas, 77002. The information should include the name and address of the stockholder suggesting the individual as they appear on Petrohawk's books, the number and class of shares owned beneficially and of record by the stockholder, the suggested individual's name and address, a description of all arrangements or understandings (if any) between the stockholder and the individual being suggested for the committee's consideration, the information about the individual being suggested that would be required to be included in a proxy statement filed with the SEC, and an indication of the individual's willingness to be named as a nominee and to serve as a director of Petrohawk if nominated by the committee and the board. The recommendation must be accompanied by the candidate's written consent to being named in Petrohawk's proxy statement as a nominee for election to the board of directors and to serving as a director, if elected. The recommendation and the director candidate's written consent must be provided to Petrohawk for an annual meeting of stockholders in accordance with the provisions of *Submission of Stockholder Proposals for the 2007 Annual Meeting of Stockholders* below. Petrohawk may also require any proposed nominee to furnish such other information as Petrohawk or the committee may reasonably require to determine the eligibility of the nominee to serve as a director. For the deadline for stockholder suggestions of individuals to be considered by the committee for nomination as a candidate to be elected at the 2007 annual meeting of stockholders, see *Submission of Stockholder Proposals for the 2007 Annual Meeting of Stockholders*. Possible candidates who have been suggested by stockholders are evaluated by the nominating committee in the same manner as are other possible candidates. Petrohawk's nominating committee has not yet retained a third-party search firm to identify candidates at this time, but may do so in the future in its discretion.

The nominating committee did not receive any stockholder recommendations for nomination to Petrohawk's board of directors in connection with this year's annual meeting. The nominating committee has recommended Messrs. Irish, Stone and Williamson, who are current Class II directors, for reelection as the term of their class, Class II, is expiring on Petrohawk's classified board of directors.

#### ***Communications with the Board***

Petrohawk stockholders may communicate concerns to any specific director, board committee, or to the full board of directors by sending letters addressed to the directors at Petrohawk Energy Corporation, 1100 Louisiana,

Suite 4400, Houston, Texas 77002, Attention: Chief Ethics Officer. Petrohawk's Chief Ethics Officer will then forward the communication to the intended director or directors. If the stockholder wishes the communication to be confidential, then the communication should be provided in a form that will maintain confidentiality.

### *Executive Sessions*

Petrohawk's Corporate Governance Guidelines provide that the independent directors will hold executive sessions at least twice annually with only independent directors present. The chairman of the audit committee is expected to preside over executive sessions. During 2005, Petrohawk's independent directors held two executive sessions. The Corporate Governance Guidelines also provide that non-employee directors may meet periodically in executive session without management present.

### *Board Attendance of Stockholder Meetings*

Historically, Petrohawk has held board meetings at the time of its annual meetings of stockholders and has informally encouraged its directors to attend the annual meeting of stockholders. Petrohawk had no formal policy in this regard until the adoption of Petrohawk's Corporate Governance Guidelines on June 3, 2004. Petrohawk's Corporate Governance Guidelines provide that Petrohawk's directors are encouraged to attend annual meetings of Petrohawk's stockholders.

### **Management**

The following table sets forth the names and ages of Petrohawk's executive officers, the length of their service as officers and the positions in Petrohawk held by them.

<b>Executive Officers</b>	<b>Since</b>	<b>Age</b>	<b>Position</b>
Floyd C. Wilson	May 2004	59	Chairman of the Board, President and Chief Executive Officer
Stephen W. Herod	May 2004	47	Executive Vice President Corporate Development
Shane M. Bayless	May 2004	39	Executive Vice President Chief Financial Officer and Treasurer
Richard K. Stoneburner	May 2004	52	Executive Vice President Exploration
Larry L. Helm	July 2004	58	Executive Vice President Chief Administrative Officer
Richard H. Smith	November 2004	48	Vice President Land
Mark J. Mize	July 2005	34	Vice President, Chief Accounting Officer and Controller
Timothy R. Weddle	August 2005	59	Vice President Operations

Our executive officers are appointed to serve until the meeting of the board of directors following the next annual meeting of stockholders and until their successors have been elected and qualified. The following information is provided about Petrohawk's current executive officers:

**Floyd C. Wilson** was appointed as the Chairman of the Board, President, Chief Executive Officer and Director on May 25, 2004. He is an owner, President and Chief Executive Officer of PHAWK, LLC (formerly Petrohawk Energy, LLC) which he founded in June 2003. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Wilson founded W/E Energy Company L.L.C., formerly known as 3TEC Energy Company L.L.C. in 1998 and served as its President until August 1999. Mr. Wilson began his career in the

energy business in Houston in 1970 as a completion engineer. He moved to Wichita in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of W/ E. Mr. Wilson founded Hugoton Energy Corporation in 1987, and served as its Chairman, President and Chief Executive Officer. In 1994, Hugoton completed an initial public offering and was merged into Chesapeake Energy Corporation in 1998.

**Stephen W. Herod** was appointed as Vice President Corporate Development on May 25, 2004. Effective August 1, 2005, Mr. Herod was appointed Executive Vice President Corporate Development. He was employed by PHAWK from its formation in June 2003 until May 2004. He served as Executive Vice President Corporate Development for 3TEC Energy Corporation from December 1999 until its merger with Plains Exploration & Production Company in June 2003 and as Assistant Secretary from May 2001 until June 2003. Mr. Herod served as a director of 3TEC from July 1997 until January 2002. Mr. Herod served as the Treasurer of 3TEC from 1999 until 2001. From July 1997 to December 1999, Mr. Herod was Vice President Corporate Development of 3TEC. Mr. Herod served as President and a director of Shore Oil Company from April 1992 until the merger of Shore with 3TEC's predecessor in June 1997. He joined Shore's predecessor as Controller in February 1991. Mr. Herod was employed by Conquest Exploration Company from 1984 until 1991 in various financial management positions, including Operations Accounting Manager. From 1981 to 1984, Superior Oil Company employed Mr. Herod as a financial analyst.

**Shane M. Bayless** was appointed as Vice President Chief Financial Officer and Treasurer on May 25, 2004. Effective August 1, 2005, Mr. Bayless was appointed Executive Vice President Chief Financial Officer and Treasurer. He was employed by PHAWK from its formation in June 2003 until May 2004. He was Vice President and Controller of 3TEC from July 2000 until 3TEC's merger with Plains Exploration & Production Company in June 2003. Mr. Bayless served as the Treasurer of 3TEC from March 2001 until June 2003. Prior to joining 3TEC, Mr. Bayless was employed by Encore Acquisition Company as Vice President and Controller from 1998 to 2000. Mr. Bayless worked as the Controller from 1996 to 1998 and as the Accounting Manager from 1993 to 1996 at Hugoton. From 1990 to 1993, Mr. Bayless was an Audit Senior with Ernst & Young LLP. He is a Certified Public Accountant.

**Richard K. Stoneburner** was appointed as Vice President Exploration on May 25, 2004. Effective August 1, 2005, Mr. Stoneburner was appointed Executive Vice President Exploration. He was employed by PHAWK from its formation in June 2003 until May 2004. He joined 3TEC in August 1999 and was its Vice President Exploration from December 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Stoneburner was employed by W/ E Energy Company as District Geologist from 1998 to 1999. Prior to joining 3TEC, Mr. Stoneburner worked as a geologist for Texas Oil & Gas, The Reach Group, Weber Energy Corporation, Hugoton and, independently through his own company, Stoneburner Exploration, Inc. Mr. Stoneburner has over 25 years of experience in the energy business.

**Larry L. Helm** was appointed Vice President Chief Administrative Officer on July 15, 2004. Effective August 1, 2005, Mr. Helm was appointed Executive Vice President Chief Administrative Officer. Prior to serving as an executive officer, Mr. Helm served on Petrohawk's Board of Directors for approximately two months. Mr. Helm was employed with Bank One Corporation from December 1989 through December 2003. Most recently Mr. Helm served as Executive Vice President of Middle Market Banking from October 2001 to December 2003. From April 1998 to August 1999, he served as Executive Vice President of the Energy and Utilities Banking Group. Prior to joining Bank One, he worked for 16 years in the banking industry primarily serving the oil and gas sector. He served as director of 3TEC Energy Corporation from 2000 to June 2003.

**Richard H. Smith** joined Petrohawk on May 25, 2004 concurrent with the investment by PHAWK and became Vice President Land in November 2004. Mr. Smith joined PHAWK as Land Manager in March 2004. Mr. Smith was Land Manager Gulf Region USA with the Unocal Corporation from April 2001 until the commencement of his employment at PHAWK. From September 1997 until April 2001, Mr. Smith served as Land Manager Gulf Coast Division for Basin Exploration, Inc. Prior to his employment at Basin, Mr. Smith held land management positions in varying capacities on a continual basis since January 1981. During this period

he was employed by Sonat Exploration Company, Michel T. Halbouty Energy Co., Pend Oreille Oil & Gas Company and Norcen Explorer, Inc. Mr. Smith graduated from The University of Texas at Austin in December 1980 with a BBA in Petroleum Land Management. He is a Certified Professional Landman.

**Mark J. Mize** joined Petrohawk on November 29, 2004 as Controller. In July 2005, Mr. Mize was appointed Vice President, Chief Accounting Officer and Controller. Prior to joining Petrohawk he was the Manager of Financial Reporting of Cabot Oil & Gas Corporation from January 2003 to November 2004. Prior to his employment at Cabot Oil & Gas Corporation, he was an Audit Manager with PricewaterhouseCoopers LLP from 1996 to 2002. He is a Certified Public Accountant.

**Timothy R. Weddle** joined Petrohawk on May 25, 2004 and was appointed Vice President of Operations in August 2005. Prior to joining Petrohawk, Mr. Weddle managed Louisiana and Gulf Coast production for 3TEC Energy Corporation until the company merged with Plains Exploration and Production Company in June 2003. Prior to joining 3TEC, Mr. Weddle was VP Operations for Southern Mineral Corporation from 1998 until 1999, President of Petroleum Resource Management Company from 1993 until 1998 and Executive Vice President of Rio Bravo Oil Company from 1979 until 1993. Mr. Weddle began his energy career with Exxon in New Orleans in 1972 as a drilling engineer. He is a Registered Professional Engineer in Texas.

## Compensation

### *Compensation of Directors*

Employee directors receive no additional compensation for service on Petrohawk's board of directors or any committee thereof. Until May 27, 2004, Petrohawk's policy was that all of its directors received actual expense reimbursements, and each of its outside directors received \$1,500 in fees per board and committee meeting, including meetings held by teleconference.

On May 27, 2004, Petrohawk's board of directors adopted a new policy for the compensation of its directors. Under the new policy, all of Petrohawk's directors continue to receive actual expense reimbursements. In addition, Petrohawk's non-employee directors each receive \$20,000 in cash per year (payable on a quarterly basis in the amount of \$5,000), with the option to receive each quarterly amount in shares of Petrohawk's common stock instead of in cash, at the trading value of the shares of Petrohawk's common stock on the date of the last day of each calendar quarter. The chairman of Petrohawk's audit committee receives an additional \$5,000 per year (payable on a quarterly basis in the amount of \$1,250), with the option to receive each quarterly amount in shares of Petrohawk's common stock instead of in cash, at the trading value of the shares of Petrohawk's common stock on the date of the last day of each calendar quarter. Each member of Petrohawk's audit committee (other than the chairman) receives an additional \$2,500 per year (payable on a quarterly basis in the amount of \$625), with the option to receive each quarterly amount in shares of Petrohawk's common stock instead of in cash, at the trading value of the shares of Petrohawk's common stock on the date of the last day of each calendar quarter. In 2005, the aggregate of the directors' fees paid to all outside directors was \$147,065.

In addition, under Petrohawk's policy and pursuant to the terms of the 2004 Non-Employee Director Plan, each non-employee director received a grant of 7,500 restricted shares of Petrohawk's common stock either within sixty days of the date such director began his service on Petrohawk's board of directors in 2004 or, if a current non-employee director was not a director in 2004, at the time such non-employee director became a director. Each grant of 7,500 restricted shares vested fully after the non-employee director completed six months of service on Petrohawk's board. In addition, grants of 5,000 restricted shares of Petrohawk's common stock, each with the same vesting schedule, will be made annually to each non-employee member of the board on the anniversary of his or her appointment or election to the board. The number of shares granted to each new non-employee director and upon each non-employee director's anniversary date may be adjusted from time to time, as determined by our board of directors.

Petrohawk maintains director and officer liability insurance.

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Summary Executive Compensation Table

The following Summary Compensation Table sets forth annual and long-term compensation paid during the periods indicated to the persons described below:

Name and Principal Position	Year	Salary(7)	Bonus	Restricted Stock Award(s)	Securities Underlying Options	All Other Compensation	Matching Contributions to Simple IRA Retirement Plan
Floyd C. Wilson(1) Chairman of the Board, President, Chief Executive Officer and Director	2005	\$350,000	\$500,000(2)		175,000(5)	\$1,867	\$18,000
	2004	\$150,481	\$250,000(3)			\$3,335	\$16,000
	2003				50,000(6)		
Stephen W. Herod(1) Executive Vice President Corporate Development	2005	\$175,000	\$175,000(2)	\$110,000(4)	100,000(5)	\$	\$14,000
	2004	\$ 90,288	\$150,000(3)		75,000(6)	\$1,210	\$13,000
	2003						
Shane M. Bayless(1) Executive Vice President Chief Financial Officer and Treasurer	2005	\$200,000	\$200,000(2)	\$110,000(4)	100,000(5)	\$4,575	\$14,000
	2004	\$ 90,288	\$150,000(3)		75,000(6)	\$5,084	\$13,000
	2003						
Larry L. Helm(1) Executive Vice President Chief Administrative Officer	2005	\$225,000	\$225,000(2)	\$110,000(4)	125,000(5)	\$	\$18,000
	2004	\$ 76,731	\$150,000(3)		75,000(6)	\$	\$ 7,673
	2003						
Richard K. Stoneburner(1) Executive Vice President Exploration	2005	\$175,000	\$175,000(2)	\$110,000(4)	100,000(5)	\$5,624	\$18,000
	2004	\$ 90,288	\$150,000(3)		75,000(6)	\$6,249	\$ 5,000
	2003						

- (1) Messrs. Wilson, Herod, Bayless and Stoneburner joined Petrohawk on May 25, 2004. Mr. Helm joined Petrohawk on June 28, 2004.
- (2) Bonuses earned in 2005 were paid in January 2006.
- (3) Bonuses earned in 2004 were paid in January 2005.
- (4) Each named executive officer who received a grant of restricted stock in 2005 received 10,000 shares, with one-third of the shares vesting annually beginning August 1, 2006. It is not anticipated that dividends will be paid on the restricted stock granted to the named executive officers.
- (5) Shares of common stock underlying stock options were granted on January 26, 2005 at an exercise price of \$8.51 per share and expire on January 24, 2015.
- (6) Shares of common stock underlying stock options were granted on July 12, 2004 at an exercise price of \$7.50 per share and expire on July 11, 2014.
- (7) The annual salary amounts to be paid in 2006 are as follows: Mr. Wilson \$500,000, Mr. Herod \$225,000, Mr. Bayless \$275,000, Mr. Helm \$300,000 and Mr. Stoneburner \$225,000.

**Option Grants in 2005**

Petrohawk uses stock options as part of the overall compensation of its directors, officers and employees. In the following table, Petrohawk shows certain information with respect to stock options granted in 2005 to the named executive officers.

Name	Number of Securities Underlying Options	Percent of Total Options Granted to Employees in	Exercise or Base Price (\$/Sh)(2)	Expiration Date	Grant Date Present Value \$(3)
------	-----------------------------------------	--------------------------------------------------	-----------------------------------	-----------------	--------------------------------



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2005(1)

Floyd C. Wilson	175,000	12%	\$ 8.51	01/25/2015	\$ 341,250
Stephen W. Herod	100,000	7%	\$ 8.51	01/25/2015	\$ 195,000
Shane M. Bayless	100,000	7%	\$ 8.51	01/25/2015	\$ 195,000
Larry L. Helm	125,000	9%	\$ 8.51	01/25/2015	\$ 243,700
Richard K. Stoneburner	100,000	7%	\$ 8.51	01/25/2015	\$ 195,000

- (1) Based on a total of 1,404,300 shares underlying options granted pursuant to Petrohawk's 2004 Employee Incentive Plan to certain employees during the fiscal year 2005.
- (2) The exercise price is the closing sale price of Petrohawk's common stock on the date of grant.

- (3) In accordance with the rules of the SEC, this column illustrates one measure of value for the respective options over a ten-year period using the Black-Scholes option-pricing model. This valuation model is hypothetical; the actual amount that will be received by a holder of an option will depend on the excess of the market price of the shares over the exercise price on the date the option is exercised. If the market price does not increase above the exercise price, compensation to the grantee will be zero. The Black-Scholes option-pricing model is a mathematical formula used for estimating option values that incorporates various assumptions. The Grant Date Present Value set out in the column above is based on the following assumptions: (a) a ten-year option term; (b) 27.16% expected future annual stock volatility for the options; (c) a risk-free rate of return of 3.43% for the options granted; and (d) no expected dividend yield. The above model does not include any reduction in value for non-transferability, forfeiture or vesting of options.

*Aggregated Option Exercises in 2005 and Year-End Values*

The following table shows certain information with respect to stock options exercised in 2005 by the named executive officers and the value of their unexercised stock options at December 31, 2005. The numbers of shares of stock issuable upon exercise of options and the per share option exercise prices could used or assumed in the following table or the footnotes thereto would reflect an adjustment for the one-for-two reverse stock split effective May 26, 2004.

Name	Shares		Number of Securities	Value of Unexercised
	Acquired on	Value	Underlying Unexercised Options at Fiscal Year End	In-The-Money Options at the Fiscal Year End (\$)
	Exercise	Realized	Exercisable/Unexercisable	Exercisable/Unexercisable
Floyd C. Wilson	0	0	325,000 (158,333 exercisable at 12/31/05) (166,667 unexercisable at 12/31/05)	\$1,682,250 (\$846,748 for exercisable at 12/31/05) (\$835,502 for unexercisable at 12/31/05)
Shane M. Bayless	0	0	175,000 (83,333 exercisable at 12/31/05) (91,667 unexercisable at 12/31/05)	\$900,000 (\$442,998 for exercisable at 12/31/05) (\$457,002 for unexercisable at 12/31/05)
Stephen W. Herod	0	0	175,000 (83,333 exercisable at 12/31/05) (91,667 unexercisable at 12/31/05)	\$900,000 (\$442,998 for exercisable at 12/31/05) (\$457,002 for unexercisable at 12/31/05)
Larry L. Helm	0	0	200,000 (91,666 exercisable at 12/31/05) (108,334 unexercisable at 12/31/05)	\$1,017,750 (\$482,246 for exercisable at 12/31/05) (\$535,504 for unexercisable at 12/31/05)
Richard K. Stoneburner	0	0	175,000 (83,333 exercisable at 12/31/05) (91,667 unexercisable at 12/31/05)	\$900,000 (\$442,998 for exercisable at 12/31/05) (\$457,002 for unexercisable at 12/31/05)

*Equity Compensation Plan Information*

The following table sets forth certain information as of December 31, 2005 with respect to compensation plans (including individual compensation arrangements) under which equity securities of Petrohawk are authorized for issuance. The numbers of shares of stock issuable upon exercise of options and the per share option exercise prices, and the number of securities remaining available for future issuance under equity compensation plans used in the following table reflect an adjustment for the one-for-two reverse stock split effective May 26, 2004.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in</b>
			<b>Column(a))(c)</b>
Equity compensation plans approved by security holders(1)	4,288,191	\$ 5.21	2,698,195
Equity compensation plans not approved by security holders(2)	129,230	\$ 8.15	
<b>Total</b>	<b>4,417,331</b>	<b>\$ 5.30</b>	<b>2,698,195</b>

- (1) Represents information relating to Petrohawk's Second Amended and Restated 2004 Employee Incentive Plan, its Second Amended and Restated 2004 Non-Employee Director Incentive Plan, its Amended and Restated 1999 Incentive and Nonstatutory Stock Option Plan, the Mission Resources Corporation 1994 Stock Incentive Plan, the Mission Resources Corporation 1996 Stock Incentive Plan, and the Mission Resources Corporation 2004 Stock Incentive Plan.
- (2) Represents shares of common stock issuable pursuant to the Nonstatutory Stock Option Grant Agreement dated as of November 1, 2004, between Mission Resources Corporation and Thomas C. Langford, which shares are fully vested.

*Employment Agreements with Executive Officers*

Petrohawk anticipates that prior to the effective time of the merger it will enter into agreements with certain of its executive officers containing change of control provisions. Petrohawk expects the change of control provisions will be similar to change of control provisions contained in agreements entered into by other companies in its industry. Petrohawk also anticipates the change of control provisions in the agreements that it expects to enter into will not be triggered by KCS's merger with Petrohawk.

*Compensation Committee Interlocks and Insider Participation*

As of December 31, 2005, Messrs. Brown, Rioux and Williamson served on the compensation committee of Petrohawk's board of directors. Prior to December 31, 2005, Messrs. Miller, Bridwell and Rioux served on the Petrohawk compensation committee. No member of the compensation committee served as an officer or employee of Petrohawk or any of its subsidiaries during 2005. In addition, during 2005, no executive officer of Petrohawk served as a director or as a member of the compensation committee of a company which employs a director of Petrohawk. Please note that Messrs. Miller, Bridwell and Rioux have certain interests in PHAWK, LLC which require disclosure pursuant to Item 404 of Regulation S-K. Please see Petrohawk Transactions with Related Persons on page 132 for more information.



**Common Stock Performance Graph**

The following common stock performance graph shows the performance of Petrohawk stock up to December 31, 2005. As required by applicable rules of the SEC, the performance graph shown below was prepared based on the following assumptions:

A \$100 investment was made in Petrohawk common stock and each index on December 31, 2000.

All quarterly dividends were reinvested at the average of the closing stock prices at the beginning and end of the quarter. The indices in the performance graph compare the annual cumulative total stockholder return on Petrohawk common stock with the cumulative total return of The NASDAQ Stock Market (U.S.) Index and a peer group index comprised of eight U.S. companies engaged in crude oil and natural gas operations whose stocks were traded on NASDAQ or the NYSE during the period from January 1, 2001 through December 31, 2005. The companies that comprise the peer group are Comstock Resources, Inc. (CRK), Exploration Co. of Delaware, Inc. (TXCO), KCS Energy, Inc. (KCS), Meridian Resource Corp. (TMR), Penn Virginia Corp. (PVA), PetroQuest Energy Inc. (PQ), St. Mary Land & Exploration Co. (SM) and Stone Energy Corp. (SGY).

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Petrohawk	\$ 100.00	\$ 17.66	\$ 40.45	\$ 87.89	\$ 135.73
Peer Group	\$ 100.00	\$ 82.98	\$ 172.13	\$ 204.39	\$ 261.54
Nasdaq Market	\$ 100.00	\$ 68.47	\$ 102.72	\$ 111.54	\$ 113.07

**Petrohawk Compensation Committee Report on Executive Compensation**

Until December 31, 2005, the compensation committee of Petrohawk's board of directors consisted of Messrs. Miller, Bridwell and Rioux. Effective December 31, 2005, Messrs. Williamson, Brown and Rioux were appointed to the compensation committee. The compensation committee is currently comprised of Messrs. Williamson, Brown and Rioux.

The general policy of Petrohawk's compensation committee is to provide executive compensation designed to enhance stockholder value, including annual compensation, consisting of salary and bonus awards, and long-term compensation, consisting of stock options and other equity based compensation. To this end, the compensation committee designs compensation plans and incentives to link the financial interests of Petrohawk stockholders, to encourage and support Petrohawk's long-term goals, to tie executive compensation to Petrohawk's performance, to attract and retain talented leadership and to encourage ownership of common stock by executive officers.

In making decisions affecting executive compensation, the compensation committee reviews the nature and scope of the executive officer's responsibilities as well as each officer's effectiveness in supporting Petrohawk's long-term goals. The compensation committee also considers the compensation practices of Petrohawk's peer group of companies. Based upon these and other factors which it considers relevant, and in light of Petrohawk's performance during 2005, the compensation committee has considered it appropriate, and in the best interest of Petrohawk and its stockholders, to set the overall executive compensation in keeping with the average of companies in Petrohawk's comparison group to enable Petrohawk to continue to attract, retain and motivate the highest level of executive personnel.

There are two primary types of compensation provided to Petrohawk executive officers:

Annual compensation, which includes base salary, intended to provide a stable annual salary at a level consistent with individual contributions, and annual performance bonuses intended to link officers' compensation to Petrohawk's performance.

Long-term compensation, which includes stock or other equity based compensation intended to encourage actions to maximize stockholder value.

#### *Annual Compensation*

##### Base Salary

Consistent with its stated policy, the compensation committee aims to position base salaries for Petrohawk's executive officers annually at levels that take into consideration the performance of Petrohawk, individual performance of each executive and the executive's scope of responsibility in relation to other officers and key executives within Petrohawk. In selected cases, other factors may also be considered.

##### Annual Incentive Bonuses

Petrohawk pays cash bonuses based on its performance in relation to predetermined objectives and individual executive performance for the year then ended. The compensation committee previously established objectives related to Petrohawk's earnings, revenue and stockholder value. Cash bonuses were awarded to Petrohawk's executive officers based on Petrohawk's performance during 2005 against these objectives.

##### *Long-Term Compensation*

The compensation committee is committed to long-term incentive programs for executives that promote the long-term growth of Petrohawk. The compensation committee believes that the management employees should be rewarded with a proprietary interest in Petrohawk for continued long-term performance and to attract, motivate and retain qualified and capable executives.

##### Equity-Based Compensation

The compensation committee grants options to purchase shares of common stock and shares of restricted common stock to executive officers under Petrohawk's 2004 Employee Incentive Plan, which was adopted by Petrohawk's board of directors and approved by Petrohawk's stockholders in 2005.

##### *Compensation of Chief Executive Officer*

During 2005, Petrohawk's Chief Executive Officer received salary of \$350,000 and a bonus for his performance of \$500,000, which bonus was paid in January of 2006. The Chief Executive Officer is eligible to participate in all of Petrohawk's long-term incentive programs which are available to its employees. During 2005, the Chief Executive Officer received stock options to purchase 175,000 shares of common stock.

In reviewing the overall compensation of Petrohawk's Chief Executive Officer, Floyd C. Wilson, the compensation committee considered compensation paid to chief executive officers of comparable companies and compared the performance of Petrohawk to that of those companies. In addition, the compensation committee determined that Mr. Wilson's performance was extraordinary in guiding Petrohawk throughout the entire year. Under Mr. Wilson's leadership, Petrohawk made several acquisitions, including the acquisition of Mission Resources Corporation, and experienced continued success with its drilling program. Petrohawk experienced a dramatic increase in its stock price during the year and its reputation among analysts, investors and the overall public was that it transformed into a dynamic, growing mid-cap energy company.

***Internal Revenue Code Section 162(m)***

The compensation committee also considers the potential impact of Section 162(m) of the Internal Revenue Code of 1986, as amended (Section 162(m)). Section 162(m) disallows a tax deduction for any publicly held corporation for individual compensation exceeding \$1 million in any taxable year for the Chief Executive Officer and the other senior executive officers, other than compensation that is performance-based and meets certain other technical requirements. Based on these requirements, the compensation committee has determined that Section 162(m) will not prevent Petrohawk from receiving a tax deduction for any of the compensation paid to executive officers.

The report of the compensation committee of Petrohawk set forth below was prepared and adopted by its compensation committee.

Respectfully Submitted,

David A.B. Brown, *Chairman*

Herbert C. Williamson, III

Daniel A. Rioux

**Report of the Petrohawk Audit Committee**

Petrohawk's audit committee acts under a written charter adopted and approved by the board of directors on June 3, 2004, and subsequently amended on May 8, 2006, which attached as *Annex H* and is available on Petrohawk's website at [www.petrohawk.com](http://www.petrohawk.com). Each of the current members of Petrohawk's audit committee is independent as defined by the listing standards for The NASDAQ Stock Market and in accordance with Petrohawk's Corporate Governance Guidelines. The report of the audit committee of Petrohawk set forth below has been prepared and adopted by Petrohawk's audit committee.

This report is presented regarding the matters relating to Petrohawk's audited financial statements for the year ended December 31, 2005.

It is not the responsibility of the audit committee to plan or conduct audits or to determine that Petrohawk's financial statements are in all material respects complete and accurate in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditors. It is also not the responsibility of the audit committee to assure compliance with laws and regulations and Petrohawk's conduct.

Petrohawk's audit committee has reviewed the audited financial statements as of and for the fiscal year ended December 31, 2005, discussed with management such audited financial statements, received written disclosures and the letter from independent auditors required by Independence Standards Board Standard No. 1, as currently in effect, discussed with the independent auditors such auditor's independence, the matters required to be discussed by the Statement on Auditing Standards 61, as amended by SAS No. 90, and other matters the audit committee deemed relevant and appropriate. The audit committee has also considered whether the independent auditors' provision of information technology and other non-audit services to Petrohawk is compatible with maintaining the auditors' independence. The audit committee has concluded that the independent auditors are independent from Petrohawk and its management.

Based on these reviews and discussions, the audit committee recommended to the board of directors that the audited financial statements as of and for the fiscal year ended December 31, 2005 be included in Petrohawk's Annual Report on Form 10-K for such fiscal year.

Respectfully submitted,

James L. Irish, III, *Chairman*

Robert C. Stone, Jr.

Tucker S. Bridwell



## **Accounting Fees**

### ***Audit Fees***

Petrohawk's principal accounting firm for the 2005 fiscal year was Deloitte & Touche LLP, which became Petrohawk's principal accounting firm effective July 20, 2004. Effective June 20, 2003 until July 20, 2004, Petrohawk's principal accounting firm for the 2003 fiscal year was Ernst & Young, LLP. The aggregate fees billed by Deloitte & Touche LLP for professional services rendered for the audit of Petrohawk's annual financial statements, reviews of the financial statements included in Petrohawk's Quarterly Reports on Form 10-Q, consultations, and other consents to or assistance with SEC filings for the year ended December 31, 2005 was \$1,210,250. The aggregate fees billed by Deloitte & Touche LLP and Ernst & Young, LLP for professional services rendered for the audit of Petrohawk's annual financial statements, reviews of the financial statements included in Petrohawk's Quarterly Reports on Form 10-Q, consultations, and other consents to or assistance with SEC filings for the years ended December 31, 2004 was \$468,451.

### ***Audit Related Fees***

Petrohawk engaged Deloitte & Touche LLP to provide due diligence services related to the Wynn-Crosby Energy, Inc. acquisition and paid fees of \$100,000 for the year-ended December 31, 2004. Petrohawk did not engage Ernst & Young, LLP for any professional services that would be considered audit related fees during the year ended December 31, 2004. Petrohawk did not engage Deloitte & Touche LLP for any professional services that would be considered audit related fees during the year ended December 31, 2005.

### ***Tax Fees***

The aggregate fees billed by KPMG LLP and Ernst & Young, LLP for professional services relating to tax compliance, tax advice and preparation of Petrohawk's federal and state income tax returns and state franchise tax returns for the years ended December 31, 2005 and 2004 were \$432,286 and \$56,300, respectively.

### ***All Other Fees***

Petrohawk did not engage Deloitte & Touche LLP or Ernst & Young, LLP for any additional professional services other than as disclosed above for the years ended December 31, 2005 and 2004.

### ***Audit Committee Pre-Approval Policy***

All audit fees, audit related fees and tax fees as described above for the year ended December 31, 2005 were pre-approved by Petrohawk's audit committee, which concluded that the provision of such services by Deloitte & Touche LLP was compatible with the maintenance of Deloitte & Touche LLP's independence in the conduct of its auditing functions. Petrohawk's audit committee's pre-approval policy provides that pre-approval of all such services must be approved separately by the audit committee. The audit committee has not delegated any such pre-approval authority to anyone outside the audit committee. Each member of the audit committee has the authority to pre-approve non-audit services up to \$50,000 to be performed by Petrohawk's auditors.

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**PROPOSED AMENDMENT TO**

**PETROHAWK S 2004 EMPLOYEE INCENTIVE PLAN**

**General.**

On July 15, 2004, Petrohawk stockholders approved the 2004 Employee Incentive Plan. As originally approved by Petrohawk's stockholders, the plan provided that the aggregate number of shares of incentive stock, restricted stock and shares of common stock that may be issued under stock options granted under the plan would not exceed 750,000 shares, and, in addition, the aggregate number of shares of incentive stock and restricted stock that may be granted under the plan would not exceed 375,000 shares. On November 29, 2004, the plan was amended to increase the aggregate number of shares of common stock (including common stock options) that may be issued under the plan from 750,000 shares to 2.75 million shares, and to increase the number of shares of incentive stock and restricted stock issuable under the plan from 375,000 shares to 1.375 million shares. On July 28, 2005, the plan was amended to increase the aggregate number of shares of common stock that may be issued under the plan from 2.75 million shares to 4.25 million shares. In connection with the merger and the common stock issued upon the occurrence of the merger, Petrohawk's board of directors believes it is in the best interest of Petrohawk and its stockholders to amend the 2004 Employee Incentive Plan to increase the aggregate number of shares of common stock (including common stock options) that may be issued under the plan from 4.25 million shares to 7.05 million shares, and to increase the number of shares of incentive stock and restricted stock issuable under the plan from 2.125 million shares to 3.525 million shares.

The amendment to the 2004 Employee Incentive Plan, attached as *Annex F*, will make available to Petrohawk's board of directors stock options, restricted stock, and incentive stock awards to Petrohawk's management and employees representing, in the aggregate, up to 10% of Petrohawk's outstanding common stock. Petrohawk's board of directors and management believe that the 2004 Employee Incentive Plan will help attract and retain competitively superior employees and promote long-term growth and profitability by aligning employee and stockholder interests. A summary of the essential features of the plan is provided below, but is qualified in its entirety by reference to the full text of the plan, as amended, which is incorporated by reference in this joint proxy statement/prospectus.

Under the terms of the plan, the maximum number of shares that may be subject to stock options granted under the plan to an employee during any calendar year will continue to be limited to 200,000 shares (subject to adjustment in the event of a recapitalization or other corporate action affecting the number of shares outstanding), and the maximum number of shares of restricted stock and incentive stock that may be issued to an employee during any calendar year will continue to be limited to 100,000 shares (subject to adjustment in the event of a recapitalization or other corporate action affecting the number of shares outstanding). The shares with respect to which stock options, restricted stock, and incentive stock may be granted are shares of common stock as presently constituted. The plan provides that if Petrohawk recapitalizes, reclassifies its capital stock, or otherwise changes its capital structure (a recapitalization), the number and class of shares of stock covered by a stock option theretofore granted shall be adjusted so that such option shall thereafter cover the number and class of shares of stock and securities to which the optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the optionee had been the holder of record of the number of shares of stock then covered by such option.

The plan provides that, upon a corporate change, Petrohawk's compensation committee may accelerate the vesting of stock options, cancel stock options and make payments in respect thereof in cash, adjust the outstanding option as appropriate to reflect such corporate change, or provide that each option shall thereafter be exercisable for the number and class of securities or property that the optionee would have been entitled to had the option already been exercised. The plan provides that a corporate change occurs (a) if Petrohawk is to be dissolved and liquidated, (b) if Petrohawk is not the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned subsidiary of Petrohawk), (c) if Petrohawk sells, leases, or exchanges all or substantially all of its assets, (d) if any person,

entity or group acquires or gains ownership or control of more than 50% of Petrohawk's outstanding shares of voting stock, or (e) if after a contested election of directors, the persons who were directors before such election cease to constitute a majority of the board.

Petrohawk's board of directors may terminate the plan with respect to any shares for which options, restricted stock, or incentive stock have not theretofore been granted. The board may amend the plan; however, it may not amend the plan without stockholder approval if the amendment: (i) would materially increase the benefits accruing to participants under the plan, (ii) increase the aggregate number of shares which may be issued pursuant to the provisions of the plan, (iii) change the class of individuals eligible to receive options, restricted stock and incentive stock grants under the plan, or (iv) extend the term of the plan.

*Administration of the Plan.* Pursuant to the provisions of the plan, Petrohawk's board of directors has appointed the compensation committee to administer the plan. Petrohawk's compensation committee presently consists of Messrs. David A. B. Brown, Daniel A. Rioux and Herbert C. Williamson, III.

*Type of Grants Under the Plan.* Petrohawk's compensation committee may grant to Petrohawk's employees incentive stock, restricted stock, and options to purchase shares of Petrohawk common stock. The compensation committee has the power to determine the terms upon which restricted stock, incentive stock and stock options will be granted, including the number of shares of restricted stock and incentive stock to issue, the restrictions applicable to such shares of restricted stock, including vesting requirements, and, with respect to stock options, the number of shares of common stock subject to each option, the exercisability and vesting requirements of each stock option, and the form of consideration payable upon the exercise of such stock option (i.e., whether cash or exchange of existing shares of Petrohawk common stock in a cashless transaction or a combination thereof). The option price of shares of common stock issued under each stock option shall be equal to the fair market value of shares subject to the stock option on the date the stock option is granted. Stock options granted under the plan may be incentive stock options or non-statutory stock options.

*Eligibility of Participants, Term and Transferability.* Restricted stock, incentive stock, and stock options may be granted under the plan only to individuals who are employees of Petrohawk or its parent or subsidiary corporation at the time of grant. No incentive stock option shall be granted to an employee who owns or who would own immediately before the grant of such incentive stock option more than 10% of the total combined voting power of all classes of stock of Petrohawk or its parent or subsidiary corporation, unless (i) at the time such stock option is granted the option price is 110% of the fair market value of the shares granted on the date of the grant and (ii) such stock option by its terms is not exercisable after the expiration of five years from the date of grant. The term of each stock option granted to other employees shall be not more than ten years from the date of the grant. To the extent that the aggregate fair market value (determined at the time the respective incentive stock option is granted) of shares with respect to which incentive stock options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of Petrohawk and its parent and subsidiary corporations exceeds \$100,000, such excess incentive stock options shall be treated as non-statutory stock options. Restricted stock and stock options granted under the plan shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order; provided, however, the compensation committee may, in its discretion, authorize all or a portion of the options to be granted on terms which permit transfer by the optionee to (i) the members of the optionee's immediate family, (ii) a trust or trusts for the exclusive benefit of such immediate family, or (iii) a partnership in which such members of such immediate family are the only partners, provided that there may be no consideration for any such transfer. The plan further provides that following any permitted transfer, the option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Restricted stock, incentive stock and the shares of common stock transferred to an optionee as a result of the exercise of an option shall be restricted securities under Rule 144 as promulgated under the 1933 Act and may only be resold or transferred in compliance with such rule and the registration requirements or an exemption from such requirements under the 1933 Act. The plan shall terminate and no further restricted stock, incentive stock or stock options shall be issued under the plan after June 2, 2014.

*Awards granted.* As of the date of this joint proxy statement/prospectus, options representing approximately shares of common stock and shares of restricted stock have been awarded under the 2004 Employee Incentive Plan.

*Federal Income Tax Consequences.* Petrohawk believes that under present federal income tax laws the following are the federal income tax consequences generally arising with respect to awards granted under the plan. The grant of restricted stock and incentive stock will cause the employee to recognize ordinary income measured by the difference between (i) the fair market value of the shares of restricted stock or incentive stock (as the case may be) received at the first time the rights of the employee in such restricted or incentive stock are transferable or are not subject to a substantial risk of forfeiture and (ii) the amount paid by the employee for the restricted stock or incentive stock (if any), unless the employee elects to be taxed at the time of the award notwithstanding the restrictions (to minimize the tax payable in respect of the appreciation in the value of the stock from the time it is awarded until the restrictions lapse). Petrohawk generally will be entitled to a deduction for the same amount at the time income is recognized by the employee.

The grant of an option will ordinarily create no tax consequences for the employee or Petrohawk. Upon exercise of a non-statutory option, however, the employee will recognize ordinary income equal to the difference between the exercise price and the fair market value of the stock acquired on the date of exercise. When an employee exercises a non-statutory option, Petrohawk generally will be entitled to a deduction for the amount recognized by the employee as ordinary income. The treatment to an employee of a subsequent disposition of shares acquired upon the exercise of a non-statutory depends on how long the shares have been held. Generally, there will be no tax consequences to Petrohawk in connection with a disposition of shares acquired under a non-statutory option.

Upon the exercise of an incentive stock option, the employee will not recognize ordinary income and Petrohawk will not be entitled to a deduction. An employee will recognize income only upon the disposition of the shares acquired upon the exercise of an incentive option. The tax treatment to an employee upon disposition of the stock acquired under an incentive stock option depends on whether or not the stock is disposed of within the statutorily required holding period for such stock (two years from the date of the incentive stock option grant or one year from the date on which the stock was transferred) upon the exercise of the incentive stock option.

The foregoing provides only a very general description of the application of federal income tax laws to awards under the 2004 Employee Incentive Plan. The summary does not address the effects of foreign, state and local tax laws.

To effect the increase in the aggregate number of shares of Petrohawk common stock (including common stock options) that may be issued under Petrohawk's 2004 Employee Incentive Plan, it is proposed that the first two sentences in Section V of Petrohawk's 2004 Employee Incentive Plan be deleted in their entirety and replaced with the following:

The aggregate number of shares of Restricted Stock, shares of Incentive Stock and Shares which may be issued under Stock Options granted under the Plan shall not exceed 7,050,000. In addition, the aggregate number of shares of Restricted Stock and Incentive Stock combined which may be issued under the Plan shall not exceed 3,525,000.

**The Petrohawk board of directors unanimously proposes and recommends that Petrohawk's stockholders**

**vote FOR the proposal to amend Petrohawk's 2004 Employee Incentive Plan.**

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**PROPOSED AMENDMENT TO**

**PETROHAWK'S 2004 NON-EMPLOYEE DIRECTOR INCENTIVE PLAN**

In July 2004, Petrohawk adopted the 2004 Non-Employee Director Incentive Plan covering 200,000 shares. On July 28, 2005, the plan was amended to increase the shares of common stock available under the plan to 400,000 shares. The plan provides for the grant of both incentive stock options and restricted shares of Petrohawk's stock. This plan was designed to attract and retain the services of non-employee directors. At the adoption of the plan each non-employee director received 7,500 restricted shares of Petrohawk's common stock. Under the plan each new non-employee director will receive 7,500 shares of Petrohawk's common stock. Additional grants of 5,000 restricted shares of Petrohawk's common stock are expected to be issued to each non-employee director on each anniversary of his or her service. As of the date of this joint proxy statement/prospectus, 97,500 shares have been issued under this plan and there had been no forfeited or cancelled shares. In connection with the merger, the common stock issued upon occurrence of the merger, and the directors that will be appointed to Petrohawk's board of directors, Petrohawk's board believes it is in the best interest of Petrohawk and its stockholders to approve the amendment to the 2004 Non-Employee Director Incentive Plan, attached as *Annex G*, to increase the aggregate number of shares of common stock (including common stock options) that may be issued under the plan from 400,000 shares to 600,000 shares. Petrohawk's board and management believe that the 2004 Non-Employee Director Incentive Plan, as amended, will help attract and retain experienced and knowledgeable individuals as non-employee directors of Petrohawk and promote long-term growth by aligning non-employee director and stockholder interests.

The shares with respect to which stock options, restricted stock and incentive stock may be granted are shares of common stock of Petrohawk as presently constituted. The plan provides that if Petrohawk recapitalizes, reclassifies its capital stock, or otherwise changes its capital structure, the number and class of shares of stock covered by a stock option theretofore granted shall be adjusted so that such option shall thereafter cover the number and class of shares of stock and securities to which the optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the optionee had been the holder of record of the number of shares of stock then covered by such option.

The 2004 Non-Employee Director Incentive Plan provides that, upon a corporate change, Petrohawk's compensation committee may accelerate the vesting of stock options, cancel stock options and make payments in respect thereof in cash, adjust the outstanding option as appropriate to reflect such corporate change, or provide that each option shall thereafter be exercisable for the number and class of securities or property that the optionee would have been entitled to had the option already been exercised. The plan provides that a corporate change occurs (a) if Petrohawk is to be dissolved and liquidated, (b) if Petrohawk is not the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned subsidiary of Petrohawk), (c) if Petrohawk sells, leases or exchanges all or substantially all of its assets, (d) if any person, entity or group acquires or gains ownership or control of more than 50% of the outstanding shares of Petrohawk's voting stock or (e) if after a contested election of directors, the persons who were directors before such election cease to constitute a majority of the board.

Petrohawk's board may terminate the 2004 Non-Employee Director Incentive Plan with respect to any shares for which options, restricted stock or incentive stock have not theretofore been granted. The board may amend the plan; however, without stockholder approval the board may not: (i) make amendments which would materially increase the benefits accruing to participants under the plan, (ii) increase the aggregate number of shares which may be issued pursuant to the provisions of the plan, (iii) change the class of individuals eligible to receive options, restricted stock and incentive stock grants under the plan, or (iv) extend the term of the plan.

*Administration of the Plan.* Pursuant to the provisions of the plan, Petrohawk's board of directors has appointed the compensation committee to administer the plan. Petrohawk's compensation committee consists of Messrs. David A. B. Brown, Daniel A. Rioux, and Herbert C. Williamson, III.

*Type of Grants Under the Plan.* Petrohawk may grant non-employee directors incentive stock, restrictive stock and options to purchase shares of Petrohawk common stock. Petrohawk's board has the power to determine the terms upon which restricted stock, incentive stock and stock options will be granted, including the number of shares of restricted stock and incentive stock to issue, the restrictions applicable to such shares of restricted stock, including vesting requirements, and, with respect to stock options, the number of shares of common stock subject to each option, the exercisability and vesting requirements of each stock option, and the form of consideration payable upon the exercise of such stock option (i.e., whether cash or exchange of existing shares of Petrohawk common stock in a cashless transaction or a combination thereof). Unless modified by the board, the committee has recommended that all grants of restricted stock be restricted for a period ending on six (6) months from the date of grant with the restriction that the grantee be a non-employee director of Petrohawk for the entire six (6) month period. The option price of share of common stock issued under each stock option shall be equal to the fair market value of shares subject to the stock option on the date the stock option is granted.

*Eligibility of Participants, Term and Transferability.* Restricted stock, incentive stock and stock options may be granted under the plan only to individuals who are non-employee directors of Petrohawk at the time of grant. Restricted stock and stock options granted under the plan shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order; provided, however, the compensation committee may, in its discretion, authorize all or a portion of the options to be granted on terms which permit transfer by the optionee to (i) the members of the optionee's immediate family, (ii) a trust or trusts for the exclusive benefit of such immediate family, or (iii) a partnership in which such members of such immediate family are the only partners, provided that there may be no consideration for any such transfer. The plan further provides that following any permitted transfer, the option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Restricted stock, incentive stock and the shares of common stock transferred to an optionee as a result of the exercise of an option shall be restricted securities under Rule 144 as promulgated under the 1933 Act and may only be resold or transferred in compliance with such rule and the registration requirements or an exemption from such requirements under the 1933 Act. The 2004 Non-Employee Director Incentive Plan shall terminate and no further restricted stock, incentive stock or stock options shall be issued under the plan after June 2, 2014.

*Awards granted.* As of the date of this joint proxy statement/prospectus, Petrohawk has granted 97,500 shares of restricted stock under the 2004 Non-Employee Director Incentive Plan. Such shares are, and future awards will be, restricted for a six-month period following grant. Therefore, all of Petrohawk's non-employee directors have an interest in the approval of the amendment to the 2004 Non-Employee Director Incentive Plan which may differ from the interests of its stockholders.

*Federal Income Tax Consequences.* Petrohawk believes that under present federal income tax laws the following are the federal income tax consequences generally arising with respect to awards granted under the plan. The grant of restricted stock and incentive stock will cause the non-employee director to recognize ordinary income measured by the difference between (i) the fair market value of the shares of restricted stock or incentive stock (as the case may be) received at the first time the rights of the non-employee director in such Restricted or incentive stock are transferable or are not subject to a substantial risk of forfeiture and (ii) the amount paid by the non-employee director for the restricted stock or incentive stock (if any), unless the non-employee director elects to be taxed at the time of the award notwithstanding the restrictions (to minimize the tax payable in respect of the appreciation in the value of the stock from the time it is awarded until the restrictions lapse). Petrohawk generally will be entitled to a deduction for the same amount at the time income is recognized by the non-employee director.

The grant of an option will ordinarily create no tax consequences for the non-employee director or Petrohawk. Upon exercise of an option, however, the non-employee director will recognize ordinary income equal to the difference between the exercise price and the fair market value of the stock acquired on the date of exercise. When a non-employee director exercises an option, Petrohawk generally will be entitled to a deduction for the amount recognized by the non-employee director as ordinary income.

The treatment to a non-employee director of a subsequent disposition of shares acquired upon the exercise of an option depends on how long the shares have been held. Generally, there will be no tax consequences to Petrohawk in connection with a disposition of shares acquired under an option.

The foregoing provides only a very general description of the application of federal income tax laws to awards under the 2004 Non-Employee Incentive Plan. The summary does not address the effects of foreign, state and local tax laws.

To effect the increase in the aggregate number of shares of Petrohawk common stock (including common stock options) that may be issued under Petrohawk's 2004 Non-Employee Director Incentive Plan, it is proposed that the first sentence in Section V of Petrohawk's 2004 Non-Employee Director Incentive Plan be deleted in its entirety and replaced with the following:

The aggregate number of shares of Restricted Stock, shares of Incentive Stock and Shares which may be issued under Stock Options granted under the Plan shall not exceed 600,000.

**The Petrohawk board of directors unanimously proposes and recommends that Petrohawk's stockholders vote FOR the proposal to amend Petrohawk's 2004 Non-Employee Director Incentive Plan.**

**SUBMISSION OF STOCKHOLDER PROPOSALS FOR PETROHAWK S**

**2007 ANNUAL MEETING OF STOCKHOLDERS**

Stockholder proposals intended to be presented under Rule 14a-8 of the Securities Exchange Act of 1934 for inclusion in Petrohawk's proxy statement and accompanying proxy for Petrohawk's 2007 annual meeting of stockholders, including nomination of an individual for election as a director at the 2007 annual meeting of stockholders, must be received at Petrohawk's principal executive offices in Houston, Texas, on or before , 2007, and must meet all the requirements of Rule 14a-8. If a stockholder intends to present a proposal at Petrohawk's 2007 annual meeting but has not sought the inclusion of such proposal in Petrohawk's proxy materials, the proposal must be received by Petrohawk on or before , 2007, or Petrohawk's management proxies for the 2006 annual meeting will be entitled to use their discretionary voting authority if the proposal is then raised at the meeting, without any discussion of the matter in its proxy materials. For a description of some of the requirements for suggesting an individual for consideration by the nominating committee for election as a director, see Election of Petrohawk Directors Board of Directors; Corporate Governance Matters Nomination Process.

Proposals and other notices should be sent to:

David S. Elkouri, Secretary

1100 Louisiana, Suite 4400

Houston, Texas 77002

The use of certified mail, return receipt requested, is suggested.



**PETROHAWK TRANSACTIONS WITH RELATED PERSONS**

Mr. James L. Irish III, an independent member of Petrohawk's board of directors, is of counsel to Thompson & Knight LLP, which Petrohawk has engaged for the purpose of obtaining legal advice.

On June 30, 2005, Petrohawk entered into an agreement with PHAWK, LLC ( PHAWK ) to convert that certain \$35 million 8% Convertible Promissory Note dated as of May 25, 2004 (the PHAWK Note ) to common stock. The PHAWK Note 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, Petrohawk agreed to make a payment of \$2.4 million to PHAWK, which represented the interest payable on the Petrohawk Note through May 25, 2006, discounted at 10%. A Special Committee of one disinterested director was formed by Petrohawk's board of directors to evaluate the transaction. On June 30, 2005, the Special Committee approved the transaction.

Messrs. Miller, Rioux, Bridwell, Irish and Wilson, five of the nine current directors of Petrohawk, as well as Mr. Helm, Executive Vice President Chief Administrative Officer of Petrohawk, may be deemed to be interested in the conversion of the PHAWK Note. Mr. Wilson, Chairman of the Board, President and Chief Executive Officer of Petrohawk, is also an owner and President and Chief Executive Officer of PHAWK. In addition, FCW, LLC, a member of PHAWK, has the contractual right to nominate one of the five members of the board of directors of PHAWK pursuant to PHAWK's limited liability agreement and has nominated Mr. Wilson, the majority member of FCW, LLC. FCW, LLC has made an approximately 10% capital contribution to PHAWK. Mr. David B. Miller, a director of Petrohawk, is also a director of PHAWK. In addition, EnCap Energy Capital Fund IV, L.P. and EnCap Energy Capital Fund IV-B, L.P., which are members of PHAWK, have the contractual right to nominate a majority of the members of the board of directors of PHAWK pursuant to that entity's limited liability company agreement. These EnCap entities have nominated Mr. Miller, along with two other nominees, to the board of PHAWK. Mr. Miller controls, indirectly, EnCap Energy Capital Fund IV, L.P. and EnCap Energy Capital Fund IV-B, L.P. which have collectively made an approximately 64% capital contribution to PHAWK. Each of Messrs. Helm, Bridwell and Irish has made less than a 0.2% capital contribution each to PHAWK, but do not hold any directorship or office in PHAWK and are not otherwise affiliated with that entity. Mr. Rioux, a Petrohawk director, is also a director of PHAWK. In addition, Kellen Holdings, LLC, a member of PHAWK which made an approximately 19% capital contribution to that entity, is an affiliate of Liberty Energy Holdings, LLC of which Mr. Rioux is Vice President and Treasurer.

## SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS

## Petrohawk Energy Corporation

The following table reflects, as of April 20, 2006, the beneficial ownership of Petrohawk common stock and preferred stock by (i) all persons, or groups of affiliated persons, known by Petrohawk to be beneficial owners of more than 5% of each class of stock; (ii) each of Petrohawk's directors or nominees for directors; (iv) each of Petrohawk's executive officers; and (v) all of Petrohawk's executive officers and directors as a group, and provides the percentage of outstanding shares of stock of each class held.

Name and Address of Beneficial Owner	Shares of Petrohawk Common Stock		Shares of Petrohawk Preferred Stock	
	Beneficially Owned(1)	Percent of Class(2)	Beneficially Owned(1)	Percent of Class(2)
Floyd C. Wilson 1100 Louisiana, Suite 4400 Houston, Texas 77002	3,904,399(3)	4.45%		
Stephen W. Herod 1100 Louisiana, Suite 4400 Houston, Texas 77002	464,868(4)	*		
Shane M. Bayless 1100 Louisiana, Suite 4400 Houston, Texas 77002	386,568(5)	*		
Richard K. Stoneburner 1100 Louisiana, Suite 4400 Houston, Texas 77002	308,266(6)	*		
Larry L. Helm 1100 Louisiana, Suite 4400 Houston, Texas 77002	376,743(7)	*		
Thomas R. Fuller 1001 McKinney, Suite 520 Houston, Texas 77002	9,682(8)	*		
David B. Miller c/o EnCap Investments L.P.	20,000	*		

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\*

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Tucker S. Bridwell

604,221(9)

\*

400 Pine St., Suite 1000

Abilene, Texas 79601

James L. Irish III

44,944(10)

\*

1700 Pacific Avenue, Suite 3300

Dallas, Texas 75201

Robert C. Stone, Jr.

105,000(11)

\*

49 Allard Boulevard

New Orleans, Louisiana 70119

Name and Address	Shares of Petrohawk Common Stock		Shares of Petrohawk Preferred Stock	
	Beneficially Owned(1)	Percent of Class(2)	Beneficially Owned(1)	Percent of Class(2)
Herbert C. Williamson, III P.O. Box 260 Hunt, Texas 78024	34,245(12)	*		
David A.B. Brown 379 Main Street Winchester, Massachusetts 01890-2923	34,245(13)	*		
All officers and directors as a group	6,283,499(14)	7.30%		
KCS Energy, Inc. 5555 San Felipe, Suite 1200 Houston, Texas 77056	5,440,844(15)	6.34%		

\* Represents beneficial ownership of less than 1%.

- (1) Unless otherwise indicated, all shares of stock are held directly with sole voting and investment power. Securities not outstanding, but included in the beneficial ownership of each such person are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person, but are not deemed to be outstanding for the purpose of computing percentage of the class owned by any other person. The total number includes shares issued and outstanding as of April 20, 2006, plus shares which the owner shown above has the right to acquire within 60 days after April 20, 2006. The total number also includes, where applicable, restricted shares of common stock granted to each non-employee director under Petrohawk's 2004 Non-Employee Director Plan and restricted shares of common stock granted to each officer under Petrohawk's 2004 Employee Incentive Plan. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.
- (2) For purposes of calculating the percent of the class outstanding held by each owner shown above with a right to acquire additional shares, the total number of shares held by such person includes the shares which such person has the right to acquire within 60 days after April 20, 2006 pursuant to the exercise of outstanding stock options and warrants, but does not include shares which other persons have the right to acquire within 60 days after April 20, 2006.
- (3) 50,000 shares of common stock are unvested restricted shares which Mr. Wilson has the sole power to vote. The amount includes 1,390,861 shares of common stock underlying warrants and options Mr. Wilson has the right to exercise within 60 days after April 20, 2006.
- (4) 35,000 shares of common stock are unvested restricted shares which Mr. Herod has the sole power to vote. The amount includes 223,987 shares of common stock underlying warrants and options Mr. Herod has the right to exercise within 60 days after April 20, 2006.
- (5) 35,000 shares of common stock are unvested restricted shares which Mr. Bayless has the sole power to vote. The amount includes 197,157 shares of common stock underlying warrants and options Mr. Bayless has the right to exercise within 60 days after April 20, 2006.
- (6) 35,000 shares of common stock are unvested restricted shares which Mr. Stoneburner has the sole power to vote. The amount includes 170,326 shares of common stock underlying warrants and options Mr. Stoneburner has the right to exercise within 60 days after April 20, 2006.
- (7) 35,000 shares of common stock are unvested restricted shares which Mr. Helm has the sole power to vote. The amount includes 198,903 shares of common stock underlying warrants and options Mr. Helm has the right to exercise within 60 days after April 20, 2006.
- (8) Mr. Fuller has an indirect interest in 2,000 shares of common stock.
- (9) Includes 256,612 shares of common stock and 53,522 shares of common stock underlying warrants Mr. Bridwell has the right to exercise within 60 days after April 20, 2006 of which Mr. Bridwell has sole beneficial ownership. Also includes 234,618 shares of common stock and 59,469 shares of common stock



underlying warrants Mr. Bridwell has the right to exercise within 60 days after April 20, 2006 of which Mr. Bridwell shares beneficial ownership with Ms. Dian Graves Stai.

- (10) The amount includes 5,947 shares of common stock underlying warrants Mr. Irish has the right to exercise within 60 days after April 20, 2006.
- (11) The amount includes 87,500 shares of common stock underlying options Mr. Stone has the right to exercise within 60 days after April 20, 2006.
- (12) The amount includes 26,745 shares of common stock underlying options Mr. Williamson has the right to exercise within 60 days after April 20, 2006.
- (13) The amount includes 26,745 shares of common stock underlying options Mr. Brown has the right to exercise within 60 days after April 20, 2006.
- (14) The amount includes 2,441,162 shares of common stock underlying warrants and options exercisable within 60 days after April 20, 2006.
- (15) KCS Energy, Inc. has the shared power to vote the shares pursuant to voting agreements entered into with Messrs. Wilson, Herod, Helm, Stoneburner and Bayless.

**KCS Energy, Inc.**

The following table reflects, as of April 20, 2006, the beneficial ownership of KCS common stock by (i) all persons, or groups of affiliated persons, known by KCS to be beneficial owners of more than 5% of such class of stock; (ii) each of KCS's directors; (iii) each of KCS's executive officers; and (iv) all of KCS's executive officers and directors as a group, and provides the percentage of outstanding shares of common stock held.

Name of Beneficial Owner	Shares of	
	KCS Common Stock	
	Beneficially Owned(1)	Percent of Class
FMR Corp.	7,541,500(2)	14.92%
82 Devonshire Street		
Boston, Massachusetts 02109		
James W. Christmas	1,369,324(3)	2.70%
5555 San Felipe Road, Suite 1200		
Houston, Texas 77056		
Robert G. Raynolds	535,871(4)	1.06%
5555 San Felipe Road, Suite 1200		
Houston, Texas 77056		
William N. Hahne	395,963(5)	*
5555 San Felipe Road, Suite 1200		
Houston, Texas 77056		
Harry Lee Stout	199,167(6)	*
5555 San Felipe Road, Suite 1200		
Houston, Texas 77056		
Joel D. Siegel	120,000(7)	*

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5555 San Felipe Road, Suite 1200

Houston, Texas 77056

Frederick Dwyer	59,447(8)	*
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5555 San Felipe Road, Suite 1200

Houston, Texas 77056

Joseph T. Leary	37,832(9)	*
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5555 San Felipe Road, Suite 1200

Houston, Texas 77056

Christopher A. Viggiano	28,691(10)	*
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5555 San Felipe Road, Suite 1200

Houston, Texas 77056

Name of Beneficial Owner	Shares of	
	KCS Common Stock	
	Beneficially Owned(1)	Percent of Class
G. Stanton Geary	21,880(10)	*
5555 San Felipe Road, Suite 1200		
Houston, Texas 77056		
Gary A. Merriman	3,106	*
5555 San Felipe Road, Suite 1200		
Houston, Texas 77056		
Directors and executive officers as a group (10 persons)	2,771,281(11)	5.43%

\* Represents beneficial ownership of less than 1%.

(1) Unless otherwise indicated, the beneficial owner has sole voting and investment power.

- (2) Based on the Schedule 13G/A filed with the SEC on February 14, 2006 as a joint statement by FMR Corp. and Edward C. Johnson 3d: (i) FMR Corp. has sole dispositive power with respect to 7,541,500 shares of common stock and sole voting power with respect to 295,900 shares of common stock; and (ii) Mr. Johnson has sole dispositive power with respect to 7,541,500 shares of common stock and does not have voting power with respect to any shares of common stock. Of the 7,541,500 shares beneficially owned by the reporting parties, according to the information filed in the Schedule 13G/A, 7,425,300 shares of common stock are beneficially owned by Fidelity Management & Research Company ( Fidelity ), a wholly-owned subsidiary of FMR Corp., in its capacity as an investment adviser to various registered investment companies, including Fidelity Low Priced Stock Fund which beneficially owns 4,815,000 shares of common stock, or 9.53% of the outstanding common stock at March 28, 2006. The Schedule 13G/A also stated that Edward C. Johnson 3d and FMR Corp., through its control of Fidelity, and the funds each has sole power to dispose of all of the securities covered by the statement. However, neither FMR Corp. nor Edward C. Johnson 3d has the sole power to vote or direct the voting of the shares owned directly by the Fidelity funds, which power resides with the funds Board of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds Board of Trustees. Further, Fidelity International Limited is the beneficial owner of 116,200 shares of common stock.
- (3) Includes: (i) 80,008 shares that are the subject of unvested restricted stock grants under which Mr. Christmas has voting rights but disposition rights are currently restricted; (ii) 85,272 shares that are held in Mr. Christmas account under the KCS 401(k) plan; and (iii) 236,625 shares underlying options exercisable within 60 days of April 20, 2006. Also includes 36,000 shares held in trusts established for the benefit of Mr. Christmas children as to which Mr. Christmas disclaims any beneficial ownership.
- (4) Includes: (i) 483,244 shares held by a family trust for which Mr. Reynolds is a co-trustee and holds a remainder interest in such trust and has shared voting and investment power but disclaims beneficial ownership except to the extent of his pecuniary interest therein; and (ii) 4,000 shares underlying options exercisable within 60 days of April 20, 2006. Also includes 6,824 shares held in trusts established for the benefit of Mr. Reynolds children as to which Mr. Reynolds disclaims any beneficial ownership.
- (5) Includes: (i) 59,821 shares that are the subject of unvested restricted stock grants under which Mr. Hahne has voting rights but disposition rights are currently restricted; (ii) 12,903 shares that are held in Mr. Hahne s account under the KCS 401(k) plan; and (iii) 196,168 shares underlying options exercisable within 60 days of April 20, 2006.
- (6) Includes: (i) 25,219 shares that are the subject of unvested restricted stock grants under which Mr. Stout has voting rights but disposition rights are currently restricted; (ii) 62,248 shares that are held in Mr. Stout s account under the KCS 401(k) plan; and (iii) 64,700 shares underlying options exercisable within 60 days of April 20, 2006.
- (7) Includes 4,000 shares underlying options exercisable within 60 days of April 20, 2006. Also includes 16,000 shares held in trusts established for the benefit of Mr. Siegel s children as to which Mr. Siegel disclaims any beneficial ownership.
- (8) Includes: (i) 11,525 shares that are the subject of unvested restricted stock grants under which Mr. Dwyer has voting rights but disposition rights are currently restricted; (ii) 4,758 shares that are held in Mr. Dwyer s



- account under the KCS 401(k) plan; and (iii) 21,882 shares underlying options exercisable within 60 days of April 20, 2006.
- (9) Includes: (i) 28,682 shares that are the subject of unvested restricted stock grants under which Mr. Leary has voting rights but disposition rights are currently restricted; (ii) 1,450 shares that are held in Mr. Leary's account under the KCS 401(k) plan; and (iii) 7,700 shares underlying options exercisable within 60 days of April 20, 2006.
- (10) Includes 4,000 shares underlying options exercisable within 60 days of April 20, 2006.
- (11) Includes, among other things: (i) 205,255 shares that are the subject of unvested restricted stock grants under which the beneficial owners have voting rights but disposition rights are currently restricted; (ii) 166,631 shares that are allocated to the beneficial owners' accounts under the KCS 401(k) plan; and (iii) 543,075 shares underlying options exercisable within 60 days of April 20, 2006.

**The Combined Company**

The following table reflects the anticipated beneficial ownership of Petrohawk common and preferred stock by (i) all persons or groups of affiliated persons known to be the beneficial owners of more than 5% of each class of stock of the combined company; (ii) each of the directors of the combined company; (iii) each of the executive officers of the combined company; and (iv) all of such directors and executive officers as a group assuming the effective time of the merger was April 20, 2006 and also assuming:

an exchange ratio of 1.65 shares of Petrohawk common stock for each share of KCS common stock (other than KCS restricted stock as set forth below);

an exchange ratio of 2.3127 shares of Petrohawk common stock for each share of KCS restricted stock(1);

the assumption and conversion at an exchange ratio of 2.3127 of all KCS performance stock awards by Petrohawk(1); and

the assumption and conversion at an exchange ratio of 2.3127 of all KCS stock options into Petrohawk Stock Options(1).

- (1) The exchange ratio of 2.3127 was arrived at by dividing the per share cash portion of the merger consideration (\$9.00) by the closing price of Petrohawk's common stock on April 20, 2006 (\$13.58), which is .6627, plus 1.65 (the per share stock portion of the merger consideration).

Name and Address of Beneficial Owner	Shares of		Shares of	
	Petrohawk Common Stock Beneficially Owned(1)	Percent of Class(2)(3)	Petrohawk Preferred Stock Beneficially Owned(1)	Percent of Class(2)
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	12,443,475(4)	7.43%		
Floyd C. Wilson 1100 Louisiana, Suite 4400 Houston, Texas 77002	3,904,399(5)	2.31%		
James W. Christmas 1100 Louisiana, Suite 4400 Houston, Texas 77002	2,783,262(6)	1.65%		
Stephen W. Herod	464,868(7)	*		

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1100 Louisiana, Suite 4400

Houston, Texas 77002

Shane M. Bayless

386,568(8)

\*

1100 Louisiana, Suite 4400

Houston, Texas 77002

Name and Address of Beneficial Owner	Shares of		Shares of	
	Petrohawk Common Stock Beneficially Owned(1)	Percent of Class(2)(3)	Petrohawk Preferred Stock Beneficially Owned(1)	Percent of Class(2)
William N. Hahne 1100 Louisiana, Suite 4400 Houston, Texas 77002	1,038,311(9)	*		
Richard K. Stoneburner 1100 Louisiana, Suite 4400 Houston, Texas 77002	308,266(10)	*		
Larry L. Helm 1				