

SECURITIES AND EXCHANGE COMMISSION

**FORM 10-Q**

**OR**

..Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from                      to                      .

**Commission file number: 001-34371**

**United States Short Oil Fund, LP**

**(Exact name of registrant as specified in its charter)**

<b>Delaware</b> <b>(State or other jurisdiction of</b> <b>incorporation or organization)</b>	<b>26-2939256</b> <b>(I.R.S. Employer</b> <b>Identification No.)</b>
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**1850 Mt. Diablo Boulevard, Suite 640**

**Walnut Creek, California 94596**

**(Address of principal executive offices) (Zip code)**

**(510) 522-9600**

**(Registrant's telephone number, including area code)**

**1999 Harrison Street, Suite 1530**

**Oakland, California 94612**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes " No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes " No

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

Large accelerated filer " Accelerated filer "

Non-accelerated filer x Smaller reporting company "

Emerging growth company "

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). "  
Yes x No

The registrant had 0 outstanding shares as of September 30, 2018.

**UNITED STATES SHORT OIL FUND, LP**

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Part I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements.

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*United States Short Oil Fund, LP**Condensed Statements of Financial Condition**At September 30, 2018 (Unaudited) and December 31, 2017*

	September 30, 2018 (In Liquidation)*	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents (at cost \$— and \$10,333,143, respectively) (Notes 2 and 5)	\$ —	\$ 10,333,143
Equity in trading accounts:		
Cash and cash equivalents (at cost \$— and \$1,652,647, respectively)	—	1,652,647
Unrealized gain (loss) on open commodity futures contracts	—	(671,180 )
Receivable from General Partner (Note 3)	—	84,752
Dividends receivable	—	2,566
Interest receivable	—	651
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 11,402,579</b>
<b>Liabilities and Partners' Capital</b>		
General Partner management fees payable (Note 3)	\$ —	\$ 6,013
Professional fees payable	—	83,349
Brokerage commissions payable	—	702
Directors' fees and insurance payable	—	18
License fees payable	—	689
<b>Total liabilities</b>	<b>—</b>	<b>90,771</b>
<b>Commitments and Contingencies</b> (Notes 3, 4 and 5)		
<b>Partners' Capital</b>		
General Partner	—	—
Limited Partners	—	11,311,808
<b>Total Partners' Capital</b>	<b>—</b>	<b>11,311,808</b>
<b>Total liabilities and partners' capital</b>	<b>\$ —</b>	<b>\$ 11,402,579</b>
Limited Partners' shares outstanding	—	200,000
Net asset value per share	\$ —	\$ 56.56
Market value per share	\$ —	\$ 56.79

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

*See accompanying notes to condensed financial statements.*

**United States Short Oil Fund, LP**

**Condensed Statements of Operations (Unaudited)**

**For the three and nine months ended September 30, 2018 and 2017**

	<b>Three months ended September 30, 2018 (In Liquidation)*</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018 (In Liquidation)*</b>	<b>Nine months ended September 30, 2017</b>
Income				
Gain (loss) on trading of commodity futures contracts:				
Realized gain (loss) on closed futures contracts	\$ (675,540	) \$ (784,566	) \$ (2,797,080	) \$ 1,028,104
Change in unrealized gain (loss) on open futures contracts	1,002,760	(415,820	) 671,180	(200,610 )
Realized gain (loss) on short-term investments	(133	) —	(133	) —
Dividend income	11,836	6,730	41,253	14,688
Interest income**	18,004	19,451	62,647	39,899
ETF transaction fees	350	—	350	1,400
Total income (loss)	357,277	(1,174,205	) (2,021,783	) 883,481
Expenses				
General Partner management fees (Note 3)	10,328	16,049	41,028	46,732
Professional fees	6,017	15,912	41,899	52,093
Brokerage commissions	2,551	5,493	10,372	16,284
Directors' fees and insurance	319	525	1,240	1,499
License fees	258	401	1,026	1,168
Total expenses	19,473	38,380	95,565	117,776
Expense waiver (Note 3)	(6,248	) (18,357	) (43,958	) (59,361 )
Net expenses	13,225	20,023	51,607	58,415
Net income (loss)	\$ 344,052	\$ (1,194,228	) \$ (2,073,390	) \$ 825,066
Net income (loss) per limited partnership share	\$ (44.47	) \$ (7.96	) \$ (56.56	) \$ 4.06



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Net income (loss) per weighted average limited partnership share	\$ 1.73	\$ (7.96	) \$ (10.38	) \$ 5.46
Weighted average limited partnership shares outstanding	199,265	150,000	199,799	151,099

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

\*\* Interest income does not exceed paid in kind of 5%.

*See accompanying notes to condensed financial statements.*

***United States Short Oil Fund, LP***

***Condensed Statement of Changes in Partners' Capital (Unaudited)***

***For the nine months ended September 30, 2018 (In Liquidation)\****

	General Partner	Limited Partners	Total
Balances, at December 31, 2017	\$ —	\$ 11,311,808	\$11,311,808
Redemption of 200,000 partnership shares	—	(9,238,418 )	(9,238,418 )
Net income (loss)	—	(2,073,390 )	(2,073,390 )
Balances, at September 30, 2018*	\$ —	\$ —	\$—
Net Asset Value Per Share:			
At December 31, 2017			\$56.56
At September 30, 2018			\$—

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

*See accompanying notes to condensed financial statements*

*United States Short Oil Fund, LP**Condensed Statements of Cash Flows (Unaudited)**For the nine months ended September 30, 2018 and 2017*

	Nine months ended September 30, 2018 (In Liquidation)*	Nine months ended September 30, 2017
Cash Flows from Operating Activities:		
Net income (loss)	\$ (2,073,390	) \$ 825,066
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Unrealized (gain) loss on open futures contracts	(671,180	) 200,610
(Increase) decrease in receivable from General Partner	84,752	69,721
(Increase) decrease in dividends receivable	2,566	(1,338
(Increase) decrease in interest receivable	651	(1,409
(Increase) decrease in directors' fees and insurance receivable	—	(260
Increase (decrease) in General Partner management fees payable	(6,013	) 265
Increase (decrease) in professional fees payable	(83,349	) (25,822
Increase (decrease) in brokerage commissions payable	(702	) (240
Increase (decrease) in directors' fees and insurance payable	(18	) —
Increase (decrease) in license fees payable	(689	) (107
Net cash provided by (used in) operating activities	(2,747,372	) 1,066,486
Cash Flows from Financing Activities:		
Addition of partnership shares	—	6,809,360
Redemption of partnership shares	(9,238,418	) (7,025,166
Net cash provided by (used in) financing activities	(9,238,418	) (215,806
Net Increase (Decrease) in Cash and Cash Equivalents	(11,985,790	) 850,680
<b>Total Cash, Cash Equivalents and Equity in Trading Accounts,</b> beginning of period	11,985,790	9,587,789
<b>Total Cash, Cash Equivalents and Equity in Trading Accounts,</b> end of period	\$ —	\$ 10,438,469
Components of Cash and Cash Equivalents:		
Cash and Cash Equivalents	\$ —	\$ 7,630,424
Equity in Trading Accounts:		
Cash and Cash Equivalents	—	2,808,045
Total Cash, Cash Equivalents and Equity in Trading Accounts	\$ —	\$ 10,438,469

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

*See accompanying notes to condensed financial statements*

**United States Short Oil Fund, LP**

**Notes to Condensed Financial Statements**

**For the period ended September 30, 2018 (Unaudited)**

**NOTE 1 — ORGANIZATION AND BUSINESS**

The United States Short Oil Fund, LP (“DNO”) was organized as a limited partnership under the laws of the state of Delaware on June 30, 2008. DNO is a commodity pool that issued limited partnership shares (“shares”) that were purchased and sold on the NYSE Arca, Inc. (the “NYSE Arca”). DNO will continue in perpetuity, unless terminated sooner upon the occurrence of one or more events as described in its Third Amended and Restated Agreement of Limited Partnership dated as of December 15, 2017 (the “LP Agreement”). The investment objective of DNO is for the daily changes in percentage terms of its shares’ per share net asset value (“NAV”) to inversely reflect the daily changes in percentage terms of the spot price of West Texas Intermediate (“WTI”) light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the daily changes in the price of the futures contract for WTI light, sweet crude oil traded on the New York Mercantile Exchange (the “NYMEX”) that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case it will be measured by futures contract that is the next month contract to expire (the “Benchmark Futures Contract”), plus interest earned on the Fund’s collateral holdings, less DNO’s expenses.

DNO commenced investment operations on September 24, 2009 and has a fiscal year ending on December 31. USCF is responsible for the management of DNO. USCF is a member of the National Futures Association (the “NFA”) and became registered as a commodity pool operator with the Commodity Futures Trading Commission (the “CFTC”) effective December 1, 2005 and a swaps firm on August 8, 2013. USCF is also the general partner of the United States Oil Fund, LP (“USO”), the United States Natural Gas Fund, LP (“UNG”), the United States 12 Month Oil Fund, LP (“USL”), the United States Gasoline Fund, LP (“UGA”) and the United States Diesel-Heating Oil Fund, LP (“UHN”), which listed their limited partnership shares on the American Stock Exchange (the “AMEX”) under the ticker symbols “USO” on April 10, 2006, “UNG” on April 18, 2007, “USL” on December 6, 2007, “UGA” on February 26, 2008 and “UHN” on April 9, 2008, respectively. As a result of the acquisition of the AMEX by NYSE Euronext, each of USO’s, UNG’s, USL’s, UGA’s and UHN’s shares commenced trading on the NYSE Arca on November 25, 2008. USCF is also the general partner of the United States 12 Month Natural Gas Fund, LP (“UNL”) and the United States Brent Oil Fund, LP (“BNO”), which listed their limited partnership shares on the NYSE Arca under the ticker symbols “UNL” on November 18, 2009 and “BNO” on June 2, 2010, respectively. USCF is also the sponsor of the United States Commodity Index Fund (“USCI”), the United States Copper Index Fund (“CPER”), the United States Agriculture Index Fund (“USAG”) and the USCF Canadian Crude Oil Index Fund (“UCCO”), each a series of the United States Commodity Index Funds Trust. USCI, CPER and USAG listed their shares on the NYSE Arca under the ticker symbols “USCI” on August 10, 2010, “CPER” on November 15, 2011 and “USAG” on April 13, 2012, respectively. UCCO is currently in registration and has not commenced operations.

In addition, USCF is the sponsor of the USCF Funds Trust, a Delaware statutory trust, and each of its series, the United States 3x Oil Fund (“USOU”) and the United States 3x Short Oil Fund (“USOD”), which commenced operations on July 20, 2017.

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

On August 7, 2018, the board of directors of United States Commodity Funds LLC (“USCF”), the general partner of DNO, determined that DNO could not continue its business and operations in an economically efficient manner due to DNO’s inability to attract sufficient assets, thereby hindering its ability to operate efficiently. On that date, the Board of Directors of USCF also authorized and approved the closing and liquidation of DNO together with a plan of liquidation for DNO. DNO filed a current report on Form 8-K dated August 8, 2018 with the SEC that included, as an exhibit a press release, the DNO plan of liquidation and a copy of the notice of required withdrawal from the limited partnership sent to shareholders. DNO also filed a prospectus supplement with the U.S. Securities and Exchange Commission (the “SEC”) dated August 8, 2018 that is available on USCF’s website at [www.uscfinvestments.com](http://www.uscfinvestments.com).

On September 6, 2018, DNO began the process of liquidating its portfolio. As of the close of regular trading on the NYSE Arca, Inc. (“NYSE Arca”), on September 6, 2018, DNO ceased accepting orders for Creation Baskets and Redemption Baskets from authorized participants. Trading in the shares of DNO on the NYSE Arca was suspended prior to the open of the market on September 7, 2018. On September 7, 2018, DNO filed a post-effective amendment to the registration statement with the SEC to terminate the offering of registered and unsold shares of DNO. The liquidation date for DNO was September 12, 2018 and the proceeds of the liquidation were sent to all remaining shareholders of DNO on or about September 13, 2018.

For U.S. federal income tax purposes, these distributions were treated as liquidating distributions and shareholders recognized gain or loss based on the difference between the amount of cash received as part of the liquidating distribution and their adjusted basis in their shares (taking into account all allocations of income, gain, loss, or deduction for the year of liquidation). Items of income, gain, loss, or deduction recognized as a result of the liquidation of DNO's portfolio were allocated for U.S. federal tax purposes to the shareholders. Any other items of income, gain, loss, or deduction not attributable to the liquidation of DNO's portfolio were allocated for U.S. federal income tax purposes in accordance with DNO's general allocation conventions. For further information concerning the U.S. federal income tax consequences of acquiring, holding, and disposing of shares, please review the section titled "U.S. Federal Income Tax Considerations" in the Prospectus. In addition, shareholders are encouraged to consult their own tax advisors concerning the impact of the liquidation of DNO in light of their own unique circumstances.

Notice was given to the limited partners of DNO (as such term is defined under DNO's respective Third Amended and Restated Agreement of Limited Partnership dated as of December 15, 2017) that effective as of 5:00 p.m. (prevailing Eastern Time) on September 13, 2018, each of the limited partners withdrew entirely from DNO, respectively, without further action. The effect of the withdrawal of all the limited partners of DNO was dissolution of DNO.

On August 7, 2018, the Board of Directors of USCF also authorized and approved the closing and liquidation for each of USAG and UHN together with a plan of liquidation for each of USAG and UHN. Each of the United States Commodity Index Funds Trust ("USCIFT"), of which USAG is a series, and UHN filed a current report on Form 8-K dated August 8, 2018 with the SEC (as defined below) that included, as an exhibit, the press release, the applicable plan of liquidation, and, in the case of UHN, a copy of the notice of required withdrawal from the limited partnership sent to shareholders. In addition, each of USAG and UHN filed a prospectus supplement with the SEC dated August 8, 2018. Each of the filings is also available on USCF's website at [www.uscfinvestments.com](http://www.uscfinvestments.com). The liquidation date for each of USAG and UHN was September 12, 2018 and the proceeds of the liquidation were sent to all remaining shareholders of USAG and UHN, respectively, on or about September 13, 2018, with a subsequent distribution of additional liquidation proceeds sent to UHN shareholders on or about September 18, 2018. Each of USAG and UHN also filed a post-effective amendment to the registration statement with the SEC to terminate the offering of registered and unsold shares of USAG and UHN, respectively, and the NYSE Arca filed Forms 25 to effect the withdrawal of the listings for shares of each of USAG and UHN.

DNO issued shares to certain authorized purchasers ("Authorized Participants") by offering baskets consisting of 50,000 shares ("Creation Baskets") through ALPS Distributors, Inc., as the marketing agent (the "Marketing Agent"). The purchase price for a Creation Basket was based upon the NAV of a share calculated shortly after the close of the core trading session on the NYSE Arca on the day the order to create the basket is properly received. As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares.

In addition, Authorized Participants paid DNO a \$350 fee for each order placed to create one or more Creation Baskets or to redeem one or more baskets ("Redemption Baskets"), consisting of 50,000 shares. Shares were purchased or sold on a nationally recognized securities exchange in smaller increments than a Creation Basket or Redemption

Basket. Shares purchased or sold on a nationally recognized securities exchange were not purchased or sold at the per share NAV of DNO but rather at market prices quoted on such exchange.

In September 2009, DNO initially registered 25,000,000 shares on Form S-1 with the U.S. Securities and Exchange Commission (the “SEC”). On September 24, 2009, DNO listed its shares on the NYSE Arca under the ticker symbol “DNO”. On that day, DNO established its initial per share NAV by setting the price at \$50 and issued 200,000 shares in exchange for \$10,000,000. DNO also commenced investment operations on September 24, 2009, by taking short positions in Futures Contracts traded on the NYMEX based on WTI light, sweet crude oil. As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares and terminated the offering of registered and unsold shares.

The accompanying unaudited condensed financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the SEC and, therefore, do not include all information and footnote disclosure required under generally accepted accounting principles in the United States of America (“U.S. GAAP”). The financial information included herein is unaudited; however, such financial information reflects all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of USCF, necessary for the fair presentation of the condensed financial statements for the interim period.



## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The financial statements have been prepared in conformity with U.S. GAAP as detailed in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification. DNO is an investment company and follows the accounting and reporting guidance in FASB Topic 946.

### **Revenue Recognition**

Commodity futures contracts, forward contracts, physical commodities and related options are recorded on the trade date. All such transactions are recorded on the identified cost basis and marked to market daily. Unrealized gains or losses on open contracts are reflected in the condensed statements of financial condition and represent the difference between the original contract amount and the market value (as determined by exchange settlement prices for futures contracts and related options and cash dealer prices at a predetermined time for forward contracts, physical commodities, and their related options) as of the last business day of the year or as of the last date of the condensed financial statements. Changes in the unrealized gains or losses between periods are reflected in the condensed statements of operations. DNO earned income on funds held at the custodian or a futures commission merchant ("FCM") at prevailing market rates earned on such investments.

### **Brokerage Commissions**

Brokerage commissions on all open commodity futures contracts are accrued on a full-turn basis.

### **Income Taxes**

DNO is not subject to federal income taxes; each partner reports his/her allocable share of income, gain, loss deductions or credits on his/her own income tax return.

In accordance with U.S. GAAP, DNO is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any tax related appeals or litigation processes, based on the technical merits of the position. DNO files an income tax return in the U.S. federal jurisdiction and may file income tax returns in various U.S. states. DNO is not subject to income tax return examinations by major taxing authorities for years before 2015. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in DNO recording a tax liability that reduces net assets. However, DNO's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analysis of and changes to tax laws, regulations and interpretations thereof. DNO recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in income tax fees payable, if assessed. No interest expense or penalties have been recognized as of and for the period ended September 30, 2018.

### **Creations and Redemptions**

Authorized Participants may purchase Creation Baskets or redeem Redemption Baskets only in blocks of 50,000 shares at a price equal to the NAV of the shares calculated shortly after the close of the core trading session on the NYSE Arca on the day the order is placed. As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares.

DNO received or paid the proceeds from shares sold or redeemed within two business days after the trade date of the purchase or redemption. The amounts due from Authorized Participants are reflected in DNO's condensed statements of financial condition as receivable for shares sold and amounts payable to Authorized Participants upon redemption are reflected as payable for shares redeemed.

Authorized Participants paid DNO a transaction fee of \$350 for each order placed to create one or more Creation Baskets or to redeem one or more Redemption Baskets.

## **Partnership Capital and Allocation of Partnership Income and Losses**

Profit or loss shall be allocated among the partners of DNO in proportion to the number of shares each partner holds as of the close of each month. USCF may revise, alter or otherwise modify this method of allocation as described in the LP Agreement.

## **Calculation of Per Share NAV**

DNO's per share NAV was calculated on each NYSE Arca trading day by taking the current market value of its total assets, subtracting any liabilities and dividing that amount by the total number of shares outstanding. DNO used the closing price for the contracts on the relevant exchange on that day to determine the value of contracts held on such exchange.

## **Net Income (Loss) Per Share**

Net income (loss) per share is the difference between the per share NAV at the beginning of each period and at the end of each period. The weighted average number of shares outstanding was computed for purposes of disclosing net income (loss) per weighted average share. The weighted average shares are equal to the number of shares outstanding at the end of the period, adjusted proportionately for shares added and redeemed based on the amount of time the shares were outstanding during such period. As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares.

## **Offering Costs**

Offering costs incurred in connection with the registration of additional shares after the initial registration of shares were borne by DNO. These costs included registration fees paid to regulatory agencies and all legal, accounting, printing and other expenses associated with such offerings. These costs were accounted for as a deferred charge and thereafter amortized to expense over twelve months on a straight-line basis or a shorter period if warranted.

## **Cash Equivalents**

Cash equivalents include money market funds and overnight deposits or time deposits with original maturity dates of six months or less.

### **Reclassification**

Certain amounts in the accompanying condensed financial statements were reclassified to conform to the current presentation.

### **Use of Estimates**

The preparation of condensed financial statements in conformity with U.S. GAAP requires USCF to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements, and the reported amounts of the revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

### **New Accounting Pronouncements**

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management has evaluated the implications of these changes on the financial statements and adopted with no material impact.

### **NOTE 3 — FEES PAID BY THE FUND AND RELATED PARTY TRANSACTIONS**

#### **USCF Management Fee**

Under the LP Agreement, USCF is responsible for investing the assets of DNO in accordance with the objectives and policies of DNO. In addition, USCF has arranged for one or more third parties to provide administrative, custody, accounting, transfer agency and other necessary services to DNO. For these services, DNO was contractually obligated to pay USCF a fee, which is paid monthly, equal to 0.60% per annum of average daily total net assets.

#### **Ongoing Registration Fees and Other Offering Expenses**

DNO paid all costs and expenses associated with the ongoing registration of its shares subsequent to the initial offering. These costs include registration or other fees paid to regulatory agencies in connection with the offer and sale of shares, and all legal, accounting, printing and other expenses associated with such offer and sale. For the nine months ended September 30, 2018 and 2017, DNO did not incur registration fees and other offering expenses.

#### **Independent Directors' and Officers' Expenses**

DNO was responsible for paying its portion of the directors' and officers' liability insurance for DNO and the Related Public Funds and the fees and expenses of the independent directors who also serve as audit committee members of DNO and the Related Public Funds. DNO shares the fees and expenses on a pro rata basis with each Related Public Fund, as described above, based on the relative assets of each Related Public Fund computed on a daily basis. These fees and expenses for the year ending December 31, 2018 are estimated to be a total of \$1,800 for DNO and, in the aggregate for DNO and the Related Public Funds, \$536,200.

#### **Licensing Fees**

As discussed in Note 4 below, DNO entered into a licensing agreement with the NYMEX on May 22, 2009, as amended on October 20, 2011. Pursuant to the agreement, DNO and the Related Public Funds, other than BNO, USCI, CPER, USOU and USOD, pay a licensing fee that is equal to 0.015% on all net assets. During the nine months ended September 30, 2018 and 2017, DNO incurred \$1,026 and \$1,168, respectively, under this arrangement.

### **Investor Tax Reporting Cost**

The fees and expenses associated with DNO's audit expenses and tax accounting and reporting requirements are paid by DNO. These costs are estimated to be \$70,000 for the year ending December 31, 2018. Tax reporting costs fluctuate between years due to the number of shareholders during any given year.

### **Other Expenses and Fees and Expense Waivers**

In addition to the fees described above, DNO paid all brokerage fees and other expenses in connection with the operation of DNO, excluding costs and expenses paid by USCF as outlined in *Note 4 – Contracts and Agreements* below. USCF paid certain expenses on a discretionary basis typically borne by DNO, where expenses exceed 0.15% (15 basis points) of DNO's NAV, on an annualized basis. USCF has no obligation to continue such payments into subsequent periods. For the nine months ended September 30, 2018, USCF waived \$43,958 of DNO's expenses. This voluntary expense waiver was in addition to those amounts USCF is contractually obligated to pay as described in *Note 4 – Contracts and Agreements*.

## **NOTE 4 — CONTRACTS AND AGREEMENTS**

### **Marketing Agent Agreement**

DNO was party to a marketing agent agreement, dated as of June 8, 2009, as amended from time to time and terminated as of September 12, 2018, with the Marketing Agent and USCF, whereby the Marketing Agent provided certain marketing services for DNO as outlined in the agreement. The fee of the Marketing Agent, which was borne by USCF, is equal to 0.06% on DNO's assets up to \$3 billion and 0.04% on DNO's assets in excess of \$3 billion. In no event could the aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services exceed 10% of the gross proceeds of DNO's offering.

The above fee did not include website construction and development, which are also borne by USCF.

## Brown Brothers Harriman & Co. Agreements

DNO is also party to a custodian agreement, dated October 7, 2008, as amended from time to time, with Brown Brothers Harriman & Co. (“BBH&Co.”) and USCF, whereby BBH&Co. holds investments on behalf of DNO. USCF pays the fees of the custodian, which are determined by the parties from time to time. In addition, DNO is party to an administrative agency agreement, dated October 7, 2008, as amended from time to time, with USCF and BBH&Co., whereby BBH&Co. acts as the administrative agent, transfer agent and registrar for DNO. USCF also pays the fees of BBH&Co. for its services under such agreement and such fees are determined by the parties from time to time.

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

## Brokerage and Futures Commission Merchant Agreements

On October 8, 2013, DNO entered into a brokerage agreement with RBC Capital Markets, LLC (“RBC Capital” or “RBC”) to serve as DNO’s FCM effective October 10, 2013. The agreement with RBC required it to provide services to DNO in connection with the purchase and sale of Futures Contracts and Other Crude Oil-Related Investments that may have been purchased and sold by or through RBC Capital for DNO’s account. In accordance with the agreement, RBC Capital charged DNO commissions of approximately \$7 to \$8 per round-turn trade, including applicable exchange, clearing and NFA fees for Futures Contracts and options on Futures Contracts. Such fees included those incurred when purchasing Futures Contracts and options on Futures Contracts when DNO issued shares as a result of a Creation Basket, as well as fees incurred when selling Futures Contracts and options on Futures Contracts when DNO redeemed shares as a result of a Redemption Basket. Such fees were also incurred when Futures Contracts and options on Futures Contracts were purchased or redeemed for the purpose of rebalancing the portfolio. DNO also incurred commissions to brokers for the purchase and sale of Futures Contracts, Other Crude Oil-Related Investments or short-term obligations of the United States of two years or less (“Treasuries”).

For the nine months ended September 30,	For the nine months ended September 30,
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	2018 (In Liquidation)*	2017	
Total commissions accrued to brokers	\$ 10,372	\$ 16,284	
Total commissions as annualized percentage of average total net assets	0.15	% 0.21	%
Commissions accrued as a result of rebalancing	\$ 10,266	\$ 15,281	
Percentage of commissions accrued as a result of rebalancing	98.98	% 93.84	%
Commissions accrued as a result of creation and redemption activity	\$ 106	\$ 1,003	
Percentage of commissions accrued as a result of creation and redemption activity	1.02	% 6.16	%

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

The decrease in total commissions accrued to brokers for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was due primarily to a lower number of crude oil futures contracts being held and traded.

### **NYMEX Licensing Agreement**

DNO and the NYMEX entered into a licensing agreement on May 22, 2009, as amended on October 20, 2011, whereby DNO was granted a non-exclusive license to use certain of the NYMEX's settlement prices and service marks. Under the licensing agreement, DNO and the Related Public Funds, other than BNO, USCI, CPER, USAG, USOU and USOD, pay the NYMEX an asset-based fee for the license, the terms of which are described in Note 3. DNO expressly disclaims any association with the NYMEX or endorsement of DNO by the NYMEX and acknowledges that "NYMEX" and "New York Mercantile Exchange" are registered trademarks of the NYMEX.



## **NOTE 5 — FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES**

DNO engaged in the trading of futures contracts, options on futures contracts, cleared swaps and OTC swaps (collectively, “derivatives”). DNO was exposed to both market risk, which is the risk arising from changes in the market value of the contracts, and credit risk, which is the risk of failure by another party to perform according to the terms of a contract.

DNO entered into futures contracts, options on futures contracts and cleared swaps to gain exposure to changes in the value of an underlying commodity. A futures contract obligates the seller to deliver (and the purchaser to accept) the future delivery of a specified quantity and type of a commodity at a specified time and place. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The contractual obligations of a buyer or seller may generally be satisfied by taking or making physical delivery of the underlying commodity or by making an offsetting sale or purchase of an identical futures contract on the same or linked exchange before the designated date of delivery. Cleared swaps are agreements that are eligible to be cleared by a clearinghouse, e.g., ICE Clear Europe, and provide the efficiencies and benefits that centralized clearing on an exchange offers to traders of futures contracts, including credit risk intermediation and the ability to offset positions initiated with different counterparties.

The purchase and sale of futures contracts, options on futures contracts and cleared swaps require margin deposits with an FCM. Additional deposits may be necessary for any loss on contract value. The Commodity Exchange Act requires an FCM to segregate all customer transactions and assets from the FCM’s proprietary activities.

Futures contracts, options on futures contracts and cleared swaps involve, to varying degrees, elements of market risk (specifically commodity price risk) and exposure to loss in excess of the amount of variation margin. The face or contract amounts reflected the extent of the total exposure DNO had in the particular classes of instruments. Additional risks associated with the use of futures contracts are an imperfect correlation between movements in the price of the futures contracts and the market value of the underlying securities and the possibility of an illiquid market for a futures contract. Buying and selling options on futures contracts exposes investors to the risks of purchasing or selling futures contracts.

The risks associated with exchange-traded contracts are generally perceived to be less than those associated with OTC swaps since, in OTC swaps, a party must rely solely on the credit of its respective individual counterparties. However, if DNO had entered into non-exchange traded contracts, it could have been subject to the credit risk associated with counterparty non-performance. The credit risk from counterparty non-performance associated with such instruments is the net unrealized gain, if any, on the transaction. DNO had credit risk under its futures contracts since the sole counterparty to all domestic and foreign futures contracts is the clearinghouse for the exchange on which the relevant contracts are traded. In addition, DNO bore the risk of financial failure by the clearing broker.

DNO's cash and other property, such as Treasuries, deposited with an FCM were considered commingled with all other customer funds, subject to the FCM's segregation requirements. In the event of an FCM's insolvency, recovery may have been limited to a pro rata share of segregated funds available. It is possible that the recovered amount could have been less than the total of cash and other property deposited. The insolvency of an FCM could have resulted in the complete loss of DNO's assets posted with that FCM; however, the majority of DNO's assets are held in investments in Treasuries, cash and/or cash equivalents with DNO's custodian and would not have been impacted by the insolvency of an FCM. The failure or insolvency of DNO's custodian, however, could have resulted in a substantial loss of DNO's assets.

For derivatives, risks arise from changes in the market value of the contracts. Theoretically, DNO is exposed to market risk equal to the value of futures contracts purchased and unlimited liability on such contracts sold short. As both a buyer and a seller of options, DNO paid or received a premium at the outset and then bore the risk of unfavorable changes in the price of the contract underlying the option.

DNO's policy was to continuously monitor its exposure to market and counterparty risk through the use of a variety of financial, position and credit exposure reporting controls and procedures. In addition, DNO had a policy of requiring review of the credit standing of each broker or counterparty with which it conducts business.

The financial instruments held by DNO are reported in its condensed statements of financial condition at market or fair value, or at carrying amounts that approximate fair value, because of their highly liquid nature and short-term maturity.

**NOTE 6 — FINANCIAL HIGHLIGHTS**

The following table presents per share performance data and other supplemental financial data for the nine months ended September 30, 2018 and 2017 for the shareholders. This information has been derived from information presented in the condensed financial statements.

	For the nine months ended September 30, 2018 (In Liquidation)* (Unaudited)		For the nine months ended September 30, 2017 (Unaudited)	
Per Share Operating Performance:				
Net asset value, beginning of period	\$	56.56	\$	61.96
Total income (loss)		(9.76)	)	4.45
Net expenses		(0.26)	)	(0.39)
Net increase (decrease) in net asset value		(10.02)	)	4.06
Net asset value, end of period	\$	46.54	** \$	66.02
Total Return		(17.72)	)%	6.55
Ratios to Average Net Assets				
Total income (loss)		(20.17)	)%	8.48
Management fees***		0.60	%	0.60
Total expenses excluding management fees***		0.80	%	0.91
Expenses waived***		(0.65)	)%	(0.76)
Net expenses excluding management fees***		0.15	%	0.15
Net income (loss)		(20.69)	)%	7.92

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

\*\* Net asset value as of September 6, 2018.

\*\*\* Annualized.

Total returns are calculated based on the change in value during the period. An individual shareholder's total return and ratio may vary from the above total returns and ratios based on the timing of contributions to and withdrawals from DNO

**NOTE 7 — FAIR VALUE OF FINANCIAL INSTRUMENTS**

DNO values its investments in accordance with Accounting Standards Codification 820 – Fair Value Measurements and Disclosures (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. The changes to past practice resulting from the application of ASC 820 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurement. ASC 820 establishes a fair value hierarchy that distinguishes between: (1) market participant assumptions developed based on market data obtained from sources independent of DNO (observable inputs) and (2) DNO's own assumptions about market participant assumptions developed based on the best information available under the circumstances (unobservable inputs). The three levels defined by the ASC 820 hierarchy are as follows:

Level I – Quoted prices (unadjusted) in active markets for *identical* assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level II – Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II assets include the following: quoted prices for *similar* assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level III – Unobservable pricing input at the measurement date for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In some instances, the inputs used to measure fair value might fall within different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest input level that is significant to the fair value measurement in its entirety.

As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares and has liquidated and distributed all proceeds to shareholders. As a result, there is no information available as of September 30, 2018.

The following table summarizes the valuation of DNO's securities at December 31, 2017 using the fair value hierarchy:

At December 31, 2017	Total	Level I	Level II	Level III
Short-Term Investments	\$8,081,817	\$8,081,817	\$ —	\$ —
Exchange-Traded Futures Contracts				
United States Contracts	(671,180 )	(671,180 )	—	—

During the year ended December 31, 2017, there were no transfers between Level I and Level II.

Effective January 1, 2009, DNO adopted the provisions of Accounting Standards Codification 815 — Derivatives and Hedging, which require presentation of qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivatives.

### Fair Value of Derivative Instruments

Derivatives not Accounted for as Hedging Instruments	Condensed Statements of Financial Condition Location	Fair Value At September 30, 2018 (In Liquidation)*	Fair Value At December 31, 2017
Futures - Commodity Contracts	Assets	\$ —	\$ (671,180 )

### The Effect of Derivative Instruments on the Condensed Statements of Operations

For the nine months ended September 30, 2018 (In Liquidation)*	For the nine months ended September 30, 2017
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Derivatives not Accounted for as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Income	Realized Gain (Loss) on Derivatives Recognized in Income	Change in Unrealized Gain (Loss) on Derivatives Recognized in Income	Realized Gain (Loss) on Derivatives Recognized in Income	Change in Unrealized Gain (Loss) on Derivatives Recognized in Income
Futures - Commodity Contracts	Realized gain (loss) on closed positions	\$ (2,797,080 )		\$ 1,028,104	
	Change in unrealized gain (loss) on open positions		\$ 671,180		\$ (200,610 )

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

#### NOTE 8 — SUBSEQUENT EVENTS

DNO has performed an evaluation of subsequent events through the date the condensed financial statements were issued. This evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the condensed financial statements and the notes thereto of the United States Short Oil Fund, LP ("DNO") included elsewhere in this quarterly report on Form 10-Q.

*Forward-Looking Information*

This quarterly report on Form 10-Q, including this "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors that may cause DNO's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe DNO's future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project," the negative of these words or variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and DNO cannot assure investors that the projections included in these forward-looking statements will come to pass. DNO's actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors.

DNO has based the forward-looking statements included in this quarterly report on Form 10-Q on information available to it on the date of this quarterly report on Form 10-Q, and DNO assumes no obligation to update any such forward-looking statements. Although DNO undertakes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, investors are advised to consult any additional disclosures that DNO may make directly to them or through reports that DNO in the future files with the U.S. Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

**Introduction**

DNO, a Delaware limited partnership, is a commodity pool that issued shares that were purchased and sold on the NYSE Arca, Inc. (the "NYSE Arca"). The investment objective of DNO was for the daily changes, in percentage terms, of its shares' per share net asset value ("NAV") to inversely reflect the daily changes, in percentage terms, of the spot price of West Texas Intermediate ("WTI") light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the daily changes, in the price of a specified short-term futures contract on WTI light, sweet crude oil traded on the New York Mercantile Exchange (the "NYMEX") that is the near month contract to expire, except when the near month

contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire (the “Benchmark Futures Contract”), plus interest earned on DNO’s collateral holdings, less DNO’s expenses. “Near month contract” means the next contract traded on the NYMEX due to expire. “Next month contract” means the first contract traded on the NYMEX due to expire after the near month contract.

DNO’s investment objective was not for its NAV or market price of shares to equal, in dollar terms, the inverse of the spot price of WTI light, sweet crude oil or any particular futures contract based on WTI light, sweet crude oil, nor was DNO’s investment objective for the percentage change in its NAV to reflect the inverse of the percentage change of the price of any particular futures contract as measured over a time period greater than one day. The general partner of DNO, United States Commodity Funds LLC (“USCF”), believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in short positions in Futures Contracts (as defined below) and Other Crude Oil-Related Investments (as defined below).

DNO invested in short positions in futures contracts for crude oil, diesel-heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the NYMEX, ICE Futures Exchange (“ICE Futures”) or other U.S. and foreign exchanges (collectively, “Futures Contracts”). DNO might take short positions in other crude oil-related investments such as cash-settled options on Futures Contracts, forward contracts for crude oil, cleared swap contracts and over-the-counter (“OTC”) swaps that are based on the price of crude oil and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, “Other Crude Oil-Related Investments”). For convenience and unless otherwise specified, Futures Contracts and Other Crude Oil-Related Investments collectively are referred to as “Crude Oil Interests” in this quarterly report on Form 10-Q.

On August 7, 2018, the board of directors of USCF, the general partner of DNO, determined that DNO could not continue its business and operations in an economically efficient manner due to DNO’s inability to attract sufficient assets, thereby hindering its ability to operate efficiently. On that date, the Board of Directors of USCF also authorized and approved the closing and liquidation of DNO together with a plan of liquidation for DNO. DNO filed a current report on Form 8-K dated August 8, 2018 with the SEC that included, as an exhibit a press release, the DNO plan of liquidation and a copy of the notice of required withdrawal from the limited partnership sent to shareholders. DNO also filed a prospectus supplement with the SEC dated August 8, 2018 that is available on USCF’s website at [www.uscfinvestments.com](http://www.uscfinvestments.com).

On September 6, 2018, DNO began the process of liquidating its portfolio. As of the close of regular trading on the NYSE Arca, on September 6, 2018, DNO ceased accepting orders for Creation Baskets and Redemption Baskets from authorized participants. Trading in the shares of DNO on the NYSE Arca was suspended prior to the open of the market on September 7, 2018. On September 7, 2018, DNO filed a post-effective amendment to the registration statement with the SEC to terminate the offering of registered and unsold shares of DNO. The liquidation date for DNO was September 12, 2018 and the proceeds of the liquidation were sent to all remaining shareholders of DNO on or about September 13, 2018.



## **Regulatory Disclosure**

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

The accountability levels for the Benchmark Futures Contract and other Futures Contracts traded on U.S.-based futures exchanges, such as the NYMEX, are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor’s positions. The current accountability level for investments for any one-month in the Benchmark Futures Contract is 10,000 net contracts. In addition, the NYMEX imposes an accountability level for all months of 20,000 net futures contracts for investments in futures contracts for light, sweet crude oil. In addition, the ICE Futures maintains the same accountability levels, position limits and monitoring authority for its light, sweet crude oil contract as the NYMEX. If DNO and the Related Public Funds exceed these accountability levels for investments in the futures contract for light, sweet crude oil, the NYMEX and ICE Futures will monitor DNO’s and the Related Public Funds’ exposure and may ask for further information on their activities including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of DNO and the Related Public Funds.

Position limits differ from accountability levels in that they represent fixed limits on the maximum number of futures contracts that any person may hold and cannot allow such limits to be exceeded without express CFTC authority to do so. In addition to accountability levels and position limits that may apply at any time, the NYMEX and ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire.

The regulation of commodity interest trading in the United States and other countries is an evolving area of the law. The various statements made in this summary are subject to modification by legislative action and changes in the rules and regulations of the SEC, Financial Industry Regulatory Authority (“FINRA”), CFTC, NFA, the futures exchanges, clearing organizations and other regulatory bodies.

### ***Futures Contracts and Position Limits***

The CFTC is generally prohibited by statute from regulating trading on non-U.S. futures exchanges and markets. The CFTC, however, has adopted regulations relating to the marketing of non-U.S. futures contracts in the United States. These regulations permit certain contracts on non-U.S. exchanges to be offered and sold in the United States.

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

Until such time as the Position Limit Rules are adopted, the regulatory architecture in effect prior to the adoption of the Position Limit Rules will govern transactions in commodities and related derivatives. Under that system, the CFTC enforces federal limits on speculation in nine agricultural products (e.g., corn, wheat and soy), while futures exchanges establish and enforce position limits and accountability levels for other agricultural products and certain energy products (e.g., oil and natural gas).

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

## OTC Swaps

In October 2015, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the Farm Credit Administration, and the Federal Housing Finance Agency (each an “Agency” and, collectively, the “Agencies”) jointly adopted final rules to establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants (“Swap Entities”) that are subject to the jurisdiction of one of the Agencies (such entities, “Covered Swap Entities”, and the joint final rules, the “Final Margin Rules”).

The Final Margin Rules will subject non-cleared swaps and non-cleared security-based swaps between Covered Swap Entities and Swap Entities, and between Covered Swap Entities and financial end users that have material swaps exposure (i.e., an average daily aggregate notional of \$8 billion or more in non-cleared swaps calculated in accordance with the Final Margin Rules), to a mandatory two-way minimum initial margin requirement. The minimum amount of the initial margin required to be posted or collected would be either the amount calculated by the Covered Swap Entity using a standardized schedule set forth as an appendix to the Final Margin Rules, which provides the gross initial margin (as a percentage of total notional exposure) for certain asset classes, or an internal margin model of the Covered Swap Entity conforming to the requirements of the Final Margin Rules that is approved by the Agency having jurisdiction over the particular Covered Swap Entity. The Final Margin Rules specify the types of collateral that may be posted or collected as initial margin for non-cleared swaps and non-cleared security-based swaps with financial end users (generally cash, certain government, government-sponsored enterprise securities, certain liquid debt, certain equity securities, certain eligible publicly traded debt, and gold); and sets forth haircuts for certain collateral asset classes.

The Final Margin Rules require minimum variation margin to be exchanged daily for non-cleared swaps and non-cleared security-based swaps between Covered Swap Entities and Swap Entities and between Covered Swap Entities and all financial end-users (without regard to the swaps exposure of the particular financial end-user). The minimum variation margin amount is the daily mark-to-market change in the value of the swap to the Covered Swap Entity, taking into account variation margin previously posted or collected. For non-cleared swaps and security-based swaps between Covered Swap Entities and financial end-users, variation margin may be posted or collected in cash or non-cash collateral that is considered eligible for initial margin purposes. Variation margin is not subject to segregation with an independent, third-party custodian, and may, if permitted by contract, be rehypothecated.

The initial margin requirements of the Final Margin Rules are being phased in over time, and the variation margin requirements of the Final Margin Rules are currently in effect. The Fund was not a Covered Swap Entity under the Final Margin Rules, but it was a financial end-user. Accordingly, the Fund was subject to the variation margin requirements of the Final Margin Rules. However, the Fund did not have material swaps exposure and, accordingly, the Fund would not have been subject to the initial margin requirements of the Final Margin Rules.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) required the CFTC and the SEC to adopt their own margin rules to apply to a limited number of registered swap dealers, security-based swap dealers, major swap participants, and major security-based swap participants that are not subject to the jurisdiction of one of the Agencies. On December 16, 2015 the CFTC finalized its margin rules, which are substantially the same as the Final Margin Rules and have the same implementation timeline. The SEC has yet to finalize its margin rules.

### ***Mandatory Trading and Clearing of Swaps***

CFTC regulations require that certain swap transactions be executed on organized exchanges or “swap execution facilities” and cleared through regulated clearing organizations (“derivative clearing organizations” (“DCOs”)), if the CFTC mandates the central clearing of a particular class of swap and such swap is “made available to trade” on a swap execution facility. Currently, swap dealers, major swap participants, commodity pools, certain private funds and entities predominantly engaged in activities that are financial in nature are required to execute on a swap execution facility, and clear, certain interest rate swaps and index-based credit default swaps. As a result, if DNO had entered into an interest rate or index-based credit default swap that was subject to these requirements, such swap would have been required to be executed on a swap execution facility and centrally cleared. Mandatory clearing and “made available to trade” determinations with respect to additional types of swaps are expected in the future, and, when finalized, could have required DNO to electronically execute and centrally clear certain OTC instruments presently entered into and settled on a bi-lateral basis. If a swap is required to be cleared, initial and variation margin requirements are set by the relevant clearing organization, subject to certain regulatory requirements and guidelines. Additional margin may be required and held by the FCM.

### ***Other Requirements for Swaps***

In addition to the margin requirements described above, swaps that are not required to be cleared and executed on a SEF but that are executed bilaterally are also subject to various requirements pursuant to CFTC regulations, including, among other things, reporting and recordkeeping requirements and, depending on the status of the counterparties, trading documentation requirements and dispute resolution requirements.

### ***Derivatives Regulations in Non-U.S. Jurisdictions***

In addition to U.S. laws and regulations, DNO may be subject to non-U.S. derivatives laws and regulations if it engaged in futures and/or swap transactions with non-U.S. persons. For example, DNO may be impacted by European laws and regulations to the extent that it engaged in futures transactions on European exchanges or derivatives transactions with European entities. Other jurisdictions impose requirements applicable to futures and derivatives that are similar to those imposed by the U.S., including position limits, margin, clearing and trade execution requirements.

### ***Money Market Reform***

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

### ***Price Movements***

Crude oil futures prices were volatile during the nine months ended September 30, 2018. The price of the Benchmark Futures Contract started the period at \$60.42 per barrel. The high of the period was on June 29, 2018 when the price reached \$74.15 per barrel. The low of the period was on February 13, 2018 when the price dropped to \$59.03 per barrel. On September 6, 2018, the date on which DNO began the process of liquidation, the Benchmark Futures Contract was at \$67.77 per barrel, an increase of approximately 12.16% over the period from the beginning of the year through September 6. DNO's per share NAV began the period at \$56.56 and ended the period at \$46.54 on September 6, 2018, a decrease of approximately 17.72% over the period. DNO's per share NAV reached its high for the period on February 9, 2018 at \$57.38 and reached its low for the period on July 10, 2018 at \$44.33. Since DNO's investment objective was to track the inverse of the daily changes in the price of the Benchmark Futures Contract, the decrease in DNO's per share NAV reflects the inverse of the increase in the price of the Benchmark Futures Contract. The Benchmark Futures Contract prices listed above began with the February 2018 contracts. The increase of approximately 12.16% on the Benchmark Futures Contract listed above is a hypothetical return only and could not actually be achieved by an investor holding Futures Contracts. An investment in Futures Contracts would need to be rolled forward during the time period described in order to simulate such a result. Furthermore, the change in the nominal price of these differing Futures Contracts, measured from the start of the period to the end of the period, does not represent the actual benchmark results that DNO seeks to track, which are more fully described below in the

section titled “*Tracking DNO's Benchmark.*”

During the nine months ended September 30, 2018, the crude oil futures market was in a state of backwardation, meaning that the price of the near month crude Oil Futures Contract was higher than the price of the next month crude Oil Futures Contract, or contracts further away from expiration. On days when the market is in contango, the price of the near month crude Oil Futures Contract is typically lower than the price of the next month crude Oil Futures Contract or contracts further away from expiration. For a discussion of the impact of backwardation and contango on total returns, see “*Term Structure of Crude Oil Prices and the Impact on Total Returns*” below.

### **Valuation of Futures Contracts and the Computation of the Per Share NAV**

The per share NAV of DNO’s shares was calculated once each NYSE Arca trading day. The per share NAV for a particular trading day is released after 4:00 p.m. New York time. Trading during the core trading session on the NYSE Arca typically closes at 4:00 p.m. New York time. DNO’s administrator used the NYMEX closing price (determined at the earlier of the close of the NYMEX or 2:30 p.m. New York time) for the contracts held on the NYMEX, but calculated or determined the value of all other DNO investments, including ICE Futures contracts or other futures contracts, as of the earlier of the close of the NYSE Arca or 4:00 p.m. New York time.

**Results of Operations and the Crude Oil Market**

*Results of Operations.* On September 24, 2009, DNO listed its shares on the NYSE Arca under the ticker symbol “DNO.” On that day, DNO established its initial offering price at \$50.00 per share and issued 200,000 shares to the initial Authorized Participant in exchange for \$10,000,000 in cash.

Since its initial offering of 25,000,000 shares, DNO has not registered any subsequent offerings of its shares. As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares.

For the Nine Months Ended September 30, 2018 (In Liquidation)\* Compared to the Nine Months Ended September 30, 2017

	<b>For the nine months ended September 30, 2018</b>		<b>For the nine months ended September 30, 2017</b>	
	<b>(In Liquidation)*</b>			
Average daily total net assets	\$ 10,023,511		\$ 10,413,397	
Dividend and interest income earned on Treasuries, cash and/or cash equivalents	\$ 103,900		\$ 54,587	
Annualized yield based on average daily total net assets	1.52	%	0.70	%
Management fee	\$ 41,028		\$ 46,732	
Total fees and other expenses excluding management fees	\$ 54,537		\$ 71,044	
Total amount of the expense waiver	\$ 43,958		\$ 59,361	
Expenses before allowance for the expense waiver	\$ 95,565		\$ 117,776	
Expenses after allowance for the expense waiver	\$ 51,607		\$ 58,415	
Total commissions accrued to brokers	\$ 10,372		\$ 16,284	
Total commissions as annualized percentage of average total net assets	0.15	%	0.21	%
Commissions accrued as a result of rebalancing	\$ 10,266		\$ 15,281	
Percentage of commissions accrued as a result of rebalancing	98.98	%	93.84	%
Commissions accrued as a result of creation and redemption activity	\$ 106		\$ 1,003	
Percentage of commissions accrued as a result of creation and redemption activity	1.02	%	6.16	%

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

*Portfolio Expenses.* DNO's expenses consisted of investment management fees, brokerage fees and commissions, certain offering costs, licensing fees, registration fees, the fees and expenses of the independent directors of USCF and expenses relating to tax accounting and reporting requirements. The management fee that DNO paid to USCF was calculated as a percentage of the total net assets of DNO. The fee was accrued daily and paid monthly.

Average interest rates earned on short-term investments held by DNO, including cash, cash equivalents and Treasuries, were higher during the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. As a result, the amount of income earned by DNO as a percentage of average daily total net assets was higher during the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017.

The decrease in total fees and other expenses excluding management fees for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017 was due primarily to DNO's smaller size as measured by total net assets.

The decrease in total commissions accrued to brokers for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was due primarily to a lower number of Crude Oil Futures Contracts being held and traded.



For the Three Months Ended September 30, 2018 (In Liquidation)\* Compared to the Three Months Ended September 30, 2017

	<b>For the three months ended September 30, 2018</b>		<b>For the three months ended September 30, 2017</b>	
	<b>(In Liquidation)*</b>			
Average daily total net assets	\$ 9,239,241		\$ 10,611,915	
Dividend and interest income earned on Treasuries, cash and/or cash equivalents	\$ 29,840		\$ 26,181	
Annualized yield based on average daily total net assets	1.73	%	0.98	%
Management fee	\$ 10,328		\$ 16,049	
Total fees and other expenses excluding management fees	\$ 9,145		\$ 22,331	
Total amount of the expense waiver	\$ 6,248		\$ 18,357	
Expenses before allowance for the expense waiver	\$ 19,473		\$ 38,380	
Expenses after allowance for the expense waiver	\$ 13,225		\$ 20,023	
Total commissions accrued to brokers	\$ 2,551		\$ 5,493	
Total commissions as annualized percentage of average total net assets	0.15	%	0.21	%
Commissions accrued as a result of rebalancing	\$ 2,445		\$ 5,493	
Percentage of commissions accrued as a result of rebalancing	95.84	%	100.00	%
Commissions accrued as a result of creation and redemption activity	\$ 106		\$ —	
Percentage of commissions accrued as a result of creation and redemption activity	4.16	%	—%	

\* DNO ceased trading on the NYSE Arca on September 7, 2018 and the Fund's liquidation date was September 12, 2018.

*Portfolio Expenses.* DNO's expenses have consisted of investment management fees, brokerage fees and commissions, certain offering costs, licensing fees, registration fees, the fees and expenses of the independent directors of USCF and expenses relating to tax accounting and reporting requirements. The management fee that DNO paid to USCF was calculated as a percentage of the total net assets of DNO. The fee was accrued daily and paid monthly.

Average interest rates earned on short-term investments held by DNO, including cash, cash equivalents and Treasuries, were higher during the three months ended September 30, 2018, compared to the three months ended September 30, 2017. As a result, the amount of income earned by DNO as a percentage of average daily total net assets was higher during the three months ended September 30, 2018, compared to the three months ended September 30, 2017.

The decrease in total fees and other expenses excluding management fees for the three months ended September 30, 2018, compared to the three months ended September 30, 2017 was due primarily to DNO's smaller size as measured by total net assets.

The decrease in total commissions accrued to brokers for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, was due primarily to a lower number of futures contracts being held and traded.

## Tracking DNO's Benchmark

As noted above, as of the filing of this quarterly report on Form 10-Q, DNO is no longer issuing shares and has liquidated and distributed all proceeds to shareholders. As a result, there is no performance information available as of September 30, 2018.

There are three factors that have impacted or were most likely to impact DNO's ability to accurately inversely track Benchmark Futures Contract.

First, DNO may buy or sell its holdings in the then current Benchmark Futures Contract at a price other than the closing settlement price of that contract on the day during which DNO executes the trade. In that case, DNO may pay a price that is higher, or lower, than that of the Benchmark Futures Contract, which could cause the changes in the daily per share NAV of DNO to either be too high or too low relative to the inverse of the daily changes in the Benchmark Futures Contract. During the nine months ended September 30, 2018, USCF attempted to minimize the effect of these transactions by seeking to execute its purchase or sale of the Benchmark Futures Contract at, or as close as possible to, the end of the day settlement price. However, it may not always be possible for DNO to obtain the closing settlement price and there is no assurance that failure to obtain the closing settlement price in the future will not adversely impact DNO's attempt to inversely track the Benchmark Futures Contract over time.

Second, DNO incurs expenses primarily composed of the management fee, brokerage commissions for the buying and selling of futures contracts, and other expenses. The impact of these expenses tends to cause daily changes in the per share NAV of DNO to track slightly lower than the inverse of daily changes in the price of the Benchmark Futures Contract. At the same time, DNO earns dividend and interest income on its cash, cash equivalents and Treasuries. Interest payments, and any other income, were retained within the portfolio and added to DNO's NAV. When this income exceeds the level of DNO's expenses for its management fee, brokerage commissions and other expenses (including ongoing registration fees, licensing fees and the fees and expenses of the independent directors of USCF), DNO will realize a net yield that will tend to cause daily changes in the per share NAV of DNO to track slightly higher than the inverse of daily changes in the Benchmark Futures Contract. If short-term interest rates rise above the current levels, the level of deviation created by the yield would increase. Conversely, if short-term interest rates were to decline, the amount of error created by the yield would decrease. When short-term yields drop to a level lower than the combined expenses of the management fee and the brokerage commissions, then the tracking error becomes a negative number and would tend to cause the daily returns of the per share NAV to underperform the inverse of the daily returns of the Benchmark Futures Contract.

Third, DNO may hold Other Crude Oil-Related Investments in its portfolio that may fail to closely track the inverse of the Benchmark Futures Contract's total return movements. In that case, the error in tracking the inverse of the Benchmark Futures Contract could result in daily changes in the per share NAV of DNO that are either too high,

or too low, relative to the inverse of the daily changes in the Benchmark Futures Contract. During the nine months ended September 30, 2018, DNO did not hold any Other Crude Oil-Related Investments.

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

As an example, assume that the price of crude oil for immediate delivery, is \$50 per barrel, and the value of a position in the near month futures contract is also \$50. Over time, the price of crude oil will fluctuate based on a number of market factors, including demand for oil relative to supply. The value of the near month futures contract will likewise fluctuate in reaction to a number of market factors. If an investor seeks to maintain a position in a near month futures contract and not take delivery of physical barrels of crude oil, the investor must sell the current near month futures contract as it approaches expiration and invest in the next month futures contract. In order to continue holding a position in the current near month futures contract, this “roll” forward of the futures contract must be executed every month.

Contango and backwardation are natural market forces that have impacted the total return on an investment in DNO’s shares during the past year relative to a hypothetical direct investment in crude oil.

If the futures market is in backwardation, e.g., when the price of the near month futures contract is higher than the price of the next month futures contract, the investor would buy a next month futures contract for a lower price than the current near month futures contract. Assuming the price of the next month futures contract was \$49 per barrel, or 2% cheaper than the \$50 near month futures contract, then, hypothetically, and assuming no other changes (e.g., to either prevailing crude oil prices or the price relationship between the spot price, the near month contract and the next month contract, and, ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the \$49 next month futures contract would rise to \$50 as it approaches expiration. In this example, the value of an investment in the next month futures contract would tend to outperform the spot price of crude oil. As a result, it would be possible for the new near month futures contract to rise 12% while the spot price of crude oil may have risen a lower amount, e.g., only 10%. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the futures contract might have fallen another amount, e.g., only 8%. Over time, if backwardation remained constant, this difference between the spot price and the futures contract price would continue to increase.

If the futures market is in contango, an investor would be buying a next month futures contract for a higher price than the current near month futures contract. Again, assuming the near month futures contract is \$50 per barrel, the price of the next month futures contract might be \$51 per barrel, or 2% more expensive than the front month futures contract.

Hypothetically, and assuming no other changes, the value of the \$51 next month futures contract would fall to \$50 as it approaches expiration. In this example, the value of an investment in the second month would tend to underperform the spot price of crude oil. As a result, it would be possible for the new near month futures contract to rise only 10% while the spot price of crude oil may have risen a higher amount, e.g., 12%. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the second month futures contract might have fallen another amount, e.g., 12%. Over time, if contango remained constant, this difference between the spot price and the futures contract price would continue to increase.

## **Critical Accounting Policies**

Preparation of the condensed financial statements and related disclosures in compliance with accounting principles generally accepted in the United States of America requires the application of appropriate accounting rules and guidance, as well as the use of estimates. DNO's application of these policies involves judgments and actual results may differ from the estimates used.

USCF has evaluated the nature and types of estimates that it makes in preparing DNO's condensed financial statements and related disclosures and has determined that the valuation of its investments, which are not traded on a United States or internationally recognized futures exchange (such as forward contracts and OTC swaps) involves a critical accounting policy. The values which are used by DNO for its Futures Contracts are provided by its commodity broker who uses market prices when available, while OTC swaps are valued based on the present value of estimated future cash flows that would be received from or paid to a third party in settlement of these derivative contracts prior to their delivery date and valued on a daily basis. In addition, DNO estimates interest and dividend income on a daily basis using prevailing rates earned on its cash and cash equivalents. These estimates are adjusted to the actual amount received on a monthly basis and the difference, if any, is not considered material.

## Liquidity and Capital Resources

DNO has not made use of borrowings or other lines of credit to meet its obligations. DNO has met its liquidity needs in the normal course of business from the proceeds of the sale of its investments, or from the Treasuries, cash and/or cash equivalents that it intends to hold at all times. DNO's liquidity needs include: redeeming shares, providing margin deposits for its existing Futures Contracts or the purchase of additional Futures Contracts and posting collateral for its OTC swaps, if applicable, and, except as noted below, payment of its expenses, summarized below under “*Contractual Obligations.*”

Since the initial offering of shares, DNO has been responsible for expenses relating to: (i) management fees, (ii) brokerage fees and commissions, (iii) licensing fees for the use of intellectual property, (iv) ongoing registration expenses in connection with offers and sales of its shares subsequent to the initial offering, (v) other expenses, including tax reporting costs, (vi) fees and expenses of the independent directors of USCF and (vii) other extraordinary expenses not in the ordinary course of business, while USCF has been responsible for expenses relating to the fees of DNO's Marketing Agent, Administrator and Custodian and registration expenses relating to the initial offering of shares.

## Market Risk

Trading in Futures Contracts and Other Crude Oil-Related Investments, such as forwards, involves entering into contractual commitments to purchase or sell crude oil at a specified date in the future. The aggregate market value of the contracts could have significantly exceeded DNO's future cash requirements since DNO intended to close out its open positions prior to settlement. As a result, DNO was generally only subject to the risk of loss arising from the change in value of the contracts. DNO considered the “fair value” of its derivative instruments to be the unrealized gain or loss on the contracts. The market risk associated with DNO's commitments to purchase crude oil was limited to the aggregate market value of the contracts held. However, should DNO have entered into a contractual commitment to sell crude oil, it would have been required to make delivery of the crude oil at the contract price, repurchase the contract at prevailing prices or settle in cash. Since there are no limits on the future price of crude oil, the market risk to DNO could be unlimited.

DNO's exposure to market risk depends on a number of factors, including the markets for crude oil, the volatility of interest rates and foreign exchange rates, the liquidity of the Futures Contracts and Other Crude Oil-Related Investments markets and the relationships among the contracts held by DNO. Drastic market occurrences could ultimately lead to the loss of all or substantially all of an investor's capital.

## Credit Risk

When DNO entered into Futures Contracts and Other Crude Oil-Related Investments, it was exposed to the credit risk that the counterparty will not be able to meet its obligations. The counterparty for the Futures Contracts traded on the Futures Exchanges and on most other futures exchanges is the clearinghouse associated with the particular exchange. In general, in addition to margin required to be posted by the clearinghouse in connection with cleared trades, clearinghouses are backed by their members who may be required to share in the financial burden resulting from the nonperformance of one of their members and, therefore, this additional member support should significantly reduce credit risk. DNO was not a member of any clearinghouse. Some foreign exchanges are not backed by their clearinghouse members but may be backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearinghouse, or their members or their financial backers will satisfy their obligations to DNO in such circumstances.

USCF attempted to manage the credit risk of DNO by following various trading limitations and policies. In particular, DNO generally posted margin and/or held liquid assets that were approximately equal to the market value of its obligations to counterparties under the Futures Contracts and Other Crude Oil-Related Investments it held. USCF has implemented procedures that include, but are not limited to, executing and clearing trades only with creditworthy parties and/or requiring the posting of collateral or margin by such parties for the benefit of DNO to limit its credit exposure. An FCM, when acting on behalf of DNO in accepting orders to purchase or sell Futures Contracts on United States exchanges, is required by CFTC regulations to separately account for and segregate as belonging to DNO, all assets of DNO relating to domestic Futures Contracts trading. These FCMs are not allowed to commingle DNO's assets with their other assets. In addition, the CFTC requires futures commission merchants to hold in a secure account DNO's assets related to foreign Futures Contracts trading.



### **Off Balance Sheet Financing**

As of September 30, 2018, DNO had no loan guarantee, credit support or other off-balance sheet arrangements of any kind other than agreements entered into in the normal course of business, which may include indemnification provisions relating to certain risks that service providers undertake in performing services which are in the best interests of DNO. While DNO's exposure under these indemnification provisions cannot be estimated, they are not expected to have a material impact on DNO's financial position.

### **European Sovereign Debt**

DNO had no direct exposure to European sovereign debt as of September 30, 2018 and has no direct exposure to European sovereign debt as of the filing of this quarterly report on Form 10-Q.

### **Redemption Basket Obligation**

In order to meet its investment objective and pay its contractual obligations described below, DNO required liquidity to redeem shares, which redemptions must be in blocks of 50,000 shares called "Redemption Baskets." DNO has to date satisfied this obligation by paying from the cash or cash equivalents it holds or through the sale of its Treasuries in an amount proportionate to the number of shares being redeemed.

### **Contractual Obligations**

DNO's primary contractual obligations were with USCF. In return for its services, USCF was entitled to a management fee calculated daily and paid monthly as a fixed percentage of DNO's NAV, currently 0.60% of NAV on its average daily total net assets.

USCF agreed to pay the start-up costs associated with the formation of DNO, primarily its legal, accounting and other costs in connection with USCF's registration with the CFTC as a CPO and the registration and listing of DNO and its shares with the SEC, FINRA and NYSE Arca (formerly, AMEX), respectively. However, since DNO's initial offering of shares, offering costs incurred in connection with registering and listing additional shares of DNO have been directly borne on an ongoing basis by DNO, and not by USCF.

USCF paid the fees of the Marketing Agent and pays the fees of BBH&Co., as well as BBH&Co.'s fees for performing administrative services, including those in connection with the preparation of DNO's condensed financial statements and its SEC, NFA and CFTC reports. USCF and DNO also entered into a licensing agreement with the NYMEX pursuant to which DNO and the Related Public Funds, other than BNO, USCI, CPER, USAG, USOU and USOD, pay a licensing fee to the NYMEX. DNO also pays the fees and expenses associated with its tax accounting and reporting requirements. USCF has voluntarily agreed to pay certain expenses typically borne by DNO to the extent that such expenses exceeded 0.15% (15 basis points) of DNO's NAV, on an annualized basis. USCF has no obligation to continue such payments into subsequent periods. This voluntary expense waiver was in addition to those amounts USCF is contractually obligated to pay as described in *Note 4* to the *Notes to Condensed Financial Statements (Unaudited)* in *Item 1* of this quarterly report on Form 10-Q.

In addition to USCF's management fee, DNO paid its brokerage fees (including fees to an FCM), OTC dealer spreads, any licensing fees for the use of intellectual property, and, subsequent to the initial offering, registration and other fees paid to the SEC, FINRA, or other regulatory agencies in connection with the offer and sale of shares, as well as legal, printing, accounting and other expenses associated therewith, and extraordinary expenses. The latter are expenses not incurred in the ordinary course of DNO's business, including expenses relating to the indemnification of any person against liabilities and obligations to the extent permitted by law and under the LP Agreement, the bringing or defending of actions in law or in equity or otherwise conducting litigation and incurring legal expenses and the settlement of claims and litigation. Commission payments to an FCM are on a contract-by-contract, or round turn, basis. DNO also paid a portion of the fees and expenses of the independent directors of USCF. See *Note 3* to the *Notes to Condensed Financial Statements (Unaudited)* in *Item 1* of this quarterly report on Form 10-Q.

These agreements are effective for a specific term agreed upon by the parties with an option to renew, or, in some cases, are in effect for the duration of DNO's existence. Either party may terminate these agreements earlier for certain reasons described in the agreements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

***Commodity Price Risk.***

DNO is exposed to commodity price risk. In particular, DNO was exposed to crude oil price risk through its holdings of Futures Contracts together with any other derivatives in which it may invest, which are discussed below. As a result, fluctuations in the value of the Futures Contracts that DNO held in its portfolio, as described in “*Contractual Obligations*” under “*Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations*” above, are expected to directly affect the value of DNO's shares.

***OTC Contract Risk***

DNO had the ability to purchase OTC Oil Interests, such as forward contracts or swap or spot contracts. Unlike most exchange-traded futures contracts or exchange-traded options on such futures, each party to an OTC swap bears the credit risk that the other party may not be able to perform its obligations under its contract.

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

Swap transactions, like other financial transactions, involve a variety of significant risks. The specific risks presented by a particular swap transaction necessarily depend upon the terms and circumstances of the transaction. In general, however, all swap transactions involve some combination of market risk, credit risk, counterparty credit risk, funding risk, liquidity risk and operational risk.

Highly customized swap transactions in particular may increase liquidity risk, which may result in a suspension of redemptions. Highly leveraged transactions may experience substantial gains or losses in value as a result of relatively small changes in the value or level of an underlying or related market factor.

In evaluating the risks and contractual obligations associated with a particular swap transaction, it is important to consider that a swap transaction may be modified or terminated only by mutual consent of the original parties and subject to agreement on individually negotiated terms. Therefore, it may not be possible for USCF to modify, terminate or offset DNO's obligations or its exposure to the risks associated with a transaction prior to its scheduled termination date.

To reduce the credit risk that arises in connection with such contracts, DNO would generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association that provides for the netting of its overall exposure to its counterparty, if the counterparty was unable to meet its obligations to DNO due to the occurrence of a specified event, such as the insolvency of the counterparty.

USCF assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC swap pursuant to guidelines approved by USCF's board of directors (the "Board"). Furthermore, USCF on behalf of DNO only enters into OTC swaps with counterparties who are, or are affiliates of, (a) banks regulated by a United States federal bank regulator, (b) broker-dealers regulated by the SEC, (c) insurance companies domiciled in the United States, or (d) producers, users or traders of energy, whether or not regulated by the CFTC. Any entity acting as a counterparty shall be regulated in either the United States or the United Kingdom unless otherwise approved by the Board after consultation with its legal counsel. Existing counterparties are also reviewed periodically by USCF. DNO also required that the counterparty be highly rated and/or provide collateral or other credit support. Even if collateral is used to reduce counterparty credit risk, sudden changes in the value of OTC transactions may leave a party open to financial risk due to a counterparty default since the collateral held may not cover a party's exposure on the transaction in such situations.

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

During the nine month reporting period ended September 30, 2018, DNO limited its OTC activities to EFRP transactions.

DNO anticipated that the use of Other Crude Oil-Related Investments together with its investments in Futures Contracts would produce price and total return results that closely track the investment goals of DNO. However, there can be no assurance of this. OTC swaps may result in higher transaction-related expenses than the brokerage commissions paid in connection with the purchase of Futures Contracts, which may have impacted DNO's ability to successfully track the Benchmark Futures Contract.



Item 4. Controls and Procedures.

#### **Disclosure Controls and Procedures**

DNO maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in DNO's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms.

The duly appointed officers of USCF, including its chief executive officer and chief financial officer, who perform functions equivalent to those of a principal executive officer and principal financial officer of DNO if DNO had any officers, have evaluated the effectiveness of DNO's disclosure controls and procedures and have concluded that the disclosure controls and procedures of DNO have been effective as of the end of the period covered by this quarterly report on Form 10-Q.

#### **Change in Internal Control Over Financial Reporting**

There were no changes in DNO's internal control over financial reporting during DNO's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, DNO's internal control over financial reporting.

## **Part II. OTHER INFORMATION**

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in DNO's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed on March 21, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.

(b) Not applicable.

DNO does not purchase shares directly from its shareholders. In connection with its redemption of baskets held by Authorized Participants, DNO redeemed 4 baskets (comprising 200,000 shares) during the third quarter of the year (c) ending December 31, 2018. The following table summarizes the redemptions by Authorized Participants during the three months ended September 30, 2018:

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Redeemed	Average Price Per Share
7/1/18 to 7/31/18	—	NA
8/1/18 to 8/31/18	—	NA
9/1/18 to 9/30/18	200,000	\$ 46.19
Total	200,000	

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

**Monthly Account Statements**

Pursuant to the requirement under Rule 4.22 under the Commodity Exchange Act, each month DNO publishes an account statement for its shareholders, which includes a Statement of Income (Loss) and a Statement of Changes in Net Asset Value. The account statement is furnished to the SEC on a current report on Form 8-K pursuant to Section 13 or 15(d) of the Exchange Act and posted each month on DNO's website at [www.uscfinvestments.com](http://www.uscfinvestments.com).

Item 6. Exhibits.

Listed below are the exhibits, which are filed as part of this quarterly report on Form 10-Q (according to the number assigned to them in Item 601 of Regulation S-K):

<b>Exhibit Number</b>	<b>Description of Document</b>
<b><u>31.1(1)</u></b>	<u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<b><u>31.2(1)</u></b>	<u>Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<b><u>32.1(1)</u></b>	<u>Certification by Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>



<b><u>32.2(1)</u></b>	<u>Certification by Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<b>101.INS</b>	XBRL Instance Document.
<b>101.SCH</b>	XBRL Taxonomy Extension Schema.
<b>101.CAL</b>	XBRL Taxonomy Extension Calculation Linkbase.
<b>101.DEF</b>	XBRL Taxonomy Extension Definition Linkbase.
<b>101.LAB</b>	XBRL Taxonomy Extension Label Linkbase.
<b>101.PRE</b>	XBRL Taxonomy Extension Presentation Linkbase.

(1) Filed herewith.

## **SIGNATURES**

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

### **United States Short Oil Fund, LP (Registrant)**

By: United States Commodity Funds LLC, its  
general partner

By: /s/ John P. Love  
John P. Love  
President and Chief Executive Officer  
(Principal executive officer)

Date: November 13, 2018

By: /s/ Stuart P. Crumbaugh  
Stuart P. Crumbaugh  
Chief Financial Officer  
(Principal financial and accounting officer)

Date: November 13, 2018