

**Coachman Energy Partners LLC**  
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This brochure provides information about the qualifications and business practices of Coachman Energy Partners LLC (“Coachman”). If you have any questions about the contents of this brochure, please contact us at (720) 279-0072. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Coachman is registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended. Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.

Additional information about Coachman (IARD/CRD #166776) also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Part 2 of Form ADV is divided into two parts: Part 2A and Part 2B. Part 2A (the “Disclosure Brochure”) provides information about a variety of topics relating to an investment adviser’s business practices and conflicts of interest. The information provided in Part 2 of Form ADV is intended to assist you in making an informed decision regarding whether or not you want to engage our services. Part 2B (the “Brochure Supplement”) provides information about advisory personnel of Coachman Energy Partners, LLC (“Coachman” or the “Adviser”).

Coachman believes that communication and transparency are the foundation of our relationship and continually strive to provide you with complete and accurate information at all times. We encourage all current and prospective investors to read this Disclosure Brochure and discuss any questions you may have with us. And of course, we always welcome your feedback.

## **Item 2 Material Changes**

Coachman made the following material changes to this Brochure since its last update dated January 2014:

Item 4 was updated to reflect the current AUM.

Item 5 was updated to include disclosure regarding Cross Trades.

Item 10 was updated to include additional disclosure regarding affiliates.

From time to time, we may amend this Disclosure Brochure to reflect changes in our business practices, changes in regulations and routine annual updates as required under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) or the rules adopted by the US Securities Exchange Commission. This complete Disclosure Brochure or a Summary of Material Changes shall be provided to each Client annually and if a material change occurs in the business practices of Coachman.

At any time, you may view the current Disclosure Brochure on-line at the SEC’s Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4            Advisory Business**

##### *Coachman Energy Partners LLC*

Coachman Energy Partners LLC, a Delaware limited liability company (the “Adviser”), was formed on January 14, 2013. The Adviser maintains its principal office at 5251 DTC Parkway, Suite 200, Greenwood Village, Colorado 80111.

The Adviser provides investment advisory services to certain pooled investment vehicles that invest in various domestic oil and gas interests (individually, a “Fund” and collectively, the “Funds”). The Adviser provides its services to the general partner of each Fund (each, a “General Partner”) pursuant to an investment management agreement between the Adviser and the General Partner of each Fund. As a general matter, the Adviser is granted discretion by the General Partner of each Fund with regard to which oil and gas interests a Fund will acquire and whether or not such Fund will participate in drilling oil and gas wells on acreage in which such Fund holds an interest. As of the date of filing of this Form ADV, the Adviser manages the following Funds:

- Bakken Drilling Fund III LP;
- Coachman Energy Land II LLC;
- Bakken Drilling Fund IV LP;
- Bakken Drilling Fund IVB LLC; and
- Bakken Income Fund LLC.

The advisory relationship between each Fund and the Adviser is governed by the respective investment management agreement between each Fund and the Adviser (each, a “Management Agreement” and collectively, the “Management Agreements”). The Management Agreements are generally negotiated between related parties and, as such, their terms, including the fees payable to the Adviser, may not be as favorable to the Funds as if they had been negotiated with an unaffiliated, unrelated third party. Subject to the terms of each Management Agreement, the Adviser generally performs the following services on behalf of each Fund<sup>1</sup>:

- find, evaluate, and conduct diligence on oil and gas production acquisition and mineral acreage investment opportunities;
- negotiate terms of investments in various properties and working interests, including joint operating agreements, participation agreements and related governing documents;

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<sup>1</sup> The listed services generally apply to all of the Funds, except Bakken Drilling Fund IVB LLC which is a feeder-fund that invests 100% of its capital into Bakken Drilling Fund IV LP.

- engage and contract third party professionals such as geologists, geophysicists, and petroleum engineers to evaluate potential plays, evaluate proposals from operators, and provide production and reserve valuation opinions;
- conduct diligence on oil and gas production acquisition and mineral acreage investment opportunities;
- manage any reporting and compliance with the Internal Revenue Service, Securities and Exchange Commission and any other federal, state and local laws and regulations;
- negotiate and enter into hedging facilities; and
- provide the pre-closing and post-closing accounting platforms to support the investment and prepare the requisite financial statements and reports on an ongoing basis.

The Adviser may offer advice to the Funds to invest in instruments that are consistent with the respective Fund's investment strategy and objective, including to: (1) sell hydrocarbons; (2) acquire mineral leases and producing oil and gas wells; and (3) participate in drilling gross horizontal and vertical oil and gas wells.

Without prior consultation with the Funds, the Adviser may provide investment management services to additional pooled investment vehicles. The Adviser may also provide investment management services to additional feeder funds that may be established from time to time to accommodate tax-qualified investors.

The investments of the Funds may be subject to certain diversification and geographic limitations as set forth in the constituent documents of each of the Funds. Further, the Adviser may enter into side letters with certain investors of each of the Funds that may impose further restrictions on investing in certain types of investments with respect to such investor.

As of June 30, 2014, the Adviser had \$162,398,911 in discretionary assets under management.

### *Principal Owner*

The principals of the Adviser are Randall Kenworthy, Don Scott, Caroline Gash and Stephen Mut. Randall Kenworthy is the only principal who owns 25% or more of the Adviser and Mr. Kenworthy holds 100% of the Class A interest of the Adviser and 62.5% of the Class B interest of the Adviser.

*Randall Kenworthy.* Mr. Kenworthy serves as the sole Manager and Chief Executive Officer of the Adviser. In 2007 and 2008, Mr. Kenworthy co-founded two Funds, Coachman Energy I LLC ("CEI") and Coachman Energy II LLC ("CEII"), which focused on acquiring ownership positions in mineral acres in the Bakken Shale. CEI and CEII participated in the acquisition of 66,000 Net Mineral Acres in Williams and McKenzie Counties, North Dakota, and participated in the drilling of some of the state's first Bakken wells drilled west of the Nesson Anticline. Ultimately CEI and CEII participated in 105 Bakken and Three Forks wells, increasing the asset value of the combined

funds 65% in 180 days (per the 2011 Cawley Gillespie and Associates reserve report) from \$65 million in January 2011, to \$111 million in January 2012. Mr. Kenworthy led the effort to sell the CEI and CEII assets to a Fortune 100 company in 2012, generating substantial investor returns. In 2011, Mr. Kenworthy formed Coachman Energy Holdings and launched Bakken Drilling Fund III LP with an equity capital target of \$25 million. Over his thirty year career, Mr. Kenworthy has closed over \$1 billion in transactions. Mr. Kenworthy maintains a strong personal commitment to mentoring young entrepreneurs and business professionals. For the past 18 years, Mr. Kenworthy has been an annual speaker for the Southern Methodist University Cox School of Business Executive MBA and Caruth Institute for Entrepreneurship programs. He has authored two custom training programs used by 7,000 sales personnel on three continents, and continues to be a sought after speaker and expert in the areas of sales, marketing, business development, private investment and financing. He has been married for twenty-five years and has a daughter, who attends Baylor University and interns at Coachman during school breaks.

## **Item 5 Fees and Compensation**

The Adviser or its affiliates may charge carried interest, management fees, administrative fees, organizational fees and other fees to the Funds. The specific payment terms and other conditions of the management fee, administrative fee and performance fee available to the Adviser or its affiliates is set forth in the relevant private placement memoranda and constituent documents of each Fund. Affiliates of the Adviser that serve as a General Partner of a Fund are generally entitled to receive performance-based compensation from such Fund. All performance fees payable to a General Partner will be effected consistent with the requirements of Section 205 of the Advisers Act and Rule 205-3 thereunder. The management fees charged to each of the Funds are typically a percentage of the aggregate capital contributions of each Fund, which will be paid monthly on the last day of each month, and will be based on the capital contributions received by each Fund as of the end of each month. The amount to be paid on the last day of each month will equal the cumulative amounts owed to date, less all previous amounts paid. The Adviser will not deduct its fees from any assets of the Funds, but will bill the Funds for the fees incurred. Each Fund will also reimburse the Adviser for expenses incurred in providing advisory services to each Fund.

*Cross Trades.* Coachman will not receive any compensation for facilitating cross trades between Funds, including any commission or transaction-based fee, other than its ordinary advisory fees. Coachman will engage in a cross trade only if such transaction is in the best interests of each participating Client and no Client is disadvantaged by such transaction.

*Organizational Expenses.* Each Fund, upon receiving its minimum offering amount and after each subsequent closing, will pay an organizational fee up to 3% of the aggregate capital contributions of the Fund. The organizational fee is provided solely as a reimbursement of expenses incurred by a Fund's General Partner related to the organization of the Fund and syndication of its units. These expenses include, but are not limited to, legal fees, industry advisory fees, printing costs, marketing costs, administrative expenses and due diligence costs as well as the time and efforts of the Fund's General Partner. Not all Funds will have the same fees, costs and expenses, however.

*Operating Expenses.* In addition, each Fund, subject to its governing documents, will typically pay or otherwise bear all fees, costs, expenses and other liabilities arising in connection with its operations (collectively, the "Operating Expenses"). The Operating Expenses of a particular

Client are set forth in its constituent documents, but may include, without limitation, the following:

- accounting,
- tax preparation,
- financial audits,
- legal,
- allocable compensation,
- petroleum engineering,
- geology, and
- third party engineering reserve reports.

The foregoing categories of fees, costs, expenses and other liabilities shall be Operating Expenses regardless of whether the person or entity providing or performing the service or output giving rise to such fees, costs, expenses or other liabilities is the General Partner or similar person of such Fund, the Adviser or any of their respective affiliates or any other person. Such General Partner or similar person, the Adviser or any of their respective affiliates shall be entitled to reimbursement from such Fund or its portfolio investment for: (i) any Operating Expenses paid and/or incurred by them on behalf of such Fund, including fees, costs and expenses incurred in connection with services performed by personnel or employees of the General Partner or similar person of such Fund, the Adviser or any of their respective affiliates or any other person. In addition, if any service provider provides services to a Fund on the premise of the Adviser or its affiliates, such Fund may also be responsible for any overhead, rent or other fees, costs, and expenses charged by the Adviser or its affiliates in connection with such on-site arrangement.

*Administrative Expenses.* An affiliate of the Adviser may charge an administrative fee for overseeing the administrative functions of the Funds, including the distribution of all fees and expenses. The affiliate receives a quarterly reimbursement for expenses incurred in providing administrative services to the Funds, including overhead expenses. This reimbursement is capped, based on the capital raised in each fund. The general and administrative costs associated with administering the Funds is shared among the Funds on a pro rata basis based on the total amount of capital raised for each of the Funds.

*Allocation of Expenses.* The Adviser and its affiliates may from time to time incur fees, costs and expenses on behalf of more than one Fund or multiple Funds, in addition to the administrative fee described above. To the extent such fees, costs and expenses are incurred for the account or benefit of more than one Fund, each Fund will typically bear an allocable portion of any such fees, costs, and expenses in proportion to the size of its investment in the activity or entity to which the expense relates (subject to the terms of each Fund's applicable governing documents) or in such other manner as the Adviser considers fair and reasonable. The Adviser endeavors to allocate such fees, costs and expenses on a fair and reasonable basis. Notwithstanding the foregoing, the Adviser may in the future develop policies and procedures to address the allocation of expenses that differ from its current practice.

In addition, the Adviser may engage, or cause each of the Funds to engage, broker-dealers to market and sell interests or shares in the Funds to prospective investors. The Adviser requires broker-dealers to have all appropriate licenses and registrations to conduct their business, including when applicable, to be registered with the United States Securities and Exchange Commission and to be members of the Financial Industry Regulatory Authority. Certain Funds may impose a sales charge on subscriptions, on a disclosed basis, in order to compensate unaffiliated third parties who assist in obtaining subscriptions to such vehicles. In these cases, the sales charge will be deducted from the subscription and will not be treated as part of the investor's capital contribution to the Fund.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

As discussed in Item 5 above, the Adviser and its affiliates may charge carried interest, management fees, administrative fees and other fees to each of the Funds. Each affiliate of the Adviser that serves as a General Partner of a Fund is entitled to receive performance-based compensation from such Fund subject to certain exceptions. In addition, the Adviser is also generally entitled to receive a management fee in consideration of advisory services provided to the Funds. The management fee for the Funds may vary.

The existence of carried interest or performance allocations with respect to the Funds may create an incentive for the Adviser to make more speculative investments on behalf of the Funds than they might otherwise make in the absence of such performance-based compensation.

Similarly, the management fees, or higher management fees, may incentivize the Adviser to dedicate increased resources and allocate more profitable investment opportunities to the Funds that are charged such management fees or higher management fees. Further, the Adviser may be incentivized to allocate investment opportunities to the Funds that either pay carried interest or a higher carried interest percentage to the General Partner of such Fund.

*Timing of Investment Realization.* In addition, the terms applicable to carried interest distributions could incentivize the Adviser and its affiliates to make decisions regarding the timing and structure of realizations of portfolio investments that may not be in the best interests of the Funds. The Adviser may be incentivized to hold on to investments that have poor prospects for improvement in order to receive ongoing management fees in the interim and, potentially, a more likely or larger carried interest distribution if such asset's value appreciates in the future. This incentive may be increased by the presence of clawbacks in certain Funds where the General Partner or similar person is under an obligation to return to the Fund's investors any excess carried interest distributions received by such General Partner or similar person upon the Fund's termination.

While the governing documents of a Fund typically specify an investment period within which investments may be consummated, there is generally more flexibility in the General Partner's or Adviser's discretion regarding when investments must be realized. In addition, a Fund may make portfolio investments that may not be advantageously disposed of prior to such Fund's dissolution, either by expiration of its terms or otherwise. Although the Adviser expects that investments will be disposed of prior to dissolution, the Funds may sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. Further, the Funds' governing



documents do not typically impose a strict obligation on a General Partner or liquidator to realize investments within a certain period of time after dissolution, and there can be no assurances with respect to the time frame in which the winding-up and the final distribution of proceeds to investors will occur.

*Reserves.* The governing documents of most Clients provide that distributions, including final distributions, to investors are generally subject to reserves or holdbacks for estimated accrued expenses, liabilities and contingencies. In addition, investors may be required to return amounts distributed to them to, among other things, fund indemnification obligations. The applicable laws in certain jurisdictions may also require investors that received a distribution in error or in violation of such law to, under certain circumstances, re-contribute such distributions back to the respective Funds.

*Investment Opportunity Allocation Conflicts.* For certain Funds, the existence of the carried interest or performance allocation may create a potential conflict of interest for the General Partner and the Adviser in valuing investments. For example, because distributions to the partners in such Funds are generally calculated in a “deal-by-deal” waterfall, the General Partner will not receive carried interest until the limited partners receive distributions equal to their share of write downs not taken into account in prior distributions. This may create an incentive for the General Partner and the Adviser to avoid writing down the value of assets that are not readily marketable or difficult to value, because the General Partner will be in a position to receive a higher carried interest. In addition, in the case where distributions-in-kind are made to a Funds’ limited partners, the General Partner or the Adviser may be incentivized to employ valuation methodologies that may give rise to a higher valuation of such assets. The Adviser has adopted written valuation policies and procedures intended to address potential conflicts of interests that arise in respect of valuation of its Funds’ assets.

*Allocation Among Clients.* The Adviser is committed to allocating investment opportunities among the Funds in a manner that, over time, is on a fair and equitable basis. Each Fund provides in its governing documents the ability for the General Partner of each Fund to form one or more advisory committees to assist the General Partner and Adviser in making decisions related to the applicable Fund. Advisory committee members are appointed by the General Partner to: (1) advise the General Partner on such matters related to the Fund, as the General Partner may request; or (2) review and recommend or not recommend the resolution of any conflict related to the Fund presented to the advisory committee; *provided, however*, that any investment decisions made on behalf of the Fund by the Adviser, will not be subject to review by any such advisory committee. The advisory committee may be designated as either a binding or non-binding authority. If formed, the advisory committees consist of at least three (3) representatives selected by the General Partner. Neither a General Partner nor any principal of a General Partner will be a member of the advisory committee, and no more than one (1) advisory committee member will be an affiliate of a General Partner.

*Valuation of Client Assets.* Certain assets owned by or managed for the Funds are those for which there is no, or only a limited, liquid market, and the fair value of such assets may not be readily determinable. There is no assurance that the value assigned to an investment at a certain time will accurately reflect the value that will be realized upon the eventual disposition of the investment,

and a Fund's performance could be adversely affected if such valuation determinations are materially higher than the value ultimately realized upon the disposition of the investment. There may be situations in which the Adviser may be incentivized to: (i) employ valuation methodologies that may improve a Fund's track record; (ii) minimize losses from write downs that must be returned prior to an affiliate receiving a carried interest; or (iii) for certain Funds, employ valuation methodologies that may give rise to a higher valuation in order to increase fees, such as in the case of a management fee that is calculated as a percentage of the value of such Fund's assets. The Adviser has adopted valuation policies to address these potential conflicts.

## **Item 7      Types of Clients**

The Adviser intends to advise only pooled investment vehicles.

The minimum investment for each of the Funds is stated in each Fund's respective offering documents and is generally set at between \$25,000 and \$50,000. The General Partner of each Fund may generally waive the applicable minimum at their respective discretion. Some of the Funds allow for an investor to participate as a limited partner or an investor general partner of the applicable Fund.

Generally, investors participating in the Funds are required to meet certain suitability and net worth qualifications, such as (i) an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), (ii) a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act or (iii) a "knowledgeable employee" within the meaning of Rule 3c-5 of the Investment Company Act, depending on the applicable eligibility requirements of the respective Fund.

## **Item 8      Methods of Analysis, Investment Strategies and Risk of Loss**

The following is a summary of the investment strategies and methods of analysis employed by the Adviser on behalf of the Funds. This summary should not be interpreted to limit in any way the Adviser's investment activities. The Adviser may offer any advisory services, provide advice with respect to any investment strategies and make any investments, including those not described in this Brochure, that the Adviser considers appropriate, subject to each of the Fund's governing documents. Further, the specific investment strategies of each Fund are more fully described in each Fund's respective offering documents.

### **Investment Strategy**

Currently, the Adviser is focused on nonconventional oil and gas opportunities in North America. The Adviser anticipates finding attractive acquisition opportunities as a result of its knowledge of the areas, key industry relationships, and senior resource team. The Adviser primarily invests in projects in known production zones which it believes have a high likelihood of successfully producing hydrocarbons. The Adviser will focus on using its knowledge base and existing drilling and completion technology to maximize reserve values and accelerate cash flow.

The Adviser will facilitate the implementation of the Funds' investments in various interests in mineral leases and oil and gas wells on select leasehold acreage. The Adviser will evaluate the reserve reports, cost, timing, projected oil and gas prices, and other relevant information to determine whether a Fund should participate in leasing acreage, drilling wells or holding or selling production.

Neither the Adviser nor the Funds will manage or control any part of the actual drilling process or on-going well operations, which will be performed by a third-party operator. The Funds intend to participate in multiple wells being developed and maintained by a variety of different operators.

### **Risk Factors**

Below are a list of risk factors of each of the Funds. However, the risk factors specific to each Fund are more fully described in each Fund's respective offering documents.

### **Projections, Assumptions and Models**

Information contained in each of the Funds' private placement memoranda were obtained or derived from sources believed to be reliable, but the Funds do not represent that it is accurate or complete. The analyses contained therein are based on numerous assumptions. Different assumptions could result in materially different results. Past performance is not indicative of future results. Before making any investment, prospective investors should examine the private placement memoranda carefully and conduct appropriate due diligence.

### **Sophisticated Investment**

The investment objectives of each of the Funds involve a variety of risks and a wide range of assumptions. Investors should not invest in the Funds if they do not fully comprehend the nature of these risks and assumptions.

### **General Economic and Market Conditions**

The success of the activities of each of the Funds may be affected by general economic and market conditions, such as interest rates, commodity prices, availability of credit, inflation rates, economic uncertainty, changes in laws as well as domestic and global political circumstances. These factors may affect the level and volatility of prices for mineral leases and the ability to develop and sell the undeveloped mineral leases and hydrocarbon production. Unexpected volatility or illiquidity could impair profitability or result in losses.

### **No Operating History or Revenues**

Each of the Funds were formed for the initial purpose of raising capital to drill oil and gas wells on select leasehold acreage in the Bakken and Three Forks production zones in North Dakota, and other unconventional oil producing basins in North America. The Funds did not have any historical operations for potential investors to evaluate.

## **Limited Diversification**

Each of the Funds' results depend primarily on their ability to facilitate the drilling and completion of wells on undeveloped mineral acreage. The Funds will acquire and drill a limited number of oil and gas wells and as such will have limited asset diversification. Concentration in an industry and geographic area subjects the Funds to the risks associated with that industry and geographic area. Additionally, the oil and gas industry involves a high degree of volatility and substantial risk of loss. There is no assurance that any of the operations in which the Funds participate will obtain production or, if production is obtained, that the price of resulting commodities will be sufficient to recover the Funds' investment. Among other things, drilling operations and related activities can be significantly impacted by the accuracy of the estimation of reserves and the effect of those reserves on fluctuating market prices.

## **Crude Oil Pricing and Transportation Capacity**

Crude oil prices at any production location are impacted by the cost to transport the physical barrel to either a refining center or a trading center where different crude types are fungible and where pricing (especially of high volume or marker grades) is transparent. Lack of transport capacity or high cost alternatives to pipeline transport can result in significant locational discounts or differentials relative to market prices. Differentials can move negatively for producers when production increases or transportation capacity disruptions create a shortage of the least expensive transportation alternative (generally a pipeline). These differential moves can be of variable duration based on the remedies employed to reduce cost or increase capacity.

North Dakota and Montana have limited refinery capacity. As production increased significantly over the last decade, transportation infrastructure struggled to keep pace and as a result, price differentials have moved against producers. Increases in transport capacity exiting North Dakota over the past two years have driven the price differential from negative \$15 per barrel to even par with WTI (at Cushing), the market crude price for onshore production. As a result of the limited transportation infrastructure and refining capacity, the Fund's production may be interrupted, or shut in, from time to time for numerous reasons, including weather conditions, accidents, loss of pipeline or gathering system access, field labor issues or strikes, or voluntary production curtailment in response to market conditions. A substantial reduction in production could materially affect the Funds' cash flow.

## **Regulation Relating to Hydraulic Fracturing**

Hydraulic fracturing is a common practice that is used to stimulate production of hydrocarbons from tight formations, such as the Bakken/Three Forks Region. The process involves the injection of water, sand and chemicals under pressure into rock formations to fracture the surrounding rock and stimulate production. There has been increasing public controversy regarding hydraulic fracturing with regard to use of fracturing fluids, impacts on drinking water supplies, use of waters, and the potential for impacts to surface water, groundwater, air quality and the environment generally. A number of lawsuits and enforcement actions have been initiated implicating hydraulic fracturing practices. Additional legislation or regulation could make it more difficult to perform hydraulic fracturing, cause operational delays, increase our operating costs or make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings. New

legislation or regulations in the future could have the effect of prohibiting the use of hydraulic fracturing, which would prevent the Funds from completing their wells as planned and would have a material adverse effect on production from their wells. If these legislative and regulatory initiatives cause a material delay or decrease in the Funds' drilling or hydraulic fracturing activities, the Funds' business and profitability could be materially impacted.

## **Depletion**

Oil and gas wells by their nature are depleting assets; production could last anywhere from a few months to more than 30 years. As a result, annual production will naturally decline over the life of a well, and so too will returns to investors.

## **Hedging**

To the extent that the Funds engage in commodity-price-risk management (or hedging) activities to protect their cash flows from commodity price declines, the Funds may be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. Additionally, the Funds' hedging activities may expose the Funds to the risk of financial loss in certain circumstances, including instances in which: i) production is less than the hedged volumes, ii) there is a widening of price basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement, iii) the counterparties to the hedging or other price-risk management contracts fail to perform under those arrangements, or iv) a sudden unexpected event materially impacts oil and natural-gas prices.

## **Derivative Regulations**

The United States Congress in 2010 adopted comprehensive financial reform legislation that establishes federal oversight and regulation of the over-the-counter derivatives market and entities that participate in that market. The legislation, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), was signed into law by the President on July 21, 2010, and requires the Commodity Futures Trading Commission (the "CFTC"), the SEC and other regulators to promulgate rules and regulations implementing the new legislation. In its rulemaking under the Dodd-Frank Act, the CFTC has issued final regulations to set position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents. Certain bona fide hedging transactions would be exempt from these position limits. The position limits rule was vacated by the United States District Court for the District of Columbia in September of 2012 although the CFTC has stated that it will appeal the District Court's decision. The CFTC also has finalized other regulations, including critical rulemakings on the definition of "swap", "security-based swap", "swap dealer" and "major swap participant". The Dodd-Frank Act and CFTC Rules also will require the Funds, in connection with certain derivatives activities, to comply with clearing and trade-execution requirements (or take steps to qualify for an exemption to such requirements). In addition, new regulations may require the Funds to comply with margin requirements although these regulations are not finalized and their application to the Funds is uncertain at this time. Other regulations also remain to be finalized, and the CFTC recently has delayed the compliance dates for various regulations already finalized. As a result it is not possible at this time to predict with certainty the full effects of the Dodd-Frank Act and CFTC rules on the Funds and the timing of such effects. The Dodd-Frank

Act may also require the counterparties to our derivative instruments to spin off some of their derivatives activities into a separate entity, which may not be as creditworthy as the current counterparty. The Dodd-Frank Act and any implementing regulations could significantly increase the cost of derivative contracts (including from swap recordkeeping and reporting requirements and through requirements to post collateral which could adversely affect our available liquidity), materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks the Funds encounter, reduce the Funds' ability to monetize or restructure existing derivative contracts, and increase exposure to less creditworthy counterparties. If the Funds reduce their use of derivatives as a result of the legislation and regulations, results of operations may become more volatile and cash flows may be less predictable, which could adversely affect the Funds' ability to plan for and fund capital expenditures or to make distributions. Finally, the legislation was intended, in part, to reduce the volatility of oil and natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. The Funds' revenues could therefore be adversely affected if a consequence of the legislation and regulations is to lower commodity prices. Any of these consequences could have a material adverse effect on the Funds', their financial condition and their results of operations.

### **Dependence on Key Individuals**

The Funds rely heavily on the skills, talents, abilities and activities of each of its respective General Partners, the Adviser and particularly their respective principals. The loss of the services of any of such principals could have a significant impact on the investment performance of the Funds. Moreover, investors have no right or power to take part in the management of the Funds. Accordingly, each investor should critically assess the information concerning the principals of each of the Adviser and the General Partner and should not purchase units in the Funds unless such investor is willing to entrust all aspects of (a) the Fund's investment management to the Adviser and (b) management to the General Partner.

### **Insufficient Insurance**

It is possible that some or all of the insurance coverage which a Fund has available may become unavailable or prohibitively expensive. In that case, the General Partner may elect to change the insurance coverage. Consequently, investor general partners, in the Funds where applicable, could be exposed to additional financial risk due to the reduced insurance coverage and due to the fact that investor general partners would continue to be individually liable for the Funds' obligations and liabilities. Investors could also be subject to greater risk of loss of their investment since less insurance would be available to protect the Funds from casualty losses.

### **Operational Hazards**

Projects in which the Funds may invest are subject to all of the risks inherent in natural resource exploration, drilling, and production, including, but not limited to, extreme weather conditions, pollution, mechanical failures, cratering, and fires. Any of these events could result in damage to or destruction of projects or production facilities or harm to persons and property. These risks may not be insurable. The occurrence of an event not fully insured against may have a materially adverse effect on a Fund's investment and create liability for the investor general partners.

## **Dependence on Operators**

The Funds will not be operators of wells and therefore will depend on well third party operators to provide cost estimates and manage the physical drilling, completion and production operations. The Funds may use multiple operators but cannot assure that each or all of the operators will not incur operational hazards or financial difficulties.

## **Environmental Regulations**

Drilling operations upon which a Fund is dependent are subject to extensive energy, environmental and other laws and regulations of federal, state and local authorities. These laws and regulations may require the acquisition of a permit before drilling commences or prohibit these activities on certain lands lying within wilderness and other protected areas. In the course of complying with these requirements, an operator may incur significant additional costs. If it fails to comply with these requirements, it could be subject to civil or criminal liability and the imposition of liens or fines. In addition, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to such companies or their facilities, and future changes in laws and regulations may have a detrimental effect on their business. In acquiring some of the acreage or drilling rights, companies upon which a Fund is dependent may have assumed on-site liabilities associated with the environmental condition of the acreage, regardless of when such liabilities arose and whether known or unknown, and in some cases agreed to indemnify the former owners of those facilities for on-site environmental liabilities. Steps required to bring facilities into compliance, if necessary, could be expensive, and thus could adversely affect a company's financial condition. Furthermore, with the continuing trend toward stricter standards, greater regulation, and more extensive permitting requirements, most natural resource companies expect their environmental expenditures to be substantial in the future. Tougher new environmental laws might be imposed on the industry that could result in higher costs and greater risk exposure for the Funds' investments and the investor general partners.

## **Financial Difficulties of Customers and Partners**

If the companies with which the Funds maintain customer relationships or participate in joint ventures experience financial difficulties, the Funds may be subject to increased exposure to credit risk. Any inability of these companies to continue their relationships with a Fund, participate in the joint ventures or meet their financial or performance obligations to a Fund could have a material adverse effect on such Fund's financial condition, results of operations, and cash flows.

## **Uncertain Production**

Properties that the Funds acquire may not produce oil or natural gas as projected; consequently, the applicable Fund(s) may be unable to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against such liabilities, all of which could cause the Fund(s) to incur losses. One of the Funds' growth strategies is to pursue selective acquisitions of undeveloped leasehold oil and natural gas reserves. When the Adviser chooses to pursue an acquisition, it will perform an informal review of the target properties that the Adviser believes is consistent with industry practices. However, these informal reviews are inherently incomplete. Generally, it is not feasible to review in depth every individual property involved in

each acquisition, and the Funds have generally not done so in connection with historical acquisitions. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit the Funds to become sufficiently familiar with the properties to assess fully their deficiencies and potential. The Funds may not perform an inspection on every potential acquisition.

### **Determination of Offering Price**

The offering prices were arbitrarily determined and bear no relationship to the Funds' assets, equity or any other recognized criteria of value.

### **Long-Term Nature of Investment; Restrictions on Marketability**

Currently, there is no market for the interests in the Funds and no market is expected to develop. Consequently, an investment in the Funds must be considered to be highly illiquid. An investment in the Funds is suitable and appropriate only for those investors who have no need for liquidity in the investment and who can afford to make an investment that may have to be held for a long period of time and that cannot be readily sold, transferred or assigned. Interests in the Funds will not be registered under the Securities Act or the securities laws of any state and may be resold only in transactions exempt from registration under the Securities Act and applicable state and non-U.S. securities laws. Significant restrictions on resale are imposed in the applicable constituent documents.

### **Exemption under the Securities Act**

The Funds' offerings may not comply with private placement exemptions available under securities laws. The sale of the interests have not been registered under the Securities Act or any state securities laws in reliance upon exemptions from both federal and state registration obligations. The exemptions from the registration requirements are very technical, subjective in their application, and fact specific, requiring compliance with and cooperation by all investors, the Funds and any other persons participating in the offerings. As a result, although the Funds have made every effort to comply with both federal and state securities laws, there can be no assurance that all technical requirements of these exemptions will be met. Failure to satisfy these requirements could result in a rescission claim for damages against a Fund.

### **Regulation under the Investment Company Act**

The Funds have not registered with the SEC as an investment company pursuant to the 1940 Act in reliance on an exemption from such registration and with respect to which each of the Funds believes it is qualified. Neither a legal opinion nor a no-action position has been requested of the SEC staff on this issue. In addition, in order to comply with the terms of the exemption(s) upon which each of the Funds is relying, each of the Funds may not be able to make certain investments or engage in certain activities that it otherwise may pursue, but which are prohibited under the subject exemption. If the SEC or a court of competent jurisdiction were to find that a Fund is required to register as an investment company, there could be significant negative consequences including, without limitation, fines, penalties, or costs associated with having to register as an



investment company or defend against lawsuits or other proceedings. Should a Fund be subjected to any or all of the foregoing, such Fund would be affected materially and adversely.

### **Regulation under the Investment Advisers Act**

Neither the Funds nor the General Partners of the Funds are registered as an investment adviser under the Advisers Act. The Adviser is a newly registered investment adviser under the Advisers Act and does not have a history of prior performance. Although the principals of the Adviser have significant experience in connection with raising capital to drill oil and gas wells on select leasehold acreage in the Bakken and Three Forks production zones in North Dakota, and other unconventional oil producing basins in North America, such prior performance may not be indicative of the Adviser's future results.

### **Limited Voting Powers and Voice in Management**

Except for certain decisions set forth in statute and in the governing documents of each of the Funds, the investors in the Funds will have no voting rights with respect to the operation, management and conduct of the applicable Fund.

### **Unlimited Liability of Investor General Partners (as applicable)**

Under Delaware law, general partners of a limited partnership have unlimited liability for obligations and liabilities of that partnership. If an investor purchases interests in a Fund as an investor general partner, in those Funds that have the option to invest as an investor general partner, such investor general partner will be liable for all obligations and liabilities arising from such Fund's operations if these liabilities exceed both the assets and insurance of the applicable Fund. Even if an investor general partner converts his general partner interest into a limited partner interest, such investor will continue to be liable as a general partner for matters that occurred while such investor owned a general partner interest. An investor's liability as an investor general partner may exceed the amount of his capital contributions.

### **Exculpation and Indemnification**

Under the governing documents of each of the Funds, neither the General Partner of a Fund nor any of its affiliates or any of their respective officers, employees, managers, directors, members, agents or assigns is liable to the Fund or its investors for any act or omission based upon errors of judgment or other fault in connection with the business or affairs of the applicable Fund as long as the relevant person acted without fraud, deceit, gross negligence, or willful misconduct and without engaging in a wrongful taking. These provisions alter the fiduciary duties of each General Partner such that no act or omission by a General Partner of a Fund, including actions involving conflicts of interest, as described in the governing documents of each of the Funds and otherwise, breaches any duty to a Fund or such Fund's investors if the relevant person acted without fraud, deceit, gross negligence, or willful misconduct and without engaging in a wrongful taking. In addition, the General Partner of each Fund and its affiliates and their respective officers, employees, managers, directors, members, agents and assigns have broad indemnification rights for any act or omission where they acted in good faith and with the belief that such indemnified person was acting in such Fund's interest and without fraud, deceit, gross negligence, or willful

misconduct and without engaging in a wrongful taking. Under some securities and corporate laws, in some circumstances, liability may be imposed even when a person acts in good faith, and the exculpation and indemnification of such Fund may not be effective to limit the liability of such person.

### **Non-Indemnification of Investor General Partners (as applicable)**

Each Fund, as applicable, will not indemnify any of the investor general partners for obligations related to casualty and business losses, which exceed, or are otherwise not covered by, available insurance coverage and the Fund's assets. As a result, the value of an investment interest in the applicable Fund could be reduced in the case of a claim that exceeds the available insurance coverage to such Fund. In the event of a successful claim, an investor general partner could lose his entire investment in such Fund.

### **Industry and Economic Risks**

The oil and gas business is fundamentally a commodity business. The operations and earnings of each Fund may be affected significantly by changes in oil, gas and petrochemical prices and by changes in margins on gasoline and other refined products. Such prices and margins depend on local, regional and global events or conditions that affect supply and demand for the relevant commodity. These events or conditions generally are not predictable and include, among other things:

- general economic growth rates and the occurrence of economic recessions;
- the development of new supply sources;
- adherence by countries to OPEC quotas;
- weather, including seasonal patterns that affect regional energy demand (such as the demand for heating oil or gas in winter) as well as severe weather events (such as hurricanes) that can disrupt supplies or interrupt the operation of the wells;
- technological advances, including advances in exploration, production, refining and petrochemical manufacturing technology and advances in technology relating to energy usage;
- changes in demographics, including population growth rates and consumer preferences;
- the proximity and availability of transportation facilities; and
- the competitiveness of alternative hydrocarbon or other energy sources.

### **Competitive Factors**

The oil and gas industry is highly competitive. Each Fund will compete with other firms in the sale or purchase of needed goods and services for its production and will employ methods of competition that are lawful and appropriate for such purposes. The success of such competitors may affect the success of each Fund.

The General Partner of each Fund may form additional entities in the future to engage in activities similar to those of each Fund, and may be engaged in sponsoring one or more such additional entities at approximately the same time as a Fund's investments are being made. Due to competition among such funds for availability of equipment, contractors and personnel, it may make the completion of drilling activities by a Fund more difficult.

### **Political Risks**

Each Fund may be affected from time to time in varying degree by political factors including:

- political developments and laws and regulations (such as expropriation or forced divestiture of assets and unilateral cancellation or modification of contract terms, as well as de-regulation of certain energy markets);
- environmental regulations;
- restrictions on exploration, production, imports and exports;
- restrictions on the Fund's ability to engage in certain areas of business within a local or national jurisdiction;
- price controls;
- tax or royalty increases (including retroactive claims);
- war or other international conflicts;
- currency exchange; and
- civil unrest.

Both the likelihood of these occurrences and their overall effect upon each Fund are not accurately predictable.

### **Project Risks**

The success of each of the Fund's depends upon each Fund's ability to acquire, drill and complete oil wells at an economic price and its results will therefore be affected by events or conditions that impact the advancement, operation, cost or results of such projects, including:

- the outcome of negotiations with mineral owners, joint ventures, governments, suppliers, customers or others;
- reservoir performance and natural field decline;
- changes in operating conditions and costs, including costs of third party equipment or services such as drilling rigs and shipping;
- security concerns or acts of terrorism that threaten or disrupt the safe operation of company facilities; and

- the occurrence of unforeseen technical difficulties (including technical problems that may delay start-up or interrupt production or that may lead to unexpected downtime of refineries or petrochemical plants).

### **Uncertain Tax Consequences**

Investment in interests in each of the Funds will have certain tax aspects unique to each individual investor, and the Internal Revenue Service (“IRS”) or the courts might disagree with the positions taken by a Fund and/or its tax partners as to those tax aspects. In addition, the tax aspects of an investment in the interests of a Fund could be changed significantly by reason of further changes in the tax laws or the interpretations thereof. A change in tax law could materially and adversely affect the value of the investments.

### **Tax Reform**

No assurance can be given that the present federal income tax treatment of an investment in each of the Funds will not be affected adversely by future legislative, judicial or administrative action, possibly applicable on a retroactive basis. Several recently enacted provisions of the Code have not yet been the subject of administrative or judicial clarification and interpretation. Recently, members of the U.S. Congress considered substantive changes to the existing U.S. federal income tax laws that would have affected the tax treatment of certain partnerships and the tax treatment of oil and gas businesses. Each prospective investor and his, her or its tax advisor should be aware that any further modification of the Code or the regulations promulgated thereunder, or any administrative ruling or judicial decision could be applied to an investment in each of the Funds, possibly on a retroactive basis.

### **No IRS Rulings**

None of the Funds will seek a ruling from the IRS as to any of the Federal income tax consequences of an investment in a Fund. Thus, positions taken by each of the Funds as to tax aspects could differ from positions taken ultimately by the IRS in auditing tax returns, and issuing rulings or otherwise, that could result in unexpected and material modifications to the tax returns and tax liabilities of each of the Funds and the investors.

### **Recognition of Allocations**

The governing documents of each of the Funds contain provisions that allocate federal income tax consequences of each of the Fund’s business. These provisions do not technically comply with the “substantial economic effect” safe harbor provided in the tax regulations. If such allocation provisions were not recognized for federal income tax purposes, a portion of the federal income tax deductions allocated to and claimed by an investor, including deductions for intangible drilling costs, could be reallocated to the General Partner of each Fund or to other investors or a portion of the taxable income allocated to the General Partner of each Fund or other investors could be taxed to a particular investor.

## **Reasonableness of Deductions**

To be deductible as a business expense, each item of expense must be ordinary and necessary and reasonable in amount. Given that certain expenses that a Fund expects to incur will be paid to affiliated persons or entities, the IRS may assert that the amount of such expenses was not determined at “arm’s length” and, consequently, disallow the deduction of a portion of the expenses as not being ordinary and necessary or reasonable in amount. Certain fees may also be re-characterized by the IRS as nondeductible costs or “partnership” distributions, further reducing the tax benefits available to the investors from an investment in a Fund.

## **Timing of Deductions**

The General Partner of each Fund will use reasonable efforts to expend or contract for the expenditure of the capital contributions of the applicable Fund in the year such contributions are received. However, some of the expenses may be incurred prior to the actual drilling of the wells. The General Partner of each Fund cannot assure that any deductible intangible drilling costs incurred in a year prior to the year of the actual drilling of the wells will be deductible in the year incurred. Among other things, a Fund might not expend or contract for the expenditure of a substantial portion of its capital contributions in the year in which investors are admitted to a Fund, in which event no substantial tax deductions would be available in that year from the applicable Fund. Further, the IRS may disallow deductions attributable to the period prior to an investor’s admission or investment in the applicable Fund.

## **Required Capitalization**

Certain expenditures by each of the Funds will be required to be capitalized and will only be deductible, if at all, over time. Specifically, only that portion of the intangible drilling costs attributable to a Fund’s smallest working interest in each well that is not a partnership for federal income tax purposes through the first day of the month after the gross income attributable to the operating mineral interest in the initial wells to be drilled, after deducting applicable royalties, overriding royalties, production payments, shut-in payments, rentals, and other similar burdens, and taxes, except income taxes, equals the sum of: (i) all leasehold acquisition costs; (ii) 100% of the cost and expenses incurred in drilling, testing, completing, equipping and operating (inclusive of workover or recompletion costs) such well; and (iii) other expenses directly attributable to such well (or, perhaps, multiple wells within a particular property) (“Investor Payout”) may be deducted. Intangible drilling costs, along with tangible equipment costs, allocable to working interests held by others in such wells must be capitalized as the cost of acquiring the working interest.

## **Eligibility to Claim Percentage Depletion**

Percentage depletion deductions are tax deductions calculated based upon a percentage of gross income from the property, but are limited to 100% of the total taxable income of the investor from the property for each taxable year, may not exceed 65% of the taxpayer’s overall taxable income (with certain adjustments) for the year, and, in general, are severely limited or not available to investors that do not qualify as independent producers. Because depletion deductions must be computed separately by each investor and not at the partnership level, the availability of percentage

depletion will depend in part upon an investor's individual circumstances. Therefore, each individual investor may not be eligible to claim percentage depletion deductions.

### **Potential Tax Risks as to Farmouts and Back-In Working Interests**

If a Fund acquires working interests in oil and gas leases under the terms of a farmout agreement, a portion of the value of such working interests may have to be reported as taxable income. In addition, the ability of an investor to deduct all intangible drilling costs paid by the applicable Fund with respect to oil and gas leases burdened by a back-in working interest may be limited. A back-in working interest is a right held by another party to become a WI Owner in the oil and gas lease on investor payout on the oil and gas lease.

### **Tax Gain or Loss on Disposition of Units Could be More or Less Than Expected**

If an investor sells its units, the investor will recognize a gain or loss equal to the difference between the amount realized and that investor's adjusted tax basis in those units. Because distributions in excess of an investor's allocable share of the applicable Fund's net taxable income and allocable share of such Fund's net taxable losses decrease that investor's tax basis in its units, the amount, if any, of such prior excess distributions or losses with respect to the units sold will, in effect, become a taxable income allocated to that investor if the investor sells such units at a price greater than that investor's tax basis in those units, even if the price received is less than the original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation and depletion recapture. In addition, because the amount realized may include an investor's share of such Fund's nonrecourse liabilities, if an investor sells its units, such investor may incur a tax liability in excess of the amount of cash received from the sale.

### **Possible Audit of the Fund's Tax Return**

The IRS may audit the tax returns of the Funds. If the IRS were to audit the tax information returns of a Fund, adjustment (if any) resulting from any such audit may result in audits of the investors' own tax returns. Such audits of the investors' tax returns could result in adjustments of items that are unrelated to such Fund, as well as related items.

### **Penalties and Interest**

If the IRS were to challenge successfully a Fund's tax treatment of one or more items, the investors of such Fund could be liable for penalties and interest as well as additional tax. For example, a "substantial understatement penalty" equal to twenty percent (20%) of a substantial understatement of income tax could be imposed in certain circumstances. Interest on deficiencies is determined periodically by applying an average adjusted prime rate charged by commercial banks and is compounded daily.

### **State and Local Taxes**

In addition to U.S. federal income taxes, investors will likely be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate inheritance or intangible

taxes that are imposed by the various jurisdictions in which a Fund conducts business or owns property now or in the future, even if they do not live in any of those jurisdictions. A discussion of these taxes is beyond the scope of the governing documents of the Funds. Investors will likely be required to file foreign, state and local income tax returns and pay foreign, state and local income taxes in some or all of these various jurisdictions. Investors may be subject to penalties for failure to comply with those requirements. The Funds intend to own assets and conduct business in North Dakota and other states and may be considered to conduct business in Colorado. It is the responsibility of each investor to file all required U.S. federal, foreign, state and local tax returns. In addition to income and franchise taxes, Delaware, North Dakota, Montana or their political subdivisions may also levy property taxes, sales and use taxes, and occupational license taxes. A discussion of these taxes is beyond the scope of the Funds' governing documents. However, because of the possibility that such taxes may have an impact on the economic value of the Funds and on the value of the investors' interests therein, the investors should consult with their own tax advisors to determine the effect of such taxes.

### **Tax-Exempt and Non-U.S. Persons**

Investment in units by tax-exempt entities, such as employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of a Fund's income allocated to organizations exempt from U.S. federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. These tax exempt organizations will also be allocated their proportionate share of operating expenses of the applicable Fund, including intangible drilling costs. Distributions to non-U.S. persons will be reduced by withholding taxes imposed at the highest applicable effective tax rate and non-U.S. persons will be required to file U.S. federal income tax returns and pay tax on their allocable share of such Fund's taxable income. A discussion of these issues is beyond the scope of the governing documents of the Funds. Any tax-exempt entity or non-U.S. person should consult its tax advisor before investing in units of the Funds.

### **Item 9      Disciplinary Information**

There are no legal or disciplinary events required to be disclosed pursuant to this Item 9.

### **Item 10    Other Financial Industry Activities and Affiliations**

As previously disclosed herein, the Adviser is affiliated with each of the Funds it manages. The principals of the Adviser are the principals of the General Partner of each Fund. Certain inherent conflicts of interest arise as a result of the fact that: (1) the Adviser will provide investment management services to more than one Fund; and (2) the Funds may have one or more overlapping investment objectives. Also, the portfolio strategies employed by the Adviser for current and future Funds could conflict with and may affect the prices and availability of investments in which the Funds may invest. The Funds have similar investment strategies and participation in specific investment opportunities may be more appropriate for more than one Fund. In such cases, participating in such opportunities will be allocated pursuant to the allocation policy and procedures, as further discussed in Item 6.

From time to time, the Adviser may give advice or take action with respect to the investments of one or more Funds that may not be given or taken with respect to other Funds with similar investment programs, objectives and strategies. Accordingly, Funds with similar strategies may not hold the same investments or achieve the same performance. The Adviser may also advise Funds with conflicting investment objectives and strategies. These activities may also adversely affect the prices and availability of other investments held by or potentially considered for one or more Funds.

In addition, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Adviser, its affiliates and their personnel. The Adviser will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances. The Adviser and its affiliates may invest, on behalf of themselves, in investments that would be appropriate for, are held by, or may fall within the investment guidelines of a Fund. The Adviser's affiliates may give advice or take action for their own accounts that may differ from, conflict with, or be adverse to, advice given to or action taken for the Funds. These activities may adversely affect the prices and availability of investments held by or potentially considered for, one or more Funds. Potential conflicts may also arise due to the fact that the Advisers' affiliates may have investments in some Funds but not in others, or may have difference levels of investments in the various Funds, and that each of the Funds may pay different levels of fees.

Additional conflicts of interest may arise because the principals of the Adviser and the General Partner of each Fund may serve as directors of the companies in which the Funds invest or may have beneficial ownership of the operator or companies in which the Funds invest. In addition to any fiduciary duties the principals owe to the Funds, as directors of portfolio companies, the principals owe fiduciary duties to the shareholders of the portfolio companies, which in many cases are the Funds and to persons other than the Funds and their investors. In general, such positions are often important in enhancing the ability of the Adviser to manage the investments, however, such positions may have the effect of impairing the ability of the Adviser to sell the related investments when, and upon the terms, they may otherwise desire. In addition, such positions may place the principals in a position where they must make a decision that is either not in the best interests of the Funds or not in the best interests of the shareholders of the portfolio company. Coachman addresses this conflict by disclosing it to clients and making investment decisions without a bias in regards company and operator affiliations. In order to further mitigate this conflict, unaffiliated principals of the Adviser and the General Partner of each Fund, who are not directors or beneficial owners of the Funds, are involved in the investment management decisions.

#### **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

The Adviser has adopted policies and procedures designed to address conflicts of interest, including procedures regarding the allocation and aggregation of investment opportunities among Funds and a Code of Ethics, which includes a standard of business conduct and establishes policies and procedures with regard to personal securities transactions of the Adviser's personnel.

The Advisers' Code of Ethics includes, among other things:



- a standard of business conduct required of the Adviser's supervised persons, consistent with fiduciary obligations applicable to the Adviser;
- requirements that all supervised persons comply with applicable Federal securities laws;
- provisions that require all access persons to report relevant personal securities transactions and holdings periodically for review by the Adviser; and
- provisions requiring supervised persons to report any violations of the Code of Ethics promptly.

The Adviser will provide each of its clients with a copy of its Code of Ethics.

The Adviser expects to provide advisory services to several oil and gas Funds and may conduct investment activities for its own accounts. A Fund may have investment objectives or may implement investment strategies similar to those of other Funds managed by the Adviser. In that regard, the Adviser may give advice or take action with respect to a Fund that differs from the advice given with respect to another Fund. To the extent that a particular investment is suitable for more than one Fund and the timing for the purchase or sale of such investment is the same for all such Funds, such an investment will be allocated among the Funds in a manner in which the Adviser determines is fair, reasonable, and equitable under the circumstances to all Funds, taking into account available capital, diversification considerations, other anticipated opportunities, and other relevant factors, in accordance with the Adviser's allocation procedures, applicable statutory fiduciary standards, as well as standards set forth in its investment management agreements and Code of Ethics.

The Adviser will devote such business time and effort as it believes necessary to implement the objectives of the Funds. The Adviser is not required to devote all of its working time to the affairs of the Funds. Conflicts may arise regarding the time the Adviser devotes to the Funds and time it devotes to interests outside of the Funds.

The Adviser does not have a formal policy limiting the Adviser or its affiliates in their ability to invest in the same or similar investments as the Funds. The timing and allocation of such investments will be made in a manner deemed equitable by the Adviser, taking into consideration applicable rules and regulations, location and strategic fit, required ongoing funding commitments, and other factors it deems necessary. In making such investment decisions, the Adviser will act consistently with applicable statutory fiduciary standards, as well as the standards set forth in its investment management agreements and Code of Ethics. The Adviser will also endeavor to act in a fair and equitable manner as described in more detail in Item 10 above.

## **Item 12 Brokerage Practices**

The Adviser does not ordinarily engage in public securities transactions, however, from time to time for hedging purposes or otherwise, the Adviser may engage in such transactions and in such instances adheres to the following practices. Portfolio transactions will be executed by brokers selected by the Adviser in its absolute discretion. In placing portfolio transactions, the Adviser will use reasonable diligence to ascertain the "best" market price for all securities bought or sold

in that market so that the price to the Funds is as favorable as possible under prevailing market conditions. The determinative factor is whether the transaction represents the best qualitative execution for the Fund and not whether the lowest possible commission cost is obtained. The Adviser considers the full range of quality of the broker's service in selecting brokers to meet best execution obligations and may not pay the lowest commission rates available. The Adviser generally takes into account the following factors when selecting brokers for portfolio transactions: (1) the ability to effect prompt and reliable executions at favorable prices, (2) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution, (3) the financial strength, integrity and stability of the broker, (4) the broker firm's risk in positioning a block of securities, (5) the quality, comprehensiveness and frequency of available research services considered to be of value, and (6) the competitiveness of commission rates in comparison with other brokers satisfying the Adviser's other selection criteria. The Adviser is not required to weigh any of these factors equally. The Adviser does not receive any soft dollar benefits from any brokers.

### **Item 13    Review of Accounts**

The Adviser will monitor the Funds' investments on a quarterly basis and will prepare annual reports to be distributed to each Fund. These reports will provide information regarding the Funds' return on investment and information derived from the oil and gas reserve report that each Fund will receive on an annual basis.

### **Item 14    Client Referrals and Other Compensation**

The Adviser will not compensate any third parties for client referrals, nor will the Adviser receive compensation from third parties for providing investment advice to the Adviser's clients. However, the Funds have elected to solicit capital for the Funds through registered broker dealers and will pay commissions to participating broker dealers that execute valid selling agreements with each Fund through its managing broker dealer. Commissions equal up to 7.0% of the gross amount raised by a broker dealer (the "Capital Contributed"). An additional 1.0% of the Capital Contributed raised by a broker dealer will be paid to the participating broker dealer as a non-accountable due diligence allowance.

In addition, some of the Funds have employed a managing broker dealer and will pay such managing broker dealer a 1.0% fee of the Capital Contributed. The managing broker dealer will also receive 1.0% of the ongoing distributions once the General Partner of the applicable Fund becomes entitled to receive 30% of the cash available for distribution, which will be allocated from the distributions owed to General Partner of such Fund. In addition, the Funds will pay the managing broker dealer a fee equal to 1.35% of Capital Contributed as a wholesaling fee for internal or external wholesaling efforts related to marketing and selling units of the applicable Funds.

## **Item 15 Custody**

The Adviser is generally deemed to have custody of the Funds' assets and securities where they have authority to obtain the Funds' assets or securities, for example because: (they have affiliated entities act as (i) the general partner of a Fund formed as a limited partners or (ii) the managing member of a Fund formed as a limited liability company; or (2) they have the authority to withdraw the Funds' assets from an account or withdraw fees.

The Adviser is subject to, and will comply with, Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). With respect to the Funds, the Adviser will be deemed to have complied with the Custody Rule because each Fund is audited at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and each Fund distributes its audited financial statements to all investors no later than 120 days after the end of the Fund's fiscal year.

## **Item 16 Investment Discretion**

The Adviser has full discretionary authority with respect to investment decisions and its advice with respect to the Funds is provided in accordance with the investment objectives and guidelines as set forth in their respective offering memoranda and constituent documents. Investors of the Funds may also negotiate with the General Partner of each Fund in side letter agreements for more specific limitations applicable to the investor, such as prohibited investments that meet certain criteria. The Adviser is delegated the authority to consummate investments on behalf of the Funds by the terms of the governing documents of the Funds and the Management Agreement of each Fund.

## **Item 17 Voting Client Securities**

The securities expected to be held by the Funds will consist solely of working interests in oil and gas leases that do not have corporate voting rights. To the extent any contractual consent of working interest owners is required under the applicable oil and gas operating agreement, the Adviser has sole discretion to determine whether to grant or withhold such consent.

## **Item 18 Financial Information**

Not applicable. The Adviser will not require prepayment of fees, nor is the Adviser aware of any financial condition that is reasonably likely to impair the Adviser's ability to meet contractual commitments to its client. As a result, the Adviser will not be required to include the financial information identified in this Item.

## **Item 19 Requirements for State-Registered Advisers**

Not applicable.