



AETHON ENERGY MANAGEMENT LLC

Form ADV, Part 2A

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This Form ADV, Part 2A, the “**Brochure**”, provides information about the qualifications and business practices of Aethon Energy Management LLC (“**Aethon**”). If you have any questions about the contents of this Brochure, please contact Aethon at (214) 750-3820 or IR@AethonEnergy.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority. Additional information about Aethon also is available on the SEC’s website at www.adviserinfo.sec.gov. Aethon may refer to itself as a “registered investment adviser” or “**RIA**”. You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

This Brochure does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to eligible persons by means of delivery of a confidential offering memorandum and other similar materials that contain a description of the material terms relating to such investment.



ITEM 2: MATERIAL CHANGES

Since this is Aethon's initial Brochure, there are no material changes to report in response to this item. If we make any material changes to our Brochure in the future, we will revise this item to include a summary of any such changes.



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ITEM 4: ADVISORY BUSINESS

Firm Overview

Aethon Energy Management LLC, a Delaware limited liability company (“**Aethon**”), was organized in 2014. We provide investment management and other services to affiliated private pooled investment funds with respect to direct and/or indirect investments in oil and natural gas properties and assets, including working interests and net profits interests. Aethon is owned by Gordon Huddleston (“**G. Huddleston**”). Certain of our affiliates serve as the General Partner to the private funds and will rely on our investment adviser registration instead of separately registering as investment advisers with the Securities and Exchange Commission (the “**SEC**”). Except as the context otherwise requires, any reference to “we,” “us,” or “our” in this document includes Aethon and any affiliates relying on our registration.

Aethon provides (or will provide) investment management services on a discretionary basis to a series of parallel private funds, including Aethon II-A LP, (“**Aethon II-A**”) and Aethon II-C LP (“**Aethon II-C**”) and together with Aethon II-A the “**Aethon Funds**”). Our investment advice is provided in accordance with the investment objectives and strategies described in the applicable offering and governing documents of the Aethon Funds, and the information in this Brochure is qualified in its entirety by the information set forth in such documents.

As of October 31, 2014, Aethon had \$0 in gross assets under management. Aethon will manage all assets in a discretionary manner and will not manage any assets in a non-discretionary manner.

Nature of Aethon’s Clients and Investors

The Aethon Funds are Aethon’s “**Clients**.” Aethon does not have a separate client relationship with investors in the Aethon Funds, which are referred to throughout this Brochure as “**Limited Partners**” or “**Investors**.” The Aethon Funds are Delaware limited partnerships that are not registered or required to be registered under the U.S. Investment Company Act of 1940 (the “**Investment Company Act**”) or the U.S. Securities Act of 1933 (the “**Securities Act**”) and are privately offered to qualified Investors in the United States and elsewhere. Investors in the Aethon Funds are typically domiciled in the U.S. and Europe and include institutions, endowments and foundations, wealth management firms, high net worth individuals, family offices and other investment entities that are accredited investors and qualified clients.



Aethon's Investment Mandates

The Aethon Funds are managed in accordance with the investment objectives, strategies, and guidelines as set forth in the relevant Aethon Fund's confidential offering memorandum, partnership agreements, organizational documents and other related documents (collectively "**Governing Documents**") or investment management agreements, and in all cases investments are selected on the basis of the Client's investment needs and objectives.

The Aethon Funds are not tailored to the individualized needs of any particular Investor, though the Aethon Funds may take into consideration the general characteristics (e.g., tax status) of its target Investors when structuring its operations. An investment in an Aethon Fund does not, in and of itself, create an advisory relationship between the Investor and Aethon and Aethon typically does not enter into separate advisory arrangements with any Investor. Therefore, each Investor must consider for itself whether any Aethon Fund meets the Investor's investment objectives and risk tolerance before investing in the Aethon Fund. Information about each Aethon Fund is set forth in its Governing Documents, which will be available to current and eligible prospective Investors only through Aethon or another authorized party.



ITEM 5: FEES AND COMPENSATION

Management Fees and Carried Interest

Aethon and its affiliated entities that serve as General Partners to the Aethon Funds (the “**Aethon General Partners**”) receive various fees from the Aethon Funds for their services as set forth in the Governing Documents or applicable investment management agreement. The “**Management Fee**,” as defined in each Aethon Fund’s Governing Documents, is initially charged as a percentage of a limited partner’s capital commitments, generally ranging from 1.5% to 2.0% depending on the size of the commitment. Following the Investment Period (as defined in the Governing Documents), the Management Fee is generally based on capital commitments that have been funded with respect to portfolio investments that have not been disposed. Management Fees are generally billed quarterly in advance and are paid through a “capital call” by which the Investor is required to pay the required amount from its undrawn capital commitment to the Aethon Fund, or deduction from available cash. Investors in the Aethon Funds are generally subject to restrictions on transferring their interests, pursuant to the Governing Documents of each Aethon Fund.

The Aethon General Partners generally are entitled to receive a carried interest distribution (typically 20%) of the net profits derived from the disposition of investments, after the return of capital contributions and a preferred rate of return (typically 8%) to Investors, (the “**Carried Interest**”), as defined in the Governing Documents for each Aethon Fund. Upon final dissolution of the Aethon Fund, the Aethon General Partner is generally required to return Carried Interest distributions to the extent that such distributions exceed the amounts that would have been distributed if such Carried Interest distributions were calculated on the aggregate basis covering all Aethon Fund transactions (subject to terms and limitations set forth in the applicable Aethon Fund’s Governing Documents.) Carried Interest distributions are calculated from time to time upon the disposition of portfolio investments and are allocated or distributed to the General Partner or affiliate following the return of capital contributions and preferred return to Investors.

Aethon may waive or reduce Management Fees or Carried Interest for all or certain Investors or classes of Investors, at its discretion. Thus, different Investors in the same Aethon Fund may pay different Management Fees. Additionally, the Aethon General Partner’s capital account will generally not be subject to Management Fees or Carried Interest. Except as otherwise agreed, Aethon is not obligated to waive or reduce Management Fees for any other Investor when offering waivers or reductions to a particular Investor.

Organizational & Other Expenses

In addition to the Management Fee, each Aethon Fund is responsible for paying or reimbursing Aethon or its affiliates for certain expenses as follows (“**Partnership Expenses**”):



- » **Organizational Expenses** – Expenses incurred in connection with the offering and sale of interests in each respective Aethon Fund, including placement agent costs and placement agent fees, except that placement agent fees will be treated as an offset against the Management Fee; the organization of each respective Aethon Fund, the General Partner, investment manager, and their affiliates up to an amount as specified in the Governing Documents of each Aethon Fund; and the negotiation, execution, and delivery of the partnership agreement and related agreements of each Aethon Fund.
- » **Operating Expenses** – Expenses incurred in connection with operation of each Aethon Fund and its portfolio investments including, among others all expenses and costs incurred in connection with its operations and the operation and development of investments (and those not consummated) including fees, costs, and expenses related to identifying, structuring, negotiating, making, monitoring, managing, selling or otherwise disposing of, or valuing any portfolio investment or assets; taxes; fees and expenses of counsel, engineering, and accountants; insurance; costs and expenses in connection with joint operating agreements; litigation expenses; costs and expenses of the investor advisory committee and the annual meeting; and other expenses, all of which are more fully detailed in the Governing Documents of each Aethon Fund. Operating Expenses may include compensation and employee expenses for Aethon employees providing services to the Aethon Funds and portfolio investments, except as noted below. Operating Expenses may include business class, first class or private travel and entertainment expenses.

Aethon or the General Partner for each Aethon Fund is responsible for all compensation and employee benefit expenses allocable to the Partners of Aethon (the “**Executive Team**”), ordinary overhead and administrative expenses of the General Partner, and lease or other payments for the General Partner’s office space, utilities, and office equipment (“**General Partner Expenses**”).

Investors are charged for Partnership Expenses either through a capital call or through a deduction from available cash held by the Aethon Fund, as selected by Aethon. Portfolio assets may directly pay for certain expenses or reimburse Aethon or an affiliate for expenses incurred in connection with such investment. Aethon discloses certain information about the amount and nature of Partnership Expenses in capital call notices and Aethon Fund financial statements. However, Investors generally do not receive detailed information regarding specific Partnership Expenses paid. In addition, Investors generally receive limited or no information about the expenses paid or reimbursed by portfolio assets.

This section provides an overview of the general fees and expenses to which Aethon Fund Investors are subject but is not an exhaustive list of all Partnership Expenses. Partnership Expenses are described more fully in the Governing Documents for each Aethon Fund.



ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As noted above, the Aethon Funds generally pay Carried Interest to Aethon General Partners that are tied to the performance of the relevant Aethon Fund. Aethon's receipt of performance-based fees raises certain conflicts of interest, which are described below. Certain of our individual employees, agents and affiliates may be compensated to some extent based upon investment profits for which they are responsible and, accordingly, may face the same potential conflict.

Investment Selection

Performance-based fees and other arrangements where the incentive to achieve gains may exceed the disincentive to suffer losses may cause Aethon to choose investments that are riskier or more speculative than might otherwise have been chosen.

To mitigate these conflicts, Aethon's related persons have invested substantial personal funds in the Aethon Funds, and Aethon's policies and procedures are designed to ensure that investment decisions are made in accordance with the fiduciary duties owed to the Clients and without consideration of Aethon's (or its personnel's) pecuniary, investment, or other financial interests.

Side-by-Side Management

Different Aethon Funds may have different Carried Interest provisions or may be eligible for different Carried Interest allocations based on the investment returns of the Aethon Fund. Such differences could incent Aethon to favor one fund over another in its investment allocations, make investments in subsequent Aethon Funds that are intended to prop up investments in a prior Aethon Fund, or manipulate the sequence of dispositions. These potential conflicts are mitigated to some extent by the Fact that Aethon and its affiliates invest in the Aethon Funds and have a shared interest with Investors in maximizing Aethon Fund returns.

Parallel Aethon Funds are generally structured to accommodate different tax considerations for certain types of Investors, as outlined in the Governing Documents for each Aethon Fund. Parallel Aethon Funds will invest in the same properties and assets but certain Aethon Funds will own a working interest while others own a net profits interest in such assets.



Pursuant to Aethon Fund Governing Documents, Aethon generally will not launch a subsequent Aethon Fund(s) (other than other parallel Aethon Funds, alternative investment vehicles or co-investment vehicles to accommodate investments in the same portfolio of assets) with primary objectives similar to the current Aethon Funds (a “**Successor Fund**”) until the investment periods for the prior Aethon Funds have expired; therefore multiple Aethon Funds generally will not be making new investments concurrently. Investments by the Aethon Funds in a portfolio investment or asset owned by another Aethon Fund or Aethon affiliate generally must be disclosed to and approved by the Limited Partners Advisory Committee for each relevant Aethon Fund to address potential conflicts of interest.



ITEM 7: TYPES OF CLIENTS

Aethon provides investment management services solely to the Aethon Funds, which are private funds exempt from registration under the Investment Company Act and Securities Act.

Investors in the Aethon Funds are generally institutional investors, high net worth investors and related investment entities, that are “**accredited investors**,” “**qualified clients**” and “**qualified purchasers**” (if required pursuant to the fund’s exemption), within the meaning of the Securities Act, the Advisers Act and the Investment Company Act, respectively.

The Aethon Funds have a specified minimum investment as set forth in their Governing Documents. This minimum investment is subject to discretion, and Aethon or its affiliates may permit investments of a smaller amount generally or with respect to any Investor.

The General Partner, on behalf of an Aethon Fund, may from time to time enter into letter agreements or other similar arrangements (collectively, “**Side Letters**”) with one or more Limited Partners that have the effect of establishing rights under, or altering or supplementing the terms of the Partnership Agreement or any subscription agreement. As a result of such Side Letters, certain Limited Partners may receive additional benefits that other Limited Partners will not receive. The General Partner will not be required to notify any or all of the other Limited Partners of any such Side Letters or any of the rights or terms or provisions thereof, nor will the General Partner be required to offer such additional or different rights or terms to any or all of the other Limited Partners.



ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Following is a summary of the investment strategies and risks involved in Aethon's investment activities. Investors and potential Investors should review the applicable Governing Documents for the particular Aethon Fund(s) in which they are considering investing for a more comprehensive discussion of the relevant risks associated with investing in that Aethon Fund.

Methods of Analysis and Investment Strategies

The Aethon Funds seek to acquire and exploit onshore oil & gas assets in North America. Aethon focuses on acquiring assets with minimal development risk, substantial resources in place and significant upside optionality. Aethon intends to acquire a combination of onshore operated, non-operated, and mineral assets in North America in order to achieve an optimal risk profile, which balances principal protection and long-term cash flow generation. All potential investments will be subject to extensive operational and technical due diligence that will examine in detail historical and projected production and financial performance, lease operating expenses, commodity prices and differentials, sales contracts, comparative analysis, and risk assessment, including environmental risk analysis.

Aethon's investment discipline emphasizes downside protection and the preservation of capital by opportunistically pursuing transactions where it believes the risk/reward profile can be altered in its favor. Aethon expects to acquire oil & gas assets that provide superior returns through reserve development and replacement, identifying unappreciated assets, improved efficiency and cost reduction, disciplined hedging, and financing and divestiture strategies. Among other things, this includes purchasing high-quality reserves in basins where Aethon has an understanding of the geology, petrophysics, basis differential, marketing options, and production declines.

Upon acquisition, Aethon will seek to maximize the return on investment by implementing operational efficiencies and reducing costs, as well as applying the considerable technical expertise of its management and technical staff to exploit the potential of the acquired assets.



Investment Risks

Aethon's investment activities involve a significant degree of risk. There can be no assurance that the Aethon Funds will achieve their investment objectives or that an investment in the Aethon Funds will be profitable. The Aethon Funds' investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this Brochure is intended to imply, and no one is or will be authorized to represent, that an investment in the Aethon Funds is low risk or risk free. The Aethon Funds' investment strategies and programs are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. Prospective Investors should consider the following risks, among others, before making any investment decisions. The various risks outlined below are not the only risks associated with these investment strategies and processes. The following risks are qualified in their entirety by the risks set forth in the Aethon Funds' Governing Documents.

Oil & Gas Risks

Volatility of Crude Oil and Natural Gas Prices

The revenues, profitability, and future growth of Aethon Fund investments depend substantially on prevailing prices for oil & gas. Historically, prices for oil & gas have been extremely volatile and are likely to continue to be extremely volatile in the future. These prices will affect the amount of cash flow available for distribution by each Aethon Fund. Among the factors that can cause fluctuations in oil & gas prices are the domestic and foreign supply of oil & gas, the level of demand and inventory levels, the price and availability of alternative fuels, weather conditions, the price of foreign imports, worldwide economic conditions, political conditions in oil & gas producing regions, and domestic and foreign governmental regulations.

Uncertainty of Reserve and Acquisition Assumptions

Estimating accumulations of oil & gas is complex and is not exact because of the numerous uncertainties inherent in the process. The process relies on interpretations of available geologic, geophysical, engineering and production data. The extent, quality, and reliability of this technical data can vary. The process also requires certain economic assumptions, such as oil & gas prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. The actual future production, well life, oil & gas prices, drilling and operating expenses, capital expenditures and taxes, with respect to a property, will most likely vary from the estimates thereof at the time of the acquisition of the property. Any significant variance could materially adversely affect the quantities and value of any acquisition by the Aethon Funds.

Operating Hazards

The oil & gas business involves a variety of operating risks, including the risk of fire, explosions, blow-outs, pipe failure, casing collapse, abnormally pressured formations, and environmental hazards such as oil spills, gas leaks, ruptures and discharges of toxic gases. The occurrence of any of these could result in substantial losses to the Aethon Funds due to injury and loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations.



Extensive Environmental and Other Regulation

The Aethon Funds' operations are subject to extensive federal, state, and local laws and regulations. Under these laws and regulations, the Aethon Funds may be liable for personal injuries, property damage, and other damages. Failure to comply with these laws and regulations may result in the suspension or termination of Aethon Funds' operations and subject the Aethon Funds to administrative, civil, and criminal penalties. There is an inherent risk that the Aethon Funds may incur significant environmental costs and liabilities due to the nature of its business. For example, an accidental release from one of its wells, even though the Aethon Funds are not the operator, could subject the Aethon Funds to substantial liabilities arising from environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage, and fines or penalties for related violations of environmental laws or regulations.

Drilling Permissions Risks

Public interest in environmental protection has increased in recent years, and environmental organizations have opposed, with some success, certain drilling projects. Drilling and development activities require federal, state, and local review (including environmental reviews) and approvals. Delays in obtaining such approvals or the imposition of onerous conditions on such approvals could have a material adverse effect on the Aethon Funds' ability to develop properties and the value thereof.

Substantial Capital Requirements

A substantial amount of capital is required to acquire, explore, develop, produce and market oil & gas reserves. Lower oil & gas prices or operating difficulties affecting assets acquired by an Aethon Fund may result in its cash flow from operations being less than expected. This may limit the ability of an Aethon Fund to expend the capital necessary to undertake or complete drilling and development activities unless additional funds are raised through other means including debt and equity offerings. If an Aethon Fund is unable to participate in drilling and development activities proposed by co-owners in the properties owned by the Aethon Fund, it will be subject to non-consent penalties that may include loss of the Aethon Fund's interests or require that all cash flow from the properties be distributed to the participating parties until they have recouped some multiple of their expenditures. There can be no assurance that an Aethon Fund will be able to raise or borrow the capital required to continue funding its capital expenditure requirements.

Pipeline Capacity; Shut-in Wells; Delays in Production

The marketability of production may depend upon the availability and capacity of oil & gas gathering systems and pipelines, the effect of federal and state regulation of such production and transportation, general economic conditions, changes in supply due to drilling by other producers and changes in demand. These could adversely affect the Aethon Funds' ability to market production. Production from wells drilled in areas remote from marketing facilities may be delayed until sufficient reserves are established to justify construction of necessary pipelines and production facilities.



Delay in Distributions of Revenue

Distribution of revenue may be delayed for substantial periods of time after discovery of hydrocarbons due to unavailability of, or delay in obtaining, necessary material for completion of a well, reduced takes by purchasers due to market conditions, delays in obtaining satisfactory purchase contracts and connections for wells, delays in title opinions and obtaining division orders and other circumstances.

Leverage

One or more portfolio investments may use significant leverage. Due to such leverage, such portfolio investments may be more sensitive to adverse business or financial developments or economic factors. Moreover, rising interest rates may have a more pronounced effect on the profitability or survival of such companies. If for any of these reasons a portfolio investment is unable to generate sufficient cash flow to meet principal or interest payments on its indebtedness, meet financial or other covenants required by such indebtedness, or make regular dividend payments, the value of an Aethon Fund's investment in such portfolio investments could be significantly reduced or even eliminated.

Hedging Transactions & Derivatives

Aethon Funds will not engage in short selling or shorting transactions but may from time to time purchase or sell forwards, swaps, and/or options on currencies, securities, and indices. It is the intention of the Aethon Funds to engage in such hedging transactions primarily as a way to mitigate risk associated with portfolio investments; however, it is generally impossible to fully hedge a portfolio investment given the uncertainty as to the amount and timing of projected cash flows and investment returns, if any, on the portfolio investment. This may lead to losses on both the portfolio investment and the related transaction. Conversely, there will be times during which the General Partner believes that it is not advisable to enter into hedging transactions; accordingly, an Aethon Fund may be exposed to fluctuations in currencies and other market conditions specific to the underlying asset. The success of the Aethon Funds' hedging transactions will be subject to the ability to correctly predict movements in, and the direction of, currency exchange rates, interest rates, and public security prices.

Options, forward contracts, swaps, and other instruments the Aethon Funds may utilize for hedging purposes are each subject to various risks, as outlined in more detail in an Aethon Fund's Governing Documents. The prices of derivative instruments, including forward contracts, swaps and options, are highly volatile and may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. Hedging transactions will also present counterparty risk and there is no limit on the exposure that may be incurred to any single counterparty under over-the-counter derivative instruments, exchange listed securities, options, repurchase agreements, or other similar transactions and, as a result, if any such counterparty becomes unable to pay amounts due on such instruments or transactions, the financial losses to an Aethon Fund would be greater than if such limits were imposed.



Fund Risks

Absence of Operating History and Limited Value of Historical Performance Data

The Aethon Funds are newly created funds that have no operating history upon which prospective Limited Partners can evaluate the likely performance of the Aethon Funds. The past investment performance information provided to prospective Investors relates to internal and external funds previously managed by affiliates of Aethon and is not necessarily indicative of the future results of the Aethon Funds. While the General Partner intends to make investments that have estimated returns commensurate with the uncertainties involved, there can be no assurances that the Aethon Funds' investment objectives will be achieved. In view of the current geopolitical situation, it is possible that significant disruptions in, or historically unprecedented effects on, the financial markets and/or the businesses and projects in which the Aethon Funds invest may occur, which could diminish any relevance that historical performance data of the Investment Manager may have to the future performance of the Aethon Funds.

Highly Competitive Market for Investment Opportunities

The activity of identifying, negotiating, and closing acquisitions in the energy sector is highly competitive and involves a high degree of uncertainty. There can be no assurance that the Aethon Funds will be able to find or complete acquisitions at attractive prices, that any acquisition or any drilling activities will be successful or that Aethon will be able to fully invest Aethon Fund commitments. The availability of investment opportunities generally will be subject to market conditions as well as the prevailing regulatory or political climate. The Aethon Funds will compete for acquisition opportunities, and for drilling rigs and other services, with major and diversified energy companies and large independent energy companies with significantly greater financial, technological and employee resources than Aethon.

Concentration of Investments

The Aethon Funds will participate in a limited number of portfolio investments and, as a consequence, the aggregate return of the Aethon Funds may be affected by the performance of a single portfolio investment. Furthermore, to the extent that the capital raised is less than the targeted amount, the Aethon Funds may invest in fewer portfolio investments and thus be less diversified.



Illiquid and Long-term Investments

Although oil & gas properties acquired by the Aethon Funds are expected to generate current income, the return of the Limited Partners' capital and realization of the Limited Partners' preferred return from their investment generally will occur only upon the partial or complete disposition of Aethon Fund properties. Although the sale of acquired properties may occur at any time, Aethon does not expect that this will occur until a number of years after the investments are made. Upon the dissolution of the Aethon Fund at the end of the Aethon Fund's term, depending on oil & gas prices and the market for oil & gas properties and related assets, the Limited Partners who are unaffiliated with the General Partner may elect to either (i) receive in-kind distributions in the form of working interests in the oil & gas properties owned by the Aethon Fund, with such Limited Partners then holding such assets directly with all of the risks of owning oil & gas properties and assuming full responsibility for managing such interests, or (ii) sell their interests in such oil & gas properties and related assets to the General Partner at fair market value in accordance with the Partnership Agreement.

Follow-On Investments

Following the initial investment in a portfolio investment, an Aethon Fund may be called upon to provide additional funds or have the opportunity to increase its investment in such portfolio investment or to fund additional investments through such portfolio investment. There is no assurance that the Aethon Fund will make follow-on investments or that the Aethon Fund will have sufficient funds to make all such investments. Any decision by Aethon not to make follow-on investments or its inability to make them may have substantial negative impact on the portfolio investment in need of such investment.

Recycling; Reinvestment

Pursuant to the terms of the relevant Aethon Fund Governing Documents, Aethon may recycle proceeds received in respect of a portfolio investment during the investment period, or amounts contributed in respect of a bridge financing or other investment that are refinanced or otherwise repaid within 18 months. Accordingly, such amounts may be reinvested in other portfolio investments subject to investment and other risks associated with such portfolio investments.

Exclusive Reliance upon Aethon for Management of the Aethon Funds

The General Partner will exclusively manage and control all aspects of the business of the Aethon Funds and will make all decisions respecting the business of the Aethon Funds and has appointed the Investment Manager to manage each Aethon Fund's day-to-day operations and investment program. Aethon's senior management team will exclusively manage and control all aspects of the business of the Aethon Funds. Investors will not have an opportunity before purchasing interests in an Aethon Fund to evaluate for themselves the relevant geophysical, geological, economical, or other factors regarding the potential acquisition(s) to be selected.



Joint Activities with Others

The Aethon Funds may acquire less than the full working interest in portfolio investments and, as a result, may engage in joint activities with other working interest owners. The Aethon Funds could be held liable for the joint activity obligations of the other working interest owners, such as nonpayment of costs and liabilities arising from the actions of the working interest owners. Full development of the properties may be jeopardized in the event of the inability of other working interest owners to pay their respective shares of drilling and completion costs.

Third-Party Advice

The Aethon Funds, the General Partners, and the Investment Manager utilize the services of attorneys, accountants and other consultants in their operations. The Aethon Funds, the General Partner, and the Investment Manager generally rely upon such advisors for their professional judgment with respect to legal, tax and other regulatory matters. Nevertheless, there exists a risk that such advisors may provide incorrect advice from time to time. None of the Aethon Funds, the General Partner, or the Investment Manager will have any liability to Limited Partners for any reliance upon such advice.

Other Risks

The Aethon Funds are subject to other risks related to the structure and operations of the Aethon Funds and other factors, as described in greater detail in Aethon Fund Governing Documents. These risks include, among others:

- » Restrictions on Purchase and Transfer / Lack of Liquidity
- » Penalties for Failure to Make Capital Contributions
- » Liability for Return of Distributions
- » Recourse to Assets
- » Litigation Risks
- » Legal & Regulatory Risks
- » Tax Risks



ITEM 9: DISCIPLINARY INFORMATION

Aethon is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Aethon or the integrity of Aethon's management.

Aethon has no information to disclose in response to this Item.



ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Aethon Energy Operating Company

Aethon is affiliated with Aethon Energy Operating LLC, Hyperion Oil & Gas, LLC, and affiliates (collectively “**AEO**”). AEO was founded in 1990 by Albert Huddleston (“**A. Huddleston**”) and has a 24-year history of acquiring, operating, and developing oil & gas assets. AEO serves as the operator for Aethon Fund properties and assets. The Aethon Funds are responsible for salaries and other expenses incurred by AEO in providing services to the Aethon Funds and portfolio investments, as discussed in Item 5 above. AEO also serves as operator for other oil & gas assets owned by affiliates and related persons of Aethon.

To the extent that AEO or any affiliate provides services to any Aethon Fund or portfolio investment that would otherwise be provided by independent third parties, Aethon or any such affiliate, as applicable, will receive fees at rates customarily charged for similar services by persons engaged in the same or substantially similar activities and the provisions of any such agreement shall be at least as favorable to the Aethon Fund or such portfolio investment as the terms reasonably expected by the General Partner to be available in an arm’s-length transaction with an independent third party.

General Partners

One or more affiliates of Aethon serve as the General Partner to each of the Aethon Funds. As noted in Item 4 above, the Aethon General Partners are each “Relying Advisers” of Aethon and their activities and the activities of their employees and the persons acting on their behalf are subject to Aethon’s supervision and control. Aethon and each Relying Adviser are subject to the Advisers Act and operate under a unified compliance program administered by a single compliance officer in accordance with the Advisers Act. Aethon and each Relying Adviser share the same office space and personnel.

Other Investment Vehicles

In addition to the Aethon Funds, Aethon or an affiliate serves as the investment manager to certain other entities, including internal and external investment vehicles established prior to the formation of the Aethon Funds (“**Legacy Funds**”), which hold existing oil & gas assets similar to Aethon Fund portfolio investments (“**Existing Activities**”). Further, pursuant to Aethon Fund Governing Documents, Aethon may in the future establish other Aethon Funds (“**Successor Funds**”). As such, certain conflicts could arise in the allocation of investment opportunities and in connection with the acquisition and/or disposition of investments. Aethon attempts to manage such conflicts through disclosures in Aethon Fund Governing Documents and this Brochure and investment allocation procedures as discussed below and in Item 12.



Co-Investments

At the discretion of the General Partner, Limited Partners, or third parties may be invited by the General Partner to co-invest with the Aethon Funds in transactions on substantially the same terms and conditions as an Aethon Fund. Co-investment opportunities may be offered as interests in a limited partnership or other similar entity formed for each such investment (a “**Co-Investment Entity**”). Unless otherwise specified under Aethon Fund Governing Documents, the General Partner will allocate available investment opportunities among the Aethon Fund, the Co-Investment Entity, and any third parties as it may in its sole and absolute discretion determine.

Other Activities

Aethon employees are generally expected to devote their full professional time and efforts to the business of the Aethon Funds and related activities and avoid activities that could present actual or perceived conflicts of interest. Aethon employees must generally obtain prior approval for outside activities, except as specifically contemplated by the Aethon Fund Governing Documents.

During the Investment Period for each Aethon Fund, A. Huddleston will devote substantially all of his business time and attention to the business of the Aethon Fund (including any parallel Aethon Fund, any alternative investment vehicle and any co-investment entity), Aethon, the General Partner, any permitted Successor Fund and their respective affiliates and, thereafter, will devote such amount of time and attention to each Aethon Fund as is reasonably necessary to manage and direct the operations, business and affairs of the Aethon Fund. In addition, A. Huddleston may (i) engage in Existing Activities (as defined above); (ii) serve as an officer or director on behalf of investment funds or portfolio investments owned or controlled by Aethon and its affiliates; (iii) engage in civic, professional, industry and charitable activities; (iv) conduct and manage personal and family investment activities; or (v) engage in any other activities approved by the Limited Partner Advisory Committee as established under the Governing Documents for each Aethon Fund (“**Advisory Committee**”).

Other Registrations

Aethon or an affiliate will file an exemption from registration as a commodity pool operator or commodity trading advisor with the Commodities Futures Trading Commission (“**CFTC**”). Neither Aethon nor any of its principals is registered, or has an application pending to register as a securities broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, commodity pool operator, or commodity trading advisor.



ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Participation in Client Transaction Transactions

Aethon, its affiliates and related persons, may invest or otherwise hold an interest, either directly or indirectly, in the Aethon Funds and any parallel Aethon Funds, alternative investment vehicles, or co-investment entities related to such funds (“**Aethon-Related Funds**.”). During the term of the Aethon Funds, neither Aethon nor any affiliate may acquire, invest in or hold interests in any existing or prospective portfolio investment for an Aethon Fund without the consent of the respective Advisory Committee, except: (i) Aethon-Related Aethon Fund investments; (ii) warehoused transactions, as discussed below, and (iii) securities granted or paid to Aethon or an affiliate in such Person’s capacity as member of the board of directors (or equivalent governing body) of such portfolio investment.

Pursuant to Aethon Fund Governing Documents, the Aethon Funds may (i) without Advisory Committee approval, purchase from Aethon or an affiliate thereof, Aethon-Related Funds, or the Legacy Funds, some or all of the securities of one or more prospective portfolio investment which were “warehoused” in contemplation of a transfer to the Aethon Funds, at cost plus interest and reimbursement of “deal expenses”; (ii) sell to one or more Successor Funds or an affiliate, the securities of one or more portfolio assets which were “warehoused” in contemplation of a transfer to such Successor Fund on or shortly after the initial closing date of such Successor Fund, at cost plus interest and reimbursement of “deal expenses”; and (iii) sell securities and assets to, and purchase securities and assets from, any Aethon-Related Fund. Aethon will disclose the details of each transaction and obtain the prior consent of the Advisory Committee (which consent shall constitute consent of the Aethon Fund) with respect to any principal transaction that would be prohibited by Section 206(3) of the Advisers Act without Client consent.

Aethon, its affiliates, and related persons hold an interest in existing oil & gas investments through the Legacy Funds, as discussed in Item 10 above. Pursuant to Aethon Fund Governing Documents, Aethon and its affiliates have the right to pursue any opportunity that consists of (i) the acquisition of an additional interest in an investment in which Aethon or an affiliate owns an interest prior to the initial closing of the Aethon Funds; or (ii) the acquisition of oil & gas assets or companies involved in the exploration, ownership, production, development, transportation or storage of oil & gas, if such assets or companies are located within ten (10) miles of the county in which the properties or assets from Existing Activities are located as of the initial closing.



Code of Ethics

Aethon's Code of Ethics governs personal transactions by supervised persons and is intended to assure that their interests do not conflict with the interests of Clients or, as applicable, Investors in the Aethon Funds. As such, Aethon's Code of Ethics includes: (i) standards of business conduct, requiring that supervised persons comply with relevant provisions of the federal securities laws and the fiduciary duties an investment adviser owes to its Clients; (ii) personal securities transaction policies governing the personal investment activities of relevant personnel and requiring the submission by Access Persons of reports regarding their personal trading accounts and activities; and (iii) an insider trading policy. We will furnish a copy of the Code of Ethics to Clients or Investors upon request.

To assist Aethon in monitoring personal trading activities and in order to detect potential conflicts of interest or violations of the Code, fiduciary duty or applicable law, Access Persons must provide periodic reports with respect to personal securities transactions, holdings and accounts, including annual reports of holdings in certain, reportable securities, and quarterly reports of their personal transactions in reportable securities. In addition, Access Persons must obtain approval prior to investing in initial public offerings ("*IPOs*") and private placements. Aethon will maintain and periodically update a Restricted List that includes issuers for which Aethon believes it is prudent to restrict trading. Access Persons are further prohibited from investing in securities listed on the Restricted List without prior approval.

Insider Trading Policy

Aethon and its related persons may, from time to time, come into possession of material nonpublic and other confidential information, which, if disclosed, might affect an investor's decision to buy, sell, or hold a security. Under applicable law, Aethon may be prohibited from improperly disclosing or using such information for its personal benefit or for the benefit of any other person, regardless of whether that other person is a Client. Accordingly, should Aethon come into possession of material nonpublic or other confidential information with respect to any company, it may be prohibited from using that information for the benefit of its Clients or communicating that information to Clients, Investors or others. Accordingly, Aethon's Code of Ethics establishes procedures to prevent the misuse of material nonpublic information by Aethon's supervised persons. Aethon shall have no obligation or responsibility to disclose such information to, nor responsibility to use that information for the benefit of, the Clients when following policies and procedures designed to comply with law.



ITEM 12: BROKERAGE PRACTICES

Brokerage Practices

Aethon generally does not use broker-dealers when acquiring and selling portfolio investments for the Aethon Funds but may on occasion purchase securities through a broker and does have the authority to determine brokers to be used for Aethon Fund transactions and to negotiate commission rates and other monies paid by the Aethon Funds. Aethon may use brokers, or financial institutions at which the Aethon Funds maintain lines of credit, in conjunction with hedging activities and transactions.

In situations where Aethon selects the broker-dealer to purchase or sell positions or execute transactions on behalf of any Aethon Fund, consistent with its duty to seek best execution, Aethon selects brokers and dealers based upon their reputation, nature, and quality of service provided, and ability to efficiently execute such transaction. When selecting a broker or dealer, Aethon will take into account factors such as execution capabilities, commission rates, responsiveness, and financial responsibility. In applying these factors, Aethon recognizes that different brokers may have different execution capabilities with respect to different types of securities and transactions, and that no one broker will likely be judged the best at every relevant factor as a general matter or with respect to any particular transaction.

Aethon currently does not use commissions generated by trading for the Aethon Funds to pay for third party research or other services (“**Soft Dollars**”). In addition, Aethon does not use brokerage relationships to compensate for Client or Investor referrals.

Allocation of Investment Opportunities

Until the expiration of the Investment Period for any Aethon Fund, each prospective investment opportunity identified by Aethon or an affiliate (other than any follow-on investment opportunity related to an existing investment managed by Aethon or any affiliate) that is within the scope of the Fund’s investment objectives will be made available to such Aethon Fund before being offered to any other person. In certain circumstances, other investment vehicles managed by Aethon affiliates may co-invest with an Aethon Fund on a basis that the General Partner believes is fair and equitable. With respect to any Successor Fund established prior to the expiration of the Investment Period of a prior Aethon Fund, the General Partner intends to allocate investment opportunities that meet the investment objectives of the prior Aethon Fund and such Successor Fund on a basis that the General Partner believes is fair and equitable.



ITEM 13: REVIEW OF ACCOUNTS

All investment decisions are made by the Investment Committee, which is comprised of the Executive Team and the Chief Financial Officer/Chief Compliance Officer. The Investment Committee oversees, reviews and monitors all portfolio investments, including reporting and valuations.

Aethon invests in oil and natural gas working properties and assets, including working interests and net profits interests. In monitoring the performance of such portfolio investments, Aethon engineers, geologists and other field employees review various information weekly, including production data, drilling or other development activity reports, engineering reports, and other data and reports. Aethon accounting and financial personnel review debits and credits to the net profits accounts monthly. The Investment Committee reviews production and production sales performance of the oil & gas investments, and reports from the engineers at least weekly, and net profits information at least monthly.

Investors generally receive quarterly unaudited financial statements within 45 days following the end of the first three quarters of each fiscal year and audited financial statements within 90 days following the end of the fiscal year. Additionally, each Investor receives information about the Investor's capital account balance and certain tax-reporting information (e.g., Schedule K-1) within 120 days following the end of the fiscal year, and such other tax information as may reasonably be requested by any Limited Partner (at the expense of the Limited Partner). Investors receive capital call and distribution notices providing detail regarding the amount and nature of each call or distribution.

Representatives of Aethon may be made available for discussions with Investors on a periodic or agreed upon basis.



ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

Aethon has entered into (and may in the future enter into) one or more agreements with third-party placement agents or solicitors that provide for payment to such placement agent or solicitor in the event that a prospective Investor introduced to Aethon by that placement agent or solicitor elects to invest in an Aethon Fund. These arrangements typically provide for the placement agent or solicitor to receive a percentage of the assets introduced to Aethon ranging from 1% to 3% subject to other contingencies. All current marketers for the Aethon Funds are disclosed in Schedule D Section 7.B. (1) of Form ADV Part 1A.

Neither Aethon nor any affiliate generally receives any economic benefit from a non-client for providing investment advice or other advisory services to its Clients, except fees received or expenses reimbursed with respect to operating or other services provided to or in connection with portfolio investments, as described in Item 5 above.



ITEM 15: CUSTODY

Due to its affiliation with the General Partner for each Aethon Fund, Aethon is generally deemed to have custody of Client funds and securities for purposes of Rule 206(4)-2 under the Advisers Act.

In order to comply with Rule 206(4)-2, Aethon holds Clients funds and securities at a qualified custodian (as defined under Rule 206(4)-2), to the extent required by the Rule. Aethon ensures that each qualified custodian maintains these assets in an account that contains only Clients assets, under the Client's name. However, generally the oil & gas securities held by Aethon Funds are deemed to be "*privately offered securities*" as defined in Rule 206(4)-2 and are not required to be held, and therefore are not held, at a qualified custodian. Custodians for each Aethon Fund are disclosed in Schedule D Section 7.B. (1) of Form ADV Part 1A.

In accordance with Rule 206(4)-2, Aethon also (i) engages an outside auditor to audit each Aethon Fund at the end of each fiscal year and (ii) distributes the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all Investors within 120 days after the end of the fiscal year for each Aethon Fund. The auditor for each Aethon Fund is disclosed in Schedule D Section 7.B. (1) of Form ADV Part 1A.



ITEM 16: INVESTMENT DISCRETION

Aethon provides investment advisory services to the Aethon Funds on a discretionary basis, subject to the overall supervision of the General Partner. The investment objectives and restrictions of the Aethon Funds are set forth in the relevant Governing Documents. Investors in the Aethon Funds do not have authority to impose any restrictions upon Aethon's discretionary authority. However, Aethon may, under certain circumstances, enter Side Letters with Investors that limit certain fund investments to address specific legal, regulatory, tax, or policy restrictions of the Investor.



ITEM 17: VOTING CLIENT SECURITIES

While Aethon and/or our affiliates technically will have the authority to vote proxies on behalf of the Aethon Funds, the Aethon Funds generally only invest in oil and natural gas properties and assets, including working interests and net profits interests. Accordingly, neither we nor any of our affiliates generally expect to be called upon to vote proxies with respect to securities owned by the Aethon Funds. Nevertheless, in the event that Aethon or any affiliate is called upon to vote proxies, we will vote proxies in accordance with proxy voting policies and procedures in our compliance manual. In general, our policy will be to vote proxy proposals, amendments, consents, or resolutions in a manner that serves the best interests of the Aethon Funds, as determined by Aethon or our affiliates. Copies of our proxy voting policy, together with information regarding how we have voted past proxies (if applicable), will be made available to Clients or Investors upon request.



ITEM 18: FINANCIAL INFORMATION

Aethon is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients.