

Form ADV Part 2A: FIRM BROCHURE



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March 29, 2019

This Brochure provides information about the qualifications and business practices of Bayou City Energy Management, LLC (and together with its fund general partners (unless otherwise specified) “BCEM” or the “Firm”). If you have any questions about the contents of this Brochure, please contact Darren Lindamood, Chief Compliance Officer, Director, and General Counsel, at (713) 400-8226 or darren@bayoucityenergy.com. 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.

BCEM is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about the Firm also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Since BCEM’s last annual update of the brochure (the “Brochure”), dated March 29, 2018, the Firm filed an other-than-annual amendment on December 19, 2018 to update the Firm’s ownership information. In addition, during the 2018 fiscal year, BCEM closed several new funds and co-investment vehicles as disclosed in the Firm’s Form ADV Part 1: Bayou City Energy III, L.P., a Delaware limited partnership; Bayou City Energy Affiliate Fund III, L.P., a Delaware limited partnership; BCE-MACH Holdings LLC, a Delaware limited liability company; and BCE-AMR Holdings LLC, a Delaware limited liability company.

In addition, BCEM routinely makes changes throughout its Brochure to improve and clarify the descriptions of its business practices and compliance policies and procedures or in response to evolving industry and Firm practices. The following Items have been updated since last year’s annual amendment:

- Item 4: updated to reflect regulatory assets under management as of December 31, 2018 and other immaterial changes;
- Item 5: updated description of certain fees and expenses;
- Item 8: updated description of potential risks of loss and potential conflicts of interest;
- Item 10: updated description of arrangements or relationships that can create a conflict of interest; and
- Other sections to make certain immaterial and/or conforming changes related to the foregoing.

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Item 4 – Advisory Business

A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).

BCEM is a private equity firm formed in 2015 by William W. McMullen (“Managing Partner”), Mark N. Stoner (“Partner”) and Charles R. Cherington (“Senior Advisor”). BCEM is an upstream-focused energy private equity firm focused on investments in energy exploration and production (“E&P” or “upstream”) companies. The Funds make privately negotiated, control equity investments in the upstream space in the general range of \$5 million to \$75 million per company. BCEM also seeks to make dedicated drilling capital commitments to leading operators in order to gain access to low-risk, high-return, drilling locations.

BCEM serves as the investment adviser for and provides discretionary investment advisory services to private funds exempt from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”), as well as to co-investment special purpose funds established to invest alongside a fund in a single portfolio company (each, a “Fund” and collectively, the “Funds,” unless the context otherwise requires). Each Fund is affiliated with a general partner (“General Partner”) with authority to make investment decisions on behalf of the Funds. The Funds’ General Partners are deemed registered under the Investment Advisers Act of 1940, as amended (“Advisers Act”), pursuant to BCEM’s registration in accordance with SEC guidance. While the General Partners maintain ultimate authority over the respective Funds, BCEM has been designated the role of investment adviser. For more information about the Funds and General Partners, please see BCEM’s Form ADV Part 1, Schedule D, Sections 7.A. and 7.B.(1).

Principal Owners/Ownership Structure

BCEM is wholly owned by Ara Partners Group (“Ara”), formerly Argus Energy Managers LLC. For more information about BCEM’s owners and executive officers, see BCEM’s Form ADV Part 1, Schedule A and Schedule B.

B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.

BCEM provides advisory services as a private equity fund manager to its Funds. Interests in the Funds generally are privately offered to qualified investors in the United States and elsewhere. The Funds invest through privately negotiated transactions in operating companies. BCEM’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities and negotiating the terms of purchase and sale of investments. The Firm’s investment strategy is to

specifically target investments in North American exploration and production companies through two complementary strategies: investing buyout and growth capital in operators with current production to sustain and expand operations (platform companies) and partnering with leading operators to provide dedicated drilling capital commitments (drill partnerships).

C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.

BCEM does not tailor its advisory services to the individual needs of investors in its Funds; rather, BCEM's investment advice and authority for each Fund is tailored to the investment objectives of that Fund. These objectives are described in the private placement memorandum, limited partnership agreement, investment advisory agreement, side letters and other governing documents of the relevant Fund (collectively, "Governing Documents"). The Firm does not seek or require investor approval regarding each investment decision.

Fund investors cannot impose restrictions on investing in certain securities or types of securities. Investors in the Funds participate in the overall investment program for the applicable Fund and generally cannot be excused from a particular investment except pursuant to the terms of the applicable Governing Documents. BCEM has entered into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Fund's Governing Documents. Such rights include certain fee arrangements, notification provisions, reporting requirements and most favored nations provisions, among others. Side letters are negotiated at the time of a Fund's formation, and once invested in a Fund, investors generally cannot impose additional investment guidelines or restrictions on such Fund.

D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.

BCEM does not participate in wrap fee programs.

E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date "as of" which you calculated the amounts.

As of December 31, 2018, BCEM manages approximately \$1,331,026,429 in regulatory assets under management, all managed on a discretionary basis. The calculation of regulatory assets under management includes the duplication of assets to the extent that certain Funds are invested in other Funds. Without such duplication of assets, BCEM's regulatory assets under management is \$950,950,581.

Item 5 – Fees and Compensation

A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.

Generally, BCEM or an affiliate receives a management fee and its affiliated General Partners are allocated carried interest as compensation for providing investment advisory services to the Funds (subject to certain exceptions as described more fully below, as well as in Item 6). The following is a general description of fees and compensation of the Funds. At times, fees differ from one Fund to another, as well as among investors in the same Fund.

Investors in the Funds also bear certain Fund expenses, as described in Item 5.C below. Each investor should refer to the Governing Documents of the applicable Fund for a complete understanding of how BCEM is compensated for its advisory services; the information contained herein is a summary only and is qualified in its entirety by such documents.

Management Fees

BCEM charges certain Funds a management fee (the “Management Fee”), generally 2% per annum for the Funds. The Management Fee charged to each Fund is specified in the Governing Documents of each Fund. Generally, Management Fees are initially calculated based upon each investor’s committed capital for the period of time during which each Fund is making investments or until BCEM or its affiliates begins to accrue Management Fees from a successor fund (whichever is earlier); thereafter, the Management Fee are calculated based on the cost basis of portfolio investments held by the Funds (excluding temporary investments and portfolio investments that have been fully written off).

The General Partners are permitted, in their sole discretion, to reduce or waive all or a portion of the Management Fee. Management Fees differ from one Fund to another, as well as among investors in the same Fund. Such differences can arise from the size of an investor’s commitment to a Fund, different investor classes, provisions of side letter agreements or other negotiated terms. For more specific information on the Management Fees for each Fund, please refer to such Fund’s Governing Documents.

The General Partners have established affiliate funds for BCEM employees, affiliates, associates or advisers to invest pro rata in investments made by certain Funds (“Affiliate Funds”). Investors in the Affiliate Funds do not pay Management Fees.

Management Fees will generally be reduced by (i) the amount of fees paid by a Fund to entities or persons acting as a placement agent in connection with the offer and sale of interests in such Fund, if applicable; (ii) costs incurred by BCEM in connection with the organization of a Fund that exceed a limit specified in such Fund’s Governing Documents (as further described under “Organizational Expenses” in Item 5.C below); (iii) if applicable, External Fees (as defined below); and (iv) termination

and break-up fees received by BCEM or the Funds in connection with actual or contemplated investments (“Break-Up Fees”). To the extent that the Management Fee would be reduced for a given quarterly period below zero as a result of these reductions, the reduction amounts are carried forward to reduce future installments of the Management Fee, and if a credit remains upon dissolution, a payment will be made to investors that have not elected to waive such distributions. The amount and manner of such reduction (if any) is set forth in the Governing Documents of the Funds.

External Fees

In addition, BCEM, the General Partners, the Firm’s principals and employees, and any affiliates of the foregoing are generally permitted under the relevant Governing Documents to receive additional compensation (“External Fees”) in connection with management and other services performed for portfolio companies of the Funds, including financial advisory fees, finder, commitment or placement fees, consulting, monitoring, directors fees and other similar compensation in connection with management and other services performed for portfolio companies of the Funds. Such External Fees generally will be paid to BCEM and not directly to the individual providing such services and will reduce the management fees otherwise payable to BCEM. For the avoidance of doubt, External Fees do not include (and therefore, are not offset against management fees) any fees that a Fund’s advisory board has agreed should be excluded, or any fees or other compensation paid by one or more portfolio companies to BCEM employees who are either (i) devoting a majority of their business time to such portfolio companies or (ii) for certain Funds, providing legal services to portfolio companies of such Funds that are in lieu of and/or in addition to outside legal counsel (provided that any such legal fees or compensation are on arm’s-length terms and do not exceed the amount that would have otherwise been paid to outside legal counsel in connection with such services).

Co-Investment Management Fee

Existing Fund investors who participate in a BCEM co-investment are generally not charged a Management Fee on the co-investment portion of their investment. However, new investors who are offered a co-investment opportunity in a BCEM-managed vehicle but are not existing Fund investors will generally pay a Management Fee in accordance with the policies described above. Additionally, from time to time, fees charged to co-investment vehicles and/or co-investors are paid directly to BCEM and do not offset the Management Fees payable by any other Fund(s) that have also co-invested in such investment.

Carried Interest

As described in more detail in Item 6 below, the General Partners of certain Funds are entitled to be allocated carried interest (“Carried Interest”) with respect to such Funds, which amount is typically equal to 20% of all realized profits in excess of a compounded preferred return of 8 or 10% per annum, depending on the Fund. Investors in the Affiliate Funds do not pay any Carried Interest. Carried Interest arrangements differ across the Funds; therefore, investors should refer to the relevant

Fund's Governing Documents for specifics on the calculation of Carried Interest, as well as any clawback provisions.

Third Party Advisers

BCEM utilizes the services of certain third party advisers to assist the Firm in sourcing investors. Such third party advisers do not receive any cash payments for investor referrals but rather receive a reduction on fees paid for an investment made in a Fund.

B. Describe whether you deduct fees from clients' assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.

Management fees are generally paid on a quarterly basis in advance.

C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.

BCEM and General Partner Expenses

The General Partners and BCCEM, as investment advisers to the Funds, are responsible for their normal administrative and overhead expenses, including compensation of employees, rent, utilities, equipment and other office expenses.

Fund Expenses

Generally, the Funds are responsible for the payment of (and BCCEM and the General Partners will be reimbursed for) the following expenditures (which differ across Funds as specified in each Fund's Governing Documents): (i) the legal, consulting, third party administrator, custodian, appraisal, brokerage, service provider and similar fees and expenses, accounting and auditing expenses of the Funds (including, without limitation, fees and expenses of annual audits, the preparation and delivery of the annual and interim financial statements and federal, state and local tax returns); (ii) federal, state, county and municipal taxes and assessments of any nature imposed on the Funds, their businesses or operations; (iii) filing fees and expenses of the Funds under all federal, state, county, and municipal laws, statutes, and ordinances, and the rules and regulations thereunder (including but not limited to regulatory and compliance expenses, preparation of Form PF, and third party costs and expenses related to BCCEM's general compliance with the Advisers Act); (iv) expenses of reports and notices to, and meetings of, investors and Fund advisory boards, all costs and expenses of any votes or consents of the investors or the Fund advisory boards, any amendments to or waivers of the Governing Documents or any related agreement, and any advisory board expenses as permitted under the Governing Documents; (v) fees and disbursements of custodians, disbursing agents, and the like; (vi)

brokerage commissions, investment banking fees, valuation fees, finders' fees and custodial, legal, consulting and accounting expenses, commitment fees or other lenders fees, printing expenses, fees related to negotiating non-disclosure and confidentiality agreements, and all other expenses, including travel and ancillary costs (which can include first or business class commercial airfare or private or charter airfare of equal or lesser cost to such commercial airfare) and any group purchasing costs, as applicable, in each case, incurred in connection with any sourcing, investigating, analyzing, researching, pursuing, acquiring, purchasing, investing, seeking disposition opportunities and disposing of investments (and prospective investments) of the Funds (whether or not such acquisitions or dispositions are consummated) or the holding and monitoring of investments of the Funds, all to the extent not reimbursed by the Funds' portfolio companies; (vii) all fees, costs and expenses for transactions not consummated, including all amounts payable to third parties and all fees and expenses of lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, and any deposits or draw-down payments that are forfeited in connection with unconsummated transactions (including travel costs and ancillary expenses (which can include first or business class commercial airfare or private or charter airfare of equal or lesser cost to such commercial airfare, incurred in connection therewith) ("Broken Deal Expenses"), but only to the extent that such Broken Deal Expenses exceed Break-Up Fees; (viii) all debt service obligations, including interest, premium and other costs, fees, charges, and assessments with respect to funds borrowed and any fees and expenses incurred as a result of the implementation, utilization and refinancing of any credit instruments or facilities; (ix) insurance premiums and expenses (including, without limitation, the costs and expenses of D&O and or E&O liability insurance or other insurance for which a Fund is a beneficiary); (x) all expenses, liabilities and other obligations associated with any pending or threatened claim or litigation involving a Fund including, without limitation, any indemnification obligations, and including fees, costs and expenses related to litigation, audits, investigations, and all judgments, fines, penalties or settlements paid in connection with such claim, investigation, audit or litigation; (xi) all fees, costs and expenses of maintaining Fund II and its General Partner, including, without limitation, franchise taxes and registration and registered agent fees and expenses; (xii) all fees, costs and expenses of the wind down and its General Partner and the liquidation of the assets in connection therewith; (xiii) for one blocker entity, a feeder administration fee; and (xiv) all other costs, liabilities and expenses substantially comparable to any of the foregoing or otherwise payable to third parties unaffiliated with the relevant General Partners or BCEM on behalf of the Funds and, to the extent any such costs or expenses are paid by the relevant General Partner or BCEM, the relevant General Partner or their affiliates, as the case may be, will be reimbursed by the Funds.

For more information about BCEM's brokerage practices and fees, please see Item 12, below.

Organizational Expenses

Generally, the Funds shall pay for all reasonable legal and accounting fees, reasonable out of pocket expenses and related disbursements incurred in connection with the establishment of the Funds and the General Partners (the "Organizational Expenses"), provided that the Management Fee is typically

reduced in whole by Organizational Expenses in excess of \$1,000,000 and any placement fees paid by the Fund. Similarly, organizational expenses of co-investment vehicles are paid by such vehicles pursuant to the terms of the relevant Governing Documents.

Portfolio Company Remuneration

As described above, BCEM, the General Partners, the Firm's principals and employees, and any affiliates of the foregoing are permitted under the Governing Documents to receive External Fees (as defined in Item 5.A), the amount of which are paid by the Funds (directly, or indirectly by the portfolio companies) and are determined by BCEM on a transaction by transaction basis, subject to the terms set forth in each Fund's Governing Documents. External Fees are generally offset in whole against Management Fees. However, any reimbursement by a portfolio company of out-of-pocket expenses incurred by BCEM, a General Partner or their respective affiliates will not be offset against the Management Fee payable by the Funds. Similarly, as mentioned in Item 5.A above, any fees or other compensation paid by one or more portfolio companies to employees of BCEM or its affiliates who are (i) devoting a majority of their business time to such portfolio companies or (ii) providing legal services to certain portfolio companies in lieu of and/or in addition to outside legal counsel (provided that any such legal fees or compensation are on arm's length terms and do not exceed the amount that would have otherwise been paid to outside legal counsel in connection with such services) are not subject to offset. BCEM has in the past received reimbursement from certain Funds or directly from certain portfolio companies for a portion of the salary paid to the Firm's Controller, and is authorized to be reimbursed for legal services performed by the Firm's General Counsel in accordance with the relevant Governing Documents.

Co-Investment Expenses

On occasion, BCEM permits certain investors to co-invest in investments alongside one or more Funds, subject to BCEM's policies and procedures, the relevant Governing Documents, side letter(s) or similar arrangements. Co-investment vehicles typically bear their pro rata share (based on their respective invested capital in an investment) of expenses related to their formation and operation. However, in the event that any potential co-investment results in Broken Deal Expenses and all or a portion of such Broken Deal Expenses are not paid or reimbursed by the relevant co-investment vehicle, co-investors, other third parties or transaction participants, and such persons are not contractually obligated to reimburse such expenses, the applicable Fund will generally bear the amount of such Broken Deal Expenses, subject to certain exceptions described in Item 7 below.

D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.

BCEM Funds generally pay Management Fees quarterly, in advance. The Funds are closed-ended investment vehicles intended for a long-term investment. Accordingly, Management Fees are

expected to be paid, except as otherwise described in the relevant Governing Documents, and investors generally are not permitted to withdraw or redeem interests in the Funds.

E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.

Neither BCEM nor any supervised person accepts compensation for the sale of securities or other products, other than as described in this Item 5 and in Item 6 below and throughout this Brochure.

Item 6 – Performance-Based Fees and Side-By-Side Management

If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a Client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.

Typically, each General Partner receives a Carried Interest allocation on certain realized profits in the Funds equal to 20% of all realized profits subject to an annually compounded preferred return (or hurdle) as specified in each Fund's Governing Documents and subject to reimbursement of all relevant Fund expenses, including Management Fees. A Carried Interest allocation represents an adviser's compensation based on a percentage of net profits of the Funds it manages. The Carried Interest allocated to a General Partner is subject to a potential giveback if the respective General Partner has received excess cumulative distributions. Each Fund's Carried Interest calculation, as well as any clawback provisions, is further described in the relevant Fund's Governing Documents.

These carried interest arrangements have been structured subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (the "Advisers Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The General Partner of each Fund is permitted, in its sole discretion, to waive or reduce the amount of Carried Interest for an investor in a Fund. Specifically, if principals and employees, and their respective family and friends are Fund investors, they will generally do so through investment in one or more Affiliate Funds and will pay reduced Carried Interest or none at all. Additionally, to the extent permitted by the relevant Governing Documents, BCEM has the right to permit investors, affiliated with BCEM or otherwise, to invest through the relevant General Partner or other pooled investment vehicles that do not bear Management Fees or Carried Interest, including the Affiliate Funds.

The fact that each General Partner's Carried Interest allocations are based on the performance of each Fund potentially creates an incentive for a General Partner to make investments that are more speculative than would be the case in the absence of such distributions. The Firm believes this incentive is sufficiently mitigated, however, due to the fact that any losses the Funds sustain will reduce each General Partner's Carried Interest distribution and the fact that Carried Interest is generally calculated only after investors have received as distributions 100% of their capital contributions plus a preferred return.

Item 7 – Types of Clients

Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.

BCEM provides investment advice to the Funds. With the exception of certain vehicles established to permit investment by certain employees and affiliates, the Funds generally limit their investors to persons or institutions who are: (i) "accredited investors" as defined in the Securities Act of 1933, as amended ("Securities Act") and, as applicable based on the Fund, either (ii) "qualified purchasers" or "knowledgeable employees," each as defined in the Investment Company Act, or (iii) "qualified clients," as defined under the Advisers Act. The Funds are not registered or required to be registered under the Investment Company Act; its securities are not registered or required to be registered under the Securities Act and are privately placed to qualified investors in the United States and elsewhere. Investors in the Funds must also meet certain other suitability and net worth qualifications prior to making an investment in the Funds. The Funds typically require capital commitments from each investor of at least \$1.5 to \$2.5 million, depending on the Fund, although commitments of less than these amounts have been accepted in the discretion of the applicable Fund's General Partner.

Examples of the types of investors participating in the Funds generally include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and also include, directly or indirectly, principals or other employees of BCEM and its affiliates and members of their families, or other service providers retained by the Firm.

BCEM also serves as the investment manager for co-investment vehicles that invest alongside a Fund in certain Fund portfolio companies. Co-investment opportunities arise whenever BCEM has the opportunity for an investment in an existing or prospective portfolio company and determines that all or a portion of the applicable opportunity is not required to be offered to, or is not appropriate for, a Fund. Such determinations are based on the provisions of the applicable Governing Documents, side letter agreements and such other factors as BCEM will consider in its sole discretion, including those specified from time to time in its policies on investment allocation and co-investments. In exercising its discretion, BCEM considers certain factors such as: (i) the aggregate amount of co-investment

available; (ii) BCEM's assessment of which potential co-investors are willing and able to pursue and complete the particular co-investment if offered, and BCEM's understanding of the nature and/or size of opportunities in which the potential co-investor is particularly interested; (iii) BCEM's views as to whether the involvement of any particular potential co-investor(s) could directly or indirectly benefit a Fund generally, a Fund's pursuit of and investment in the particular portfolio company opportunity and/or the future business, activities or prospects of the portfolio company; (iv) any relevant considerations made known to BCEM by the portfolio company management team; and (v) any further legal, regulatory or tax considerations, timing issues, and other special considerations arising as a result of the industry, sector, business or activities of the portfolio company that can affect or be affected by allocation decisions.

For certain Funds, the Governing Documents outline the priority in which co-investments are offered, which generally include investors with a minimum capital commitment (as specified in the relevant Governing Documents), BCEM-affiliated funds, other Fund investors, and any other persons in BCEM's sole discretion. As mentioned above, any compensation received by a General Partner of a co-investment vehicle will not result in an offset to the Management Fees charged to a Fund.

Additionally, BCEM will at times cause some co-investors to bear a Management Fee and/or Carried Interest while not imposing a Management Fee and/or Carried Interest (or imposing a different Management Fee or Carried Interest) on other co-investors. In BCEM's sole discretion, certain co-investment vehicles and/or co-investors will bear all or a portion of certain expenses (e.g., legal and other expenses associated with a portfolio company investment), while other co-investment vehicles and/or co-investors will not share in such expenses. In certain cases, co-investment opportunities will include opportunities to invest in Fund portfolio companies at a time when there is not a corresponding Fund investment or on different terms than a Fund investment.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.

The Funds focus on achieving attractive risk-adjusted returns primarily by making privately negotiated equity and equity-related investments in the North American upstream oil and gas sector. BCEM's investment strategy is to specifically target investments in North American E&P companies through two complementary strategies: (i) investing buyout and growth capital in small operators with current production to sustain and expand operations; and (ii) partnering with leading operators to provide dedicated drilling capital.

The applicable Governing Documents of each Fund provide more detailed descriptions of each Fund's investment strategies and methods of analysis. There can be no assurance that BCEM will achieve the investment objectives of the Funds, and a loss of investment is possible. Investing in securities involves risk of loss that investors should be prepared to bear.

B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

The Funds and their investors bear the risk of loss that BCEM's investment strategy entails. Although the following risk factors generally apply to all BCEM Funds, investors should also refer to a Fund's Governing Documents for a description of the risk factors specific to the Fund in which they invest. All investors should be aware of certain risk factors, which include, but are not limited to, the following:

Investment Risks

Illiquidity of Investments. An investment in the Funds requires a long-term commitment with no certainty of return. There is no guarantee that portfolio company investments will generate current income. Therefore, the return of capital and the realization of gains, if any, from a portfolio company investment generally will occur upon the partial or complete realization or disposition of such investment. While a portfolio company investment can be realized or disposed of at any time, it is generally expected that the ultimate realization or disposition of most of the Funds' portfolio company investments will not occur for a number of years after such investments are made. There can be no assurances that purchasers of the Funds' portfolio companies will be found. The Funds generally will not be able to sell securities of a portfolio company publicly unless the issuer has gone public and such sale is registered under applicable securities laws or an exemption from such registration requirements is available. In addition, in some cases, the Funds will be prohibited or limited by contract from selling certain portfolio company securities for a period of time and, as a result, might not be permitted to sell a portfolio company investment at a time it might otherwise desire to do so.

Limited Number of Investments; Lack of Diversity. The Funds are expected to participate in a limited number of investments and, as a consequence, the aggregate return of the Funds can be substantially affected by the unfavorable performance of a limited number of investments. Investors have no assurance as to the degree of diversification in the Funds' investments. Because the Funds' investments are expected to be concentrated within a single industry or sector, portfolio diversification is expected to be less than if the Funds were to invest in a broader range of industries or sectors. Such reduced diversification can increase the volatility of the Funds' returns, and could reduce the Funds' returns relative to diversified funds to the extent that such industries or sectors do not perform as well as other industries or sectors. The Funds are also expected to make investments that are not diversified geographically.

Dependence on Key Personnel. The success of the Funds depends in substantial part upon the skill and expertise of BCEM's principals and the other individuals employed to assist them. There can be no assurance that such persons will continue to be members of, or employed by, the General Partners or BCEM. The loss of the services of one or more of these individuals could have a material adverse

effect on the success of the Funds. Furthermore, even in cases where the Funds are represented on management boards or have other management rights, the Funds do not expect or intend to have an active role in the day-to-day operations of its investments. The success or failure of many of the Funds' portfolio companies depend to a significant extent on the financial and management talents and efforts of specific employees of such portfolio companies, whose death, disability or resignation could adversely affect the performance of the portfolio companies and the Funds' investments in such portfolio companies.

BCEM's principals will devote such time and attention to the business of the Funds as they reasonably consider necessary to carry out the operations of the Funds effectively. Conflicts can arise in the allocation of time, services and function among the Funds and such other entities to which BCEM, the principals or their affiliates provide services, as further described under "Conflicts of Interest" below.

No Assurance of Investment Return. The General Partners cannot provide assurance that they will be able to choose, make and/or realize investments in any particular company or portfolio of companies. There is no assurance that the Funds will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. The marketability and value of any such investment will depend upon many factors beyond the control of the Funds. The expenses of a Fund may exceed its income, and an investor could lose the entire amount of its contributed capital. Therefore, an investor should only invest in any Fund if it can withstand a total loss of its investment. The past investment performance of the entities with which officers and employees of BCEM have been associated cannot be taken to guarantee future results of any Fund or any investment of any of the Funds.

Leverage. The Funds' investments are expected to include companies whose capital structures utilize significant amounts of leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. Although the General Partners will seek to use leverage in a prudent manner, the leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of the portfolio companies or their respective industries. Additionally, the securities acquired by the Funds will possibly be the most junior in what is often a complex capital structure and thus subject to the greatest risk of loss.

At times, the Funds could make investments for which third-party financing will be desirable but not necessarily available (on desired terms or at all) at the time of investment. Such financing might never become available, or a refinancing might not be able to be completed on desirable terms.

Credit Facility. The General Partners will from time to time cause the Funds to enter into one or more credit facilities or other lending arrangements (each, a "Credit Facility") with one or more lenders. A Fund's obligations under any Credit Facility or any other indebtedness or credit support will likely be joint and several with other related Funds (including parallel funds and/or alternative investment

vehicles) and secured by a pledge, collateral assignment, mortgage, charge or other security interest to a lender or other credit counterparty of: (i) such Fund's capital commitments; (ii) a General Partner's right to call capital from investors and exercise remedies upon a default by an investor; (iii) all or any portion of a Fund's investments or other assets, in each case, whether individually or on a pooled or cross-collateralized basis; (iv) such other rights, titles, interests, remedies, powers and privileges of such Fund or General Partner, as determined by such General Partner in its discretion; or (v) such other security or collateral as determined by such General Partner in its discretion. Investors can be required to acknowledge and consent to any such pledge and/or assignment and to provide certain representations, legal opinions and other documents and information (at such investor's expense, which will not be reimbursed by a Fund) as required by (and for the benefit of) the Credit Facility lenders. If a Fund does not honor its obligations pursuant to the Credit Facility, lenders will in some instances have the right to take action against any investor or its interest in the Fund, including, without limitation, directly drawing capital from such investor. Any Credit Facility or other indebtedness or credit support can be replaced, refinanced or restructured at any time on terms a General Partner determines are appropriate. Such transactions and the implementation and the utilization of any Credit Facility or other indebtedness or credit support will result in fees and expenses to the Funds.

Management Team Expenses. From time to time, the Funds recruit a management team to pursue a new or "platform" opportunity that is expected to lead to a future portfolio company investment. Typically, the expenses associated with the activities of such a team, including their overhead, due diligence and related expenses incurred in pursuing acquisition opportunities, constitute Fund expenses. There can be no assurance that such management team(s) will lead to a new platform or other portfolio company investments.

Risk Relating to Due Diligence and Conduct at Portfolio Companies. Before the Funds make an investment, the relevant General Partner and/or BCEM conducts such due diligence as it or they deem reasonable and appropriate based on the facts and circumstances applicable to the investment. Due diligence typically entails feasibility and technical studies, studies regarding reserves, environmental studies, marketing studies, business plan development, evaluation of important and complex business, financial, tax, accounting, environmental and legal issues as well as background investigations of individuals. Outside professionals, engineers, consultants, legal advisors, accountants, investment banks and other third parties are generally involved in the due diligence process to varying degrees depending on the type of investment. The involvement of such third parties presents a number of risks primarily relating to the reduced control of functions that are outsourced and often entail significant third party expenses, which will be borne by the Funds subject to certain limitations thereon set forth in the Governing Documents. In addition, if the Funds are unable to timely engage third-party providers, their ability to evaluate and acquire more complex assets could be adversely affected. Due diligence investigations with respect to any investment opportunity will not always reveal or highlight all relevant facts that are necessary or helpful in evaluating the investment opportunity. Moreover, there can be no assurance that attempts to identify risks associated with an investment will achieve their desired effect. Potential investors should regard an investment in the Funds as being speculative and having a high degree of risk.

In the event of fraud, any material misrepresentation or omission or any professional negligence by a portfolio company or any of its affiliates, by any seller (or a seller's representatives) of assets acquired by a portfolio company, or by any other third party, the Funds could suffer a material loss of capital and the value of the Funds' investments could be adversely impacted. The Funds rely upon the accuracy and completeness of representations made by various persons in the due diligence process and cannot guarantee such accuracy or completeness.

Bridge Financing. The Funds occasionally provide bridge financing in connection with one or more of its investments. In such event, the Funds bear the risk of any changes in capital markets that adversely affect the ability of portfolio companies to refinance any such bridge investments. If portfolio companies are unable to complete a refinancing, the Funds could have a long-term investment in a junior debt security or a junior debt security that is convertible into equity, and the interest rate on such bridge financing might not adequately reflect the risk associated with the unsecured position taken by such Funds.

Distributions In-Kind. Although under normal circumstances the Funds intend to make distributions in cash or in publicly traded securities, it is possible that under certain circumstances (including the liquidation of the Funds), distributions will be made in-kind and could consist of securities for which there is no readily available public market.

Nature of the Fund's Investments. A substantial portion of the Funds' investments will be in equity or equity-related investments in the energy sector that, by their nature, involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that can result in substantial losses. There can be no assurance that the Funds will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments can be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, can significantly affect the results of the Funds' activities. As a result, the Funds' performance over a particular period will not necessarily be indicative of the results that could be expected in future periods.

Non-Controlling Investments. Although the Funds intend to make primarily control-oriented investments, a Fund will occasionally make minority equity investments in portfolio companies where the Fund does not participate in the management or otherwise control the business or affairs of such entities. The General Partners monitor the performance of the investments and maintain ongoing dialogue with each portfolio company's management team. However, it will be primarily the responsibility of the management of the portfolio company to operate such portfolio company on a day-to-day basis. Although the Funds generally invest in portfolio companies with strong operating management, there can be no assurance that a portfolio company's management team will be able to operate the portfolio company successfully. A portfolio company might have economic or business interests or goals that are inconsistent with those of a Fund, and a Fund will not always be in a position to limit or otherwise protect the value of its investment in the portfolio company, although as a condition of making such

investments, it is expected that appropriate shareholder rights generally will be sought to protect such Fund's investments. The Funds' control over the investment policies of these companies could also be limited.

Investments with Third Parties. The Funds will from time to time make investments with third parties including strategic investors and portfolio company management team members through joint ventures or other entities. Such investments involve risks in connection with such third party involvement, including the possibility that third party investors could have financial, legal or regulatory difficulties resulting in a negative impact on such investment, have economic or business interests or goals that are inconsistent with those of the Funds or be in a position to take (or block) action in a manner contrary to the Fund's investment objectives. In addition, the Funds will in certain circumstances be liable for the actions of third party investors. In those circumstances where such third parties involve a management group, such third parties will under certain circumstances, receive compensation arrangements relating to such investments, including incentive compensation arrangements.

Risks of Derivative Transactions. The Funds are permitted to engage in certain derivative transactions, including swaps, short sales, forward contracts or options or other hedging transactions which are intended to reduce each Fund's equity, debt, currency, interest rate, commodity or other exposure, however there is not any obligation to enter into any such transactions. The use of such instruments, even when used with the intent to reduce the risks associated with a Fund's investments, involves additional expenses as well as risks that are different than those of the Funds' direct or indirect investments including the possible default by the counterparty to the transaction and the illiquidity of the instrument acquired by a Fund relating thereto. Unanticipated changes in securities prices, interest rates or currency exchange rates can result in a poorer overall performance for a Fund than if it had not entered into any such derivative transaction. In addition, any hedging transaction in which a Fund enters is likely to be imperfect, leaving such Fund exposed to some risk from the position that was intended to be protected. The successful use of hedging strategies depends upon the availability of a liquid market and appropriate hedging instruments and there can be no assurance that a Fund will be able to close out a position when deemed advisable by the relevant General Partner. Although such transactions generally reduce a Fund's exposure to certain market fluctuations or decreases in the value of investments, the costs associated with these arrangements can reduce the returns that a Fund would have otherwise achieved if it had not entered into these transactions.

Available Opportunities and Competitive Marketplace. The success of any Fund depends on the availability of appropriate investment opportunities and the ability of the principals to identify, select, close and exit those investments. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable a Fund to invest all of its committed capital or that such investment opportunities will lead to completed investments by the Fund. The Funds compete with other private equity funds, as well as institutional investors and strategic investors, for investments in prospective portfolio companies. As a result, there can be no assurance that a Fund will be able to locate suitable

investment opportunities, acquire them for an appropriate level of consideration, achieve its targeted rate of return or fully invest its committed capital.

Need for Follow-On Investments. Following its initial investment in a given portfolio company, a Fund will from time to time decide to provide additional funds to such portfolio company or increase its investment in a portfolio company. There can be no assurance that a Fund will make such follow-on investments or that a Fund will have sufficient capital to do so. Any decision not to (or the inability to) make follow-on investments can have a substantial negative impact on a portfolio company in need of such an investment or result in a lost opportunity for the Fund to increase its participation in a successful operation.

Toehold Investments. The Funds occasionally accumulate minority positions in the outstanding debt securities or in voting stock, or securities convertible into the voting stock, of potential portfolio companies. While the General Partners seek to achieve such accumulation through open market purchases, registered tender offers, negotiated transactions or private placements (in each case, subject to the limitations set forth in the Governing Documents), a General Partner could be unable to accumulate a sufficiently large position in a portfolio company to execute its strategy. In such circumstances, a Fund might dispose of its position in the portfolio company within a short time of acquiring it; there can be no assurance that the price at which a Fund can sell such securities will not have declined since the time of acquisition. Moreover, if a Fund's investments are thinly traded and such Fund's position are substantial (although not controlling), its disposal could depress the market price for such securities.

Investments in Public Companies. On occasion, the Funds have invested in public companies (i) to the extent the General Partners determined that such investments are reasonably necessary to effect control of any such public company as a portfolio company or (ii) to take private portfolio companies public. Investments in public companies subject the Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the Funds' ability to dispose of such securities at certain times (including due to the possession of material on-public information by the Fund), increased likelihood of shareholder litigation against such companies' board members, which can include the principals and other members of the BCEM investment team, regulatory action by the domestic or foreign securities regulators, and increased costs associated with each of the aforementioned risks.

Investors Do Not Participate in Management of the Fund. Generally, investors in the Funds do not have the right to participate in the management of the Funds or in decisions made by the General Partners. As a result, investors will have almost no control over their investments in the Funds or their prospects with respect thereto.

Limited Access to Information. Investors' rights to information regarding the Funds are specified, and strictly limited to, those described in the Governing Documents. On occasion, the General Partners

will obtain certain types of material information about investments that will not be disclosed to investors due to contractual, legal or other restrictions and/or obligations. Decisions by the General Partners to withhold information could have adverse consequences for investors in a variety of circumstances. For example, an investor that seeks to transfer its Fund interests could have difficulty determining an appropriate price for such interests. Decisions by the General Partners to withhold information also could make it difficult for investors to monitor the General Partners and their performance. Additionally, investors who designate representatives to participate on a Fund's advisory board will generally, by virtue of such participation, have more information about such Fund and investments than other investors and will be given information in advance of communications to other investors.

Non-U.S. Investments. It is possible that the Funds will from time to time invest in portfolio companies with principal executive offices or corporate headquarters that are, at the time of initial investment, in Canada or Mexico, and therefore a portion of the Funds' investments and the income received by such Funds with respect to such investments could be denominated in non-U.S. currencies. However, the Funds' books will be maintained, and the contributions and distributions from the Funds generally will be made, in U.S. dollars. Investing in non-U.S. securities could involve greater risks than investing in U.S. securities. In particular, the value of a Fund's investments in non-U.S. securities would likely be significantly affected by changes in currency exchange rates, which could be volatile. Although the General Partner is permitted (but not required) to attempt to hedge against foreign currency exchange rate risks by utilizing spot and forward foreign exchange contracts, foreign currency options or other instruments, there can be no assurance that the General Partner will be able to do so successfully or cost-effectively, and the General Partner might decide not to hedge against such risks or to do so only incompletely. The Funds could also incur costs in converting investment proceeds from one currency to another, as well as costs associated with any hedging instruments.

Additional risks relating to non-U.S. investments include: (i) risks of economic dislocations in the host country; (ii) greater difficulty of enforcing legal rights in a foreign jurisdiction; (iii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (iv) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; (v) certain economic and political risks, including potential exchange control regulations, potential restrictions on foreign investments and repatriation of capital and the risks associated with political, economic or social instability, diplomatic developments and the possibility of expropriation or confiscatory taxation; and (vi) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities. While the General Partners will take these factors into consideration in making investment decisions for the Funds and intends to manage the Funds in a manner to minimize exposure to the foregoing risks, there can be no assurance that the General Partners will be able to evaluate the risks accurately or that adverse developments with respect to such risks will not adversely affect the value or realization of investments that are held by the Funds in certain countries.

Early Stage Investments. The Funds sometimes invest in newly-formed or pre-revenue companies. Many of these types of investments are made at an early point in a company's life cycle. These "early stage" or "seed" investments can create value inherent in particular companies or situations that can be realized only with substantial effort or expense. Often the success of the investment will depend not only on the efforts of BCEM, but also upon actions of other key individuals, or extraneous factors including political or economic developments over which BCEM has little or no control. These companies are typically dependent on the abilities of key individuals, including founding entrepreneurs, owners or employees with critical technological skills or ownership of important patents or other intellectual property, and marketing and financial professionals. Often times, the growth and development of early stage companies depend on the regular injection of additional capital and financing beyond that which the Funds are prepared or able to invest; such financing will not always be available from other sources. Early stage companies are typically thinly staffed and, in some cases, could lack the internal resources or procedures and controls to detect and prevent accounting errors, or more serious losses caused by the misconduct or negligence of officers, employees or agents.

Failure to Fund Commitments; Consequences of Default. The Funds' investments in portfolio companies will require capital calls on investors over an extended period of time. If investors fail to fund their commitment obligations when due, a Fund's ability to complete its investment program or otherwise to continue operations will likely be substantially impaired. A default by a substantial number of investors or by one or more investors who have made substantial commitments would limit opportunities for investment diversification and likely would reduce returns to the relevant Fund. In the event that an investor defaults, such investor will be subject to various penalties, including forfeiture of a portion of its interest, as provided in the relevant Governing Documents.

Investments Longer than Term. On occasion, a Fund could make investments that are not advantageously disposed of prior to the date that the Fund is dissolved, either by expiration of such Fund's term or otherwise. Although the General Partners expect that investments will be either disposed of prior to dissolution or suitable for in-kind distribution at dissolution, the General Partners only have a limited ability to extend the terms of the Funds and a Fund could have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, although upon the dissolution of the Funds the General Partners (or the relevant liquidator) are required to use their best efforts to reduce to cash and cash equivalents such assets of the Funds as the General Partners or such liquidators deem advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the investors will occur.

Restrictions on Transfer; Lack of Liquidity. An investment in the Funds is suitable only for certain sophisticated investors that have no need for immediate liquidity in their investment and who understand that they could lose all or a significant portion of their invested capital. Investors must be willing to bear the economic risk of an investment in the Funds for an indefinite period of time. Interests in the Funds have not been and will not be registered under the Securities Act, the securities

laws of any U.S. state or the securities laws of any other jurisdiction, and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available. There is no public or private market for the interests in the Funds and none is expected to develop. In addition, interests in the Funds are not transferable and cannot be encumbered except with the prior written consent of the applicable General Partner (which can be withheld by such General Partner in its sole discretion), and subject to the terms and conditions of the Governing Documents. Further, investors are not permitted to withdraw capital from the Funds except under limited circumstances, primarily for regulatory or other legal reasons. Consequently, investor generally will not be able to liquidate their investments prior to the end of the Funds' respective terms.

Tax Considerations. An investment in a Fund involves complex U.S. federal income tax considerations that will differ for each investor. Under certain circumstances, the investors could be required to recognize taxable income in a taxable year for U.S. federal income tax purposes, even if a Fund either has no net profits in such year or has an amount of net profits in such year that is less than such amount of taxable income. Furthermore, the investors could incur U.S. federal income tax liabilities without receiving from a Fund sufficient distributions to defray such tax liabilities. In addition, a Fund is permitted to invest in securities of corporations and other entities organized outside the United States. Income from such investments included in an investor's distributive share of Fund income related to such investments could be subject to non-U.S. withholding taxes, which may or may not be reduced or eliminated by an income tax treaty.

Adequacy and Availability of Insurance; Catastrophic Events. While the Funds will seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this will not always be practicable or feasible. Moreover, it will not be possible to insure against all such risks, and insurance proceeds from covered risks could in some instances be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation. In addition, certain losses of a catastrophic nature, such as those caused by wars, riots or civil unrest, earthquakes, hurricanes, tornados, floods, terrorist attacks or other similar events, will be either uninsurable or insurable at such high rates as to adversely impact the Funds' profitability. The impacted location will not always efficiently and quickly recover from such event, which can have a materially adverse effect on portfolio companies and other developing economic enterprises in such location. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance. As a result, it is unlikely that any of the Funds' investments will be insured against damages attributable to acts of terrorism. If a major uninsured loss were to occur with respect to an investment, a Fund could lose both its capital invested in and anticipated profits related to such investment. The effects of future catastrophic events and/or terrorist acts (or threats thereof), military action or similar events on the economies and securities markets of countries cannot

be predicted. Such disruptions of the global financial markets could affect interest rates, ratings, credit risk, inflation and other factors relating to the Funds' investments.

Broken Deal Expenses. Investments in the energy industry often require extensive due diligence activities and regulatory approvals prior to acquisition. As described above, due diligence often entails significant third party expenses. In the event that an investment is not consummated, some or all of such third party expenses and any termination fees will be borne by the Fund. In addition, for certain Funds, in the event that any potential investment results in Broken Deal Expenses and all or a portion of such Broken Deal Expenses are not paid or reimbursed by any potential co-investment vehicles, co-investors or other third parties or transaction participants (and such persons are not contractually obligated to reimburse such expenses), such Funds will bear the amount of any such Broken Deal Expenses; provided that in no event shall the Funds bear the portion of such Broken Deal Expenses that (i) the Ara Opportunities Fund (or any successor fund thereto) has agreed to bear or (ii) any other potential co-investor or co-investment vehicle (as applicable) has contractually agreed to bear.

Risks in Effecting Operating Improvements. In some cases, the success of the Funds' investment strategy will depend, in part, on the ability of the relevant Fund to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the Funds will be able to successfully identify and implement such restructuring programs and improvements. In addition, the Funds will generally seek management rights, including board representation or other rights, where appropriate. However, there is no assurance that these rights, if sought, will be obtained.

Uncertainty of Financial Projections. The General Partners generally establish the capital structure of portfolio companies on the basis of financial projections for such portfolio companies. Projected operating results are typically based primarily on portfolio company management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results can vary significantly from the projections. General economic, political and market conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

Accuracy of Third Party Information. At times, the General Partners and BCEM will select investments for the Funds, in part, on the basis of information and data made available directly or indirectly by third parties. The General Partners and BCEM will not always be in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information will not be available.

Over-Commitment. In order to facilitate the acquisition of investments, BCEM or its affiliates will sometimes make (or commit to make), or cause a Fund to make (or commit to make), an investment in a potential portfolio company with a view to selling a portion of such investment to co-investors or other persons prior to or within a period after the closing of the acquisition. In such event, the

relevant Fund will bear the risk that any or all of the excess portion of such investment will not be sold or can only be sold on unattractive terms and that, as a consequence, such Fund will bear the entire portion of any breakup fee or other fees, costs and expenses related to such investment, or hold a larger than expected investment.

Reinvestment. Under certain circumstances, proceeds distributable (or previously distributed) to the investors that constitute a return of capital contributions will be retained and reinvested (or recalled for reinvestment) by the Funds or used (or recalled for use) by the Funds for any other proper purpose, as detailed in each Fund's Governing Documents. Amounts available for recall will be restored to an investor's remaining available capital commitment. Accordingly, an investor could be required to make capital contributions for investments or expenses during the term of the relevant Fund in an aggregate amount that significantly exceeds its committed capital.

Risks upon Dispositions of Investments. In connection with the disposition of an investment in a portfolio company, a Fund will likely be required to make representations about the business and financial affairs of itself or such portfolio company typical of those made in connection with the sale of a business. It could also be required to indemnify the purchasers of such investment to the extent that any such representation turns out to be inaccurate. These arrangements result in contingent liabilities of the relevant Fund, which might ultimately have to be funded by the investors to the extent that such contingent liabilities exceed the reserves and other assets of the Fund and such investors have received prior distributions from the Fund.

Environmental Liabilities. The Funds could face substantial risk of loss from environmental claims arising from investments made with undisclosed or unknown environmental problems or inadequate reserves or insurance for previously identified matters, as well as from occupational safety issues and concerns. Under certain circumstances, U.S. courts have held that a parent company is responsible for the environmental clean-up obligations of its subsidiary imposed by applicable laws. In the event a Fund is the parent of a portfolio company with such obligations, a U.S. court or a court of any other applicable jurisdiction might find that the Fund is liable for such obligations. It is possible that environmental claims with respect to a specific investment will exceed the value of such investment.

Difficulty in Valuing Investment Portfolio. The General Partners will value the portfolio company investments of the Funds from time to time at their fair market values. Fund assets that are publicly traded securities for which market prices are readily available will be valued based on their trading prices, however, for almost every portfolio company, there will likely be no public market for its securities. Thus, the valuation of portfolio company investments inherently is highly subjective and imprecise, and requires the use of techniques that are costly and time consuming and ultimately provide no more than an estimate of value. In establishing the value of the Funds' portfolio company investments, the General Partners will consult with accounting firms, investment banks and other third parties as needed. The value set by a General Partners will not always reflect the price at which a Fund could dispose of its interests in a particular portfolio company at any given time.

Cyber Security Breaches and Identity Theft. Information and technology systems of BCEM, Ara, the Funds and the portfolio companies are subject to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If any systems designed to manage such risks are compromised, become inoperable for extended periods of time or cease to function properly, BCEM, Ara the Funds and/or portfolio companies will likely have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in BCEM's, the Funds', Ara's and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm BCEM, Ara's, the Funds' or a portfolio company's reputation, subject them and their respective affiliates to legal claims and otherwise affect their business and financial performance. BCEM has purchased cyber insurance in an attempt to mitigate any such losses.

Mandatory Withdrawal. The General Partners have the authority to require investors to withdraw from a Fund prior to the termination and liquidation of the Fund if the applicable General Partner determines that the investor's continued participation in the Fund would materially adversely affect the Fund or in certain other circumstances as further described in the Governing Documents. An investor who is required to withdraw early from a Fund could suffer a material loss on its investment.

Intangible Benefits. BCEM and its employees have in the past and, from time to time in the future, will receive certain intangible benefits or perquisites arising or resulting from their activities on behalf of a Fund, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as Fund expenses often result in "miles" or "points" or credit in loyalty/status programs to BCEM and/or its employees, and such rewards or amounts will exclusively benefit BCEM and/or such employees and will not be subject to offset arrangements or otherwise shared with such Fund, its investors, or the portfolio companies.

C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.

Risk Inherent in the Energy Industry. The companies in which the Funds invest are inherently subject to numerous risks arising from their operations. For example, companies involved in the drilling and production of oil and natural gas face risks that include, without limitation: (i) the risks of conducting drilling operations (including risks of substantial losses to properties, bodily injury and environmental damage arising from operations that do not proceed as planned and the risk of failing to find commercially productive reserves); (ii) risks of compliance with increasingly burdensome environmental regulations and other regulations governing the production of natural resources; (iii) risks involved in offshore drilling and in locations in foreign countries, including political unrest, terrorism, kidnapping, expropriation, increased costs and operational delays and disruptions; and (iv)

risks of catastrophic and other force majeure events. The occurrence of losses as a result of the risks inherent in operating in the energy industry could have a materially adverse impact upon actual results of the Funds' investments.

Commodity Risk; Price Volatility. The Funds are targeting investments primarily in companies serving the energy industry and, as such, they will be indirectly subject to commodity price risk, including, without limitation, the demand and price of oil and gas. Historically, the markets for oil, gas, coal and power have been volatile, and such markets are likely to continue to be volatile in the future. Because of their relation to the energy industry as a whole, operation and cash flows of the Funds' portfolio companies will depend in substantial part upon prevailing market prices for energy commodities. These market prices can fluctuate materially depending upon a wide variety of factors that are beyond the control of the General Partners or the Funds, including, without limitation, market supply and demand, geopolitical conditions and events, including political conditions in the Middle East and other oil and gas producing nations, weather conditions, tax policy, changes in law and regulation, the price and availability of alternative fuels and energy sources, terrorist acts or threats thereof, actions of the Organization of Petroleum Exporting Countries (and other oil and natural gas producing nations), the foreign supply of (and demand for) oil and natural gas, the price of foreign imports and overall economic conditions.

Conflicts of Interest

BCEM's Code of Ethics requires the Firm to place the interests of clients first, and on an annual basis each principal and employee must certify that he or she has read and understands the Code of Ethics and has complied with its provisions. If any matter arises that BCEM determines in its good faith constitutes an actual conflict of interest, BCEM will take such actions as necessary or appropriate, within the context of any applicable Fund's Governing Documents, to address the conflict.

The Governing Documents for each Fund include a description of what BCEM believes to be the most significant conflicts of interest associated with an investment in such Fund. Investors should carefully consider the conflicts of interest described herein, including those outlined in Item 8 above as well as each applicable Fund's Governing Documents prior to investing in a Fund. The following does not purport to be a comprehensive list or complete explanation of all potential conflicts of interests.

Co-Investment Opportunities. The General Partners, BCEM or any of their affiliates will from time to time organize, make investments in, or otherwise participate in, any vehicle formed to make co-investments with the Funds. Even in circumstances where an entire investment could be made by a Fund, BCEM is permitted to allocate a portion of such investment to one or more co-investment vehicles or other co-investors in accordance with the Funds' Governing Documents and BCEM's allocation policy. Additionally, subject to certain conditions set forth in the Governing Documents, the General Partners, BCEM principals and/or their respective affiliates including, without limitation,

the Ara Opportunities Fund (as defined under “Relationship with Ara; Ara Affiliate Firms” below), employees and investment team members are permitted to participate in co-investment opportunities.

The economic participation of co-investors in an investment opportunity can be substantial and are likely to involve greater risks than an investment in which there are no co-investors. For example, it is possible that a co-investor will have interests that are inconsistent with those of BCEM or the Funds. In addition, co-investors can sometimes be in a position to obtain additional information regarding a portfolio company that is not generally available to investors in a Fund. In addition, the Funds might co-invest with unaffiliated co-investors whose ability to influence the day-to-day management and affairs of the portfolio companies’ investments are potentially significant and greater than that of the Funds.

Co-Investments with a Predecessor Fund or Successor Fund. On occasion, a Fund will make investments in association with a predecessor fund or a successor fund. In these cases, such investment will generally be on the same terms and conditions in all material respects, with amounts for investment allocated between a Fund and such predecessor fund or successor fund (as applicable), subject to available capital, including reasonable reserves, or other investment limitations on a Fund and such predecessor fund or successor fund, in the sole discretion of the relevant General Partner. Additionally, a Fund could have differing and/or conflicting interests with such predecessor fund or successor fund in respect of any such investment.

Relationship with Ara; Ara Affiliate Firms. BCEM is an affiliate of Ara, a Houston-based energy private equity group managed by Messrs. Cherington, McMullen and Troy Thacker. Ara has an ownership interest in BCEM and six other firms that specialize in the energy complex, including: Intervale Capital, LLC; Cibolo Energy Partners, LLC; Junction Energy Capital, LLC; Aksiom Partners, LLC; Ara Advisers, LLC; and Teleios Commodities LLC (collectively, the “Ara Affiliate Firms”). While each Ara Affiliate Firm is separately managed by its partners and investment professionals, the Ara Affiliate Firms comprise a network that fosters the sharing of investment opportunities, relationships, industry knowledge and operating company expertise. Ara also provides BCEM with access to Ara professionals who provide the Firm with certain non-investment compliance, finance, legal and fund administration services, ensuring best practices and cost-effective delivery of non-investment administrative functions.

Mr. McMullen has an economic interest in Ara, and by extension, an economic interest in the performance of the Ara Affiliate Firms. The Ara Affiliate Firms engage in and will continue to engage in private equity, debt and other investment activities for their respective funds. In addition, Mr. McMullen serves on the investment committee of Ara Fund I, L.P. (the “Ara Opportunities Fund”) and will likely serve on additional investment committees of other investment vehicles managed or sponsored by an Ara Affiliate Firm.

BCEM does not believe there will be significant overlap of investment opportunities between the Funds and other Ara Affiliate Firms’ funds due to the different investment focus of each of the Ara

Affiliate Firms; however, it is possible that certain potential investment opportunities that are appropriate for a BCEM Fund could also be appropriate for the Ara Opportunities Fund and/or another Ara Affiliate Firms' fund.

When a BCEM Fund determines, in its reasonable discretion, that it would be advantageous to co-invest in an opportunity with the Ara Opportunities Fund and/or one or more other Ara Affiliate Firms' funds, the Fund will generally be permitted co-invest with the Ara Opportunities Fund and/or the other Ara Affiliate Firms' funds in such investment. In some instances, these co-investment opportunities will be subject to the approval of the Fund advisory board or the co-investing Ara Affiliate Firms' funds valuation committees or limited partner advisory committees in accordance with their respective governing documents. BCEM expects that the relative amounts co-invested by the Ara Opportunities Fund and/or the Ara Affiliate Firms will be determined in the reasonable discretion of BCEM, the Ara Opportunities Fund and the other applicable Ara Affiliate Firms' funds based on factors including but not limited to who sourced the investment and the relative available capital, investment objectives, financing capacity and diversification limits of each fund participating in the co-investment.

As a result of the conflict resolution process described above, the amount a BCEM Fund invests in a particular investment opportunity will in some instances be less than it otherwise would be willing and able to invest, and in certain cases, a BCEM Fund could be required to forego certain investment opportunities that otherwise would be appropriate for the Fund. In addition, co-investment opportunities for some BCEM Fund investors will be curtailed in certain Funds in which the Ara Opportunities Fund and/or the other Ara Affiliate Firms have priority.

In addition, BCEM Fund portfolio companies are, in certain instances, counterparties or participants in agreements, transactions or other arrangements with portfolio companies of the Ara Opportunities Fund and/or other investment funds managed by the Ara Affiliate Firms that, although BCEM determines to be consistent with the requirements of such funds' governing agreements, would not have otherwise been entered into but for the affiliation with the Ara Opportunities Fund and/or such Ara Affiliate Firms (as applicable), and which, depending on the applicable portfolio company, may involve fees and/or servicing payments to the Ara Opportunities Fund and/or such Ara Affiliate Firms (as applicable) that are not subject to the Management Fee offset provisions.

In addition, a member of one BCEM Fund advisory board has a minority, non-voting economic interest in Ara, which has an interest in BCEM. This presents certain conflicts of interest which will be addressed in accordance with the Firm's related policies and procedures.

Affiliate Funds. The General Partners have established Affiliate Funds that invest pro rata with another BCEM Fund in every portfolio company investment on the same economic terms as investors of such

Fund; however, as described in Item 5 above, investors in the Affiliate Funds generally do not pay a Management Fee and are not subject to Carried Interest.

Allocation of Investment Opportunities. Except as otherwise approved by the relevant Fund's advisory board or contemplated by the Governing Documents, generally, prior to the earlier of the termination of a Fund's investment period, or full investment of such Fund: (i) BCEM principals will use their reasonable best efforts to make available to a Fund any investment opportunities that come to their attention, or to the attention of any BCEM employee, that are of a size and kind which would be suitable for acquisition by such Fund, and (ii) neither the General Partners nor any of their affiliates will acquire securities of a size and kind which would be suitable for acquisition by the Funds, other than through the Funds or in connection with other permitted investment activities described in the Governing Documents; provided that in the event such an investment opportunity is made available to a Fund and is rejected in good faith by the General Partner on behalf of such Fund, then such investment opportunity may be presented to Ara, any Ara Affiliate Firm or the Ara Opportunities Fund or any successor fund thereto.

Diverse Investor Group. Fund investors often have conflicting investment, tax and other interests with respect to their Fund investments or a particular Fund vehicle. The conflicting interests of individual investors and of different Fund vehicles can relate to or arise from, among other things, the nature of a Fund's investments, the structuring or the acquisition of investments and the structure, timing or manner of disposition of a Fund's investments. As a consequence, conflicts of interests arise in connection with decisions made by a General Partner or BCEM, including with respect to the nature or structuring of investments or dispositions, that are more beneficial for one investor or for one Fund vehicle than for another investor or Fund vehicle, especially with respect to investors' individual tax situations and the tax treatment of the different Fund vehicles. In selecting and structuring investments appropriate for the Funds, the General Partners will consider the investment and tax objectives of the Funds and the Funds' investors as a whole, and not the investment, tax or other objectives of any investor individually or of any the Fund vehicle individually.

In addition, it is anticipated that investors or their affiliates that are companies with significant business interests within the Funds' targeted industry sectors, or insurance and other risk management companies, financial institutions and governmental or other pension plans, will have a direct or indirect interest in one or more of the investments of the Funds. For example, one or more investors or their affiliates can be senior or subordinated lenders to one or more of the portfolio companies, co-investors or otherwise participate in the financing of a portfolio company in which a Fund has made an investment or where such co-investor has a direct or indirect interest in such investment. One or more of the Funds' investors could separately hold portfolio company securities or provide risk management services. This could result in the Funds becoming involved in disputes and litigation with one or more of its investors or affiliates.

Side Letters. The General Partners, BCEM and/or their respective affiliates are authorized, without the approval of any investor, to enter into side letters or similar written agreements with investors that

have the effect of establishing rights under, or altering or supplementing the terms of the relevant Governing Documents or other related agreements in a manner that is more favourable to certain investors than others. Such rights or terms typically include, without limitation: (i) rights to designate a member of a Fund's advisory board; (ii) excuse rights applicable to particular investments (which can increase the percentage interest of other investors in, and contribution obligations of such other investors with respect to, such investments); (iii) reporting obligations of the General Partners; (iv) waiver of certain confidentiality obligations; (v) consent to certain transfers by investors; (vi) rights or terms necessary in light of particular legal, regulatory or public policy characteristics of an investor; (vii) adjustments to fees or other economics (including, without limitation, the Management Fee, Carried Interest, or distributions); (viii) access to certain information; (ix) consent rights of an investor; (x) co-investment rights; (xi) tax and structuring matters and (xii) other representations, warranties or diligence confirmations.

Investors will not necessarily have most favored nation rights in respect of all or any of the more favorable terms provided to others, and investors will have no recourse against the Funds, the General Partners, BCEM or any of their respective affiliates in the event that certain investors receive additional benefits or other rights pursuant to side letters that are more favorable than the terms received by other investors.

Allocation of Shared Expenses. BCEM and its affiliates from time to time incur fees, costs and expenses on behalf of more than one BCEM Fund, portfolio company or their respective affiliates. In that event, expenses will be allocated in BCEM's good faith discretion with a view to being fair and reasonable and considering all relevant and available information, including the extent to which the relevant entity(ies) or group(s) required or benefitted from the goods or services giving rise to the expense and whether all or a portion of a multiple-purpose expense should be viewed as overhead and absorbed by BCEM.

BCEM and its affiliates will from time to time incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of the Funds. To the extent practicable, any fees, costs and expenses that are incurred in connection with a consummated investment will be charged to the applicable portfolio company. To the extent such fees, costs and expenses are not charged to a portfolio company, they will be paid by each Fund that participated or was expected to participate in such investment. The Funds will typically bear a portion of any such fees, costs, and expenses in proportion to the size of its actual or proposed investment, or in such other manner as BCEM considers, in good faith, to be fair and equitable. There are occasions when one Fund (the "Payor Fund") pays an expense common to multiple Funds (the "Allocated Funds"). On such occasions, each Allocated Fund will reimburse the Payor Fund for its share of such expense, without interest, promptly after the payment is made by the Payor Fund. There are also occasions where the Firm or a Payor Fund pays an expense on behalf of a portfolio company. On such occasions, the portfolio company will reimburse the Firm or Payor Fund for the expense, without interest, and such reimbursement will not be subject to the fee offset provision.

Management Fee; Fees for Services. Other than certain co-investment vehicles, BCEM is generally entitled to receive a Management Fee from the Funds. The General Partners, BCEM, the principals or their affiliates also receive External Fees from time to time (as more fully described in Item 5 above). In addition, in some circumstances, non-affiliated co-investors or joint owners of prospective portfolio companies will have the ability to influence the terms of the arrangements giving rise to External Fees, including, without limitation, the timing and amount of payments and the inclusion of acceleration provisions, if any, in circumstances in which the Funds may not have otherwise included such provisions. Investors will receive the benefit of certain, but not all, of such External Fees as set forth in the relevant Governing Documents. As mentioned in Item 5 above, any fees received by a co-investment vehicle, any co-investor or any other transaction participant generally will not be applied to reduce the aggregate Management Fee payable in respect of other Fund investors and will be retained by the recipient thereof or its designees. Thus, the arrangements relating to the allocation of External Fees and certain fee offsets among BCEM and the Funds can create an incentive to seek out investments which would provide the opportunity to earn such External Fees and to make investments earlier during the term of a Fund than would be the case in the absence of such arrangements. Further, BCEM or its affiliates can be incentivized to hold on to investments that have poor prospects for improvement in order to receive ongoing Management Fees in the interim.

Service Provider Selection. Certain advisors and other service providers (including accountants, administrators, lenders, bankers, brokers, attorneys, consultants, investment or commercial banking firms and certain other advisors and agents) to the General Partners, the Funds or the portfolio companies also provide services to or have business, personal, financial or other relationships with BCEM and/or its affiliates. Such advisors and service providers could also be investors in or co-investors alongside the Fund, sources of potential investment opportunities, or counterparties to or otherwise involved in transactions or matters with one or more predecessor funds, other BCEM Fund portfolio companies and their respective affiliates. These relationships can influence, or have the appearance of influencing, the decision whether to select or recommend such service provider to perform services for the General Partners, the Funds or the portfolio companies (the cost of which will generally be borne directly or indirectly by the Funds or portfolio companies, as applicable).

Portfolio Company Board Participation. It is expected that principals or other members of the investment team of BCEM will serve as directors of certain of the portfolio companies and, as such, will have duties to persons other than the Funds. Although such positions, in certain circumstances, are important to the Funds' investment strategy and can enhance the General Partners' and BCEM's ability to manage investments, they can also have the effect of subjecting the General Partners, BCEM and the Funds to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims and other director-related claims. In general, the Funds will indemnify their respective General Partner, BCEM, the principals and other members of the investment team of BCEM from such claims.

Additionally, from time to time, portfolio company board members approve compensation and other amounts payable to BCEM in connection with services provided by the Firm and its affiliates to such

portfolio company, and, except to the extent such amounts are subject to the partnership agreement's offset provision, are in addition to the Management Fee or carried interest. BECM's authority to appoint or influence the appointment of portfolio company board members who will potentially be involved in approving compensation payable to the Firm subjects BECM and any such portfolio company board appointees to potential conflicts of interest. Serving in such capacity can give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director conflicts with the interests of a Fund in general; however, as the Funds will generally be significant shareholders of such companies, it is expected that such interests will generally be aligned. Any fees earned for sitting on such portfolio company boards by employees are typically offset against Management Fees; provided, however, that such fees earned by third parties appointed by BECM will typically not be offset against Management Fees.

Transactions with Fund Investors. BCEM will occasionally enter into transactions with certain Fund investors such as, for example, investors who are also business partners, such as insurance agents, investment banks, broker-dealers, legal counsel or others who provide services (including mezzanine and/or other lending arrangements) to the Firm, its Funds and portfolio companies. The terms of these transactions are negotiated on an arm's-length basis; however, BCEM is subject to a conflict of interest when determining such terms because BCEM would benefit from retaining such investors' investment in the Funds.

Advisory Boards. Although a Fund's advisory board is intended to act as the representative of the investors in respect of certain matters, including reviewing certain valuations of the Funds' assets and addressing certain potential conflicts of interest, the advisory board will not necessarily have the same interests as all investors. Furthermore, an advisory board cannot be expected to be experts in such matters, and certain of its determinations can, in fact, adversely affect the performance of the Funds.

Item 9 – Disciplinary Information

If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.

Like other registered investment advisers, BCEM is required to disclose all material facts regarding any legal or disciplinary events that would materially impact an investor's evaluation of BCEM or the integrity of BCEM's management. BCEM and its management persons have not been subject to any material legal or disciplinary events applicable to this Item.

On occasion, in the ordinary course of its business, BCEM, the Funds, or the Funds' portfolio companies (or their respective directors and executive officers) may be named as defendants in a legal action. Although there can be no assurance of the outcome of such legal actions, BCEM does not believe that any current legal proceedings or claims to which BCEM, the Funds, or the Funds' portfolio companies (or their respective directors and executive officers) are a party, if any, would

individually or in the aggregate materially affect a client's or prospective client's evaluation of the Firm or the integrity of the Firm's management.

Item 10 – Other Financial Industry Activities and Affiliations

A. If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.

BCEM is not actively engaged in a business other than giving investment advice to its clients, the Funds. Neither BCEM nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

B. If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities, disclose this fact.

Neither BCEM nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing.

C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. Other investment adviser or financial planner
4. Futures commission merchant, commodity pool operator, or commodity trading advisor
5. Banking or thrift institution
6. Accountant or accounting firm
7. Lawyer or law firm
8. Insurance company or agency
9. Pension consultant
10. Real estate broker or dealer
11. Sponsor or syndicator of limited partnerships.

As described above in Item 4, BCEM is affiliated with General Partners which are deemed registered with the SEC under the Advisers Act pursuant to BCEM's registration. These affiliated investment

advisers operate as a single advisory business together with BCEM and serve as General Partners or managing members of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants, operating partners or persons occupying similar positions. These General Partners do not have employees of their own.

BCEM does not have arrangements with a related person who is a broker-dealer, municipal securities dealer, government securities dealer or broker, investment company, other investment adviser or financial planner, commodity pool operator, commodity trading adviser, futures commission merchant, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer, or sponsor or syndicator of limited partnerships that are material to its advisory business or to its clients. BCEM has and will continue to develop relationships with professionals who provide services it does not provide, including: legal; accounting; banking; investment banking; tax preparation; insurance brokerage; investment management services; and other personal services. Some of these professionals also provide services to the Funds or their portfolio companies. Additionally, some of these professionals can become investors in BCEM Funds, either personally or through their company. To the extent that BCEM does transact with such professionals, the terms of such relationships will be negotiated on an arm's-length basis.

BCEM has relationships with other investment advisers and general partners. McMullen Management LLC ("McMullen Management"), which is 100% owned and controlled by Mr. McMullen, serves as the general partner of Bayou City Energy Partners II, L.P., a private equity partnership ("BCEP II"). BCEP II holds one investment and will not be making any future capital calls or further investments. Pursuant to the Governing Documents, McMullen Management will receive a carried interest allocation as the general partner of this fund in the event certain performance hurdles are met. Mr. McMullen devotes some of his time as principal of McMullen Management in connection with the management and oversight of these investments, although such time does not significantly impact Mr. McMullen's ability to perform his role as Managing Partner of BCEM. Additionally, Mr. McMullen and/or BCEM employees provide services to Affiliate Funds and, on occasion, other Ara Affiliate Firms.

As mentioned in Item 4 above, BCEM is affiliated with Ara, a network of six Houston-based energy-related firms. These firms are separately managed by their partners and investment professionals and offer independent advisory services. Each Ara Affiliate Firm is specialized and distinct, managing its own investments in its own vertical. Ara is an owner of BCEM with the right to receive distributions from BCEM but holds no governance rights at BCEM. Mr. McMullen and Mr. Cherington hold ownership interests in Ara. More information regarding Ara and any potential conflicts of interest are described more fully in Item 11 below.

In addition, as mentioned in Item 8 above, Ara has formed the Ara Opportunities Fund to co-invest alongside the investment vehicles sponsored by each of the Ara Affiliate Firms, including BCEM Fund(s). For certain Funds, the Ara Opportunities Fund will have priority over other investors or

third parties with respect to co-investments, with or without advisory board approval. Any co-investments by the Ara Opportunities Fund will be in accordance with the terms of the relevant Governing Documents and the Firm's policies and procedures regarding co-investments.

BCEM's Senior Advisor, Mr. Cherington, is also affiliated with other SEC-registered, CFTC-registered and other energy advisers and companies through his ownership and affiliation with Ara. A conflict of interest related to investment allocations between these firms and BCCEM is unlikely given the differing strategies of the investment vehicles. If a conflict did arise with respect to an allocation, however, it would generally be presented to the relevant Fund advisory boards for approval.

From time to time, BCCEM receives training, information, promotional material, meals, gifts, entertainment or prize drawings from vendors and others with whom it does business or to whom it makes referrals. At no time will BCCEM accept any benefits, gifts or other arrangements that are conditioned on directing individual client transactions to a specific security, product or provider. Similarly, BCCEM employees have in the past, and expect to again in the future, speak at conferences and programs for potential investors interested in investing in private funds that are sponsored by various investment bankers, broker-dealers or others. Through such capital introduction events, prospective investors have the opportunity to meet with BCCEM. Neither BCCEM nor any Fund compensates investment bankers, broker-dealers or others for organizing such events or for investments ultimately made by prospective investors attending such events other than registration, sponsorship, membership or other similar fees paid to attend such events.

The Firm's Code of Ethics addresses disclosure of any potential conflicts of interest and is discussed below in more detail.

D. If you recommend or select other investment advisers for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.

BCCEM does not recommend or select other investment advisers for the Funds.

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

A. If you are an SEC-registered adviser, briefly describe your Code of Ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your Code of Ethics to any client or prospective client upon request.

Pursuant to Rule 204A-1 of the Advisers Act, BCCEM has adopted a written Code of Ethics that sets forth standards of conduct expected of supervised persons and addresses personal trading and reporting of personal securities transactions, gifts and entertainment and outside business activities,

among other topics. The Code of Ethics requires all supervised persons to place Fund interests ahead of the Firm's interests, to avoid taking advantage of his or her position and to maintain full compliance with the federal securities laws.

Supervised persons are required to certify to their compliance with the Code of Ethics upon hire and on an annual basis. Supervised persons of BCEM who violate the Code of Ethics will be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, suspension or dismissal. Supervised persons are also required to promptly report any violations of the Code of Ethics which they become aware.

BCEM will provide a copy of its Code of Ethics to any existing or prospective investor upon request to Darren Lindamood, Chief Compliance Officer and General Counsel, at (713) 400-8226 or darren@bayoucityenergy.com.

B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Participation or Interest in Client Transactions

Certain BCEM employees and family members of BCEM employees have invested in the Funds, typically through the Affiliate Funds, co-investment vehicles and/or through applicable General Partners. As mentioned in Item 5 above, BCEM typically reduces all or a portion of the Management Fee and Carried Interest related to investments held by such persons.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account, knowingly buys from or sells a security to an advisory client. This prohibition extends to any affiliates or controlling persons of the adviser (*i.e.*, an owner, employee or affiliate of the adviser). The SEC also views cross trades between Funds to be principal transactions if the adviser (and/or its affiliates, owners, or controlling persons) own, in the aggregate, 25% or more of either Fund.

Agency cross transactions occur when an adviser or an affiliate arranges a transaction (*i.e.*, acts as a broker) between two or more different funds or accounts that are managed by that same adviser or an affiliate. Agency cross transactions may also arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. An adviser is not "acting as a broker" if the adviser receives no compensation (other than the advisory fee earned in the ordinary course of managing the asset) for effecting the transaction and therefore is not considered to be conducting an agency cross transaction under Section 206(3).

In the event BCEM were to recommend a principal transaction or agency cross transaction, it would only be after: (i) the Firm has determined the transaction to be in the best interest of both participating

clients; (ii) the transaction is permitted by the relevant Governing Documents; (iii) proper disclosure is given to the investors or advisory board, as appropriate; (iv) if necessary, consent is obtained from the appropriate parties; and (v) the Firm ensures that best execution is achieved for the transaction.

C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.

Personal Trading

The personal trading policy for all BCEM supervised persons is set forth in BCEM's Code of Ethics and is acknowledged as received and understood by each supervised person. BCEM's personal trading policies are designed to ensure that no Fund is disadvantaged by the transactions executed by a supervised person and that supervised persons in no respect misappropriate any benefit properly belonging to any Fund.

The Code of Ethics establishes guidelines for personal trading requirements, insider trading, reporting of personal securities transactions, including certain pre-clearance and reporting obligations. BCEM's supervised persons are prohibited from trading, either personally or on behalf of others, in securities while in possession of material nonpublic information regarding publicly traded securities or communicating material nonpublic information about such securities to others. BCEM maintains a restricted list of issuers about which it has or may have material nonpublic information. Pre-clearance is required by supervised persons for certain personal securities transactions, including restricted list securities, initial public offerings and certain limited offerings. In addition, supervised persons are required to file certain reports and submit their brokerage account statements to the Chief Compliance Officer for review.

BCEM's supervised persons occasionally carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and could give advice and recommend securities to vehicles which differ from advice given to, or securities recommended or bought for, the Funds, even though their investment objectives are the same or similar.

D. If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Because of the private nature of its portfolio investments, BCEM does not typically face a situation where a supervised person buys or sells a security for his or her own account at or about the same time that the Firm is also buying or selling the same securities for the Funds. In the event this were

to occur, the supervised person would be required to seek pre-approval from the Chief Compliance Officer for such transaction.

Item 12 – Brokerage Practices

A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

Generally, BCEM focuses on securities transactions of private companies and purchases and sells companies through privately negotiated transactions. In such privately negotiated transactions, best execution is met by the consummation of the deal with the best possible terms for the client. In pursuit of best execution in both privately negotiated and publicly traded transactions, BCEM can engage the services of a broker-dealer or investment banker for either the purchase or sale of an investment. Selection of a broker-dealer or investment banker will be based on BCEM's best judgment of who can provide best execution, taking into consideration a variety of factors, including: BCEM's prior experience in working with the broker-dealer or investment banker; the broker-dealer or investment banker's execution capability, financial responsibility, reputation and expertise within the industry; the broker-dealer or investment banker's responsiveness to the Firm; the broker-dealer or investment banker's expertise in dealing with investments that are restrictive or illiquid in nature; the value of any research services provided; and commission rates, among other factors the Firm deems relevant to the specific transaction.

Although BCEM generally seeks competitive commission rates, it might not necessarily pay the lowest commission or commission equivalent, especially in private securities transactions that rely heavily on the specialty services or experience of a broker-dealer or investment banker outside of a competitive bidding environment. Transactions that involve such specialized services sometimes entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

- 1. *Research and Other Soft Dollar Benefits.* If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions ("soft dollar benefits"), disclose your practices and discuss the conflicts of interest they create.**

BCEM does not receive research or other soft dollar benefits in connection with securities transactions for the Funds.

- 2. *Brokerage for Client Referrals.* If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**

BCEM does not receive client referrals in connection with selecting or recommending broker-dealers for the Funds.

3. Directed Brokerage.

BCEM does not engage in directed brokerage.

B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.

In the event BCEM were to aggregate the purchase or sale of securities for client accounts, it would do so on a pro rata basis.

Item 13 – Review of Accounts

A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.

The investment portfolios of each Fund are generally private, illiquid and long-term in nature and accordingly, the Firm's review of them is not directed toward a short-term decision to dispose of securities. BCEM closely monitors the portfolio companies of its Funds and performs various weekly, monthly, quarterly and periodic reviews of the Funds' portfolio companies. Such reviews are conducted by BCEM's principals and other investment professionals.

B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.

The Chief Compliance Officer would perform additional reviews in the event that a portfolio company needed subsequent financing, in the event of a potential acquisition or liquidity event, or if there were a serious performance issue.

C. Describe the content and indicate the frequency of regular reports you provide to clients regarding their accounts. State whether these reports are written.

BCEM generally will provide to its investors on behalf of the Funds the following written reports: (i) annual audited financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), accompanied by the report of an independent certified public accountant within 120 days of year end, commencing with the first year in which it either is in operation for at least six months or makes an investment; (ii) unaudited financial statements for the first three quarters of each fiscal year; (iii) annual tax information necessary for each investor's U.S. tax returns; (iv) a statement of the determination of the value of each of investment as of the end of the preceding

calendar year; and (v) a quarterly report and account statement. The Firm also has contact with investors (personal visits, telephone, email) throughout the year as conditions warrant. Upon request, certain investors may receive additional information and reporting that other investors may not receive.

In the course of conducting due diligence or otherwise, Fund investors periodically request information pertaining to their investments. BCEM responds to these requests, and in answering such requests, provides information that is not generally made available to other Fund investors who have not requested such information.

Item 14 – Client Referrals and Other Compensation

A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.

As described in Item 5 above, BCEM from time to time may receive other fees (including, without limitation, External Fees) from the Funds' portfolio companies. These fees are paid pursuant to separate agreements entered into with the portfolio companies to provide certain consulting services to the companies that BCEM believes will ultimately enhance the value of the companies and benefit the Funds and their investors.

These types of arrangements present potential conflicts of interest and provide BCEM with an incentive to recommend investments based on compensation received rather than the best interests of the Funds. To help mitigate this potential conflict, the allocable portion of such benefits received by BCEM or its employees in connection with services rendered to portfolio companies or transactions of the Fund are generally offset (and therefore reduce) advisory fees payable by the Funds, subject to certain exceptions described in Item 5 above and detailed in each Fund's Governing Documents.

In addition, as described in Items 7 and 8 above, a General Partner is permitted, at its option, provide priority to co-investment opportunities to certain persons, including Fund investors, the Ara Opportunities Fund, Ara Affiliate Firms, and others, subject to certain limitations described in each Fund's Governing Documents. BCEM and/or the applicable General Partner will likely receive compensation in connection with these co-investment activities, which will not result in additional offsets to the Management Fee paid by the applicable Funds.

B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.

As of the date of this brochure, BCEM does not directly or indirectly compensate any person who is not a supervised person for client referrals and has not retained the services of any placement agents to assist in its fundraising efforts.

Item 15 – Custody

If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.

The Advisers Act Rule 206(4)-2 (the “Custody Rule”) requires that pooled investment vehicles which BCEM advises either undergo an annual audit pursuant to GAAP by a Public Company Accounting Oversight Board (“PCAOB”) registered and inspected auditing firm or be subject to a surprise custody examination, also by a PCAOB-registered auditing firm. BCEM is deemed to have custody of the Funds’ assets because of its affiliation with each Fund’s General Partner and the General Partners’ ability to deduct fees from Fund accounts. In order to comply with the Custody Rule, BCEM has elected to undergo an annual GAAP financial statement audit by a PCAOB-registered and inspected auditing firm for each of the Funds over which it is deemed to have custody, copies of which are (or will be, for newly closed Funds) delivered to the Funds and their respective investors within 120 days of fiscal year end. Investors in the Funds should carefully review such financial statements.

BCEM does not, however, accept physical custody of any client assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Called capital is directly sent or wired into the relevant Fund’s qualified custodial account. BCEM receives monthly statements from each of its qualified custodians on behalf of the Funds. For more information about BCEM’s qualified custodians, please see Form ADV Part 1, Schedule D, 7.B.(1).

Item 16 – Investment Discretion

If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).

The Firm has discretionary authority from the Funds it advises to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner

consistent with the stated investment objectives as described in the Governing Documents for the relevant Fund. Investment advice is provided directly to the Funds, subject to the discretion and control of the relevant General Partner, and not to investors in the Funds individually. To become an investor in a Fund, an investor must execute, among other documents, a subscription agreement and a limited partnership agreement (or similar agreement) with such Fund. Such documents generally contain a power of attorney that grants BCEM or the applicable Fund's General Partner certain powers related to the orderly administration of the affairs of the Funds. Once an investor executes these documents, BCEM is not required to contact the investor prior to transacting any business in a Fund.

An investor may seek to impose limitations on BCEM's and/or the relevant Fund General Partner's authority through a side letter agreement. The Firm and/or the applicable General Partner can choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed by an investor must be presented to BCEM and the applicable Fund's General Partner in writing and agreed to by all applicable parties. Other investors meeting certain commitment thresholds may be provided with notification provisions regarding such side letter agreements but are not provided with consent rights over such agreements.

Item 17 – Voting Client Securities

A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.

By virtue of the applicable Governing Documents, BCEM has the authority to vote client proxy statements on behalf of the Funds. The majority of "proxies" received by BCEM are written shareholder consents or similar instruments for private companies owned by the Funds. As such, BCEM has adopted proxy voting policies and procedures pursuant to Advisers Act Rule 206(4)-6. BCEM's proxy policy seeks to ensure that it votes proxies in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies.

In connection with each exercise of voting authority, BCEM will assess whether any material conflicts of interest exist between the interests of BCEM and the interests of the relevant Fund with respect to the matters to be voted upon. BCEM generally believes its interests are aligned with those of the Funds' investors through the principals' beneficial ownership interests in the Funds. In the event that there is or may be a conflict of interest in voting proxies, BCEM's proxy voting policy provides that the Firm can address the conflict using several alternatives, including by seeking the approval or concurrence of an advisory board on the proposed proxy vote, or through other alternatives set forth in BCEM's proxy voting policy. Investors in the Funds cannot direct how BCEM votes proxies or

shareholder consents nor is BCEM required to seek investor approval or direction from investors when voting proxies or when giving consent on any matter requiring the consent of members or shareholders.

Firm principals and affiliated or unaffiliated third parties appointed by BCEM often sit on the boards of portfolio companies to which BCEM provides operational, management and consulting services and, as such, exercise authority with respect to various issues faced by the portfolio companies. BCEM does not consider service on portfolio company boards by BCEM personnel and affiliated and unaffiliated third parties or BCEM's receipt of nominal board fees, if any, to create a material conflict of interest in voting proxies with respect to such companies.

BCEM will provide a copy of its proxy voting policy to any existing or prospective investor upon request to Darren Lindamood, Chief Compliance Officer and General Counsel, at (713) 400-8226 or darren@bayoucityenergy.com. Investors can also obtain information from the Firm, free of charge, about how BCEM voted any previous proxies, if any.

B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.

This Item is not applicable to BCEM.

Item 18 – Financial Information

A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.

BCEM does not require prepayment of more than \$1,200 in fees per client six months or more in advance.

B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.

BCEM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to investors.

C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.

BCEM has not been the subject of a bankruptcy proceeding.