



**Bluescape Energy Partners, LLC**  
**Form ADV Part 2A – Disclosure Brochure**  
June 21, 2019

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This brochure provides information about the qualifications and business practices of Bluescape Energy Partners LLC. If you have any questions about the contents of this brochure, please contact us at (713-238-9500) or [rhulme@bluescapepartners.com](mailto:rhulme@bluescapepartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Bluescape Energy Partners LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Bluescape Energy Partners LLC is an investment adviser registered with the SEC. Registration with the SEC as an investment adviser does not imply a particular level of skill or training in the investment advisory or any other business.

**Item 2: Material Changes**

Since the filing of our most recent annual ADV on March 28, 2019, the following material changes have taken place:

Item 4 Advisory Business has been updated to include information about BERR IV.

Item 5 Fees and Compensation has been updated to provide additional details with respect to certain fees and compensations.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss has been updated to include strategy and risks with respect to BERR IV and potential conflicts of interest.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading has been modified to disclose conflicts of interest in connection with borrowing on behalf of a Fund.

In addition, edits have been made throughout the document in an effort to clarify defined terms and to update certain references.

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

Bluescape Energy Partners LLC (the “Manager” or “Bluescape”) is a Delaware Limited Liability Company formed in May 2015 and is ultimately controlled by C. John Wilder.

As of the date of this brochure, Bluescape provides investment advisory services, pursuant to the investment guidelines as set forth in the applicable offering memoranda or other offering documents, as supplemented from time to time, (each, a “Memorandum”), limited partnership or other operating agreements, as supplemented from time to time (each, a “Partnership Agreement” and together with any relevant Memorandum, the “Governing Documents”), to Bluescape Energy Recapitalization and Restructuring Fund III LP, a Delaware limited partnership (“BERR III”), Bluescape Energy Recapitalization and Restructuring Fund III (TE) LP, a Delaware limited partnership (“BERR TE III”), Bluescape Energy Recapitalization and Restructuring Fund III (IP) LP, a Delaware limited partnership (“BERR IP III”), Bluescape Energy Recapitalization and Restructuring Fund III (ECI) LP a Cayman Island exempted limited partnership (“BERR ECI III” and together with BERR III, BERR TE III and BERR IP III, the “BERR III Funds”) and Bluescape Energy Recapitalization and Restructuring Fund IV LP, a Delaware limited partnership (“BERR IV,” and together with the BERR III Funds and any future investment vehicles managed by Bluescape, the “Funds”). Bluescape Energy Partners III GP LLC, a Delaware limited liability company (the “General Partner III”) is the sole general partner of the BERR III Funds. Bluescape Energy Partners IV GP LLC, a Delaware limited liability company (the “General Partner IV,” and together with General Partner III, the “General Partners”) is the sole general partner of the BERR IV. The General Partners are controlled by Bluescape Resources GP Holdings LLC, a wholly-owned subsidiary of Bluescape Resources Company LLC (“BRC”). The Funds are privately-offered private equity funds formed by Bluescape that will seek to make investments (equity or debt) in deep value and distressed opportunities in the energy sector, typically with board participation and other control elements, which will be primarily in the North American oil and gas and power sectors. Bluescape may provide investment advisory services to other private equity funds in the future. The General Partners have entered into side letters or other similar agreements (“Side Letters”) with certain investors that have the effect of establishing rights under, or altering or supplementing the terms (including economic or other terms) of, the relevant Governing Documents with respect to such investors.

Bluescape may, in its sole discretion, offer co-investment opportunities to certain limited partners in the Funds (each a “Limited Partner,” and collectively the “Limited Partners”) and/or any other person or entity, including third parties, limited partners of any parallel fund, investors in any feeder fund, the General Partners, Bluescape, any Fund, certain employees and principals of Bluescape (the “Principals”) or their respective affiliates. Such co-investors may include entities formed by a General Partner, Bluescape, or their respective affiliates (in each case, with or without the participation of other persons or entities, including the Limited Partners) (“Co-Investment Vehicles”). Co-Investments Vehicles will invest side-by-side with a Fund in some or all of such Fund’s investments and may or may not be subject to a management fee or carried interest. Co-investments may take place concurrently with a Fund or subsequent thereto and will generally be made on substantially the same terms as the investment made by the Fund. The disposition of any co-investments are expected to be made at the same time and on the same terms as the disposition of a Fund’s investment.

In general, expenses related to the formation and operation of any Co-Investment Vehicles, many of which are similar in nature to those borne by the Funds, will be split pro rata among the applicable co-investors, whereas expenses related to a portfolio company will be split pro rata among the applicable Funds, the co-investors, any Co-Investment Vehicles, any other parallel funds, and any alternative investment vehicles based upon invested capital. Bluescape, in its sole discretion, may structure a co-investment so that co-investors and, if applicable, Co-Investment Vehicles, do not share in any broken-deal expenses. It is anticipated that, in the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise be beneficial, in the judgment of a General Partner, ultimately is not consummated, all broken deal expenses relating to such proposed transaction will be borne by the applicable Fund(s), and not by any potential co-investors, that were to have participated in such transaction.

Bluescape will allocate available investment opportunities among the Funds, any other parallel fund, and any alternative investment vehicle, on the one hand, and the applicable co-investors (including any Co-Investment Vehicles), on the other hand. Participation in co-investment opportunities that Bluescape determines to offer will generally be offered initially to the Limited Partners and the partners, shareholders, or other members of any other parallel funds, alternative investment vehicles, or feeder funds, pro rata based upon capital commitments, and such offer will include the opportunity to subscribe for a share of any under-subscribed amounts resulting from other offerees declining to participate for their full pro rata share. Bluescape may in its reasonable judgment determine the manner for conducting such allocation and offering process. Bluescape will have no obligation to offer, and may determine in its sole discretion whether or not to offer, co-investment opportunities to any Limited Partner that has defaulted on a required capital contribution or any co-investor that has defaulted on any of its obligations with respect to any co-investment.

In the event a Fund transfers any portion of a portfolio investment to any co-investor or Co-Investment Vehicle, the proceeds from such transfer shall be distributed among the Limited Partners pro rata based on their respective capital contributions funding such portfolio investment and shall be deemed, on a dollar-for-dollar basis, to increase each applicable Limited Partner's capital commitment and decrease each applicable Limited Partner's capital contributions previously made to the Fund. Such distributions will not be considered in computing the preferred return or the General Partner catch-up.

As of May 31, 2019, Bluescape had \$1,140,254,565 in regulatory assets under management.

#### **Item 5: Fees and Compensation**

The management fees and performance-based compensation applicable to each Fund are set forth in detail in such Fund's Governing Documents. Generally, each Fund pays Bluescape a fee for investment management services (a "Management Fee") and pays its General Partner a performance-based carried interest. Bluescape or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to Bluescape as further described in the relevant Governing Documents. In addition, in certain circumstances, Bluescape receives compensation for management and/or other services

performed in connection with co-investments made in portfolio companies of the Funds. Investors in a Fund also bear certain expenses. Certain investors, including investors that are affiliates of Bluescape (“Affiliated Limited Partners”), in the Funds may receive fee breaks or fee discounts in Management Fees and/or carried interest.

## **Management Fees**

As further discussed in the applicable Governing Documents, the Funds will generally pay a Management Fee to Bluescape equal to 2% per annum of the aggregate commitments of the fee-paying Limited Partners, payable quarterly in advance, during the initial period (i.e., until the expiration of the investment period or earlier upon the occurrence of certain events as set forth in the applicable Governing Documents). After the initial period, the Management Fee will be equal to 2% per annum of capital contributions of the fee-paying Limited Partners that are invested in portfolio companies (net of distributions constituting a return of capital and any permanent write-downs). The Management Fee for certain Funds will be reduced to a range of 1% to 1.75% per annum of the capital contributions of the fee-paying Limited Partners that are invested in portfolio companies (or payable pursuant to an outstanding capital call notice or a capital call notice that a General Partner intends to issue to repay indebtedness) (net of distributions constituting a return of capital and any permanent write-downs) following the date that a Bluescape successor fund commences to accrue Management Fees in an amount that equals or exceeds the Management Fees then-payable by the applicable Funds.

The Management Fee will be reduced by an amount equal to 100% of Transaction Fees attributable fee-paying Limited Partners. As further set forth in the relevant Governing Documents, “Transaction Fees” typically include any: (i) directors’ fees, financial consulting fees or advisory fees paid to Bluescape and/or its affiliates with respect to any Fund investment; (ii) transaction fees paid to Bluescape and/or its affiliates with respect to any Fund investment; (iii) monitoring fees and (iv) break-up fees with respect to Fund transactions not completed that are paid to Bluescape and/or its affiliates, in each case net of certain expenses as set forth in the Governing Documents; but not including, in any event, any amount received by Bluescape and/or its affiliates or other person from a portfolio company (A) as reimbursement for expenses directly related to such portfolio company, (B) as payment for services not of the type customarily provided by Bluescape to such portfolio company as part of ordinary management services, or (C) as compensation for providing consulting or similar services at the request of a third party to or for any other person or entity that do not incrementally increase the expenses or costs borne by any portfolio company.

Various costs and expenses will reduce Transaction Fees (and therefore such amounts will not reduce the Management Fee for fee-paying Limited Partners), including out-of-pocket costs and expenses (including travel expenses) incurred by the applicable General Partner in connection with any consummated or unconsummated transaction or in connection with generating any such Transaction Fees. Additionally, a portfolio company typically will reimburse Bluescape and its affiliates or service providers retained at their discretion or influence for expenses (including travel expenses) incurred by Bluescape and its affiliates or such service providers in connection with the performance of services for such portfolio company. Such reimbursed amounts will be in addition to, and will not otherwise reduce or offset, the Management Fee.

As a matter of practice, Bluescape is typically paid fees of the type referred to in the preceding paragraphs from, on behalf of or with respect to co-investors in an investment. The receipt of such fees will not reduce the Management Fee payable by any Funds that have also invested in such investment, and as a result a Fund will, in most cases, only benefit with respect to its allocable portion of any such fee and not the portion of any fee that relates to such co-investors, which have the potential to be significant.

### **Carried interest**

Performance-based fees or carried interest profit allocations are subject to regulation under Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Bluescape seeks to ensure that any Client or investors in a Fund that are directly or indirectly assessed performance-based fees or are subject to carried interest profit allocations satisfy the qualifications of Rule 205-3 and have been advised of such fees or allocations and their risks.

Subject to the limitations below, Bluescape and/or its affiliates will receive a special allocation of profits (“performance allocation” or “carried interest”), from the Funds of 20% of any net profits of the Funds after taking into account a preferred return to investors (subject to catch-up), as well as the expenses of the applicable Fund, including management fees. The performance allocation is calculated each time a Fund makes a distribution to its investors.

The performance allocation of the Funds generally is not negotiable; however, Bluescape may reduce the performance allocation due with respect to any investor in the relevant Fund in its sole discretion. Certain Affiliated Limited Partners in the Funds are not subject to the performance allocations described above.

### **Other Information**

Bluescape is permitted to exempt certain Limited Partners, including Affiliated Limited Partners, in the Funds from payment of all or a portion of Management Fees and/or carried interest, including Bluescape and any other person designated by Bluescape, such as “friends and family” of Bluescape or its personnel, or other investors meeting certain qualification requirements. Except as otherwise agreed, Affiliated Limited Partners and/or any investor designated by Bluescape as an “affiliated partner” will not be subject to the carried interest or the Management Fee. For example, in instances where a Bluescape professional (or an affiliated entity thereof) invests in a Fund, such professional (or such affiliated entity) generally will be exempt from payment of the Management Fee and carried interest with respect to such Fund. In general, the Management Fee offsets described above in the section entitled “Item 5: Fees and Compensation — Management Fee” apply only with respect to the capital commitments of fee-paying Limited Partners.

In addition to the Management Fee and carried interest payable to Bluescape and/or its affiliates, each Fund bears certain expenses. As set forth more fully in the applicable Governing Documents of each Fund, a Fund bears all fees, costs, expenses, liabilities and obligations relating to the Fund’s activities, investments and business to the extent not reimbursed by a portfolio company or applied to reduce transaction fees, including all fees, costs, expenses, liabilities and obligations relating to or attributable to: (i) activities with respect to the structuring, organizing, studying, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to any databases),

acquiring, bidding on, developing, owning, managing, monitoring, settling, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving, or otherwise disposing of, as applicable, portfolio companies and a Fund's actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, engineers, lenders, third-party diligence providers, consultants (including environmental, social and governance consultants), executive search firms for searches related to portfolio company personnel, data providers and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), whether or not any contemplated transaction or project is consummated, such activities are successful or such activities occurred prior to the initial closing date of a Fund; (ii) indebtedness of, or guarantees made by, a Fund, a General Partner, Bluescape or any Affiliated Limited Partner on behalf of a Fund (including any credit facility, letter of credit or similar credit support), including the repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantee; (iii) financing, commitment, origination and similar fees and expenses; (iv) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services; (v) brokerage, sale, custodial, depository (including a depository appointed pursuant to the Alternative Investment Fund Manager Directive or similar law, rule or regulation ("AIFMD")), a Swiss representative and paying agent (pursuant to the Swiss Collective Investment Schemes Act (as amended), including any law, rule, or regulation related to the implementation thereof), trustee, record keeping, account and similar services; (vi) legal, accounting, research, auditing, administration (including fees and expenses associated with any third-party administrator and administration, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees, salaries and other compensation paid and benefits provided to consultants performing investment initiatives or providing services related to environmental, social and governance investment considerations and policies and other similar consultants), tax and other professional services; (vii) reverse breakup, termination and other similar fees; (viii) directors and officers liability, fidelity bond, cybersecurity, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses, including any costs and expenses related to any retention or deductibles; (ix) filing, title, transfer, survey, registration and other similar fees and expenses; (x) printing, communications, mailing, courier, marketing and publicity; (xi) the preparation, distribution or filing of any Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s or other communications with Partners or any other administrative, compliance or regulatory filings or reports (including Form PF) and any administrative, regulatory, reporting, filing or other compliance requirements (other than the initial registrations, filings, and compliance contemplated by AIFMD), or other information, including fees and costs of any third-party service providers and professionals related to the foregoing; (xii) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of a Fund or the Limited Partners; (xiii) any activities with respect to protecting the confidential or non-public nature of any information or data; (xiv) to the extent provided in the applicable Governing Documents, or otherwise approved by a General Partner in its sole discretion, activities or proceedings of a Fund's advisory board (including any out-of-pocket costs and expenses incurred



by representatives of a General Partner, a Fund's advisory board members, permitted observers and other Persons in attending or otherwise participating in meetings of a Fund's advisory board and the fees, costs and expenses of any outside counsel engaged by a Fund's advisory board pursuant to the applicable Governing Documents); (xv) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any Partner or other person or entity pursuant to the applicable Governing Documents or otherwise and advancing fees, costs and expenses incurred by any such person or entity in defense or settlement of any claim that may be subject to a right of indemnification pursuant to the applicable Governing Documents), except as otherwise set forth in the applicable Governing Documents; (xvi) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs and expenses of any discovery related thereto and any judgment, other award or settlement entered into in connection therewith; (xvii) any annual Limited Partner meeting or other periodic, if any, meetings of a Fund's Limited Partners and any other conference or meeting with any Limited Partner(s), in each case to the extent incurred by the a Fund, a General Partner or any other affiliate of a General Partner; (xviii) except as otherwise determined by a General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any alternative investment vehicle or its activities, business, portfolio companies or actual or potential investments (to the extent not borne or reimbursed by a portfolio company of such alternative investment vehicle) that would be a Fund expense if it were incurred in connection with a Fund, and any expenses incurred in connection with the formation, management, operation, termination, winding up and dissolution of any alternative investment vehicle or feeder vehicles related to a Fund to the extent not paid by the investors investing in such entities and any other costs and expenses related to any structuring or restructuring of any related entities; (xix) the termination, liquidation, winding up or dissolution of a Fund; (xx) defaults by Partners in the payment of any capital contributions; (xxi) except as otherwise provided in the applicable Governing Documents, amendments to, and waivers, consents or approvals pursuant to, the constituent documents of a Fund, a General Partner, Bluescape, certain of their respective affiliates and any alternative investment vehicle of a Fund, including the preparation, distribution and implementation thereof; (xxii) (A) complying with any law, rule, regulation or policy related to the activities of a Fund (including any legal fees and expenses related thereto, any regulatory expenses of a General Partner incurred in connection with the operation of a Fund, any costs and expenses related to compliance with any privacy, data protection, know-your-customer, anti-money laundering or anti-terrorist laws, rules, regulations, directives or special measures and any costs and expenses related to compliance with any environmental, social or governance considerations and policies) and/or (B) any litigation or governmental inquiry, investigation or proceeding involving a Fund, including any costs and expenses of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the applicable Governing Documents; (xxiii) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer contemplated by the applicable Governing Documents; (xxiv) any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of a Fund (except to the extent that a Fund is reimbursed therefor by a Partner or such tax, fee or charge is treated as having been distributed to the Partners pursuant to the applicable Governing Documents; (xxv) distributions to the Partners and other expenses associated with the acquisition, holding and disposition of a Fund's investments, including extraordinary expenses; (xxvi) compliance or regulatory matters related to a Fund,

except as otherwise set forth in the applicable Governing Documents, including compliance with the applicable Governing Documents and/or any letter agreement and costs and expenses incurred in connection with the most-favored-nations process; (xxvii) any travel (including, where appropriate in a General Partner's sole discretion, the cost of using a private aircraft or other private air travel (including the use of a private aircraft owned or partially owned by Bluescape, any of its affiliates or any of their respective owners) at a cost equal to the cost of first class commercial airfare), lodging or meals relating to any of the foregoing, including in connection with consummated and unconsummated investment and disposition opportunities (including activities related to any unconsummated investment opportunities prior to the initial closing date of a Fund); (xxviii) any experts, including independent appraisers engaged by the General Partner in connection with a Fund considering, making or holding an investment in the same person or entity as one or more affiliates of a Fund or a General Partner; (xxix) any organizational expenses of a Fund, a General Partner and certain other related entities; (xxx) any placement fees payable to any placement agent in connection with the formation of a Fund; and (xxxi) any other fees, costs, expenses, liabilities or obligations approved by a Fund's advisory board.

Bluescape and/or its affiliates generally have discretion over whether to charge Transaction Fees to a portfolio company and, if so, the rate, timing, method and/or amount of such compensation. In most circumstances, such compensation is not reviewed or approved by an independent third party. The receipt of Transaction Fees generally will give rise to potential conflicts of interest between the Funds, on the one hand, and Bluescape and/or its affiliates on the other hand.

Mr. Wilder (or an entity controlled by him) has entered into one or more consulting or similar agreements with one or more persons or entities and will receive compensation (including incentive payments) for providing services upon any such person's or entity's request. Any such compensation will not offset or otherwise reduce the Management Fee or otherwise be shared with any Fund or the Limited Partners except to the extent that such compensation incrementally increases the expenses or costs borne by any portfolio company.

To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in "Brokerage Practices."

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

As noted in the response to Item 5: Fees and Compensation, the General Partners may receive performance allocations from the Funds and eligible co-investors. The existence of performance-based compensation has the potential to create an incentive for the General Partner to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although Bluescape generally considers performance-based compensation to better align its interests with those of its investors. In addition, to the extent Bluescape manages other private equity funds that have varying performance-based compensations, Bluescape may have an incentive to allocate investments or otherwise provide preferential treatment to certain Funds over others if such Funds have more favorable performance-based compensation terms than other Funds.

## **Item 7: Types of Clients**

As described above in Item 4: Advisory Business, Bluescape provides investment advisory services to Funds, which are pooled investment vehicles. Investors in the Funds include institutional investors such as endowments, foundations, trusts, and pension plans, as well as individuals. The Funds are offered exclusively to “accredited investors” as defined in Regulation D under the Securities Act of 1933 or “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940. The minimum commitment of an investor to the Funds is \$1,000,000, although Bluescape may accept and has accepted investments in a lesser amount.

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

### **Methods of Analysis**

Bluescape seeks to apply a team-based approach to every aspect of the investment process so that a variety of perspectives are considered in each investment decision. Bluescape’s investment evaluation process is distinguished by its emphasis on purchase price discipline, extensive asset analysis, due diligence and a collaborative approach to decision making. Bluescape intends to leverage its internal expertise and supplement it with specific external expertise to understand the technical, operational, pricing, legal, tax, regulatory and competitive opportunities and risks. Through its proprietary relationships, Bluescape has access to world class industry expertise that would typically only be available to much larger investors.

Bluescape will generally develop financial models for the full life of an asset to fully understand the drivers of value and estimate an exit value. Bluescape believes that a full life model is critical to fully understanding the nature of the long-term assets the Fund will seek to acquire and the potential effect of long-term changes in price, growth, cost and technological productivity

All new investment commitments for the Funds require the majority vote of Bluescape Investment Committee (the “Investment Committee”). Ties will be broken by C. John Wilder, the Executive Chairman of the Investment Committee.

### **Investment Strategies**

Bluescape’s investment strategy will center around deep value opportunities within the energy sector with an emphasis on distressed and out-of-favor opportunities. This strategy has the following major components: (i) deep value equity investing in existing enterprises; (ii) turnaround/restructuring and restructuring partnerships; (iii) real and long-term option aggregation; (iv) downside mitigation; and (v) asymmetric ownership structures.

**Deep Value Equity Investing in Existing Enterprises:** In the deep value equity strategy, Bluescape seeks to capitalize on distress-driven opportunities, as well as its proprietary relationships in the oil and gas and power sectors, to identify and execute transactions. Bluescape’s primary focus is on investments where it believes it has an advantaged sourcing angle and where the senior members of Bluescape’s team’s (the “Senior Team”) deep operational experience and close involvement with management may significantly benefit the targeted company. Bluescape may seek to obtain control through a variety of structures including but not limited to majority equity ownership, board control and/or negative control rights. Bluescape may also

opportunistically purchase convertible or preferred instruments as a means of achieving control. This differs from many energy private equity strategies which focus on backing greenfield teams with the goal of finding and acquiring assets. Bluescape's deep value equity strategy requires the ability to diligence the financial aspects of the company along with its assets, but more importantly, requires the ability to actively influence long-term operational, commercial and financial performance with an existing team.

**Turnaround/Restructuring and Restructuring Partnerships:** Bluescape seeks to add substantial managerial value to its investments by driving companies to adapt to the lower-for-longer downcycle. Members of the Bluescape team have led what they consider are successful turnaround and restructurings as public company executives and as private capital investors. The restructuring playbook has been similar in each of these situations. Bluescape seeks reductions in general and administrative expenses. Bluescape also seeks to restructure contracts with suppliers, transporters, and other partners. Bluescape is hands-on in creditor negotiations and also pursues divestiture of assets to higher value owners.

Bluescape also pursues a restructuring partnership strategy, targeting partnerships with large shareholders or creditors of financially and/or commercially distressed companies to restructure and grow the businesses. Bluescape's focus is on investments where it may obtain outsized control and upside relative to its investment, and Bluescape will look across the balance sheet and capital structure when structuring deals. Bluescape's preferred structure will often provide for performance-based compensation via ongoing fees and equity awards on top of a cash-based investment. The restructuring partnership strategy may be a specifically well-fitting investment path for companies poised to benefit more from management skills and experiences than from capital. Bluescape believes this strategy is unique in the energy private equity industry and allows a Fund to leverage the Senior Team's skill sets. Bluescape believes this strategy is available to be employed "by invitation only" to managers that have proven their turnaround capabilities multiple times in the energy sector.

**Real and Long-Term Option Aggregation:** Bluescape seeks to acquire companies and assets with real options that provide asymmetric upside. Bluescape also pursues "toe-hold" investments, small stakes in situations where Bluescape can size-up its exposure if warranted by ongoing developments.

In the long-term option aggregation strategy, Bluescape focuses on acquiring real options in large-scale, long-term opportunities in oil and gas exploration and power assets. Bluescape's focus is on investments with a sufficient level of scale and tenor to allow for careful appraisal and "de-risking" over time. These opportunities will generally require low initial capital investments, while subsequent capital may be increased, decreased or re-allocated based on project successes and the prevailing pricing environment. This is expected to dramatically increase operational flexibility and optionality. Specific to the oil and gas space, significant value creation may be achieved through: (i) the ability to scale development based on prevailing commodity prices and service costs; (ii) the ability to utilize improved technology and drilling practices to increase well recoveries; and (iii) the ability to utilize improved geologic understanding to develop additional reservoirs.

**Downside Mitigation:** Bluescape seeks to manage risk in order to protect against commodity/margin declines and other performance downsides. Bluescape negotiates to achieve capital structure preferences relative to other stakeholders. Bluescape also seeks to hedge exposure in the commodity futures and options markets and pursues financial deleveraging as well.

**Asymmetric Ownership Structures:** Bluescape seeks asymmetric upside through its investment and ownership structures. Much of this involves negotiating terms with investing partners and other stakeholders.

**Risk of Loss and General Investment Risks:** Investing in the Funds involves risk of loss and is suitable only for investors prepared to bear such risk. The risk factors below are not intended to be exhaustive. Prospective investors in the Funds should carefully review the risks described in the Governing Documents, as applicable, for the relevant Fund, and should evaluate the merits and risks of an investment in the context of their overall financial circumstances.

## **Investment Risks**

**Business Risks.** A Fund's investment portfolio is expected to consist primarily of debt and equity investments in energy companies. Operating results for these types of investments during a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

**Nature of Investment in General.** There can be no assurance that a Fund will achieve its investment objective. An investment in a Fund requires a long-term commitment, with no certainty of return. There most likely will be little or no near-term cash flow available to the Limited Partners. The activity of identifying, completing and realizing attractive private equity investments is highly competitive and involves a high degree of uncertainty. There can be no assurance that a Fund will be able to locate, consummate and exit investments that satisfy such Fund's rate-of-return objectives or realize upon such investments' values, or that a Fund will be able to invest fully its committed capital. Many, if not all, of a Fund's investments will be highly illiquid, and there can be no assurance that a Fund will be able to realize such investments in a timely manner. A Fund's contemplated exit strategies for its investments can be adversely affected by numerous factors, many of which may be unforeseen or unexpected at the time the investments are made. Consequently, dispositions of a Fund's investments may require a lengthy time period or may result in distributions in kind or losses to the partners of a Fund. Additionally, a Fund typically will acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act or in a private placement or other transaction exempt from registration under the Securities Act that also complies with any applicable non-U.S. securities laws. Certain of a Fund's investments may be in businesses with little or no operating history. There can be no assurance that the targeted rate of return will be attained.

**Concentration of Investments; Lack of Diversification.** Each will focus primarily on investments in companies in the upstream, midstream, oil and gas and power sectors. While Bluescape and certain of its partners, members, officers, employees, managers and directors have experience within this industry, the ultimate performance of a Fund's investments cannot be predicted with certainty. Although a General Partner will attempt to minimize risk, a Fund's actual returns will be subject to numerous factors beyond the General Partner's control, including natural causes,

governmental regulation, competing responses to population growth, economic development, and increased urbanization, the successful implementation of measures to counter any of the foregoing, whether by way of political will, the development of new technologies for that purpose or otherwise, and consumer needs and preferences. In addition, each Fund may participate in a limited number of investments within the upstream, midstream, oil and gas and power sectors of the energy industry and, as a consequence, the aggregate returns to a Fund may be substantially adversely affected by the unfavorable performance of even a single investment. To the extent a Fund concentrates its investments in a particular issuer, security, product, service or geographic region, such investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect to that issuer, security, product, service or geographic region. To the extent that the capital raised is less than the targeted amount, a Fund may invest in fewer portfolio companies and thus be less diversified. If a Fund co-invests with another investment fund, a Limited Partner invested in such other fund may have exposure to a single portfolio company through more than one fund, potentially multiplying such Limited Partner's losses. In addition, during the early stages of a Fund's term, a Fund may hold more concentrated positions than it otherwise would.

***Highly Competitive Market for Investment Opportunities Generally; Lack of Sufficient Investment Opportunities.*** The business of identifying, structuring and completing private equity transactions in the energy industry is highly competitive and competition is increasing. A Fund will encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, strategic industry acquirers and other financial investors. Over the past several years, an increasing number of private equity funds have been or are being formed, and many existing funds have grown in size. Additionally, a number of new funds and established funds with more generalized investment capabilities have entered into the energy industry within the last several years as capital needs in the industry have increased and investment returns in other industries have decreased. As global efforts are made to respond to anticipated future population growth, economic development and increased urbanization, and the effects of each of them, the number of funds and sources of investment capital that have similar investment objectives to a Fund, or that target similar investment opportunities, is likely to increase. Some of these competitors may have more relevant experience, greater financial resources and/or purchasing power, greater negotiating power, a greater willingness to take on risk, and/or more personnel than a General Partner, Bluescape, a Fund and their respective affiliates. In addition, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Bluescape expects that competition for appropriate investment opportunities may increase, which also may require a Fund to participate in auctions, the outcome of which cannot be guaranteed, thus reducing the number of investment opportunities available to the Fund and/or adversely affecting the terms upon which investments can be made. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense. This may adversely affect the terms upon which a Fund makes investments, decrease the number of suitable investment opportunities and inhibit a Fund's ability to satisfy its investment objectives. To the extent that a Fund encounters competition for investments, returns to Limited Partners may decrease.

It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. Limited Partners will be required to bear Management Fees during the

investment period, based on the entire amount of the Limited Partners' Commitments and pay for other expenses as set forth in the Partnership Agreement even if the Fund fails to make any investments.

***Unspecified Investments.*** Limited Partners will be relying on the ability of the General Partner to identify and evaluate the investments to be made by a Fund using the proceeds of this offering. The activity of identifying, structuring, completing and realizing investments in companies in the upstream, midstream, oil and gas and power sectors involves a high degree of uncertainty and is subject in some cases to the prevailing capital market, regulatory or political environment. There can be no assurance that the General Partner will be able to identify, or a Fund will be able to complete, investments that satisfy such Fund's rate of return objectives or, if completed, realize such investments for fair or attractive values.

***Illiquidity; Lack of Current Distributions.*** An investment in a Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. While an investment may be sold at any time, it is generally expected that a sale will not occur until a number of years after a Fund's initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee) may exceed its income, thereby requiring that the difference be paid from a Fund's capital (including the aggregate unfunded Commitments).

A Fund's ability to dispose of investments may be limited for several reasons, including the absence of an established market for the investments, as well as contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms upon which a disposition could be made. Any possibility of a disposition in the public markets will depend upon favorable market conditions, including receptiveness to initial or secondary public offerings for the companies in which a Fund invests and an active mergers and acquisitions (or recapitalizations and reorganizations) market. Public offering, merger and acquisition and recapitalization and reorganization opportunities may be limited or non-existent for extended periods of time, whether due to economic, regulatory or other factors. In view of these limitations on liquidity, a Fund generally will not be able to realize an investment in a privately held entity until the sale of such entity.

***Leveraged Investments; Borrowing.*** A Fund may make use of leverage by having a portfolio company or special purpose vehicle incur debt to finance a portion of its investment in such portfolio company. Leverage generally magnifies both a Fund's opportunity for higher returns and its risk of loss from a particular investment, and the magnification of the risk of loss may be substantial. The cost and availability of leverage is highly dependent on the state of the broader credit markets (which may be impacted by regulatory restrictions and guidelines), which is difficult to accurately forecast. As a result, at times it may be difficult for a Fund and/or portfolio companies to obtain or maintain the desired degree of leverage. The availability of leverage also is subject to governmental and regulatory oversight, and certain governmental bodies (including the U.S. Federal Reserve System, the U.S. Office of the Comptroller of the Currency and the U.S. Federal Deposit Insurance Corporation) may restrict or otherwise discourage lending that results in companies carrying large amounts of debt.

The use of leverage by a portfolio company may impose restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to operate its business as desired and/or finance future operations and capital needs. Such leverage will increase a portfolio company's exposure to any deterioration in its industry, competitive pressures, adverse economic environment or rising interest rates. As a result, any decline in the value of a leveraged portfolio company may be accelerated and magnified in a market downturn. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in such portfolio company, which could adversely affect a Fund's returns. Additionally, in such a situation, lenders would typically have a claim that has priority over any claim by a Fund to the assets of such portfolio company in an insolvency event or proceeding. Should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a portion of a portfolio company, a Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts for such portfolio company. If a portfolio company is unable to obtain favorable financing terms for its investments, refinance its indebtedness or maintain a desired or optimal level of financial leverage, a Fund may hold a larger than expected equity investment in such portfolio company and may realize lower than expected returns from such portfolio company, which would likely adversely affect the Fund's returns. Any failure by lenders to provide previously committed financing could also expose a Fund to potential claims by sellers of prospective portfolio companies which a Fund may have been contracted to purchase.

A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefore, and in such situations it is not expected that the Fund would be compensated for providing such guarantee or exposure to such liability. Although use of such borrowing facilities enhances a General Partner's ability to close transactions quickly, such activity also increases risk and raises the possibility that a General Partner will need to call additional capital to pay off such debt. Any use of leverage by a Fund may result in interest expense and other costs to a Fund that may exceed distributions made to a Fund or appreciation of its investments. A Fund may incur leverage on a joint and several basis with one or more other Bluescape Entities (as defined below) or any of their respective affiliates and, in connection with incurring such indebtedness, a General Partner may, in its sole discretion, cause a Fund to enter into one or more agreements to obtain a right of contribution, subrogation or reimbursement from or against such entities. However, it is possible that, if and when a Fund were to seek to enforce any such right, any such entity could default on its obligation and/or such right may otherwise be unenforceable. In addition, to the extent a Fund incurs leverage or provides any guaranty, such amounts may be secured by the Commitments of the Fund's investors and other Fund assets. The inability of a Fund to repay any leverage secured by the Commitments of a Fund's investors could enable a lender to issue a capital call to such investors on behalf of the General Partner of such Fund.

***Subscription Lines.*** A Fund may enter into a subscription line with one or more lenders in order to finance its operations (including the acquisition of the Fund's investments). Fund-level borrowing subjects limited partners to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner



claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors.

In addition, Fund-level borrowing will result in incremental partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment and negotiation of the terms of the borrowing facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the Governing Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than the Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation.

A credit agreement may contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, a subscription line may impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in the Fund. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows the General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then current amount outstanding under a subscription line could cause short-term liquidity concerns for limited partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. A Fund may also utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than Limited Partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses.

***Risks Associated with Non-U.S. Investments.*** A Fund may invest in businesses operating or organized outside of the U.S. Such investments will involve risks not typically associated with investments in U.S. assets or companies, including risks relating to: (i) 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 and the absence of uniform accounting and financial reporting standards and disclosure requirements; (ii) currency exchange matters and costs associated with conversion of investment principal and income from one currency into another, which may expose a Fund to potential losses arising from changes in foreign currency exchange rates; (iii) possible

significant government approvals under corporate, securities, exchange control, non-U.S. investment and other similar laws and regulations; (iv) certain economic and political risks, including potential restrictions on foreign investment and repatriation of capital and the risks of political, economic or social instability; (v) differences in financing and structuring alternatives and exit strategies from those commonly used in the U.S.; (vi) differences in legal systems, including the possibility that a Fund may experience difficulty in asserting legal claims or obtaining legal remedies in non-U.S. jurisdictions; and (vii) the possible imposition of foreign taxes on income and gains recognized with respect to such securities. The foregoing factors may increase transaction costs and other investment costs, which could adversely affect the value of a Fund's investments in non-U.S. portfolio companies.

***Uncertainty of Projections.*** A Fund may use financial projections to help analyze a potential investment or future capital raises and financing for portfolio companies or other transactions. Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by such Fund's General Partner in its sole discretion. In all cases, projections are only estimates of future results that are based, in whole or in part, upon information received from third parties and assumptions made at the time the projections are developed. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values. There can be no assurance that the results set forth in any projections will be attained, and actual results may be significantly different from projections.

***Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Expedited Transactions.*** Before making an investment, a General Partner typically will conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to such investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, technical, geophysical, geological, environmental and legal issues. Outside consultants, legal advisors, accountants, geologists, engineers, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto and a General Partner may rely on the advice received from such third parties. Investment analyses and decisions by a General Partner often will be undertaken on an expedited basis in order for the Fund to compete for investment opportunities and/or consummate investments. In such cases, the information available to a General Partner at the time of an investment decision may be limited, and a General Partner may not have access to the detailed information necessary for a full evaluation of an investment opportunity. The due diligence investigation carried out with respect to any investment opportunity is unlikely to reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in an investment being successful or even ensure a return on invested capital.

***Hedging Arrangements; Related Regulations.*** A General Partner may (but is not obligated to) endeavor to manage a Fund's or any investment's interest rate exposures, tax exposure, currency exposures, oil, gas and other commodity price exposures or other exposures, using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC")

contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used. In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled. Certain hedging arrangements may create for a General Partner and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission ("CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of the Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

***Position Limits.*** Under current and proposed rules concerning position limits with respect to CFTC-regulated products, including futures, swaps and certain other contracts on or linked to certain physical commodities, the positions in such contracts held by a Fund and certain of its portfolio companies may be required to be aggregated. To the extent aggregation applies to the Fund or its portfolio companies, it may not be feasible to hedge one or more risks in their respective operations, or the costs of hedging such risks may increase substantially, either of which is expected to have an adverse effect on a Fund.

***Deterioration of Credit Markets.*** The ability of a Fund and the portfolio companies to effectively execute their respective strategies will be dependent on the health of the U.S. and global credit markets. In the event that, as a result of an economic downturn or otherwise, credit markets deteriorate and it becomes more difficult for investment funds such as the Funds to obtain favorable financing for investments, a Fund's ability to consummate investments may be adversely affected, one effect of which may be a slower-than-anticipated rate of capital deployment by a Fund. A persistent credit market deterioration may result in limited availability of credit to consumers, homeowners and/or businesses, which may lead to an overall weakening of the U.S. economy and/or global economies. In such a situation, portfolio company performance may decline and/or the value of portfolio companies may be diminished. As a result, a Fund's ability to realize its investments at favorable times and/or for favorable prices may be negatively impacted, one effect of which may be longer-than-anticipated holding periods for investments. Accordingly, a deterioration in credit markets may negatively affect a Fund's ability to achieve its investment objectives and/or generate attractive returns for Limited Partners.

***Energy Industry Concentration.*** The Funds' investments will be concentrated in the energy industry and will be subject to numerous risks that affect the energy industry as a whole, or specific sectors within that industry. Because of the concentration of the Funds' investments in this industry, an investment in a Fund may be subject to greater risk than an investment in a portfolio of securities representing a broader range of industries. Furthermore, to the extent that the capital raised is less than the targeted amount, a Fund may invest in fewer portfolio companies and thus be less diversified.

***Fluctuation in Energy Prices.*** The revenues and profitability of certain of the portfolio companies in which a Fund invests are likely to be significantly affected by the future prices of and the demand for oil and natural gas, which are inherently uncertain. Energy investments may have significant shortfalls in projected cash flow if prices decline from levels projected at the time the investment is made. Various factors beyond the control of a Fund will affect energy prices, including worldwide supplies, political instability or armed conflicts in oil and natural gas producing regions, the price of foreign imports, the level of consumer demand, the price and availability of alternative fuels, capacity constraints and changes in existing government regulation, taxation and price controls. Energy prices have fluctuated greatly during the past, and energy markets continue to be volatile.

***Energy and Natural Resources Industries Risks.*** As detailed further herein, investments in companies in the upstream, midstream, oil and gas and power sectors are subject to a variety of risks, not all of which can be foreseen or quantified. For example, the success of many of the portfolio companies in which a Fund invests likely will be affected by numerous factors, including the following: (i) amount, nature, and timing of property acquisitions or capital expenditures; (ii) the market for oil and gas acreage or properties or working interests therein; (iii) drilling of wells and other planned development activities; (iv) timing and amount of future production of oil or gas; (v) quantities of discovered or probable, potential or proved reserves of oil or gas; (vi) marketing of and market prices for oil, gas or oil or gas properties or working interests therein generally or in any particular location; (vii) operating costs including lease operating expenses, administrative costs and other expenses; (viii) a Fund's future operating or financial results; (ix) cash flow and anticipated liquidity; (x) the timing, success and cost of exploration and development activities; (xi) the risk that the technology employed in an energy project will not be effective or efficient; (xii) governmental and environmental regulation of the oil and gas industry, including the risk that regulations affecting the energy industry will change in a manner detrimental to the industry; (xiii) environmental liabilities relating to energy properties and projects; (xiv) industry competition, conditions, performance and consolidation; (xv) the availability of drilling rigs and other oilfield equipment and services; and (xvi) natural events.

Because of a Fund's upstream, midstream, oil and gas and power sector focus, investment-related decisions and determinations, such as portfolio construction and diversification, may generally differ as compared to a more broadly focused private equity fund. When making such decisions and determinations, a General Partner may emphasize factors in a different manner and consider different factors, in each case as compared to such decisions and determinations relating to a more broadly focused private equity fund.

***Project Development and Operational Risk.*** The successful development and operations of the portfolio companies in which a Fund invests will depend on adequate infrastructure being available (or being developed) and remaining available. Portfolio company projects and assets may be located in areas that are sparsely populated and difficult to access. Reliable roads, power sources, transport infrastructure and water supplies are essential for the conduct of project development and operations and the availability and cost of these utilities and infrastructure affect capital and operating costs. Unusual weather or other natural phenomena, sabotage or other interference in the maintenance or provision of such infrastructure could impact the development of a project, reduce production volumes, increase extraction or exploration costs or delay the transportation of

raw materials to the mines and projects and commodities to end customers. Any such issues arising in respect of such infrastructure may materially and adversely impact an investment by a Fund.

***Drilling, Exploration and Development.*** Each Fund intends to invest in portfolio companies that have oil and gas exploration and development projects, which is a speculative business involving a high degree of risk. Exploration and development projects usually have limited production, marketing, and financial resources and are, therefore, more vulnerable to the adverse impact of competition and changes in market conditions. Moreover, oil and gas drilling may involve unprofitable and unsuccessful efforts. Companies engaged in oil and gas exploration and development may expend a significant amount of capital drilling in wells that do not produce oil or gas, or in wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Additionally, if multiple rounds of drilling are undertaken before oil or gas is located or produced, the portfolio company investment may be carried at little or no value, and the portfolio company may face increased borrowing costs or trigger lending covenants, and may produce lower returns on an aggregate or IRR basis. Acquiring, developing and exploring for oil and natural gas involve many risks. These risks include: (i) encountering unexpected formations or pressures; (ii) loss of drilling fluid circulations; (iii) premature declines of reservoirs; (iv) blow-outs; (v) possible claims of indigenous peoples; (vi) protests by environmental groups; (vii) eco-terrorism; (viii) continuity of mineable reserves; (ix) availability of essential infrastructure; (x) labor relations; (xi) industrial accidents; (xii) reclamation obligations; (xiii) other accidents in completing wells; (xiv) cratering; (xv) sour gas releases; (xvi) pipeline failures; (xvii) uncontrollable flows of oil, natural gas or well fluids; (xviii) pollution, release of toxic or other hazardous substances; (xix) fires; (xx) explosions; (xxi) spills; and (xxii) other environmental, health and safety risks. The risks and hazards inherent in the oil and gas industries, some of which are enumerated above, have the potential of causing widespread and catastrophic environmental disasters. Such disasters could materially and adversely harm a Fund and its investments, even if its portfolio companies were not directly involved in any such disasters. In addition, a Fund's portfolio companies also may be liable for environmental damages caused by the previous or subsequent owners or third-party operators of properties (or working interests therein) that they purchase. Insurance coverage for environmental damages that occur over time, or insurance coverage for the full potential liability that could be caused by sudden environmental damages, may not be available at a reasonable cost and a portfolio company may be subject to liability or may lose substantial portions of its properties (or working interests therein) in the event of certain environmental damages.

In addition to the economic costs resulting from such disasters that each Fund and/or a portfolio company of such Fund may have to bear through liability for third-party losses or the cessation or suspension of operations (which amounts could be greater than aggregate Commitments), such disasters could cause severe reputational damage to such portfolio company, the Fund, and, potentially, such Fund's partners. Furthermore, such disasters may not be covered by insurance, and casualty and business interruption insurance may not be available at rates and on terms that key personnel deem desirable. As a result, substantial liabilities to third parties or governmental entities may be incurred and the payment of such liabilities could have a material adverse effect on a Fund's financial condition and results of operations.

***Hydraulic Fracturing Regulations.*** It is expected that certain of portfolio companies in which each Fund invests will use hydraulic fracturing as a means of producing commercial quantities of oil and natural gas from reservoirs in which they operate. There have been a number of initiatives and proposed initiatives at the U.S. federal, state and local level to ban or regulate hydraulic fracturing and to study the environmental impacts of hydraulic fracturing and further regulation of the practice. Such initiatives at the U.S. federal, state or local levels to expand or implement regulation of hydraulic fracturing, together with the possible adoption of new laws or regulations that significantly restrict hydraulic fracturing, could result in delays, eliminate certain drilling and injection activities, make it more difficult or costly to perform hydraulic fracturing or sell the oil and natural gas produced from wells that have used hydraulic fracturing in the completion process, increase the costs of compliance and doing business, and delay or prevent the development of unconventional hydrocarbon resources from shale and other formations that are not commercial without the use of hydraulic fracturing. These effects on a portfolio company's operations could have a material adverse effect on the financial performance of a Fund's investments and, therefore, of such Fund.

***Midstream Energy Investment Risks.*** Investments in portfolio companies owning, controlling or investing in midstream energy assets, including oil and gas pipelines and terminals, are subject to a variety of risks not necessarily associated with other types of energy investments. Such risks may include: (i) the risk that the market for the refined products gathered by, transported on and stored in the midstream assets held by portfolio companies in which a Fund invests may decline due to a reduction in downstream customer base or end-user demand; (ii) the risk that the land on which midstream assets held by portfolio companies in which a Fund invests are located will not be owned by such portfolio company or its affiliates, and therefore will be subject to risks associated with obtaining and maintaining necessary land use rights, contracts and permits from unrelated third parties; (iii) the risk that the Federal Energy Regulatory Commission (the "FERC") may regulate tariff rates for interstate movements of oil and gas on the pipeline systems held by portfolio companies in which a Fund invests in a manner that adversely affects the profitability of a Fund's investments in such portfolio companies; (iv) the risk that, even if FERC permits an increase in tariff rates charged on the pipeline systems held by portfolio companies in which a Fund invests, competition from other pipeline systems may prevent such portfolio companies from doing so; (v) the risk that any reduction in the capacity of interconnecting, third party pipelines due to testing, line repair, reduced operating pressures or other causes may result in a reduction of oil and gas volumes transported on pipelines or stored in terminals held by portfolio companies in which a Fund invests, thereby potentially adversely affecting the profitability of a Fund's investments in such portfolio companies; (vi) the risk that refined oil and gas products and other hydrocarbons transported on and stored in the midstream assets held by portfolio companies in which a Fund invests may be released into the environment, which could cause such portfolio companies to be required to make substantial expenditures for responsive action or government-imposed penalties, to be liable to government agencies or private parties for natural resources damages, personal injury or property damages, and to be subjected to significant business interruption; (vii) the risk that, as a result of their ownership or control of or investment in regulated assets such as pipelines, portfolio companies in which a Fund invests may be subject to unfavorable rulings imposed by regulatory authorities; and (viii) the risk of increased costs related to asset integrity management as a result of new rules imposed by the Pipeline and Hazardous Materials Safety Administration ("PHMSA") of the U.S. Department of Transportation.

**Transmission Investment Risks.** Each Fund may invest in portfolio companies that install, construct and operate new transmission lines and facilities. FERC policy currently favors the expansion and updating of the transmission infrastructure within its jurisdiction. If FERC were to adopt a different policy, if states were to limit or restrict such policies, or if transmission needs do not continue or develop as projected, these portfolio companies could be adversely affected. Moreover, if the FERC were to lower the rate of return it has authorized for transmission investments and facilities, or if one or more states were to successfully limit FERC jurisdiction on recovery of costs on transmission investment and its return, it could reduce future net income and cash flows and impact financial condition. In addition, transmission lines and facilities are likely to require numerous environmental approvals, such as permits from the U.S. Army Corps of Engineers for construction activities in wetland areas and river crossings, endangered species reviews, and potentially reviews under the National Environmental Policy Act. Obtaining these permits and completing these review have the potential to result in significant project delays, and could result in the imposition of costly mitigation measures to address potential environmental impacts from transmission facilities.

**Power Purchase Agreement Risk.** Portfolio companies may enter into power purchase agreements (“PPAs”). Payments by power purchasers to such companies pursuant to their respective PPAs may provide the majority of such companies’ cash flows. There can be no assurance that any or all of the power purchasers will fulfill their obligations under their PPAs or that a power purchaser will not become bankrupt or that upon any such bankruptcy its obligations under its respective PPA will not be rejected by a bankruptcy trustee. There are additional risks relating to the PPAs, including the occurrence of events beyond the control of a power purchaser that may excuse it from its obligation to accept and pay for delivery of energy generated by a company. The failure of a power purchaser to fulfill its obligations under any PPA or the termination of any PPA may have a material adverse effect on a portfolio company.

**Pipeline Safety Risk.** Certain midstream assets are subject to regulation by PHMSA. PHMSA has established a series of rules requiring pipeline operators to develop and implement integrity management programs for natural gas transmission and hazardous liquid pipelines that, in the event of a pipeline leak or rupture could affect “high consequence areas” (“HCAs”), which are areas where a release could have the most significant adverse consequences, including high population areas, certain drinking water sources and unusually sensitive ecological areas. These regulations require operators of covered pipelines to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize applicable threats to pipeline segments that could impact an HCA;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and
- implement preventive and mitigating actions.

In addition, certain states have also adopted regulations similar to existing PHMSA regulations for intrastate gathering and transmission lines. Moreover, changes to pipeline safety laws by Congress and regulations by PHMSA that result in more stringent or costly safety standards could

have a significant adverse effect on midstream operators. For instance, in March 2016, pursuant to one of the requirements in the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (“2011 Pipeline Safety Act”), PHMSA published a proposed rulemaking that would expand integrity management requirements and impose new pressure testing requirements on currently regulated natural gas pipelines. The proposal would also significantly expand the regulation of gathering lines, subjecting previously unregulated pipelines to requirements regarding damage prevention, corrosion control, public education programs, maximum allowable operating pressure limits, and other requirements. To date, no further action has been taken with respect to this proposed rule. More recently, in January 2017, PHMSA finalized new regulations for hazardous liquid pipelines that significantly extend and expand the reach of certain PHMSA integrity management requirements (i.e., periodic assessments, repairs and leak detection), regardless of the pipeline’s proximity to an HCA. The final rule also requires all pipelines in or affecting an HCA to be capable of accommodating in line inspection tools within the next 20 years. In addition, the final rule extends annual and accident reporting requirements to gravity lines and all gathering lines and also imposes inspection requirements on pipelines in areas affected by extreme weather events and natural disasters, such as hurricanes, landslides, floods, earthquakes, or other similar events that are likely to damage infrastructure. The rule was withdrawn two weeks later for review by the Trump administration, and the timing for implementation of this rule is uncertain at this time due to the change in U.S. Presidential administrations in 2017. Violations of PHMSA regulations can result in the imposition of civil or criminal fines and penalties. Effective April 27, 2017, to account for inflation, those maximum civil penalties were increased to \$209,002 per violation per day, with a maximum of \$2,090,022 for a series of violations. The safety enhancement requirements and other provisions of the 2011 Pipeline Safety Act as well as any implementation of PHMSA, rules thereunder could require operators to install new or modified more stringent safety controls, pursue additional capital projects, or conduct maintenance programs on an accelerated basis, any or all of which tasks could result in operators incurring increased operating costs that could have a material adverse effect on the results of operations or financial position of the companies in which a Fund invests.

***Renewable Energy Policy Risk.*** Investments in renewable energy and related businesses and/or assets currently enjoy support from national, state and local governments and regulatory agencies designed to finance or support the financing development thereof, such as the U.S. federal investment tax credit and federal production tax credit, U.S. Department of the Treasury grants, various renewable and alternative portfolio standard requirements enacted by several states, renewable energy credits and state-level utility programs, such as system benefits charge and customer choice programs. Similar support, initiatives and arrangements exist in non-U.S. jurisdictions as well, in particular the European Union. Non-U.S. jurisdictions may have more variable views on policies regarding renewable energy (and for example may be more willing or likely to abandon initiatives regarding renewable energy in favor of more carbon-intensive forms of traditional energy generation). The combined effect of these programs is to subsidize in part the development, ownership and operation of renewable energy projects, particularly in an environment where the low cost of fossil fuel may otherwise make the cost of producing energy from renewable sources uneconomic. The operation and financial performance of any renewable energy investment will be significantly dependent on governmental policies and regulatory frameworks that support renewable energy sources. Some of the U.S. states or other jurisdictions in which renewable energy investments are located may have Renewable Portfolio Standards (“RPS”) requirements that support the sale of electricity generated from renewable energy sources.



Electric utility suppliers may satisfy their RPS requirements by purchasing renewable energy or renewable energy credits (“RECs”) from producers of electricity generated from renewable sources. There can be no assurance that government support for renewable energy will continue, that favorable legislation will pass, or that the electricity produced by the renewable energy investments will continue to qualify for support through the RPS programs. The elimination of, or reduction in, government policies that support renewable energy could have a material adverse effect on a renewable energy portfolio company’s financial condition or results of operation. Any reduction in or elimination of these programs could have an adverse effect on development of renewable energy resources, as was demonstrated by the significant reduction in wind power development projects between the end of 2003 when the federal production tax credit expired and the reinstatement of such credit by the U.S. Congress in October 2004. To the extent any tax credits, other favorable tax treatment or other forms of support for renewable energy are changed, companies in which a Fund invests may be negatively impacted.

***Energy Regulatory Risk; Environmental Matters.*** Investments in the upstream, midstream, oil and gas and power sectors may entail risks associated with more mature companies and heavily regulated industries. The energy and natural resources industries are subject to comprehensive U.S. federal, state and local laws, rules and regulations as well as non-U.S. laws, rules and regulations. Present and future laws, rules and regulations could cause additional expenditures, decreased revenues, restrictions and delays that could materially and adversely affect a Fund’s investments and the prospects of such Fund. There can be no assurance that: (i) existing laws, rules and regulations applicable to investments generally or the portfolio companies will not be revised or reinterpreted; (ii) new laws, rules and regulations will not be adopted or become applicable to the portfolio companies; (iii) the technology and equipment selected by portfolio companies to comply with current and future regulatory requirements will meet such requirements; (iv) portfolio companies will not be materially and adversely affected by such future changes in, or reinterpretation of, laws, rules and regulations (including the possible loss of exemptions from laws, rules and regulations) or any failure to comply with such current and future laws, rules and regulations; or (v) regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies. Additionally, a regulatory decision by FERC or another regulatory authority related to the electric rates charged by portfolio companies in which a Fund invests could adversely affect the profitability of such Fund’s investments in such portfolio companies.

Further, environmental laws, rules, regulations and regulatory initiatives play a significant role in the energy and natural resources industries and can have a substantial impact on investments in these industries. For example, global initiatives to minimize pollution have played a major role in the increase in demand for natural gas and alternative energy sources, creating numerous new investment opportunities. Conversely, required expenditures for environmental compliance have adversely impacted investment returns in a number of segments in the energy and natural resources industries. The energy and natural resources industries will continue to face considerable oversight from environmental regulatory authorities and significant influence from non-governmental organizations (“NGOs”) and special interest groups. A Fund may invest in portfolio companies that are subject to changing and increasingly stringent environmental health and safety laws, regulations and permit requirements. New and more stringent environmental and health and safety laws, rules, regulations and permit requirements or stricter interpretations of current laws, rules or regulations could impose substantial additional costs on a General Partner, Bluescape, portfolio

companies and potential investments of a Fund. Compliance with such current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people, and therefore, that a Fund will not be required to bear additional unforeseen environmental expenditures. Environmental hazards could expose a Fund's portfolio companies to material liabilities for property damages, personal injuries or other environmental harm, including costs of investigating and remediating contaminated properties.

Failure to comply with any such requirements could have a material adverse effect on a portfolio company, and there can be no assurance that portfolio companies or their personnel, will at all times comply with all applicable environmental laws, rules, regulations and permit requirements. Past practices or future operations of portfolio companies also could result in material personal injury or property damage claims. Any noncompliance with these laws, rules and regulations could subject a Fund and certain portfolio companies to material administrative, civil or criminal penalties or other liabilities. Under certain circumstances, environmental authorities and other parties may seek to impose personal liability on the contracting parties to a joint operating agreement ("JOA") (such as a Fund) subject to environmental liability.

***Regulatory Approvals; Permits.*** Companies in which each Fund invests are expected to be required to comply with numerous U.S. federal, state and local laws, rules and regulatory standards, including those related to air emissions, water discharge, waste disposal, the environment and safety and health, and to maintain numerous permits and approvals required for their operation. Compliance with these various rules and regulations may cause companies to incur significant costs and may impact almost every aspect of their respective business. In addition, the portfolio companies and their affiliates may be required to obtain the consent or approval of applicable regulatory authorities in order for such companies to acquire or hold particular oil and gas assets or interests. If such companies are unable to obtain required consents or approvals, it may be unable to enter into transactions or to structure transactions in ways that are optimal. In addition, a Fund, a General Partner, Bluescape or their respective affiliates may be required to obtain the consent or approval of applicable regulatory authorities in order for such Fund to invest in companies that acquire or hold particular oil and gas assets or interests. Such approvals and permits may be subject to conditions, and there is no assurance that any portfolio company will be successful in meeting such conditions. A failure to satisfy such conditions could prevent the operation of certain facilities or result in additional costs to such companies, which may adversely affect a Fund's investment performance and results. There can be no assurance that the portfolio companies, a Fund, a General Partner or their respective affiliates will be able to do any of the following: (i) obtain all required regulatory approvals and permits; (ii) obtain any necessary modifications to existing regulatory approvals and permits; or (iii) renew and otherwise maintain required regulatory approvals and permits. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals and permits (or amendments thereto) or delay or failure to satisfy any regulatory conditions or other applicable requirements (which may change over time), could prevent operation of certain assets or sales of such assets to third parties, or could result in additional costs to a project and adversely affect a Fund's investment performance and results.

***Taxation of Energy Companies.*** Investments in companies operating in the energy sector may be subject to numerous taxes and fees by the jurisdictions in which such companies are organized or operate. Portfolio companies engaged in oil and natural gas operations or having substantial real

property holdings, in particular, can be subject to specific tax regimes, such as severance and production taxes, petroleum revenue taxes, fees for drilling rights and exploration licenses, oil production fees, property taxes and stamp duties.

***Environmental Liabilities.*** A Fund 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 that 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 such Fund is liable for such obligations. Environmental claims with respect to a specific investment may exceed the value of such investment.

***Sovereign Risks.*** The concessions for certain energy investments are granted by governmental authorities. Concessions from government counterparties are subject to special risks, including the risk that such governmental authorities will exercise sovereign rights and take actions or impose conditions contrary to the investment's rights under the relevant concession agreement. There can be no assurance that a particular government counterparty will not legislate, impose regulations, change applicable laws or act contrary to the law in a way that would materially adversely affect any such investment.

***Governmental Contracts.*** To the extent that a Fund invests in a portfolio company whose assets are governed by concession agreements with national, provincial or local authorities, there is a risk that these authorities may not be able to honor their obligations under the agreement, especially over the long term. The leases or concessions also may contain clauses more favorable to the governmental counterparty than a typical commercial contract and may restrict the project's ability to operate in a way that maximizes cash flows and profitability. Governments typically have considerable discretion in implementing regulations that could impact these companies, may be influenced by political (rather than just economic) considerations and may make decisions that adversely affect the Fund's investments.

***Siting.*** Energy and energy-related projects of portfolio companies may be subject to siting requirements. Siting of energy projects also is frequently subject to regulation by applicable governmental authorities. For example, proposals to site a facility may be challenged by a number of parties, including NGOs and special interest groups based on alleged security concerns, disturbances to natural habitats for wildlife and adverse aesthetic impacts, including the common "not in my backyard" phenomenon. Concerns also may arise that may require governmental permits or approvals, the receipt of which may depend, in part, on heightened environmental concerns and public opposition in some jurisdictions.

***Sovereign Rights.*** The right of a portfolio company to extract mineral resources, or to generate, deliver or sell energy or related services and equipment may be granted by or derive from approval by governmental entities and are subject to special risks, including the risk that the relevant governmental entity will exercise sovereign rights and take actions contrary to the rights of a Fund or the relevant portfolio company under the relevant agreement. There can be no assurance that the relevant governmental entity will not legislate, impose rules or regulations or change applicable

laws or act contrary to the law in a way that would materially and adversely affect the operations of any portfolio company.

***Change of Law.*** Government counterparties or agencies may have the discretion to change or increase regulation of a portfolio company's operations, or implement laws, rules or regulations affecting the portfolio company's operations, separate from any contractual rights it may have. A company in which a Fund invests could thus be materially and adversely affected as a result of statutory or regulatory changes or changes in judicial or administrative interpretations of existing laws, rules and regulations that impose more comprehensive or stringent requirements on such company, the market in which such company operates or the energy industry generally. Such changes could adversely affect the performance of one or more of a Fund's investments. Moreover, additional regulatory approvals, including renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws, rules and regulations, a change in the customers to whom oil and gas production is marketed, or for other reasons. Changes in laws, rules and regulations could result in increased compliance costs, additional capital expenditures or unanticipated liabilities. A portfolio company also could be materially and adversely affected by regulations that have been vacated by court decisions. Several U.S. federal environmental programs, including the Clean Water Act rules regarding cooling water intake structures, the Clean Air Mercury Rule, and the Clean Air Interstate Rule, have been fully or partially vacated by the courts. The U.S. Environmental Protection Agency issued its Cross-State Air Pollution Rule replacing the Clean Air Interstate Rule on July 7, 2011. There is considerable uncertainty as to how these and other federal environmental programs will be modified and/or ultimately implemented. Any such modifications could alter the competitive landscape and/or the nature of the market in which a portfolio company operates in a material and adverse manner to such portfolio company.

***Changes in the Utilities Industry.*** A Fund may make investments in the electric utility industry (and related industries and markets) both in the United States and abroad. A number of countries, including the United States, are considering or implementing methods to introduce and promote competition with respect to both supply and demand. To the extent competitive pressures increase and the pricing and sale of electricity assume more characteristics of a commodity business, the economics of independent power generation companies (and other energy companies) into which a Fund may invest may come under increasing pressure. If restructuring of the energy industry and the electricity sector is reversed, discontinued, delayed or modified, this could have an adverse effect on the companies into which a Fund may invest.

***Reliance on Estimates of Oil and Gas Reserves.*** In acquiring investments in companies that own oil and gas properties or working interests therein, a General Partner expects to rely significantly on estimates of oil and gas reserves to determine the value of its current and prospective investments and in negotiating the acquisition terms of its investments. Estimates of oil and gas reserves are inherently uncertain. Inaccurate estimates may cause a Fund to underbid and fail to win an acquisition target, or overpay in its acquisitions and adversely affect its ability to generate attractive results. Estimates of oil and gas reserves, by necessity, are projections based on engineering and geological data. There are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality

of available data, engineering, geophysical and geological interpretation, and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend on a number of variable factors and assumptions, such as historical production from the examined area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions concerning future oil and gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and gas attributable to any particular group of properties and classifications of such reserves based on risk of recovery and estimates of the future net cash flows expected from such reserves may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves.

***Production.*** Exploration and production projects are particularly vulnerable to declines in the demand for and prices of crude oil and natural gas. Reductions in prices for crude oil and natural gas can cause continued production from a given reservoir to cease being economical earlier than it would if prices were higher, resulting in the plugging and abandonment of, and cessation of production from, that reservoir. In addition, lower commodity prices not only reduce revenues but also can result in substantial downward adjustments in reserve estimates. Actual oil and gas prices, development expenditures and operating expenses will vary from those assumed in reserve estimates, and these variances may be significant. Any significant variance from the assumptions used could result in the actual quantity of reserves and future net cash flow being materially different from those estimated in reserve reports. In addition, results from drilling, testing and production and changes in prices after the date of reserve estimates may result in downward revisions to such reserve estimates. Substantial downward adjustments in reserve estimates could have a material adverse effect on a given exploration and production project's financial position and results of operations and could result in acceleration of result-based loans or defaults thereunder. Actual amounts produced from such reserves may similarly vary. In addition, due to natural declines in reserves and production, exploration and production projects must economically find or acquire and develop additional reserves in order to maintain and grow their revenues and distributions. Oil and gas wells are by their nature depleting assets, and as a result, annual production will naturally decline over the life of a well and so too will returns to a Fund attributable to such well.

Moreover, U.S. federal, state or local laws, rules, regulations and orders may restrict the rate of oil and gas production below the rate that would otherwise exist in the absence of such laws, rules, regulations and orders, and may restrict the number of wells which may be drilled in any particular area, thereby also restricting the cash flows of a particular portfolio company and, therefore, of a Fund. State laws regulate the size and shape of drilling and spacing units or proration units governing the pooling of oil and gas properties. Some states allow forced pooling or integration of tracts to facilitate development while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization may be implemented by third parties and may result in a reduction of our interest in the unitized properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, which generally prohibit the venting or flaring of natural gas and impose requirements regarding the ratable production. These laws, rules and regulations may limit the amount of oil and gas that can be produced from wells that generate payments to a Fund or limit the number of wells or locations that can be drilled, further limiting potential payments that might otherwise be made to a Fund.

***Depleting Assets.*** Certain net proceeds payable to a Fund from portfolio companies that hold properties in the exploration and production sector will be derived from the sale of depleting assets. The reduction in reserve quantities is a common measure of depletion. Future maintenance and development projects with respect to a property will affect the quantity of reserves and can offset the reduction in reserves. The timing and size of these projects often will depend on the market prices of crude oil, natural gas and other hydrocarbons. If the portfolio company developing a property does not implement additional maintenance and development projects, the future rate of production decline of reserves of such a property may be higher than the rate currently expected.

***Commodity Price Volatility.*** The value of a Fund's investments will be substantially dependent upon the market price for oil, natural gas and other hydrocarbons, which value ultimately impacts the demand for their products and services. Historically, the markets for hydrocarbons have been volatile and such volatility is likely to continue in the future. Various factors beyond the control of a Fund, a General Partner, Bluescape or any portfolio company will affect hydrocarbon prices including: (i) the worldwide and domestic supplies of oil and natural gas; (ii) the ability of the members of the Organization of the Petroleum Exporting Countries to agree to and maintain oil prices and production controls; (iii) political instability or armed conflict in the Middle East and other oil or natural gas producing regions; (iv) terrorist acts; (v) the price and level of foreign imports; (vi) the level of consumer demand; (vii) the price, availability and acceptance of alternative fuels; (viii) the availability of pipeline capacity; (ix) weather conditions; (x) transportation interruption; (xi) domestic and foreign governmental regulations, price controls and taxes; (xii) domestic and foreign environmental laws, rules and regulations; and (xiii) the overall economic environment, including interest rates, levels of economic activity, the price of securities and the participation by other investors in the financial markets. There can be no assurance that there will not be a significant decline in the prevailing price for hydrocarbons, which could adversely affect the value of a Fund's investments and its income from its investments. Price volatility also makes it difficult for portfolio companies to budget for, and project the return on, acquisitions, exploration and development projects.

***Transportation Risks; Commodity Price Controls and Regulation.*** The availability, terms and cost of transportation significantly affect sales of natural gas. The interstate transportation and sale or resale of natural gas is subject to federal regulation, including regulation of the terms, conditions and rates for interstate transportation, storage and various other matters, primarily by the FERC. Federal and state regulations govern the price and terms for access to natural gas pipeline transportation. The FERC's regulations for interstate natural gas transmission in some circumstances also may affect the intrastate transportation of natural gas. Although natural gas prices are currently unregulated, Congress historically has been active in the area of natural gas regulation. There is no way to predict whether new legislation to regulate natural gas might be proposed, what proposals, if any, might actually be enacted by Congress or the various state legislatures, and what effect, if any, the proposals might have on a Fund's investments. Sales of condensate and natural gas liquids are not currently regulated.

There are currently no federal price controls on oil production, and sales of oil, condensate and natural gas liquids by a portfolio company. However, there can be no assurance that Congress will not enact controls at any time.

States do not currently regulate wellhead prices or engage in other similar direct economic regulation, but there can be no assurance that they will not do so in the future. The effect of these regulations may be to limit the amounts of natural gas that may be produced from wells that generate payments to us, and to limit the number of wells or locations that can be drilled.

***Seasonal Nature of Oil and Gas Industry.*** Seasonal weather conditions and the provisions of oil and gas leases can limit the drilling and producing activities of portfolio companies and, as a result, the majority of drilling activities by those portfolio companies may occur during the summer months. These seasonal anomalies can pose challenges to a portfolio company for meeting well drilling obligations and increase competition for equipment, supplies and personnel during the spring and summer months, which could lead to shortages and increase costs or delay operations. Generally, but not always, the demand for gas decreases during the summer months and increases during the winter months. Among other factors, seasonal anomalies such as mild winters or hot summers sometimes lessen this fluctuation. Such factors can adversely impact the quantities of oil and gas that are produced and, therefore, a Fund's revenues.

***New Technology Risk.*** Historically, technology changes in the energy sector have resulted in gradual incremental improvements with no disruptive technology impacts. However, there are currently a number of scientific research institutions (including those supported by major venture capital firms and corporations) seeking to develop technologies designed to reduce dependence upon large scale fossil fuel generation. In the event that any such technology is successfully developed and implemented, a Fund's investments may be adversely affected. In addition, the upstream oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As new technologies develop, portfolio companies may be placed at a competitive disadvantage, and competitive pressure may force portfolio companies to implement new technologies at a substantial cost. There can be no assurance that portfolio companies will be successful in implementing new technologies on a timely basis or in a cost effective manner. As a result, new technologies, services or standards could render some of the services, equipment and other assets provided or operated by portfolio companies obsolete, which could have an adverse effect on a Fund's investments.

***Technical Risk.*** Investments in the energy industry may be subject to technical risks, including the risk of mechanical breakdown, spare parts shortages, failure to perform according to design specifications and other unanticipated events which adversely affect operations. While a Fund intends to seek investments in companies in which creditworthy and appropriately bonded and insured third parties bear much of these risks, there can be no assurance that any or all such risks can be mitigated or that such parties, if present, will perform their obligations.

***Licenses and Lease.*** Interests in the exploration and operation of oil and gas projects are governed by laws, rules and regulations and are evidenced by the granting of exploration and development licenses or production leases. Each license is typically for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, a portfolio company could lose title to, or its interest in, such licenses if the license conditions are not met or if insufficient funds are available to meet expenditure commitments. If a portfolio company is unable to meet its obligations in relation to the work programs of any of the licenses, it may be required to relinquish the license or the license may be revoked. In addition, a portfolio company may choose to allow some oil and gas leases to terminate or forfeit, without

drilling or development thereof, for a variety of reasons, including changing opinions on the geology, recoverable reserves, or election to devote capital elsewhere. These decisions could adversely impact the possible net revenues available to a Fund. Certain tenements and licenses may be located in, or adjacent to, areas that may be subject to actual or potential border disputes between two or more countries. These disputes cause disruptions, delays and possibly cancellation of certain projects, as well as the impairment of certain assets. Further, certain reserves, particularly shale gas reserves may be located below privately-owned properties and may require regulatory intervention to permit and facilitate the exploration and development of such reserves.

***Risks in Effecting Operating Improvements; Undeveloped Acreage.*** Portfolio companies will, in some cases, acquire working interests from current owners. In such cases, the success of a Fund's investment strategy will depend, in part, on the ability of the portfolio company to effect improvements in the operations of such asset. The activity of identifying and implementing operating improvements entails a high degree of uncertainty. In addition, executing operational improvements may divert the attention of key personnel and disrupt normal business. There can be no assurance that a portfolio company will be able to successfully identify and implement such improvements.

In other cases, a portfolio company will create a working interest from a formerly operated asset or newly created structure. As a result, in some cases, the portfolio company may hold, or seek to hold, undeveloped acreage and/or acreage in new or emerging plays. Undeveloped acreage may not ultimately be developed or become commercially productive, which could cause the loss of rights under the applicable leases as well as have a material adverse effect on the oil and natural gas reserves and future production attributable to a portfolio company. As a result, drilling results in these areas are uncertain, and the value of undeveloped acreage will decline if drilling results are unsuccessful. In addition, drilling results in these areas are more uncertain than drilling results in areas that are developed and producing. Because new or emerging plays have limited or no production history, the General Partner may be unable to use past drilling results in those areas to help predict future drilling results. As a result, costs of drilling, completing and operating wells in these areas may be higher than initially expected, and the value of undeveloped acreage will decline if drilling results are unsuccessful.

***Operator Risks.*** Oil and gas operations are subject to many risks, including well blowouts, cratering and explosions, pipe failures, fires, formations with abnormal pressures, uncontrollable flows of oil, natural gas, brine or well fluids, oil spills, severe weather, natural disasters, groundwater contamination and other environmental hazards and risks. Some of these risks or hazards could materially and adversely affect a Fund's revenues and expenses by reducing or shutting in production from wells or otherwise negatively impacting the projected economic performance of a portfolio company. To the extent that a Fund has a controlling interest in or is deemed to control the operations of any oil and gas asset, such exercise of control may impose additional risks of liability for environmental damage, failure to supervise management, violation of laws and governmental rules and regulations and other types of liability, for which the limited liability generally afforded to investors may be ignored. In particular, if determined to be a direct owner or operator of any portfolio company's facilities or operations, a Fund could face strict, joint and several liability under environmental laws for hazardous substance or contamination-related liabilities. The exercise of control over an investment also could expose the assets of a Fund to claims by third parties, including creditors of a portfolio company. If any such liabilities were



to arise, the Fund might suffer significant losses. While a General Partner intends to manage the Fund in a manner that will minimize the exposure of these risks, the possibility of successful claims against such Fund and/or its affiliates cannot be precluded.

A material event such as those described above could expose a portfolio company to liabilities, monetary penalties or interruptions in its operations. While portfolio companies may maintain insurance against some, but not all, of the risks described above, such insurance may not be adequate to cover casualty losses or liabilities and may not cover penalties or fines that may be assessed by a governmental authority. For certain risks, such as political risk, business interruption, war, terrorism and piracy, there may be limited or no insurance coverage. Also, in some cases, a portfolio company may not be able to obtain insurance at premium levels that justify its purchase. The occurrence of a significant event against which a portfolio company is not fully insured may expose such portfolio company and, therefore, a Fund, to liabilities.

***Land Title Risks.*** The ownership of oil and gas properties is often highly fragmented and the land title records can be highly complex and incomplete. Typically, interests acquired by portfolio companies will be evidenced by written conveyances which are duly filed (in the applicable records of the county or parish in which such interests are located) in the portfolio company's name or in the name of a nominee of the portfolio company if such practice facilitates assembly or acquisition of interests, administration of portfolio company affairs or as otherwise determined by the management team of such portfolio company. Generally, a General Partner will not make on-site inspections of the properties of portfolio companies.

As is customary in the upstream oil and gas industry, a General Partner expects to initially conduct only a cursory review of title to interests. Depending upon the results of such cursory review, the location of the interest, the size and materiality of the potential acquisition and other factors a General Partner deems relevant, the Fund or a portfolio company may have title reviews conducted by an attorney or a land service company. A General Partner may elect to perform curative work with respect to significant defects. If title reviews or other investigations reflect title defects on those properties, any curative work a General Partner elects to undertake will be at the Fund's expense.

Different jurisdictions adopt different systems of land title, and in some jurisdictions it may not be possible to ascertain definitively who has the legal right to convey oil and gas interests to a portfolio company. Even where the services of experienced land service companies are utilized to review land title records prior to making significant expenditures, they are subject to the risk that failures of title may not be discovered until after these expenditures have been made. The existence of a material title deficiency can render an oil and gas interest worthless and adversely impact the financial condition of a portfolio company. In addition, certain of the properties owned by portfolio companies may be subject to significant land use restrictions, including for example, city ordinances, environmental restrictions and native tribal jurisdictional rights. As a result, a portfolio company's rights to conduct its business on such properties, such as drilling and completing wells and producing oil and gas, could be subjected to unforeseen delays and costs, and in some cases severe restrictions or curtailment. While a General Partner will generally seek to conduct due diligence as to the nature of existing land use restrictions prior to making significant expenditures to acquire properties, there can be no assurance that land use restrictions will not be

imposed after such acquisition that could materially and adversely impact the portfolio companies' ability to operate on such properties.

**Key Inputs.** The operations of the companies in which a Fund invests may rely on access to certain key inputs such as strategic consumables, raw materials and drilling and processing equipment. The inability to obtain such key inputs in a timely manner could delay or reduce a portfolio company's production, which could have an adverse impact on its results of operations and financial condition. Periods of high demand for such supplies can result in periods when availability of supplies are limited and cause costs to increase above normal inflation rates. Any interruption to supplies or increase in costs could adversely affect the operating results and cash flows of a Fund's investments and, therefore, of the Fund.

**Independent Contractors.** Independent contractors typically are used in operations in the energy industry to perform various operational tasks, including carrying out drilling activities and delivering raw commodities to processing or beneficiation plants. In periods of high commodity prices, demand for such contractors may exceed supply, resulting in increased costs or lack of availability of key contractors. Disruptions of operations or increased costs also can occur as a result of disputes with contractors or a shortage of contractors with particular capabilities. Additionally, a General Partner and Bluescape will not have the same control over portfolio company personnel as they may have over their own employees, and there is a risk that such portfolio company personnel will not operate in accordance with their own safety standards or other policies. Any of the foregoing circumstances could have a material adverse effect on the companies in which a Fund invests, and ultimately such Fund's operating results and cash flows.

**Regulation of Greenhouse Gases.** Both in the U.S. and globally, emissions of greenhouse gases ("GHGs") are increasingly regarded as linked to global climate change, which may lead to more stringent regulation of GHGs in the future. Increased public concern and mounting political pressure may result in more U.S. federal, state or local or international requirements to reduce or mitigate the effects of GHGs. These requirements include adoption of cap and trade regimes, carbon taxes, restrictive permitting, increased efficiency standards, and incentives or mandates for renewable energy, all of which could make a Fund's interest in portfolio companies with exploration, development and production activities more expensive, lengthen project implementation times, and reduce demand for hydrocarbons. Any such future laws, rules and regulations imposing reporting obligations on, or limiting emissions of GHGs from, a portfolio company's equipment and operations could require it to incur costs to reduce emissions of GHGs associated with its operations. Furthermore, current and pending GHG regulations also may increase compliance costs, such as for monitoring or sequestering emissions. Substantial limitations on GHGs also could adversely affect demand for oil and natural gas. Changes in the regulation of GHGs could impact the portfolio companies in which a Fund owns an interest or make future investments undesirable.

**Construction Risk.** Each Fund's investments may involve significant construction risk, including the risk of substantial delay or increase in cost due to a number of unforeseen factors, such as: (i) political opposition, regulatory and permitting delays; (ii) delays in procuring real property rights; (iii) equipment, transmission grid interconnection delays; (iv) labor disputes, lawsuits and other disputes; (v) environmental issues and force majeure; and (vi) failure by one or more of the investment participants to perform in a timely manner (or at all) its or their contractual, financial

or other commitments. New facilities have no operating history and may employ recently developed or technologically complex equipment that may take time to operate at peak levels of output and efficiency. A material delay or increase in cost not absorbed by other participants in the transaction could significantly impair the financial viability of a portfolio company and result in a material adverse effect on a Fund's investment therein.

***Ability to Exit Investments.*** Individual investments in certain portfolio companies in the energy industry may have unique geographic and market characteristics (and may be subject to political, regulatory and public opinion considerations), which could make them highly illiquid. In addition, a Fund's investments may be quite sizeable. There are limited pools of capital available in the sector that can make sizeable investments and limited numbers of market participants. As a result, the potential exits from these investments may be limited and there can be no assurance that a Fund will be able to realize its investments on favorable terms, in a timely manner or at all. Moreover, the realizable value of a highly illiquid investment may be less than its intrinsic value.

***Availability of Raw Materials.*** Constraints in the supply of, prices for, and availability of transportation of raw materials can adversely affect entities engaged in the energy business. Raw materials that are expected to be essential to a Fund's portfolio companies, such as proppants, hydrochloric acid, and gels, including guar gum, are normally readily available. Shortage of raw materials as a result of high levels of demand or loss of suppliers during market challenges can trigger constraints in the supply chain of those raw materials, particularly where a company has a relationship with a single supplier for a particular resource. Many of the raw materials essential to the energy industry require the use of rail, storage, and trucking services to transport the materials to jobsites. These services, particularly during times of high demand, may cause delays in the arrival of or otherwise constrain the supply of raw materials. These constraints could adversely affect the business and results of operations of a portfolio company. In addition, price increases imposed by vendors for raw materials used in such company and the inability to pass these increases through to customers could have a material adverse effect on the operations of a portfolio company.

***Rate Risk.*** The FERC, the Public Utilities Commission of Texas (the "PUCT"), the National Energy Board (the "NEB") or other similar agencies may establish pipeline tariff rates that have a negative impact on a Fund's portfolio companies. In addition, the FERC, the PUCT, the NEB, other similar agencies could file complaints challenging the tariff rates charged by the pipelines of a portfolio company's customer, and a successful complaint could have an adverse impact on that company.

***Restricted Nature of Investment Positions.*** Generally, there will be no readily available market for each Fund's investments, and hence, most of a Fund's investments will be difficult to value. Certain investments may be distributed in kind to the partners of a Fund and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such partners. After a distribution of securities is made to the partners, many partners may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such partners may be lower than the value of such securities determined pursuant to the Governing Documents, including the value used to determine the amount of carried interest available to Bluescape with respect to such investment.

***Need for Follow-On Investments.*** Following an initial investment in a portfolio company, Bluescape may decide to cause a Fund to invest additional capital in such portfolio company or may have the opportunity to increase its investment in a portfolio company (whether for opportunistic reasons, to fund the needs of a portfolio company, as an equity cure under applicable debt documents or for other reasons). There is no assurance that any Fund will make follow-on investments or that any Fund will have sufficient funds to make all or any of such investments. Any determination by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made). Additionally, such failure to make such investments may result in a lost opportunity for such Fund to increase its participation in a successful portfolio company or the dilution of such Fund's ownership in a portfolio company if a third party invests in such portfolio company.

***Additional Capital.*** Certain of a Fund's portfolio companies, especially those in a development phase, may be expected to require capital to satisfy their working capital requirements or exploration, development and production strategies. The amount of the additional capital needed will depend upon the maturity and objectives of the particular portfolio company. Each infusion of capital (whether from a Fund or other source) is typically intended to provide a portfolio company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, such portfolio company may have to raise additional capital at a price unfavorable to the existing investors, including a Fund. In addition, a Fund may make additional debt or equity investments in such company in order to preserve a Fund's proportionate ownership or to protect such Fund's investment when such portfolio company's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of a Fund or any portfolio company. There can be no assurance that any portfolio company will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

***Distressed Securities.*** A Fund may invest in securities, loans, private claims and other obligations of bankrupt entities or entities experiencing financial difficulties that involve a substantial degree of risk, including companies that may have been or will become involved in bankruptcy proceedings or other restructuring, recapitalization or liquidation processes. A Fund may lose a substantial portion or all of its investment in such an entity or may be required to accept cash or securities upon disposition with a value less than a Fund's investment. It may be difficult to obtain any information regarding the financial condition of entities experiencing significant financial or business difficulties. The market prices, if any, of instruments issued by distressed companies may be subject to abrupt and erratic movements and above average price volatility, and the spread between the bid and ask prices of such instruments may be greater than expected. It may take a number of years for the market prices, if any, of such instruments to reflect their intrinsic values. Some of such instruments in a Fund's portfolio may not be publicly traded, and, to the extent such instruments are publicly traded, a Fund's positions in such instruments may be substantial in relation to the market for such securities. Funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Investments in distressed securities made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may involve substantial litigation. Such investments also may be adversely affected by U.S. state and federal laws relating to, among other things,

fraudulent transfers and other voidable transfers or payments, lender liability and the U.S. bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Therefore, in the event that a portfolio company does become involved in bankruptcy proceedings or a restructuring, recapitalization or liquidation is required, a Fund may lose some or all of its investment or may be required to accept illiquid securities with rights that are materially different than the original securities in which a Fund invested.

***High Yield, Low or Unrated Securities.*** A Fund may invest in “high yield” bonds and preferred stock or debt securities which are unrated or rated in the lower categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

***Investments in Restructurings.*** A Fund may make investments in restructurings which involve portfolio companies that are experiencing or are expected to experience severe financial difficulties, which may never be overcome and may cause a portfolio company to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject a Fund to certain additional potential liabilities, which may exceed the value of a Fund’s original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to a Fund and distributions by a Fund to the Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment or a similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by local statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court’s discretionary power to disallow, subordinate or disenfranchise particular claims.

***Bankruptcy.*** A Fund may make investments in portfolio companies that experience financial difficulties or are insolvent or involved in bankruptcy proceedings. There are a number of significant risks when investing in companies that are or may be involved in bankruptcy proceedings, including adverse and permanent effects on a company, such as the loss of its market position and key personnel, otherwise becoming incapable of restoring itself as a viable entity and, if converted to a liquidation, a possible liquidation value of the company that is less than the value that was believed to exist at the time of the investment. Bankruptcy proceedings are often lengthy and difficult to predict and an investor’s return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved and confirmed by the bankruptcy

court, and until it ultimately becomes effective. The bankruptcy courts have extensive power and, under some circumstances, may alter contractual obligations of a bankrupt company. Stockholders, creditors and other interested parties are all entitled to participate in bankruptcy proceedings and will attempt to influence the outcome for their own benefit. Administrative costs relating to a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any returns to creditors. In addition, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by these actions, especially in the case of investments made prior to the commencement of bankruptcy proceedings. Also, certain claims, such as for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors.

A Fund also may seek representation on creditors' committees and, as a member of a creditors' committee, may owe certain obligations generally to all creditors similarly situated that the committee represents and it may be subject to various trading or confidentiality restrictions. In addition, many events in a bankruptcy are the product of contested matters and adversarial proceedings that are beyond the control of the creditors. To the maximum extent not prohibited by applicable law, a Fund will indemnify the General Partner, any of its affiliates or any other person serving on any such creditors' committee on behalf of a Fund for claims arising from breaches of those obligations as set forth in the Partnership Agreement, and these indemnification payments could adversely affect the return on the Fund's investment in a reorganized company.

***Small- and Mid-Cap Company Investments.*** A Fund may invest in small-cap or middle market companies. While often presenting greater opportunities for growth, these investments may also entail larger risks than are customarily associated with investments in large companies. Small- and medium-sized companies may have more limited markets and financial resources and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Further, there may be a more limited market for the sale of interests in smaller companies, if any, which may make sales and other dispositions of such investments more difficult. In addition, the relative illiquidity of private equity investments generally and the somewhat greater illiquidity of private investments in small- and medium-sized companies could make it difficult for a Fund to react quickly to negative market developments.

***Convertible or Other Debt Investments.*** A Fund may invest in convertible or other debt securities. There can be no assurance that a portfolio company will generate sufficient cash necessary to service its debt obligations with respect to such investment and, in any such case, a Fund may suffer a partial or total loss of its investment. A Fund's debt investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions that, in each case, could result in the issuer of such debt repaying the principal on an obligation held by a Fund earlier than expected. Early repayments of a Fund's investments may have a material adverse effect on a Fund's investment objectives and the rate of return on invested capital.

***Public Company Holdings.*** A Fund's investment portfolio may contain securities and debt issued by publicly held companies. Such investments may subject such Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include greater volatility in the valuation of such companies, increased obligations to disclose information

regarding such companies, limitations on the ability of the Fund to dispose of such securities and debt at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including the Principals, and increased costs associated with each of the aforementioned risks. In addition, by reason of their responsibilities in connection with such investments or other activities, the Principals may have access to confidential or material non-public information or be otherwise restricted from initiating transactions in certain securities. A Fund will not be free to act upon any such information and, consequently, may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold. Furthermore, despite the heavy volume of trading in securities, the markets for some securities may be thinly traded from time to time. This lack of liquidity and market depth could disadvantage a Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, securities exchanges and the U.S. Securities and Exchange Commission (the "SEC") have authority to suspend trading in a particular security without notice.

**Activism Campaigns.** A Fund may purchase equity positions in publicly-traded companies to influence the governance or strategy of those companies (commonly called "shareholder activism"). A Fund's pursuit of an activist strategy may be unsuccessful for many reasons. For example, a Fund may be (i) unable to effectively identify companies appropriate for such investment, (ii) unable to effectively consummate an investment once identified or (iii) unable to consummate an investment on terms that are favorable to such Fund. Even when a Fund successfully consummates an investment, there is no guarantee that such Fund will successfully influence the behavior or strategy of the company in which it has invested or that such Fund will otherwise generate value for the relevant Limited Partners with its investment. Even if a Fund is successful in its activism activities, such Fund's participation in such activities may negatively affect such Fund's reputation among business partners, future company targets or the public. In addition, a Fund or one or more of its affiliates may enter into one or more agreements with one or more activist partners (each, an "Activist Partner") in connection with an activist campaign or prospective investment. In such circumstances, such Fund may purchase equity positions prior to the completion of definitive documentation with respect to any Activist Partner. In the event that definitive documentation is not agreed to, or if a Fund's or any Activist Partner's pursuit of an activist strategy is unsuccessful, such Fund will continue to own any positions it has purchased, and may have limited shareholder or similar rights with respect to such securities.

**Non-Controlling Investments.** A Fund may hold meaningful minority stakes in portfolio companies and in some cases may have limited minority protection rights. In addition, during the process of exiting investments, a Fund at times may hold minority equity stakes of any size such as might occur if portfolio companies are taken public. In such instances, such Fund may have limited management and/or control rights with respect to the operation of such companies and may be entirely dependent on the decisions of the portfolio company and/or third party investors. As is the case with minority holdings in general, such minority stakes that a Fund may hold will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Where a Fund holds a minority stake, it may be more difficult for such Fund to liquidate its interests than it would be had a Fund owned a controlling interest in such company or were otherwise granted control and/or management rights alongside any such company and/or other third party investor. Even if a Fund has contractual rights to seek liquidity of the Fund's minority interests in such companies, it may be very difficult to sell such interests or seek a sale

of such company upon terms acceptable to the Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals.

In addition, a Fund may co-invest with other persons or entities through partnerships, joint ventures or other entities or arrangements as a co-venturer or partner. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) a Fund and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner of a Fund may at any time have economic or business interests or goals that are inconsistent with those of such Fund; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to a Fund's investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances a Fund may be liable for actions of its co-venturers or partners. The co-venturer or partner may be a joint venture partner or interest holder in another joint venture or other vehicle in which Bluescape or its affiliates has an interest or otherwise controls. The co-venturer or partner may also be entitled to receive payments from, or allocations or performance-based compensation (e.g., carried interest) in respect of, a Fund and/or such investments, and in such circumstances, any such amounts will not, even if they have the effect of reducing any retainers or minimum amounts otherwise be payable by Bluescape or its affiliates, be deemed paid to or received by such persons or entities or reduce the Management Fee. In addition, a Fund may co-invest with non-affiliated co-investors or partners whose ability to influence the affairs of the companies in which a Fund invests may be significant, and even greater than that of the Fund and as such, such Fund may be required to rely upon the abilities and management expertise of such co-venturer or partner. It may also be more difficult for a Fund to sell its interest in any joint venture, co-investment, partnership or entity with other owners than to sell its interest in other types of investments (and any such investment may be subject to a buy-sell right). A Fund may grant co-venturers or partners approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks or unanticipated exits from an investment. A deadlock could delay the execution of the business plan for the investment or require a Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment or require alternative dispute resolution in order to resolve such deadlock. As a result of these risks, a Fund may be unable to fully realize its expected return on any such investment. Further, to the extent that a Fund offers any co-investment opportunity to any Limited Partners or third parties, some or all of the risks described above may also apply to such co-investments.

***Material Non-Public Information; Other Regulatory Restrictions.*** As part of their activities outside of a Fund, Bluescape or its affiliates may come into possession of material non-public information that they will be prohibited from using for the benefit of certain persons, including a Fund. This may occur, for example, if Bluescape or its affiliates is contemplating a transaction and, as part of that process, is required to sign a non-disclosure agreement. If a Fund has an existing holding that is affected by the non-disclosure agreement, the General Partner will not be able to sell that position during the effectiveness of the agreement and such Fund may experience a loss in value, including a total loss, of the position during this confidential period. This may occur where the material non-public information is obtained for the benefit of one or more other funds or accounts managed by Bluescape or its respective affiliates, but results in the restriction of trading in a Fund. In addition, Bluescape and its affiliates may not have a Chinese wall to separate



personnel who are engaged in a Fund and personnel that are engaged in managing other investments on behalf of Bluescape or its affiliates.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent Bluescape or the funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust remedies relating to one Fund's acquisition of a portfolio company may require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of Bluescape's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by Bluescape or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

### **Potential Conflicts of Interest**

Bluescape and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other Funds, and providing transaction-related, legal, management and other services to Funds and portfolio companies. Bluescape will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Documents, although the Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of Bluescape conducting its activities, the interests of a Fund may conflict with the interests of Bluescape, one or more other Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, Bluescape will determine all matters relating to structuring transactions and Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory committees of the participating Funds.

During the commitment period of a Fund, appropriate investment opportunities will be pursued by Bluescape principals through such Fund, subject to certain limited exceptions set forth in the Fund's Governing Documents and Bluescape's allocation policies. Without limitation,

Bluescape principals currently manage, and expect in the future to manage, several other investments similar to those in which a Fund will be investing, and may direct certain relevant investment opportunities to those investments. Bluescape's principals and Bluescape's investment staff will continue to manage and monitor such investments until their realization. Such other investments that Bluescape principals may control or manage may potentially compete with companies acquired by a Fund. Following the commitment period of a Fund, Bluescape principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Fund's investments.

From time to time, Bluescape will be presented with investment opportunities that would be suitable not only for a Fund, but also for other Funds and other investment vehicles operated by advisory affiliates of Bluescape. In determining which investment vehicles should participate in such investment opportunities, Bluescape and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Except as required by the relevant Governing Documents, Bluescape is not obligated to recommend any investment to any particular investment vehicle. Investments by more than one client of Bluescape in a portfolio company may also raise the risk of using assets of a client of Bluescape to support positions taken by other clients of Bluescape.

Bluescape must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. Bluescape generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Governing Documents, as well as factors including but not limited to: investment restrictions and objectives (including those set forth in the relevant Governing Documents, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. A Fund may invest together with other Funds advised by an affiliated adviser of Bluescape in the manner set forth in the relevant Governing Documents. Bluescape will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with Bluescape's obligations and may take into consideration factors such as those set forth above.

Following such determination of allocation among Funds, Bluescape will determine if the amount of an investment opportunity in which one or more Funds will invest exceeds the amount that would be appropriate for such Fund(s) and any such excess may be offered to one or more potential co-investors, including third parties, as determined by the Funds' Governing Documents, Side Letters and Bluescape's procedures regarding allocation. Bluescape's procedures permit it to take into consideration a variety of factors in making such determinations, including but not limited to: expressed interest in co-investment opportunities; expertise of the prospective co-investor in the industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; size of commitment by the prospective co-investor; tax, regulatory, securities laws and/or other legal considerations (e.g., qualified purchaser or qualified institutional buyer status); confidentiality concerns that may arise in connection with providing the prospective co-investor with specific information relating to the investment opportunity; perceived ease of process in coordinating or completing the investment with the prospective co-investor or co-investors similar thereto; Bluescape's perception of whether the investment opportunity may subject the prospective co-investor to legal, regulatory, reporting or other burdens that make it less likely that the prospective co-investor would act upon the investment opportunity if offered or would impair

Bluescape's ability to execute the relevant transaction in the desired time or on desired terms; size of the investment allocation and practicality of dividing it up among multiple co-investors; lender requirements; perceived public relations and reputational benefits or costs; and whether Bluescape believes that allocating investment opportunities to an investor or person will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant portfolio company, other portfolio companies, the Funds or Bluescape and affiliates. Although a prospective co-investor's willingness to invest in future Funds may be considered by Bluescape, it generally will not be the sole determining factor considered by Bluescape in identifying co-investors. Notwithstanding the foregoing, Bluescape may, in its sole discretion, offer the ability to invest in public securities to any person or entity after a Fund has begun making an investment in such public securities, including another investment fund sponsored, formed and/or managed by Bluescape or its affiliates, without offering any such opportunity to any Limited Partner. Bluescape may also, in its sole discretion, charge a management fee and obtain a "carried interest" in respect of any such co-investment. Because co-investments will not be made through a Fund, any compensation received in connection with a co-investment does not arise out of the investment activities of such Fund or actions taken directly or indirectly by Bluescape on behalf of the Fund and, therefore, none of such fees and other co-investor-related compensation will reduce or offset the Management Fee paid by such Fund. If a co-investment vehicle is formed, such entity will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Fund. It is anticipated that, in the event that a transaction in which a co-investment was to be sought ultimately is not consummated, all obligations, liabilities and out-of-pocket and/or breakup fees, costs and expenses relating to such unconsummated transaction will be borne by the Fund, and not by any prospective co-investors, that were to have participated in such transaction.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Bluescape or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. When and to the extent that employees and related persons of Bluescape and its affiliates make capital investments in or alongside certain Funds, Bluescape and its affiliates are subject to conflicting interests in connection with these investments. Co-investments with third parties through partnerships, joint ventures or other entities or arrangements may involve risks not present in investments where a third party is not involved, including the possibility that a third party co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of the Fund, may have financial difficulties (which may increase the possibility of default), or may be in a position to take (or block) action contrary to the investment objectives of a Fund. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such co-investments, including incentive compensation arrangements. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or another party that was allocated a co-investment opportunity or that the Fund's return would have been as favorable as it would have been had such conflict not existed.

Bluescape's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others.

While Bluescape will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which Bluescape may be subject, discussed herein, did not exist.

In certain cases, Bluescape will have opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, Bluescape will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on eligibility and other factors, and unless required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. Bluescape and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one Fund's investments will be the same as the returns obtained by other Funds participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both Funds. In that regard, actions may be taken for one or more Funds that adversely affect other Funds.

Bluescape or its affiliates may form and manage a special purpose acquisition company ("SPAC," and such SPAC's related sponsor, a "SPAC Sponsor") and pursue a business combination transaction for such SPAC. A SPAC's underlying target for the business combination will, as required by applicable securities laws, be unknown at the time of the initial public offering. A SPAC Sponsor will have the incentive to find a target company if a SPAC has a successful initial public offering. A SPAC Sponsor and its affiliates may present to any SPAC, and a SPAC may pursue, and otherwise consummate, any investment opportunities deemed appropriate by a SPAC Sponsor or any of its affiliates, in their sole discretion, including investment opportunities that may otherwise be appropriate for a Fund, although it is expected that a SPAC generally will seek investment opportunities requiring larger equity investments relative to investment opportunities pursued by a Fund. Allocating the investment opportunity to a SPAC instead of a Fund would result in a Fund losing an investment opportunity to such SPAC and could have an adverse effect on a Fund. Because each SPAC Sponsor will be an affiliate of Bluescape and the economic benefit to be gained from an investment opportunity may be greater if allocated to the SPAC Sponsor given the economic terms of the SPAC, Bluescape may be incentivized to allocate investment opportunities to a SPAC at the expense of a Fund. Unless otherwise determined by Bluescape, neither a Fund nor any Limited Partner will have the right to participate in any SPAC (or the related SPAC Sponsor) or any investment which any SPAC pursues.

Subject to any relevant restrictions or other limitations contained in the Governing Documents of the Funds, Bluescape will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant, but in its sole discretion. In exercising such discretion, Bluescape may be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Bluescape or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate pro rata based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or Bluescape. The Funds may have different expense reimbursement terms, which may result in the Funds bearing different levels of expenses with respect to the same investment.

As a result of the Funds' controlling interests in portfolio companies, Bluescape and/or its affiliates typically have the right to appoint portfolio company board members (including current or former Bluescape personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Bluescape and/or its affiliates. Except to the extent such amounts are subject to the Governing Documents' offset provisions, they will be in addition to any Management Fees or carried interest paid by a Fund to Bluescape.

Additionally, a portfolio company typically will reimburse Bluescape or service providers retained at Bluescape's discretion for expenses (including without limitation travel expenses) incurred by Bluescape or such service providers in connection with its performance of services for such portfolio company. This subjects Bluescape and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. Bluescape determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to Bluescape or such service providers generally is subject to: agreements with or review by sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related potential conflicts of interest.

Bluescape generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with (i) Bluescape or a related person of Bluescape (which may include a portfolio company of such Fund), (ii) an entity with which Bluescape or its affiliates or current or former members of their personnel has a relationship or from which Bluescape or its affiliates or their personnel otherwise derives financial or other benefit or (iii)

certain limited partners or their affiliates. For example, Bluescape may be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain Limited Partners or their affiliates that are engaged in lending or related business. In addition, Bluescape intends to recommend to portfolio companies that it contract for services with Auger Resources LLC, a portfolio company of Bluescape Resources Company, LLC ("Auger"). Auger is expected to provide services to one or more portfolio companies of the Funds and any compensation, expense reimbursement or other payments received by Auger or any of its employees from a Fund or any portfolio companies will not offset or otherwise reduce the Management Fee and will not be shared with the Funds or the Limited Partners. This discretion subjects Bluescape to conflicts of interest, because although Bluescape selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, Bluescape may have an incentive to recommend the related or other person (including a Limited Partner) because of its financial or other business interest. There is a possibility that Bluescape, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Bluescape), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Bluescape has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost. The terms of any transaction involving the provision of goods or services to the Fund or any of its portfolio companies will be determined by Bluescape in its sole discretion and may differ significantly from the terms that may be obtained in an arm's length transaction between unaffiliated parties.

Mr. Wilder (or an entity controlled by him) has entered into one or more consulting or similar agreements with one or more persons or entities and will receive compensation (including incentive payments) for providing services upon any such person's or entity's request. Any such compensation will not offset or otherwise reduce the management fee or otherwise be shared with a Fund or the Limited Partners except to the extent that such compensation incrementally increases the expenses or costs borne by any portfolio company.

As with other private equity fund sponsors, as part of Bluescape's business, Bluescape and its employees, partners, members, managers, officers, directors and affiliates have developed many relationships with third parties which have the potential to raise conflicts of interest. Such third parties include investment bankers, lenders, consultants, operators, geologists, engineers, professional advisors (such as attorneys and accountants), co-investors, current and former directors, officers and employees of current and former portfolio companies, current and former services providers to current and former portfolio companies and current and former employees and members of Bluescape. Certain of these third parties may: (i) introduce investment opportunities to Bluescape and its affiliates; (ii) arrange for, or facilitate the financing of, the purchase or recapitalization of current and potential portfolio companies; (iii) introduce portfolio companies to potential acquisition or merger candidates; (iv) facilitate the disposition of portfolio companies; or (v) provide investment banking, consulting, legal or advisory services to Bluescape, a Fund or portfolio companies of a Fund. Such third parties may also provide goods or services to or have business, personal, political, financial or other relationships with Bluescape or its respective partners, members, managers, officers, directors and affiliates. In addition, such third

parties may invest in one or more Funds, co-invest in one or more portfolio companies, or provide other significant business or investment services to Bluescape, one or more Funds and/or their respective portfolio companies. These relationships may influence Bluescape in deciding whether to select or recommend any such third-party to perform services for a Fund or a portfolio company. The cost of any services provided by such third parties will generally be borne directly or indirectly by a Fund or its portfolio companies, as applicable.

Bluescape and/or its affiliates may, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by a Fund or other investment vehicles advised by Bluescape; conversely, current or former personnel or executives of Bluescape and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by Bluescape. Similarly, Bluescape, its affiliates and/or their respective employees, partners, members, managers, officers, directors and affiliates maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including managers of private funds, oil and gas operators and energy companies. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Bluescape and/or its affiliates, a Fund and/or other investment vehicles they advise. Bluescape and/or its affiliates may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to a Fund or a portfolio company owned by a Fund if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Bluescape information about markets and industries in which Bluescape operates (or is contemplating operations) or will provide other services that are beneficial to Bluescape or because Bluescape has an incentive to maintain goodwill between itself and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Fund.

Although uncommon, from time to time Bluescape may cause a Fund to enter into a transaction whereby the Fund purchases securities from, or sells securities to, other Funds managed by Bluescape, or co-investors or co-investment vehicles. Such transactions may arise in the context of re-balancing an investment among parallel investing entities or in contexts where a portfolio company owned by one Fund is acquired by a portfolio company acquired by another Fund. Any such transactions raise potential conflicts of interest, including where the investment of one Fund supports the value of portfolio companies owned by another Fund. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. To the extent required by the relevant Funds' Governing Documents or otherwise in the sole discretion of Bluescape, Bluescape may seek to mitigate such conflicts by seeking the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price) or by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's advisory board) to such transactions. In certain circumstances, Bluescape may determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Fund under then-current market conditions. Bluescape intends that any such transactions be conducted in a manner that it believes in good faith to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund.

Although Bluescape generally structures Funds to avoid cross-guarantees and other circumstances in which one Fund bears liability for all or part of the obligations of another Fund, in certain circumstances lenders and other market parties negotiate for the right to face only select Fund entities, which may result in a single Fund being solely liable for other Funds' share of the relevant obligation and/or joint and several liability among Funds. In each such case, Bluescape intends to cause the relevant other Funds to enter into a back-to-back guarantee, indemnification or similar reimbursement arrangement, although the Fund undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements.

Bluescape, its affiliates, and equity holders, officers, principals and employees of Bluescape and its affiliates may buy or sell securities or other instruments that Bluescape has recommended to a Fund. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Fund. Such transactions are subject to any restrictions in the Fund's Governing Documents and any policies and procedures set forth in Bluescape's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees and related persons of Bluescape have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore may have additional conflicting interests in connection with these investments.

Because certain expenses are paid for by a Fund and/or its portfolio companies or, if incurred by Bluescape, are reimbursed by a Fund and/or its portfolio companies, Bluescape will not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio companies to incur) such expenses.

Because there is a fixed investment period after which capital from investors in a Fund may only be drawn down in limited circumstances and because Management Fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure may create an incentive to deploy capital when Bluescape may not otherwise have done so.

Since Bluescape is permitted to retain certain supplemental fees in connection with Fund investments, it could have a conflict of interest in connection with approving transactions and setting such compensation. Additionally, Bluescape, its personnel, affiliates or others designated by Bluescape expect from time to time to receive compensation in the form of portfolio company securities. To the extent any such securities are received, after any applicable offset provisions in the relevant Governing Documents are applied (valued in accordance with the applicable Governing Documents), Bluescape and/or such other recipients will be permitted to retain such securities as supplemental fees, and in doing so will be subject to potential conflicts of interest in determining whether to sell such securities (subject to restrictions imposed by the portfolio company and/or Bluescape or retain such securities for a period consistent with their own financial and investment objectives, which may differ from those of the relevant Fund).

Bluescape and/or its affiliates may enter into Side Letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.



Bluescape has instituted a program under which portfolio companies owned by the Funds are given the option to participate in purchasing, vendor or similar arrangements with Bluescape, its affiliates and other portfolio companies. Program participants expect to receive discounts negotiated with various vendors and service providers on a groupwide basis. Bluescape believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market. Where necessary, Bluescape consults and receives consent to conflicts from an advisory committee consisting of Limited Partners of the relevant Fund(s) and such other investment vehicles.

Bluescape has incentives to use or to recommend products or services of one portfolio company to another, which may involve fees, commissions, servicing payments or other compensation. Potential conflicts of interest arise in making such recommendations, as Bluescape has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended may not necessarily be the best or lowest cost option. From time to time Bluescape, its affiliates and personnel and persons selected by them expect to receive the benefit of “friends and family” and similar discounts from portfolio companies owned by the Funds under which such portfolio companies make their goods and/or services available at reduced rates. Because its portfolio companies offer such discounts to customers other than Bluescape and such persons as part of their standard commercial practices in an effort to expand their respective customer bases, Bluescape believes that the potential for conflicts of interest relating to such discounts is mitigated. Bluescape, its affiliates and personnel generally refrain from requesting or negotiating for such discounts in the ordinary course. Discounted prices or better terms offered by a portfolio company to Bluescape, any other portfolio company or third parties may affect the returns of the portfolio company.

There is not expected to be an actively traded market for most of the securities owned by the Fund. When estimating fair market value, Bluescape will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities ultimately may be sold. The exercise of discretion in valuation by Bluescape may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of Management Fees.

Any of these situations subjects Bluescape and/or its affiliates to potential conflicts of interest. Bluescape attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Bluescape’s advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, Bluescape will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, Bluescape consults and receives consent to conflicts from

an advisory committee consisting of Limited Partners of the relevant Fund(s) and such other investment vehicles.

#### **Item 9: Disciplinary Information**

Nothing to report at this time.

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

Parallel Resource Partners, LLC (“Parallel”) is a Delaware Limited Liability Company formed in February 2011 and is registered with the SEC as an investment adviser. Parallel is owned 50% by BRC Energy Partners LLC and 50% by Carlson Energy Partners I, LLC. BRC Energy Partners LLC is a wholly owned subsidiary of Bluescape Resources Company LLC, the parent company of Bluescape. Parallel provides investment advisory services to Energy Recapitalization and Restructuring Fund, L.P., a Delaware limited partnership (“ERR”), Energy Recapitalization and Restructuring FI Fund, L.P., a Cayman Islands exempted limited partnership (“ERR FI”), and Energy Recapitalization and Restructuring FI II Fund, L.P., a Cayman Islands exempted limited partnership (“ERR FI II” and, together with ERR and ERR FI, the “ERR Funds”). The ERR Funds are privately-offered private equity funds formed by Parallel to make control investments in distress-driven opportunities in the North American upstream oil and gas sector.

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

Bluescape has adopted a Code of Ethics and has policies and procedures (the “Code”) designed to, among other things, alleviate possible conflicts of interest, prevent the misuse of material non-public information, ensure the propriety of the personal trading activity of Investment Team members, and instill a culture of compliance with the law and the highest standards of business conduct.

Each person affiliated with Bluescape, including each member of the Investment Team (which includes, for purposes of this Item 11 as the context requires, any persons added to the Investment Team in the future), is given a copy of the Code upon commencement of his or her affiliation with Bluescape, provided with initial and on-going training on the policies and procedures contained in the Code, and required upon commencement of affiliation, and at least annually thereafter, to sign a written acknowledgement of receipt, understanding and agreement to abide by the Code. Each person affiliated with Bluescape is also provided with any updates or amendments to the Code on an on-going basis.

From time to time, Bluescape or the Investment Team members may come into possession of material non-public information. In the event that Bluescape or the Investment Team members are in possession of material non-public information, Bluescape will place the issuer or security on its Restricted List and will be unable to use such information for the benefit of the Funds.

The Code of Ethics is available to all current or prospective investors upon written request to the Manager at Bluescape Energy Partners, LLC, 200 Crescent Court, Suite 1900, Dallas, TX 75201.

In an effort to monitor and alleviate any potential or actual conflicts of interests, the Code requires each person affiliated with Bluescape to disclose to the Chief Compliance Officer (“CCO”) all outside business activities, including serving on boards of companies or creditors’ committees, and to obtain approval from the CCO to participate in such activities. Each person affiliated with Bluescape is also encouraged to disclose to the CCO any other relationships that may pose potential or actual conflicts of interest.

Bluescape and the Investment Team members may recommend or effect transactions on behalf of the Funds in securities that such Investment Team members may buy or sell for their personal investment accounts or indirectly through co-investment vehicle in which Investment Team members have an interest in limited circumstances. See Item 8: Methods of Analysis, Investment Strategies and Risk of Loss” for more information in such scenarios. Bluescape has implemented both a Personal Trading Policy and a Client Opportunities and Conflicts of Interest Policy as part of its Code which are aimed at ensuring that transactions by Investment Team members do not create a potential or actual conflict of interest.

Bluescape has policies and procedures, including pre-approval of all transactions in most securities and derivatives (with the exception of certain “Exempt Securities,” as described below) by Investment Team members for their personal accounts, including initial public offerings and private placements, in an effort to detect and prevent conflicts of interest and ensure that all personal transactions by Investment Team members are consistent with Bluescape’s fiduciary duty to the Funds and all applicable laws. “Exempt Securities” include direct obligations of the United States government, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high-quality short-term debt instruments, shares of money market funds, shares of other types of registered open-end investment companies (including open-end exchange traded funds), and units of a unit investment trust. Other than for Exempt Securities and certain other exemptions granted by the CCO on a case by case basis, the Personal Trading Policy prohibits trading by Investment Team members without the pre-approval of the Chief Compliance Officer.

All Investment Team members must file initial and annual securities holdings reports. Investment Team members must certify on at least a quarterly basis all personal transactions involving non-Exempt Securities. Transactions by Investment Team members are monitored in order to ascertain any pattern of conduct that may evidence actual or potential conflicts with the principles and objectives of the Code or other inappropriate behavior.

Bluescape has adopted policies and procedures in the Code related to implementation of co-investment opportunities to ensure that Bluescape and the members of the Investment Team act in accordance with all applicable legal requirements and meet their respective obligations under the formation documents of the Funds and the Side Letters.

In borrowing on behalf of a Fund, Bluescape is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund’s preferred return, is expected to have incentives to cause the Fund to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when the Fund borrows, makes the relevant

investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the Limited Partners would otherwise be entitled had the General Partner called capital, and thus could result in the relevant General Partner receiving carried interest sooner than it would without borrowing. In addition, when the Management Fee is calculated as a percentage of invested capital, a Limited Partner may pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to Limited Partners will be commensurate with such costs.

## **Item 12: Brokerage Practices**

To the extent Bluescape invests in a marketable security where the involvement of a broker is required, Bluescape has a fiduciary duty to seek to obtain best execution on behalf of each Client. Brokers will be selected with a view to obtaining best execution of transactions. Bluescape believes that best execution is typically achieved not necessarily by negotiating the lowest commission rate but by seeking to obtain the best overall result. Bluescape will consider all factors it deems relevant including execution capabilities, financial stability of the broker, responsiveness, confidentiality, promptness, clearance, settlement, and price.

As an investment adviser to private equity funds, certain portfolio investments of the Funds are not executed through brokerage firms. The Funds may, on occasion, receive securities as a result of a distribution in kind from a portfolio company in which the Funds are invested and Bluescape may assist the Funds with disposing of such securities.

Bluescape does not have any formal soft dollar arrangements or other arrangements that would commit the Funds to any specific or implied level of trading with a broker-dealer or a third party in connection with securities transactions. If Bluescape were to use brokerage commissions or “soft dollars” to pay for research or other products or services, it would receive an economic benefit in the form of research, products or services that are paid through soft dollar arrangements. This may pose a conflict between the interests of the Funds and Bluescape. Bluescape does not intend to receive any services from brokers that are outside the safe harbor for the use of brokerage commissions or “soft dollars” for “research and execution services” under Section 28(e) of the Securities Exchange Act of 1934.

Bluescape’s Code contains a Gifts and Entertainment Policy that requires Investment Team members to disclose all significant gifts and entertainment provided by brokerage firms and their employees and places restrictions on the value and types of gifts and entertainment employees may receive. Bluescape strictly prohibits the consideration of factors such as the receipt of gifts and entertainment when selecting brokers and counterparties to execute transactions for the Funds.

### **Item 13: Review of Accounts**

Bluescape seeks to apply a team-based approach to every aspect of the investment process so that a variety of perspectives are considered in each investment decision. Bluescape's investment evaluation process is distinguished by its emphasis on purchase price discipline, extensive asset analysis, due diligence and a collaborative approach to decision making. Bluescape intends to leverage its internal expertise and supplement it with specific external expertise to understand the technical, operational, pricing, legal, tax, regulatory and competitive opportunities and risks.

Bluescape will generally develop financial models for the full life of an asset to fully understand the drivers of value and estimate an exit value. Bluescape believes that a full life model is critical to fully understanding the nature of the long-term assets the Fund will seek to acquire and the potential effect of long-term changes in price, growth, cost and technological productivity.

The Investment Committee will play an active role throughout the diligence and deal process, and will generally utilize a three-phase stage-gating process. Before entering this process, most deals will be screened through a "Phase Zero Deal Sheet" that describes the source of the deal, the basics of the transaction (size, deal thesis, etc.) and potential exit alternatives. The vast majority of deals are expected to be rejected at this stage.

The three-phase stage-gating process for potential investments that are not rejected at the Phase Zero Deal Sheet stage will generally include:

**Phase I – Preparation of Investment Memorandum to the Investment Committee.** This document will describe the background of the deal, the investment concept and a financial model. After Phase I approval, Bluescape will generally diligence the asset's reserves, resources, lease terms and build its market-specific price deck.

**Phase II – Authorization for Incremental Resources.** Once the investment thesis and initial diligence are complete, the investment will then come back to the Investment Committee for its Phase II approval and authorization for incremental resources. These would generally include court house land reviews, on-site environmental and engineering reviews, tax and legal review and any significant negotiation with relevant counterparties.

**Phase III – Approval and Authorization to Transact.** After investment terms, financial diligence and technical diligence have been completed, the team will summarize the investment in a memorandum for review and approval by the Investment Committee.

Bluescape believes that this process will provide the optimal level of Investment Committee interaction and the ability to limit the costs (both internal and external) of unsuccessful investments.

### ***Performance Management***

The Senior Team will seek to be highly involved with the day-to-day operations of the Fund's portfolio companies and considers its operating capabilities to be critical to quickly recognizing the need to implement production enhancement activities or alter strategic plans. Bluescape believes the Senior Team is capable of stepping in to "take the keys" and assume operations of a

portfolio company if problems arise or if needed prior to hiring the long-term team. Mr. Wilder in particular, who will oversee the Fund's portfolio management activities, brings over 35 years of operating experience to the Fund.

Additionally, Bluescape will seek some element of control on all portfolio investments so as to maximize its potential impact during the management and oversight process. Bluescape believes that substantial additional value can be created through active portfolio management. The deal team will ensure that a detailed post-acquisition plan is developed and monitored from closing through an investment's final realization. Bluescape professionals are expected to serve on the boards of all Fund investments and to participate heavily in monitoring companies' progress.

Bluescape provides quarterly reports to investors in the Funds that include unaudited financial statements, a general discussion of the business and affairs of each portfolio company and of any material development with respect thereto, and the fair value of each of the Fund's investments. Investors in the Funds and the Co-Investment Entities receive audited financial statements on an annual basis.

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

Bluescape and/or its affiliates may provide certain business or consulting services to companies in a Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the applicable Governing Documents, this compensation may, in many cases, offset a portion of the Management Fees paid by such Fund. However, in other cases (e.g., reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See "Item 5: Fees and Compensation."

The General Partner engaged Credit Suisse Securities (USA) LLC to act as a third-party placement agent for the BERR III Funds. The General Partner has engaged First Avenue Partners LLP and FAP USA, L.P. to act as a third-party placement agent for BERR IV. All placement fees shall be paid by the Fund but ultimately borne by Bluescape through an offset to the Management Fee.

#### **Item 15: Custody**

Bluescape conducts all business operations in such a way that the cash and securities of the Funds, over which Bluescape is deemed to have custody, other than privately offered non-certificated securities, are preserved in the safekeeping of independent qualified custodians. On an annual basis, an independent public accountant will audit the Funds, and Bluescape will distribute the audited financial statements related to such audits within 120 days of the end of the fiscal year.

#### **Item 16: Investment Discretion**

Subject to the investment objectives and restrictions of the Funds, Bluescape has complete discretionary authority to make all decisions concerning the investigation, evaluation, selection, negotiation, structuring, commitment to, monitoring of, and disposal of investments by the Funds.

## **Item 17: Voting Client Securities**

Investments held by the Funds do not typically solicit votes. Nonetheless, Bluescape has adopted policies and procedures (the “Proxy Policy”) regarding the voting of proxies designed to ensure that it votes proxies on behalf of the Funds over which it exercises voting discretion in the best interests of its clients and investors.

When exercising its voting authority over securities, Bluescape considers relevant information, evaluates other issues that could have an impact on the value of the security, and votes with a view toward maximizing overall value. Bluescape reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the Fund. In some instances, Bluescape may determine that it is in the Funds’ best interests to “abstain” from voting or not to vote at all.

Prior to exercising its voting authority, Bluescape reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Bluescape, its owners, Investment Team members or affiliates with persons having an interest in the outcome of the vote. If a material conflict exists, Bluescape takes steps to ensure that its voting decision is based on the best interests of the Fund and is not a product of the conflict. Bluescape may, at its discretion, seek guidance from its outside legal counsel or other advisors. Investors in the Funds may not direct voting in a particular proxy solicitation.

Bluescape will deliver to each investor, upon written request, a copy of its policies pertaining to proxy voting or information on how it voted proxies for the Funds.

## **Item 18: Financial Information**

Bluescape does not believe it has any financial condition that would impair its ability to meet contractual commitments to the Funds and has not been the subject of a bankruptcy proceeding.