



Parallel Resource Partners, LLC
Form ADV Part 2A – Disclosure Brochure
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This brochure provides information about the qualifications and business practices of Parallel Resource Partners, LLC. If you have any questions about the contents of this brochure, please contact us at 713-238-9500 or ParallelIR@parallelresourcepartners.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 Parallel Resource Partners, LLC is also available on the SEC’s website at www.adviserinfo.sec.gov.

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. Registration with the SEC as an investment adviser does not imply that Parallel or any principals or other persons associated with Parallel possess a particular level of skill or training in the investment advisory or any other business.

Item 2: Material Changes

The last update to Parallel's Form ADV Part 2 (this "Brochure") was on March 31, 2017. A summary of material changes since the last annual update of this Brochure is as follows:

Parallel has revised Item 4 to update the regulatory assets under management.

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Item 4: Advisory Business

Description of Business

Parallel is a Delaware Limited Liability Company founded in February 2011.

Parallel provides investment advisory services, pursuant to the investment guidelines as set forth in the applicable offering memoranda, 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. The ERR Funds have Assets Under Management of \$281,755,477 as of December 31, 2017, managed by Parallel on a discretionary basis. The ERR Funds invest in the same underlying investments pro rata based on the total commitments made by investors to each such ERR Fund as compared to the total commitments made by investors across all ERR Funds. Parallel held its final closing for the ERR Funds on February 13, 2012. Parallel is prohibited from accepting any new investors into the ERR Funds pursuant to the ERR Funds’ organizational documents, except for certain permitted transfers of existing limited partnership interests.

Parallel has offered to certain investors in the ERR Funds and their affiliates (the “Eligible Co-Investors”) the opportunity to invest alongside the ERR Funds in two investments of the ERR Funds, and Parallel expects to offer Eligible Co-Investors the opportunity to invest alongside the ERR Funds in other investments in the future. Each opportunity is generally referred to as a co-investment opportunity.

Two of the Eligible Co-Investors have formed limited partnerships through which to invest in co-investment opportunities (the “Co-Investment Entities”). Each of the Co-Investment Entities has one Eligible Co-Investor as the sole limited partner. Parallel is prohibited from accepting any new investors into each such Co-Investment Entity pursuant to the formation documents of such Co-Investment Entity, except for certain permitted transfers of existing limited partnership interests. Parallel serves as the general partner of each of the Co-Investment Entities and provides investment advisory services to the Co-Investment Entities pursuant to the investment guidelines as set forth in the applicable formation documents of the Co-Investment Entities and the applicable offering memorandum of any co-investment opportunity in which the Co-Investment Entities invest. Collectively, the Co-Investment Entities have committed capital of approximately \$50,000,000 as of December 31, 2016, managed by Parallel on a discretionary basis subject to the restrictions on investment set forth in the applicable formation documents of the Co-Investment Entities and the applicable offering memorandum of any co-investment opportunity in which the Co-Investment Entities invest.

Parallel also provides investment advisory services to one other Eligible Co-Investor (the “Client Co-Investor”) pursuant to the investment guidelines as set forth in the co-investment agreement entered into between Parallel and the Client Co-Investor related to such services and the applicable offering memorandum for any co-investment opportunity in which such Client Co-Investor invests. The Client Co-Investor currently has committed capital of approximately \$25,000,000 to one co-investment opportunity as of December 31, 2016, managed by Parallel on a discretionary basis subject to the restrictions on investment set forth in the co-investment agreement between such Client Co-Investor and Parallel and the applicable offering memorandum of the co-investment opportunity in which such Client Co-Investor has agreed to invest.

Ownership of Business

Parallel is owned 50% by BRC Energy Partners LLC (“Bluescape”) and 50% by Carlson Energy Partners I, LLC (“CEP I”). Bluescape was formed as a Delaware Limited Liability Company in November 2010 to participate in the management of Parallel. Bluescape is a wholly owned subsidiary of Bluescape Resources Company LLC, a Delaware Limited Liability Company (“Bluescape Resources”), which is in turn indirectly owned more than 95% by C. John Wilder, Jr. and his immediate family members. Bluescape Resources is a private independent oil and gas company formed in late 2007.

CEP I was formed as a Delaware Limited Liability Company in February 2011 to participate in the management of Parallel. CEP I is owned 50% in the aggregate by Ron Hulme and John Howie and 50% by affiliates of Carlson Capital, L.P. (“Carlson Capital”). Carlson Capital is an alternative asset management firm and is the successor to a firm founded under the same name by Clint D. Carlson in 1993 as a Delaware limited partnership.

Parallel does not have any employees, Syed U. Ehtisham, an employee of Cipperrman Compliance Services, serves as the Chief Compliance Officer. Primary investment support for Parallel is provided by employees of CEP I and a Bluescape affiliate. Specifically, Parallel is managed by a six-person Board of Managers that also serves as the investment committee to the ERR Funds. The Board of Managers is comprised of three representatives from each of Bluescape (C. John Wilder, Jr., Jonathan Siegler, and one vacant Board seat) and CEP I (Ron Hulme, John Howie, and Clint D. Carlson). In addition to the Board of Managers, designated employees of CEP I and a Bluescape affiliate perform various tasks on behalf of, and are involved in the day-to-day management of, Parallel. Philip Riley (an employee of a Bluescape affiliate) is primarily seconded to and performs daily activities on behalf of Parallel. Additionally, Don Campo (an employee of a Bluescape affiliate), Lillian Meyer (an employee of a Bluescape affiliate), and Matt Herpich (an employee of a Bluescape affiliate) perform regular activities on behalf of Parallel. The foregoing individuals are sometimes referred to as the “Investment Team.” Pursuant to services agreements with annual renewal provisions, Parallel currently utilizes: (i) investor relations services from personnel at a Bluescape affiliate; (ii) additional technical support in the areas of geology, geophysics, drilling, engineering and business operations from personnel at a Bluescape affiliate

who are not primarily involved in Parallel's activities; and (iii) tax and accounting services from a Bluescape affiliate.

See also Item 7 (Types of Clients) and Item 10 (Other Financial Industry Activities and Affiliations).

Item 5: Fees and Compensation Management Fees

As compensation for its investment advisory services, each of the ERR Funds generally pays a management fee to Parallel quarterly in advance at an annual rate of 2.0% of capital contributed to portfolio company investments of the ERR Funds (increased by any incremental capital contributed to portfolio company investments of the ERR Funds and decreased by any distributions made). If a successor fund meeting certain criteria commences to accrue management fees in an amount that equals or exceeds 100% of the management fees then payable by each of the ERR Funds, the management fee will further step down to 1.0% of capital contributed to portfolio company investments of the ERR Funds (increased by any incremental capital contributed to portfolio company investments of the ERR Funds and decreased by any distributions made). The ERR Funds call capital from their investors for the amount of management fees.

The organizational documents of the ERR Funds do not contemplate repayments of management fees to the extent that Parallel's services terminate prior to the end of the relevant quarterly payment period. Management fees paid by an investor in the ERR Funds impact Parallel's performance-related compensation.

The management fees of the ERR Funds generally are not negotiable; however, Parallel may reduce the management fee due with respect to any investor in the ERR Funds in its sole discretion and it has done so for certain investors. Certain investors are not subject to the management fee, including

(i) Parallel, (ii) Bluescape or CEP I, (iii) an investment fund managed by Bluescape, CEP I, or their respective affiliates, (iv) an officer, director, or employee of Bluescape, CEP I, or their respective affiliates or any trust, family limited partnership or other similar estate planning vehicle established by such officer, director or employee, or (v) an affiliate of any of the foregoing parties.

None of the Eligible Co-Investors, including the Co-Investor Entities and the Client Co-Investor, pays Parallel a management fee with regard to any co-investment opportunity.

Performance-Related Compensation

Subject to the limitations below, Parallel will receive a special allocation of profits, or "performance allocation," from each of the ERR Funds of 20% of the net profits, if any, of the applicable ERR

Fund after taking into account a preferred return to investors (subject to catch-up), as well as the expenses of the applicable ERR Fund, including management fees. The performance allocation is calculated each time the ERR Funds make a distribution to their investors.

Subject to the limitations below, Parallel will receive a performance allocation from each of the Eligible Co-Investors of 10% of the net profits, if any, in each applicable co-investment opportunity in which such Eligible Co-Investor invests after taking into account a preferred return to such Eligible Co-Investor (subject to catch-up) in that specific co-investment opportunity, as well as the expenses of the Eligible Co-Investor related to such co-investment opportunity, subject to adjustment based on the current values of all other co-investment opportunities in which such Eligible Co-Investor has invested. The performance allocation is calculated each time such Eligible Co-Investor receives a distribution from a co-investment opportunity.

The performance allocation of the ERR Funds and the Eligible Co-Investors generally is not negotiable; however, Parallel may reduce the performance allocation due with respect to any investor in the ERR Funds in its sole discretion. Certain investors in the ERR Funds and certain Eligible Co-Investors are not subject to the performance allocations described above, including (i) Parallel, (ii) Bluescape or CEP I, (iii) an investment fund managed by Bluescape, CEP I, or their respective affiliates, (iv) an officer, director, or employee of Bluescape, CEP I, or their respective affiliates or any trust, family limited partnership or other similar estate planning vehicle established by such officer, director or employee, or (v) an affiliate of any of the foregoing parties.

Transaction, Break-Up and Other Fees

Parallel and certain other persons associated with Parallel may charge transaction fees, monitoring fees, advisory fees, break-up fees, and other similar fees to the ERR Funds' portfolio companies, and Parallel or such certain other persons may also receive directors' fees in connection with services they may provide to the ERR Funds' portfolio companies. Upon receipt of any such amounts by Parallel or such persons, Parallel will (i) net any unreimbursed expenses incurred by Parallel in connection with unconsummated transactions (with respect to the ERR Funds' proportionate interest in such investments) and (ii) if any such amounts (with respect to the ERR Funds' proportionate interest in such investments) remain after netting, reduce the management fee otherwise payable to Parallel by 100% of such remaining amount.

Organizational/Offering Costs

The ERR Funds will pay (or reimburse Parallel for) reasonable out-of-pocket fees, costs, and expenses associated with the formation of Parallel and the ERR Funds and the offering and sale of limited partnership interests therein incurred by Parallel or one of its affiliates, including all legal, accounting, printing, mailing and courier fees and expenses, filing fees, travel and other start-up costs and expenses, and any fees, costs and expenses incurred in connection with compliance by any of the foregoing entities with applicable laws or regulations, but excluding (i) any fees, costs and expenses related to Parallel's registration as an investment adviser or the

maintenance of such registration, and (ii) any fees paid to a placement agent.

All organizational costs incurred prior to the initial closing of the ERR Funds, all organizational costs incurred after the initial closing of the ERR Funds in excess of \$1 million, and all placement fees paid by the ERR Funds are an offset to management fees otherwise payable to Parallel in an identical amount.

The Co-Investment Entities and the Client Co-Investor will pay (or reimburse Parallel for) reasonable out-of-pocket fees, costs, and expenses associated with the formation of the Co-Investment Entities (or, in the case of the Client Co-Investor, the co-investment agreement between the Client Co-Investor and Parallel) and the expenses incurred by Parallel related to the offering and sale of co-investment opportunities in which such Eligible Co-Investors invest, subject to caps set forth in the organizational documents of the Co-Investment Entities or the co-investment agreement between the Client Co-Investor and Parallel, as applicable.

Operating Costs

Each of Parallel, Bluescape, or CEP I, as applicable, will pay operating and overhead costs and expenses, including salaries, bonuses, benefits, and rent. Parallel will also be responsible for the amount payable under the contractual arrangements with Bluescape and CEP I for additional technical support and back office support.

The ERR Funds will pay (or reimburse Parallel for) the costs and expenses related to their operations, including, without limitation: all direct, out-of-pocket costs and expenses reasonably incurred either by the ERR Funds or by Parallel or any of its affiliates on behalf of the ERR Funds relating to the management, conduct and operation of the ERR Funds' business, including (i) the fees and expenses associated with the preparation of the ERR Funds' financial statements and the reports and other information and the distribution of same to investors, tax returns and Schedule K-1s, printing expenses, mailing and courier expenses, fees and expenses of establishing bank or custodial accounts and insurance costs and expenses, (ii) the fees, costs and expenses incurred in connection with investigating, evaluating, negotiating, acquiring, holding, managing, valuing, selling or exchanging of investments (including reasonable fees and expenses of lawyers, accountants, petroleum engineers and consultants, brokerage or finder's fees, investment banker's fees, commitment fees, underwriting discounts or sales fees, and reasonable travel and related expenses),

(iii) fees, costs and expenses of the type described in clause (ii) above incurred in connection with potential or proposed but unconsummated transactions, (iv) legal, audit and other expenses incurred in connection with the registration of the offer and sale of securities owned by the ERR Funds under the Securities Act of 1933, or any applicable state or foreign securities laws, (v) the costs and other amounts attributable to the ERR Funds' obligations for indemnification, (vi) the costs and expenses attributable to the ERR Funds' advisory committee and the conduct of its meetings or attributable to the annual meetings of the ERR Funds' investors, and (vii) other extraordinary, nonrecurring expenses, including the costs and expenses of prosecuting or

defending a litigation claim.

Subject to an annual cap set forth in the formation documents of each Co-Investment Entity, the Co-Investment Entities will pay (or reimburse Parallel for) the costs and expenses related to their operations, including, without limitation: all direct, out-of-pocket costs and expenses reasonably incurred either by the Co-Investment Entities or by Parallel or any of its affiliates on behalf of the Co-Investment Entities relating to the management, conduct and operation of the Co-Investment Entities' business, including (i) the fees and expenses associated with the operation, administration and maintenance of the Co-Investment Entities, including the preparation of the Co-Investment Entities' financial statements and the reports and other information and the distribution of same to such Eligible Co-Investor investing in such Co-Investment Entity, tax returns and Schedule K-1s, printing expenses, mailing and courier expenses, fees and expenses of establishing bank or custodial accounts and insurance costs and expenses, (ii) the fees, costs and expenses incurred in connection with investigating, evaluating, negotiating, acquiring, holding, managing, valuing, selling or exchanging of investments (including reasonable fees and expenses of lawyers, accountants, petroleum engineers and consultants, brokerage or finder's fees, investment banker's fees, commitment fees, underwriting discounts or sales fees, and reasonable travel and related expenses), fees, costs and expenses of the type described in clause (ii) above incurred in connection with potential or proposed but unconsummated transactions, (iv) legal, audit and other expenses incurred in connection with the registration of the offer and sale of securities owned by the Co-Investment Entities under the Securities Act of 1933, or any applicable state or foreign securities laws, (v) the costs and other amounts attributable to the Co-Investment Entities' obligations for indemnification, and (vii) other extraordinary, nonrecurring expenses, including the costs and expenses of prosecuting or defending a litigation claim; provided that operating costs of the Co-Investment Entities shall not include, and the Co-Investment Entities shall not pay, any of the following costs and expenses of Parallel or any of its affiliates: (x) the salaries, wages and employee benefits of all officers, directors and employees of Parallel or an affiliate thereof, (y) office rent, utility charges and equipment and furniture costs and expenses, and (z) any other general, administrative and overhead expense.

For a further discussion of these and related items, see Item 12 (Brokerage Practices).

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

As noted in the response to Item 5 (Fees and Compensation), Parallel may receive performance allocations from the ERR Funds and Eligible Co-Investors.

Item 7: Types of Clients

As described above in Item 4 (Advisory Business), Parallel provides investment advisory services to the ERR Funds and the Co-Investment Entities, which are pooled investment vehicles, and to the Client Co-Investor, which is a foundation. Each of the investors in the Co-Investment Entities and the Client Co-Investor is an investor in the ERR Funds. Investors in the ERR Funds

include institutional investors such as endowments, foundations, trusts, and pension plans, as well as individuals. The ERR 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 ERR Funds is \$10 million, although Parallel may accept and has accepted investments in a lesser amount.

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

Methods of Analysis

Parallel believes its investment approach is distinguished by its emphasis on purchase price discipline, extensive asset analysis, due diligence, and collaborative approach to decision making. The Investment Team’s diligence will generally include: (i) a thorough asset-by-asset evaluation (including an engineering analysis) and contracts review, (ii) an evaluation of the production history of the assets and forecasts of production rates and ultimate reserves, (iii) an environmental liability assessment, (iv) the identification of opportunities to improve asset efficiency; (v) land work to ensure title to assets, (vi) lease operating costs and overhead expenses, and (vii) a determination of its view on pricing with particular focus on “basis” risk. The Investment Team will not rely exclusively on a seller’s forecasts.

The Investment Team will develop financial models for the full life of an asset in an effort to fully understand the drivers of value and estimate an exit value. Parallel believes that a full life model is critical to fully understanding the nature of the long-term assets the ERR Funds 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 ERR Funds require the unanimous approval of all members of the Board of Managers of Parallel. Parallel offers to the Eligible Co-Investors, including the Co-Investment Entities and the Client Co-Investor, the opportunity to invest in certain investments of the ERR Funds.

Investment Strategies

The ERR Funds were formed by Parallel to make control investments in distress driven opportunities in the North American upstream oil and gas sector. Parallel targets distressed companies and opportunities, which Parallel believes may manifest at any stage of a company’s growth.

The ERR Funds will focus on the small-producer Exploration and Production market of companies that have between \$10 million and \$1 billion in asset value. The Investment Team believes that the current market conditions have created three attractive investment strategies: Financial Distress, Commercial Distress and Out-of-Favor Assets and the ERR Funds may, at the discretion of Parallel

and consistent with the investment guidelines of the offering documents of each ERR Fund, implement all, some or none of these strategies.

Financial Distress

The Financial Distress strategy focuses on investments in small producers who face significant downward borrowing base re-determinations, covenant breaches, or the risk of bankruptcy. In these instances, the Investment Team will pursue recapitalizations, restructurings or selective asset purchases.

The magnitude of the Financial Distress opportunity is highly dependent upon market conditions. Generally, due to low cash flow and potential default, financially distressed companies trade at discounts to their intrinsic value. The Investment Team will seek out opportunities where the ERR Funds can provide capital to financially distressed companies, benefitting from low entry costs into certain assets and, in many cases, preventing valuable assets from being lost to default.

The ERR Funds expect to provide restructuring capital or bankruptcy-related financing. Once invested, the Investment Team will work with companies to grow cash flow and asset value. Ultimately, the Investment Team will seek to create going concern businesses out of these financially distressed companies, positioning them for exit into the strategic buyer market or for later initial public offerings.

The Investment Team expects the Financial Distress strategy to represent 5% to 15% of the ERR Funds' portfolio.

Commercial Distress

The Commercial Distress strategy focuses upon investing in companies or assets where a lack of capital causes the risk of expiring options or sub-optimal development.

The ERR Funds will provide development capital (potentially debt, convertibles, preferred, or equity), structure joint-venture or farm-in investments, or acquire companies outright. The Investment Team expects to bring best practices regarding operations and technical capabilities to design a development plan to de-risk and create value. It will also seek to aggregate these typically subscale positions to create attractive going concerns and be able to pursue exit opportunities through either the strategic buyer market or an initial public offering.

The Investment Team expects the Commercial Distress strategy to represent 65% to 80% of the ERR Funds' portfolio.

Out-of-Favor Assets

The Out-of-Favor Assets strategy will focus upon geographies and assets stranded by the

reallocation of scarce capital dollars and other important trends in the Exploration and Production sector. While the ERR Funds expect to be heavily focused on the small producer, this portfolio restructuring by producers following a “herd mentality” is prevalent among larger producers as well. Parallel believes that Out-of-Favor Assets can generally be acquired with more flexible and longer term contractual arrangements than “herd” assets.

This investment approach may allow these assets to make money in the short term and ensure that the position can be held together through the next cycle (i.e., when the assets are back in favor).

The Investment Team expects the Out-of-Favor Assets strategy to represent 5% to 15% of the ERR Funds’ portfolio.

Risk of Loss and General Investment Risks

Investing in the ERR 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 ERR Funds should carefully review the risks described in the offering memorandum and related documents, as applicable, for the ERR Funds, and should evaluate the merits and risks of an investment in the context of their overall financial circumstances.

Risk Factors:

RISKS RELATED TO INVESTMENTS IN ENERGY ASSETS

Energy Industry Concentration.

The investments of the ERR Funds are concentrated in the energy industry and subject to numerous risks that affect the energy industry as a whole, or specific sectors within that industry. Because of the concentration of the ERR Funds’ investments in this industry, an investment in the ERR Funds may be subject to greater risk than an investment in a portfolio of securities representing a broader range of industries.

Nature of Energy Industry Investments. Investments in the energy sector may be subject to a variety of risks, not all of which can be foreseen or quantified. Such risks may include but are not limited to: (i) the risk that the technology employed in an energy project will not be effective or efficient; (ii) risks of equipment failures, loss of sale and supply contracts, decreases or escalations in power contract prices, bankruptcy of key customers or suppliers, tort liability in excess of insurance coverage, inability to obtain desirable amounts of insurance at economic rates, and catastrophic events; (iii) risks that regulations affecting the energy industry will change in a manner detrimental to the industry; (iv) environmental liability risks related to energy properties and projects; (v) uncertainty about the extent, quality and availability of oil and natural gas reserves; and (vi) the risk of changes in values of companies in the energy sector whose operations are affected by changes in prices and supplies of energy fuels (prices and supplies of energy fuels can fluctuate

significantly over a short period of time due to changes in international politics, energy conservation, the success of exploration projects, the tax and other regulatory policies of various governments and the economic growth of countries that are large consumers of energy, as well as other factors). The occurrence of events related to the foregoing may have a material adverse effect on the ERR Funds and their investments.

Uncertainty of Reserves. The companies in which the ERR Funds invest may be subject to the risks inherent in acquiring or developing recoverable oil or natural gas reserves, including capital expenditures for the identification and acquisitions of projects, the drilling and completing of wells and the conduct of development and production operations. The presence of unanticipated pressures or irregularities in formations, miscalculations or accidents may cause such activity to be unsuccessful, which may result in losses. Furthermore, successful investment by the ERR Funds in any portfolio company may require an assessment of (i) recoverable reserves; (ii) operating and capital costs; (iii) future oil and natural gas prices; (iv) potential environmental and other liabilities; and (v) other factors with respect to such investment. Such assessments are necessarily inexact and their accuracy inherently uncertain.

Fluctuation in Energy Prices. The revenues and profitability of certain of the portfolio companies in which the ERR Funds invest 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 the ERR Funds 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.

Oil and Natural Gas Exploration and Development Risks. The ERR Funds may invest in businesses that engage in oil and natural gas exploration and development, a speculative business involving a high degree of risk. Oil and natural gas drilling may involve unprofitable efforts, not only from dry holes, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Acquiring, developing and exploring for oil and natural gas involves many risks. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks.

Regulation of the Energy Industry. The energy industry is affected from time to time in varying degrees by political developments and a wide range of statutes, rules, orders and regulations. For example, energy production, operations and economics are or have been affected by price controls,

taxes and other laws relating to the energy industry, by changes in such laws and by changes in administrative regulations. In addition, various laws and regulations relating to the protection of the environment may affect the operations and costs of the companies engaged in the energy industry. These laws and regulations may (i) restrict the types, quantities and concentration of various substances that can be released into the environment; (ii) require reporting of or precautions relating to the storage, use or release of certain chemicals and hazardous substances; (iii) require removal or cleanup of contamination under certain circumstances, which may require the expenditure of material amounts over a significant period of time; and (iv) impose substantial civil liabilities or criminal penalties for failures to comply with such laws and regulations. Moreover, there has been a trend in recent years toward stricter standards in environmental, health and safety legislation and regulation, which could affect the success of companies in which the ERR Funds invest.

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 the ERR Funds invest 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 the ERR Funds invest 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 Federal Energy Regulatory Commission (“FERC”) may regulate tariff rates for interstate movements of oil and gas on the pipeline systems held by portfolio companies in which the ERR Funds invest in a manner that adversely affects the profitability of the ERR Funds’ 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 the ERR Funds invest, 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 the ERR Funds invest, thereby potentially adversely affecting the profitability of the ERR Funds’ 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 the ERR Funds invest 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; and (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 the ERR Funds invest may be subject to unfavorable rulings imposed by regulatory authorities.

Regulatory Approvals. The ERR Funds expect to invest in portfolio companies that require

federal, state, local or non-U.S. approvals to acquire and operate their facilities. In addition, the ERR Funds may require the consent or approval of applicable regulatory authorities in order to acquire or hold particular portfolio companies. A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on that company. 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 and regulations, a change in the companies' customers or for other reasons. A portfolio company may not be able (i) to obtain all required regulatory approvals that it does not yet have or that it may require in the future; (ii) to obtain any necessary modifications to existing regulatory approvals; or (iii) to maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could prevent operation of the facility or sales to third parties or could result in additional costs to a portfolio company.

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.

Risks Related to Commodity Prices and Derivatives. The ERR Funds and/or the portfolio companies in which the ERR Funds invest may use derivatives, including the purchase and sale of forward contracts, currency options, futures or interest rate swaps, intended to protect the ERR Funds against adverse movements in commodity prices, currency exchange rates and/or interest rates, securities prices and other risks, or to enhance returns. The prices of commodities and related derivative instruments may be subject to periods of extreme volatility. Price movements in commodities and derivatives are influenced by many factors, including supply and demand relationships, fiscal, monetary and trade policies and political events. As a result, the ERR Funds' or a portfolio company's use of derivative transactions may be affected by such volatility as well as by any market disruption and unanticipated changes in interest rates, securities prices or currency exchange rates, all of which may expose the portfolio company to the risk of material financial loss. In addition, the ERR Funds or the portfolio company will be at risk for the performance of the counterparty on the derivative transaction. In the event that the counterparty defaults, the cost of replacing the transaction or the counterparty could be significant. Derivative instruments may trade principally on markets organized outside the U.S. Markets for such instruments may be illiquid, highly volatile and subject to interruption. Suitable hedging instruments may not continue to be available at reasonable cost. For all these reasons, the use of derivatives and related techniques can expose the ERR Funds to significant risk of loss.

Derivatives Legislation. The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), enacted in July 2010, established federal oversight and regulation of the over-the-counter derivatives market and entities that participate in that market. Dodd-Frank mandates that many derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. These derivatives will also be subject to minimum daily margin requirements set by the relevant clearinghouse and, potentially, by the SEC or the Commodities Futures Trading Commission (the “CFTC”). Moreover, the ERR Funds’ or their portfolio companies’ derivatives dealers may demand the unilateral ability to increase the ERR Funds’ margin requirements beyond any regulatory or clearinghouse minimums. These requirements of Dodd-Frank may make it more costly for the ERR Funds or their portfolio companies to trade derivatives. They may also cause certain strategies in which the ERR Funds might have otherwise engaged to become prohibitively expensive.

As required by Dodd-Frank, the CFTC has issued limits, referred to as “speculative position limits,” on the maximum net long or net short speculative positions that any person may hold or control in any particular physical commodity futures and economically equivalent swaps and options traded on United States commodities exchanges. This position limits rule, however, was vacated by the U.S. District Court for the District of Columbia on September 28, 2012. The CFTC has proposed a revised position limits rule that, with respect to some key provisions, may impose stricter requirements than the original position limits rule. If the proposed rule is ultimately adopted in its revised form, accounts owned or managed by Parallel and/or the ERR Funds and their portfolio companies may be combined for purposes of these speculative position limits. There is an exception from such limits for futures or futures equivalent contracts that satisfy the ‘bona fide’ hedge criteria under the Commodity Exchange Act and rules thereunder. However, if the ERR Funds’ hedging activities do not meet this exception, then, assuming the proposed rule is ultimately adopted in its revised form, they could be required to liquidate positions they hold to comply with such limits.

Because of these rules, Dodd-Frank could significantly increase the cost of derivatives transactions, materially alter the terms of derivatives transactions, and reduce the ability of the ERR Funds or their portfolio companies to protect against price volatility and other risks. If the ERR Funds or their portfolio companies alter their hedging program as a result of the legislation and regulations, the ERR Funds’ or their portfolio companies’ operations may become more volatile and their cash flows may be less predictable, which could adversely affect the ERR Funds’ performance.

Finally, Dodd-Frank was intended, in part, to reduce the volatility of oil and natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. The ERR Funds’ performance could be adversely affected if commodity prices fall as a consequence of Dodd-Frank and related legislation and regulations.

General Environmental Matters. Environmental laws, regulations and regulatory initiatives play a significant role in the energy industry and can have a substantial effect on investments in the

industry. Required expenditures for environmental compliance, including remediation of contamination and restoration of affected areas, have adversely affected investment returns in many segments of the energy industry. Compliance with 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 under all circumstances or that the portfolio companies will not be required to incur additional, unforeseen environmental expenditures. Moreover, failure to comply with environmental requirements could have a material adverse effect on a portfolio company, and there can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, regulations and permit requirements. Past practices or future operations of portfolio companies could also result in material personal injury or property damage claims. In addition, owners of contaminated properties may be required to expend substantial sums to clean up contaminations that may have been caused by previous owners or operations. Under certain circumstances, environmental authorities and other parties may seek to impose personal liability on the limited partners of a partnership, such as the ERR Funds, for environmental liabilities that cannot be resolved by the partnership. Nevertheless, an investor in the ERR Funds may reduce their risk of personal liability by avoiding managerial or operational activities with respect to the ERR Funds' investments other than as specifically contemplated by the organizational documents of the ERR Funds.

Climate Change Regulation.

Based on findings made in December 2009 that emissions of carbon dioxide, methane and other greenhouse gases ("GHGs") present a danger to public health and the environment, the EPA adopted rules restricting emissions of GHGs under existing provisions of the federal Clean Air Act that establish Potential for Significant Deterioration ("PSD") construction and Title V operating permit reviews for GHG emissions from certain large stationary sources with the potential to emit GHGs exceeding regulatory thresholds. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet "best available control technology" standards that will be established by the states or, in some cases, by the EPA on a case-by-case basis. In addition, the EPA adopted rules requiring the monitoring and reporting of GHGs from certain sources in the United States, including, among others, onshore and offshore oil and gas production facilities on an annual basis, which may include the operations of the companies in which the ERR Funds invest. While Congress has from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level in recent years. In the absence of such federal climate legislation, a number of state and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions by means of cap and trade programs that typically require major sources of GHG emissions, such as electric power plants, to acquire and surrender emission allowances in return for emitting those GHGs. If Congress undertakes comprehensive tax reform in the coming year, it is possible that such reform may include a carbon tax, which could impose additional direct costs on operations and reduce demand for refined products. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact the companies in which the ERR Funds invest, any such future laws and regulations that require reporting of GHGs

or otherwise limit emissions of GHGs from drilling equipment and operations could require the companies in which the ERR Funds invest to incur significant added costs to reduce emissions of GHGs or could adversely affect demand for oil and gas. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects were to occur, they could have an adverse effect on the financial condition and results of operations of the companies in which the ERR Funds invest.

Federal and State Legislation and Regulatory Initiatives Relating to Hydraulic Fracturing

Hydraulic fracturing is an important and common practice that is used to stimulate production of gas and/or oil from dense subsurface rock formations. The hydraulic fracturing process involves the injection of water, sand and chemicals under pressure into targeted subsurface formations to fracture the surrounding rock and stimulate production. Hydraulic fracturing typically is regulated by state oil and gas commissions, but the EPA has asserted federal regulatory authority pursuant to the federal Safe Drinking Water Act ("SDWA") over certain hydraulic fracturing activities involving the use of diesel fuels and issued revised final permitting guidance in February 2014 addressing the performance of such activities using such diesel fuels. In November 2011, the EPA announced its intent to develop and issue regulations under the Toxic Substances Control Act to require companies to disclose information regarding the chemicals used in hydraulic fracturing, and the agency continues to project issuance of a Notice of Proposed Rulemaking that would seek public input on the design and scope of such disclosure regulations. In addition, the U.S. Congress ("Congress") has from time to time considered legislation to provide for federal regulations of hydraulic fracturing under the SDWA and to require disclosure of the chemicals used in the hydraulic fracturing process. At the state level, some states have adopted, and other states are considering adopting, legal requirements that could impose more stringent permitting, public disclosure or well construction requirements on hydraulic fracturing activities. Local governments also may seek to adopt ordinances within their jurisdictions regulating the time, place and manner of drilling activities in general or hydraulic fracturing activities in particular. If new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted, companies in which the ERR Funds invest could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development or production activities, and perhaps even be precluded from drilling wells.

In addition, certain governmental reviews are either underway or being proposed that focus on environmental aspects of hydraulic fracturing practices. The White House Council on Environmental Quality is coordinating an administration-wide review of hydraulic fracturing practices. The EPA has commenced a study of the potential environmental effects of hydraulic fracturing on drinking water and groundwater, with a draft report drawing conclusions about the potential effects of hydraulic fracturing on drinking water resources expected to be available for public comment and peer review in 2015. Moreover, the EPA released an interpretive memorandum and technical recommendations for the treatment and discharge of wastewater

resulting from hydraulic fracturing activities in 2014. Other governmental agencies, including the U.S. Department of Energy and the U.S. Department of the Interior, are evaluating rulemaking related to various other aspects of hydraulic fracturing. For example, in March 2015, the federal Bureau of Land Management updated the regulations governing hydraulic fracturing on federal and Indian lands, requiring that operators submit a master hydraulic fracturing plan for a group of wells, design and implement a casing and cementing program and monitor cementing operations, perform a successful mechanical integrity test prior to the hydraulic fracturing operation, monitor annulus pressure during the hydraulic fracturing operation, manage recovered fluids, and publicly disclose chemicals used in the hydraulic fracturing process. This rule and the ongoing and proposed studies discussed above, depending on their degree of pursuit and any meaningful results obtained, could spur initiatives to further regulate hydraulic fracturing under the federal SDWA or other regulatory mechanisms.

Weather and Climate Risks. Certain energy assets or portfolio companies owning or dependent upon the availability of such assets may be particularly sensitive to weather and climate conditions. There can be no assurance that weather and climate patterns will remain consistent or be predictable throughout the life of the ERR Funds. Accordingly, the profitability of certain of the ERR Funds' portfolio companies may be adversely affected by weather and climate changes, thereby potentially decreasing aggregate returns to investors in the ERR Funds.

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.

Terrorism Risks. Future terrorist attacks or regional hostilities may have adverse effects on the energy industry in general and on the ERR Funds and their portfolio companies in particular. Uncertainty surrounding such attacks or a sustained military campaign may affect the operations of portfolio companies in unpredictable ways, including disruptions of fuel supplies and markets and the possibility that infrastructure facilities, including pipelines, production facilities, processing plants and refineries, could be direct targets of, or indirect casualties of, an act of terror or war. Moreover, portfolio companies may be required to incur significant costs in the future to safeguard certain of their assets against such attacks.

GENERAL RISKS

General Economic and Financial Conditions. General economic and financial conditions may affect the ERR Funds' activities and performance. Interest rates, general levels of economic activity, the price of securities, and participation by other investors and lenders in the financial markets may affect the value and number of investments available to or made by the ERR Funds.

For example, the recent global economic downturn, as well as general domestic and international macroeconomic uncertainty and volatility, may adversely affect, among other things, the ERR Funds' ability to source and finance their investments with additional equity or debt.

Business Risks. The ERR Funds' investment portfolios will consist primarily of securities issued by privately held companies, and operating results in 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 the ERR Funds will achieve their investment objective. An investment in the ERR Funds 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 of the ERR Funds. 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 the ERR Funds will be able to locate, consummate and exit investments that satisfy the ERR Funds' rate-of- return objectives or realize upon such investments' values, or that the ERR Funds will be able to invest fully their committed capital. Many, if not all, of the ERR Funds' investments will be highly illiquid, and there can be no assurance that the ERR Funds will be able to realize such investments in a timely manner. The ERR Funds' contemplated exit strategies for their 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 the ERR Funds' investments may require a lengthy time period or may result in distributions in kind or losses to the limited partners of the ERR Funds. Additionally, the ERR Funds 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 the ERR Funds' 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.

Competitive Nature of the ERR Funds' Business. The private equity industry and the ERR Funds' businesses are highly competitive. Parallel, on behalf of the ERR Funds, will be competing for investments against other groups, including other private equity investment and hedge funds, large and well-capitalized industrial groups, project developers and operators, strategic investors and commercial, investment and merchant banks. Some of these competitors may have financial and strategic resources significantly in excess of those of the ERR Funds, may be willing to provide financing and other operational assistance to companies in the energy industry on more favorable terms than the ERR Funds, and may make competing offers for investment opportunities that are identified by the ERR Funds. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to the ERR Funds and adversely affecting the terms upon which investments can be made.

Broad Investment Guidelines. Although the ERR Funds' objective are primarily to make control

investments (equity or debt) in distress driven opportunities in the North American upstream oil and gas sector, the organizational documents of the ERR Funds do not restrict the ERR Funds from making investments outside of this objective. The organizational documents of the ERR Funds permit the ERR Funds to make unlimited investments in “Target Energy Assets,” which is broadly defined to include any upstream and midstream investments in the oil and gas sector in the U.S. and Canada, and to invest up to 20% of the ERR Funds’ commitments in portfolio companies that own and hold, or propose to own and hold, more than 20% of their respective Target Energy Assets in areas situated outside of the U.S. and Canada. Parallel may make investments on behalf of the ERR Funds outside of these parameters upon the approval of the Limited Partner Advisory Committee of the ERR Funds. As a result, all or a significant portion of the ERR Funds’ capital may be invested outside the ERR Funds’ primary investment objectives.

Importance of Certain Personnel. The success of the ERR Funds depends in substantial part on the skill and expertise of the investment professionals and other employees of Bluescape Resources, Carlson Capital, Parallel or its service providers in making and disposing of investments and otherwise managing the affairs of the ERR Funds. There can be no assurance that the investment professionals or other employees of Bluescape Resources, Carlson Capital, Parallel or its service providers will continue to be employed by or available to, as applicable, Parallel throughout the life of the ERR Funds. The loss of key personnel, including due to voluntary or involuntary termination, death, disability or retirement, could have a material adverse effect on the ERR Funds.

Relevance of Prior Performance. The performance of other investments made by Bluescape Resources or Carlson Capital or led by key investment professionals and other key personnel of Parallel is not indicative of the opportunities available to the ERR Funds or the results that will be achieved by the ERR Funds. Further, in considering historical returns, potential investors should take into account the fact that the investment strategy and investment environment in which the ERR Funds operate is different from that in which the results of other investments made by Bluescape Resources or Carlson Capital or led by such key investment professionals and key personnel of Parallel were generated. In addition, certain investment professionals were part of the team overseen by Ron Hulme at Carlson Capital are not, and will not be, actively involved in the ERR Funds. Finally, the experience of the Investment Team may not be applicable to other geographic areas or other types of investments in the energy sector.

Risk of Limited Number of Investments. The ERR Funds may only make a limited number of investments, and, without the approval of the Limited Partner Advisory Committee to the ERR Funds, they may invest only up to 20% of the aggregate commitments to the ERR Funds in any one investment. As a consequence, the aggregate return of the ERR Funds may be substantially adversely affected by the unfavorable performance of any single investment.

Lack of Sufficient Investment Opportunities. Parallel may be unable to identify a sufficient number of investment opportunities for the ERR Funds or to acquire them on attractive terms. Although Parallel believes that significant opportunities currently exist, there can be no assurance

that Parallel will be able to identify and consummate a sufficient number of opportunities to permit the ERR Funds to invest all of their committed capital or to diversify their investments to the extent described herein. In addition, any investments of the ERR Funds requires the unanimous consent of the Investment Committee and any member of the Investment Committee may veto an investment opportunity, which may prohibit the ERR Funds from making certain investments that would otherwise have been profitable.

Restricted Nature of Investment Positions. The ERR Funds' investment portfolios will consist primarily of illiquid investments that are difficult to value. In some circumstances, there may be no readily available market for certain of the ERR Funds' investments. In addition, the optimal exit strategy for certain of the ERR Funds' investments may require a distribution in kind of such investments to the partners of the ERR Funds. Losses on unsuccessful investments may be realized before gains on successful investments are realized.

Investments Longer than Term. The ERR Funds may make investments that may not be profitably disposed of before the date of ERR Funds' dissolution, either by expiration of the ERR Funds' term or otherwise. Although Parallel expects that the ERR Funds' investments will be disposed of before such dissolution or be suitable for in kind distribution at dissolution, Parallel has a limited ability to extend the term of the ERR Funds, and the ERR Funds may be required to sell, distribute or otherwise dispose of their investments at a disadvantageous time as a result of such dissolution.

Distressed Securities. The ERR Funds intend to invest in securities, loans, private claims and other obligations of bankrupt entities or entities experiencing financial difficulties that involve a substantial degree of risk. The ERR Funds may lose a substantial portion or all of their investment in such an entity or may be required to accept cash or securities upon disposition with a value less than the ERR Funds' investment. It may be difficult to obtain any information regarding the financial condition of entities experiencing significant financial or business difficulties. Investments in distressed companies also may be adversely affected by state and federal laws relating to fraudulent conveyances, voidable preferences, lender liability and the bankruptcy courts' discretionary power to disallow, subordinate or disenfranchise particular claims. 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 the ERR Funds' portfolios may not be publicly traded, and, to the extent such instruments are publicly traded, the ERR Funds' 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.

Debt Financing Risks. The ERR Funds are permitted to make debt investments in their portfolio companies. If the ERR Funds make an equity and debt investment in a single transaction with the intent of refinancing the portion of that investment consisting of the debt investment, there is a risk that the ERR Funds will be unable to successfully complete such a refinancing. This could lead to the ERR Funds having a long term investment in a debt security.

Junior Securities. The ERR Funds' investments in a portfolio company will generally be in equity securities or debt securities that are subordinated in right of payment to senior creditors, and therefore the ERR Funds' positions with respect to such creditors, as well as with respect to other debt and equity investors, may be among the most junior in a portfolio company's capital structure. As a result of the foregoing, the ERR Funds' investments may be subject to the greatest risk of loss of all of such portfolio company interests. Generally, there will be no collateral to protect the ERR Funds' investments in a portfolio company once made.

Small-and-Mid-Cap Company Investments. The ERR Funds 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 the ERR Funds to react quickly to negative market developments.

Convertible or Other Debt Investments. The ERR Funds 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, the ERR Funds may suffer a partial or total loss of their investment. The ERR Funds' 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 the ERR Funds earlier than expected. Early repayments of the ERR Funds' investments may have a material adverse effect on the ERR Funds' investment objectives and the rate of return on invested capital.

Expedited Transactions. Investment analyses and decisions by Parallel may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to Parallel at the time of an investment decision may be limited. Therefore, no assurance can be given that Parallel will have knowledge of all relevant circumstances that may adversely affect an investment of the ERR Funds.

Public Company Holdings. The ERR Funds' investment portfolios may contain securities issued by publicly held companies or their affiliates. Such investments may subject the ERR Funds to risks that differ in type and degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, loss of control over such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the ERR Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members or significant shareholders and increased costs associated with each of the foregoing.

Risks Related to Joint Ventures and Partnerships. Some of the ERR Funds' investments may be made through joint ventures or partnerships between the ERR Funds or a subsidiary or affiliate of the ERR Funds and other third parties. The investment by the ERR Funds in a joint venture or partnership may, under certain circumstances, involve risks not otherwise present. For example, there is a possibility that the ERR Funds' co-venturer or partner in an investment could become bankrupt or insolvent, have economic or business interests or goals that are inconsistent with the business interests of the ERR Funds, or take actions contrary to the instructions or requests of the ERR Funds or contrary to their policies or objectives. In addition, the ERR Funds may be liable for actions of their joint venture partners. While Parallel will review the qualifications and previous experience of joint venture partners, it does not expect to obtain financial information from, or to undertake private investigations with respect to, prospective joint venture partners. In addition, the ERR Funds' ability to successfully enhance an investment, whether through operational improvements, the application of derivative investments or otherwise, could be limited with respect to projects not controlled by the ERR Funds.

Risks Associated with Non-U.S. Investments. The ERR Funds 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 the ERR Funds 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 the ERR Funds 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 the ERR Funds' investments in non-U.S. portfolio companies.

FATCA. Sections 1471 through 1474 of the Internal Revenue Code, as amended (referred to as "FATCA") generally will impose a withholding tax of 30% on certain gross amounts not effectively connected with a U.S. trade or business paid to certain non-U.S. entities such as ERR FI and ERR FI II, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules generally include U.S.-source dividend and interest income paid on or after July 1, 2014, gross proceeds from the sale of property that produces U.S.- source dividend or interest income paid on or after January 1, 2017 and certain other payments made by "participating foreign financial institutions" to "recalcitrant account holders" or "nonparticipating foreign financial institutions" (so called "foreign pass thru payments") on or after the later of January 1, 2017 or the date of publication of the Treasury Regulations defining the term foreign pass thru payment. To prevent ERR FI and ERR FI II from being subject to withholding under FATCA, these entities will be required to comply with certain information reporting and disclosure requirements, which will include, among other things, complying with the registration and reporting requirements of the intergovernmental agreement between the Cayman Islands and the United States and disclosing certain information about investors to the Cayman Islands (which in turn will be disclosed to the Internal Revenue Service). Parallel cannot guarantee that ERR FI, ERR FI II or other related non-U.S. entities will be able to satisfy such requirements.

Leverage Risks. Certain of the ERR Funds' investments may be in businesses with high levels of debt or may be investments in leveraged buyouts. Leveraged buyouts by their nature require companies to undertake a high ratio of fixed charges to available income. The ERR Funds may also employ leverage through derivative transactions or other types of borrowings. Leveraged investments are inherently more sensitive to declines in revenues and to increases in expenses. Such investments involve a particularly high degree of risk because adverse business developments, fluctuations in cash flow, changes in industry or general economic conditions or other factors could impair the ability of the portfolio company to meet its debt obligations.

Follow-On Investments. The ERR Funds may be called upon to provide follow-on funding for their portfolio companies or may otherwise have the opportunity to increase their investment in portfolio companies. There can be no assurance that the ERR Funds will wish to make follow on investments or that they will have sufficient funds to do so. Any decision by the ERR Funds not to make follow-on investments or their inability to make them may have a substantial negative effect on a portfolio company in need of such an investment or may diminish the ERR Funds' ability to influence the portfolio company's future development.

Financing Risks. Investments may require large and various forms of financing. In some cases, the ERR Funds will be able to make investments only to the extent that financial market conditions and other factors are such that banks and other lenders and investors, particularly those providing

senior debt, are willing to enter into limited recourse debt financing undertakings on terms and conditions that do not adversely affect a portfolio company of the ERR Funds. Given the relatively high levels of debt that may be undertaken by portfolio companies, any material increase in interest rates or risk margins could have a detrimental effect on investment returns. Further, a material increase in interest rates or risk margins during the term of the ERR Funds could materially and adversely affect their ability to exit their investments.

Refinancing Risks. The ERR Funds may seek or be required to refinance certain of their investments. Due to changing market conditions, there exists a risk that lenders may decline the opportunity to refinance such investments or that the interest rate under any such refinanced loans may exceed the rate initially used to calculate the ERR Funds' targeted returns. In the event of such unfavorable refinancing, the overall return on the ERR Funds' investments may be lower than the currently targeted return. The ERR Funds' risk profile, when compared against their likely post-refinancing return, may also increase as a result of an unfavorable refinancing.

Credit Support. The ERR Funds may make contingent funding commitments to their portfolio companies and provide credit support for such obligations. Such credit support may take the form of a guarantee, a letter of credit or a pledge of a portion of the ERR Funds' commitments. Such funding commitments may be secured by an assignment of Parallel's rights to draw down capital from the investors in the ERR Funds, in which case investors may be required to make certain representations, acknowledgements and/or certifications in connection with the assignment. Use of the credit support will result in fees, expenses and interest costs to the ERR Funds. If one or more investors in the ERR Funds fail to satisfy a drawdown or otherwise default on their contribution obligations pursuant to the credit support, such amount could be drawn from non-defaulting investors pro rata up to the remaining amount of their respective unfunded commitments. In addition, such credit support may limit the investors' ability to use their interests as collateral for other indebtedness, to the extent the pledge of any interest is permitted pursuant to the organizational documents of the ERR Funds.

Certain Effects of Default and Bankruptcy. Each of the ERR Funds' portfolio companies or their assets may be pledged to third parties, including senior lenders, and could be foreclosed upon or otherwise acquired by such parties under certain circumstances, including an incipient or unremedied default. The ERR Funds may make investments in portfolio companies that experience financial difficulties and become insolvent or file for bankruptcy protection. In the event of the bankruptcy of a portfolio company, various U.S. and non-U.S. laws in connection with the bankruptcy proceedings could operate to the detriment of the ERR Funds. For example, a court may subordinate the ERR Funds' investments to other creditors or require the ERR Funds to return amounts previously paid to them by a portfolio company that became insolvent or files for bankruptcy, a risk that could increase if the ERR Funds have management rights in the portfolio company.

Adequacy and Availability of Insurance. While the ERR Funds will seek to make investments

where insurance and other risk management products (to the extent available on commercially reasonable terms) are used to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practicable or feasible. Moreover, it will not be possible to insure against all such risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to cover completely or even partially a loss of revenues, an increase in operating and maintenance expenses, or a replacement or rehabilitation. In addition, certain losses of a catastrophic nature, such as those caused by wars, terrorist attacks, earthquakes, weather or other similar events, may be either uninsurable or insurable at such high rates as to adversely affect the ERR Funds' profitability. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance. As a result, it is unlikely that any of the ERR Funds' investments will be insured against damages attributable to acts of terrorism. If a major uninsured loss were to occur with respect to an investment, the ERR Funds could lose both their capital invested in and anticipated profits related to such investment.

Litigation Risks. The ERR Funds will be subject to a variety of litigation risks if one of the Funds' portfolio companies were to suffer financial difficulties. For example, it is anticipated that the investment professionals and other employees of Bluescape Resources, CEP I, Parallel and their affiliates or service providers will actively assist portfolio companies in a variety of capacities (including their serving as directors of portfolio companies). In the event of a dispute arising as a result of these activities, it is possible that Bluescape Resources, CEP I, Parallel or the ERR Funds may be named as defendants. As described below, in most cases the ERR Funds will indemnify Parallel and its affiliates for any costs that they may incur as a result of such disputes.

Reliance on Management of Portfolio Companies. While it is the intent of Parallel for the ERR Funds to invest in portfolio companies with proven management teams in place and where Parallel will monitor the performance of each such management team after an investment is made by the ERR Funds, there can be no assurance that such management teams will continue to successfully operate such portfolio companies.

No Right to Control Portfolio Companies. Some of the ERR Funds' investments may be minority investments. Certain of the investments may be made through co-investment opportunities alongside funds sponsored by other private equity firms. There can be no assurance that the ERR Funds will be able to negotiate control provisions or otherwise exercise control in such situations. Disagreements with management or other holders of interests in such investments (including other private equity firms) may limit the ERR Funds' ability to bring about operating, strategic or other changes with respect to such investments and may limit exit opportunities.

Provision of Managerial Assistance. The ERR Funds typically will designate directors to serve on the boards of directors of the portfolio companies in which it invests. The designation of board

members and other representatives and the exercise of other management rights could expose the assets of the ERR Funds to claims by a portfolio company, its security holders or its creditors, including claims that the ERR Funds are a “controlling person” and thus are liable for securities laws violations by a portfolio company. These measures also could (i) result in claims against, or liabilities to, the ERR Funds in the event of the bankruptcy or reorganization of a portfolio company; (ii) result in claims against the ERR Funds if the designated directors violate their fiduciary or other duties to a portfolio company, if any, or, to the extent not otherwise disclaimed, fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles; or (iii) expose the ERR Funds to claims that they have interfered in management to the detriment of a portfolio company. While Parallel intends to manage the ERR Funds in a way that will minimize the ERR Funds’ exposure to these risks, the possibility of successful claims cannot be precluded.

Legal, Tax, and Regulatory Risks. Legal, tax, and regulatory changes could occur during the terms of the ERR Funds that may adversely affect the ERR Funds, their portfolio companies, or the investors in the ERR Funds. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. In addition, recently there has been pressure for greater governmental scrutiny, regulation and taxation of the private equity and hedge fund industries. Because it is uncertain as to what form and in what jurisdictions such enhanced scrutiny, regulation or taxation may ultimately take, if any, there can be no assurance as to whether any such initiatives will have an adverse effect on the private equity industry generally, including the ability of the ERR Funds to take the measures necessary to effect operating improvements or restructurings of portfolio companies or otherwise achieve their objectives.

Certain U.S. Federal Income Tax Deductions Currently Available with Respect to Oil and Gas Exploration and Development may be Eliminated as a Result of Legislation.

In recent years, legislation has been proposed that would, if enacted into law, make significant changes to U.S. tax laws, including the elimination of certain key U.S. federal income tax incentives currently available to oil and gas companies. Such tax legislation changes include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the deduction for certain domestic production activities, and (iv) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear whether any of these or similar changes will be proposed in the future and, if enacted, how soon any such changes could become effective. The passage of any future legislation as a result of these proposals or any other similar changes in U.S. federal income tax laws could eliminate or postpone certain tax deductions that are currently available with respect to oil and gas exploration and development, and any such change could increase the taxable income allocable to investors in the ERR Funds and negatively impact the value of an investment in the ERR Funds.

POTENTIAL CONFLICTS OF INTEREST

There are numerous perceived and actual conflicts of interest that may arise between the ERR Funds and their affiliated or associated persons. In particular, Parallel and its affiliates, including the Investment Team members, are engaged and, in the future may engage, in activities involving the energy industry that are independent from, and may from time to time conflict with, that of the ERR Funds. Dealing with conflicts of interest is complex, and there can be no assurance that the ERR Funds will be able to resolve all conflicts in a manner that is favorable to the ERR Funds and the investors in the ERR Funds.

General Potential Conflicts of Interest. There may be occasions when Parallel and its affiliates, including the Investment Team, may encounter potential conflicts of interest in connection with the ERR Funds and may engage in activities involving the energy industry that are independent from, and may from time to time conflict with, those of the ERR Funds. Each member of the Investment Committee shall devote that portion of his respective business time as is reasonably necessary and appropriate in order for Parallel to reasonably fulfill its duties and obligations under the organizational documents of the ERR Funds.

Exclusivity. Certain members of the Investment Team will continue to manage the oil and gas investments of Bluescape Resources, and Clint Carlson will continue to manage the oil and gas investments of Carlson Capital. As a result, certain actions by Bluescape Resources, CEP I, the Investment Team or their respective affiliates may compete with or give rise to conflicts of interest with the activities or investments of the ERR Funds.

Other Activities. Certain members of the Investment Team may spend a portion of their business time on activities other than the ERR Funds and their portfolio companies and may spend a significant portion of their time on matters other than or only tangentially related to the ERR Funds. In particular, certain members of the Investment Team will continue to manage the oil and gas investments of Bluescape Resources, and Clint D. Carlson will continue to spend most of his time managing investments for Carlson Capital. As a result, the other obligations of these individuals could conflict with their responsibilities to the ERR Funds. In addition, the responsibilities of these individuals for Bluescape Resources or Carlson Capital may put them in a conflict or potential conflict situation. As a result, these individuals may become restricted in a temporary or more permanent basis from acting on behalf of the ERR Funds.

Co-Investment Risks. The ERR Funds may make investments alongside the Eligible Co-Investors. Investments alongside co-investors involve additional risks that may not exist in the absence of such co-investors, including the potential that a co-investor may have interests or objectives contrary to those of the ERR Funds or may be in a position to take actions inconsistent with the ERR Funds' investment objectives. In connection with providing certain parties such co-investment opportunities, Parallel or its affiliates may form one or more limited partnerships (such as the Co-Investment Entities) or other entities that will invest alongside the ERR Funds in the

applicable investments and pay a reduced (or no) carried interest or management fee. This may create incentives for Parallel to make investments that are more speculative than would be the case in the absence of such co-investment arrangements. Such co-investment vehicles may also have more favorable economic terms to Parallel or its affiliates than the ERR Funds, which may create the incentive for Parallel to allocate a higher portion of profitable investment opportunities to such co-investment vehicles and could have a material adverse effect on the results of the ERR Funds.

Carried Interest to Parallel. The fact that Parallel's compensation is based on the performance of the ERR Funds may create an incentive for Parallel to cause the ERR Funds to make investments that are more speculative than would be the case in the absence of performance based compensation.

Side Letters. Parallel, in its sole discretion, may negotiate and enter into agreements ("Side Letters") with certain investors in the ERR Funds that will result in different terms of an investment in the ERR Funds than the terms applicable to other investors. As a result of such agreements, certain investors in the ERR Funds may receive additional benefits that other investors will not receive.

Gifts and Entertainment. Parallel's members, employees and Investment Team may be given gifts and provided entertainment by brokers, counterparties, various service providers and other third parties. Parallel may enter into business transactions and relationships on behalf of the ERR Funds with the donors of such gifts and entertainment. Such gifts and entertainment create a conflict of interest. Although Parallel has adopted policies and procedures to address the issues associated with gifts and entertainment received by the Investment Team members, these policies and procedures may not completely protect the ERR Funds from the effects of all conflicts of interest that may arise.

Material Non-Public Information. As part of their activities outside of the ERR Funds, Bluescape Resources, CEP I and their respective affiliates may come into possession of material non-public information that they will be prohibited from using for the benefit of certain persons, including the ERR Funds. This may occur, for example, if any one of Bluescape Resources, CEP I or their respective affiliates is contemplating a transaction and, as part of that process, is required to sign a non-disclosure agreement. If the ERR Funds have an existing holding that is affected by the non-disclosure agreement, Parallel will not be able to sell that position during the effectiveness of the agreement and the ERR Funds 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 Resources, CEP I or their respective affiliates, but results in the restriction of trading in the ERR Funds.

Certain Service Providers; Expenses. The ERR Funds will pay (or reimburse Parallel for) their

expenses incurred following the initial closing of the ERR Funds in connection with the organization of the ERR Funds, up to an amount not to exceed \$1 million. Organizational expenses in excess of this amount will be paid by the ERR Funds, but will be borne by Parallel through a 100% offset against the management fee otherwise payable to Parallel. In addition, the ERR Funds will bear the ongoing expenses of the ERR Funds. The ERR Funds will seek to be reimbursed by third parties for their expenses when possible.

Item 9: Disciplinary Information

In September 2010, Carlson Capital Holdings, L.P. (an affiliate of Carlson Capital that was previously known as Carlson Capital, L.P.) voluntarily agreed to settle an SEC inquiry relating to Rule 105 of Regulation M under the Securities Exchange Act of 1934 without admitting or denying the SEC's allegations. Rule 105 generally prohibits purchasing an equity security in a registered secondary offering if the purchaser sold short the same security during a restricted period (generally defined as five business days before the pricing of the offering). Rule 105's prohibition applies irrespective of any intent to violate the rule. The settlement involved four secondary offerings in which hedge funds and other accounts managed by Carlson Capital Holdings, L.P. participated between May and November 2008.

Item 10: Other Financial Industry Activities and Affiliations

Clint D. Carlson, who is a member of the Board of Managers of Parallel, is the President and founder of Carlson Capital. Carlson Capital and predecessor advisory affiliates have managed funds under the name Carlson Capital, L.P. since 1993, and have been registered with the Securities and Exchange Commission since 2001 and with the Commodity Futures Trading Commission since 1998. Carlson Capital serves as investment adviser to each of the Black Diamond Funds®, which are privately-offered pooled investment funds, to three separately managed accounts and one fund of one. With the exception of the fund of one, the Black Diamond Funds are organized in master-feeder structures in which the master fund of each Black Diamond Funds group is a Cayman Islands exempted company, and the feeder funds include an onshore fund organized as a Delaware limited partnership and an offshore fund organized as a Cayman Islands exempted company. Most of the Black Diamond Fund groups also include an intermediate fund between the offshore feeder fund and the master fund. Carlson Capital GP, L.P. ("CCGP"), an affiliate of Carlson Capital, is the general partner of the onshore Black Diamond Funds. CCGP has delegated to Carlson Capital the investment advisory authority it has as general partner of the onshore Black Diamond Funds. Carlson Capital is registered as a commodity pool operator and commodity trading advisor and CCGP is registered as a commodity pool operator with the Commodity Futures Trading Commission. Both Carlson Capital and CCGP are members of the National Futures Association, but have claimed certain exemptions with respect to activities on behalf of certain of the Black Diamond Funds. Clint D. Carlson is registered as an associated person of Carlson Capital and CCGP.

Two of the Black Diamond Funds managed by Carlson Capital are investors in the ERR Funds in a non-fee paying class of limited partner interests. In addition to being investors in the ERR Funds, Parallel has offered such Black Diamond Funds the opportunity to make a co-investment alongside the ERR Funds in two of the investments of the ERR Funds in accordance with the organizational documents of the ERR Funds and contractual agreements made among Parallel and investors in the ERR Funds (including Bluescape Resources) with capital commitments of at least \$30 million to the ERR Funds. Parallel may offer additional co-investment opportunities to such Black Diamond Funds in the future. Such co-investment opportunities are on substantially the same terms and conditions as the ERR Funds' investments unless the advisory committee for the ERR Funds consents to different terms.

Clint D. Carlson spends most of his business time managing investments for Carlson Capital. In addition, certain members of the Investment Team who are associated with Bluescape will spend a portion of their business time managing the oil and gas investments of Bluescape Resources. These other obligations of the Investment Team members could conflict with their responsibilities to the ERR Funds. Pursuant to the organizational documents of the ERR Funds, each of the members of Parallel's Board of Managers are required to devote that portion of his business time as is reasonably necessary and appropriate in order for Parallel to reasonably fulfill its duties and obligations under such organizational documents. Furthermore, each of Bluescape Resources, CEP I, Carlson Capital, and their respective affiliates have agreed to invest exclusively through the ERR Funds with respect to private equity investments in or with respect to North American oil and gas assets, subject to specific exceptions enumerated in the organizational documents of the ERR Funds.

Bluescape Energy Partners LLC ("Bluescape") or ("BEP") is a Delaware Limited Liability Company formed in May 2015 and is registered with the SEC as an investment adviser. Bluescape provides investment advisory services to Bluescape Energy Recapitalization and Restructuring Fund III L.P., a Delaware limited partnership ("ERR III"), Bluescape Energy Recapitalization and Restructuring Fund III (TE) L.P., a Delaware limited partnership ("ERR TE III"), Bluescape Energy Recapitalization and Restructuring Fund III (IP) L.P., a Delaware limited partnership ("ERR IP III"), and Bluescape Energy Recapitalization and Restructuring Fund III (ECI) L.P. a Cayman Island exempted limited partnership ("ERR FI III" and together with ERR III, ERR TE III and ERR IP III, the "ERR III Funds" or "Fund"). Bluescape Energy Partners III GP LLC, a Delaware limited liability company (the "General Partner") is the sole general partner of the Fund. The General Partner is controlled by Bluescape Resources GP Holdings LLC, a wholly-owned subsidiary of Bluescape Resources Company LLC. ERR III Funds are a privately-offered private equity funds formed by BEP 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.

Through services agreements, Bluescape Resources provides investor relations services and additional technical support in the areas of geology, geophysics, drilling, engineering, and business

operations to Parallel.

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

Parallel 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 Parallel, 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 Parallel, provided with initial and on-going training (at least quarterly) 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 Parallel is also provided with any updates or amendments to the Code on an on-going basis.

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

The Code of Ethics is available to all current or prospective investors upon request to Parallel at 919 Milam Street, Suite 550, Houston, TX 77002.

In an effort to monitor and alleviate any potential or actual conflicts of interests, the Code requires each person affiliated with Parallel to disclose to the Chief Compliance Officer all outside business activities and to obtain approval from the Chief Compliance Officer to participate in such activities. Each person affiliated with Parallel is also encouraged to disclose to the Chief Compliance Officer any other relationships that may pose potential or actual conflicts of interest.

Parallel and the Investment Team members may recommend or effect transactions on behalf of the ERR Funds in securities that such Investment Team members may buy or sell for their personal investment accounts in limited circumstances. Parallel has implemented both a Personal Trading Policy and a Client Opportunities and Conflicts of Interest Policy, both described below, 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.

Parallel 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 Parallel's fiduciary duty to the ERR 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 Chief Compliance Officer 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.

Parallel and certain members of the Board of Managers and their affiliates constitute Eligible Co-Investors that may invest alongside the ERR Funds in co-investment opportunities of the ERR Funds in accordance with the formation documents of the ERR Funds and the Side Letters. Parallel has adopted policies and procedures in the Code related to implementation of co-investment opportunities to ensure that Parallel and the members of the Board of Managers act in accordance with all applicable legal requirements and meet their respective obligations under the formation documents of the ERR Funds and the Side Letters. In particular, Parallel's Chief Compliance Officer must review and pre-approve any co-investment opportunity to ensure compliance with applicable legal requirements and the provisions of the formation documents of the ERR Funds and the Side Letters, and Parallel's Chief Compliance Officer must also review and pre-approve the allocation of any co-investment opportunity among Eligible Co-Investors.

Under the Code, Investment Team members must also obtain approval from Parallel's Chief Compliance Officer prior to participation in any outside business activities, including serving on boards of companies or creditors' committees.

Item 12: Brokerage Practices

As an investment adviser to private equity funds, Parallel does not ordinarily engage in the trading of publicly-traded securities. Accordingly, the portfolio investments of the ERR Funds are not generally executed through brokerage firms, and Parallel does not ordinarily select or recommend brokers for the ERR Funds. The ERR Funds may, on occasion, receive securities as a result of a distribution in kind from a portfolio company in which the ERR Funds are invested and Parallel may assist the ERR Funds with disposing of such securities.

Parallel does not have any formal soft dollar arrangements or other arrangements that would commit the ERR Funds to any specific or implied level of trading with a broker-dealer or a third party in connection with securities transactions. If Parallel 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 ERR Funds and Parallel. Research and brokerage products or services provided by brokers could be used in servicing either of the ERR Funds, and such research and brokerage products or services would not necessarily be used by Parallel in connection with the particular ERR Fund that paid commissions to the broker providing such products or services. Parallel may not allocate soft dollar benefits to the ERR Funds proportionately to the soft dollar credits that each ERR Fund generates. Parallel 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.

Parallel’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. Parallel strictly prohibits the consideration of factors such as the receipt of gifts and entertainment when selecting brokers and counterparties to execute transactions for the ERR Funds.

Item 13: Review of Accounts

Parallel’s Board of Managers is responsible on an ongoing basis for evaluating investments, reviewing the ERR Funds’ portfolios, and making asset allocation decisions. The investments made by the ERR Funds are generally long-term in nature. Parallel monitors the entities in which the ERR Funds invest and generally maintains an ongoing evaluation of such entities. Parallel expects that, in most cases, members of the Investment Team will serve on the board of directors (or equivalent) of portfolio companies. New pipeline investments are generally reviewed internally on a monthly basis with members of the Investment Team. The Investment Committee, comprised of all members of the Board of Managers, will vote on all major investment decisions, including entering, increasing or exiting investments, as well as taking any material action with respect to the Funds or their portfolio companies. All such investment decisions require the unanimous consent of the Board of Managers.

Parallel provides quarterly reports to investors in the ERR Funds that contain information about the ERR Funds, including 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 ERR Funds’ investments. Investors in the ERR Funds and the Co-Investment Entities receive audited financial statements on an annual basis.

Item 14: Client Referrals and Other Compensation

Parallel concluded fundraising for the ERR Funds on February 13, 2012. Pursuant to the organizational documents of the ERR Funds, Parallel is prohibited from accepting any new investors into the ERR Funds, except for certain permitted transfers of existing limited partnership

interests in accordance with the provisions of the organizational documents of the ERR Funds. Therefore, no one is currently engaged by Parallel with respect to client referrals. Prior to the final closing of the ERR Funds, Parallel had a contractual arrangement with a placement agent that solicited investors for the ERR Funds. In general, the placement agent received fees based upon the capital commitments made by the referred investors to the ERR Funds. Any sales charge associated therewith has ultimately been paid by Parallel through an offset of the management fee otherwise payable by the ERR Funds. The identity of the placement agent was disclosed to investors in the ERR Funds pursuant to the ERR Funds' offering documents.

Item 15: Custody

Parallel conducts all business operations in such a way that the cash and securities of the ERR Funds, the Co-Investment Entities and the Client Co-Investor over which Parallel is deemed to have custody, other than privately offered non-certificated securities held by such entities, are preserved in the safekeeping of independent qualified custodians. On an annual basis, an independent public accountant audits the ERR Funds, the Co-Investment Entities and the co-investment vehicle that the Client Co-Investor invests in, and Parallel distributes the audited financial statements related to such audits within 120 days of the end of the fiscal years for such respective entities.

Item 16: Investment Discretion

Subject to the investment objectives and restrictions of the ERR Funds, the Co-Investment Entities and the Client Co-Investor, Parallel 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 ERR Funds and the co-investment opportunities invested in by the Co-Investment Entities and the Client Co-Investor.

Item 17: Voting Client Securities

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

When exercising its voting authority over securities, Parallel considers all 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. Parallel reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the applicable ERR Fund. As a result, depending on an ERR Fund's particular circumstances, Parallel may vote securities in one ERR Fund differently than it votes those of another ERR Fund, or may vote differently on various proposals, even though the securities or proposals are similar or identical. In some instances, Parallel may determine that it is in the ERR Funds' best interests to "abstain" from voting or not to vote at all.

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

Parallel 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 applicable ERR Fund.

Item 18: Financial Information

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