

## Canaan Natural Gas Management, LLC CRP Management XI, LLC

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Canaan Natural Gas Management, LLC (“CNGM”) and CRP Management XI, LLC (“CRP” and together with CNGM, “Canaan” or “we”). If you have any questions about the contents of this Brochure, please contact us at (405) 604-9300 and/or [scott.rayburn@canaangas.com](mailto:scott.rayburn@canaangas.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Canaan is a registered investment adviser with the SEC. Registration of an investment adviser with the SEC or any state securities authority does not imply any level of skill or training.

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

## Item 2 – Material Changes

The following material changes have occurred since the Brochure was last updated on March 24, 2015:

Christopher P. Gordon has been added as a Managing Partner of CRP.

In the future, this Item will discuss only specific material changes that are made to the Brochure. Each time we will reference the date of our last annual update of the Brochure.

Pursuant to SEC Rules, you will receive a summary of any materials changes to the Brochure, and any subsequent versions of the Brochure within 120 days of the close of our business' fiscal year, which is December 31. We may further provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new version of the Brochure as necessary based on changes or new information, at any time, without charge.

Currently, you may request the Brochure by contacting Scott Rayburn, Chief Compliance Officer, at (405) 919-0944 or [scott.rayburn@canaangas.com](mailto:scott.rayburn@canaangas.com). The Brochure is also available on the Canaan web site, [www.crpok.com](http://www.crpok.com) also free of charge.

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#### Item 4 – Advisory Business

CNGM has engaged in business since 2005. It registered as an investment adviser with the SEC in 2012. CNGM is entirely owned by its employees. Leo E. Woodard and John K. Penton are the principal owners of CNGM. CRP was formed in 2014 by Mr. Penton and Dean S. Sergent and is entirely owned by its employees. Mr. Penton, Dean S. Sergent and Christopher P. Gordon are the principal owners of CRP. CRP is a “relying adviser” of CNGM.

CNGM focuses on generating returns through two affiliated private companies which focus on a strategy of direct investments in oil and gas assets, principally working interests in natural gas, located in the United States. CRP focuses on generating returns through affiliated private companies which focus on a strategy of direct investments in oil and gas assets, principally working interests in natural gas, located in the United States.

#### Privately Offered Pooled Investment Vehicles

Canaan serves as an investment adviser to privately offered pooled investment vehicles formed as limited partnerships (where Canaan or an affiliate is a general partner or manager). Canaan’s pooled investment vehicles are available only to persons who are “accredited investors” under the Securities Act of 1933, as amended (the “1933 Act”), and “qualified clients” under the Investment Advisers Act of 1940, as amended. In most cases, investors must also be “qualified purchasers” under the Investment Company Act of 1940, as amended. These pooled investment vehicles are not made available to the general public and are not registered investment companies. Canaan’s pooled investment vehicles are managed by Canaan (or a controlled subsidiary) in its sole discretion.

Canaan’s pooled investment vehicles consist of oil and gas funds and net profits interest funds (collectively, the “Funds”), where each limited partner makes an up-front commitment to contribute an amount of capital as it is called by Canaan for investment, and generally may not withdraw funds.

Oil and Gas Funds. Canaan’s oil and gas funds are single-strategy funds engaged in making private investments in pre-designated private oil and gas companies which are owned 100% by the oil and gas funds and managed by CNGM or CRP (“O&G Operating Companies”). The Canaan funds may only invest in these O&G Operating Companies and the capital is used to enable the O&G Operating Companies to acquire oil and gas assets as well as provide working capital and thereby try to build value for fund holdings.

At March 30, 2016, our active Funds consist of the following:

- Canaan Natural Gas Fund IX, L.P.
- Canaan Natural Gas Parallel Fund IX, L.P.
- Canaan Natural Gas Parallel B Fund IX, L.P.
- Canaan Natural Gas Fund X, L.P.
- Canaan Natural Gas Parallel Fund X, L.P.
- Canaan Natural Gas Parallel B Fund X, L.P.
- Canaan Resource Partners Drilling Fund, L.P.

Net Profits Interest Funds. Net profits interest funds are single-strategy funds engaged in acquiring net profits interests that entitle the net profits interest funds to receive a share of net profits from identified oil and gas wells that are owned by an affiliate of CRP (the “Working Interest Operating Company” and

together with the O&G Operating Companies, the “Operating Companies”). The net profits interest funds also make loans to the Working Interest Operating Company from time to time on terms negotiated with the investors in the applicable net profits interest fund at the time that they invest in that fund. The share of net profits received by a net profits interest fund, and the manner in which the net profits are calculated and distributed, is set forth in the limited partnership agreement of such net profits interest fund and in a conveyancing agreement entered into in connection with each acquisition of a net profits interest (a “Conveyance Agreement”). At March [30], 2016, Canaan Resource Partners Drilling Fund, L.P. (the “Drilling Fund”) is our only net profits interest fund.

Investment in the oil and gas funds and the net profits interest funds is permitted only at scheduled fund closings. As the proceeds from investments are realized by the Funds, those proceeds (as well as interest and cash dividends received) are generally distributed to limited partners of the Funds after paying expenses and establishing reserves. Limited partners in the Funds generally may not otherwise reduce or withdraw their investments.

As used herein, the term “client” generally refers to each Fund and any other privately offered pooled investment vehicles for which Canaan serves as investment adviser.

#### Assets under Management

As of March 30, 2016, the total discretionary assets under management amounted to \$426 million.

### **Item 5 – Fees and Compensation**

#### Privately Offered Pooled Investment Vehicles

The Funds currently managed by CNGM and CRP are not charged annual management fees.

Affiliates of Canaan, which serve as general partners of the Funds, receive a “carried interest” in their capacity as general partner entitling them to 20% of realized profits after a preferred return to limited partners. This carried interest is based on realized gains and received income only, and is payable as investments are liquidated or otherwise monetized, subject, in some cases, to a reserve or claw-back arrangement to account for possible or actual losses incurred on holdings subsequently sold.

The proceeds received by the Funds from investments (as well as interest and cash dividends received by the Funds) are generally distributed to limited partners of the Funds after paying expenses and establishing reserves. Limited partners in the Funds generally may not otherwise reduce or withdraw their investments.

Each Operating Company will employ personnel (who include current principals, officers and employees of Canaan), rent office space (which may include a sublease or proration of current office space from Canaan at cost) and engage Canaan to provide certain accounting and administrative services. Such services will be provided without cost, other than the reimbursement of actual out-of-pocket expenses of Canaan, including, for example, license fees for engineering and accounting software utilized in providing such services.

To the extent that an Operating Company incurs expenses, those expenses will reduce the proceeds received by the applicable Fund with respect to its investment in an O&G Operating Company or the net

profits received with respect to any net profits interest it acquires from the Working Interest Operating Company, as applicable.

In addition to the expenses of the Operating Companies that are indirectly borne by the Funds through a reduction in proceeds received from those Operating Companies, each Fund generally will bear all expenses related to its operations, including, without limitation, taxes, fees and expenses of auditors, third party accounting and administrative service providers and counsel, expenses of such Fund's board of advisors (if applicable) and limited partner meetings, insurance, litigation expenses and certain other expenses. Each Fund generally will bear the organizational expenses incurred in the formation of such Fund and the offering of the interests in such Fund, including legal, accounting, filing, capital raising and other organizational expenses pursuant to the Fund's constituent documents.

In lieu of the Drilling Fund paying a management fee to CRP, certain expenses set forth in the limited partnership agreement of the Drilling Fund (the "Working Interest Operating Expenses") will be paid or reimbursed by the Working Interest Operating Company in accordance with the terms of the limited partnership agreement of the Drilling Fund and the applicable Conveyance Agreements, and those Working Interest Operating Expenses will be charged to the net profits interests received by the Drilling Fund.

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

As described in Item 5, affiliates of Canaan are entitled to receive a performance-based or incentive fee or allocation in the Funds based on proceeds available for distribution to the limited partners. Clients should be aware that performance-based fees/allocation may create a conflict of interests for Canaan, as there can be an incentive for Canaan to cause the Operating Companies to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee/allocation.

#### Item 7 – Types of Clients

Canaan provides investment supervisory services to privately offered (*i.e.*, unregistered) pooled investment vehicles. The pooled investment vehicle's investors may consist of endowments, foundations, institutional clients, family offices, funds of funds, and high net worth individuals.

Canaan's pooled investment vehicles have a stated minimum investment requirement of \$5 million, however, Canaan has, and in the future may, in its sole discretion, accept initial investments below the stated minimums. These situations are evaluated on a case-by-case basis.

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

Canaan relies primarily on internally generated research and information when making investment decisions as well as information acquired from prospective sellers of oil and gas properties and publically available information. In addition, trade publications, charts and other statistical material are furnished by outside vendors. Canaan also considers research furnished by investment bankers and other industry members.

The investment activities are focused on acquisition and development of oil and gas assets to be acquired by the Operating Companies.

#### Investment Risks

Investment in the Funds requires a long-term commitment, with no certainty of return. The Operating Companies in which the funds invest and the investments underlying the net profits interests may experience financial difficulties, which difficulties may never be overcome. A Fund's investments will be illiquid, and there can be no assurance that such fund will be able to realize on such investments in a timely manner.

The Operating Companies will acquire oil and gas assets that are subject to commodity price fluctuations, drilling and operational risks, reservoir risks, competition from larger and better capitalized competitors and a lack of control over operations in many cases. Investments in oil and gas assets require significant capital investments with no certainty of the return on that capital. It is possible that there will be little or no near-term cash flow available to investors in the Funds and the Operating Companies may lose some or all of the capital that is invested in any oil and gas asset. Investments in oil and gas assets may be made based on assumptions regarding future commodity prices that ultimately are not achieved. There can be no guarantee of a minimum rate of return or of a limit on losses for the Operating Companies and, therefore, the Funds and their limited partners.

The Funds may acquire securities that cannot be sold except pursuant to a registration statement filed under the 1933 Act or in accordance with Rule 144 of the 1933 Act or another exemption under the 1933 Act.

Although the Funds do not employ investment leverage, an Operating Company may employ investment leverage, which increases the exposure of that Operating Company to adverse economic factors such as rising interest rates, downturns in the economy, lower commodity prices or a deterioration in the condition of the company or its industry.

Because the Funds will only invest in the Operating Companies or net profits interests conveyed by the Operating Companies, and the Operating Companies will only make a limited number of investments in oil and gas assets, which inherently involve a high degree of risk, poor performance by a few of the Operating Companies' investments could severely affect the total returns to limited partners in the Funds.

Additional information on investment risk is discussed in the individual Private Placement Memorandum of each Fund.

Please remember investing in oil and gas assets generally involves risk of loss that clients should be prepared to bear.

#### Item 9 – Disciplinary Information

Neither CNGM nor CRP, or any of their respective management personnel or affiliates, has ever been the subject of any legal or disciplinary actions relating to investment related business, or that would be material to a client or prospective client's evaluation of Canaan or its management personnel.

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

Affiliates of Canaan serve as general partner or manager to the various privately offered pooled investment vehicles Canaan manages.

## Item 11 – Code of Ethics

### Code of Conduct

As a fiduciary, Canaan owes its clients undivided loyalty – our clients trust us to act on their behalf, and we hold ourselves to the highest standards of fairness in all such matters.

We expect all employees to:

- act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, their employer, and their fellow employees.
- adhere to the highest standards with respect to any potential conflicts of interest with client accounts – simply stated, no officer or employee should ever enjoy an actual or apparent benefit over the account of any client.
- preserve the confidentiality of information that they may obtain in the course of our business and use such information properly and not in any way adverse to our clients' interests, subject to the legality of such information.
- conduct their personal financial affairs in a prudent manner, avoiding any action that could compromise in any way their ability to deal objectively with our clients.

Violations of this Code of Conduct may warrant sanctions which may include suspension or dismissal, at the discretion of management.

### Summary of Code of Ethics

This Code of Ethics is predicated on the principle that Canaan owes a fiduciary duty to its clients. Accordingly, Canaan's employees must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of clients. At all times, Canaan must:

Place client interests ahead of Canaan's – As a fiduciary, Canaan must serve in its clients' best interests. In other words, employees may not benefit at the expense of clients. This concept is particularly relevant when employees are making personal investments.

Engage in personal investing that is in full compliance with Canaan's Code of Ethics – Employees must review and abide by Canaan's Personal Securities Transaction and Insider Trading Policies.

Avoid taking advantage of your position – Employees must not accept investment opportunities, gifts or other gratuities from clients or individuals seeking to conduct business with Canaan without authorization from the Chief Compliance Officer or the general counsel.



## Personal Investing

The Operating Companies purchase oil and gas properties for development purposes. Canaan, its partners, officers and employees are prohibited from participating alongside the Operating Companies in such purchases, provided that they may participate in such investments through their ownership interests in the Funds or the Operating Companies. Additionally, Canaan and its management are required to refer to Canaan clients all opportunities available to them to make investments in oil and gas properties other than opportunities relating to oil and gas properties owned prior to such person becoming a member of Canaan management.

Clients may request a copy of Canaan's Code of Conduct and Code of Ethics by contacting Scott Rayburn, Chief Compliance Officer, at 405-919-0944.

## Co-Owners

In some circumstances, the same oil and gas properties may be owned by Operating Companies that are owned by multiple Canaan clients. Canaan's duty to be unbiased and fair to clients on both sides may pose an inherent conflict of interests. In the case of the Drilling Fund, management of Canaan, through their ownership of the Working Interest Operating Company, will own the working interest in the oil and gas wells with respect to which the Drilling Fund has acquired a net profits interest. Because the Working Interest Operating Company, which is owned by affiliates of CRP, can charge Working Interest Operating Expenses against net profits payable to the Drilling Fund, Canaan may be subject to a conflict of interest. In order to manage this conflict of interest, the partners and the Drilling Fund have agreed to the types of expenses that will be deemed to be Working Interest Operating Expenses, and under which circumstances expenses attributable to the Drilling Fund, including Working Interest Operating Expenses, can be allocated to the Drilling Fund. To ensure that it fulfills its duty to each client, Canaan seeks to ensure the appropriateness of the transaction for each client and that it is fair to all parties. The limited partnership agreements for the Funds include provisions regarding the investments that may be made by the Funds and certain terms of those investments which are intended to mitigate conflicts of interest in connection with making investments.

## Item 12 – Brokerage Practices

Canaan does not engage in brokerage practices and does not engage the services of broker-dealers.

## Item 13 – Review of Accounts

Canaan does not conduct periodic account reviews.

Each client receives annual audited financial statements and quarterly and annual letters highlighting the developments for the period.

## Item 14 – Client Referrals and Other Compensation

Canaan does not make client referrals and consequently does not receive compensation for referrals. In addition, Canaan does not compensate any person for client referrals.

## Item 15 – Custody

By virtue of its ability to withdraw and transfer funds, Canaan is deemed to have custody of client accounts. Each client's cash and securities are required to be maintained by a "qualified custodian" in such client's name, unless the security is otherwise exempt from this requirement (e.g., certain privately offered securities) with

respect to pooled investment vehicles complying with the audit exemption described below. Investors receive audited financial statements within 120 days following the end of the applicable Fund's fiscal year. Audited financial statements are prepared by an independent accounting firm, which is registered and subject to the inspection by the Public Company Accounting Oversight Board.

#### Item 16 – Investment Discretion

The O&G Operating Companies in which a particular oil and gas fund will invest are pre-determined and set forth in the oil and gas fund's Private Placement Memorandum and limited partnership agreement. As manager of the oil and gas funds, as well as manager of the Operating Companies, Canaan also determines the investment amount, acquisition and divestiture price, and selection and development of oil and gas properties. In the case of the Drilling Fund, Canaan determines the investment amount, acquisition and divestiture price, and selection and development of oil and gas properties that are owned by the Working Interest Operating Company and are the source of net profits for the net profits interests acquired by the Fund.

#### Item 17 – Voting Client Securities

As manager of the oil and gas funds, as well as manager of the Operating Companies, coupled with the fact that affiliates of Canaan serve as general partners of the Funds, Canaan and its affiliates have full discretion to vote securities except in limited circumstances set forth in the limited partnership agreements of the Funds such as sale of all or substantially all of the assets of the funds, amendment of the agreements, etc. Canaan acknowledges its fiduciary responsibility and will vote in a manner that ensures to the exclusive benefit of the underlying participants and beneficiaries, while using the care, skill, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under the circumstances then prevailing.

Clients may obtain a copy of Canaan's proxy voting policies and procedures, as well as information about how Canaan voted with respect to their investments, by contacting Scott Rayburn, Chief Compliance Officer, at 405-919-0944.

#### Item 18- Financial Information

Canaan has no financial commitment that impairs its ability to meet its contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.