

**CONFIDENTIAL**  
**THIRD SUPPLEMENT TO**  
**CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM**  
**ORIGINALLY DATED APRIL 4, 2019**

**NORTHERN LIGHTS ROYALTIES IV LP**

**OFFERING OF LIMITED PARTNERSHIP INTERESTS FOR \$8,850,000**

**THE PARTNERSHIP INTENDS TO PURCHASE UP TO 0.75% OF**  
**OVERRIDING ROYALTY INTERESTS IN THE**  
**KITCHEN LIGHTS LEASE AREA KITCHEN LIGHTS UNIT**  
**COOK INLET, ALASKA**

**The effective date of this Third Supplement is October 4, 2020**

**DO NOT COPY OR CIRCULATE – NOT FOR PUBLIC DISTRIBUTION**

This “Third Supplement” contains certain additional information with respect to the above-described offering (the “Offering”) of limited partnership interests (the “Partnership Interests”) in Northern Lights Royalties IV LP, a Texas limited partnership (the “Partnership”), and should be read in conjunction with the original private placement memorandum dated April 4, 2019 (the “Original Private Placement Memorandum”), the Confidential First Supplement to the Original Private Placement Memorandum dated September 9, 2019 (the “First Supplement”) and the Confidential Second Supplement Dated March 31, 2020 (the “Second Supplement”), together with the Original Private Placement Memorandum and First Supplement, the “Second Supplemented Private Placement Memorandum”). All capitalized or defined terms used in this Third Supplement shall have the meanings as assigned to them in the Second Supplemented Private Placement Memorandum, as hereby further supplemented. This Third Supplement does not attempt to summarize the relevant information concerning the business of the Partnership or the terms of the Offering. Please refer to the Second Supplemented Private Placement Memorandum for important information concerning the business of the Partnership and the terms of the Offering. In the event of a difference between a description in the Second Supplemented Private Placement Memorandum and a content in this Third Supplement, you should rely on the content and description in this Third Supplement.

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THE VALUE OF THE NORTHERN LIGHTS OVERRIDING ROYALTY INTERESTS IS HIGHLY SPECULATIVE. AN INVESTMENT IN THE NORTHERN LIGHTS ROYALTIES IV PARTNERSHIP INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD NOT INVEST IF YOU CANNOT AFFORD THE LOSS OF YOUR ENTIRE INVESTMENT. SEE “RISK FACTORS.” THE OFFER AND SALE OF THE PARTNERSHIP INTERESTS IS INTENDED TO BE EXEMPT FROM THE SECURITIES REGISTRATION PROVISIONS OF FEDERAL AND STATE SECURITIES LAWS. THE PARTNERSHIP INTERESTS ARE OFFERED ONLY TO ACCREDITED INVESTORS. THE PARTNERSHIP HAS NOT AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

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Northern Lights Royalties IV LP  
ProAK, LLC, Managing Partner  
660 W. Southlake Blvd., Suite 200  
Southlake, Texas 76092  
Telephone: (972) 506-0909

## GENERAL INFORMATION

The purpose of this document is to supplement certain information set forth in the Second Supplemented Private Placement Memorandum describing the Offering and the business of the Partnership. This Third Supplement should be read in conjunction with the Second Supplemented Private Placement Memorandum, which previously has been provided to you or is being provided to you concurrently with this Third Supplement. You should assume that the information contained in this Third Supplement or the Second Supplemented Private Placement Memorandum is accurate only as of the dates on the respective cover pages of such documents as the case may be.

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### AMENDMENT OF THE OFFERING AND EXTENSION OF OFFERING PERIOD

Taking into consideration the protracted *Furie Operating Alaska, LLC* (“Furie” or “operator”) bankruptcy sale proceedings and recent operator asset sale as well as other ‘Recent Developments’ discussed below, the Managing Partner hereby further amends the Second Supplemented Private Placement Offering as follows:

1. Regardless of anything to the contrary contained in the Second Supplemented Private Placement Memorandum, the Offering may be terminated at any time in the Managing Partner’s discretion and will terminate upon the earlier of the sale of all offered Partnership Interests or one year from the date hereof unless the Offering is extended by the Managing Partner, in its sole discretion, for additional period(s) of time which shall not exceed 12 months following the date of the Original Private Placement Memorandum.
2. Concurrently with and accordingly as part of the Second Supplemented Private Placement Memorandum as discussed and amended above, the Managing Member hereby amends the Second Supplemented Private Placement Memorandum to extend the Offering termination date to December 31, 2020.

## RECENT DEVELOPMENTS

### The COVID-19 Pandemic

In December 2019, a new novel coronavirus (SARS-CoV-2 or “COVID-19”) surfaced in Wuhan, China. The World Health Organization declared the COVID-19 outbreak a global emergency on January 30, 2020 and an international pandemic on March 11, 2020. The COVID-19 outbreak continues to impact several countries, including the United States, European Union, United Kingdom, Japan and Australia. Many countries have initiated travel restrictions to and from China and other countries as well as other measures to address the spread of COVID-19.

The COVID-19 pandemic has forced and continues to force several of the world’s governments to implement actions that have drastically slowed national economies and the global economy in the attempt

to curb its spread. This reduction in commerce continues to negatively affect global oil and energy demand. The impact of the COVID-19 outbreak is unknown and continues to evolve. While we continue to be hopeful that the effects of COVID-19 are temporary, we cannot predict the impact of or any possible, ultimate outcome of this unprecedented pandemic.

### **Kitchen Lights Unit Operator Bankruptcy Court Approved Sale of Assets**

On August 9, 2019 (“Petition Date”), *Furie Operating Alaska, LLC* (“Furie” or “operator”), along with its parent, *Cornucopia Oil and Gas Partnership, LLC*, and its affiliate, *Corsair Oil & Gas LLC*, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the District of Delaware (the “Court”), which cases are being jointly administered under Case No. 19-11781-LSS (the “Bankruptcy Cases”). *Furie*, and its affiliates *Cornucopia Oil & Gas* and *Corsair Oil & Gas*, are collectively referred to herein as the “Debtors”.

As part of the protracted process in these Bankruptcy Cases, the Debtors conducted a sale of the Debtors’ assets and existing equity interests to a purchaser through a Chapter 11, Bankruptcy Court approved plan. The Bankruptcy Court approved asset and equity sale transaction closed on June 30, 2020 (the “Approved Sale”). The Approved Sale also received approval from the State of Alaska and, upon completion of the June 30 transaction closing, transferred the Debtors’ assets (including the rights and obligations under the Development plan and related oil and gas leases) owned by the Debtors to the purchaser, Hex Cook Inlet LLC. As a result of the transaction closing on the Approved Sale, Hex Cook Inlet LLC is the new operator (the “New Operator”) for Development of the Kitchen Lights Unit. The Bankruptcy Court order approving the Approved Sale to the New Operator and the closing of the Approved Sale resulted in no material modification of the existing Northern Lights ORRI and left the Northern Lights ORRI undisturbed.

All references to “*Furie*” or “*operator*” contained in the Second Supplemented Private Placement Memorandum should now read as “Hex Cook Inlet LLC” or “New Operator” regarding Development activities in the Kitchen Lights Unit.

## **POTENTIAL CONSEQUENCES FOR OUR BUSINESS**

### **Impact of Approved Sale and New Operator on the Kitchen Lights Unit Development Plan**

The Kitchen Lights Unit, approximately 83 thousand acres in the Cook Inlet, is divided into four exploration blocks: the Corsair, North, Southwest and Central Blocks. The six active leases underlying the Northern Lights ORRI are all located in the North Block. The six leases will continue in effect only if the operator complies with the plan of exploration for the Kitchen Lights Unit or receives approval of an amendment to the plan of exploration. A plan of exploration for a unit sets drilling commitments and other commitments. If these commitments are not met, the result could be that one or more undrilled blocks would be contracted out of the unit. If a block is contracted out of the Kitchen Lights Unit, and the leases in the block are past their primary terms and not extended, the leases will be forfeited to the State of Alaska. All of the six leases in the Kitchen Lights Lease Area are past their primary terms. If the leases underlying the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

Prior to the *Furie* bankruptcy Petition Date, *Furie* had obtained approvals by the State of Alaska to amend its plan of exploration from time-to-time, and the plan of exploration has been amended in each drilling season. In addition, prior to the Petition Date, *Furie* had successfully amended its plan of Development for the Kitchen Lights Unit. The current amended plan of exploration expired in December 2019. The New

Operator will need to formally obtain an extension or amendment to the plan of Development from the State of Alaska.

All of the six leases in the Kitchen Lights Lease Area are past their primary terms and the potential delay in exploration activities due to the Furie bankruptcy filing, and Approved Sale, may result in the leases underlying the Northern Lights ORRI being forfeited unless the leases are otherwise extended through amendment of the current plan of Development for the Kitchen Lights Unit. Any potential lease extension will most likely be in a plan of Development with the New Operator in the Kitchen Lights Unit. In the event that the leases underlying the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

### **Impact of New Operator Approval**

The Approved Sale of Furie's assets results in a significant likelihood that the New Operator will conduct future exploration activities in the Kitchen Lights Unit. The State of Alaska will also likely scrutinize the New Operator's exploration activities in and Development plan for the Kitchen Lights Unit which plan will require new or repeated amendment (or restatement). This process could impact the extent and timing of exploration activities in the Northern Block. We anticipate that, at a minimum, the recent Approved Sale of assets to the New Operator will cause the delay of exploration and gas production activities in the Kitchen Lights Unit for an uncertain period of time.

### **Additional Factors with a New Operator**

Given that there is a New Operator, there may be additional factors, which we might not anticipate at this time that could ultimately affect a New Operator's decision on the timing of operations in the North Block. As such, we can provide no assurance that a well will be drilled on any of the leases underlying Northern Lights ORRI in the foreseeable future. That is why we continue to believe this investment opportunity should be considered a long term investment and not be viewed as one which will generate immediate returns to the partnership, and thus its partners.

**CONFIDENTIAL  
SECOND SUPPLEMENT TO**

**CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM  
ORIGINALLY DATED APRIL 4, 2019**

**NORTHERN LIGHTS ROYALTIES IV LP**

**OFFERING OF LIMITED PARTNERSHIP INTERESTS FOR \$8,850,000**

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OVERRIDING ROYALTY INTERESTS IN THE  
KITCHEN LIGHTS LEASE AREA KITCHEN LIGHTS UNIT  
COOK INLET, ALASKA**

**The date of this Second Supplement is March 31, 2020**

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### **EXERCISE OF OPTION TO ACQUIRE ADDITIONAL NORTHERN LIGHTS ORRI AND INCREASE OF MAXIMUM OFFERING AMOUNT TO \$8,850,000**

As referenced in the First Supplemented Private Placement Memorandum, the Managing Partner hereby increases the maximum offering amount from \$5,900,000 to \$8,850,000 and concurrently shall cause the Partnership to acquire an additional 0.25% Northern Lights ORRI for the same proportionate price as the initial 0.50% Northern Lights ORRI as contemplated in the First Supplemented Private Placement Memorandum. Accordingly, all references to 0.50% Northern Lights ORRI as contemplated in the First Supplemented Private Placement Memorandum are hereby amended to 0.75% Northern Lights ORRI (the "Expanded Private Placement Memorandum").

### **AMENDMENT OF THE OFFERING AND EXTENSION OF OFFERING PERIOD**

Taking into consideration the ongoing, protracted operator bankruptcy sale proceedings as well as other 'Recent Developments' discussed below, the Managing Partner hereby further amends the First Supplemented Private Placement offering as follows:

1. Regardless of anything to the contrary contained in the First Supplemented Private Placement Memorandum, the offering may be terminated at any time in the Managing Partner's discretion and will terminate upon the earlier of the sale of all offered Partnership Interests or one year from the date hereof unless the offering is extended by the Managing Partner for period of up to 6 additional months.
2. Concurrently with and accordingly as part of the Expanded Private Placement Memorandum as discussed above, the Managing Member hereby amends the Expanded Private Placement Memorandum to extend the offering termination date by 6 months to October 4, 2020.

## RECENT DEVELOPMENTS

### COVID-19

In December 2019, a new novel coronavirus (SARS-CoV-2 or “COVID-19”) surfaced in Wuhan, China. The World Health Organization declared the COVID-19 outbreak a global emergency on January 30, 2020 and an international pandemic on March 11, 2020. The COVID-19 outbreak has impacted several countries, including the United States, European Union, United Kingdom, Japan and Australia. Many of countries have initiated travel restrictions to and from China and other countries as well as other measures to address the spread COVID-19.

The COVID-19 pandemic has forced several of the world’s governments to implement actions that have drastically slowed national economies and the global economy in the attempt to curb its spread. This reduction in commerce has had an immediate negative effect on global oil demand. The impacts of the COVID-19 outbreak are unknown and rapidly evolving. While we are hopeful that the effects of COVID-19 are temporary, we cannot predict the impacts of or any possible, ultimate outcome of this event which is unprecedented in modern times.

### Saudi Arabia, Russia and OPEC

In March 2020 Saudi Arabia initiated an oil price war with Russia generally triggered by a breakdown in communication between the Organization of Petroleum Exporting Countries and Russia over proposed oil production cuts as a response to the COVID-19 outbreak. As a result, both Saudi Arabia and Russia have stated they will increase their production significantly, and thus far appear to be making efforts to do so (the “Russia-Saudi Arabia Oil Price War”).

### Kitchen Lights Unit Operator Bankruptcy Filing

On August 9, 2019 (“Petition Date”), *Furie Operating Alaska, LLC* (“Furie” or “operator”), along with its parent, *Cornucopia Oil and Gas Partnership, LLC*, and its affiliate, *Corsair Oil & Gas LLC*, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court for the District of Delaware (the “Court”), which cases are being jointly administered under Case No. 19-11781-LSS (the “Bankruptcy Cases”). Furie and affiliates Cornucopia Oil & Gas and Corsair Oil & Gas are collectively referred to herein as the “Debtors”.

At the outset of the Bankruptcy Cases, the Debtors sought post-petition financing of \$15 million from their pre-petition term lenders and were initially authorized to access \$7 million of that amount on an interim basis for operations. The Debtors reported that they were generally paying undisputed trade creditors on a current basis before the filing and believed they had “a limited amount of trade debt and royalty obligations that remain outstanding.” Furie’s Chief Operating Officer reported to the Court that Furie currently holds approximately \$105 million in tax credits eligible to be repurchased by the State of Alaska; provided, however, the legality for such repurchase is currently being contested in the Alaska state courts. Information reported in the media stated that, as of the Petition Date, the Debtors’ debts exceeded \$450 million and assets were between \$10 million and \$50 million. On September 26, 2019, the Court approved on a final basis the Debtors’ post-petition financing in the full requested amount of \$15 million from their pre-petition lenders.

The Debtors are conducting a dual-track process that seeks to consummate a sale of the Debtors’ assets to a purchaser through a chapter 11 plan. The Debtors conducted a competitive process for the sale of

substantially all of Debtors' assets in October and November 2019, which originally contemplated a transaction closing to occur within 150 days of the Petition Date. On December 11, 2019, the Debtors filed their first joint plan of reorganization, which contemplated the purchase by Hex LLC of the Debtors' equity securities for \$15 million. On February 18, 2020, the Debtors announced their abandonment of the proposed sale to Hex LLC based on its failure to close the contemplated transaction, and that the Debtors had entered into a new agreement with Kachemak Exploration LLC ("Kachemak"), a newly formed limited liability company owned by prepetition lender Melody Capital and GFR Holdings, for the private sale of certain of the Debtors' equity interests under an acquisition by foreclosure agreement ("AFA"), which sale was to be effectuated through a chapter 11 plan. The AFA contemplated a foreclosure on 100% of the issued and outstanding limited liability interests of debtors Cornucopia Oil & Gas Co. and Corsair Oil & Gas for the benefit of Kachemak in satisfaction of the prepetition term loan obligations and consideration consisting of \$2 million to satisfy administrative claims in the Bankruptcy Cases. On February 21, 2020, the Court provided initial approval of the Kachemak AFA. On February 26, 2020, the Debtors filed an amended plan of reorganization and disclosure statement incorporating the Kachemak transaction. The Debtors' proposed a schedule that would have led to a confirmation hearing, and effectuation of the Kachemak transaction, on May 4, 2020. On March 4, 2020, the Court approved the Kachemak AFA on a final basis. On March 25, 2020, at the hearing on the Debtors' disclosure statement, the Debtors announced that Kachemak had terminated the AFA. The Debtors reported at the hearing that they are currently in discussions with their lenders and Hex LLC regarding a potential new deal. As of the date of this Second Supplement, the Debtors do not have an agreement for the sale of their assets or equity interests and the prospects for and anticipated timing of confirmation of a plan are uncertain.

## **POTENTIAL CONSEQUENCES FOR OUR BUSINESS**

### **COVID-19 and Russia-Saudi Arabia Oil Price War**

As discussed above, the simultaneous downward shock to oil demand resulting from COVID-19 and the upward supply of oil on the world market resulting from the Russia-Saudi Arabia Oil Price War has resulted in significantly lower oil prices. A widespread health crisis, such as the COVID-19 pandemic, is and could continue to adversely affect the global economy, resulting in an unpredictable economic downturn that may impact future demand for oil and oil products. We can provide no assurance that the COVID-19 pandemic or the Russia-Saudi Arabia Oil Price War will not have a material adverse impact on the future drilling activity in the Kitchen Lights Unit and the Partnership. The extent of such impact, if any, will depend on future developments, including actions taken to contain the COVID-19 outbreak. If these conditions persist, drilling in the Kitchen Lights Unit may become uneconomical, which may negatively affect the Partnership's performance, overall timing of returns the return of your entire investment in the Partnership.

### **Impact on Plans of Exploration and Development for the Kitchen Lights Unit**

The Kitchen Lights Unit, approximately 83 thousand acres in the Cook Inlet, is divided into four exploration blocks: the Corsair, North, Southwest and Central Blocks. The six active leases underlying the Northern Lights ORRI are all located in the North Block. The six leases will continue in effect only if the operator complies with the plan of exploration for the Kitchen Lights Unit or receives approval of an amendment to the plan of exploration. A plan of exploration for a unit sets drilling commitments and other commitments. If these commitments are not met, the result could be that one or more undrilled blocks would be contracted out of the unit. If a block is contracted out of the Kitchen Lights Unit, and the leases in the block are past their primary terms and not extended, the leases will be forfeited to the State of Alaska. All of the six leases in the Kitchen Lights Lease Area are past their primary terms. If the leases underlying



the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

Prior to the Furie bankruptcy Petition Date, Furie had obtained approvals by the State of Alaska to amend its plan of exploration from time-to-time, and the plan of exploration has been amended in each drilling season. In addition, prior to the Petition Date Furie had successfully amended its plan of Development for the Kitchen Lights Unit. The current amended plan of exploration expired in December 2019 and has not yet been extended or amended.

All of the six leases in the Kitchen Lights Lease Area are past their primary terms and the potential delay in exploration activities due to the Furie bankruptcy filing and contemplated sale of Furie's assets may result in the leases underlying the Northern Lights ORRI being forfeited unless the leases are otherwise extended through amendment of the current plan of Development for the Kitchen Lights Unit. Any potential lease extension will most likely be in a plan of Development with the new operator in the Kitchen Lights Unit. In the event that the leases underlying the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

### **Impact of New Operator Approval Process**

The Furie bankruptcy filing and likely future sale of Furie's assets presents the significant likelihood that a new operator will conduct future exploration activities in the Kitchen Lights Unit. The sale of Furie's assets is subject to Bankruptcy Court approval. The State of Alaska will also scrutinize the Court approved assets purchaser and must ultimately approve the new operator in the Kitchen Lights Unit through an amended (or restated) plan of Development. This process could impact the extent and timing of exploration activities in the Northern Block. We anticipate that, at a minimum, the recent Furie bankruptcy filing will cause the delay of exploration and gas production activities in the Kitchen Lights Unit for an uncertain period of time.

### **Additional Factors with a New Operator**

Given the Furie bankruptcy filing, there may be additional factors which we might not anticipate at this time that could ultimately affect a new operator's decision on the timing of operations in the North Block. As such, we can provide no assurance that a well will be drilled on any of the leases underlying Northern Lights ORRI in the foreseeable future. That is why we continue to believe this investment opportunity should be considered a long term investment and not be viewed as one which will generate immediate returns to the partnership, and thus its partners.

All references to "Furie" or "operator" contained in the Expanded Private Placement Memorandum should now take into account the prospect that Furie will likely cease oil and gas exploration and production activities in the Kitchen Lights Unit in the near term and that a yet to be determined new operator will, at some future time, continue exploration activities in the Kitchen Lights Unit.

DMS 16988461v6

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FIRST SUPPLEMENT TO**

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### **Kitchen Lights Unit Operator Bankruptcy Filing**

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The Debtors are also seeking post-petition financing of \$15 million from its pre-petition term lenders and, as a result of the initial Court hearing in the case, have been initially authorized to access \$7 million of that amount on an interim basis for operations. The Debtors report that they were generally paying undisputed trade creditors on a current basis before the filing and believe they have "a limited amount of trade debt and royalty obligations that remain outstanding." Furie's Chief Operating Officer reported to the Court that Furie currently holds approximately \$105 million in tax credits eligible to be repurchased by the State of Alaska; provided, however, the legality for such repurchase is currently being contested in the Alaska state courts. Information reported in the media state that, as of the Petition Date, the Debtors' debts exceeded \$450 million and assets were between \$10 million and \$50 million.

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### **Impact on Plans of Exploration and Development for the Kitchen Lights Unit**

The Kitchen Lights Unit, approximately 83 thousand acres in the Cook Inlet, is divided into four exploration blocks: the Corsair, North, Southwest and Central Blocks. The six active leases underlying the Northern Lights ORRI are all located in the North Block. The six leases will continue in effect only if the operator complies with the plan of exploration for the Kitchen Lights Unit or receives approval of an

amendment to the plan of exploration. A plan of exploration for a unit sets drilling commitments and other commitments. If these commitments are not met, the result could be that one or more undrilled blocks would be contracted out of the unit. If a block is contracted out of the Kitchen Lights Unit, and the leases in the block are past their primary terms and not extended, the leases will be forfeited to the State of Alaska. All of the six leases in the Kitchen Lights Lease Area are past their primary terms. If the leases underlying the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

Prior to the Furie bankruptcy Petition Date, Furie had obtained approvals by the State of Alaska to amend its plan of exploration from time-to-time, and the plan of exploration has been amended in each drilling season. In addition, prior to the Petition Date Furie had successfully amended its plan of Development for the Kitchen Lights Unit. The current amended plan of exploration expires in December 2019.

All of the six leases in the Kitchen Lights Lease Area are past their primary terms and the potential delay in exploration activities due to the Furie bankruptcy filing and contemplated sale of Furie's assets may result in the underlying the Northern Lights ORRI being forfeited unless the leases are otherwise extended through amendment of the current plan of Development for the Kitchen Lights Unit. Any potential lease extension will most likely be in a plan of Development with the new operator in the Kitchen Lights Unit. In the event that the leases underlying the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

### **Impact of New Operator Approval Process**

The Furie bankruptcy filing and likely future sale of Furie's assets presents the significant likelihood that a new operator will conduct future exploration activities in the Kitchen Lights Unit. The sale of Furie's assets is subject to Bankruptcy Court approval. The State of Alaska will also scrutinize the Court approved assets purchaser and must ultimately approve the new operator in the Kitchen Lights Unit through an amended (or restated) plan of Development. This process could impact the extent and timing of exploration activities in the Northern Block. We anticipate that, at a minimum, the recent Furie bankruptcy filing will cause the delay of exploration and gas production activities in the Kitchen Lights Unit for an uncertain period of time.

### **Additional Factors with a New Operator**

Given the Furie bankruptcy filing, there may be additional factors which we might not anticipate at this time that could ultimately affect a new operator's decision on the timing of operations in the North Block. As such, we can give no assurance that a well will be drilled on any of the leases underlying Northern Lights ORRI in the foreseeable future. That is why we continue to believe this investment opportunity should be considered a long term investment and not be viewed as one which will generate immediate returns to the partnership, and thus its partners.

All references to "Furie" or "operator" contained in the Original Private Placement Memorandum should now take into account the prospect that Furie will likely cease oil and gas exploration and production activities in the Kitchen Lights Unit in the near term and that a yet to be determined new operator will, at some future time, continue exploration activities in the Kitchen Lights Unit.

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

Memorandum No. \_\_\_\_\_

Submitted to \_\_\_\_\_

**Northern Lights Royalties IV LP**

**OFFERING OF LIMITED PARTNERSHIP INTERESTS FOR \$5,900,000**

**THE PARTNERSHIP INTENDS TO PURCHASE UP TO 0.50% OF  
OVERRIDING ROYALTY INTERESTS  
IN THE  
KITCHEN LIGHTS LEASE AREA KITCHEN LIGHTS UNIT  
COOK INLET, ALASKA**

All information contained in this Private Placement Memorandum is confidential and the property of Northern Lights Royalties IV LP and its affiliates. By accepting delivery, you agree that you will not divulge or distribute any of the contents of this document to anyone other than professionals you retain to evaluate the royalty interests offered, without written permission of our general partner ProAK, LLC; and further, you agree to inform any professionals you retain of the confidential nature of these documents. You also agree to destroy these materials in the event you elect not to acquire interests. If you do not agree to be bound by these confidentiality agreements, please do not copy or distribute any of these documents and return this Private Placement Memorandum and all attachments immediately.

THE VALUE OF THE NORTHERN LIGHTS OVERRIDING ROYALTY INTERESTS IS HIGHLY SPECULATIVE. AN INVESTMENT IN THE NORTHERN LIGHTS ROYALTIES IV PARTNERSHIP INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD NOT INVEST IF YOU CANNOT AFFORD THE LOSS OF YOUR ENTIRE INVESTMENT. SEE "RISK FACTORS." THE OFFER AND SALE OF THE PARTNERSHIP INTERESTS IS INTENDED TO BE EXEMPT FROM THE SECURITIES REGISTRATION PROVISIONS OF FEDERAL AND STATE SECURITIES LAWS. THE PARTNERSHIP INTERESTS ARE OFFERED ONLY TO ACCREDITED INVESTORS. THE PARTNERSHIP HAS NOT AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THE SECURITIES BEING OFFERED HAVE NOT BEEN REGISTERED WITH THE FLORIDA Office of Financial Regulation.

Northern Lights Royalties IV LP ProAK, LLC, Managing Partner  
660 W. Southlake Blvd., Suite 200  
Southlake, Texas 76092  
Telephone: (972) 506-0909

The date of this Memorandum is April 4, 2019

**CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM**

**NORTHERN LIGHTS ROYALTIES IV LP OFFERING UP TO  
\$5,900,000 OF PARTNERSHIP INTERESTS MINIMUM  
CAPITAL CONTRIBUTION \$25,000**

We are offering limited partnership interests (Partnership Interests) in Northern Lights Royalties IV LP, a Texas limited partnership (the Partnership). In this Memorandum, the Partnership is also referred to as “we” or “our” or similar pronouns. The managing general partner of the Partnership is ProAK, LLC, a Texas limited liability company (the Managing Partner).

We intend to purchase up to 0.50% of an overriding royalty interest (the Northern Lights ORRI) in six State of Alaska competitive oil and gas leases covering lands located in the Cook Inlet, Alaska. Such leases are sometimes referred to as the Kitchen Lights Lease Area. All six of these leases are located in the Kitchen Lights Unit. Drilling in the Kitchen Lights Unit has commenced, and further development is planned. The Northern Lights ORRI is currently owned by ProAK, LLC, our Managing Partner. The transfer of the Northern Lights ORRI will be subject to approval by the State of Alaska. The Partnership must submit an Application for Assignment of Interest in Oil and Gas Leases to the Alaska Department of Natural Resources, Division of Oil and Gas for approval of the commissioner. We anticipate that the transfer will be approved.

You must be an accredited investor to subscribe. The minimum Capital Contribution is \$25,000, which minimum may be waived in our discretion. We reserve the right to increase the offering to \$8,850,000 and to purchase an additional 0.25% of Northern Lights ORRI from ProAk, LLC. The offering may be terminated at any time in our discretion and will terminate upon the earlier of the sale of all offered Partnership Interests or one year from the date hereof.

**AN INVESTMENT IN THE PARTNERSHIP INTERESTS INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER INVESTING IN THE PARTNERSHIP INTERESTS ONLY IF YOU HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT SUCH RISK.**

**THE OFFER AND SALE OF THESE SECURITIES IS INTENDED TO BE EXEMPT FROM THE SECURITIES REGISTRATION PROVISIONS OF UNITED STATES FEDERAL AND STATE SECURITIES LAWS UNDER RULE 506(c) OF REGULATION D. THIS OFFER IS MADE ONLY TO ACCREDITED INVESTORS. POTENTIAL INVESTORS WILL BE REQUIRED TO VERIFY THAT THEY ARE ACCREDITED INVESTORS BEFORE BEING ALLOWED TO ACQUIRE ANY PARTNERSHIP INTEREST.**

**Northern Lights Royalties LP  
ProAK, LLC, Managing Partner  
660 W. Southlake Blvd., Suite 200  
Southlake, Texas 76092  
Telephone: (972) 506-0909**

**The date of this Memorandum is April 4, 2019**

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATES OR OTHER JURISDICTIONS AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THESE SECURITIES ARE ALSO SUBJECT TO RESTRICTIONS ON TRANSFER AND RESALE UNDER THE PARTNERSHIP AGREEMENT. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE OPERATOR IS NOT REGISTERED AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY, ADEQUACY OR TRUTHFULNESS OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

YOU SHOULD NOT REPRODUCE OR DISTRIBUTE THIS MEMORANDUM, OR DISCLOSE ANY OF THE INFORMATION CONTAINED IN THIS MEMORANDUM, TO ANYONE OTHER THAN YOUR ADVISORS WITHOUT THE PRIOR WRITTEN CONSENT OF THE MANAGING PARTNER. YOU SHOULD RETURN THIS MEMORANDUM AND ALL ENCLOSED DOCUMENTS IF YOU DECIDE NOT TO PURCHASE A PARTNERSHIP INTEREST.

THE USE OF FORECASTS OR PROJECTIONS OTHER THAN THOSE PROVIDED IN THIS MEMORANDUM OR PROVIDED BY THE MANAGING PARTNER IS PROHIBITED. ANY ORAL REPRESENTATION OR PREDICTION AS TO THE AMOUNT OR CERTAINTY OF ANY PRESENT OR FUTURE CASH DISTRIBUTION OR TAX CONSEQUENCE WHICH MAY FLOW FROM AN INVESTMENT IN THE PARTNERSHIP IS NOT PERMITTED TO THE EXTENT SUCH ORAL REPRESENTATION DEVIATES FROM THE SPECIFIC WRITTEN DISCLOSURES SET FORTH IN THIS MEMORANDUM OR PROVIDED BY THE MANAGING PARTNER.

ANY INFORMATION WE PREVIOUSLY PROVIDED YOU OR YOUR ADVISORS IS SUPERCEDED BY THIS MEMORANDUM AND THE INFORMATION SET OUT HERE.

THE PARTNERSHIP ANTICIPATES THAT IT WILL INVEST IN COMMODITY INTERESTS (COLLECTIVELY, "COMMODITIES"). AS A RESULT, THE PARTNERSHIP MAY BE SUBJECT TO REGULATION AS A COMMODITY POOL UNDER THE U.S. COMMODITY EXCHANGE ACT OF 1936 (AS AMENDED, THE "COMMODITY EXCHANGE ACT") AND THE RULES OF THE COMMODITY FUTURES TRADING COMMISSION (THE "CFTC"). HOWEVER, BECAUSE OF THE PARTNERSHIP'S LIMITED TRADING IN COMMODITIES AND BECAUSE THE UNITS ARE EXEMPT FROM REGISTRATION UNDER THE 1933 ACT AND ARE OFFERED AND SOLD WITHOUT MARKETING TO THE PUBLIC IN THE UNITED STATES, THE MANAGING PARTNER IS EXEMPT FROM HAVING TO REGISTER AS A COMMODITY POOL OPERATOR ("CPO") WITH RESPECT TO THE PARTNERSHIP PURSUANT TO CFTC RULE 4.13(A)(3). THE MANAGING PARTNER INTENDS TO FILE A NOTICE TO EFFECT SUCH EXEMPTION AND WILL COMPLY WITH THE REQUIREMENTS THEREOF. AS A RESULT, THE MANAGING PARTNER, UNLIKE A REGISTERED CPO, IS NOT REQUIRED TO DELIVER A DISCLOSURE DOCUMENT AND A CERTIFIED ANNUAL REPORT TO THE LIMITED PARTNERS.

**IN MAKING AN INVESTMENT DECISION, YOU MUST RELY ON YOUR EXAMINATION OF THE PARTNERSHIP, THE PROPOSED PLAN OF BUSINESS AND THE TERMS OF THE OFFERING TO DETERMINE THE MERITS AND RISKS INVOLVED. YOU MAY DESIRE ADDITIONAL INFORMATION PRIOR TO MAKING YOUR DECISION. ALL DOCUMENTS REFERENCED IN THIS MEMORANDUM BUT NOT ATTACHED AS EXHIBITS WILL BE AVAILABLE FOR YOUR INSPECTION AT OUR PRINCIPAL OFFICE. YOU ARE ENCOURAGED TO MAKE FURTHER INQUIRY IN AN EFFORT TO RESOLVE ANY UNANSWERED QUESTIONS CONCERNING THE OFFERING OR THE PLAN OF BUSINESS. REQUESTS FOR FURTHER INFORMATION SHOULD BE MADE TO THE MANAGING PARTNER, AND SUCH INFORMATION SHOULD ONLY BE RELIED UPON WHEN FURNISHED IN WRITING BY IT. WE HAVE NOT AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH INFORMATION. IF ANYONE PROVIDES YOU WITH INFORMATION THAT IS DIFFERENT FROM OR CONFLICTS WITH THE INFORMATION IN THIS MEMORANDUM, DO NOT RELY ON IT.**

**AN INVESTMENT IN THE PARTNERSHIP INVOLVES RISKS. THERE IS NO MARKET FOR THE PARTNERSHIP INTERESTS AND ONE IS NOT LIKELY TO DEVELOP. WE DO NOT INTEND TO PROVIDE PUBLICLY AVAILABLE INFORMATION SO AS TO FACILITATE REALES OF THE PARTNERSHIP INTERESTS UNDER RULE 144, RULE 144A, OR SIMILAR EXEMPTIONS. YOU SHOULD CONSIDER INVESTING IN THE PARTNERSHIP ONLY IF YOU ARE ABLE TO BEAR THE FINANCIAL RISKS REFERRED TO IN THIS MEMORANDUM FOR AN INDEFINITE TIME.**

**YOU SHOULD NOT CONSTRUE THE CONTENTS OF THE MEMORANDUM OR ANY OTHER INFORMATION FROM US AS LEGAL, BUSINESS OR TAX ADVICE. THE TAX CONSEQUENCES OF THIS INVESTMENT WILL DEPEND IN PART ON YOUR PARTICULAR CIRCUMSTANCES. YOU SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR.**

**FOR ALASKA INVESTORS:**

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. "THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. "THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.**

**FOR ARIZONA INVESTORS:**

**A legend regarding resale restrictions shall be conspicuously set forth on the front of any certificate that represents a security issued or resold in accordance with this rule. Any certificate legend shall no longer be required on the termination of any resale restrictions in accordance with this Section or 12 months after the initial purchase from the issuer, whichever occurs first.**

**FOR CALIFORNIA INVESTORS:**

**IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.**

**FOR CONNECTICUT INVESTORS:**



THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE BANKING COMMISSIONER OF THE STATE OF CONNECTICUT NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**FOR FLORIDA INVESTORS:**

FOR FLORIDA RESIDENTS: THE UNITS REFERRED TO HEREIN WILL BE SOLD TO, AND ACQUIRED BY, THE HOLDER IN A TRANSACTION EXEMPT UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT. IN ADDITION, ALL FLORIDA RESIDENTS SHALL HAVE THE PRIVILEGE OF VOIDING A PURCHASE WITHIN THREE (3) DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY SUCH PURCHASER TO THE ISSUER. AN AGENT OF THE ISSUER, OR AN ESCROW AGENT OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO SUCH PURCHASER, WHICHEVER OCCURS LATER.

**FOR GEORGIA INVESTORS:**

THESE SECURITIES HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH (13) OF CODE SECTION 10-5-9 OF THE 'GEORGIA SECURITIES ACT OF 1973,' AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT."

**FOR MINNESOTA INVESTORS:**

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE MINNESOTA DEPARTMENT OF COMMERCE NOR HAS THE DIVISION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**FOR MISSISSIPPI INVESTORS:**

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY GENERALLY NOT BE TRANSFERRED OR RESOLD FOR A PERIOD OF ONE (1) YEAR. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

**FOR NEW YORK INVESTORS:**

THIS PRIVATE OFFERING MEMORANDUM HAS NOT BEEN REVIEWED BY THE ATTORNEY GENERAL PRIOR TO ITS ISSUANCE AND USE. THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**FOR NORTH CAROLINA INVESTORS:**

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE

**THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.**

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES COMMISSIONER OF THE STATE OF NORTH DAKOTA NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**FOR PENNSYLVANIA INVESTORS:**

**These securities are restricted for 12 months after the date of purchase except in accordance with §204.011.**

**FOR**

**FOR TEXAS INVESTORS:**

**THE SECURITIES OFFERED HEREUNDER HAVE NOT BEEN REGISTERED UNDER APPLICABLE TEXAS SECURITIES LAWS AND, THEREFORE, ANY PURCHASER THEREOF MUST BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME BECAUSE THE SECURITIES CANNOT BE RESOLD UNLESS THEY ARE SUBSEQUENTLY REGISTERED UNDER SUCH SECURITIES LAWS OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE. FURTHER, PURSUANT TO §109.13 UNDER THE TEXAS SECURITIES ACT, THE OPERATOR IS REQUIRED TO APPRISE PROSPECTIVE INVESTORS OF THE FOLLOWING: A LEGEND SHALL BE PLACED, UPON ISSUANCE, ON CERTIFICATES REPRESENTING SECURITIES PURCHASED HEREUNDER, AND ANY PURCHASER HEREUNDER SHALL BE REQUIRED TO SIGN A WRITTEN AGREEMENT THAT HE WILL NOT SELL THE SUBJECT SECURITIES WITHOUT REGISTRATION UNDER APPLICABLE SECURITIES LAWS, OR EXEMPTIONS THEREFROM.**

**FORWARD LOOKING STATEMENTS**

**This Memorandum contains forward-looking statements. These statements appear in a number of places in this Memorandum and include statements regarding our intent, belief or current expectations, statements regarding the anticipated location and timing of the operations in the Kitchen Lights Unit, statements regarding the potential oil and gas reserves underlying the Kitchen Lights Unit, statements regarding the anticipated acquisition of the Northern Lights ORRI by the Partnership, statements regarding the oil and gas industry and similar statements. Forward-looking statements are based on expectations or assumptions, which involve risk and uncertainty. You are cautioned not to place undue reliance on forward-looking statements because it is possible that predictions, forecasts, projections and other forms of forward-looking statements will not be achieved. Any forward-looking statements are not guarantees of future performance. Actual results and developments are likely to differ from those described in the forward-looking statements as a result of various factors, many of which are beyond our control. The differences may be material and adverse. We do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future events or otherwise.**

**Certain risks are discussed under the heading “Risk Factors.” Our explanation of potential risks is based on our current knowledge and expectations. The risks involved in our business plan could change for a number of reasons, including, but not limited to: decisions by the operator in the Kitchen Lights Unit to delay drilling or to drill in other locations; delays in drilling on the Kitchen Lights Lease Area; delays in constructing production platforms in the Kitchen Lights Unit; weather in the Cook Inlet; general global economic and business conditions; the likelihood and effect of any economic slowdown in the U.S. and/or other areas; operational risks in development and production; delays in or changes to plans for projects; timing of completion of projects or of production; the prices for oil and gas as well as for alternatives; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including potential imposition of restrictions in response to environmental concerns related to the production of oil and gas; and changes in either development technology or alternative energy technology.**

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Exhibit A	Northern Lights Royalties IV LP Agreement
Exhibit B	Subscription Documents
Exhibit C	Information about Kitchen Lights Lease Area

## SUMMARY OF THE OFFERING

This section summarizes the offering of limited partnership interests by Northern Lights Royalties IV LP. This summary is intended only for quick reference and is not complete. The summary is qualified in its entirety by the more detailed information appearing in this Memorandum, including the exhibits. Capitalized terms not otherwise defined in this Memorandum shall have the meanings set out in the Partnership Agreement attached as Exhibit A.

**NOTHING IN THIS SUMMARY SHOULD BE CONSTRUED AS LEGAL OR TAX ADVICE. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ADVISORS REGARDING THE LEGAL AND TAX CONSIDERATIONS RELEVANT TO AN INVESTMENT IN THE LIMITED PARTNERSHIP INTERESTS OFFERED PURSUANT TO THIS MEMORANDUM.**

- |                                  |  |
|----------------------------------|--|
| <b>Investment Objective</b>      | We intend to purchase up to 0.50% of an overriding royalty interest (the Northern Lights ORRI) in six State of Alaska competitive oil and gas leases covering lands located in the Kitchen Lights Unit of Cook Inlet, Alaska (these six leases are sometimes referred to as the Kitchen Lights Lease Area). We reserve the right to increase the purchase by an additional .25% Northern Lights ORRI for the same proportionate purchase price per percentage interest. The investment is contemplated to be a long-term investment in an oil and gas field that is in the process of being developed by an unaffiliated third party. The Northern Lights ORRI will be purchased from ProAK, LLC, our Managing Partner, although we reserve the right to purchase the Northern Lights ORRI from other affiliates and third parties. The Northern Lights ORRI is currently not generating any revenues, and this investment is speculative. |
| <b>The Partnership</b>           | Northern Lights Royalties IV LP, a Texas limited partnership. Our address is 660 W. Southlake Blvd., Suite 200, Southlake, Texas 76092. Our telephone number is 972-506-0909.  |
| <b>The Managing Partner</b>      | ProAK, LLC (the Managing Partner or ProAK), a Texas limited liability company, will serve as the Managing Partner. Mr. Shawn Bartholomae is the managing member of ProAK and will manage the day-to-day operations of the Partnership. The Managing Partner has broad authority to manage the Partnership. ProAK is also the managing partner of two other affiliated partnerships, the Northern Lights Royalties LP and Northern Lights II, LP.   |
| <b>The Terms of the Offering</b> | We are offering up to \$5,900,000 in Partnership Interests. We may sell less than \$5,900,000 in Partnership Interests in this offering. We reserve the right to increase the offering to up to \$8,850,000 and to purchase up to an additional 0.25% of Northern Lights ORRI for the same proportionate price per percentage. The minimum Capital Contribution is \$25,000, which minimum may be waived by us in our discretion. The offering will terminate upon the earlier of the sale of all offered Partnership Interests or one year from the date hereof. The offering may be terminated earlier in our discretion.  |
| <b>Securities Offered</b>        | We are offering partnership interests in a Texas limited partnership. If you subscribe in this offering and your subscription is accepted, you will become a limited partner in the Partnership. Limited partners who invest in this offering are sometimes referred to as Investor Partners, to distinguish them from limited partners who may acquire a Partnership Interest assigned from ProAK. The Partnership is a tax flow-through entity, which means that all profits and losses will be allocated to the partners in accordance with the allocation provisions of the Partnership Agreement. The partners will report these items as part of their personal tax returns and pay taxes on their share of  |

profits.

**The Use of Proceeds**

We intend that approximately 85% of the proceeds received from the sale of the Partnership Interests will be used to purchase the Northern Lights ORRI in six State of Alaska competitive oil and gas leases covering lands located in the Kitchen Lights Unit of Cook Inlet, Alaska, from ProAK, the Managing Partner of the Partnership, although the royalties could also be purchased from affiliates or unaffiliated third parties. Proceeds received from the sale of the Partnership Interests will also be used by the Partnership to pay Organization and Offering Expenses and Administrative Fees to the Managing Partner on a fixed, non-accountable basis as a percent of the proceeds received in this offering. To the extent that such fixed, non-accountable payments exceed actual expenses incurred by the Managing Partner, the excess should be considered compensation to the Managing Partner.

**Distributions to the Partners**

We will make distributions as wells are drilled, completed and placed into production on the six leases contained within the Kitchen Lights Lease Area. Once we have started receiving payments from production, we intend to make monthly distributions of net cash income derived from the Northern Lights ORRI, after setting aside appropriate reserves for the Partnership expenses, including management fees and other expenses and liabilities of the Partnership. All distributions will be made in accordance with each partner's respective Partnership Interest, including the Net Distribution Interest provisions described below. We reserve the right to make less frequent distributions or to adjust or suspend distributions if we believe it is in the best interest of the Partnership. Distributions to partners will not be made from the proceeds of this offering, nor from proceeds of any debt. There is no assurance that the Partnership will be able to make distributions of cash in any given amount or at any given time.

**Compensation to the Managing Partner**

The Managing Partner will receive 15% of the gross proceeds of this offering in payment of fees and expenses. To the extent this exceeds actual expenses incurred by the Managing Partner, the excess should be considered compensation to the Managing Partner. The Managing Partner will also be entitled to receive an annual management fee of \$60,000, which we anticipate will be billed on an annual basis pro-rata to the Investor Partners. Fees for services provided by third parties will be paid by the Partnership and billed pro-rata to the Investor Partners. As additional compensation for its efforts in organizing the Partnership, and managing the Partnership, ProAK or its assigns will have the right to share in distributions under the Net Distribution Interest provision described below.

**Net Distribution Interest**

ProAK or its assigns will have the right to receive 15% of each distribution made by the Partnership, whether as a regular distribution, or in redemption or on dissolution of the Partnership.

**Capital Calls:**

We anticipate that we will call upon the partners to contribute additional capital to the Partnership for payment of the annual management fee and the Third Party Expenses incurred by the Partnership until the Partnership begins to receive regular payments from production. If you fail to timely pay a Capital Call, you will be assessed interest at an annual rate of 18% from the date due until paid, and the Partnership shall have the right to offset the entire amount of unpaid Capital Calls and any accrued interest against any distribution otherwise due to you. If you fail to timely pay three or more Capital Calls, whether or not such defaults are as to successive Capital Calls,

your Partnership Interest may be forfeited to the Partnership and reallocated among the remaining Investor Partners in proportion to their Partnership Interest, or may be redeemed for the amount of any unpaid Capital Calls, and you will lose your entire interest in the Partnership.

**Redemption of Partnership Interests**

At any time after the Partnership has received regular monthly payments from production for at least one year, you may request redemption of all or a portion of your Partnership Interest. The redemption price shall be (i) six times the Net Cash Flow of the Partnership for the preceding twelve months, (ii) multiplied by the percentage Partnership Interest redeemed. Redemptions will be made at our discretion. Redemption payments will be subject to the 15% Net Distribution Interest.

**Leverage**

The Managing Partner is authorized to borrow up to the lesser of 20% of aggregate Capital Contributions or \$1,200,000 in aggregate debt outstanding at any one time, and to pledge the assets of the Partnership as collateral, without the consent of the partners. Any borrowing in excess of this limit requires the consent of a Majority-in-Interest.

**Suitability Requirements**

We are offering Partnership Interests only to persons who are an accredited investor, as defined in Rule 501(a) of Regulation D under the Act. The fact that you are an accredited investor does not by itself mean that an investment in a Partnership Interest is suitable for you. You must be verified as an accredited investor before we will accept a Subscription Agreement from you or any funds from you.

**Regulatory Matters**

The Partnership will not be registered as an investment company under the Investment Company Act of 1940 in reliance upon an exemption from registration provided by Section 3(c)(1) and Section 3(c)(9) thereunder.

The Managing Partner is not registered as an investment adviser with the Securities and Exchange Commission. However, the Managing Partner may become registered under the Investment Advisers Act of 1940 (as amended, the “Advisers Act”), at a future date if it determines that registration is necessary or otherwise appropriate with applicable law.

**No Transfer of Partnership Interests**

There is no market for the Partnership Interests and no public or private market for the Partnership Interests is likely to develop. The Partnership Interests have not been registered under state or federal securities laws. The Partnership Interests may not be sold, assigned, pledged or otherwise transferred except under specified conditions, including the requirement that the Partnership Interests be registered under the Securities Act of

1933, as amended, and all other applicable securities laws or that an opinion of counsel satisfactory to the Partnership be rendered to the effect that such registrations are not required. The Partnership Interests are also subject to certain transfer restrictions under the terms of the Partnership Agreement. Because of the restrictions on transfer, the Partnership Interests may not be readily accepted as collateral for a loan. A partner has a limited right to request redemption of the partner’s Partnership Interest. The Partnership Interests are not likely to become eligible for resale under Rule 144 or 144A. Consequently, the Partnership Interests are suitable only for investment by persons with no need for liquidity.

**Tax Aspects**

The Partnership expects to be classified as a partnership for U.S. federal income tax purposes and, as such, will generally not be subject to federal income tax on its taxable income. Instead, each Partner will be required to report on its own tax return the Partner's distributive share of the Partnership taxable income or loss and other separately stated tax items. The Partnership is required to make distributions of cash each year approximately sufficient to cover taxes payable by Partners, but there can be no assurance that there will be sufficient funds available to make such distributions. A summary of the material federal income tax considerations that may be relevant to an investment in a Partnership Interest is set forth below under the heading "United States Federal Income Tax Considerations."

The Partnership's activities may give rise to "unrelated business taxable income" within the meaning of Code Section 512 for Partners that are otherwise exempt from federal income tax, and may create income that is deemed to be effectively connected with the conduct of a U.S. trade or business for Partners that are nonresident alien individuals or foreign corporations. Accordingly, an investment in the Units may not be appropriate for prospective investors that are tax-exempt organizations or non-U.S. persons.

## RISK FACTORS

**An investment in the Partnership involves risks. You should carefully consider the following information about these risks, together with the other information contained in this Memorandum and the attached exhibits before deciding whether to purchase a Partnership Interest. The tax consequences of an investment in a Partnership Interest are complex and you may incur taxable income without any corresponding distribution from the Partnership. You should consult with your own legal, tax and financial advisors about an investment in the Partnership. If any of the events described below actually occurs, the value of the Partnership Interests could decline, and you could lose all or part of your investment. The risks described below are not the only risks associated with an investment in the Partnership. Additional risks and uncertainties not presently known to us or that we currently believe are not material may also harm our business, financial condition and operating results, and you could lose all or part of your investment.**

### **Risks Related to the Northern Lights ORRI**

***There is currently no production of oil or gas from the acreage that is subject to the Northern Lights ORRI.*** The Northern Lights ORRI will likely be the sole asset of the Partnership. The success of the Partnership is contingent on the successful completion of a productive and economical oil or gas well within the Northern Lights ORRI. To the extent such a well is ever completed, it may be several years before the Partnership receives any revenue or distributions are made to the limited partners. If such a well is never completed, then investors will likely lose their entire investment. Therefore, an investment in the Partnership is highly speculative.

***There is no assurance that a well will be successfully drilled and completed in the Kitchen Lights Lease Area, which is comprised of the six leases underlying the Northern Lights ORRI we are proposing to acquire.*** There is no assurance that the operator Furie Operating Alaska, LLC, the Alaskan subsidiary of German Deutsche Oil and Gas AG, formerly Escopeta Oil Company LLC (Furie or the operator) will drill and complete a well on any one of the six leases in the Kitchen Lights Lease Area, or that any well, if drilled and completed, will produce gas in sufficient quantities to return your investment or a profit on your investment. We will have no control over any such decision where Furie decides to drill. We will not begin receiving payments unless and until the operator drills a well in the Kitchen Lights Lease Area and production commences from a formation or horizon included in the Northern Lights ORRI.

***There is no assurance that the operator will carry through with its current drilling plan.*** The Alaska Department of Natural Resources previously approved an amended Plan of Operations (LOCI 16-001) under which the operator proposed to drill the KLU#9 well in the Kitchen Lights Lease Area during the 2017 drilling season. The operator chose not to do so. However, the operator did submit an amended plan of development in October 2019 in which it indicates that it Furie states it “intends to continue exploration drilling throughout the KLU, and that it will mature two prospects for exploration wells outside the Corsair Block and present them to DNR. Furie also states that currently it has no revisions to the well locations stated in its plan of operations, LOCI 16-001. We can give you no assurances that this drilling activity will occur. It may be many years before the operator drills any new development well and commences production, if at all, on any lease in the Kitchen Lights Lease Area underlying the Northern Lights ORRI.

***If commitments to the State of Alaska under the plan of exploration are not met, the North Block of the Kitchen Lights Unit may be contracted out of the Kitchen Lights Unit and leases past their primary terms would be forfeited to Alaska.*** The six leases underlying the Northern Lights ORRI are all located in the North Block of the Kitchen Lights Unit. The six leases will continue in effect only if the operator complies with the plan of exploration for the Kitchen Lights Unit or receives approval of an amendment to the plan of exploration. A plan of exploration for a unit sets drilling commitments and other commitments. If these commitments are not met, the result could be that one or more undrilled blocks would be contracted out of the unit. If a block is contracted out of the Kitchen Lights Unit, and the lease is past its primary term and not extended, the lease will be forfeited to the State of Alaska. All of the leases underlying the Northern Lights ORRI are past their primary terms. If the leases underlying the Northern Lights ORRI are forfeited, the assets held by the partnership will have little value, and you will likely lose your entire investment in the partnership.

***The Northern Lights ORRI may never generate revenues.*** The Northern Lights ORRI will generate revenues only if, as, and when oil and gas wells are drilled and completed, production commences and the production is sold on



the leases underlying our Northern Lights ORRI. We anticipate that it could take three years or more before the Northern Lights ORRI begins to generate any revenues from the sale of production. There is no assurance that any production will be achieved, or that sufficient production will be obtained to enable you to realize any cash return on your investment in the Partnership. You may lose part of or all of your investment.

***We have estimated the value of the Northern Lights ORRI based in part on a reserve report and the reserve report classifies the reserves as “contingent resources”, which is sub-commercial.*** “Proved”, “probable” and “possible” are all classified as commercial standards whereas “contingent resources” are classified as sub-commercial. The reserves described in the report are estimates based on engineering and geological judgment. There are numerous uncertainties involved in the estimation of oil and gas reserves. In addition, unlike most other reserve reports, there are no proved reserves in the Kitchen Lights Lease Area. Therefore, in addition to the normal uncertainties involved in an oil and gas reserve estimate, the reserve estimate in this report is subject to additional contingencies regarding the timing of exploration drilling and development, and the potential for forfeiture of the underlying leases if exploration and development commitments to Alaska are not met. The reserve estimates should not be considered a representation of fair market value or any other commonly recognized measure of investment value.

***We have an evaluation of the Northern Lights ORRI based in part on an engineering report.*** The “contingent resources” described in the report are volume estimates based on engineering and geological judgment. There are numerous uncertainties involved in the estimation of the royalty evaluation. There are no proved reserves in the Kitchen Lights Lease Area. This evaluation is based on the Cobb & Associates September 22, 2004 “Reserve Evaluation of the Northern Lights Project Located in Cook Inlet of Alaska” probabilistic evaluation of the reserves and resource volumes and values for several of the Prodigy leases (the 2004 Report). Evaluation stipulations – The volumes presented in this report result from the evaluation of the contingent resources for the interest of Prodigy in certain oil properties located the Cook Inlet, Alaska, consistent with the 2018 update to the petroleum industry’s “Petroleum Resources Management System”. The evaluation is based on data supplied by Prodigy and on public statements by Furie Operating Alaska, LLC (Furie). The changes from the 2004 Report include classifying all volumes as “contingent resources” because of the currently-uncertain development plans for the KLU, and the restriction of the evaluation to the “Central Area” leases from the 2004 Report, which includes the leases in the KLU in which Prodigy maintains an ORRI. Therefore, in addition to the normal uncertainties involved in an oil and gas reserve estimate, the evaluation in this report is subject to additional contingencies regarding the timing of exploration drilling and development, and the potential for forfeiture of the underlying leases if exploration and development commitments to Alaska are not met. The royalty evaluation should not be considered a representation of fair market value or any other commonly recognized measure of investment value.

***The fair market value of the Northern Lights ORRI may be significantly less than our estimated value.*** ProAK has independently placed a value for a portion of its Northern Lights ORRI. This is not a representation of the current fair market value of these royalty interests. Knowledgeable sellers with experience in both oil and gas and in the Cook Inlet have sold or agreed to sell their overriding royalty interests for significantly less (proportionately) than our estimated value. These include previous recent sales to and from Mr. Bartholomae and ProAK.

***There is no assurance that a development well will be successfully drilled and completed in the Kitchen Lights Lease Area.*** Deadlines under prior plans of exploration in the Kitchen Lights Unit have been missed and extended in the past. Numerous factors could prevent the completion of a well, including weather conditions, environmental issues, more promising opportunities elsewhere, lack of financing and technical problems with a well. We will not begin receiving payments unless and until the operator drills a well in the Kitchen Lights Lease Area and production commences from a formation or horizon included in the Northern Lights ORRI.

***We will not control exploration or development of the Kitchen Lights Unit.*** We will not be able to control the exploration or future development of the Kitchen Lights Unit. We will not own the working interest which is entitled to make exploration and development decisions in the Kitchen Lights Unit.

***We will have no control over the operator.*** We will not control the operator nor will we have a vote in whether, when or where the operator drills wells. Revenues from the Northern Lights ORRI will be wholly dependent upon decisions of the operator as to when and where to develop the Kitchen Lights Unit. While the operator is currently

drilling in the Kitchen Lights Unit, it is not currently drilling in the Kitchen Lights Lease Area. The operator may decide to drill other locations in the Kitchen Lights Unit first, or may cease development of the Kitchen Lights Unit. The operator will be under no obligation to us to continue drilling or operating wells in the Kitchen Lights Unit.

***We will not control the pace of development.*** We will not control or have much ability to influence the pace of development of the Kitchen Lights Lease Area. The decision on when and how to develop the Kitchen Lights Lease Area, including exploration of horizons deeper or shallower than those included in the Northern Lights ORRI, will be made by the operator and the working interest owners. The operator may delay drilling a well for a number of reasons, including an inability or unwillingness of the working interest owners to pay drilling or completion costs, low prices for oil or gas, the presence of impermeable formations, disappointing results from other wells in the area, and more promising opportunities elsewhere. We will not begin receiving payments unless and until the operator drills a well in the Kitchen Lights Lease Area and production commences from a formation or horizon included in the Northern Lights ORRI.

***We will not control the decision as to whether or when to rework a well.*** The decision to rework a well to continue or enhance production will be made by the operator. The operator may delay reworking a well for a number of reasons, including an inability or unwillingness to pay the costs of reworking the well, low prices for oil or gas, the presence of technical difficulties unique to that well, lack of sufficient porosity or permeability or other factors which make reworking the well not economically practical, disappointing results from other wells in the area, and more promising opportunities elsewhere. We are not likely to be able to prevent the operator from shutting-in a well, if a well is drilled and not productive. If a well is not producing as expected and is not reworked, you could lose all or part of your investment or receive less than the anticipated return from the Partnership.

***All of the Kitchen Lights Lease Area is located in the Cook Inlet in the State of Alaska.*** We will not own geographically diverse assets. We will not have the diversification of risk that one would normally find associated with programs involving a number of properties located in multiple jurisdictions or operated by different operators. Additionally, the value of the Northern Lights ORRI could be affected by events such as natural disasters in Alaska, a shortage in equipment and supplies to develop the Kitchen Lights Lease Area, weather conditions that delay development, environmental issues that prevent development, and any other event which affects the ability of the operator to explore for oil and gas or to produce oil and gas in the Cook Inlet.

***It is difficult to drill in the Cook Inlet.*** The Cook Inlet is a difficult, technologically challenging, and expensive area to drill. Severe winter conditions bring drilling efforts to a seasonal stop, and drilling rigs must be moved and winterized.

***The Cook Inlet is an endangered species habitat.*** It is home to beluga whales, stellar sea lions and numerous species of fish. There is no assurance that environmental concerns will not result in a suspension or ban on further drilling or in a suspension or ban on platforms or pipelines necessary to bring any oil and gas production to market. However, on May 31, 2017, the United States Department of Commerce, through its National Oceanic and Atmospheric Administration based in Juneau, Alaska, issued a report which concluded that the proposed plan of development submitted by the operator would not likely contribute to any environmental concerns relating to the endangered species which occupy the Cook Inlet. A copy of this report will be provided to any prospective purchaser upon request or it may be accessed through the Managing Partner's website at <http://ProAK.net/home/>.

***The Kitchen Lights Lease Area could be affected by environmental developments.*** The Kitchen Lights Lease Area is environmentally sensitive. Federal, state, or local government officials or regulators have in the past or may seek in the future to curtail exploration or development-related activities. There can be no assurance that environmental issues will not arise from time to time which may delay or prevent exploration or development.

***Environmental impacts and other regulatory reviews associated with production may delay or prohibit development and production.*** Once the exploratory wells delineate a commercially producible reservoir, the operator must submit a proposed plan of operations to Alaska and other local, state and federal agencies before undertaking development. Projected surface use requirements may be subject to environmental and other reviews. Approvals of all agencies having jurisdiction must be obtained before development can proceed. Therefore, even when the exploratory wells show the presence of commercial quantities of oil or gas, development may be delayed or prohibited.

***Production expenses could result in reduced operations in the Kitchen Lights Unit.*** Investors will generally receive their portion of the oil and gas produced from an overriding royalty interest (less taxes, preparation expenses and certain marketing costs) regardless of the production and extraction expenses incurred. Production and extraction expenses typically include labor, fuel, repairs, hauling, pumping, insurance, storage and supervision, preparation and administration. Although production and extraction expenses may influence the decision of the operator as to the volume of oil or gas to extract or produce from a property or whether to shut-in or abandon a specific well, production and extraction expenses will not reduce production payments from the Northern Lights ORRI if or when production commences. Increasing production and extraction expenses could, however, result in reduced operations in the Kitchen Lights Unit including an indefinite delay in drilling wells on the Kitchen Lights Lease Area, or the cessation of production for wells located in the Kitchen Lights Lease Area. Such reduction or cessation could delay, reduce or stop production payments to the Partnership.

***The return on investment depends on production.*** The value of the Northern Lights ORRI will be dependent upon the future oil and/or gas development activities and production that occur in the Kitchen Lights Lease Area. There are many uncertainties inherent in projecting future rates of production or future contemplated development. If the Kitchen Lights Lease Area is not successfully developed, the value of the Northern Lights ORRI will decline and you may lose all of your investment in the Partnership.

***The marketing of oil and gas produced on the Kitchen Lights Unit will be affected by a number of factors that are beyond our control and the control of the operator of the Kitchen Lights Unit.*** The marketing of any oil and gas produced in the Kitchen Lights Unit will be affected by a number of factors whose exact effect cannot be accurately predicted. These factors include local and regional supply, demand and pricing, alternatives to oil and gas, and local and regional weather conditions.

***The operator may not receive approval for a production platform for the Kitchen Lights Lease Area.*** A production platform is necessary to gather and transmit any production from the Kitchen Lights Unit. While the operator has constructed one production platform in the Corsair Block, there is no assurance that the operator will receive approval to construct a platform in the North Block where the Kitchen Lights Lease Area is located.

***The Northern Lights ORRI is being sold in its present condition, "as is", "where is" and "with all faults."*** The Partnership will acquire the Northern Lights ORRI in its present condition, without any warranty, express, implied, at common law or by statute, relating to (a) the accuracy of any data or records concerning the quality or quantity of oil, gas or other hydrocarbon reserves, if any, attributable to the Northern Lights ORRI, including those received from third parties, (b) the environmental condition of the Kitchen Lights Lease Area, (c) any statutory, express or implied warranty of merchantability, (d) any statutory, express or implied warranty of fitness for a particular purpose, (e) any statutory, express or implied warranty of title other than as to adverse claims arising by or through sellers, and (f) any and all other statutory, express or implied warranties.

***The leases could be forfeited for reasons unrelated to the Kitchen Lights Unit agreements with Alaska.*** Leases in the area have been forfeited for failure to comply with regulations of agencies other than the State of Alaska. There can be no assurance that the leases underlying the Northern Lights ORRI will not be forfeited or held to be invalid for reasons we do not currently anticipate.

***Transfer of the Northern Lights ORRI is subject to approval of Alaska.*** The Partnership must submit an Application for Assignment of Interest in Oil and Gas Leases to the Alaska Department for approval of the commissioner. Any purchaser must be "qualified", which generally means that the purchaser must be either an individual who has reached the age of majority (18 in Alaska), be a legal representative of a qualified individual, or be an entity qualified to do business in Alaska. There is no assurance that Alaska will approve a transfer to the Partnership. However, we anticipate that the transfer will be approved.

***Promises, projections or opinions may not be reliable.*** No person has been authorized to make any oral promises, projections or opinions concerning future events, the Northern Lights ORRI, or the Kitchen Lights Unit and plan of exploration, except as expressly set forth in this Memorandum and any other document expressly authorized by ProAk, LLC to be used in connection with this offering. Oral statements should not be relied upon under any circumstances. Opinions of possible future events, including forward looking statements, are based on various

subjective determinations and assumptions. All projections by their very nature are inherently subject to uncertainty, and a prospective investor should understand that written projections, if provided, may not be achieved, that underlying assumptions may prove inaccurate, that production may not be achieved or sustained, that the pricing received for production is subject to a number of independent market factors and that operations on the Kitchen Lights Lease Area may be unprofitable or never occur at all. There is no assurance of any return on an investment in the Northern Lights ORRI.

***There is no guarantee that the drilling of a well will result in the production of oil and/or gas.*** Drilling for oil and gas is a highly speculative activity that is marked by numerous unproductive efforts. There is no guarantee that any well will be commercial. Productive wells may not produce enough oil or gas either to make a profit in excess of the cost of operating the well or return the invested capital. Lack of porosity and permeability in a target formation may hinder or restrict production or even make it impracticable or impossible. Further, hazards such as unusual or unexpected formations, pressures or other conditions, blowouts, fires, failure of equipment, downhole collapses, and other hazards are involved in drilling, fracking, completing, reworking and recompleting wells. Therefore, there is no assurance that the operator will obtain production from the Kitchen Lights Lease Area or that production, if obtained, will be sufficient to enable us to recoup all or part of our investment.

***Attempts to complete drilled wells may be unsuccessful.*** Following the drilling, testing and logging of a well, the operator determines whether an attempt to complete the well should be made. The fact that an attempt to complete the well is made does not mean that the well will be a commercial well. A decision to make a completion attempt will be based upon the data then available to the operator which indicates the existence of oil or gas in one or more of the zones through which the well was drilled. Any attempt to complete the well may be unsuccessful for any number of operational reasons. The fact that the well is successfully drilled to the required depth and tests thereafter indicate oil or gas formations sufficient to warrant a completion attempt does not, in and of itself, provide assurance that commercial oil and/or gas production will be obtained. If a well is drilled but not completed and is abandoned, we will not receive payments from the well. In addition, we cannot guarantee that the operator will be willing or able to continue to drill wells if it encounters a series of unsuccessful completion attempts.

### **Risks Related to Our Business**

***This investment will not be diversified.*** We will invest in the Northern Lights ORRI, which covers only six leases in one area of the Cook Inlet. The leases are in the same geographic area and target the same formation. They are all operated by the same operator. Consequently, the Partnership's investments will not be diversified. This limited diversification could expose the Partnership to losses disproportionate to risks of the oil and gas industry in general.

***Production from the Northern Lights ORRI may not be sufficient to repay our investment or to pay the anticipated return on our investment.*** Even if one or more wells are drilled and produce oil and gas in commercial quantities, the amount of production or payments received for production may not be sufficient over the lives of any wells to repay our investment or to pay the anticipated return on our investment. Many factors that influence production are specific to each well, such as the initial quantity of production, the rate of decline in production, lack of permeability or porosity in the area of a wellbore, and equipment failures or other disruptions in production. Other factors that will influence the revenues from each well are not specific to each well, such as the prices received for production. The aggregate amount of production or payments from production from the Northern Lights ORRI may be less than anticipated, and we may not recover our investment or earn a return on our investment.

***Periodic payments under the Northern Lights ORRI may be less than anticipated, which will have the effect of increasing the time before the investment is repaid and reducing the annual return to our Investor Partners.*** We may receive periodic payments that are lower than we anticipate, particularly if oil and gas prices decline, or production does not achieve anticipated levels. Our Investor Partners may therefore receive lower periodic payments than anticipated and may receive payments over a longer period of time, increasing the time before they receive a return of their investment and reducing their annual return.

***We may have limited access to information concerning operations in the Kitchen Lights Lease Area.*** We may not get complete or current information regarding operations, such as the development plans of the operator or the

current status of production or plans to increase or limit production. Even if this information is provided, it may be incomplete or become inaccurate. The operator is currently providing limited information about its plans, most of which is the information contained in public filings with the state of Alaska.

***Oil and natural gas prices have been volatile in the past.*** The revenues generated by the Northern Lights ORRI (if production is obtained) will be highly dependent upon the prices of, and demand for, oil and natural gas. Prices for oil and gas have been volatile in the past and could become volatile again. Natural gas prices experienced significant increases and decreases over the prior decade, including a decline of almost 72% from July 2008 to April 2009. Gas prices have continued to experience some volatility in the current decade, most recently spiking to a high of almost \$8 per million British thermal units (MMBtu) in the first quarter of 2014 before declining to lows averaging below \$3 per MMBtu currently (Henry Hub prices). Oil prices also experienced significant changes over the prior decade. The weekly US spot price for a barrel of oil declined over 34% in the first two years of the prior decade before it gradually, although not consistently, increased throughout the rest of the decade until it peaked at approximately \$134 in July 2008. Oil prices then declined over 76% to approximately \$32 by January 2009. More recently, prices for West Texas intermediate oil dropped from approximately \$107 bbl in June 2014 to below \$45 bbl in January 2015, a 58% decline.

***The Cook Inlet is a unique gas market.*** The Cook Inlet gas prevailing value, which is the weighted average price of significant sales of gas to publicly regulated utilities in the Cook Inlet, is higher than Henry Hub. The Cook Inlet natural gas market functions differently than natural gas markets in the lower 48 states. It has no spot market and thus no clear signals of value. Instead, natural gas sales are based on prices agreed in contracts between natural gas producers and utilities. The utilities pass the cost on to their customers, who do not participate in price negotiations. Although the Regulatory Commission of Alaska determines whether rates are fair and reasonable, Cook Inlet prevailing prices are currently higher than those in the lower 48 states. The discovery of a large gas deposit by Furie's predecessor, and subsequent production by Furie, is likely to have a significant downward impact on Cook Inlet prevailing gas prices.

***Oil and natural gas prices may continue to be volatile in the future.*** Volatile prices may reduce the amount we receive from production of oil or gas. Volatile prices also may discourage investment in drilling wells, or enhancing production from, or reworking, existing wells. Numerous factors create volatile prices for oil and gas. Oil and natural gas prices may fluctuate significantly in response to minor changes in supply, seasonal demand, market uncertainty, political conditions in oil-producing countries, activities of oil-producing countries to limit or increase production, global economic conditions, government regulations, weather conditions, competition from other sources of energy and other factors that are beyond our control. From time to time, a surplus of oil or gas occurs in areas of North America. The effect of a surplus may be to reduce the price we receive for production or to reduce the amount of production. All of these factors are beyond our control. Changes in oil and gas prices in Cook Inlet will significantly affect the payments to the Partnership and will affect the return on your investment.

***Technological developments and the ability to tap new reserves may lead to a long term decline in oil and gas prices.*** Exploration companies have successfully developed oil sands and shale formations using increasingly sophisticated drilling and fracturing techniques. Drilling, completion and production technology continues to improve efficiency and lower costs. As a result, fields and formations that could not be economically drilled and produced are now being developed. The long term result may be a sustained decline and lower levels of prices for oil and gas than we anticipate. If oil and gas prices in the Cook Inlet area decline or plateau, the amount of any production payments under the Northern Lights ORRI will also decline and/or plateau. This could result in a longer than anticipated time to recover your investment or you may receive less than the anticipated return from the Partnership.

***Discoveries of new reserves may decrease the payments under the Northern Lights ORRI.*** North America is generally experiencing an increase in estimated reserves of oil and natural gas. The rate at which oil and natural gas reserves are being discovered and proven has also increased. While increased reserves can be beneficial for consumers and the economy, increased reserves may contribute to lower prices or price instability, and may discourage investment in drilling wells or reworking existing wells. This could result in lower payments under the Northern Lights ORRI, and you could lose part of your investment or receive less than the anticipated return from the Partnership.

***A relaxation of crude oil export restrictions may reduce demand for oil produced in the Cook Inlet.*** Most crude oil produced in the United States may not be exported, under regulations administered under the Department of Commerce. However, crude oil produced in the Cook Inlet generally is permitted to be exported, broadening the potential market for such oil. If the current restrictions on export of other U.S. produced crude oil are relaxed, it may decrease demand for crude oil produced in the Cook Inlet.

***Concerns regarding hydraulic fracturing, or fracking, could lead to restrictions on fracking.*** The United States Environmental Protection Agency is conducting a study of the impact of fracking on drinking water resources. Fracking activities can lead to emissions of methane, volatile organic compounds, hazardous air pollutants, and greenhouse gases. The wastewater associated with fracking can contain high levels of dissolved solids, fracturing fluid additives, metals, and naturally occurring radioactive materials. Many water treatment plants in the areas where fracking is occurring are not designed to remove some of these contaminants. Some areas have begun to require operators to post data regarding the chemicals used in fracking on an online database. The results of the EPA study or other developments could lead to increased regulation, or the banning, of fracking in Alaska as well as the United States. In addition, as the industry develops more experience with fracking, liability for pollution of water, or for other occurrences, including earthquakes, could be imposed on oil and gas operators and owners of mineral interests, including royalty interests. These developments or liabilities could lead to a substantial decrease in production from formations where fracking is being used.

***The marketing of the oil or gas produced will be affected by a number of factors beyond our control.*** The marketing of any oil or gas produced will be affected by a number of factors, some of which are beyond our control, and whose exact effect cannot be accurately predicted. There can be no assurance that optimal or the reported pricing will be received for actual production. Actual prices received at the wellhead may vary widely based upon, among other things:

- trading commodity prices;
- fluctuating differentials to NYMEX and/or Henry Hub;
- access to markets;
- distance from markets;
- quality of oil and gas;
- impurities in the oil and gas stream; and
- rates, terms, conditions and deductions in marketing contracts over which we have no control.

***Delays in marketing production could delay the receipt of proceeds from production.*** If production from a well is achieved, numerous factors can delay the marketing of production and consequently delay the receipt of proceeds from production. These factors include, among others, constructing a production platform, negotiating contracts for the sale of production, obtaining the facilities (such as surface equipment and pipeline connections) through which production can be marketed, receiving title opinions, curing title problems, and executing division orders. Thus, many months may pass between the date of establishment of production and the date of marketing such production.

***We will depend on gathering, processing and distribution systems built and maintained by the operator.*** The production and marketing of any oil or gas produced from the Kitchen Lights Lease Area will depend upon the availability and capacity of oil and gas gathering systems, pipelines and processing and storage facilities. This infrastructure may not be constructed or be adequate in the Cook Inlet. We will not control the decision as to whether to build or expand infrastructure. While we anticipate that infrastructure will be available or built, there can be no assurance that adequate infrastructure will be in place to permit the operator to develop and sell production from the wells. Regulation of oil and gas production and transportation, tax and energy policies, changes in supply and demand, pipeline pressures, disruption to facilities due to maintenance or weather, damage to or destruction of pipelines and general economic conditions could adversely affect the ability to transport production. If any production platforms, pipelines and other facilities become partially or fully unavailable to transport production, or if the natural gas quality specifications for a natural gas pipeline or facility change so as to restrict the operator's ability to transport natural gas on those pipelines or facilities, our investment could be adversely affected. If adequate infrastructure is not available, the operator may be forced to shut-in producing wells or delay or drop development plans. If infrastructure is not available or built, we will not receive production payments.

***Even though we will not operate wells, we will be subject to operational hazards and uninsured risks.*** The Partnership will not operate any wells. Nevertheless, our future success will depend on the success of production, activities by the operator. Drilling activities may be unsuccessful for many reasons, including those described below. Moreover, the successful drilling of a natural gas or oil well does not ensure we will realize income from the well. A variety of factors, both geological and market-related, can cause a well to become non-commercial or only marginally commercial. In addition to their costs, unsuccessful wells can hurt efforts to replace production and reserves, for example, by discouraging further development. The oil and gas business involves a variety of operating risks, including:

- fires;
- explosions;
- blow-outs and surface cratering;
- uncontrollable flows of natural gas, oil and formation water;
- natural disasters, such as earthquakes or tornados;
- pipe, cement, well or pipeline failures;
- casing collapses;
- mechanical difficulties, such as lost or stuck oil field drilling and service tools;
- abnormally pressured or impermeable formations; and
- environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases and liquids.

***We may not insure against hazards involved in oil and gas operations.*** Natural hazards and risks involved in oil and gas operations are great and include unusual or unexpected formations, pressures, and other conditions described above. The Partnership may be subject to liability for pollution and other similar damages or may lose its investment in a well due to hazards against which the Partnership cannot insure or against which we may elect not to insure due to the premium costs involved or for other reasons. Uninsured losses could harm the financial condition of the Partnership, or result in loss of payments under or the value of the Northern Lights ORRI.

***We may engage in hedging activities, which may present additional risks.*** To manage the Partnership's exposure to price risks in the marketing of its oil and natural gas, in the future if the Partnership begins receiving production payments we may from time to time enter into financial or physical hedging or derivative contracts, including futures contracts, price swaps, options and other derivative instruments. The goal of hedges is to lock in prices so as to limit volatility and increase the predictability of cash flow. These transactions limit our potential gains if oil and gas prices rise above the price established by the hedge. The Partnership's use of hedges to reduce its sensitivity to oil and natural gas price volatility would be subject to a number of risks. If the Partnership does not receive production payments in the amounts and at the times estimated by the Partnership due to inaccuracies in the reserve estimation process, operational difficulties, regulatory limitations or other factors, the Partnership could be required to satisfy its obligations under potentially unfavorable terms. Substantial variations between the assumptions and estimates used by the Partnership in its hedging activities and actual results experienced could materially adversely affect the Partnership's financial condition and its ability to manage risk associated with fluctuations in oil and natural gas prices. In addition, hedging transactions may expose us to the risk of financial loss in certain circumstances, including instances in which our production is less than expected; the counterparties to our futures contracts fail to perform under the contracts; or an event materially impacts oil or gas prices or the relationship between the hedged price index and the oil and gas sales price.

***Our reserve and production estimates are based on subjective assumptions.*** The value of the Northern Lights ORRI depends upon, among other things, the reserves attributable to those royalty interests. Estimates of proved reserves are by their nature not certain, while estimates of probable reserves are even less certain. In addition, the estimates of future net revenues are based upon various assumptions regarding future production levels, prices and costs that may prove to be incorrect over time. The accuracy of any reserve estimate is a function of the quality of available data, engineering interpretation and judgment, and the assumptions used regarding the quantities of recoverable oil and natural gas and the future prices of oil and natural gas. Geologists and petroleum engineers consider many factors and make many assumptions in estimating reserves. Those factors and assumptions include, but are not limited to, historical production from the area compared with production rates from similarly situated

producing areas; the effects of governmental regulation; assumptions about future commodity prices, production and taxes; the availability of enhanced recovery techniques; and relationships with landowners, working interest owners, pipeline companies and others. Changes in any of these factors and assumptions could materially alter reserve and future net revenue estimates. Actual production and revenues will likely vary from estimates and these variances could be material.

***Royalty interests are depleting assets.*** A return on royalty interests is derived from the sale of oil and/or gas, which are depleting assets. As oil and/or gas is produced from the properties, the reserves will be depleted, and the value of the royalty interests is likely to decline. If production is achieved, it will decline over time, and the cash flow derived from the Northern Lights ORRI will decline. Even if the prices of oil and gas rise over the life of the Northern Lights ORRI, decreased production may offset price increases. In addition, the decline rate in Cook Inlet wells ranges as high as 16% to 17%, so the actual productive life may not be as long as estimated. We can give you no assurance that production will be achieved or maintained at anticipated levels or as to the length of time any production will occur. Production from the Northern Lights ORRI may not be sufficient to return our investment or to pay any return on the investment.

***The operator could encounter shortages of drilling rigs, equipment, supplies, and personnel.*** In the past, there have been periods where general shortages of drilling rigs, equipment, and supplies have occurred. Shortages of drilling rigs, equipment, or supplies could delay and adversely affect exploration and development efforts of the operator. The demand for, and wage rates of, qualified rig crews in the drilling industry tend to fluctuate in response to the number of active drilling rigs in service. The oil and natural gas industry may in the future experience shortages of qualified personnel to operate drilling rigs, which could delay drilling operations on the leases and licenses underlying the Northern Lights ORRI, and adversely affect the amount or timing of production payments.

***Regulation of the oil and gas industry may adversely affect the return on your investment.*** The oil and gas industries are subject to extensive governmental regulation which relates to, among others, environmental standards, pollution control, remediation of contamination, preservation of natural resources and worker safety. This regulation may fix rates of production from wells and the prices for oil and gas may be limited. Oil and gas operations are also subject to stringent laws and regulations relating to containment, disposal and controlling the discharge of hazardous oilfield waste and other non-hazardous waste material into the environment, requiring removal and cleanup under certain circumstances or otherwise relating to the protection of the environment. Governmental regulations relating to environmental matters could affect operations by increasing the costs of operations or by requiring the modification of operations in certain areas. Any such government regulation could adversely affect the production and sale of oil and gas, which in turn could adversely affect our cash flow and the value of our partnership interests.

***Concerns about climate change could lead to new regulations.*** Climate change is receiving increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The outcome of regulatory actions to address global climate change could result in new regulations, additional charges to fund energy efficiency activities, or other regulatory actions. These actions could result in increased costs associated with the production of natural resources or affect the demand for oil and gas. Any action by regulators mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. We cannot predict the potential impact of such laws or regulations.

#### **Risks related to the Partnership structure**

***The Partnership is new.*** The Partnership is newly-formed and does not have an operating history. With the exception of ProAk Royalties, LP, which originally acquired similar overriding royalty interests from Mr. Bartholomae and affiliates, and Northern Lights Royalties LP and Northern Lights Royalties II, LP and Northern Lights Royalties III LP, which recently acquired approximately 2.65%, .75% and .6% respectively, of similar overriding royalty interests from ProAK Royalties, LP and Mr. Bartholomae, respectively, prior investment funds controlled by the same management had significantly different strategies and types of investments. Prospective



investors may request information regarding prior funds, including ProAK Royalties, LP, Northern Lights Royalties LP and Northern Lights Royalties II, LP and Northern Lights Royalties III LP to evaluate prior to making an investment in the Partnership.

***We cannot assure you that we will be successful.*** There can be no assurance that the royalty interests the Partnership will acquire will provide a return of your investment or a return on your investment. The Partnership has not authorized anyone to make any representation to the contrary. An investment in the Partnership is suitable only for investors who are capable of identifying, evaluating and bearing the relevant risks. Although this section attempts to describe some of the relevant risks, there are no doubt many more risks that are not described in this Memorandum, any one of which could cause the Partnership to incur losses.

***We depend on key personnel.*** The Partnership and the Managing Partner will depend upon the efforts and skills of Shawn Bartholomae. The loss of Mr. Bartholomae could have a substantial adverse effect on the Partnership.

***There are potential conflicts of interest.*** The Managing Partner and others affiliated with the Partnership have certain conflicts of interest and additional conflicts of interest may arise in the future. See “Conflicts of Interest”.

***We will not devote all our time to managing the Partnership.*** Although the manager and affiliates of the Managing Partner will devote as much time to the Partnership as they believe is reasonably necessary to assist the Partnership in achieving its investment objectives, they do not expect to devote all or substantially all of their working time to the affairs of the Partnership. The Managing Partner, and one or more of its related entities, own oil and gas interests. They also manage other partnerships. Furthermore, the Managing Partner may decide to form other oil and natural gas ventures in the future, which could take attention from the affairs of the Partnership.

***The Partnership Interests are not freely transferrable.*** You will not be permitted to transfer, assign, or pledge your Partnership Interest without the Managing Partner’s consent, which consent can be given or withheld in our discretion. Further, a transferee of your Partnership Interest may be substituted as a partner only with our consent. Because you will own no direct interest in any royalty interests acquired by the Partnership, you will not be able to transfer, assign, or pledge your proportionate share of such royalty interests.

***The Partnership Interests are not liquid assets.*** The Partnership Interests will not be listed on any securities exchange or quotation system and no public market exists or is likely to exist for the Partnership Interests. To purchase a Partnership Interest, you must make certain representations, including that you are acquiring the Partnership Interest for your own account for investment purposes and not with a view toward distribution or resale. The Partnership Interests are being offered and sold pursuant to specific exemptions from registration provided in federal and state securities laws for transactions involving a private offering, and the availability of such exemptions depends in part upon your investment intent. Accordingly, you should be prepared to retain your investment until termination of the Partnership.

***The Partnership Interests will be subject to restrictions on resale.*** We are offering the Partnership Interests in a private placement. Therefore, the Partnership Interests will be subject to restrictions on resale. Restricted securities cannot be sold or otherwise transferred absent registration under the Securities Act of 1933, as well as applicable securities statutes of states or other jurisdictions, or pursuant to exemptions from the registration requirements under those statutes. In addition, the Partnership Interests will be subject to restrictions on resale under the Partnership Agreement. Such restrictions could prevent or delay a sale of any Partnership Interests or reduce the amount of proceeds that might otherwise be realized from a sale of Partnership Interests. You should not invest in this offering if you anticipate you will need to sell the Partnership Interests before termination of the Partnership.

***Your Partnership Interest could be involuntarily redeemed.*** A limited partner who withdraws or is subject to an Event of Withdrawal (as defined in the Partnership Agreement) will lose the rights of a partner, although not the economic benefit of its interest in the Partnership. In addition, its Partnership Interest may be redeemed at the discretion of the Managing Partner, whereupon such limited partner will have no further interest in the Partnership. The Partnership Agreement provides a formula for such redemption, but there is no assurance that such formula will result in a return of your entire Capital Contribution or any gain on your investment. Such redemption may result in a loss of part or substantially all of your investment.

***You will be asked to make an additional Capital Contributions under Capital Calls.*** The Managing Partner is authorized to make Capital Calls on the Investor Partners for payment of the management fee and Third Party Expenses incurred by the Partnership. The Managing Partner is specifically authorized to use revenues, if any, of the Partnership to pay these costs in lieu of or in addition to making any Capital Call. If you fail to timely pay a Capital Call, you will be assessed interest at an annual rate of 18% from the date due until paid, and the Partnership shall have the right to offset the entire amount of unpaid Capital Calls and any accrued interest against any distribution otherwise due to you. If you fail to timely pay three or more Capital Calls, whether or not such defaults are as to successive Capital Calls, your Partnership Interest may be forfeited to the Partnership and reallocated among the remaining Investor Partners in proportion to their Partnership Interest, or may be redeemed for the amount of any unpaid Capital Calls, and you will lose your entire interest in the Partnership.

***You may be distributed assets in kind upon any dissolution and liquidation.*** The Partnership will be dissolved upon the happening of certain events set forth in the Partnership Agreement. Upon any dissolution requiring the winding up of a Partnership's business, the liquidator of the Partnership's assets may elect to sell all or a part of the Partnership's assets in order to pay in full all of its liabilities and obligations or for any other reason. There is no assurance that an adequate market for such assets will be available. If no adequate market for such assets is available, or if the liquidator otherwise elects, the net assets of the Partnership may be distributed in kind to the partners.

***The Managing Partner may withdraw or be removed.*** The Managing Partner may withdraw at any time after the expiration of two years from the date of the Partnership Agreement by giving written notice to the limited partners; provided that the Managing Partner has designated a successor person which is competent and willing to serve as Managing Partner, subject to the consent of a Majority-in-Interest. Further, the Managing Partner may be removed by the consent of a Majority-in-Interest at any time it is subject to an Event of Withdrawal. The Managing Partner may otherwise be removed only with the consent of Investor Partners holding at least two-thirds of the Partnership Interests and only upon prior written notice signed by at least two other partners stating the events or actions prompting an attempt to remove, describing in specific detail the actions that must be taken to cure such events or actions, and providing a period of not less than thirty (30) days from receipt of the written notice to cure such events or actions. In the event the Managing Partner is removed, the limited partners would then have to elect a successor managing partner or risk dissolution of the Partnership. There can be no assurance that any other person would be willing to serve as the managing partner of the Partnership. In that event, the Partnership would be dissolved and its business wound up.

***The Partnership may incur debt.*** The Partnership has the authority to incur debt up to certain limits without the approval of the partners, and may incur substantial debt with the approval of the partners. If any debt is incurred and is secured by a lien on a Partnership's assets, the Partnership and its partners may bear a risk of loss of those assets if the debt is not timely paid. Any required periodic payments to the lender will increase the cash flow requirements for the Partnership and diminish cash available for distribution to the partners.

***We may incur liability for rescission.*** The securities of the Partnership are offered and sold in reliance upon a private placement exemption from registration under the Securities Act and applicable securities laws of states and other jurisdictions. If the Partnership, the Managing Partner or any selling broker-dealers fail to comply with the requirements of the relevant exemption the investors may have the right, if they so desire, to rescind their purchase of the securities. If a number of investors sought rescission at one time, the Partnership could be required to make significant payments which could adversely affect its financial condition. If the Partnership is forced to make a rescission offer, its reputation would also likely be significantly harmed. A rescission offer or a loss of reputation would have a material adverse effect on the Partnership's business and results of operations. We intend to comply with all applicable securities laws.

***Your investment in the Partnership may be frozen.*** If the Managing Partner or any governmental agency believes that you are acting, directly or indirectly, in violation of any U.S., international or other anti-money laundering laws, rules, regulations, treaties or other restrictions, or on behalf of any suspected terrorist or terrorist organization, the Managing Partner or such governmental agency may freeze your interest in the Partnership or suspend your withdrawal rights. The Partnership may also be required to remit or transfer your Partnership Interest to a governmental agency.

***The Partnership Agreement limits management's liability to you and requires you to indemnify it against certain losses.*** Management will have no liability to the Partnership for any loss suffered by the Partnership, and will be indemnified by the Partnership against losses sustained by it in connection with its management of such Partnership unless it engages in intentional misconduct or a knowing violation of law or a transaction in which it receives a personal benefit in violation or breach of the Partnership Agreement.

***There is no independent representation of purchasers of Partnership Interests.*** The interests of the investors in this offering have not been separately represented by legal counsel or others in connection with the organization of the Partnership and the offering of Partnership Interests. Counsel for the Managing Partner expressly disclaims any representation of the investors or any limited partner, and will not undertake to monitor compliance of the Partnership or the Managing Partner with applicable laws, the provisions of the Partnership Agreement or the representations in this Memorandum. Accordingly, the terms of the offering, or of the Partnership Interests, or the management of the Partnership may not have been structured in the most favorable manner to the investors and may not include legal protections for the investors which might have been obtained if they had retained independent counsel.

***The Partnership will not be registered under the Investment Company Act of 1940.*** The Partnership will rely on the exemptions contained in Section 3(c)(1) and/or 3(c)(9) of the Investment Company Act which exempts issuers whose outstanding securities qualify for certain exemptions under the Investment Company Act. With respect to the determination of "beneficial ownership," the Partnership, among other things, will obtain representations and undertakings from the investors in order to meet the conditions of such exemption. As a result, the Partnership will not register under the Investment Company Act, and the Partnership's investors will, therefore, not receive the protections afforded by the Investment Company Act to investors in a registered investment company. If the Securities Exchange Commission determines that the Partnership is beneficially owned by more than 100 persons for purposes of Section 3(c)(1) and is conducting is conducting business other than owning or holding oil, gas or other mineral royalties or leases, or fractional interests therein, or certificates of interest or participation in or investment contracts relative to such royalties, leases, or fractional interests for purposes of Section 3(c)(9), then the Partnership could be required to register as an investment company under the Investment Company Act and incur significant expense.

***The Managing Partner will not be registered under the Investment Advisers Act of 1940.*** The Managing Partner is presently not registered as an investment adviser under the Investment Advisers Act, primarily because the investments the Partnership anticipates making will not be structured as securities for purposes of the Investment Advisers Act. However, in the event that such investments were deemed to be securities for purposes of the Investment Advisers Act, it is anticipated that the Managing Partner will not be required to register as an investment adviser under the Investment Advisers Act in reliance upon the exemption from the registration requirements of the Investment Advisers Act contained in Section 203(m), which exempts from registration any investment adviser who acts solely as an adviser to "private funds" and has assets under management in the United States of less than \$150 million. By virtue of being exempt from registration under the "private fund" exemption, although the Managing Partner would be required to periodically report to the SEC, the Managing Partner would not be subject to the performance fee restrictions and certain other restrictions contained in the Investment Advisers Act. In the event that the Partnership's investments were deemed to be securities for purposes of the Investment Advisers Act and it were determined that the Managing Partner had assets under management of at least \$150 million, then the Managing Partner would be required to register under the Investment Advisers Act.

***The Managing Partner has broad authority to respond to changes affecting the Partnership.*** The Partnership has a projected end date of December 31, 2050. The Partnership is intended to exist over a period of years during which the business, economic, political, regulatory, and technology environment within which the Partnership operates may undergo substantial changes, some of which may be adverse to the Partnership. The Managing Partner will have the exclusive right and authority (within limitations set forth in the Partnership Agreement) to determine the manner in which the Partnership responds to such changes. You will have only a limited right to withdraw from the Partnership or to approve changes in the Partnership's significant activities.

***The Managing Partner is not required to provide financial support to the Partnership.*** The Partnership will invest substantially all of its assets in royalty interests, which are not highly liquid. If the Partnership requires

additional funds, it must obtain those funds from the cash flow from royalty interests it owns, from the sale of assets, through a Capital Call, or by borrowing amounts. The Managing Partner will not be required to provide loans or any other form of financial support to the Partnership.

### **Tax Risks of an Investment in Partnership Interests**

*An investment in the Partnership Interests involves uncertain and potentially adverse tax consequences.* A summary of the U.S. federal income tax considerations that may be relevant to an investment in the Partnership Interests is set forth below under the heading “United States Federal Income Tax Considerations.” Certain of such tax considerations are uncertain or could have adverse effects on holders. For example,

- Partners could be allocated items of taxable income with respect to their Partnership Interests, and could be required to pay tax (including estimated tax) on such tax items, without receipt of any cash distributions from us.
- The IRS could challenge the Partnership’s allocation of tax items to Partners under the Partnership Agreement. Any reallocation of tax items could adversely affect the timing, amount, or character of tax items required to be reported by the Partners on their income tax returns.
- Changes in tax laws could adversely affect an investment in Partnership Interests, either directly through changes in the timing, amount, or character of tax items realized by Partners with respect to the ownership or disposition of the Partnership Interests, or indirectly through changes in the tax treatment of tax items realized by the Partnership.
- An audit of the Partnership’s tax returns could lead to an audit of, or adjustments to, a Partner’s tax returns, and resulting additional tax (including interest and applicable penalties). Any additional tax imposed on the Partnership or on the Partners could be greater than if the tax items had been correctly reported on the original return or had been corrected through audit proceedings or amended returns at the Partner level, and a Partner’s economic interest could be adversely affected by tax adjustments related to other Partners, including former Partners.
- The Managing Partner will have exclusive authority to control audits of the Partnership’s tax returns, and Partners will have no right to participate in such proceedings. The Managing Partner may be subject to conflicts of interests between itself and other Partners and between Partners which could adversely affect the interests of individual Partners due to their particular circumstances.
- Any delay in filing of the Partnership’s tax returns, and any amendment of such returns, could lead to delays in filing or amendments of the Partners’ tax returns, potentially resulting in interest and penalties for late payment of taxes due.

Prospective investors should consult their own tax advisors concerning the federal, state, and local tax consequences associated with an investment in Partnership Interests in light of their own personal tax situations before subscribing to purchase a Partnership Interest.

*Tax exempt organizations may be subject to federal income tax on their share of Partnership income.* The Partnership intends to acquire royalty interests in oil and gas properties and intends that the income from the royalty interests will be the type that is excluded from the definition of unrelated business taxable income (“UBTI”). As the Partnership may incur debt, there is no assurance that the Partnership will not generate UBTI at some point over the life of the Partnership. There is no assurance that the IRS will accept and not challenge the characterization of the income from the Partnership as income that is not UBTI. If the IRS successfully determined that income from a Partnership is UBTI, tax-exempt investors may be subject to tax on that portion of their income that is UBTI.

**FOR CERTAIN TAX-EXEMPT ENTITIES - SUCH AS CHARITABLE REMAINDER TRUSTS AND CHARITABLE REMAINDER UNITRUSTS (AS DEFINED IN CODE SECTION 664) - THE RECEIPT OF ANY UNRELATED BUSINESS TAXABLE INCOME MAY HAVE EXTREMELY ADVERSE TAX CONSEQUENCES, INCLUDING AN EXCISE TAX OF 100% OF SUCH UBTI. THEREFORE,**

**TRUSTEES OF SUCH TRUSTS AND UNITRUSTS SHOULD CAREFULLY CONSIDER THE CONSEQUENCES OF ANY UBTI BEFORE PURCHASING PARTNERSHIP INTERESTS.**

*Potential changes in federal tax incentives could adversely affect returns to Investor Partners.* In the past, legislation has been proposed which would repeal certain tax incentives for the oil and gas industry, including the repeal or restriction of depletion deductions. **It is highly likely that repeal or limitation of these tax incentives will be proposed again.** The passage of any 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 natural gas exploration and development, and any such change could increase the tax on income allocable to Investor Partners and negatively impact the value of an investment in the Partnership.

*Recent Changes in Alaska oil and gas tax credits could adversely affect the Partnership's business.* Until recently, Alaska was paying out more in production tax credits than it collects in production taxes, primarily due to the steep decline in oil and gas prices. These oil and gas tax credits can be used as an offset to production taxes owed to the State of Alaska. In 2016, Alaska adopted changes to its system of oil and gas credits to alleviate its budgetary concerns. A discussion of these legislative changes can be found within this Memorandum under "Our Business." While a change in tax credits could affect long term exploration plans, such plans are more likely to change in response to results of exploration wells or in response to expectations regarding oil and gas prices. We are not able to predict at this time whether these tax changes will have an impact on production, or plans for future development in the Cook Inlet, or the impact, if any, on royalties that might be paid under the Northern Lights ORRI.

**THE FOREGOING RISK FACTORS ARE NOT A COMPLETE EXPLANATION OF ALL OF THE RISKS INVOLVED IN THE OFFERING OR AN INVESTMENT IN THE PARTNERSHIP. YOU SHOULD READ THIS MEMORANDUM AND ITS EXHIBITS IN THEIR ENTIRETY BEFORE DETERMINING WHETHER TO SUBSCRIBE FOR A PARTNERSHIP INTEREST.**

## TERMS OF THE OFFERING

### General

We are offering up to \$5,900,000 in Partnership Interests. We may sell less than \$5,900,000 in Partnership Interests in our discretion. If we sell less than \$5,900,000, the Managing Partner may waive payment of a portion of the fixed, non-accountable fees and expenses due it, and/or the Partnership may borrow funds to complete the purchase of the Northern Lights ORRI including seller financing, or the Partnership may seek to purchase a lesser amount of the Northern Lights ORRI. We reserve the right to increase the offering to up to \$8,850,000 and to purchase up to an additional 0.25% Northern Lights ORRI for the same proportionate price. The minimum Capital Contribution is \$25,000, although we may waive the minimum in our discretion. The offering will terminate upon the earlier of the sale of all offered Partnership Interests or one year from the date hereof. We reserve the right to terminate the offering at any earlier time in our discretion. We are not establishing an escrow, and there is no minimum amount of Capital Contributions or minimum number of Partnership Interests which must be sold in this offering. See Exhibit A, the Partnership Agreement, which sets out the rights and obligations of the partners.

The Partnership Interests are being offered on a “best-efforts” basis in accordance with Rule 506(c) of Regulation D to persons who are accredited investors. Each subscriber must provide verification that they are an accredited investor, as explained below. We will entertain offers for subscriptions on a case-by-case basis, with the right to accept or reject any subscription agreement for any reason. **The execution of the subscription agreement constitutes a binding offer and an agreement to hold the offer open until we accept or reject the subscription agreement.**

**Prospective purchasers of limited partnership interest should not tender funds in payment of their subscription until they have been verified as “accredited investors” and have been notified of same by the Managing Partner. Once a Subscription Agreement has been accepted, the purchasers will be asked to tender funds in payment for their subscription.**

The Partnership Interest of an investor will be calculated on the basis of Capital Contributions, as a percentage of all Capital Contributions by all Investor Partners, times eighty-five percent (85%). **We reserve the right to offer the Partnership Interests net of fees and commissions and to adjust the Partnership Interests accordingly, or to provide different terms in connection with a significant or strategic investment.**

You may subscribe for a Partnership Interest by properly completing, executing, and delivering the following electronically to the address set out at the end of this Memorandum: (a) a completed and executed subscription agreement and purchaser suitability questionnaire, (b) an accredited investor verification provided by a third party, as explained below, and (c) an executed signature page to the Partnership Agreement. You agree that an electronic signature, or an electronic record of a manual signature, to a Partnership Agreement and to a subscription agreement shall be given legal effect and deemed valid and binding on the person authorizing or transmitting such signature and any person to whom the signature is attributable, whether or not such signature is encrypted or otherwise verified.

The full subscription price for Partnership Interests should be paid by check or cashier’s check payable to Northern Lights Royalties IV LP or wired to us in accordance with the wiring instructions provided by us. All subscribers whose subscription agreements are accepted will be admitted as Investor Partners in the Partnership once you are verified as an “accredited investor”.

### Plan of Distribution

The Partnership Interests will be offered through the Managing Partner. We may also enter into placement agreements with registered securities broker dealers. The Partnership may pay sales commissions and due diligence fees to registered securities broker-dealers who place Partnership Interests, and such commissions and fees will be paid by the Managing Partner from its share of offering proceeds. We may also contract with investment advisers to recommend Partnership Interests to their clients and may reimburse such investment advisers for due diligence expenses.

## Suitability Standards

Investment in the Partnership Interests involves a high degree of risk and is suitable only for persons of substantial means who have no need for liquidity in their investment and can afford a complete loss of their investment. The following suitability requirements represent the minimum suitability requirements for investors. The satisfaction of these requirements by a prospective investor does not necessarily mean that an investment in the Partnership is a suitable investment for that investor. We reserve the right in our discretion to reject any subscription agreement.

This offering is made in reliance upon the exemptions from the registration requirements of the Securities Act of 1933. You must be an accredited investor to invest. Accordingly, you must make the representations in the subscription agreement that:

(a) you understand that you must bear the financial risks of your investment in the Partnership for an indefinite period of time because the Partnership Interests have not been registered under the Securities Act of 1933 or other applicable securities laws and, therefore, may not be sold unless they are subsequently so registered or an exemption therefrom is available;

(b) you are acquiring the Partnership Interest for investment solely for your own account and without any intention of reselling, distributing, subdividing, or fractionalizing it;

(c) you understand the Partnership Interests cannot be transferred except in compliance with the restrictive provisions of the Partnership Agreement of the Partnership and applicable securities laws; and

(d) you qualify as an "accredited investor," as that term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933. See the definition of "accredited investor" in "Definitions" below.

(e) you have received, read and fully understand this Memorandum and are solely basing your decision to invest on the information contained in this Memorandum and other written information provided by the Managing Partner. You must not have relied on any representations made by any other person.

A corporation, partnership or other business entity will be counted as one purchaser. However, if that entity was organized for the specific purpose of acquiring the Units, each beneficial or equity owner of the equity securities or equity interests in such entity must be an accredited investor.

We will accept a subscription from a Traditional IRA or Roth IRA. We do not intend to sell Units to any number of record owners which would thereafter require the Partnership to register as a reporting company under the Securities Exchange Act of 1934.

## Verification that you are an accredited investor

The rules governing offerings such as this under Rule 506(c) require us to take reasonable steps to verify that you are an accredited investor before accepting a subscription from you. This verification may be accomplished in different ways. The Subscription Documents which are attached to this Memorandum as an exhibit contain instructions to enable you to provide an appropriate verification from your attorney, certified public accountant, registered securities broker-dealer or investment adviser registered with the Securities and Exchange Commission. If you are not able to provide a third party verification, we may accept copies of your United States Federal Income Tax Return for each of the two prior years, and your certification that you have a reasonable expectation of reaching the same income level in the current year. Your tax returns must show that you had an individual income in excess of \$200,000 in each of the two most recent years for which you have filed a return or had joint income with your spouse in excess of \$300,000 in each of those years. We will not accept a subscription agreement from any person who is not able to provide the verification of accredited investor status.

## REGULATORY CONSIDERATIONS

### Securities Act

The Interests offered hereby are “securities,” as defined in the Securities Act and state securities laws. The Securities Act provides, among other things, that no sale of any securities may be made except pursuant to a registration statement that has been filed with the SEC, and has become effective, unless such sale (or the security sold) is specifically exempted from registration. State securities laws have analogous provisions. The Interests being offered hereby have not been registered under the Securities Act. This Memorandum has not been reviewed by the SEC, nor has the SEC or any state securities commission or regulatory authority approved, passed upon, or endorsed the merits of this offering. The offering and proposed sale of the Interests described herein will be made in reliance upon Regulation D promulgated under the Securities Act. Each investor will be required to represent that it is an “accredited investor” (as defined in Regulation D).

Pursuant to recent amendments to Rule 506 of Regulation D, the Partnership’s reliance on the “private placement” exemption from registration provided under Regulation D may become unavailable if “covered persons” who become subject to a “disqualifying event” (as such terms are described in the amendments’ adopting release) are beneficial owners of 20% or more of the Partnership’s outstanding equity securities, calculated on the basis of total voting power rather than on the basis of ownership of any single class of securities (a “20% Beneficial Owner”). In the event that a Limited Partner that is a 20% Beneficial Owner becomes subject to a disqualifying event, the Managing Partner may take such equitable measures as it may determine, such as the compulsory withdrawal of, or the transfer of all or a portion of, such Limited Partner’s Interest.

### Investment Company Act

The Partnership will be exempt from the provisions of the Investment Company Act pursuant to the exemption contained in Section 3(c)(1) and Section 3(c)(9) thereunder. Consequently, the significant investor protection provisions of that statute will not apply to an investment in the Partnership. Section 3(c)(1) exempts collective investment vehicles who are not making and do not presently propose to make a public offering of their securities and whose outstanding securities are beneficially owned by no more than 100 persons. Section 3(c)(9) exempts issuers who are not conducting business other than owning or holding oil, gas or other mineral royalties or leases, or fractional interests therein, or certificates of interest or participation in or investment contracts relative to such royalties, leases, or fractional interests for purposes of Section 3(c)(9), then the Partnership could be required to register as an investment company under the Investment Company Act and incur significant expense. In order to ensure that the Partnership may rely upon Section 3(c)(1) and Section 3(c)(9) of the Investment Company Act, the Partnership will obtain appropriate representations and undertakings from its investors.

### Commodity Exchange Act

The Managing Partner is exempt from registration with the Commodity Futures Trading Commission (the “CFTC”), and is not registered with the CFTC as a commodity trading advisor (“CTA”) or commodity pool operator (“CPO”) in respect of the Partnership pursuant to an exemption under CFTC Rule 4.13(a)(3). Therefore, unlike a registered CPO or CTA, the Managing Partner is not required to deliver a disclosure document (as defined in the CFTC rules) or a certified annual report to the Partners. The CFTC does not pass upon the merits of participating in a pool or upon the adequacy or accuracy of an offering memorandum. Consequently, the CFTC has not reviewed or approved this Memorandum or any offering in connection therewith. CFTC Rule 4.13(a)(3) exempts from registration CPOs of pools in which all investors are qualified consistent with the rule. CFTC Rule 4.13(a)(3) requires that at all times either: (a) the aggregate initial margin and premiums required to establish commodity interest positions do not exceed five percent of the liquidation value of the Partnership’s investment portfolio; or (b) the aggregate net notional value of the Partnership’s commodity interest positions does not exceed one-hundred percent of the liquidation value of the Partnership’s investment portfolio.

The Managing Partner (or one or more of its affiliates, including the Managing Partner) may in the future register with the CFTC as a CPO and as a CTA. Following such registration, to the extent permitted by the U.S. Commodity Exchange Act and the regulations, orders and interpretations of the CFTC, the Managing Partner and the Managing Partner intend to operate the Partnership pursuant to an exemption under CFTC regulation Section 4.13(a)(3) as if neither the Managing Partner nor the Managing Partner was registered with the CFTC as a CPO.



Alternatively, following such registration, the Managing Partner may elect to operate the Partnership on a partially exempt basis pursuant to CFTC Regulation Section 4.7, in which case the Managing Partner will provide certain additional disclosure and other information required under CFTC Regulation Section 4.7 to the Limited Partners.

### **Investment Advisers Act**

The Managing Partner is presently not registered as an investment adviser under the Investment Advisers Act, primarily because the investments the Partnership anticipates making will not be structured as securities for purposes of the Investment Advisers Act. However, in the event that such investments were deemed to be securities for purposes of the Investment Advisers Act, it is anticipated that the Managing Partner will not be required to register as an investment adviser under the Investment Advisers Act in reliance upon the exemption from the registration requirements of the Investment Advisers Act contained in Section 203(m), which exempts from registration any investment adviser who acts solely as an adviser to “private funds” and has assets under management in the United States of less than \$150 million. By virtue of being exempt from registration under the “private fund” exemption, although the Managing Partner would be required to periodically report to the SEC, the Managing Partner would not be subject to the performance fee restrictions and certain other restrictions contained in the Investment Advisers Act. In the event that the Partnership’s investments were deemed to be securities for purposes of the Investment Advisers Act and it were determined that the Managing Partner had assets under management of at least \$150 million, then the Managing Partner would be required to register under the Investment Advisers Act.

### **Anti-Money Laundering – USA Patriot Act**

As part of the Partnership’s responsibility to comply with regulations aimed at the prevention of money laundering and terrorist financing, the Managing Partner may require a detailed verification of a prospective investor’s or Limited Partner’s identity, any beneficial owner underlying the account, and the source of the payment.

The Managing Partner reserves the right to request such information as is necessary to verify the identity of a prospective investor and the underlying beneficial owner of a prospective investor’s or a Limited Partner’s Interests and to otherwise comply with its anti-money laundering obligations. The Managing Partner also reserves the right to request such identification evidence in respect of a transferee of shares in the Partnership. In the event of delay or failure by the prospective investor, Limited Partner or transferee to produce any information required for verification purposes, the Managing Partner may refuse to accept or delay the acceptance of a subscription, or (as the case may be) may refuse to register the relevant transfer of shares in the Partnership, or (in the case of a subscription of shares) may cause the redemption of any such Limited Partner from the Partnership.

The Managing Partner also reserves the right to refuse to make any withdrawal payment or distribution to a Limited Partner if the Managing Partner deems it necessary to do so to comply with applicable anti-money laundering laws or the laws, regulations, and Executive Orders administered by the U.S. Department of Treasury’s Office of Foreign Assets Control (“OFAC”), or other laws or regulations by any person in any relevant jurisdiction (collectively, “AML/OFAC obligations”).

Each prospective investor and Limited Partner will be required to make such representations to the Partnership as the Managing Partner may require in connection with applicable AML/OFAC obligations, including, without limitation, representations to the Partnership that such prospective investor or Limited Partner (or any person controlling or controlled by the prospective investor or Limited Partner; if the prospective investor or Limited Partner is a privately held entity, any person having a beneficial interest in the prospective investor or Limited Partner; or any person for whom the prospective investor or Limited Partner is acting as agent or nominee in connection with the investment) is not: (i) an individual or entity named on any available lists of known or suspected terrorists, terrorist organizations or of other sanctioned persons issued by the United States government and the government(s) of any jurisdiction(s) in which the Partnership is doing business, including the List of Specially Designated Nationals and Blocked Persons administered by OFAC as such list may be amended from time to time; (ii) an individual or entity otherwise prohibited by the OFAC sanctions programs; or (iii) a current or former senior foreign political figure<sup>1</sup> or politically exposed person<sup>2</sup>, or an immediate family member or close associate of such an

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<sup>1</sup> A “senior foreign political figure” is defined as (a) a current or former senior official in the executive, legislative, administrative, military or judicial branches of a non-U.S. government (whether elected or not), a current or former senior official of a major non-U.S. political party, or a current or former senior executive of a non-U.S. government-owned commercial

individual. Further, such prospective investor or Limited Partner must represent to the Partnership that it is not a prohibited foreign shell bank.<sup>3</sup>

Such prospective investor or Limited Partner will also be required to represent to the Partnership that amounts contributed by it to the Partnership were not directly or indirectly derived from activities that may contravene U.S. federal, state or international laws and regulations, including, without limitation, any applicable anti-money laundering laws and regulations.

Each prospective investor and Limited Partner agrees to notify the Partnership promptly in writing should it become aware of any change in the information set forth in its representations. The prospective investor or Limited Partner is advised that, by law, the Partnership may be obligated to “freeze the account” of such prospective investor or Limited Partner, either by prohibiting additional investments from the prospective investor or Limited Partner, declining any withdrawal requests from the prospective investor or Limited Partner, suspending the payment of withdrawal proceeds payable to the prospective investor or Limited Partner, and/or segregating the assets in the account in compliance with governmental regulations. The Partnership may also be required to report such action and to disclose the prospective investor’s or Limited Partner’s identity to OFAC or other applicable governmental and regulatory authorities.

### **FCPA Considerations**

The Managing Partner’s professionals and the Partnership are committed to complying with the U.S. Foreign Corrupt Practices Act (“FCPA”) and other anti-corruption laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which they are subject. As a result, the Partnership may be adversely affected because of its unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for the Partnership to act successfully on investment opportunities.

In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. While the Managing Partner has developed and implemented policies and procedures designed to ensure compliance by the Managing Partner and its personnel with the FCPA and other anti-bribery laws, such policies and procedures may not be effective in all instances to prevent violations. Any determination that the Managing Partner has violated the FCPA or other applicable anti-corruption laws or anti-bribery laws could subject it to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect the Managing Partner’s business prospects and/or financial position, as well as the Partnership’s ability to achieve its investment objective and/or conduct its operations.

### **Other Regulations**

Other rules and regulations applicable to the activities of the Partnership may be amended in the future; any such amendments could impose restrictions on the Partnership as to make it impossible or uneconomical for the Partnership to operate as intended.

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enterprise; (b) a corporation, business, or other entity that has been formed by, or for the benefit of, any such individual; (c) an immediate family member of any such individual; and (d) a person who is widely and publicly known (or is actually known) to be a close associate of such individual. For purposes of this definition, a “senior official” or “senior executive” means an individual with substantial authority over policy, operations, or the use of government-owned resources; and “immediate family member” means a spouse, parents, siblings, children and spouse’s parents or siblings.

<sup>2</sup> A “politically exposed person” (“PEP”) is a term used for individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

<sup>3</sup> A “prohibited foreign shell bank” is a foreign bank that does not have a physical presence in any country, and is not a “regulated affiliate,” *i.e.*, an affiliate of a depository institution, credit union, or foreign bank that (i) maintains a physical presence in the U.S. or a foreign country, and (ii) is subject to banking supervision in the country regulating the affiliated depository institution, credit union, or foreign bank.

## ERISA CONSIDERATIONS

### General

Fiduciaries and other persons who are proposing to invest in the Partnership on behalf of retirement plans, IRAs and other employee benefit plans (“Plans”) covered by ERISA or the Code, must give appropriate consideration to, among other things, the role that an investment in the Partnership plays in the Plan’s portfolio, taking into consideration whether the investment is designed to reasonably further the Plan’s purposes, the investment’s risk and return factors, the portfolio’s composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the Plan, the projected return of the total portfolio relative to the Plan’s objectives, the limited right of investors to withdraw all or part of their capital or to transfer their interests in the Partnership and whether investment in the Partnership constitutes a direct or indirect transaction with a party in interest (under ERISA) or a disqualified person (under the Code).

### Plan Asset Regulations and Benefit Plan Investors

The United States Department of Labor (the “DOL”) has adopted regulations that treat the assets of certain pooled investment vehicles, such as the Partnership, as “plan assets” for purposes of Title I of ERISA and Section 4975 of the Code (“Plan Assets”). Section 3(42) of ERISA defines the term “Plan Assets” to mean plan assets as defined by such regulations as the DOL may prescribe, except that under such regulations the assets of an entity will not be treated as Plan Assets if, immediately after the most recent acquisition of an equity interest in the entity, less than 25% of the total value of each class of equity interest in the entity is held by “Benefit Plan Investors” (the “Significant Participation Test”). For purposes of this determination, the value of any equity interest held by a person (other than such a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the entity or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person, will be disregarded. An entity will be considered to hold Plan Assets only to the extent of the percentage of the equity interest held by Benefit Plan Investors. The term “Benefit Plan Investors” means any employee benefit plan subject to the fiduciary provisions of ERISA, any plan to which the prohibited transaction provisions of Section 4975 of the Code apply (e.g., IRAs), and any entity whose underlying assets include Plan Assets by reason of a plan’s investment in such entity (a “Plan Asset Entity”).

In order to prevent the assets of the Partnership from being considered Plan Assets under ERISA, the Managing Partner will use commercially reasonable efforts to monitor the investments in the Partnership and prohibit the acquisition or transfer of Interests by any investor, including a Benefit Plan Investor, unless, after giving effect to such an acquisition or transfer, the total proportion of each class of equity interests in the Partnership owned by Benefit Plan Investors would be less than 25% of the aggregate value of such Class (determined, as described above, by excluding certain Interests held by the Managing Partner and its affiliates).

Without limiting the generality of the foregoing, in order to limit equity participation in each class of equity interests in the Partnership by Benefit Plan Investors to less than 25%, the Managing Partner may compel and/or restrict the withdrawal or redemption of Interests held by a Benefit Plan Investor. Each investor that is an insurance company acting on behalf of its general account or a Plan Asset Entity will be required to represent and warrant as of the date it invests in the Partnership the maximum percentage of such general account or Plan Asset Entity that will constitute Plan Assets (the “Maximum Percentage”) so such percentage can be calculated in determining the percentage of Plan Assets invested in the Partnership. Further, each such insurance company and Plan Asset Entity will be required to covenant that if, after its initial investment in the Partnership, the Maximum Percentage is exceeded at any time, then such insurance company or Plan Asset Entity will immediately notify the Managing Partner of that occurrence and will, if and as directed by the Managing Partner, in a manner consistent with the restrictions on transfer set forth herein, dispose of some or all of its Interests.

If the Partnership’s assets were considered Plan Assets, then, under ERISA and the Code, the Managing Partner would be a fiduciary, and certain of their employees, partners and officers, as well as certain affiliates, would become “parties in interest” and “disqualified persons,” with respect to the investing Plans, with the result that the rendering of services to certain related parties or the lending of money or other extensions of credit, or the sale, exchange or leasing of property by the Partnership or certain related parties, or the payment of certain fees, as well

as certain other transactions, might be deemed to constitute prohibited transactions. Additionally, individual investment in the Partnership by persons who are fiduciaries, and/or parties-in-interest and disqualified persons, to a Plan might be deemed to constitute prohibited transactions under such circumstances.

### **Representation by Plans**

The fiduciaries of each Plan proposing to invest in the Partnership will be required to represent that they have been informed of and understand the Partnership's investment objectives, policies and strategies and that the decision to invest Plan Assets in the Partnership is consistent with the provisions of ERISA and/or the Code that require diversification of Plan Assets and impose other fiduciary responsibilities. By its investment, each investor will be deemed to have represented that either (a) it is not a Plan that is subject to the prohibited transaction rules of ERISA or the Code, (b) it is not an entity whose assets include Plan Assets, or (c) its investment in the Partnership will not constitute a non-exempt prohibited transaction under ERISA or the Code.

### **Ineligible Purchasers**

Interests may not be acquired with Plan Assets if the Managing Partner, any selling agent, finder, any of their respective affiliates or any of their respective employees: (a) has investment discretion with respect to the investment of such Plan Assets; (b) has authority or responsibility to give or regularly gives investment advice with respect to such Plan Assets, for a fee, and pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions with respect to such Plan Assets and that such advice will be based on the particular investment needs of the Plan; or (c) is an employer maintaining or contributing to such Plan. A party that is described in clause (a) or clause (b) of the preceding sentence is a fiduciary under ERISA and the Code with respect to the Plan, and any such purchase might result in a "prohibited transaction" under ERISA and the Code.

### **Plan Reporting Requirements**

The information contained herein and in the other documentation provided to investors in connection with an investment in the Partnership is intended to satisfy the alternative reporting option for "eligible indirect compensation" on Schedule C of the Form 5500, in addition to the other purposes for which such documents were created.

Whether or not the underlying assets of the Partnership are deemed Plan Assets, an investment in the Partnership by a Plan is subject to ERISA and the Code. Accordingly, Plan fiduciaries should consult their own counsel as to the consequences under ERISA and the Code of an investment in the Partnership. Note that similar laws governing the investment and management of the assets of governmental or non-U.S. plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code. Accordingly, fiduciaries of such governmental or non-U.S. plans, in consultation with their counsel, should consider the impact of their respective laws and regulations on an investment in the Partnership.

## OUR BUSINESS

**WE EXPECT EACH RECIPIENT OF THIS MEMORANDUM TO KEEP CONFIDENTIAL THE INFORMATION IN THIS MEMORANDUM. IF YOU BELIEVE YOU NEED TO PROVIDE THIS INFORMATION TO ANYONE OTHER THAN YOUR ADVISORS WHO ARE OBLIGATED TO KEEP INFORMATION YOU PROVIDE CONFIDENTIAL, PLEASE CALL US FIRST SO THAT WE MAY OBTAIN AN APPROPRIATE CONFIDENTIALITY AGREEMENT THAT PROTECTS OUR INTERESTS AND THE INTERESTS OF OUR INVESTORS. PLEASE SEE EXHIBIT C FOR ADDITIONAL INFORMATION ABOUT THE KITCHEN LIGHTS LEASE AREA.**

### **Summary of the Northern Lights ORRI**

The Northern Lights ORRI is an overriding royalty interest in six State of Alaska competitive oil and gas leases identified as lease numbers 389927, 389928, 389929, 389930, 390374, and 390381, covering lands located in Cook Inlet, Kenai Peninsula Borough and Municipality of Anchorage, Alaska. The six leases are sometimes referred to as the Kitchen Lights Lease Area. All of these leases are located in the North Block of the Kitchen Lights Unit.

We intend to purchase the Northern Lights ORRI from our Managing Partner, ProAK. If the purchase from ProAK is not completed for any reason, we may use all or part of the net proceeds to purchase overriding royalty interests in the Kitchen Lights Lease Area from other affiliates and/ or unaffiliated third parties. We anticipate that any such purchase would be for the same proportionate price as the purchase from ProAK. As of the date of this Memorandum, ProAK, LLC owns 1.488522% of the Northern Lights ORRI.

### **The activities of our affiliates in the Kitchen Lights Lease Area**

Prodigy Alaska, LLC (Prodigy Alaska) was formed by Shawn Bartholomae in April 2001 (under the name Saddleback Resources, LLC) for the purpose of exploring for and developing oil and gas reserves in the Cook Inlet Basin. In May 2001, the original Northern Lights leases were granted to Prodigy Alaska as fifteen State of Alaska competitive oil and gas leases numbering 389927 – 389931, 390097 – 99, 390374 – 377, 390381 – 382, and 390384, all located in the Cook Inlet, Kenai Peninsula Borough, Alaska. Prodigy Alaska (then known as Saddleback Resources, LLC) acquired all of the working interest in the original fifteen leases, comprising 36,205 gross acres, more or less, and was the fourth largest leaseholder in this area.

Only six of the original fifteen leases are still active. These six leases comprise the Kitchen Lights Lease Area. A lease expires at the end of its primary term unless it is held by development on the lease or as part of an active unit. The six leases remaining from the original fifteen are located in the Kitchen Lights Unit, which is an active unit. The remainder of the original fifteen leases expired.

In early 2006, Prodigy Alaska sold the working interest in the leases it had acquired in the Kitchen Lights Lease Area to Rutter and Wilbanks. The sale to Rutter and Wilbanks did not include the Northern Lights overriding royalty interest which was retained in the leases by certain members of Prodigy Alaska, including Mr. Shawn Bartholomae, the President of Prodigy Alaska and Mr. Alan Bartholomae, his brother and the current Vice-President of Prodigy Alaska, and by other individuals.

In 2007, ProAK Royalties, LP, also formed by Shawn Bartholomae and managed by ProAK as the general partner, raised approximately \$5.3 million from investors and used the proceeds to acquire approximately 2.65% of the Northern Lights overriding royalty interests retained by Mr. Bartholomae and others.

Since 2007 overriding royalty interests have been bought and sold at various times and at various differing prices by the original owners, including Mr. Bartholomae and ProAK. Over the past year, Mr. Bartholomae and ProAK have made at least nine purchases of overriding royalties from unaffiliated third parties. Between August 2016 and July 2017, ProAK acquired approximately 6.9125% of Northern Lights ORRI's from unaffiliated third parties at prices ranging from \$93,750 for .09375% of royalty interest to \$1,000,000 for .50% of royalty interest.

With respect to sales of royalty interests by Mr. Bartholomae or ProAK, LLC or one of their affiliates, in September 2016, Northern Lights Royalties LP, using the proceeds of an offer similar to this offering, purchased over 2.65% of overriding royalties from one of Mr. Bartholomae's affiliates, ProAK Royalties, L.P. for

\$13,200,000. In mid-September 2017, Northern Lights Royalties II LP, using the proceeds of an offering similar to this offering, purchased .75% of overriding royalties from Mr. Bartholomae and ProAK for \$8,850,000. In 2018, Northern Lights Royalties III LP, using the proceeds of an offering similar to this offering, purchased .6% of overriding royalties from Mr. Bartholomae and ProAK for \$7,080,000. Mr. Bartholomae and ProAK received significant direct and indirect compensation in connection with these purchases by Northern Lights Royalties LLC, Northern Lights Royalties II LP and Northern Lights Royalties III LP. If you desire more detailed information about prior purchases and sales by our affiliates of Northern Lights overriding royalty interests since the leases were originally granted by the State of Alaska, please request this information from our Managing Partner. This Partnership is being formed in part because the prior offerings by Northern Lights Royalties LP, Northern Lights Royalties II LP and Northern Lights Royalties III LP were completely sold. The pricing for each proportionate interest in Northern Lights ORRI being sold in this offering is the same as was previously offered to investors in the Northern Lights Royalties III LP.

ProAK and Mr. Bartholomae have been actively purchasing and selling Northern Lights overriding royalties for their own account, including multiple purchases and sales in the past three years as indicated above. These purchase and sales were at prices significantly lower than the proportionate price the Partnership will pay if it acquires the Northern Lights ORRI.

### **Kitchen Lights Unit**

The information set out below is derived in part from reports by William M. Cobb & Associates, Inc. which our affiliates have commissioned from time to time, and the website maintained by the State of Alaska, Division of Oil and Gas, Department of Natural Resources, which information has not been independently verified.

The Kitchen Lights Unit is located in the middle of the Upper Cook Inlet Basin, Alaska. The Cook Inlet Basin is an elongate, northeast-southwest trending, fault-bounded basin that extends from the Matanuska Valley southward along the Alaska Peninsula. It is oil and gas rich, having produced to-date, in excess of approximately 1.3 billion barrels of oil (BBO) and 6 trillion cubic feet of gas (TCFG), primarily from sands of Miocene (Beluga and Tyonek) and Oligocene (Hemlock) age. The Kitchen Lights Unit is surrounded by giant and super-giant oil and gas fields and is located immediately adjacent to the deep synclinal area of the Cook Inlet Basin (“source kitchen”) where significant volumes of oil and gas were generated.

The Kitchen Lights Unit was formed in 2007 and expanded and renamed in 2009. The original Kitchen Lights Unit Agreement was extended in 2012 to January 2016. In September 2015, the Director of the Alaska Division of Oil and Gas entered an order granting “discovery well” status to the KLU #3 and reducing the royalty rate from 12.5% to 5% for all production allocated to four previously undiscovered pools within that lease (which is not one of our leases and is in the Corsair Block, not the North Block where our leases are located). The pools are located in the Sterling and Beluga formations. A discovery well is a well that discovers the first acceptable evidence of the existence of a previously undiscovered oil or gas pool.

In connection with the 2015 certification, the Director found that four previously undiscovered gas pools have a well capable of producing in paying quantities. We believe that the Kitchen Lights Unit Agreement is currently in effect under the provisions of Alaska Administrative Code 83.336, which provides in part that “a unit agreement becomes effective upon approval by the commissioner and automatically terminates five years from the effective date unless (1) a unit well in the unit area has been certified as capable of producing hydrocarbons in paying quantities, in which case the unit agreement will remain in effect for so long as hydrocarbons are produced in paying quantities from the unit area, or for so long as hydrocarbons can be produced in paying quantities and unit operations are being conducted in accordance with an approved unit plan of exploration or development”, although we have not obtained an opinion from an attorney or other professional to that effect. See “Current Kitchen Lights Unit production” below for information about production and about gas contracts obtained by Furie.

### **Plans of Exploration and Development for the Kitchen Lights Unit**

The Kitchen Lights Unit, approximately 83 thousand acres in the Cook Inlet, is divided into four exploration blocks: the Corsair, North, Southwest and Central Blocks. The six active leases underlying the Northern Lights ORRI are all located in the North Block. The six leases will continue in effect only if the operator complies with the plan of exploration for the Kitchen Lights Unit or receives approval of an amendment to the plan of

exploration. A plan of exploration for a unit sets drilling commitments and other commitments. If these commitments are not met, the result could be that one or more undrilled blocks would be contracted out of the unit. If a block is contracted out of the Kitchen Lights Unit, and the leases in the block are past their primary terms and not extended, the leases will be forfeited to the State of Alaska. All of the six leases in the Kitchen Lights Lease Area are past their primary terms. If the leases underlying the Northern Lights ORRI are forfeited, the assets to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership.

Furie has obtained approvals by the State of Alaska to amend its plan of exploration from time to time, and the plan of exploration has been amended in each drilling season. In addition, Furie has amended its plan of Development for the Kitchen Lights Unit. Factors which we might not anticipate at this time could ultimately affect Furie's decision on the timing of operations in the North Block as we have seen in the past. As such, we can give no assurance that a well will be drilled on any of the leases underlying Northern Lights ORRI in the near future. That is why we believe this investment opportunity should be considered a long term investment and not be viewed as one which will generate immediate returns to the partnership, and thus its partners.

### **Current Kitchen Lights Unit production**

According to the well production data supplied by the Alaska Department of Natural Resources, the KLU corsair mono pod began producing in mid-November 2015. It produced 192,114 MCF of gas in December 2015, increasing to 239,803 MCF of gas in January 2016. It produced 4,001,297 MCF in the year 2016, 5,684,455 MCF in 2017, and 6,213,936 in 2018. According to the Alaska Department of Revenue, the prevailing value for gas delivered in Cook Inlet was approximately \$7.103 MCF in the most recent calendar quarter.

Furie signed an agreement in September 2015 with Homer Electric Association, Inc., a utility cooperative located in Homer, Alaska that serves almost 23 thousand members over a 3,166 square-mile service area on the southern Kenai Peninsula. Under the terms of the agreement, Homer Electric's generation and transmission subsidiary, Alaska Electric and Energy Cooperative (AEEC), will receive natural gas from Furie beginning in April 2016 and continuing until December 2018. Additionally, there are two one-year options to extend the term of the agreement through December 2020. The gas will be used to fuel Homer Electric's power plants in Nikiski and Soldotna. The agreement originally called for AEEC to purchase between 4.0 and 6.2 billion cubic feet of natural gas annually beginning in March 31, 2016. The price for gas under the contract will actually be lower than what AEEC was paying for gas under its existing contract.

Furie is currently supplying gas to AEEC, for power generation, and to Aurora Gas, for supply to the Tesoro oil refinery at Nikiski on the Kenai Peninsula, according to recent news reports. The Homer Electric contract anticipates delivery of 12 million to 18 million cubic feet of gas per day, depending on the time of year, according to a recent news report. We were not able to verify the anticipated gas delivery. In addition, a contract to supply gas to Enstar Natural Gas Co., the main Southcentral Alaska gas utility, comes into effect in 2018, but is contingent upon Furie drilling two more Kitchen Lights development wells. The Enstar contract anticipates gas delivery rates in the range of 10 million cubic feet to 22 million cubic feet per day, according to a recent news report. The subsea pipeline that delivers gas from the Julius B platform installed by Furie to its gas processing facility in the Kenai Peninsula has a reported capacity of 100 million cubic feet per day. Furie's development plan for the Kitchen Lights Unit anticipates the eventual construction of two 100 million cubic feet per day subsea pipelines from the platform.

### **The Alaska Department of Natural Resources approved a Unit Plan of Operations for the Kitchen Lights Unit**

The decision authorized Furie to continue oil and gas exploration activities in the KLU. The Plan of Operations, as approved, required Furie to mobilize a jack-up rig to Cook Inlet, which it has done. The Plan of Operations also authorized Furie to drill up to nine new exploration wells and one well re-entry at a rate of up to two wells per year beginning in 2016 and ending in 2021. Furie amended its plan in 2018. A proposed location on this plan is the KLU #9 well and is on one of the leases underlying the Northern Lights ORRI. Furie references this POO in the 2019 Plan of Development and states it has no changes to the locations within it. Of course, Furie may change plans, subject to negotiations with and approval by the Alaska Department of Natural Resources. We believe that Furie intends to pursue continuous development of the Kitchen Lights Unit. There can

be no assurance, however, that Furie will not change plans and drill on a different location that does not include one of our underlying leases.

Because of the expense and time involved in construction of a production platform, a well in the Kitchen Lights Unit may be drilled months, if not years, before it is placed in production. We are not able to predict when a production platform will be completed in the North Block, although Furie has started the permit process for a platform to be located near the KLU #4 well. Unlike unitization agreements in some states, the Kitchen Lights Unit Agreement serves to hold leases in place, but production from a lease in the unit is not shared with owners of mineral interests in other leases in the unit. In other words, a well must be drilled in the Kitchen Lights Lease Area and placed in production before we will begin to receive production payments under the Northern Lights ORRI. There is no guarantee that a well will ever be drilled or produce from the Kitchen Lights Lease Area.

Furie, in the past, has not been able to timely complete all commitments under the prior plans of exploration, despite its on-going efforts. However, it has been successful in drilling wells in the Kitchen Lights Unit, and we believe that it will continue to meet its commitments or receive approval by the State of Alaska for additional amendments and extensions to the plans of exploration and operation.

Please contact us if you want more information about the current plans of exploration and operation in the Kitchen Lights Unit or the production platform, gas pipelines and onshore facilities. We also encourage you to visit the website of the Alaska Department of Natural Resources, Division of Oil and Gas, at [www.dog.dnr.alaska.gov](http://www.dog.dnr.alaska.gov). and to visit Furie's website, at [www.furiealaska.com](http://www.furiealaska.com).

### **Geology of Kitchen Lights Lease Area**

The following information is derived primarily from reports by William M. Cobb & Associates, Inc. portions of which are included within this Memorandum as part of Exhibit C. The Kitchen Lights Lease Area is located on the central portion of a large northeast-southwest trending faulted anticline at Tyonek Deep and Hemlock levels, known as the North Cook Inlet Structure. The anticline is approximately twenty-three miles in length, three to six miles in width and is characterized by very pronounced, steep - sided domes at either end. The hydrocarbon trapping mechanism is both structural and stratigraphic in nature, relying on a combination of dip and fault closure and the stratigraphic thinning and pinch -out of the reservoir formations in a north-easterly direction. This combination structural-stratigraphic trap is very similar in form, and the principal reservoirs contained therein, are essentially identical in character and age to those encountered in other producing fields in this part of the basin. Notably, the northern dome of the North Cook Inlet Structure contains the ConocoPhillips Tyonek Deep oil field and there is technical support for a significant extension of this undeveloped oil field into the Kitchen Lights Lease Area. However, the Kitchen Lights Lease Area lies to the south of the North Cook Inlet Structure, and the presence of Tyonek Deep oil depends on the Tyonek Deep sands extending some distance south of the North Cook Inlet Structure. There is no assurance that the Tyonek Deep sands extend this far south and no assurance that oil in any formation underlies the Kitchen Lights Lease Area.

The oil and gas potential of the North Cook Inlet Structure has already been confirmed by numerous wells drilled on this prominent geological feature. The principal reservoir objectives occur at depths of 11,000 feet to 16,500 feet and frequently contain multiple pay intervals. A total of seventeen wells have been drilled to a sufficient depth to penetrate the Tyonek Deep reservoirs on the North Cook Inlet Structure and five of these were drilled deep enough to penetrate the Hemlock reservoirs. Fifteen of the seventeen Tyonek Deep well penetrations calculated productive based on a comprehensive petrophysical analysis of well logs and eight of these wells tested oil at initial rates of up to 3,600 barrels of oil per day per zone. All five of the Hemlock well penetrations calculated productive based on a similar comprehensive petrophysical analysis of the well logs and one of these wells tested oil at initial rates of up to 560 barrels of oil per day. Sustained production, however, is typically much lower than initial rates.

### **Alaska Department of Natural Resources Reserve Analysis**

The Alaska Department of Natural Resources, Oil and Gas Division (ADNR), conducted an updated engineering evaluation of remaining Cook Inlet gas reserves in September 2015. The following is a brief summary of that evaluation. The Cook Inlet basin had produced 8,308 BCF of gas and 1.350 B bbls of oil as of December 31, 2014, with approximately 1,183 BCF of proved and probable remaining gas reserves. These volumes are quantified from



production and surveillance data available from existing and previously producing wellbores as of that date. There has been continued concern over whether the existing system of natural gas production and delivery in the Cook Inlet basin can continue to meet the energy demands of south-central Alaska. The report addressed the remaining gas reserves in the Cook Inlet basin from a reservoir engineering perspective. The economics of drilling additional wells, optimizing pipeline pressures, gas consumption predictions, and other sources of gas consumption were not included within the scope of the report.

Reservoir engineering principles were used to evaluate the volumes of gas remaining in existing fields within the Cook Inlet basin. The analyses contained within the report represent current estimates by Division of Oil and Gas staff, not the operators. Like the 2009 Division of Oil and Gas study “Preliminary Engineering and Geological Evaluation of Remaining Cook Inlet Gas Reserves”, estimates are based on public data reported by the operators to the Alaska Oil and Gas Conservation Commission (AOGGC). The focus of the report was on applying petroleum engineering methods to production data to estimate the gas reserves remaining in existing fields.

In the report, reservoirs are defined as pools. All 34 currently or historically producing Cook Inlet gas fields, many of which contain multiple pools, were evaluated by applying both decline curve analysis and material balance engineering methods to the publicly available production and pressure data. Based on extrapolations of production trends, these engineering techniques were used to derive estimates of remaining reserves in two tranches, which are considered approximately equivalent to the proved and probable reserves categories. The petroleum engineering analysis allows the evaluation of remaining gas volumes at varying levels of production certainty and readiness. The total 1P (proved) reserves remaining to be produced from all existing fields in the Cook Inlet basin were estimated at approximately 711 BCF, including associated gas from oil production. This volume was identified by the base case decline curve analyses and assumes sufficient investment to maintain existing wells and their established production trends. Additional probable reserves that would be recoverable by mitigating well problems and increasing investment in existing fields were estimated at approximately 472 BCF, for a total of 1,183 BCF 2P (proved + probable) reserves remaining in existing fields basin-wide. This volume is identified as a pool- by-pool difference in the results of both material balance calculations versus base case and upside decline curve analyses, and the addition of recompletions in previously producing wells using the upside decline curve analysis. The study did not address prospective (undiscovered) or contingent (discovered, non- producing) resources, nor did the engineering methods quantify 3P (proved + probable + possible) reserves. The division’s estimates may be updated as additional production and reservoir pressure data become available and as recent discoveries are developed and brought into production.

### **Demand in Alaska**

The natural gas produced in Cook Inlet is the primary source of energy and heat for the majority of Alaska's population. According to the Alaska Department of Natural Resources, south-central Alaska has relied on production from Cook Inlet gas fields to meet demand for electrical power generation, heating, and industrial use since commercial production increased abruptly in the late 1960s. After fully supplying the needs of the region for more than 50 years, until the recent discovery by Furie, it was considered unlikely that the Cook Inlet gas fields would continue to be the only natural gas source needed to meet south-central Alaska’s long term demand requirements. Reserves had been declining for many years and exploration had not kept pace with demand. The recent discovery by Furie, and the anticipated production from its development activities as well as those of other producers in the Cook Inlet, has changed this analysis.

### **Report by William M. Cobb & Associates, Inc.**

**EXHIBIT C CONTAINS EXCERPTS FROM COBB REPORTS, INCLUDING THE MOST RECENT REPORT DATED MARCH 1, 2019. PLEASE CONTACT US IF YOU WANT TO SEE COPIES OF ALL THE COBB REPORTS. WE MAY ASK THAT YOU EXECUTE A CONFIDENTIALITY AGREEMENT.**

William M. Cobb & Associates, Inc. (Cobb) was originally engaged to evaluate the reserves for the leases in the Kitchen Lights Lease Area held by Prodigy Alaska and affiliates in September 2004. The probabilistic evaluation incorporated the results of an interpretation of seven hundred miles of seismic data licensed from Veritas/Seitel and a detailed petrophysical evaluation carried out by Cobb of seventeen wells drilled to a sufficient depth to penetrate part or all of the Tyonek Deep or Hemlock Formations on the North Cook Inlet Structure. The estimated gross potentially recoverable reserves and the net cash flows attributable to the Prodigy Alaska group’s interests in the

Kitchen Lights Lease Area were re-stated by Cobb in March 2005, taking into consideration more current market conditions for oil and gas.

In January 2013, Cobb prepared an estimate of the value of a 3.75% overriding royalty interest held by ProAK Royalties and its affiliates, in the leases contained within the Kitchen Lights Unit. The estimate was based on the 2004 report, adjusted for then current exploration plans and current oil and gas prices. Based on this 2013 estimate by Cobb, ProAK estimated that the value of a 1% Northern Lights ORRI in 2013 was approximately \$9 million.

This would mean that the overriding royalty interests in the Kitchen Lights Lease Area owned by ProAK Royalties was estimated to be potentially worth close to \$24 million. We provided this estimate to all the ProAK Royalties partners in 2013 in connection with a vote to authorize a sale of the Northern Lights ORRI by ProAK Royalties. However, we were not able to find potential acquirers with sufficient interest that we could negotiate a sale to them. In June 2013, when the estimate was prepared, the west coast price for Alaska North Slope crude was averaging over \$100 a barrel, and the average Cook Inlet gas price was approximately \$5.50 MCF. The price of Alaska North Slope crude has declined and recently has averaged between \$42 and \$50 a barrel, while the Cook Inlet gas prices are averaging over \$6 MCF.

In the second quarter of 2015, Cobb updated its estimate of the reserves attributable to the Northern Lights ORRI held by ProAK Royalties (although it did not change assumed prices). Based on this updated reserve estimate, the value of anticipated future production from the 2.65% Northern Lights ORRI held by ProAK Royalties, over approximately 34½ estimated years of production, discounted to a present value at a discount rate of 10%, was estimated to be approximately \$38.2 million, if oil is assumed to be priced at \$60 a barrel, to up to approximately \$62.7 million, if oil is assumed to be priced at \$100 a barrel. In both cases, gas is assumed to be priced at \$6 MCF. However, the decline rate in Cook Inlet wells ranges as high as 16% to 17%, so the actual productive life may not be as long as the estimated 34½ years. We presented this revised estimate to the partners of ProAK Royalties in June 2015, and they authorized a sale of approximately 2.65% of overriding royalties in the Kitchen Lights Lease Area at not less than \$13,200,000 to Northern Lights Royalties LP. The sale was concluded in September 2016.

Under the 2015 estimate, the 0.50% Northern Lights ORRI we seek to acquire is potentially worth approximately \$7.191 million if oil is priced at \$60 a barrel, and \$11.798 million if oil is priced at \$100 a barrel. Since the Cobb estimate, the price of Alaska North Slope oil (the nearest comparable pricing) has declined from approximately \$65 per barrel to approximately \$48 per barrel, an approximate 20% drop. In addition, a newly announced discovery of 6 billion barrels of light oil in the Smith Bay development of the North Slope could further depress Alaska North Slope prices or lead to little increase in prices in the near future. Therefore, the 2015 estimate may be higher than an estimate updated to 2016. However, the 2015 estimate assumed level oil prices for the 34 ½ year life of the estimated reserves. It is not likely that oil prices will remain level for such a long period of time.

In the first quarter of 2019, Cobb updated its report. The 2019 Report include classifying all volumes as “**contingent resources**” without a current cash value, because of the currently-uncertain development plans for the KLU, and the restriction of the evaluation to the “Central Area” leases from the 2004 Report, which includes the leases in the KLU in which Prodigy maintains an ORRI. Future reclassification of some of the contingent resources to the reserves category would occur once Furie provides a technical description of the exploration well results and commits to a development plan for some portion of this acreage. The volumes presented in this report result from the evaluation of the contingent resources for the interest of Prodigy in certain oil properties located the Cook Inlet, Alaska, consistent with the 2018 update to the petroleum industry’s “Petroleum Resources Management System”. Even though the current classification has changed, the estimated recoverable volumes have not. Delineation of the Kitchen Lights Area acreage will greatly reduce the uncertainty in recoverable volumes, and, if successful, will likely move significant volumes of oil currently classified as Contingent Resources to the Proved Undeveloped Reserves category in the Kitchen Lights Area. ” Once a commitment to development is made, the corresponding reserves (as calculated with the consideration of the well test results, logs, and all other data, such as 3D seismic data, available at that time) associated with the scope of that planned development would be reclassified as Proved Undeveloped”. Which would increase the estimated value. We can give no assurance, however, as to the fair market value, or the future value, of the Northern Lights ORRI.

Evaluation reports such as the Cobb report do not provide an assessment of the fair market value of resources, i.e. what a willing buyer would pay a willing seller, each under no compulsion to buy or sell. In addition, the Cobb evaluation did not include estimates for proved reserves, as there were no proved reserves associated with

the Kitchen Lights Lease Area. The completion of a producing well in the Kitchen Lights Lease Area would result in some of the contingent resources being reclassified as proved. A typical reserve report will generally include different categories of reserves, including proved developed producing reserves, proved developed non-producing reserves, proved undeveloped reserves, probable reserves and possible reserves. Generally, proved reserves, including those that are producing and those that can reasonably be expected to produce as they are developed, are given the most weight. Proved reserves are those volumes of oil and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are oil and gas reserves that are more likely than not to be recovered, particularly after advances in technology or increases in oil and gas prices which might make such production economically feasible. Possible reserves are reserves that have a very low degree of certainty that they will be produced. Proved, Probable, and Possible are all classified as commercial whereas Contingent Resources are classified as sub-commercial.

The “contingent resources” described in the report are volume estimates based on engineering and geological judgment. There are numerous uncertainties involved in the estimation of the royalty evaluation. There are no proved reserves in the Kitchen Lights Lease Area. This evaluation is based on the Cobb & Associates September 22, 2004 “Reserve Evaluation of the Northern Lights Project Located in Cook Inlet of Alaska” probabilistic evaluation of the reserves and resource volumes and values for several of the Prodigy leases (the 2004 Report). Evaluation stipulations – The volumes presented in this report result from the evaluation of the contingent resources for the interest of Prodigy in certain oil properties located the Cook Inlet, Alaska, consistent with the 2018 update to the petroleum industry’s “Petroleum Resources Management System”. The evaluation is based on data supplied by Prodigy and on public statements by Furie Operating Alaska, LLC (Furie). The changes from the 2004 Report include classifying all volumes as “contingent resources” because of the currently-uncertain development plans for the KLU, and the restriction of the evaluation to the “Central Area” leases from the 2004 Report, which includes the leases in the KLU in which Prodigy maintains an ORRI. Therefore, in addition to the normal uncertainties involved in an oil and gas reserve estimate, the evaluation in this report is subject to additional contingencies regarding the timing of exploration drilling and development, and the potential for forfeiture of the underlying leases if exploration and development commitments to Alaska are not met. The royalty evaluation should not be considered a representation of fair market value or any other commonly recognized measure of investment value.

### **Our purchase price for the Northern Lights ORRI**

We have determined our purchase price based primarily on plans the operator has announced for development of the North Block, as well as the history of development and production by this operator in recent years. We have also considered ProAK’s determination of the price at which it would be willing to sell these royalty interests. **This determination is not a statement or guarantee of the fair market value of the Northern Lights ORRI.**

While this price is significantly higher than the price our affiliate Northern Lights Royalties LP paid in September, that price was determined at the beginning of its offering in July 2015. Knowledgeable sellers with experience in both oil and gas and in the Cook Inlet have in the past sold or agreed to sell their overriding royalty interests for significantly less than our proposed price. However, such persons may have other reasons for agreeing to a sale, including the certainty of a significant profit from the amount they originally invested or their desire to raise cash.

Mr. Bartholomae and ProAK have sold overriding royalty interests in the same leases in the Kitchen Lights Lease Area within the last three years for prices that imply a market value ranging from approximately \$2.1 million to \$2.5 million for the 0.50% Northern Lights ORRI we are attempting to purchase. However, further development activity has taken place in the Kitchen Lights Lease Area and we believe that such activity has significantly increased the value of the Northern Lights ORRI.

Mr. Bartholomae and ProAK have also purchased overriding royalty interests in the same leases in the Kitchen Lights Lease Area within the last three years. The purchases were also at significantly lower prices (proportionately) than the price the Partnership will pay for the royalty interests. Several sellers originally acquired the royalty interests at the same time as Mr. Bartholomae, and were content to take a profit and sell a portion of their royalty interest. In some cases the sellers set the prices they wanted or were strongly motivated to sell the royalty interests, and Mr. Bartholomae and ProAK were able to purchase these small royalty

interests at significantly less (proportionally) than the price at which the Partnership will purchase the Northern Lights ORRI.

*Assets of the Partnership.* As the Partnership is newly-formed, it has no assets and minimal liabilities. Our assets will be derived from the proceeds raised in this offering. We will acquire royalty interests using the capital raised in this offering. We will not reinvest any of the cash flow from oil and gas production payments or from asset sales in new royalty interests.

*Manager of the Partnership.* ProAK will be the sole general partner and the Managing Partner of the Partnership. Mr. Shawn Bartholomae is the sole manager of ProAK and will manage the day-to-day operations of the Partnership. Our performance in this Partnership is likely to differ from our performance in prior drilling partnerships as this Partnership has a significantly different investment strategy. The comparable prior history in ProAK Royalties is explained elsewhere in this Memorandum. If the sale to this Partnership is not completed, we anticipate that ProAK Royalties will continue efforts to sell the Northern Lights ORRI due to the length of time the partners have held that investment.

### **Managing Partner Compensation**

*Net Distribution Interest.* ProAK will have the right to receive 15% of each distribution by the Partnership. This Net Distribution Interest will not share in losses or expenses, and will not be subject to capital calls or required to provide additional capital or financial support to the Partnership.

*Management Fee.* The Partnership will pay the Managing Partner a management fee, which will be billed annually to the Investor Partners.

*Third Party Expenses.* All Third Party Expenses relating to the acquisition, operation, management and disposition of the Partnership's assets will be paid by the Partnership directly or through reimbursement of the Managing Partner or its affiliates. Third Party Expenses include all fees and expenses actually and necessarily incurred by the Partnership or by the Managing Partner on behalf of the Partnership for services rendered by non-affiliated parties in connection with the operation of the Partnership, other than those characterized as Organization and Offering Expenses or Royalty Interest Acquisition Costs. Third Party Expenses shall not include any portion of the expense for office facilities used by, or provided by the Managing Partner to, the Partnership, and shall not include any compensation to personnel of the Managing Partner or its Affiliates for services rendered to the Partnership.

### **Oil and Natural Gas Business**

The Partnership will invest in the oil and gas industry, which is generally subject to price volatility, intense competition and extensive government regulation. These and other concerns relating to the Partnership's anticipated operations are described below, and in the "Risk Factors" section of this Memorandum.

*Price Volatility.* The revenues generated by the Partnership's royalty interests will be highly dependent upon the prices of, and demand for, oil and natural gas. Prices for oil and gas have been volatile, experiencing sharp increases and decreases over the prior decade. Volatile prices may reduce the amount we receive for production of oil or gas and lengthen the time to achieve a desired return. Numerous factors create volatile prices for oil and gas. Oil and natural gas prices may fluctuate significantly in response to changes in supply, seasonal demand, market uncertainty, political conditions in oil-producing countries, activities of oil-producing countries to limit or increase production, global economic conditions, government regulations, weather conditions, competition from other sources of energy and other factors that are beyond our control. From time to time, a surplus of oil and gas occurs in areas of North America. The effect of a surplus may be to reduce the price we receive for production or to reduce the amount of production. The prices for domestic oil and natural gas may decline. All of these factors are beyond our control.

Although the Partnership may enter into hedging or commodity derivative arrangements from time to time to reduce its exposure to price risks in the sale of oil and natural gas, substantially all of the Partnership's production will remain subject to oil and natural gas price fluctuations.

*Supply and Demand.* Various factors beyond our control will affect the supply of and demand for oil and gas, including the worldwide supply of oil and gas, activities of oil or gas producers, political instability or armed conflict in oil-producing regions, the price of foreign imports, levels of consumer demand, availability of production platforms and pipeline capacity, and changes in governmental regulations. Any assumptions concerning future supply or demand may prove incorrect. Changes in supply or demand may reduce prices for oil and gas, and in turn reduce the value of our royalty interests. In recent years, exploration companies have successfully developed sand and shale formations. As a result, there is currently an excess supply of natural gas, which has caused the price of natural gas to decline. Due to leasing arrangements that require operators to continue drilling operations despite the surplus, more natural gas is being produced than is able to be sold. The price of natural gas may decline further.

North America, including Alaska, is generally experiencing an increase in estimated reserves of oil and natural gas. The rate at which reserves are being discovered and proven has also increased. While increased reserves can be beneficial for consumers and the economy, increased reserves may contribute to lower prices or price instability for oil and natural gas, and may discourage investment in drilling new wells. If overall reserves continue to increase, the value of our royalty interests may decline, and we may experience reduced or no cash flow.

### **Competition**

The oil and natural gas industry is highly competitive. Our direct competitors may be able to locate, evaluate, bid for and purchase a greater number of mineral interests than we will be able to, or to negotiate better terms for our investment than we have negotiated, given our financial and human resources. The operator will drill wells on locations where they already own drilling rights so it is not likely that the competition faced by the operator will directly affect its ability to develop the Kitchen Lights Unit. However, the operator will encounter competition from other oil and natural gas companies in all areas of its operations, which might make it more difficult for it to obtain drilling expertise or equipment or to sell production. Its competitors will likely include major integrated oil and natural gas companies and numerous independent oil and natural gas companies, individuals, and drilling and income programs. Many of the competitors are large, well-established companies with substantial operating staffs and significant capital resources and which have been engaged in the oil and natural gas business for a longer time than the operator. In addition, the operator's competitors may be able to expend greater resources on the existing and changing technologies that we believe are and will be increasingly important to the current and future success of oil and natural gas companies. An energy exploration company, Caelus Energy, LLC, recently announced a major oil discovery in the North Slope of Alaska. Drilling in the North Slope is, if anything, even more difficult than drilling in Cook Inlet, so we anticipate that it will be a number of years before wells are drilled and completed there and infrastructure to transport the oil is developed. Once this newly discovered field is on-line, it could impact the prices for Alaska North Slope crude, but we are not able to predict whether or to what extent the impact will affect the market for Cook Inlet oil. We anticipate that it would not impact the market for gas produced in the Cook Inlet. Competition may also be presented by alternative fuel sources, including heating oil and other fossil fuels.

### **Governmental Regulation**

*General.* Various aspects of the oil and natural gas operations are subject to extensive and continually changing regulation, as legislation affecting the oil and natural gas industry is under constant review for amendment or expansion. Numerous authorities are authorized to issue, and have issued, rules and regulations binding upon the oil and natural gas industry and its individual members. The failure to comply with such rules and regulations can result in substantial penalties. These regulations have an impact on all participants in the oil and natural gas industry. We do not believe that the Partnership or the operator will be affected by regulation in a significantly different manner than competitors in the oil and natural gas industry. While sales by producers of natural gas and all sales of crude oil, condensate and natural gas liquids can currently be made at uncontrolled market prices, price controls could be imposed in the future.

*Regulation of Sales and Transportation of Natural Gas.* Sales of natural gas are affected by the availability, terms and cost of transportation. The sale of production from the Northern Lights ORRI will require a significant capital investment and time to construct a production platform. The operator must also receive approvals from various

local, state and federal agencies before it can construct a platform. There is no assurance that the operator will receive the necessary approvals or that it will receive them on a timely basis.

*Environmental.* The operator is subject to extensive laws and regulations regulating the discharge of pollutants into the environment or otherwise relating to the protection of the environment governing oil and natural gas operations. Its competitors are also subject to such laws and regulations. Companies that incur liability frequently are confronted with third-party claims, because it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment from a polluted site.

Other laws, rules and regulations may restrict the rate of oil and natural gas production below the rate that would otherwise exist or even prohibit exploration and production activities in sensitive areas. Environmental laws and regulations have been subject to frequent changes over the years, and the imposition of more stringent requirements could have a material adverse effect upon the operator and the Partnership.

### **Operating Hazards and Insurance**

The oil and natural gas business involves a variety of operating risks, including the risk of fire, explosion, blowout, pipe failure, casing collapse, unusual or unexpected formation pressures and environmental hazards such as oil spills, gas leaks, ruptures and discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Partnership due to severe damage to or destruction of a well.

### **Title to Royalty Interests**

We will acquire the Northern Lights ORRI in existing leases and licenses. While management has been involved in owning the Northern Lights ORRI since the initial award of the leases from the State of Alaska, the leases may be subject to defects for reasons we are not aware of, such as failure to comply with requirements of other regulatory agencies, including the Environmental Protection Agency. The leases and licenses also may be subject to other royalty interests, liens incident to operating agreements, liens for current taxes and other burdens, including other mineral encumbrances and restrictions customary in the oil and gas industry that we believe should not materially interfere with the use of or affect the value of the Northern Lights ORRI.

### **Sale of the Northern Lights ORRI**

We do not have any present plans or timetable for selling any royalty interests before the liquidation of the Partnership, although assets may be sold at any time after acquisition by the Partnership. There can be no assurance that the Partnership will not produce ordinary income on the sale of assets.

### **State of Alaska Oil and Gas Tax Credits**

In 2016, Alaska adopted changes to its system of oil and gas tax credits. Among other changes, Alaska is phasing out the three major tax credits available to oil and gas exploration and development companies operating in the Cook Inlet, where the Northern Lights ORRI is located. The Net Operating Loss, Qualified Capital Expenditure and Well Lease Expenditure tax credits were reduced by approximately one-half for calendar year 2017 and are scheduled to expire entirely in calendar year 2018. Generally, these credits apply to a proportion of the expenses incurred in exploration and development and could be used to offset taxes owed to the state of Alaska. News reports state that Furie qualified for these credits during its exploration and development of the Kitchen Lights Lease Area. Furie has stated that these tax credits were key in arranging financing for its exploration expenses in the Kitchen Lights Partnership Interest. We believe that tax credits that have already been earned will be available for use in future years, subject to Alaska budgetary provisions. In addition to changes in the tax credits, Alaska will impose a flat tax of \$1 per barrel of oil produced in the Cook Inlet. We believe, but cannot confirm, that this will be paid by the working interest owners.

It is possible that Furie will curtail further drilling in the Cook Inlet as a result of the expiration of these credits, although we currently are not able to assess the likelihood of this. Furie has already spent significant monies to drill wells and construct a gas production platform in the Kitchen Lights Partnership Interest. It has entered into gas supply contracts with utilities in the Cook Inlet area, as explained in the Memorandum. We have not seen any

evidence that Furie is seeking to amend its plan of exploration for the Kitchen Lights Partnership Interest. The plan of exploration approved by the state of Alaska requires that Furie continue to develop the Kitchen Lights Partnership Interest. If the commitments in the plan of exploration are not met, they could be amended with the approval of the state of Alaska, or leases in one or more undrilled blocks could be contracted out of the Kitchen Lights Partnership Interest and forfeited.

As explained in the Memorandum, the Kitchen Lights Partnership Interest, which is comprised of approximately 83,000 acres in the Cook Inlet, is divided into four exploration blocks: the Corsair, North, Southwest and Central Blocks. The six active leases underlying the Northern Lights ORRI are all located in the North Block. The six leases will continue in effect only if Furie complies with the plan of exploration for the Kitchen Lights Partnership Interest or receives approval of an amendment to the plan of exploration. A plan of exploration for a unit sets drilling commitments and other commitments. If these commitments are not met, the result could be that one or more undrilled blocks would be contracted out of the unit. If a block is contracted out of the Kitchen Lights Partnership Interest, and the leases in the block are past their primary terms and not extended, the leases will be forfeited to the State of Alaska. All of the six leases underlying the Northern Lights ORRI are past their primary terms and if contracted out of the Kitchen Lights Partnership Interest, they will be forfeited. If all six leases are forfeited, the Northern Lights ORRI to be acquired by the Partnership will have little value, and you will likely lose your entire investment in the Partnership. However, we think that Furie would not choose to relinquish the North Block, where our leases are located, as it has drilled one well, the KLU #4, in the North Block. Furie has also announced plans to drill another well, the KLU #9, in the North Block on one of the leases underlying the Northern Lights ORRI. We understand that the KLU #4 and the KLU #9 will target the Jurassic formation, although we can provide assurance that this will be the ultimate target formation.

It is possible that the expiration of the oil and gas tax credits for Cook Inlet exploration will discourage new development by existing operators, including Furie. However, we think it is more likely to discourage other exploration and production companies from attempting to explore or develop in the Cook Inlet area, and therefore that the expiration of the tax credits will ultimately reduce the supply of natural gas. In turn, this may tend to increase the average price of gas in the area. A consent decree between another operator in the Cook Inlet and the state of Alaska, which imposed a cap (which increased by 4% annually) on local gas prices, will expire in 2018. Current contracts entered into by this operator and Furie with area utilities are priced below the top end of the gas price cap. However, with the expiration of the consent decree, gas prices may be more responsive to demand.

**PLEASE SEE EXHIBIT C FOR ADDITIONAL INFORMATION ABOUT THE KITCHEN LIGHTS LEASE AREA.**

## USE OF PROCEEDS

The table below sets forth information concerning the estimated use of proceeds of the offering. The gross proceeds from the sale of Partnership Interests will be \$5,900,000 if all of the Partnership Interests are sold. We show the estimated use of proceeds assuming that all sales in the offering are made through the Managing Partner, who is not paid sales commissions or due diligence fees in connection with such sales, although we may make sales through registered broker-dealers where sales commissions and/or due diligence fees are paid. Sales commissions and/or due diligence fees, if any, will be paid by the Managing Partner, and will reduce the amount of net proceeds it retains from the proceeds in the offering.

<b>USE OF PROCEEDS FROM THE INVESTORS<sup>(1)</sup></b>	<b>Offering at \$5,900,000<sup>(2)</sup></b>	<b>Percent</b>
Gross Offering Proceeds	\$5,900,000	100.00%
Administration Fee <sup>(3)</sup>	(\$590,000)	(10.00%)
Organization and Offering Expenses <sup>(4)</sup>	(\$295,000)	(5.00%)
Purchase of Northern Lights ORRI <sup>(5)</sup>	\$5,015,000	85.00%

(1) This table sets out our estimated use of proceeds for purposes of informing potential investors about the anticipated use of offering proceeds. This table does not address the allocation for federal income tax purposes of the amount paid by an investor for its Partnership Interest.

(2) The offering at \$5,900,000 assumes that the Partnership sells \$5,900,000 of Partnership Interests. If the Partnership raises less than \$5,900,000 in the offering, the Managing Partner shall have the right to waive part or all of the non-accountable payments to it, cause the Partnership to incur debt, and/or purchase less than all the Northern Lights ORRI or purchase similar overriding royalty interests from affiliates or others. The Partnership shall be obligated to pay the amount of any fixed, non-accountable payments waived by the Managing Partner to the Managing Partner from future revenues, including proceeds of asset sales and production payments.

(3) We will pay the Managing Partner a fixed, non-accountable fee of 10.00% of the gross amount of subscription proceeds in the offering, as compensation for administering the offering and the Partnership, and in reimbursement of expenses previously incurred and anticipated to be incurred by the Managing Partner on behalf of the Partnership. To the extent that this non-accountable payment exceeds the actual internal and external expenses incurred by the Managing Partner, any excess should be considered compensation to the Managing Partner. The Managing Partner may, in its discretion, accept purchases of Partnership Interests net (or partially net) of such expenses or other fees or reimbursements. See “Terms of the Offering.”

(4) We will pay the Managing Partner or its affiliates a fixed, non-accountable fee of 5.00% of the gross amount of subscription proceeds in the offering, for Organization and Offering Expenses. To the extent that the actual expenses incurred by the Managing Partner and its affiliates for Organization and Offering Expenses are less than the non-accountable payments to the Managing Partner, any excess should be considered additional compensation to the Managing Partner. The Managing Partner will be responsible for any Organization and Offering Expenses that exceed this amount. We may make sales through registered broker-dealers where sales commissions and/or due diligence fees are paid. Sales commissions and/or due diligence fees, if any, will be paid by the Managing Partner out of the non-accountable payment of Organization and Offering Expenses. The Managing Partner may, in its discretion, accept purchases of Partnership Interests net (or partially net) of such expenses or other fees or reimbursements. See “Terms of the Offering.”

(5) We will pay net proceeds up to \$5,015,000 to ProAK or Shawn Bartholomae or to other parties to acquire the Northern Lights ORRI, assuming that the offering is not increased. If the offering is increased, we will pay 85% of those net proceeds to other parties to acquire the Northern Lights ORRI. We will acquire only that portion of the Northern Lights ORRI which we raise sufficient funds to purchase.



## MANAGEMENT

The Managing Partner was formed in April 2007. The Managing Partner is managed and owned by Shawn Bartholomae.

**Shawn E. Bartholomae.** Mr. Bartholomae is the Manager and sole member of ProAK, LLC. He also holds management positions and direct or indirect ownership interests in numerous other entities that are engaged in oil and gas exploration and development. Mr. Bartholomae attended the University of Texas at El Paso where he majored in business management. His experience lies in the fields of investment counseling in the energy industry and in the marketing of financial products dealing with oil and gas production. From March 1983 through March 1985, Mr. Bartholomae was employed by Teleco, Carrollton, Texas, a telecommunications company and from March 1985 through October 1988, by Business Tele Systems, Addison, Texas, also a telecommunications company. In October 1988, he joined Reef Exploration, Inc., Dallas, Texas in its sales department where he remained until March 1993. From March 1993 through July 1997, he was employed by Western American Securities, Inc., Richardson, Texas, a securities broker-dealer affiliated with Reef Exploration, Inc. where he was a Senior Vice-President and registered representative at the time of his departure in July 1997. In July 1997, Mr. Bartholomae became an officer and shareholder of Prodigy Exploration, Inc., which was formed to sponsor oil and gas drilling programs. After the formation of American Landmark Securities, Inc. by his father in 1997, Mr. Bartholomae also became a registered representative with the firm, thereafter terminating his registration with that firm in October 2007. In January 2001, Mr. Bartholomae founded Prodigy Oil & Gas, LLC, which sponsored oil and gas drilling programs until 2010. Mr. Bartholomae was also a founder of Silver Tusk Oil Company, LLC which was formed in February 2009, and is currently the Chief Executive Officer of Black Lava Resources, LLC, formed in October 2010 to sponsor and participate in oil and gas drilling programs. Information concerning drilling programs recently sponsored by Silver Tusk Oil Company, LLC, Prodigy Oil & Gas, LLC, Prodigy Exploration, Inc. and Black Lava Resources, LLC can be obtained upon request to the Managing Partner. See "Legal Proceedings."

## DESCRIPTION OF THE SECURITIES

The Partnership is offering Partnership Interests in a Texas limited partnership. Persons whose subscriptions are accepted in the offering will become limited partners in the Partnership. We sometimes refer to limited partners admitted in the offering as Investor Partners. The Partnership is a tax flow-through entity, which means that all profits and losses are allocated to the partners, who report these items as part of their personal tax returns and pay taxes on their share of profits. Generally, allocations to the partners are intended to give effect to the rights of the partners in distributions made by the Partnership. The Partnership retains the right to issue additional Partnership Interests from time to time in connection with any unpaid Capital Call or upon the consent of a Majority-in-Interest.

The Partnership Interests have not been registered under the U.S. federal Securities Act of 1933 or under the securities laws of any state or other jurisdiction, and may not be transferred unless and until registered under such act and laws or the Partnership has received an opinion of counsel in form and substance satisfactory to the Partnership, that such transfer is in compliance therewith. The Managing Partner may waive the requirement for an opinion of counsel in its discretion. No transfer shall be made which, in the opinion of counsel to the Partnership, would (i) result in the Partnership being considered to have been terminated for purposes of Section 708 of the Code; (ii) would not satisfy any applicable safe harbor under the Regulations from "publicly traded partnership" status; (iii) would result in the assets of the Partnership being considered plan assets for purposes of the Employee Retirement Income Security Act; (iv) would require the Partnership to register as an investment company under the Investment Company Act of 1940; or (v) would otherwise result in materially adverse tax consequences to the Partnership or the partners. The Partnership may require a partner desiring to transfer its Partnership Interest to provide an opinion of counsel in form and substance satisfactory to the Partnership that such transaction would not result in the Partnership being considered terminated under the Code and Regulations. The transferee shall provide to the Managing Partner the transferee's taxpayer identification number and related information of any natural person transferee or control person of any transferee, and any other information reasonably necessary to permit the Partnership to file required tax returns. The transferee shall provide appropriate identifying information regarding itself or any control person and any other information required by the Managing Partner to comply with any currency transaction laws, financial privacy laws, anti-money laundering laws or similar laws.

## UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal and state income tax considerations that may be relevant to the purchase, ownership, and disposition of a Partnership Interest by U.S. persons (as defined below). This summary does not address all of the tax considerations that might be relevant to a prospective investor's particular circumstances or to prospective investors that may be subject to special tax rules, such as banks or other financial institutions, insurance companies, real estate investment trusts, regulated investment companies, governmental organizations, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons who will hold Partnership Interests as part of a "straddle," hedging transaction, conversion transaction, or other similar integrated transaction for U.S. federal income tax purposes, certain former citizens or residents of the United States, or U.S. persons (as defined below) that have a functional currency other than the U.S. dollar. This summary assumes that each investor will hold the Partnership Interest as a capital asset (generally, property held for investment).

This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "**Code**") and the Texas Tax Code, existing and proposed regulations thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof. These authorities are subject to change, possibly with retroactive effect, which could affect the tax considerations described in this summary. We have not obtained, and have no plans to request, a ruling from the Internal Revenue Service ("**IRS**") or any other governmental agency or any other person with respect to any of the matters discussed in this summary, and as a result there can be no assurance that the IRS or other applicable tax authorities will agree with the statements made in this summary.

Except to the limited extent set forth below, this summary does not address the special tax considerations that may apply to persons who are not U.S. persons. For this purpose, you are a "**U.S. person**" if you are:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes ) created or organized in or under the laws of the United States or any State thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons" (as defined in Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of the trust, or (ii) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a "United States person" (as so defined).

If a partnership (or other entity classified as a partnership for tax purposes) purchases a Partnership Interest, the tax consequences to the partnership and its partners with respect to the partnership's purchase, ownership, and disposition of the Partnership Interest generally will depend on the status of the partner and the activities of the partnership. A prospective investor that is a partnership, and partners of the partnership, should consult their own tax advisors as to the tax considerations relevant to the partnership's purchase, ownership, and disposition of the Partnership Interest.

Except to the extent specifically set forth below, this summary does not address the tax consequences to an investor under the laws of any foreign, state, or local tax jurisdiction, nor does it address the U.S. federal estate and gift tax, or alternative minimum tax, or other non-income tax consequences of the ownership and disposition of a Partnership Interest.

***This summary is for general information only and is not tax or legal advice. It is not a complete description of all tax considerations relevant to a prospective purchaser. It is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed with respect to the U.S. federal income tax positions described herein. You should consult your own tax advisor regarding the tax considerations relevant to the acquisition, ownership and disposition of a Partnership Interest under the U.S. federal income tax laws and other U.S. federal tax laws, and under the tax laws of any state, local, non-U.S., or other applicable taxing jurisdiction.***

## **Taxation of Partnership Items**

### ***In General***

The Partnership expects to be treated as a partnership, rather than a corporation, for federal income tax purposes, and this summary is based on the Partnership's expected classification as a partnership. Unlike a corporation, a partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner reports the partner's share of the partnership's items of income, gain, loss, deduction, and credit ("**tax items**") on the partner's own tax return, whether or not the partnership makes any distributions with respect to such tax items. As a result, a Partner could be allocated taxable income from the Partnership, not receive any distributions from the Partnership, and be required to use funds from other sources to pay the tax attributable to the Partner's share of Partnership taxable income.

The allocations of tax items to Partners under the Partnership Agreement will be given effect for federal income tax purposes if the allocations have "substantial economic effect" or if they are made (or deemed made) in accordance with the Partners' respective interests in the Partnership, taking into account all relevant facts and circumstances. The Managing Partner believes that the allocation provisions of the Partnership Agreement will be respected for tax purposes. However, if the IRS does not respect an allocation and the Partners' allocable shares of income and loss are adjusted, the Partners or the Partnership could be assessed additional taxes, interest, and penalties.

### ***Organization, Syndication, and Start-Up Expenses***

The Partnership will incur expenses in connection with organizing the Partnership ("organization expenses"), offering the Partnership Interests for sale to prospective investors ("syndication expenses"). In accordance with Section 709 of the Code, the Partnership will elect to amortize its organization expenses over a period of 180 months beginning with the month in which it begins business. Partnership syndication expenses will be capitalized and may not be deducted or amortized.

### ***Depletion Deductions***

The owner of an economic interest in an oil or gas property, including an overriding royalty interest like the Northern Lights ORRI, is entitled to a deduction for depletion in connection with the income derived from the production of oil, gas, and other minerals from the property. The deduction for depletion for any year with respect to any specific property is the greater of "cost" depletion or "percentage" depletion (if allowable).

Cost depletion is calculated by dividing the adjusted tax basis of the property by the units of reserves existing as of the end of the year and sold during the year, and then multiplying that unit cost by the number of units of sold during the year. Cost depletion cannot exceed the adjusted tax basis of the property to which it relates.

Percentage depletion is generally equal to 15% of gross income attributable to production from a property. The percentage depletion rate with respect to production from "marginal properties" is subject to increase (to a maximum of 25%) by one percentage point for each whole dollar that the reference price for crude oil (i.e., the IRS' estimate of the annual average wellhead price per barrel for all unregulated domestic crude oil production) during the immediately preceding year is less than \$20.00 per barrel. The deduction for percentage depletion may not exceed the taxpayer's taxable income from the property (computed without regard to depletion deductions and the production activities deduction). Furthermore, the total amount of percentage depletion for a taxable year may not exceed 65% of the taxpayer's taxable income for such year (computed without regard to depletion deductions, the production activities deduction, and certain loss carrybacks). Any percentage depletion deductions disallowed because of this limitation may be carried forward indefinitely (subject to the same limitation in subsequent years). In addition, percentage depletion is only available with respect to that portion of the taxpayer's average daily production which does not exceed 1,000 equivalent barrels (with 6,000 cubic feet of gas being equal to one barrel of oil). Percentage depletion is allowable as a deduction even if the taxpayer has no basis in the property or even after the taxpayer has fully recovered such taxpayer's basis.

To be eligible to use percentage depletion, a taxpayer must qualify as an "independent producer," which is defined as a person who is (a) not engaged, directly or indirectly through related persons, in the retail marketing of oil and gas or oil and gas products (unless the gross receipts from such retail marketing does not exceed \$5,000,000 for the

taxable year), and (b) not a refiner of crude oil having average daily refinery runs for the taxable year that exceed 75,000 barrels (including refining by certain related persons).

The depletion deduction with respect to a property owned by a partnership must be determined at the partner level rather than at the partnership level. Accordingly, the determination whether cost or percentage depletion is applicable (including the determination whether the independent producer requirement is met) will be made by each Investor Partner, and each Investor Partner will be responsible for computing his own depletion allowance and maintaining records with respect to his share of the basis in Partnership depletable properties. Each prospective investor should consult his personal tax advisor to determine whether percentage depletion will be available to him.

Upon the disposition of a property at a gain, all amounts previously deducted for depletion (whether cost depletion or percentage depletion), to the extent that such amounts reduced the basis in the property, must be recaptured by treating the gain as ordinary income to the extent of such amounts.

### ***Sale of Properties***

In general, taxable gain upon the sale or exchange of Partnership assets will be recognized to the extent that any cash and the fair market value of any other property received from the purchaser, plus the amount of any liabilities assumed or taken subject to by the purchaser, exceeds the Partnership's adjusted tax basis for the assets sold or exchanged. Each Partner will be required to include its allocable share of any of the gain recognized by the Partnership from the sale or exchange of the Partnership property on the Partner's federal income tax return. In the case of a disposition by the Partnership of a property that is subject to the allowance for percentage depletion (such as the Northern Lights ORRI), each Partner must separately determine gain or loss with respect to such property based on the Partner's tax basis in the property.

Substantially all of the properties held by the Partnership for more than one year (other than certain intangibles developed by the Partnership) should qualify as property that gives rise to section 1231 gains and section 1231 losses as described in Section 1231 of the Code. The portion of any gain on the sale of such property that constitutes recapture of prior depletion deductions will be characterized as ordinary income under Section 1254 of the Code. A similar recapture rule may apply with respect to other cost recovery deductions claimed by the Partnership. The remainder of any gain or loss will constitute section 1231 gains and section 1231 losses as described in Section 1231 of the Code and will be separately reported to the Partners. If a Partner's section 1231 gains for a year exceed the Partner's section 1231 losses, such gains and losses are treated as long-term capital gains and losses (except that a net section 1231 gain may be ordinary income to the extent of non-recaptured net section 1231 losses over the preceding five years). On the other hand, if a Partner's section 1231 gains for a year do not exceed the Partner's section 1231 losses, such gains and losses are generally treated as ordinary income and loss.

To the extent gain recognized by the Partnership on the disposition of real property owned by the Partnership for more than one year relates to prior depreciation deductions taken with respect thereto, the Partnership may recognize "unrecaptured section 1250 gain," which is generally taxable at a rate of 25% and not at the rates applicable to long-term capital gains. In addition, gain on the sale of property will be ordinary income to the extent the gain represents depreciation or cost recovery recapture with respect to the Partnership's depreciation of personal property or certain accelerated depreciation of real property.

Under Section 1061 of the Code, if the Managing Partner's Partnership Interest is deemed to be an "applicable partnership interest" as defined in Section 1061(c) of the Code, the Managing Partner's share of any long-term capital gain recognized by the Partnership with respect to Partnership property held for not more than three years might be recharacterized as short-term capital gain. For this purpose, an "applicable partnership interest" is generally defined as an interest in a partnership where (a) the interest is transferred to or held by the taxpayer in connection with the performance of services by the taxpayer or a related person, and (b) the partnership is engaged in any activity conducted on a regular, continuous, and substantial basis which consists, in whole or in part, of raising or returning capital, investing in, or disposing of, specified assets (or identifying specified assets for such investing or disposition), or developing specified assets. The term "specified assets" includes securities, commodities, real estate held for investment, and derivatives on such assets. Absent a technical correction to the Code, it appears that gains classified as long-term capital gains under Section 1231 of the Code are not affected by gain recharacterization rule in Section 1061. If Section 1061 applies to the Managing Partner's Partnership Interest and to gains recognized by the Partnership, the Managing Partner may have an incentive to hold Partnership

properties for more than three years, which could be contrary to the interests of the Investor Partners. The Investor Partners generally will have no control over the period for which the Partnership will hold its properties.

### **Partner's Basis for Partnership Interest**

A Partner will have an initial tax basis in the Partner's Partnership Interest equal to the Partner's purchase price for the Partnership Interest. That initial tax basis will be increased by the Partner's additional capital contributions (if any), the Partner's share of Partnership income and gains (whether or not taxable, and including gain on the disposition of an oil or gas property by the Partnership separately computed by the Partner), and the Partner's share of Partnership liabilities. The Partner's tax basis for the Partnership Interest will be decreased, but not below zero, by distributions that the Partner receives from the Partnership, the Partner's share of Partnership deductions and losses (whether or not deductible for tax purposes, and including depletion deductions with respect to, and loss on the disposition of, an oil or gas property by the Partnership separately computed by the Investor Partner), and decreases in the Partner's share of Partnership liabilities (to the extent previously included in basis). The Partners' share of Partnership liabilities will be determined under Section 752 of the Code and reported to the Partners by the Partnership. Each Partner is responsible for maintaining records with respect to the Partner's basis in its Partnership Interest.

### **Partnership Distributions**

A Partner generally will not recognize gain or loss upon the receipt of a distribution from the Partnership. A Partner will recognize gain upon the receipt of cash distributions to the extent such distributions during a tax year exceed the adjusted tax basis of the Partner's Partnership Interest. Such gain will generally be taxed as gain from the sale of the Partnership Interest (see *Disposition of a Partner's Partnership Interest*). To the extent a distribution causes the Partner's amount at risk to be reduced below zero, the distribution can give rise to ordinary income to the extent of prior unrecaptured ordinary losses (see *Limitations on Partners' Deduction of Partnership Losses*).

### **Limitations on Partners' Deduction of Partnership Losses**

To the extent the Partnership incurs a loss for any tax year, the ability of a Partner to deduct the Partner's allocable share of the Partnership loss will be subject to various limitations.

#### ***Basis and At-Risk Limitations***

A Partner's distributive share of Partnership loss is allowed only to the extent such loss does not exceed the lesser of the Partner's adjusted tax basis in the Partner's Partnership interest, or, in the case of an individual and certain closely held C corporations, the amount the Partner is "at risk" with respect to the Partner's Partnership interest at the end of the Partnership year in which the loss occurred. Any loss disallowed by reason of the basis or at-risk limitation may be carried forward and deducted in later taxable years to the extent that the Partner's tax basis or at-risk amount, as the case may be, is increased in such later years (subject to application of the other limitations on losses and deductions).

Each Partner's at-risk amount is initially equal to the amount of money and the adjusted basis of property that the Partner contributes to the Partnership, reduced by any amount of money the Partner borrows to acquire or hold the Partner's Partnership Interest if the lender of such borrowed funds owns an interest in the Partnership, is related to such a person, or can look only to the Partner's Partnership Interest for repayment. The Partner's at-risk amount is increased by the Partner's share of Partnership income and is decreased by the Partner's share of Partnership losses and distributions (in each case whether or not taxable and including income and losses separately computed by the Partner with respect to Partnership oil and gas properties).

If a Partner's at-risk amount is reduced below zero (by distributions or otherwise), the Partner will be required to recognize ordinary income to that extent. The amount of ordinary income recognized under this rule, however, cannot exceed the excess of the losses previously claimed by the Partner over any amounts of ordinary income previously recognized under this rule.

Generally, the at risk limitation applies on an activity-by-activity basis and, in the case of oil or gas properties, each property is treated as a separate activity so that losses or deductions arising from one property are limited to the at

risk amount for that property and not the aggregate at risk amount for all the taxpayer's oil or gas properties. The IRS has announced that, until further guidance is issued, it will permit the aggregation of oil or gas properties owned by a partnership in computing a partner's at risk limitation with respect to the partnership. The IRS has also announced that any rules that would impose restrictions on the ability of partners to aggregate will be effective only for taxable years ending after the rules are issued.

### ***Passive Activity Limitations***

The Code limits the ability of taxpayers, other than C corporations that are not closely held and are not personal service corporations, to deduct losses and credits from business activities that constitute a "passive activity" with respect to the taxpayer. For affected taxpayers, income from a passive activity can be offset by both active and passive losses from other business activities, but losses from a passive activity may be deducted only against passive activity income. For this purpose, investment income and gains are generally excluded from the calculation of the income or loss from a passive activity and are generally classified as "portfolio" income and expenses.

The Partnership's activities are expected to consist solely of investment activities and are not expected to constitute a passive activity for purposes of the passive activity loss rules.

### ***Net Capital Losses***

The Partnership will report to its Partners their allocable shares of the Partnership's net long-term capital gain or loss and net short-term capital gain or loss (if any) for each taxable year, which will be added to the Partner's other long-term and short-term capital gains and losses. A Partner with a net capital loss in either category may first offset the loss against any net capital gain in the other category, and any excess net capital loss of an individual is deductible against up to \$3,000 of other net taxable income (\$1,500 in the case of a married individual filing separately), utilizing any net short term capital loss first. Any remaining net capital loss of an individual can be carried forward and taken into account as a net capital loss of the same character arising in the succeeding tax year. Net capital losses of a corporation cannot be deducted against other income, but can generally be carried back three taxable years and forward five taxable years.

### ***Interest Expense***

Each Partner is allocated a portion of the Partnership's interest expense on any loan incurred by the Partnership. Interest on debt that is properly allocable to a passive activity is treated as a passive activity expense which can only be deducted against passive activity income. See "*Passive Activity Limitations*" above. Interest on debt that is properly allocable to property held for investment is subject to the investment interest limitations. Individuals may deduct investment interest only to the extent of the individual's net investment income.

If a Partner borrows to directly finance an investment in Partnership Interest, or funds the investment in Partnership Interest by drawing funds from an account securing repayment of, or holding the proceeds of, borrowed funds, all or a portion of the underlying debt could be treated as allocable to the Partner's investment in Partnership Interest. Interest expense on such debt must be allocated among the assets of the Partnership using a reasonable method. The Partner's interest expense allocable to Partnership investment assets (including the Northern Lights ORRI) is accounted for in the same manner as such interest expense incurred by the Partnership (as discussed in the preceding paragraph).

### ***Limitations on Itemized Deductions***

In the case of a non-corporate taxpayer for taxable years beginning after December 31, 2017 and before January 1, 2026, no deduction is allowed for miscellaneous itemized deductions. For this purpose, miscellaneous itemized deductions means all itemized deductions other than the deductions for interest, taxes, charitable gifts, and other items specified in Code. Itemized deductions do not include deductions attributable to a trade or business carried on by the taxpayer (or carried on by a partnership in which the taxpayer holds an interest) other than as an employee, or deductions for losses from the sale or exchange of property. For taxable years beginning after December 31, 2025, miscellaneous itemized deductions of non-corporate taxpayers are allowable only to the extent that they exceed 2% of the taxpayer's adjusted gross income. In addition, certain high income individuals are subject to an overall limitation on certain itemized deductions, including miscellaneous itemized deductions.

The Partnership expects that the portion of its deductions subject to the limitations applicable to itemized deductions will not be material, but there can be no assurance that the IRS will not challenge the classification of certain Partnership deductions. For example, the IRS could contend that any distributions made by the Partnership to the Managing Partner in excess of distributions proportionate to the Managing Partner's investment in the Partnership constitute a fee. If this position were sustained, all or a portion of the Partners' allocable shares of such fee could be subject to the limitations on itemized deductions as described in the preceding paragraphs.

### **Alternative Minimum Tax**

A tax equal to the greater of a taxpayer's "regular tax" or "alternative minimum tax" is imposed under Section 55 of the Code. Certain tax items of Partners attributable to the Partnership, such as the excess of percentage depletion over the cost basis of the Partnership's oil and gas properties, could give rise to adjustments or tax preference items that could impact the calculation of the Partner's alternative minimum tax and increase the amount of tax that would otherwise be payable by the Partner with respect to the Partner's share of Partnership regular taxable income. In that regard, for taxable years beginning after December 31, 2017 and before January 1, 2026, applicable alternative minimum tax exemption amounts were increased significantly.

### **Disposition of a Partner's Partnership Interest**

Upon the sale or other taxable disposition of a Partner's Partnership Interest (including a redemption by the Partnership for cash), the Partner will recognize gain or loss in an amount equal to the difference between the amount realized by the Partner for the Partnership Interest (excluding any amounts realized attributable to Partnership "hot assets," as discussed below) and the Partner's tax basis for the Partnership Interest. The Partner's tax basis for the Partnership Interest is increased (or decreased) to take into account the Partner's allocable share of Partnership tax items for the portion of the Partnership's taxable year ending on the disposition date. The Partner's tax basis for the Partnership Interest and the amount realized upon the disposition of the Partnership Interest will also take into account the Partner's allocable share of Partnership liabilities. Any recognized gain or loss is generally treated as long-term capital gain or loss to the extent the Partner has held its Partnership Interest for more than one year. As noted above, a Partner's deduction for any capital loss may be limited. See *Limitations on Partners' Deduction of Partnership Losses – Net Capital Losses*.

In measuring whether a Partner has held its Partnership Interest for more than one year, if the Partner has made net contributions to the Partnership during the one-year period ending on the date of disposition, the Partner is treated as holding a portion of the Partner's aggregate membership interest for one year or less based on the ratio of (a) the fair market value of the Partner's membership interest acquired in exchange for capital contributions to the Partnership during the one-year period ending on the date of the distribution to (b) the fair market value of the Partner's entire membership interest immediately prior to such disposition. For this purpose, the Partner may treat any distributions occurring during such one-year period as reducing any contributions during such one year period on a last-in first-out basis. The rules for computing the holding period for a Partner's Partnership Interest may cause a Partner to recognize short-term capital gain with respect to a disposition even though the gain is economically attributable solely to Partnership Interest, or underlying Partnership assets, held for more than one year.

Special rules may apply if a Partner receives property other than cash in redemption of the Partner's Partnership Interest, but it is not expected that the Partnership will make any such redemption in kind.

Amounts realized by the Partner on a taxable disposition of a Partnership Interest that are attributable to Partnership "unrealized receivables" or "inventory items" (as defined in Section 751 of the Code and commonly referred to as "**hot assets**") are excluded from the calculation of capital gain or loss on the disposition and are instead treated as ordinary income. Hot assets generally include any Partnership assets that would give rise to ordinary income if sold by the Partnership, including depletable property to the extent of depletion recapture treated as ordinary income. A Partner can recognize ordinary income on the disposition of a Partnership Interest even if the disposition otherwise results in a loss.

A Partner that transfers Partnership Interest will generally be required to notify the Partnership regarding the transfer, and the Partnership will be required to file certain information reports with the IRS and the Partner regarding the transfer. The information reports are intended to ensure that any ordinary income arising from the transfer is properly reported by the Partner to the IRS.

## Section 754 Election

Section 754 of the Code permits the Partnership to make an election to adjust the tax basis of Partnership property on the distribution of property by the Partnership to a Partner and on a Partner's transfer of Partnership Interest by sale or exchange or by death. In the case of a transfer of Partnership Interest, the general effect of a Section 754 election is that the Partnership adjusts the tax basis of its assets, with respect to the transferee only, by the difference between the transferee's adjusted basis for the Partnership Interest acquired and the transferee's proportionate share of the Partnership's unadjusted basis for its assets. The adjustment is generally allocated to the assets based upon the fair market value of the assets at the time of the transfer of the Partnership Interest. Any such election, once made, cannot be revoked without the consent of the IRS. Under the terms of the Partnership Agreement, the Managing Partner, in its discretion, may make a Section 754 election but is not required to do so.

In the absence of a Section 754 election, a person proposing to purchase Partnership Interest at a premium to a Partner's proportionate share of the Partnership's tax basis for its assets will not obtain a stepped up tax basis for the premium paid, which might cause the purchaser to discount the purchase price for the Partnership Interest. Likewise, if a Partner dies during a year in which the Partnership does not have a Section 754 election in effect, the Partnership will not adjust the tax basis for the decedent's proportionate share of the Partnership's assets.

An adjustment to the basis of Partnership property is mandatory upon the distribution of property by the Partnership to a Partner if there is a substantial basis reduction, and is also mandatory upon a Partner's transfer of an Interest by sale or exchange or by death if the Partnership has a substantial built-in loss immediately after the transfer. A substantial basis reduction results if a downward adjustment of more than \$250,000 would be made to the basis of Partnership assets if a Section 754 election were in effect. A substantial built-in loss exists if either (a) the Partnership's adjusted basis in its assets exceeds the fair market value of such assets by more than \$250,000, or (b) or the transferee of Partnership Interest would be allocated a loss of more than \$250,000 if the Partnership's assets were sold for cash equal to their fair market value immediately after the transfer. The effect of the mandatory adjustment is the same as if the Partnership had a Section 754 election in effect.

## Tax on Net Investment Income

In the case of individuals, a 3.8% tax is imposed for each taxable year on the lesser of (a) net investment income for the year or (b) the modified adjusted gross income for such year in excess of a threshold amount (\$250,000 if married filing jointly or a "surviving spouse," \$125,000 if married filing separately, and \$200,000 in other cases). In the case of estates and trusts, a 3.8% tax is imposed for each taxable year on the lesser of (a) undistributed net investment income for the year or (b) the adjusted gross income for such year in excess of the dollar amount at which the highest tax bracket for estates and trusts begins for such year (\$12,750 for 2019). It is likely that net income or net loss recognized by a Partner that is an individual or a trust or estate with respect to the Partnership's operations or with respect to a taxable disposition of Partnership Interest will generally be taken into account in computing the Partner's net investment income (subject to applicable limitations on loss deductions).

## Information Returns

The Partnership will file an annual information return on Form 1065 using the calendar year as its taxable year. The Partnership intends to furnish each Partner certain tax information, including a Schedule K-1, setting forth each Partner's share of the Partnership's income, gain, loss, and deduction for the preceding Partnership taxable year, and information necessary to compute each Partner's depletion deductions with respect to the Partnership's depletable properties (including the Northern Lights ORRI). Each Partner is required to treat Partnership tax items on the Partner's tax return in a manner consistent with the tax treatment of the items on the Partnership's information return.

The Partnership may not be able to deliver Schedules K-1 (and corresponding state schedules) to Partners for each taxable year of the Partnership prior to April 15th of the following taxable year. Accordingly, Partners may be required to obtain extensions for filing their federal, state and local income tax returns each year.



## Tax Audits and Appeals

If the Partnership's federal income tax information return is audited by the IRS, the tax treatment of all Partnership tax items will be determined at the Partnership level in proceedings controlled by the Managing Partner as the Partnership's designated "partnership representative" (referred to in the Partnership agreement as the "**Tax Matters Partner**"). A Partner is generally not entitled to notice of, or entitled to participate in, any such proceeding, and is generally bound by any actions taken by the partnership representative in the proceeding. However, under the Partnership Agreement, the Managing Partner, in its capacity as Tax Matters Partner, is required to notify all Partners of any proceedings commenced by the IRS, and to furnish all Partners periodic reports at least quarterly on the status of such proceedings.

If the IRS proposes adjustments to the Partnership's reported tax items, the proposed adjustments will be set forth in a "notice of proposed partnership adjustment," which will include a calculation of an "imputed underpayment" generally representing an amount of tax due based on the net positive taxable adjustments multiplied by the highest rate of federal income tax in effect for the Partnership's taxable year to which the adjustments relate (the "**reviewed year**") plus any adjustments to tax credits reported by the Partnership. The notice of proposed partnership adjustment will also include any applicable penalties, which will be determined at the Partnership level (including the determination of any Partner-level defenses). The Managing Partner may request modifications to the proposed adjustments and imputed underpayment based on various factors, including amended returns filed by Partners for the reviewed year (or certain "pull-in" procedures in lieu of amended returns), adjustments allocable to tax-exempt partners, and tax rates applicable to adjustments allocable to Partners who are corporations (in the case of ordinary income adjustments) or individuals (in the case of capital gain adjustments). Any remaining imputed underpayment and applicable penalties will be set forth in a notice of final partnership adjustment.

The Partnership may challenge a notice of final partnership adjustment by filing a petition for readjustment with an applicable U.S. federal court within 90 days after the issuance of the notice. If the Partnership does not file a petition for readjustment, the IRS will generally assess and collect the imputed underpayment and penalties (as set forth in the notice) from the Partnership as if it were a tax imposed on the Partnership for the year in which the notice of final partnership adjustment is mailed (the "**adjustment year**"). If the Partnership files a petition for readjustment, the imputed underpayment and penalties will be determined by the court (including normal rights of appeal) and generally assessed and collected by the IRS in the same manner as amounts determined in the notice of final partnership adjustment. Interest is generally imposed on the imputed underpayment and penalties from the return due date for the reviewed year to the return due date for the adjustment year, and thereafter in the same manner as a tax deficiency for the adjustment year. Any imputed underpayment and applicable penalties paid by the Partnership will be treated as a non-deductible expense of the Partnership. The Partnership Agreement provides that each Partner and former Partner for the reviewed year must pay or reimburse the Partnership for their allocable shares of any imputed underpayment payable by the Partnership in proportion to their respective Partnership Interests for the reviewed year and the imputed tax underpayment will be based on distribution waterfall priorities and will be determined taking into account any modifications to the proposed imputed underpayment and penalties by reason of the status of, or any elections or returns filed by, the affected Partners.

As an alternative to the Partnership paying the imputed underpayment amount and applicable penalties set forth in the notice of final partnership adjustment and seeking reimbursement from the Partners and former Partners (if any) for the reviewed year, the Partnership may elect with respect to any reviewed year to "push out" the adjustments and penalties to the persons who were Partners for the reviewed year. The Partnership will provide each affected Partner with a statement setting forth such Partner's share of the audit adjustments and penalty amounts. Each Partner is then required to pay an additional tax for the taxable year in which the partner receives the statement, rather than filing amended returns for the year to which the adjustments relate and any other intervening affected years (the "**applicable tax years**"). The additional tax is generally based on the amount of tax underpaid for the applicable tax years. The Partner is also required to pay interest on the additional tax generally measured from the return due date for the applicable tax years at an interest rate 2% points higher than generally applicable.

The audit rules described above were enacted in late 2015, became effective for taxable years beginning on and after January 1, 2018, and were substantively amended in March 2018. There is significant uncertainty regarding how these rules will be applied and how they will impact the Partnership and its Partners. If the Partnership's tax items are adjusted (including reallocations of tax items among Partners), any resulting liability (including interest and penalties) imposed on the Partnership or on the Partners could be greater than if the tax items had been correctly

reported on the original return or had been corrected through audit proceedings or amended returns at the Partner level. Moreover, to the extent the Partnership pays any imputed underpayment amount or related interest and penalties, the Partners having primary liability for the economic burden of the payment (generally, the Partners for the adjustment year) may be different from the Partners to whom the adjustments relate (i.e., the Partners for the reviewed year). While the Managing Partner will use reasonable efforts to cause the Partnership's tax items to be correctly reported on its original returns, due to the complexity of the U.S. federal income tax rules, there can be no assurance that the Partnership's tax items will not be adjusted or reallocated after filing. There can likewise be no assurance that the economic effect of any such adjustments will be borne by the Partners to which the adjustments relate.

### **Reportable Transactions**

The Code imposes various reporting obligations on persons that participate in any transaction, investment, entity, plan, or arrangement that the IRS determines has the potential for tax avoidance or evasion ("**reportable transactions**"). A penalty is imposed for any failure to provide the required disclosure and to maintain relevant information regarding the transaction, without regard to whether the underlying tax position is sustained or results in any reduction in tax. A penalty is also imposed for any reduction in taxable income that results from certain reportable transactions if the underlying tax position is not sustained, and the penalty is increased if the reporting requirements with respect to the transaction were not satisfied.

An investment in a Partnership Interest should not be a reportable transaction. However, a sale or other disposition of a Partnership Interest or Partnership assets at a significant loss (generally, in excess of \$2 million in any single tax year or \$4 million in any combination of tax years) could give rise to a reportable transaction. While the Partnership does not anticipate engaging in transactions that are, or might be interpreted as, reportable transactions, there can be no assurance that this will be the case. If the Partnership engages in a reportable transaction, both the Partnership and the Partners would generally be required to file a disclosure statement with their respective tax returns, with a copy to the IRS Office of Tax Shelter Analysis, providing detailed information regarding the transaction. Each Partner would be liable for any penalties imposed for any failure of the Partner to comply with the reportable transaction reporting requirements.

The Code also imposes reporting and information maintenance obligations on material advisors with respect to reportable transactions, including the obligation to maintain lists of persons advised with respect to such transactions. Even if the Partnership determines that a transaction is not a reportable transaction, a material advisor with respect to the transaction could take a different view and may report the transaction to the IRS, potentially triggering penalties on the Partnership and the Partners.

### **State and Local Tax Considerations**

#### ***Texas***

The Partnership will file an annual Partnership franchise tax return in Texas. Texas franchise tax is generally due May 15 of each year for the privilege of doing business in Texas during that year. The tax is based on the Partnership's taxable margin for its annual accounting period ending the immediately preceding December 31. The tax is generally 0.75% of the Company's "taxable margin," which is generally determined based on (a) total revenue less the greater of (i) cost of goods sold, (ii) compensation, (iii) 30% of total revenue, or (iv) \$1,130,000 (such amount being the Company's "margin"), (b) apportioning the Company's margin to Texas and other states as provided in the Texas Tax Code (generally based on the source of federal gross receipts), and (c) subtracting allowable credits. If the Company's annualized total revenue is \$1,130,000 or less (2019 amount; adjusted for inflation in future years), or if its tax due is \$1,000 or less, its tax due is \$0. Also, if the Company's annualized total revenue is \$20,000,000 or less, it may elect to pay tax at a rate of 0.331%. For purposes of the Texas franchise tax, all of the Company's revenue is expected to be derived from sources outside of Texas, and therefore the Company does not expect to own any Texas franchise tax with respect to its activities.

## *Alaska*

If and when the Partnership begins to receive payments under the Northern Lights ORRI, the payments will be net of any applicable taxes levied by the State of Alaska. The Partnership will file any tax returns required by the State of Alaska, except that the Partnership will not file individual tax returns for any partner.

### **Tax-Exempt Partners**

If an entity exempt from taxation under Section 501 of the Code is a partner in a partnership that is engaged in a trade or business not substantially related to the tax-exempt entity's exempt function, the tax-exempt entity's distributive share of partnership income (other than dividends, interest, royalties, certain rents, capital gains and certain other items) will be treated as unrelated business taxable income ("**UBTI**"). In addition, if a tax-exempt entity is a partner in a partnership that owns property acquired with borrowed funds, or if the tax-exempt entity itself borrows to invest in a partnership, the tax-exempt entity's share of partnership income (including dividends, interest, royalties, rent and capital gains) attributable to such property could be treated as UBTI.

The Partnership expects that its income (primarily or exclusively income from the Northern Lights ORRI) will be of a type that is excluded from the definition of UBTI. However, because the Partnership may incur debt, there is no assurance that the Partnership will not generate UBTI at some point over the life of the Partnership. The characterization of the Partnership's income as UBTI may have a significant effect on an investment in Partnership Interest by a tax-exempt entity and may make investment in Partnership Interest inappropriate for certain tax-exempt entities.

### **Non-U.S. Partners**

The Partnership may have Partners that are not U.S. Persons ("**Non-U.S. Partners**"), in which case the Partnership would be required to remit withholding taxes with respect to royalties received by the Partnership and allocable to Non-U.S. Partners (generally at a rate of 30% of the gross amount of the royalties, subject to possible reduction under applicable treaties). In addition, such Non-U.S. Partners' allocable share of gain from the sale of the Partnership properties, or their gain from a sale of their Partnership Interest, may be deemed to be income effectively connected with the conduct of a trade or business within the United States under Section 897 of the Code and subject to U.S. income tax at the same graduated rates as applicable to U.S. persons. Such income taxes are generally collected through withholding taxes under Section 1445 of the Code. A Non-U.S. Partner who is an individual may also be subject to U.S. (and potentially state) estate tax with respect to the value of a Partnership Interest held at death.

Based on the foregoing, an investment in a Partnership Interest may not be appropriate for persons who are not U.S. persons.

## CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

**Conflicts of Interest.** Each partner acknowledges that there may be situations in which the interests of the Partnership may conflict with the interests of the Managing Partner or any affiliate. Each partner agrees that the activities of the Managing Partner and any affiliate specifically authorized by or described in the Partnership Agreement may be engaged in by the Managing Partner or any such affiliate and will not, in any case or in the aggregate, be deemed a breach of the Partnership Agreement or any duty owed by the Managing Partner or any such affiliate to the Partnership or to any partner. Each partner agrees that the Managing Partner is entitled to act in its discretion in any situation posing a conflict of interest, and further agrees that the partner will not assert a claim arising out of any of the following actual or potential conflicts of interest.

**Shawn Bartholomae and ProAK have a conflict of interest regarding the purchase price for the Northern Lights ORRI.** Mr. Bartholomae set the price at which ProAK was willing to sell and the price the Partnership will pay, so a significant conflict of interest in determining the purchase price of the Northern Lights ORRI exists.

**ProAK, LLC has a conflict of interest.** ProAK has a conflict of interest in recommending that the Partnership purchase the Northern Lights ORRI owned by it. ProAK is the managing partner of the Partnership and is wholly owned and controlled by Mr. Shawn Bartholomae. We anticipate that ProAK will be paid fixed, non-accountable fees and expenses of 15% of the gross proceeds from this offering. In addition, ProAK will be entitled to an annual payment of \$60,000 for a management fee and will receive a 15% carried interest in this Partnership.

**Terms of the Offering.** Substantially all of the terms of this offering were determined by us prior to the formation of the Partnership. Such terms included, without being an exclusive listing thereof, the following matters: (a) the determination of the structure of the Partnership; (b) the amounts to be paid or reimbursed by the Partnership to the Managing Partner; (c) the absence of any Capital Contributions expected of the Managing Partner; and (d) the extent to which the Managing Partner will participate in distributions by the Partnership. Such terms were not negotiated with the Investor Partners and such transactions may be deemed to have been entered into without the benefit of arms-length negotiations.

**No Investor Partner Participation in other Activities.** The Managing Partner and its affiliates may engage for their own account and/or for the account of others, including other investors, in all aspects of the oil and gas, real estate or any other legal business. The Managing Partner and/or its affiliates may begin or continue such activities, individually, jointly with others, or as owners or managers of any person; and shall not be required to permit the Partnership or the partners to participate in any other such activities in which any Managing Partner or any affiliate may be interested or share in any profits or other benefits therefrom, solely by virtue of being a partner in the Partnership. The doctrines of "corporate opportunity" or "business opportunity" shall not be applied to any other activity, venture, or operation of the Managing Partner or any partner, and no partner shall have any obligation to the others with respect to any opportunity to engage in any business.

**Purchase of other overriding royalty interests in the Kitchen Lights Lease Area.** We may purchase additional overriding royalty interests in the Kitchen Lights Lease Area from Shawn Bartholomae or other affiliates. We anticipate that any such purchase would be for the same proportionate price as the purchase from Shawn Bartholomae described in this Memorandum. If the purchase from Shawn Bartholomae is not completed for any reason, we may use the entire net proceeds to purchase overriding royalty interests in the Kitchen Lights Lease Area from our affiliates and third parties. Any such purchase will be at a higher amount than Mr. Bartholomae or any other affiliates paid to originally acquire their overriding royalty interest, and partners in this Partnership will have no right to participate in such profits.

**Transactions with Affiliates.** In addition to the proposed purchase from Shawn Bartholomae, the Managing Partner shall have the right to cause the Partnership to enter into transactions with any other entity of which the Managing Partner is the manager, general partner or advisor or with entities which such other entity controls or invests in, in each case on terms which are fair to each party taking into consideration such factors as the Managing Partner shall determine in its discretion.

**Sales by the Managing Partner.** Partnership Interests will be offered and sold through the Managing Partner, which may have a conflict of interest in recommending the investment. The Managing Partner does not intend to

undertake to determine whether the Partnership Interests are the optimal investment, generally or for any particular customer.

**Allocation of Time and Personnel.** The Managing Partner, its affiliates and employees shall devote so much of their personnel and time to the affairs of the Partnership as in their judgment the conduct of the Partnership business shall reasonably require. The Managing Partner, its affiliates and employees shall not be obligated to do or perform any act or thing in connection with the business of the Partnership not expressly set out in the Partnership Agreement. Notwithstanding anything to the contrary in the Partnership Agreement, the managers and employees of the Managing Partner and any affiliate of the Managing Partner will be permitted to perform similar duties for any other entity.

**Employment of Others.** The Managing Partner may, from time to time, employ any person to render services to the Partnership on such terms and for such compensation as the Managing Partner may determine in its discretion, including, without limitation, geologists, engineers, attorneys, accountants, brokers or finders, and landmen, regardless of whether the Managing Partner also has the internal expertise to provide such services. Such persons may be affiliates of any the Managing Partner or any other partner. Persons retained, engaged or employed by the Partnership may also be engaged, retained or employed by and act on behalf of any partner or any affiliate.

**No Capital at Risk.** As the Managing Partner is not required to make any capital contribution to the Partnership, it does not bear a risk of loss commensurate with its investment. In addition, its Net Distribution Interest may create an incentive for it to engage in riskier, but potentially more rewarding, investments or in investments that are more speculative than it might otherwise make.

**Legal Representation.** Counsel for the Managing Partner in connection with this offering does not represent the Partnership or the Investor Partners, and may be replaced at any time by the Managing Partner. No independent legal counsel will be retained to represent the Partnership or the Investor Partners. Counsel to the Managing Partner does not undertake to monitor the compliance of the Managing Partner or the Partnership with the provisions of the Partnership Agreement or with the investment program and terms set out in this Memorandum or with applicable laws.

## PRIOR ACTIVITIES

The Partnership is recently formed and has not engaged in significant activities. The Managing Partner currently manages three affiliated partnerships, Northern Lights Royalties LP, Northern Lights Royalties II LP and Northern Lights Royalties III LP and manages a dissolving partnership, ProAk Royalties, LP, which previously owned the Northern Lights ORRI acquired by Northern Lights Royalties LP. Mr. Shawn Bartholomae directly or indirectly manages numerous other partnerships and investments in the oil and gas industry. These other entities are primarily limited partnerships that invest in working interests in oil and gas development wells. You may request further information from us regarding the prior activities of the principals of the Managing Partner in the oil and gas business.

## LEGAL PROCEEDINGS

On May 11, 2009, a lawsuit was filed in the Texas State District Court in Tarrant County, Texas styled “William R. Haney, Sr. v. Prodigy Oil & Gas, LLC and Shawn E. Bartholomae.” The lawsuit sought the recovery of sums invested by a Massachusetts resident in various oil and gas drilling programs sponsored by Prodigy Oil & Gas, LLC, an Affiliate of Prodigy Exploration, Inc. The lawsuit asserted that the Defendants had violated various state and federal common laws and statutory laws in connection with the offer and sale of interests in these drilling programs. Following the filing of the action, the Defendants moved to compel the lawsuit to arbitration. The Defendants were successful in doing so, and on April 17, 2012, the investor filed a claim with the American Arbitration Association against the named parties identical to his lawsuit filed in Texas State District Court in Tarrant County. On May 21, 2012, Prodigy Oil & Gas, LLC and Mr. Bartholomae filed their answering statement to Mr. Haney’s claim and filed a counterclaim alleging his claim violated his agreements with Prodigy Oil & Gas, LLC and that his claim was without merit.

Thereafter, on December 4, 2012, the investor voluntarily agreed to dismiss his claim before the AAA, with

prejudice, and in return, Prodigy Oil & Gas, LLC and Mr. Bartholomae agreed to dismiss their counterclaim. Neither party paid any monetary amount in return for the mutual agreement to dismiss.

Two days later, on December 6, 2012, the Massachusetts Securities Division (the “Division”) filed an administrative complaint against Prodigy Oil & Gas, LLC and Mr. Shawn Bartholomae alleging various violations of the Massachusetts Uniform Securities Act in connection with sales of interests in those drilling programs to the “Massachusetts investor”. Neither Prodigy Oil & Gas, LLC nor Mr. Bartholomae were ever contacted by the Division concerning any of their activities in the state of Massachusetts. The Complaint sought an order directing that Prodigy and Mr. Bartholomae cease and desist from offering or selling securities in Massachusetts unless the securities were properly registered or were offered for sale and sold pursuant to an exemption from registration under the Massachusetts Securities Act.

Prodigy Oil & Gas, LLC and Mr. Bartholomae vigorously contested the action. They were of the view that the allegations made by the Division were not supported by the facts nor applicable law.

On September 15, 2015, following over two and one-half years of litigation involving the Massachusetts action, Prodigy Oil & Gas, LLC and Mr. Bartholomae agreed to the entry of a Consent Order in which it was found that Prodigy Oil & Gas, LLC had failed to file two Form Ds in Massachusetts as required pursuant to Massachusetts law. They were ordered to pay an administrative fee of \$1,500 to the Division and to offer a refund to the Massachusetts investor of one of his investments. No other violations of law were found by the Division to have occurred.

On January 27, 2012, a lawsuit was filed in the Texas State District Court in Dallas County, Texas styled “William Hall, et al vs. Prodigy Oil & Gas, LLC, et al.” The lawsuit named seven Defendants that include Prodigy Oil & Gas, LLC, Prodigy Exploration, Inc., Mr. Shawn Bartholomae and Mr. Alan Bartholomae (the “Prodigy Defendants”). The lawsuit sought the recovery of an unspecified amount of damages from the Defendants whom the Plaintiffs alleged violated various Texas statutes and common laws in connection with the offer and sale of interests in various drilling programs to the Plaintiffs. The Prodigy Defendants filed a counterclaim against the Plaintiffs, alleging that the Plaintiffs had violated agreements with Prodigy Oil & Gas, LLC and Prodigy Exploration, Inc. and that the Plaintiff’s claims had no merit. A settlement of this matter between the Plaintiffs and the Defendants was reached in June 2013.

On March 11, 2009, the Pennsylvania Securities Commission issued a Summary Order to Cease and Desist (the “Summary Order”) against Prodigy Oil & Gas, LLC and its managing member, Mr. Shawn Bartholomae. The Summary Order was issued after allegations were made by the Commission that a Pennsylvania resident had been contacted concerning a drilling program sponsored by Prodigy Oil & Gas, LLC. The Summary Order was issued *ex parte*, that is, without notice beforehand to Prodigy Oil & Gas, LLC or Mr. Bartholomae. The parties named in the Summary Order chose not to contest the entry of the Summary Order due to the time, effort and expense that both believed would be incurred. The Summary Order recited, in part, that...

“The materials failed to disclose that on March 7, 2007, the Department of Corporations of the State of California issued a Desist and Refrain Order against Respondents Prodigy Oil & Gas, LLC and Bartholomae prohibiting them from making offers or sales of securities in the State of California unless they are qualified or exempt from qualification,”

and as such, violated the anti-fraud provisions of the Pennsylvania Securities Act.

Contrary to the allegations set forth in the Summary Order, the drilling program referenced in the Summary Order did, in fact, contain disclosure of the Order issued by the California Department of Corporations. It was unclear to Prodigy Oil & Gas, LLC and Mr. Bartholomae as to why the Pennsylvania Securities Commission recited this “failure to disclose,” which clearly contradicted the written disclosures provided to prospective investors in the drilling program in question.

The Summary Order merely directs that Prodigy Oil & Gas, LLC and Mr. Bartholomae refrain from offering and selling interests in the specific drilling program referenced in the Summary Order in violation of the registration and anti-fraud provisions of the Pennsylvania Securities Act. The Summary Order did not, and does not,

preclude Prodigy Oil & Gas, LLC or Mr. Bartholomae from engaging in activities in the State of Pennsylvania in compliance with Pennsylvania law.

## DEFINITIONS

The following are the definitions of certain terms used in this Memorandum. Capitalized terms not defined here shall have the meanings defined in the Partnership Agreement.

**Accredited Investor (whether or not capitalized).** A person meeting the definition of an accredited investor under Rule 506 of Regulation D under the Act, including any person who meets at least one of the following:

(1) Any natural person whose individual net worth (or joint net worth with that person's spouse) at the time of purchase exceeds \$1,000,000, excluding the value of their primary residence and any associated mortgage, as long as the mortgage was not incurred within 60 days of the investment other than as part of the purchase of the residence, and including as a liability any amount of a mortgage that was incurred within 60 days of the investment other than as part of the purchase of the residence or to the extent it exceeds the fair market value of the residence; or

(2) Any natural person who had an individual income in excess of \$200,000 (or \$300,000 with that person's spouse) in each of the two most recent years and who reasonably expects an income in excess of \$200,000 (or \$300,000 with spouse) in the current year; or

(3) Any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000, or if a self-directed plan with investment decisions made solely by persons that are accredited investors; or

(4) Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person; or

(5) Any revocable trust, where each grantor is accredited under (1) or (2) above; or

(6) Any corporation, business trust, partnership or similar entity, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered; or

(7) Any entity in which all of the equity owners are accredited investors.

**Act.** The Securities Act of 1933, as amended.

**Affiliate.** The term affiliate, whether or not capitalized, shall mean (i) any person directly or indirectly controlling, controlled by, or under common control with, another person.

**Capital Account.** The capital account maintained by the Partnership for each of its partners.

**Capital Call (whether or not capitalized).** A requirement by the Managing Partner that the partners make additional Capital Contributions.

**Capital Contribution.** The total amount of cash, fair market value, asset basis or deemed value of property or services contributed to the capital of the Partnership by any partner (or the predecessor holders of the interests of such partner).

**Code.** The Internal Revenue Code of 1986, as amended from time to time.

**Event of Withdrawal.** As to all partners, an Event of Withdrawal occurs when a partner: makes an assignment for the benefit of creditors; files a voluntary petition in bankruptcy; is adjudged a bankrupt or insolvent or has entered against such partner an order for relief in any bankruptcy or insolvency proceeding which order is not

dissolved within 60 days; files a petition or answer or certificate seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief; files an answer or other pleading failing to contest the material allegations in any bankruptcy or insolvency proceeding; becomes subject to the appointment of a receiver or trustee or liquidator of all or a substantial part of the partner's property and fails to have such appointment vacated or stayed within 60 days of the appointment; has been expelled from the Partnership by a final judicial decree; is subject to any order or judgment not stayed within 30 days of issuance attaching or foreclosing upon any part of its Partnership Interest; or its controlling persons are listed as Specially Designated Nationals and Blocked Persons by the Office of Foreign Assets Control or are otherwise persons the Partnership is prohibited from doing business with; commences any proceeding adverse to the Partnership; or transfers any Partnership Interest, as to the interest transferred. As to a partner who is a natural person, an Event of Withdrawal also occurs upon the partner's death, the appointment of a guardian or general conservator for the partner or an adjudication of incompetency of the partner. As to a partner who is an entity, an Event of Withdrawal also occurs upon the termination, dissolution or cessation of business of the partner.

**Gross Asset Value.** For any asset, the asset's adjusted basis for federal income tax purposes, except as set forth below:

- (a) The initial Gross Asset Value of any asset contributed by a partner to the Partnership shall be the gross fair market value of the asset on the date of determination, as determined by the contributing partner and the Partnership.
- (b) The Gross Asset Values of all Partnership assets shall be adjusted to equal their gross fair market values, as determined by the Managing Partner, as of the following times: (1) the contribution of more than a de minimis amount of money or other property to the Partnership as a Capital Contribution by a new or existing partner, or the distribution by the Partnership to a retiring or continuing partner of more than a de minimis amount of property as consideration for an interest in the Partnership, if the Managing Partner reasonably determines that such adjustment is necessary or appropriate to reflect the relative economic interests of the partners in the Partnership; or (2) the liquidation of the Partnership within the meaning of the Regulations.
- (c) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustment to the adjusted basis of such assets pursuant to the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to the Regulations; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (c) to the extent that an adjustment pursuant to subparagraph (b) above is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (c).
- (d) If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (c), above, such Gross Asset Value shall thereafter be adjusted by the book depreciation taken into account with respect to such asset for purposes of computing profits and losses.
- (e) The Gross Asset Value of any Partnership asset distributed to any partner shall be the gross fair market value of such asset on the date of distribution.
- (f) Gain or loss resulting from any disposition of property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of the property differs from the Gross Asset Value of the property.

**IRS.** The United States Internal Revenue Service, including any department, division or agent thereof.

**Investor Partner.** Any Limited Partner other than ProAK (if its interest is converted to a limited partner interest) and persons who are assigned a Partnership Interest from ProAK out of its Net Distribution Interest.

**Kitchen Lights Lease Area.** Six State of Alaska competitive oil and gas leases identified as lease numbers 389927, 389928, 389929, 389930, 390374, and 390381, covering lands located in Cook Inlet, Kenai Peninsula Borough and Municipality of Anchorage, Alaska. These leases are currently part of the Kitchen Lights Unit,



although the Kitchen Lights Unit covers a much larger area.

**Limited Partner (whether or not capitalized).** A person who executes or adopts the Partnership Agreement, or a counterpart, as a Limited Partner and is accepted by the Managing Partner as such, any general partner who is converted to a Limited Partner and any person who becomes a substituted Limited Partner.

**Majority-in-Interest.** The affirmative vote or written consent of Partners holding fifty-one percent (51%) or more of the outstanding Partnership Interests, excluding any Net Distribution Interest held by the Managing Partner or its assignees, calculated as of a date chosen by the Managing Partner in its discretion but not more than thirty (30) days before the date such determination is effective. Transferees who have not been admitted as Partners shall not be entitled to vote for the purpose of determining a Majority-in-Interest. ProAK shall be entitled to vote any Partnership Interest it holds as a Limited Partner.

**Managing Partner.** ProAK, LLC, a Texas limited liability company, which will be the sole general partner and the Managing Partner of the Partnership.

**Memorandum.** This Confidential Private Placement Memorandum.

**Net Cash Flow.** Cash revenues from any source paid into the Partnership during a given twelve month period after payment of any ad valorem, severance or similar taxes, minus the annual management fee and any Third Party Expenses incurred by the Partnership during the same twelve month period.

**Net Distribution Interest.** An interest in the net positive cash flow received by the Partnership from all income sources excluding only Capital Contributions, prior to accounting for non-cash items such as depletion, depreciation or amortization, and after payment of all obligations and expenses, including without limitation, the management fee and Third Party Expenses.

**Northern Lights ORRI.** The royalty interest to be acquired by the Partnership in the Kitchen Lights Lease Area.

**Organization and Offering Expenses.** Costs and expenses paid on a non-accountable basis to the Managing Partner in connection with the organization of the Partnership and offering of Partnership Interests, including, without limitation, legal, printing, accounting, rent, personnel, travel costs, filing fees, marketing expenses, due diligence, and all other such expenses of the Managing Partner.

**Partner.** A Limited Partner or the Managing Partner.

**Partnership.** Northern Lights Royalties IV LP, a limited partnership formed under the laws of the State of Texas, and any successor person.

**Partnership Agreement:** the limited partnership agreement of the Partnership, including all amendments adopted in accordance with the Partnership Agreement and the Texas BOC.

**Partnership Interest.** An equity owner's (a) share of the Partnership's net profits, net loss and distributions pursuant to this Agreement and the Texas BOC; (b) share in allocations of income, gain, loss, deduction, credit or similar items; (c) Capital Account; and, (d) in the case of Partnership Interests owned by partners, the right to participate in the management or affairs of the Partnership as provided in the Partnership Agreement. The initial Partnership Interest of an Investor Partner is calculated on the Capital Contributions made by an Investor Partner as a percentage of all Capital Contributions by all Investor Partners, times eighty-five percent (85%), subject to any waiver of Organization and Offering Expenses.

**Person (whether or not capitalized).** An individual, trust, estate, or any incorporated or unincorporated entity, including any general or limited partnership, limited liability company, corporation, joint venture, association, cooperative, government or governmental subdivision or agency and any other legally cognizable entity, and all heirs, executors, administrators, legal representatives, successors and assigns of such person where permitted or required by the context.

**ProAK.** ProAK, LLC, a Texas limited liability company, which will be the sole general partner and the Managing Partner of the Partnership. In some instances in this Memorandum, ProAK refers to ProAK, LLC acting

in its own capacity or interest and not acting as the Managing Partner of the Partnership.

**Regulation D.** Rules 501 through 507 of the Securities and Exchange Commission as adopted pursuant to Section 4(a)(2) of the Act.

**Regulations.** The permanent, temporary, or proposed and temporary regulations of Department of the Treasury under the Code as such regulations may be lawfully changed from time to time.

**Royalty Interest (whether or not capitalized).** An interest in oil and gas produced from an oil and gas lease, or the proceeds from the sale of such production, to be received free of substantially all of the costs of development, operation and maintenance. As used in this Memorandum, a royalty interest shall include any overriding royalty interest, profits or production interest, other interest in an oil and gas lease or any similar interest in real property or agreements regarding oil, gas or other minerals.

**Royalty Interest Acquisition Costs.** As to any Royalty Interest acquired from an Affiliate, the net amount paid to the Affiliate, excluding any brokers' fees and commissions, abstracting costs, title examination or filing fees, engineering or similar costs. As to any Royalty Interest acquired from a non-affiliated person, those payments and expenses incurred in connection with the acquisition of a Royalty Interest, including, but not limited to, lease bonuses, brokers' fees and commissions, abstracting costs, title examination and filing fees, costs incurred in curing or defending title, capitalized screening, seismic, geological and geophysical expenses, landman and title research, and engineering expenses incident to either the evaluation or the acquisition of a Royalty Interest. Royalty Interest Acquisition Costs regarding a royalty interest proposed to be acquired from a non-affiliated person may include costs incurred to evaluate a property which is not acquired.

**SEC.** The Securities and Exchange Commission.

**Texas BOC.** The Texas Business Organizations Code and all amendments to such code or successor statutes or codes.

**Third Party Expenses (whether or not capitalized).** All fees and expenses actually and necessarily incurred by the Partnership or by the Managing Partner on behalf of the Partnership for services rendered by non-affiliated parties in connection with the operation of the Partnership, including without limitation expenses of preparation and mailing of tax returns to partners; legal, accounting and other professional fees for services rendered to the Partnership other than those characterized as Organization and Offering Expenses; expenses paid to third parties for maintaining a website and communicating with Partners; expenses of obtaining independent engineering, geologic or scientific evaluations from third parties; data service subscriptions and other research expenses; expenses of organizing, operating and winding up any special purpose entities or subsidiaries; expenses of litigation and settlement, including any indemnification expenses; ad valorem, severance and similar taxes; extraordinary expenses; and all similar fees and expenses for services rendered by non-affiliated parties to the Partnership or to the Managing Partner on behalf of the Partnership. Third Party Expenses shall not include any portion of the expense for office facilities used by, or provided by the Managing Partner to, the Partnership, and shall not include any compensation to personnel of the Managing Partner or its Affiliates for services rendered to the Partnership. Third Party Expenses shall not include Organization and Offering Expenses or Royalty Interest Acquisition Costs.

**UBTI.** Unrelated business taxable income as defined in Code Section 512(a).

Exhibit A Northern Lights Royalties IV LP Agreement  
Exhibit B Subscription Documents  
Exhibit C Information about Kitchen Lights Lease Area

**Northern Lights Royalties IV LP  
ProAK, LLC, Managing Partner  
660 W. Southlake Blvd., Suite 200  
Southlake, Texas 76092  
Telephone: (972) 506-0909**

**NORTHERN LIGHTS ROYALTIES IV LP**

**AGREEMENT OF LIMITED PARTNERSHIP**

**EXHIBIT A TO CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM**

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**LIMITED PARTNERSHIP AGREEMENT**

**OF**

**NORTHERN LIGHTS ROYALTIES IV LP**

(a Texas limited partnership)

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THE PARTNERSHIP INTERESTS (THE “PARTNERSHIP INTERESTS”) IN NORTHERN LIGHTS ROYALTIES IV LP (THE “PARTNERSHIP”) HAVE NOT AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND ARE BEING OFFERED AND SOLD WITHIN THE UNITED STATES ONLY IN TRANSACTIONS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH LAWS UNDER SECTION 4(2) OF THE SECURITIES ACT AND RULE 506 OF REGULATION D UNDER THE SECURITIES ACT, AND ONLY TO PERSONS MEETING THE DEFINITION OF “ACCREDITED INVESTOR” UNDER REGULATION D. SUCH PARTNERSHIP INTERESTS MUST BE ACQUIRED FOR INVESTMENT ONLY AND MAY NOT BE OFFERED FOR SALE, PLEDGED, HYPOTHECATED, SOLD, ASSIGNED OR TRANSFERRED AT ANY TIME EXCEPT IN COMPLIANCE WITH (I) THE SECURITIES ACT, ANY APPLICABLE STATE SECURITIES LAWS, AND ANY OTHER APPLICABLE SECURITIES LAWS; AND (II) THE TERMS AND CONDITIONS OF THIS LIMITED PARTNERSHIP AGREEMENT. THE PARTNERSHIP INTERESTS MAY NOT BE TRANSFERRED OF RECORD EXCEPT IN COMPLIANCE WITH SUCH LAWS AND THIS LIMITED PARTNERSHIP AGREEMENT. THEREFORE, PURCHASERS OF SUCH PARTNERSHIP INTERESTS WILL BE REQUIRED TO BEAR THE RISK OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THE PARTNERSHIP ANTICIPATES THAT IT WILL INVEST IN COMMODITY INTERESTS (COLLECTIVELY, “COMMODITIES”). AS A RESULT, THE PARTNERSHIP MAY BE SUBJECT TO REGULATION AS A COMMODITY POOL UNDER THE U.S. COMMODITY EXCHANGE ACT OF 1936 (AS AMENDED, THE “COMMODITY EXCHANGE ACT”) AND THE RULES OF THE COMMODITY FUTURES TRADING COMMISSION (THE “CFTC”). HOWEVER, BECAUSE OF THE PARTNERSHIP’S LIMITED TRADING IN COMMODITIES AND BECAUSE THE PARTNERSHIP INTERESTS ARE EXEMPT FROM REGISTRATION UNDER THE 1933 ACT, THE MANAGING PARTNER IS EXEMPT FROM HAVING TO REGISTER AS A COMMODITY POOL OPERATOR (“CPO”) WITH RESPECT TO THE PARTNERSHIP PURSUANT TO CFTC RULE 4.13(A)(3). THE MANAGING PARTNER INTENDS TO FILE A NOTICE TO EFFECT SUCH EXEMPTION AND WILL COMPLY WITH THE REQUIREMENTS THEREOF. AS A RESULT, THE MANAGING PARTNER, UNLIKE A REGISTERED CPO, IS NOT REQUIRED TO DELIVER A DISCLOSURE DOCUMENT AND A CERTIFIED ANNUAL REPORT TO THE LIMITED PARTNERS.

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#### ATTACHMENTS

EXHIBIT A – Issued Partnership Interests



**AGREEMENT OF LIMITED PARTNERSHIP**  
**OF**  
**NORTHERN LIGHTS ROYALTIES IV LP**  
**A TEXAS LIMITED PARTNERSHIP**

This Agreement of Limited Partnership “**Agreement**” is made and entered into by and among ProAK, LLC, a Texas limited liability company “**ProAK**”, as general partner (when acting in its capacity as the managing general partner of the Partnership, the “**Managing Partner**”), the Initial Limited Partner identified below, and those persons who execute or adopt this Agreement or counterparts as Limited Partners “**the Limited Partners**.” The Managing Partner and the Limited Partners are sometimes referred to individually as a “**Partner**” and collectively as the “**Partners**.” Capitalized terms and specialized terms used in the oil and gas business shall have the meanings set out in Article II.

The Managing Partner and the Limited Partners, in consideration of the mutual covenants contained herein, agree to become partners in and to form Northern Lights Royalties IV LP “**the Partnership**”, a Texas limited partnership, upon the filing for record of a certificate of limited partnership with respect thereto “**the Certificate of Limited Partnership**” in the office of the Secretary of State of the State of Texas, for the business purposes set forth below for the period and upon the terms and conditions hereinafter set forth, and the parties hereto further hereby mutually covenant and agree as follows:

**ARTICLE I**  
**FORMATION; BUSINESS OF PARTNERSHIP**

**1.01 FORMATION.** The parties hereby form a limited partnership “**the Partnership**” under and pursuant to the provisions of the Texas Business Organizations Code “**the Texas BOC**”.

**1.02 NAME.** The name of the Partnership shall be Northern Lights Royalties IV LP. The Managing Partner may adopt such trade or fictitious names as it may deem appropriate.

**1.03 PRINCIPAL PLACE OF BUSINESS.** The principal place of business of the Partnership is located at 660 W. Southlake Blvd., Suite 200, Southlake, Texas 76092. The Managing Partner may in its discretion change the principal place of business or establish other places of business of the Partnership.

**1.04 REGISTERED OFFICE AND REGISTERED AGENT.** The Partnership’s registered agent and office in Texas shall be ProAK, LLC, 660 W. Southlake Blvd., Suite 200, Southlake, Texas 76092. The Managing Partner may in its discretion change the registered office and registered agent from time to time pursuant to the Texas BOC and the applicable rules promulgated thereunder, and shall promptly notify the Limited Partners of any change.

**1.05 TERM.** The term of the Partnership shall commence on the date the Certificate of Formation was filed with the Secretary of State of Texas and shall continue until the Partnership is dissolved and its affairs wound up in accordance with the provisions of this Agreement and the Texas BOC.

**1.06 BUSINESS OF PARTNERSHIP.** The Partnership shall have the authority to engage in any activities permitted generally to limited partnerships, and shall have all powers necessary or incident to such authority. The business of the Partnership shall (i) primarily be to locate, analyze, acquire, manage and sell oil and gas Royalty Interests and other assets related to the Royalty Interests, including delivery and hedging contracts, and (ii), correspondingly, be only to own or hold oil, gas, or other mineral royalties or leases, or fractional interests therein, or certificates of interest or participation in or investment contracts relative to such royalties, leases, or fractional interests. The Partnership may, without limitation, acquire Royalty Interests as sole owner or in participation with affiliates or non-affiliated parties and dispose of production from Royalty Interests. The Partnership shall not engage in any significant activity other than those described in this section without the consent of a Majority-in-Interest.

**1.07 PARTNERSHIP CLASSIFICATION.** The Managing Partner shall establish and use its best efforts to maintain the classification of the Partnership as a partnership for United States federal income tax purposes. Each Partner agrees that it will not take any position or any action or make any election inconsistent with the classification of the Partnership as a partnership.

## ARTICLE II DEFINITIONS; GLOSSARY

**2.01 DEFINITIONS.** For the purposes of this Agreement, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

**Accredited Investor (whether or not capitalized).** Is a person meeting the definition of an accredited investor under Rule 506 of Regulation D under the Act, including, without limitation, any person who meets at least one of the following:

(1) Any natural person whose individual net worth (or joint net worth with that person's spouse) at the time of purchase exceeds \$1,000,000, excluding the value of their primary residence and any associated mortgage, as long as the mortgage was not incurred within 60 days of the investment other than as part of the purchase of the residence, and including as a liability any amount of a mortgage that was incurred within 60 days of the investment other than as part of the purchase of the residence or to the extent it exceeds the fair market value of the residence; or

(2) Any natural person who had an individual income in excess of \$200,000 (or \$300,000 with that person's spouse) in each of the two most recent years and who reasonably expects an income in excess of \$200,000 (or \$300,000 with spouse) in the current year; or

(3) Any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000, or if a self-directed plan with investment decisions made solely by persons that are accredited investors; or

(4) Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person; or

(5) Any revocable trust, where each grantor is accredited under (1) or (2) above; or

(6) Any corporation, business trust, partnership or similar entity, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered; or

(7) Any entity in which all of the equity owners are accredited investors.

**Adjusted Capital Account Deficit.** With respect to any Partner, the deficit balance, if any, in such Partner's Capital Account as of the end of the relevant tax year, after giving effect to the adjustments required by this Agreement or the Code or Regulations.

**Affiliate (whether or not capitalized).** Any person controlling, controlled by, or under common control with another person.

**Agreement.** This Agreement including all amendments adopted in accordance with this Agreement and the Texas BOC.

**Book Depreciation.** For any asset for any fiscal period, an amount that bears the same ratio to the Gross Asset Value of that asset at the beginning of such fiscal period as the federal income tax depreciation, amortization, simulated

depletion (with respect to oil and gas properties), or other cost recovery deduction allowable for that asset for such period bears to the adjusted tax basis of that asset at the beginning of such period. If the federal income tax depreciation, amortization, simulated depletion (with respect to oil and gas properties), or other cost recovery deduction allowable for any asset for such period is zero, then Book Depreciation for that asset shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Managing Partner.

**Capital Account.** The account maintained for a Partner or transferee as provided in Article IV.

**Capital Call.** As provided in section 4.02.

**Capital Contribution.** The total amount of cash, fair market value, asset basis or deemed value of property or services contributed to the capital of the Partnership by any Partner (or the predecessor holders of the interests of such Partner).

**Code.** The Internal Revenue Code of 1986, as amended from time to time.

**Distributable Cash.** The cash and cash equivalents held by the Partnership (determined in accordance with its accounting policies for reporting cash flows), less any amount that the Managing Partner determines should be retained for the reasonable current and future needs of the Partnership business.

**Event of Withdrawal.** As to all partners, an Event of Withdrawal occurs when a partner: makes an assignment for the benefit of creditors; files a voluntary petition in bankruptcy; is adjudged a bankrupt or insolvent or has entered against such partner an order for relief in any bankruptcy or insolvency proceeding which order is not dissolved within 60 days; files a petition or answer or certificate seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief; files an answer or other pleading failing to contest the material allegations in any bankruptcy or insolvency proceeding; becomes subject to the appointment of a receiver or trustee or liquidator of all or a substantial part of the partner's property and fails to have such appointment vacated or stayed within 60 days of the appointment; has been expelled from the Partnership by a final judicial decree; is subject to any order or judgment not stayed within 30 days of issuance attaching or foreclosing upon any part of its Partnership Interest; or its controlling persons are listed as Specially Designated Nationals and Blocked Persons by the Office of Foreign Assets Control or are otherwise persons the Partnership is prohibited from doing business with; commences any proceeding adverse to the Partnership; or transfers any Partnership Interest, as to the interest transferred. As to a partner who is a natural person, an Event of Withdrawal also occurs upon the partner's death, the appointment of a guardian or general conservator for the partner or an adjudication of incompetency of the partner. As to a partner who is an entity, an Event of Withdrawal also occurs upon the termination, dissolution or cessation of business of the partner.

**Executive Rights.** Executive Rights include, without limitation, the right to collect any and all bonuses, delay rentals, shut in rental and royalty payments and all other payments made under any of the Royalty Interests, the right to grant, amend, ratify, correct or otherwise modify any oil, gas or mineral lease or real property conveyance involving any of the Royalty Interests, the right to agree to and to execute pooling agreements or unitization agreements or modifications or ratifications thereof, the right to agree to and to execute division orders or amended or corrected division orders, the right to agree to, execute and deliver or record corrective deeds, the right to execute transfer orders or stipulations of interest covering any of the Royalty Interests, the right to agree to and to execute any and all documents or instruments necessary or appropriate to cure existing or after-discovered title defects affecting the Royalty Interests, and any other similar executive rights incident to ownership of Royalty Interests.

**Gross Asset Value.** For any asset, the asset's adjusted basis for federal income tax purposes, except as set forth below:

(a) The initial Gross Asset Value of any asset contributed by a partner to the Partnership shall be the gross fair market value of the asset on the date of determination, as determined by the contributing partner and the Partnership.

(b) The Gross Asset Values of all Partnership assets shall be adjusted to equal their gross fair market values (taking Section 7701(g) of the Code into account), as determined by the Managing Partner, in connection with the events or circumstances described in Regulations Section 1.704-2(b)(2)(iv)(f)(5) (i.e., contributions, redemptions or liquidating distributions, grants to service providers, issuances of non-compensatory options, and mark-to-market accounting); provided that such adjustments are required only if the Managing Partner determines that such adjustments are necessary to accurately reflect the relative economic interests of the Partners in the Partnership or to comply with applicable accounting methods.

(c) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustment to the adjusted basis of such assets pursuant to the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to the Regulations; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (c) to the extent that an adjustment pursuant to subparagraph (b) above is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (c).

(d) If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (c), above, such Gross Asset Value shall thereafter be adjusted by the Book Depreciation taken into account with respect to such asset for purposes of computing profits and losses.

(e) The Gross Asset Value of any Partnership asset distributed to any partner shall be the gross fair market value of such asset (taking I.R.C. § 7701(g) into account) on the date of distribution, as determined by the contributing partner and the Partnership.

(f) Gain or loss resulting from any disposition of property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of the property differs from the Gross Asset Value of the property.

**Investor Partner.** Any Limited Partner other than ProAK (if its interest is converted to a limited partner interest) and persons who are assigned a Partnership Interest from ProAK out of its Net Distribution Interest. Except as otherwise determined by the Managing Partner, in its sole discretion, each admitted Investor Partner shall be an Accredited Investor.

**Limited Partner.** A person who executes or adopts this Agreement, or a counterpart hereof, as a Limited Partner and is accepted by the Managing Partner as such, any general partner who is converted to a Limited Partner and any person who becomes a substituted Limited Partner in accordance with the terms hereof.

**Majority-in-Interest.** The affirmative vote or written consent of Partners holding fifty-one percent (51%) or more of the outstanding Partnership Interests, excluding any Net Distribution Interest held by the Managing Partner or its assignees, calculated as of a date chosen by the Managing Partner in its discretion but not more than thirty (30) days before the date such determination is effective. Transferees who have not been admitted as Partners shall not be entitled to vote for the purpose of determining a Majority-in-Interest. ProAK shall be entitled to vote any Partnership Interest it holds as a Limited Partner.

**Managing Partner.** ProAK, LLC, a Texas limited liability company, which shall be a general partner and the Managing Partner of the Partnership.

**Net Cash Flow.** Cash revenues from any source paid into the Partnership during a given twelve month period after payment of any ad valorem, severance or similar taxes, minus the annual management fee and any Third Party Expenses incurred by the Partnership during the same twelve month period.

**Net Distribution Interest.** A Partnership Interest having, in the aggregate and together with the other rights and obligations ascribed to a Partnership Interest herein, a 15% interest in all distributions pursuant to Section 8.01.

**Organization and Offering Expenses.** Costs and expenses paid or incurred by the Managing Partner in connection with the organization of the Partnership and offering of Partnership Interests, including, without limitation, legal, printing, accounting, rent, personnel, travel costs, filing fees, marketing expenses, due diligence, and all other such expenses of the Managing Partner.

**Partnership.** Northern Lights Royalties IV LP, a limited partnership formed under the laws of the State of Texas, and any successor person.

**Partnership Interest.** An equity owner's (a) share of the Partnership's net profits, net loss and distributions pursuant to this Agreement and the Texas BOC; (b) share in allocations of income, gain, loss, deduction, credit or similar items; (c) Capital Account; and, (d) in the case of Partnership Interests owned by Partners, the right to participate in the management or affairs of the Partnership as provided in this Agreement. The initial Partnership Interest of an Investor Partner is calculated on the Capital Contributions made by an Investor Partner as a percentage of all Capital Contributions by all Investor Partners, times eighty-five percent (85%), subject to adjustment for any waiver of Organization and Offering Expenses. "Partnership Interest" may, depending on the context, refer to the percentage Partnership Interest held by a Partner based on the Partnership Interest held by such Partner divided by the aggregate issued and outstanding Partnership Interests.

**Person (whether or not capitalized).** An individual, trust, estate, or any incorporated or unincorporated entity, including any general or limited partnership, limited liability company, corporation, joint venture, association, cooperative, government or governmental subdivision or agency and any other legally cognizable entity, and all heirs, executors, administrators, legal representatives, successors and assigns of such person where permitted or required by the context.

**ProAK.** ProAK, LLC, a Texas limited liability company, which shall be a general partner for so long as it is the Managing Partner of the Partnership.

**Proceeding.** Any administrative, judicial, or other proceeding, including, without limitation, litigation, arbitration, administrative adjudication, mediation, any investigation that could lead to a proceeding, and appeal or review of any of the foregoing. A proceeding shall also include any governmental or quasi-governmental process by which rights are granted, established or terminated.

**Regulations.** The permanent, temporary, or proposed and temporary regulations of Department of the Treasury under the Code as such regulations may be lawfully changed from time to time.

**Royalty Interest (whether or not capitalized).** An interest in oil and gas produced from an oil and gas lease, or the proceeds from the sale of such production, to be received free of substantially all of the costs of development, operation and maintenance. As used in this Agreement, a royalty interest shall include any overriding royalty interest, profits or production interest, other interest in an oil and gas lease or any similar interest in real property or agreements regarding oil, gas or other minerals.

**Royalty Interest Acquisition Costs.** As to any Royalty Interest acquired from an Affiliate, the net amount paid to the Affiliate, excluding any brokers' fees and commissions, abstracting costs, title examination or filing fees, engineering or similar costs. As to any Royalty Interest acquired from a non-affiliated person, those payments and expenses incurred in connection with the acquisition of a Royalty Interest, including, but not limited to, lease bonuses, brokers' fees and commissions, abstracting costs, title examination and filing fees, costs incurred in curing or defending title, capitalized screening, seismic, geological and geophysical expenses, landman and title research, and engineering expenses incident to either the evaluation or the acquisition of a Royalty Interest. Royalty Interest Acquisition Costs regarding a royalty interest proposed to be acquired from a non-affiliated person may include costs incurred to evaluate a property which is not acquired.

**Securities Act.** The Securities Act of 1933, as amended.

**Target Capital Account Amount.** As described in Section 8.02.

**Texas BOC.** The Texas Business Organizations Code and all amendments to such act or successor statutes or codes.

**Third Party Expenses (whether or not capitalized).** All fees and expenses actually and necessarily incurred by the Partnership or by the Managing Partner on behalf of the Partnership for services rendered by non-affiliated parties in connection with the operation of the Partnership, including without limitation expenses of preparation and mailing of tax returns to partners; legal, accounting and other professional fees for services rendered to the Partnership other than those characterized as Organization and Offering Expenses; expenses paid to third parties for maintaining a website and communicating with Partners; expenses of obtaining independent engineering, geologic or scientific evaluations from third parties; data service subscriptions and other research expenses; expenses of organizing, operating and winding up any special purpose entities or subsidiaries; expenses of litigation and settlement including any indemnification expenses; ad valorem, severance and similar taxes; extraordinary expenses; and all similar fees and expenses for services rendered by non-affiliated parties to the Partnership or to the Managing Partner on behalf of the Partnership. Third Party Expenses shall not include any portion of the expense for office facilities used by, or provided by the Managing Partner to, the Partnership, and shall not include any compensation to personnel of the Managing Partner or its Affiliates for services rendered to the Partnership. Third Party Expenses shall not include Organization and Offering Expenses or Royalty Interest Acquisition Costs.

**Transfer.** A transfer includes any sale, assignment, pledge, hypothecation, exchange or other transaction in which any record or beneficial interest in a Partnership Interest is pledged or transferred to another person and includes any transfer by operation of law in connection with a probate, bankruptcy, receivership, divorce, guardianship or similar proceeding.

**2.02 INTERPRETATION.** In this Agreement, unless a clear contrary intention appears:

- (a) The singular includes the plural and vice versa.
- (b) References to any gender include the other gender and the neuter, and references to the neuter gender include the masculine and feminine gender.
- (c) The word “person” includes a natural person or a legal entity.
- (d) The words “include,” “includes” or “including” mean “including, without limitation.”
- (e) The word “or” is used in the inclusive sense of “and/or.”
- (f) References to “days” mean calendar days. Any date specified for action that is Saturday, Sunday, or other day on which banks in the jurisdiction of the Partnership’s registered office are closed shall mean the first day after such date that is not such a day. With respect to the determination of any period of time, “from” means “from and including” and “to” means “to but excluding.”
- (g) References to Articles and Sections refer to Articles and Sections of this Agreement, and references to Exhibits, Appendices, and other attachments refer to Exhibits, Appendices, and other attachments to this Agreement, each of which is made a part of this Agreement for all purposes. The words “herein,” “hereof” and “hereunder” and words of similar import refer to this Agreement as a whole and not to any particular section or subsection of this Agreement.
- (h) References to any document or documents refer to such document or documents, including any exhibits, schedules, or other addenda, as amended, modified, supplemented, or replaced from time to time.
- (i) References to any statute, regulation, or other legal requirement mean such legal requirement as amended, modified, codified, replaced, or reenacted, in whole or in part, and in effect from time to time. References

to “applicable law” mean any statute, intergovernmental treaty, judicial decision or order (or any common law principles derived therefrom), regulation, or other authoritative legislative, judicial, or administrative guidance applicable with respect to the referenced person or matter.

(j) References to “federal income tax” refer to the United States federal income tax imposed under the I.R.C.

(k) References to a “final” judgment, order, decree, or other determination of any court or other judicial or quasi-judicial authority or administrative agency mean a final, non-appealable determination on the merits of the applicable matter, including any such determination issued pursuant to a settlement between the affected parties to the applicable Proceeding.

**2.03 FISCAL YEAR.** The fiscal year and taxable year of the Partnership shall end on December 31 of each calendar year.

**2.04 MANAGING PARTNER’S STANDARD OF CARE.** Whenever in this Agreement the Managing Partner is permitted or required to make a decision in its “discretion” or under a grant of similar authority or latitude, the Managing Partner shall be entitled to consider such interests and factors as it desires, including its own interests and the interests of its affiliates, and shall have no duty or obligation to give any consideration to any interest of or factors affecting one Partner unless affecting all Partners. Whenever in this Agreement the Managing Partner is permitted or required to make a decision in its “good faith” or under another express standard, the Managing Partner shall act under such express standards and shall not be subject to any other or different standards imposed by law or any other agreement contemplated herein.

### **ARTICLE III ADMISSION OF PARTNERS AND CAPITAL CONTRIBUTIONS**

**3.01 INITIAL PARTNERS.** The initial Partners shall be ProAK as the Managing Partner and a general partner, and the Initial Limited Partner identified below. Upon the admission of the first additional Limited Partner, the Partnership Interest of the Initial Limited Partner shall be redeemed by the Partnership for the amount of any Capital Contribution made by the Initial Limited Partner, and the Initial Limited Partner shall cease to be a Limited Partner regarding that Partnership Interest. ProAK has been issued a 15% Net Distribution Interest in exchange for the grant of a perpetual, non-exclusive, non-transferable, royalty-free license to use the proprietary intellectual property heretofore developed by ProAK and its Affiliates relating to the Royalty Interests to be acquired by the Partnership. ProAK may not sell all or any part of its 15% Net Distribution Interest to the Partnership without an affirmative vote of a Majority-in-Interest of the Partnership. ProAK may reallocate all or any part of such Net Distribution Interest at any time or from time to time, including to any person who is not at the time a Partner in the Partnership, whereupon such person shall be deemed admitted as a Limited Partner in the Partnership without the approval of the Managing Partner or any other Partner and without compliance with any other provision of this Agreement except that the person must provide a written adoption or execution of this Agreement and provide its taxpayer identification number and any other information required by the Managing Partner to file required tax returns or to comply with any currency transaction laws, financial privacy laws, anti-money laundering laws or similar laws. ProAK shall retain all copyright, trademark, licensing and intellectual property rights to the name Northern Lights and to other intellectual property developed or used in the management of the Partnership.

#### **3.02 ADMISSION OF ADDITIONAL PARTNERS.**

(a) **Admission of Investor Partners in initial offering.** The Managing Partner may issue Partnership Interests in the initial offering for a minimum Capital Contribution of \$25,000, which minimum may be reduced or waived in the discretion of the Managing Partner. The Managing Partner shall admit those persons investing in the initial offering as Investor Partners. The Managing Partner may accept Capital Contributions in the initial offering as provided in the offering memorandum, including any amendment.

(b) **Admission of additional Investor Partners.** The Managing Partner may issue Partnership Interests and admit persons as new Investor Partners, at any time or from time to time after the initial offering of Partnership Interests has terminated upon such terms and for such consideration as the Managing Partner shall propose and as shall be approved by a Majority-in-Interest. The Partnership Interests issued to such additional Investor Partners are not required to be proportionate to the Capital Contributions for previously issued Partnership Interests. No Partner shall have any preferential or preemptive rights to acquire Partnership Interests or other debt or equity securities issued by the Partnership. Upon the admission of any additional Investor Partner, the Partnership Interest of each Investor Partner shall be recalculated.

### 3.03 PARTNERSHIP INTERESTS.

(a) **Calculation of Partnership Interests.** The Partnership Interest of each Investor Partner admitted in the initial offering shall be based on the ratio of (i) the Capital Contribution made by such Investor Partner, to (ii) the aggregate Capital Contributions made by all Investor Partners in such offering, subject to adjustment for any waiver of Organization and Offering Expenses. The Partnership Interest of each Investor Partner admitted following the termination of the initial offering shall be determined by the Managing Partner upon the admission of such Investor Partner by determining the ratio of (i) the Capital Contribution made by the newly admitted Investor Partner to (ii) the Capital Accounts of all Investor Partners, unless a different formula is approved by a Majority-in-Interest.

(b) **Additional Classes of Partnership Interests.** The Partnership may, by a Majority-in-Interest, classify outstanding Partnership Interests and/or create additional classes or series of Partnership Interests having such relative rights, powers and duties as the Partnership may establish, including rights, powers and duties senior to existing classes and series of Partnership Interests.

(c) **Issued Partnership Interests.** Partnership Interests shall be deemed issued only upon payment of any required Capital Contribution for such Partnership Interest and acceptance by the Managing Partner of the person as a Partner. **Exhibit A** attached hereto contains the name of each Partner holding a Partnership Interest. **Exhibit A** shall be amended from time to time to reflect changes in the Partners or the ownership of Partnership Interests, and any such amendment shall not be deemed an amendment of this Agreement requiring a consent of the Partners.

(d) **Partnership Interests Uncertificated.** Partnership Interests issued by the Partnership shall not be represented by certificates. The books and records of the Partnership shall be prima facie evidence of the identity of Partners or transferees and the Partnership Interests held by each.

## ARTICLE IV CAPITAL ACCOUNTS

**4.01 CAPITAL ACCOUNT MAINTENANCE.** An individual Capital Account shall be established and maintained by the Partnership for each Partner in accordance with the applicable provisions of the Regulations.

(a) The Capital Account of each Partner shall be credited with (i) an amount equal to such Partner's Capital Contributions including the fair market value of property contributed to the Partnership by such Partner, (ii) such Partner's allocable share of the Partnership's items of income and gain, (iii) the amount of any Partnership liabilities assumed by such Partner or that are secured by property distributed to such Partner, and (iv) any other item of income or gain, including simulated gain, allocated to him pursuant to this Agreement.

(b) The Capital Account of each Partner shall be debited by (i) the amount of cash and the fair value of property distributed to such Partner, (ii) such Partner's allocable share of the Partnership's items of loss and deduction, (iii) the amount of any liabilities of such Partner assumed by the Partnership or that are secured by any property contributed by such Partner to the Partnership, and (iv) any other item of loss or deduction, including simulated depletion and simulated loss, allocated to him pursuant to this Agreement.



(c) Except as otherwise provided in this Agreement, whenever it is necessary to determine the Capital Account of any Partner, the Capital Account of the Partner shall be determined after giving effect to all allocations of profits, simulated gains, income, gains, losses, deductions, simulated losses, simulated depletion, and distributions of the Partnership in respect of transactions effected prior to the date as of which such determination is to be made.

(d) The Managing Partner is authorized to modify the manner in which the Capital Accounts are maintained if the Managing Partner determines that such modification (i) is required or prudent to comply with the Code or Regulations and (ii) is not likely to have a material effect on the amounts distributable to any Partner upon the dissolution of the Partnership.

#### **4.02 CAPITAL CONTRIBUTIONS AND CAPITAL CALLS.**

(a) **Initial Capital Contributions.** Each Investor Partner who invests in the initial offering of Partnership Interests shall make an initial Capital Contribution in accordance with Section 3.02(a). Each Investor Partner who invests following the initial offering of Partnership Interests shall make an initial Capital Contribution in accordance with Section 3.02(b). The Managing Partner is specifically authorized to accept a Capital Contribution in any form of property or subject to any other contingencies as the Managing Partner shall determine in its discretion.

(b) **Subsequent Capital Contributions.** An Investor Partner may make a Capital Contribution at any time(s) subsequent to its initial Capital Contribution upon terms offered by the Managing Partner. Unless otherwise agreed between such Investor Partner and the Managing Partner, a due diligence fee and sales commission or placement fee regarding such subsequent Capital Contribution may be paid to any broker/dealer through whom the Investor Partner made their initial investment, and the amount of any such fees or commissions shall be allocated to the Capital Account of such Investor Partner. In addition, the Managing Partner may allocate expenses, including Organization and Offering Costs, to such Capital Contribution.

(c) **Capital Calls.** The Partnership anticipates that it will make annual Capital Calls on the Investor Partners to pay the management fee and Third Party Expenses incurred by the Partnership, until the Partnership begins receiving payments from production. The Managing Partner is authorized to make Capital Calls on the Investor Partners from time to time. The Managing Partner shall not make a Capital Call on one Investor Partner without making a Capital Call on all Investor Partners. The Managing Partner shall make any Capital Call on the Investor Partners in proportion to Partnership Interests held. The Partnership Interests of all Investor Partners shall be adjusted and readjusted from time to time to reflect additional Capital Contributions pursuant to a Capital Call. The Managing Partner may make such Capital Calls only for payment of the management fee and Third Party Expenses incurred by the Partnership. The Managing Partner is specifically authorized to use revenues of the Partnership for payment of such expenses and costs in lieu of or in addition to making any Capital Call.

(d) **Making of Capital Calls.** The Managing Partner shall make each Capital Call in the manner provided for giving notice under this Agreement. The Managing Partner shall state in each Capital Call the dollar amount of the Capital Call and the date (which may not be earlier than ten days after the date of the Capital Call) by which good funds must be received by the Managing Partner. The Managing Partner shall specify the intended use of the proceeds of a Capital Call. The Managing Partner may delay payment of a Capital Call as to any Investor Partner without being required to delay payment regarding any other Investor Partner.

(e) **Failure to Pay Capital Call.** If an Investor Partner fails to timely pay a Capital Call before or after the Partnership has begun receiving payments from production, the unpaid amount of any Capital Call shall bear interest at an annual rate of 18% from the date due until paid, and the Partnership shall have the right to offset the entire amount of unpaid Capital Calls and any accrued interest thereon against any distribution otherwise due to the defaulting Investor Partner. If an Investor Partner fails to timely pay three or more Capital Calls, whether or not such defaults are as to successive Capital Calls, the Managing Partner, in its discretion, may, but shall not be obligated to, declare the defaulting Investor Partner's entire Partnership Interest forfeited to the Partnership, to be reallocated among the remaining Investor Partners in proportion to their Partnership Interest, or the Managing Partner may, in its discretion, cause the defaulting Investor Partner's entire Partnership Interest to be redeemed for the amount of any

unpaid Capital Calls and accrued interest thereon, offset such redemption payment against such unpaid Capital Calls and accrued interest thereon and any other liabilities such Investor Partner owes to the Partnership, and thereafter offer such redeemed Partnership Interest to any other Investor Partner or third party for such price and on such terms as the Managing Partner shall determine in its sole discretion.

**4.03 LOANS TO PARTNERSHIP.** To the extent approved by the Managing Partner, any Partner may make a secured or unsecured loan to the Partnership, and such loan shall not be deemed a Capital Contribution.

**4.04 RETURN OF CAPITAL/INTEREST ON CAPITAL.** Except upon dissolution and liquidation of the Partnership, there is no agreement for, nor time set for, return of any Capital Contribution of any Partner or distribution of the Capital Account to any Partner. Regardless of withdrawal from the Partnership in accordance with Section 6.04 below, no Partner shall have the right to withdraw any Capital Contributions or Capital Account. No Partner shall be entitled to receive interest on the amount of any Capital Contribution or Capital Account.

**4.05 NO RIGHT OF PARTITION.** Each Partner expressly waives any right such Partner might have to cause a partition or other distribution of property to it except as otherwise expressly set forth in this Agreement.

## ARTICLE V RIGHTS AND DUTIES OF MANAGING PARTNER

**5.01 MANAGEMENT.** The Managing Partner shall have full, exclusive, and complete discretion in the management and control of the Partnership, except as specifically limited by this Agreement. No person, firm, or corporation dealing with the Partnership shall be required to inquire into the authority of the Managing Partner to take any action or make any decision.

**5.02 ACTIONS REQUIRING CONSENT OF A MAJORITY-IN-INTEREST.** Each of the following actions taken by the Partnership shall require the consent of a Majority-in-Interest:

- (a) any borrowing by the Partnership in an aggregate amount of loans outstanding exceeding the lesser of 20% of Capital Contributions or \$1,200,000 at any time;
- (b) entering into any contract or agreement that might reasonably impose an obligation or liability on the Partnership in excess of \$500,000, excluding any Royalty Interest Acquisition Costs or hedging operations conducted to protect the Partnership; or
- (c) settlement of any Proceeding for any amount to be paid by the Partnership in excess of \$500,000.

**5.03 ACTIONS OF THE MANAGING PARTNER NOT REQUIRING CONSENT OF A MAJORITY-IN-INTEREST.** The Managing Partner is expressly authorized to do or cause to be done if necessary or appropriate each of the following on behalf of the Partnership and on behalf of any other entity managed in whole or in part by the Partnership or in which the Partnership has an interest without the consent of any other Partner:

- (a) to determine which Royalty Interests to acquire, sell, assign to other persons, or abandon and in connection therewith to exercise all Executive Rights and enter into any agreements with any person acceptable to the Managing Partner, including affiliates of the Managing Partner; provided that any such agreement does not constitute, in the opinion of the Managing Partner, an association taxable as a corporation under the Code;
- (b) to engage in hedging or other strategies to protect the economic value of the Partnership's investments;
- (c) to offer and sell, pledge, lease, farmout or otherwise dispose of Royalty Interests, oil, gas, and other minerals produced, and any interests therein or rights thereto, for periods and on other terms and conditions and subject to such contingencies or defects in title as the Managing Partner shall determine;

(d) subject to Section 5.02, to borrow money on behalf of the Partnership, or enter into transactions having a similar leveraging effect on behalf of the Partnership, from any source or with any party, including the Managing Partner or its affiliates, upon such terms and conditions as the Managing Partner may deem advisable and proper, execute promissory notes, drafts, bills of exchange and other instruments and evidences of indebtedness and secure the payment thereof by mortgage, pledge or assignment of or security interest in all or any part of assets then owned or thereafter acquired by the Partnership, and refinance, recast, modify or extend any of the obligations of the Partnership and the instruments securing those obligations;

(e) to make Capital Calls, conduct offerings of Partnership interests and make any filings necessary or desirable in connection with such offerings, and to request or accept additional Capital Contributions;

(f) to open, maintain and close accounts with brokers, dealers, banks, commodities traders and others, and issue all instructions and authorizations regarding the purchase and sale or entering into, as the case may be, of assets, instruments or agreements consistent with the objectives and purposes of the Partnership, and to authorize checks or other orders for the payment of monies;

(g) to vote at, or give any proxy regarding, any regular or special meeting of the equity owners or creditors of any entity, or give or withhold any consent as an equity owner or creditor;

(h) to exercise or fail to exercise or waive, on behalf of the Partnership, in such manner as the Managing Partner in its sole judgment deems appropriate, all rights, elections and options granted or imposed by any governing document or agreement, statute, rule, regulation, or order, including the exercise, modification or waiver of any participation or consent in connection with any Royalty Interest;

(i) to use the funds and revenues of the Partnership, on any terms it sees fit, to finance or conduct the activities of the Partnership, and the repayment of any loans used to finance such operations or activities;

(j) to dispose of, hypothecate, sell, exchange, release, surrender, assign or abandon any assets of the Partnership including, without limitation, any Royalty Interest;

(k) to negotiate and execute on any terms deemed desirable in its discretion any account agreements, subscriptions, limited partnership agreements, limited liability company agreements, asset sales or merger agreements, or any similar documents or instruments, considered useful to the making, management or liquidation of any investment, including without limitation, negotiate and execute any participation or similar agreement;

(l) to control any matters affecting the rights and obligations of the Partnership, including instituting or defending litigation and settling claims or litigation, and in connection with such activities, employ attorneys or other professionals to advise and otherwise represent the Partnership;

(m) to exercise the rights granted to it under the power of attorney created pursuant to this Partnership Agreement;

(n) to collect any sums due the Partnership or exercise any right to demand payment of all or any part of any account;

(o) to execute, on behalf of the Partnership, any contracts between the Partnership and any person (including any affiliate of the Managing Partner), providing consulting, engineering, geological, landman, accounting, management, monitoring or other professional services needed by the Partnership, on such terms and for such consideration as determined by the Managing Partner in its discretion; provided that any compensation to an Affiliate shall be paid out of the management fee and shall not otherwise be paid by the Partnership;

(p) to serve as "Tax Matters Partner" pursuant to the Code, and to make such elections under the Code, state tax laws and other relevant tax laws as to the treatment of items of Partnership income, gain, loss, deduction and

credit, and as to all other relevant matters, as may be provided herein or as the Managing Partner deem necessary or appropriate; including, without limitation, elections referred to in Section 754 of the Code, determination of which items of cash outlay are to be capitalized or treated as current expenses, and selection of the method of accounting and bookkeeping procedures to be used by the Partnership;

(q) to purchase, at the expense of the Partnership, such liability and other insurance (including key man insurance) as the Managing Partner deems advisable to protect the Partnership's assets and business or as may be required by the laws of any jurisdiction to which the Partnership is subject, it being the intent hereof to permit the Managing Partner in its discretion to cause the Partnership to elect not to purchase insurance against any or all risks;

(r) to hold title to the Partnership's Royalty Interests and other assets in the name of the Partnership or in the name of a nominee or agent chosen by the Managing Partner, as the Managing Partner shall deem appropriate;

(s) to perform or cause to be performed for the Partnership all services customarily performed by a management company for oil and gas properties in accordance with sound management practices, including, without limitation, the hiring and firing of personnel, the furnishing of general and administrative services, preparation of the tax returns of the Partnership, bookkeeping, purchasing of goods, equipment, and supplies, and such other duties as are required for the proper management of operations similar to those of the Partnership;

(t) to guaranty any contract, security or obligation of any other persons, whereupon the guaranty shall not be subject to attack by any person having an interest in the Partnership, and the Partnership shall not seek damages from any person who authorized the guaranty, on the ground that the guaranty cannot reasonably be expected directly or indirectly to benefit the Partnership, notwithstanding any contrary provisions of the Texas BOC or the laws of the state of Texas;

(u) to file, for individual investors, all required tax returns and composite returns necessary or appropriate under applicable United States tax laws, excluding United States state income tax returns for individual investors in the state where they reside;

(v) to contract with third parties, at the expense of the Partnership, for third party reports and filings required to manage the partnership including, but not limited to: reserve engineering and evaluations; audits; tax return filings; federal government filings; state securities law filings; and any other third party services deemed necessary by the Managing Partner, and

(w) to incur all costs and make all expenditures in any way related to any of the foregoing.

**5.04 SCOPE OF POWERS.** The powers granted to the Managing Partner by the Partners under this Partnership Agreement shall extend to any venture or other activities participated in by the Partnership or affecting its assets, whether or not the Managing Partner is the general partner or manager of such other venture or activities.

**5.05 OTHER ACTIVITIES.** Neither the Managing Partner or its affiliates nor any other Partners are prevented hereby from engaging in other activities for profit whether in the oil and gas business or otherwise. The Managing Partner and its affiliates or any other Partner may organize, contract with, and manage other oil and gas programs and may hold Royalty Interests or engage in the exploration for and production of oil, gas, and other minerals for their own accounts, jointly or with others, or as managers or equity holders of any other entity. The Managing Partner shall allocate oil and gas investment opportunities among the Partnership, and any other entities or accounts it manages, including personal accounts of its managers, in a manner that is fair to the Partnership and to such other entities or accounts, including consideration of factors such as the proportions of oil and gas properties held, the initial capital contributions not yet deployed, the prospect of further development activities and the revenues and capital available to support further development activities, the suitability of a prospect for investment by the Partnership or other entities or accounts, the terms of any investment, the nature of the investors, the anticipated term of the Partnership and the other entities or accounts, and any other factors it determines in its discretion.

**5.06 SERVICES AND RELIANCE.** The Managing Partner may employ or retain such legal counsel, accountants, bookkeepers, clerks, consultants, petroleum engineers, geologists, geophysicists, landmen, appraisers, or other experts or advisors, including affiliates, as it may reasonably deem appropriate for the purpose of discharging its duties to the Partnership. The Managing Partner may act, and shall not be liable if acting in good faith, on the opinion or advice of, or information obtained from, any such expert or advisor, whether retained or employed by the Partnership or any other person.

**5.07 EQUIPMENT.** The Partnership may purchase or acquire equipment necessary in the operation of the Partnership from the Managing Partner or its affiliates, but the Partnership may be charged for such equipment only at competitive rates in the industry for such geographic area.

**5.08 TRANSACTION WITH AFFILIATES.** The Partnership is specifically authorized to acquire Royalty Interests from Shawn Bartholomae or other affiliates upon the terms set out in the private placement memorandum for the initial offering of Partnership Interests.

**5.09 LIABILITY FOR CERTAIN ACTS.** No Managing Partner has guaranteed or shall have any obligation with respect to the return of a Partner's Capital Contributions or profits from the operation of the Partnership. Notwithstanding any provision of the Texas BOC, no Managing Partner of the Partnership shall be liable to the Partnership or to any Partner for any loss or damage sustained by the Partnership or any Partner except loss or damage resulting from such Managing Partner's intentional misconduct or knowing violation of law or a transaction for which such Managing Partner received a personal benefit in violation or breach of the provisions of this Agreement. The Managing Partner shall be entitled to rely on information, opinions, reports or statements, including but not limited to financial statements or other financial data prepared or presented by: (i) any one or more Partners, affiliates or employees of the Partnership whom the Managing Partner reasonably believes to be reliable and competent in the matter presented, (ii) legal counsel, public accountants, consultants, or other persons as to matters the Managing Partner reasonably believes are within the person's professional or expert competence, or (iii) a committee of Partners of which it is not a member if the Managing Partner reasonably believes the committee merits confidence.

**5.10 INDEMNITY OF PERSONS.** The Partnership shall have the power, right and obligation to indemnify persons as set out here.

(a) The Partnership shall indemnify any person who was or is a party to or witness in or is threatened to be made a party to or witness in any threatened, pending or completed Proceeding (whether or not by or in the right of the Partnership) by reason of the fact that the person is or was a Managing Partner or a manager or agent of a Managing Partner of the Partnership, against expenses (including attorney's fees, accountants fees, and expenses of investigation), judgments, fines and amounts paid in settlement incurred by such person, except expenses, judgments, fines and amounts paid in settlement resulting from its intentional misconduct or knowing violation of law or a transaction for which such person received a personal benefit in violation or breach of the provisions of this Agreement. The Partnership shall advance expenses to any current or former Managing Partner or manager or agent at such times and in such amounts as shall be requested by such person. The Partnership shall have the power to indemnify any person who was or is a party to or witness in or is threatened to be made a party to or witness in any threatened, pending or completed Proceeding (whether or not by or in the right of the Partnership) by reason of the fact that the person is or was a governing authority, employee, consultant, independent contractor or agent of the Partnership, or is or was serving at the request of the Partnership as a governing authority, officer, joint venturer, employee, agent or in a similar capacity for another person, against expenses (including attorney's fees, accountants fees, and expenses of investigation), judgments, fines and amounts paid in settlement incurred by the person in connection with such Proceeding, upon the determination by the Managing Partner that indemnification is appropriate and subject to such terms and conditions or undertakings as the Managing Partner in its discretion shall impose. The Partnership may advance expenses to any such person at such times and in such amounts as shall be requested by such person and approved by the Managing Partner in its discretion. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself create a presumption that indemnification or the advancement of expenses by the Partnership was not appropriate or breached any law or constituted a breach of any duty by any person.

(b) If a person has been successful on the merits or otherwise as a party to any Proceeding, or with respect to any claim, issue or matter therein arising out of such person's service to or on behalf of the Partnership (to the extent that a portion of the expenses can be reasonably allocated thereto), the person shall be indemnified against expenses (including attorney's fees, accountants fees and expenses of investigation) actually and reasonably incurred by the person in connection with the Proceeding.

(c) The indemnification provided by this section shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any agreement or action of the Partnership, and shall continue as to a person who has ceased to function in the capacity as to which indemnification is sought and shall inure to the benefit of the heirs, executors and administrators of such a person.

(d) The Partnership shall, if at all feasible, purchase and maintain directors' and officers' liability insurance or errors and omissions insurance or similar insurance on behalf of any person participating in the Partnership, including the Managing Partner, whether or not the Partnership would have the power to indemnify such person under the provisions of this Agreement.

## 5.11 RESIGNATION; REMOVAL.

(a) **Resignation.** The initial Managing Partner of the Partnership may resign at any time after the expiration of two (2) years from the date of this Agreement by giving written notice to the Partners of the Partnership; provided that the Managing Partner has designated a successor Managing Partner which is competent and willing to serve as Managing Partner, and which is approved by a Majority-in-Interest. The resignation of any successor Managing Partner shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) **Removal.** The Managing Partner may be removed by a Majority-in-Interest of the Partners at any time it is subject to an Event of Withdrawal. The Managing Partner may otherwise be removed only upon prior written notice signed by at least two other Partners stating the events or actions prompting an attempt to remove, describing in specific detail the actions that must be taken to cure such events or actions, and providing a period of not less than thirty (30) days to cure such events or actions. Upon the lapse of such cure period without the Managing Partner taking all the curative actions described in the notice, Investor Partners holding at least two-thirds of the Partnership Interests shall have the right to remove the Managing Partner and to elect and substitute a new Managing Partner. Partnership Interests held by the Managing Partner or its affiliates shall not be included in any vote on removal of the Managing Partner.

(c) **Rights not affected.** The resignation or removal of a person as a Managing Partner shall not affect the person's rights as a Partner or to indemnification and shall not constitute a withdrawal by such person as a Partner or an Event of Withdrawal as to such person. Any Managing Partner shall be relieved and released from all obligations and liabilities as a general partner accruing after the date of resignation or removal.

(d) **Sale and Conversion of Interest.** ProAK owns a 15% Net Distribution Interest in the Partnership and those rights are not affected by resignation or removal except as provided in this subsection. Upon its resignation or removal as Managing Partner, ProAK shall offer to sell a minimum of twenty percent (20%) of its Net Distribution Interest in the Partnership, including any future rights to distributions, to the new managing partner at a price that is the greater of (i) six times the aggregate payments or distributions received by ProAK for the twelve calendar month period immediately preceding the resignation or removal, times the percentage of ProAK's Net Distribution Interest in the Partnership that is offered to the new managing partner, or (ii) the fair market value of the proportionate indirect ownership interest in the Royalty Interests attributable to the part of the Net Distribution Interest offered to the new managing partner, as established by the most recent sale of any comparable overriding royalty in the Kitchen Lights Unit.

The closing of the purchase of ProAK's interest shall take place within thirty (30) days following its resignation or removal as the Managing Partner. Any management fee accruing after such resignation or removal shall be paid to the successor managing partner. ProAK's interest in the Partnership, not otherwise transferred to the successor managing partner, shall become a Limited Partner's interest, and shall continue to be entitled to the pro-rata interest in distributions not transferred. Thereafter, ProAK shall share in allocations and distributions as a Limited Partner, shall be deemed to own a Partnership Interest proportional to its interest in distributions from time to time, and the Partnership Interest of each other Partner shall be adjusted accordingly.

**5.12 LIMITS ON AUTHORITY OF MANAGING PARTNER.** The Managing Partner shall not do, perform, or authorize any of the following:

- (a) do any act in contravention of this Agreement without the consent of all Partners;
- (b) except as specifically permitted by Article XI, do any act which would make it impossible to carry on the ordinary business of the Partnership;
- (c) confess a judgment against the Partnership;
- (d) possess Partnership property or assign any rights in specific Partnership property for other than a Partnership purpose;
- (e) receive any benefit from an arrangement for marketing of oil and gas production owned by the Partnership, unless such benefits are fairly and equitably apportioned among Managing Partner and the Partnership in proportion to respective ownership rights;
- (f) enter into any contract between the Partnership and the Managing Partner or any affiliate thereof not terminable by the Partnership, without penalty, upon sixty (60) days' written notice; or
- (g) make any loans or advances from the Partnership to the Managing Partner and/or its affiliates or to any other Partner, except advances for prepayments of bona fide business expenses to be incurred in the normal course of business.

**5.13 COMPENSATION AND REIMBURSEMENT OF MANAGING PARTNER.**

(a) The Partnership shall pay the Managing Partner or its affiliates for Organization and Offering Expenses as a non-accountable percent of proceeds of the initial offering of Partnership Interests. The Partnership shall pay or reimburse the Managing Partner or its affiliates for all Third Party Expenses incurred in the operations of the Partnership. The Managing Partner shall pay, and not be reimbursed for, all expenses for office facilities used by the Partnership and all compensation to personnel of the Managing Partner or its affiliates for services rendered to the Partnership, including any placement agent fees and services.

(b) The Managing Partner shall be paid an annual management fee of \$60,000, unless a higher management fee is approved by a Majority-In-Interest at any time after the conclusion of the initial offering of Partnership Interests. The Partnership shall make a special allocation to the Managing Partner for the management fee and shall pay the amount of the management fee in arrears within 15 days after the end of each fiscal year. Any management fee will not include Third Party Expenses, which will be paid by the Partnership in the normal course of business.

(c) ProAK or its assigns shall be entitled to receive a 15% Net Distribution Interest as provided in Section 8.01 of this Agreement. The Partnership shall make a Section 83 safe harbor election to value the 15% Net Distribution Interest of ProAK at liquidation value as permitted in accordance with the Code and Regulations. Such election shall be binding on the Partnership and all Partners while the election is in effect. The election may be revoked only by the Managing Partner as permitted under the Regulations. Each Partner agrees to comply with all requirements

of the election while the election remains effective. Each Partner agrees to cooperate with the Managing Partner to perfect and maintain such election and to timely execute and deliver any information or documentation with respect to such election reasonably requested by the Managing Partner. The Managing Partner is specifically authorized to amend this Agreement to comply with any changes in the Regulations or as otherwise deemed appropriate by the Managing Partner to maintain or revoke such election.

## ARTICLE VI RIGHTS AND OBLIGATIONS OF PARTNERS

**6.01 LIMITATION ON LIABILITY; PARTICIPATION IN MANAGEMENT.** The liability of each Partner shall be limited as set forth in the Texas BOC and this Agreement. No Limited Partner shall have any personal liability for any debts or losses of the Partnership, by virtue of its status as a Partner, but may, by written agreement, agree to be obligated personally for any or all debts, obligations and liabilities of the Partnership. No Partner shall have any right to participate in the management of the Partnership, or to act for or bind the Partnership, solely by virtue of its status as a Partner of the Partnership, unless a particular action is specifically approved in advance in writing by the Managing Partner.

**6.02 MEETINGS.** Meetings of the Partners may be called by the Managing Partner at any time upon written notice to all Partners. Meetings of the Partners shall be called by the Managing Partner within ten days after Partners holding ten percent (10%) or more of the outstanding Partnership Interests deliver to the Managing Partner a written request for a meeting, stating the purpose(s) of the meeting. The Managing Partner shall give written notice to all Partners of any meeting and the purpose of such meeting. The meeting shall be held on a date not less than 10 days nor more than 60 days after the date notice is given, at a reasonable time and place. A vote on any matter on which Partners are entitled to vote shall be binding on all Partners, and shall constitute full authority for the Managing Partner to act on behalf of the Partnership in accordance with such vote. Action by Partners may also be taken without a meeting upon written consent of Partners holding Partnership Interests sufficient to authorize such action, provided that written notice shall be given promptly to all Partners where the consent is executed by less than all Partners. Meetings may be held by using conference telephone or similar communications equipment or the Internet, if the means permits each person participating in the meeting to communicate with all other persons participating in the meeting. The Partnership shall implement reasonable measures to verify that every person voting at the meeting by means of remote communication is sufficiently identified. A person participating in a meeting is considered present at the meeting, unless the participation is for the express purpose of objecting to the transaction of business at the meeting on the ground that the meeting has not been lawfully called or convened.

**6.03 VOTING RIGHTS.** The Partners shall have the right to vote upon various matters as specifically provided by this Agreement, and shall have only those voting rights specifically provided by this Agreement. Any action requiring the consent or approval of the Partners under the provisions of this Agreement shall be taken only if the consent or approval of the Partners is evidenced by written or electronic instruments executed by such consenting or approving Partners. The Partners shall be entitled to vote by percentage Partnership Interest held, on each matter on which the Partners shall be entitled to vote pursuant to the terms of this Agreement. The Partners shall have the right to approve or disapprove:

- (a) the Partnership engaging in any significant activity other than those described in Section 1.06;
- (b) terms for additional Partnership Interests pursuant to section 3.02(b);
- (c) pursuant to section 3.03(b), the creation of additional Partnership Interests or of any other class or series of Partnership Interests;
- (d) those actions described in Section 5.02;
- (e) the election of a new managing partner upon the resignation of the Managing Partner pursuant to Section 5.11(a) or the removal of the Managing Partner pursuant to section 5.11(b);



- (f) any sale, exchange or other disposition of any asset having a book value equal to ten percent (10%) or more of aggregate Capital Contributions to an Affiliate of the Managing Partner;
- (g) any sale, exchange or other disposition of any assets, having an aggregate book value equal to fifty percent (50%) or more of aggregate Capital Contributions, in a single transaction or series of related transactions to a third party, other than in connection with the dissolution of the Partnership;
- (h) the conversion of the Partnership into another form of entity, the merger or consolidation of the Partnership or any other form of interest exchange or business combination, whether or not the Partnership is the surviving entity;
- (i) the dissolution of the Partnership; or
- (j) any amendment to section 13.14 of this Agreement.

Except as specifically provided in this section 6.03 or the other provisions of this Agreement, any other action or decision (including any decision to refrain from any action) may be taken by the Managing Partner without the consent or approval of the Partners. The Managing Partner is specifically authorized to negotiate, agree to and execute sales from time to time of assets of the Partnership without the consent of a Majority-in-Interest, subject to the restrictions above.

**6.04 WITHDRAWAL OF PARTNER.** A Limited Partner may seek to withdraw in writing as a Partner at any time, and, upon the written consent of the Managing Partner (in its sole discretion), thereafter shall have the rights of a transferee of a Partnership Interest who has not been admitted as a Partner. A Partner who is subject to an Event of Withdrawal shall cease to be a Partner as of the date of the Event of Withdrawal and shall thereafter have the rights of a transferee of a Partnership Interest who has not been admitted as a Partner. Any Partner who withdraws or is subject to an Event of Withdrawal may request that the Partnership redeem the Partnership Interest of such Partner, or the Managing Partner may at its discretion determine to redeem such Partnership Interest, at any time after the Partnership has received regular monthly payments from production for at least one year, for the amount of the purchase price for a Partnership Interest subject to redemption pursuant to section 6.05 below. If the Managing Partner grants such redemption request or determines to redeem such Partnership Interest, the Partnership shall redeem the Partnership Interest, as of the end of the next calendar month, and may pay the redemption purchase price in quarterly installments over a period not to exceed 24 calendar months, with interest at the then current Texas judgment rate. Any such redemption shall be subject to the requirements and limitations contained in section 6.05 below.

**6.05 REDEMPTION OF PARTNERSHIP INTEREST.**

(a) A Limited Partner may, at any time after the Partnership has received regular monthly payments from production for at least one year, request in writing that the Partnership redeem all or a portion of their Partnership Interest. Upon receiving a written request for redemption, the Partnership, at the sole and absolute discretion of the Managing Partner, shall have a continuing exclusive option to agree to redeem such interest for a period of sixty (60) days commencing on the first day of the calendar month immediately following such request for redemption. Upon the Managing Partner agrees to any redemption or exercises the option set forth in the previous sentence, such redemption shall occur within one-hundred eighty (180) days commencing on the first day of the calendar month immediately following the request for redemption or option exercise.

(b) The redemption price shall be (i) six times the Net Cash Flow of the Partnership for the twelve calendar month period immediately preceding the date of the request for redemption or the withdrawal or Event of Withdrawal, (ii) multiplied by the percentage Partnership Interest redeemed. Each Partner agrees that the Managing Partner may adjust the Net Cash Flow for the twelve calendar month period immediately preceding the date of the request for redemption or the withdrawal or Event of Withdrawal for any unusual prior or projected circumstances on any basis the Managing Partner deems appropriate, in its discretion. No more than 5% of the total Partnership Interests may be redeemed in the aggregate in a single calendar year. Requests for redemption in connection with the death,

disability, divorce or bankruptcy of a partner shall be given priority by the Managing Partner whenever practicable. Other requests for redemption by limited partners shall be given priority based on the day and time during the day on which the request for redemption was actually received by the Managing Partner.

(c) For the avoidance of doubt and regardless of anything in this Agreement to the contrary, the Managing Partner may, for any reason or no reason, decline a Limited Partner's request to redeem its Partnership Interest pursuant to this 6.05 or otherwise.

**6.06 TRANSFER ON DEATH.** A Limited Partner may establish a transfer on death registration, and designate a beneficiary to receive the Limited Partner's Partnership Interest upon the death of the last surviving co-owner of the Partnership Interest, by completing a "Transfer on Death Registration" in the form provided by the Partnership.

**6.07 TRADE SECRETS.** Each Partner acknowledges that it may have access to and may be entrusted with certain non-public information pertaining to the present and contemplated business activities of the Partnership or the properties underlying the Royalty Interests, which information includes, but is not limited to, information regarding industry relationships, areas of interest, geological and engineering information, drilling and completion operations, subsequent operations, capital markets contacts, infrastructure and logistics, and information regarding potential investors or acquisition entities and other Partners, including their names, addresses, telephone numbers, contact information, investment policies, financial condition and investment portfolio (all of which information is referred to here as Partnership Trade Secrets). Each Partner and other person bound by these provisions acknowledges that the disclosure of such Partnership Trade Secrets to any other party would be detrimental to the interests of the Partnership. Each Partner and other person bound by these provisions acknowledges and agrees with the Partnership that such Partnership Trade Secrets are the proprietary information of the Partnership and/or of the potential investors or acquisition entities and other Partners, and shall be treated by each Partner as confidential information of the Partnership, and that none of said Partnership Trade Secrets or the facts contained therein shall be transmitted verbally or in writing by any person except as may reasonably be required in the ordinary course of conducting business on behalf of the Partnership. Each Partner and other person bound by these provisions covenants and agrees with the Partnership that it will not disclose such Partnership Trade Secrets, nor use the Partnership Trade Secrets other than as may reasonably be required in the normal course of the business of the Partnership; provided, that any Partner (or its representative) may disclose any such information: (a) as has become generally available to the public other than through violation of this Agreement; (b) as may be required or appropriate in any report, statement or testimony submitted to any governmental authority having or claiming to have jurisdiction over such Partner (or its representative) but only that portion of the data and information which, in the written opinion of counsel for such Partner or representative is required or would be required to be furnished to avoid liability for contempt or the imposition of any other material judicial or governmental penalty or censure; (c) as may be required or appropriate in response to any summons or subpoena or in connection with any litigation; (d) to its attorneys and advisors, who shall be subject to the provisions of this paragraph; or (e) as to which the Partnership has consented in writing or which is expressly permitted under this Agreement. Notwithstanding anything herein to the contrary, any Partner (and representative of such Partner) may disclose to appropriate state and federal tax authorities such Partner's U. S. federal income tax treatment and the U. S. federal income tax structure of the transactions contemplated hereby relating to such Partner and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure. These provisions shall continue to bind any Partner who is subject to an Event of Withdrawal, and shall bind any transferee of a Partner.

If for any reason, any person violates any of the provisions contained in this section 6.07, such person acknowledges and agrees that the Partnership and each other Partner shall have the right to require that the violating person immediately comply with this section. Each person acknowledges and agrees that exact monetary and other damages in the event of such violations are difficult of ascertainment, though great and irreparable, and each person further acknowledges and agrees with the Partnership that in the event of a real or threatened breach by such person of any of the provisions contained in this section 6.07, the Partnership and each other Partner shall be entitled to commence proceedings in a court of competent jurisdiction located in Dallas, Texas for and be entitled to obtain preliminary and/or permanent injunctive relief or other appropriate equitable remedies, which rights and remedies shall be in addition to any other rights or remedies to which they may be justly entitled at law.

The Managing Partner shall have the discretion to require the withdrawal of any Partner responsible for a violation of this section 6.07, whereupon the responsible Partner shall be deemed to have withdrawn as of the date specified by the Managing Partner and shall be deemed to have requested a redemption of their entire Partnership Interest pursuant to section 6.05.

**6.08 COMPETING ACTIVITIES OF PARTNERS.** Each Partner may engage or continue to engage in activities within the oil and gas industry, and in businesses related to such industries. Any Managing Partner or Partner or its affiliates may have business dealings with the Partnership. These activities will not be construed as a conflict of interest with the Partnership or as a conflict of interest regarding any vote within the Partnership or as a violation of any duty to the Partnership or to any other Partner.

**6.09 RECORD DATE.** For the purpose of determining Partners entitled to notice or to give consent, or Partners entitled to receive payment of any distribution, or in order to make a determination of Partners for any other purpose, the date on which notice of the meeting is mailed or the date on which such determination is made, as the case may be, shall be the record date for such determination of Partners unless the Managing Partner shall otherwise specify another record date.

## ARTICLE VII REPRESENTATIONS OF PARTNERS

Each Partner represents and warrants to the Partnership and each other Partner as follows:

(a) in the case of a Partner that is an entity: (i) that Partner is duly incorporated, organized, or formed, validly existing, and (if applicable) in good standing under the laws of the jurisdiction of its incorporation, organization, or formation; (ii) if required by applicable law, that Partner is duly qualified and in good standing in the jurisdiction of its principal place of business, if different from its jurisdiction of incorporation, organization, or formation; and (iii) that Partner has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and all necessary actions by the governing authority or other applicable persons necessary for the due authorization, execution, delivery, and performance of this Agreement by that Partner have been duly taken;

(b) that Partner has duly executed and delivered this Agreement, and that it constitutes the legal, valid, and binding obligation of that Partner enforceable against it in accordance with its terms (except as may be limited by bankruptcy, insolvency, or similar laws of general application and by the effect of general principles of equity, regardless of whether considered at law or in equity);

(c) that Partner's authorization, execution, delivery, and performance of this Agreement does not and will not (i) conflict with, or result in a breach, default, or violation of, (A) the organizational documents of such Partner (if it is an entity), (B) any contract or agreement to which that Partner is a party or is otherwise subject, or (C) any law, order, judgment, decree, writ, injunction, or arbitral award to which that Partner is subject; or (ii) require any consent, approval, or authorization from, filing or registration with, or notice to, any governmental authority or other person, unless such requirement has already been satisfied;

(d) that Partner is an Accredited Investor;

(e) that Partner is familiar with the existing or proposed business, financial condition, properties, operations, and prospects of the Partnership; it has asked such questions, and conducted such due diligence, concerning such matters and concerning its acquisition of a Partnership Interest as it has desired to ask and conduct, and all such questions have been answered to its full satisfaction; it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Partnership; it understands that owning a Partnership Interest involves various risks, including the restrictions on Transfers, the lack of any public market for the Partnership Interests, the risk of owning its Partnership Interest for an indefinite period of time and the risk of losing its entire investment in the Partnership; it is able to bear the economic risk of such investment; it is acquiring its Partnership Interest for investment, solely for its own beneficial account and not with a view to or any

present intention of directly or indirectly selling, transferring, offering to sell or transfer, participating in any distribution, or otherwise Transferring all or a portion of its Partnership Interest; and it acknowledges that the Partnership Interest has not been registered under the Securities Act or any other applicable federal or state securities laws, and that the Partnership has no intention, and will not have any obligation, to register or to obtain an exemption from registration for the Partnership Interest or to take action so as to permit sales pursuant to the Securities Act of 1933 as amended (including Rules 144 and 144A thereunder); and

(f) that Partner is not currently and will not in the future make a market in the Partnership Interests or take any other action that might cause the Partnership to be considered a publicly traded partnership, without the prior written approval of the Managing Partner; an

(g) any information, representation or warranty which a Limited Partner has heretofore furnished or made, or in connection herewith is furnishing or making, to the Partnership and/or the Managing Partner (including, without limitation, the information in the Limited Partner's subscription agreement and any other documents submitted by the Limited Partner in connection with its acquisition of a Partnership Interest in the Partnership) is correct and complete and shall survive the admission of such Limited Partner to the Partnership and the dissolution of the Partnership, without limitation as to time. Without limiting the foregoing, each Limited Partner shall provide the Managing Partner with prompt written notice in the event that any of the certifications, acknowledgments, representations, warranties, covenants or agreements of such Limited Partner contained in such Limited Partner's subscription agreement and any other documents submitted by such Limited Partner in connection with its acquisition of a Partnership Interest in the Partnership cease to be true at any time.

## **ARTICLE VIII ALLOCATION OF PROFITS AND LOSSES AND DISTRIBUTIONS TO PARTNERS**

### **8.01 DISTRIBUTIONS.**

(a) The Managing Partner shall have the discretion to determine on a monthly basis whether any distribution shall be made and the amount, if any, of such distribution, limited however to the Partnership's Distributable Cash as of the distribution date and limited as provided in Section 153.210 of the Texas BOC (relating to distributions when the Partnership is insolvent or that would cause the Partnership to become insolvent). Each Partner expressly agrees that the Partnership is not required to distribute all of its Distributable Cash. Distributions shall be paid 15% to ProAK or its assignees and 85% to the Investor Partners as a group.

(b) Distributions to the Investor Partners shall be distributed to the Investor Partners in the proportion their Partnership Interest bears to all Partnership Interests held by Investor Partners.

(c) The rights of ProAK and its assignees in distributions shall constitute a Net Distribution Interest and shall not result in any change in the Partnership Interest of any Investor Partner. Distributions to ProAK under such Net Distribution Interest shall not be recouped or clawed back due to any future losses. The Net Distribution Interest shall be paid in connection with any distribution to an Investor Partner, including any distributions on redemption or liquidation.

(d) ProAK may assign any rights to distributions it is entitled to receive in its discretion to any person or may retain such rights. Any assignee shall not be deemed a Partner in the Partnership by virtue of such assignment, unless and until admitted as a Partner.

**8.02 ALLOCATION OF PROFITS OR LOSSES.** "Profit" or "loss" means, at all times during the existence of the Partnership, the profit or loss of the Partnership with respect to each fiscal period, determined in accordance with Section 704(b) of the Code and applicable Regulations, including, without limitation, each item of Partnership income, gain, loss, or deduction.

(a) Subject to Sections 8.03 through 8.05, for each fiscal period all items of profit and loss shall generally be allocated among the Partners, in proportion to, and until, each such Partner's Capital Account balance (determined after taking into account all distributions and all allocations for the current fiscal period) is increased or reduced to an amount equal to its Target Capital Account Amount. For these purposes, a Partner's "Target Capital Account Amount" equals the amount of distributions such Partner would receive pursuant to Section 8.01 if each of the Partnership's assets were disposed of for an amount equal to their Gross Asset Value, and all liabilities of the Partnership were satisfied to the extent required by their terms (limited, with respect to a nonrecourse liability, as such term is defined in Regulations Section 1.704-2(b)(3), or with respect to a Partner nonrecourse liability, as such term is defined in Regulations Section 1.704-2(b)(4), to the Gross Asset Value of the assets securing each such liability), and the proceeds of such disposition and all other cash of the Partnership remaining after satisfaction of all Partnership liabilities were distributed among the Partners pursuant to Section 8.01. The Managing Partner shall have the discretion to allocate and reallocate items of profit and loss so as to conform each Partner's Capital Account to such Partner's rights to distributions, insofar as reasonably possible. Without limitation, the Managing Partner may allocate in any particular fiscal period (i) items of income and gain to those Partners whose Capital Account balances are less than their Target Capital Account Amounts and (ii) items of loss and deduction to those Partners whose Capital Account balances are greater than their Target Capital Account Amounts, but in each case only up to an amount that would cause their Target Capital Account Amounts and Capital Account balances to be equivalent. The allocation provisions herein are intended to comply with applicable provisions of the Code, including Regulations promulgated under Section 704 of the Code, and successor statutes and Regulations thereof, and shall be interpreted and applied in a manner consistent with the Code and Regulations.

(b) Organization and Offering Expenses shall be specially allocated to each Investor Partner in the proportion their Partnership Interest bears to the Partnership Interest of all Investor Partners as of the closing of the initial offering of Partnership Interests, taking into account any waiver or discount granted to such Investor Partner; provided, however, if any Investor Partners are admitted to the Partnership following the close of the initial offering of Partnership Interests, all Organization and Offering Expenses shall be reallocated among the Investor Partners, to the extent possible, so that the Organization and Offering Expenses allocated to Investor Partners at any time are always in proportion to their Partnership Interests, except any disproportion resulting from a waiver or discount granted to an Investor Partner. In the event the Managing Partner shall determine that such result is not likely to be achieved through the future allocations of Organization and Offering Expenses, the Managing Partner may allocate a portion of profits and losses so as to achieve the same effect on the Capital Accounts of such Investor Partners, notwithstanding any other provision of this Agreement to the contrary.

(c) All Royalty Interest Acquisition Costs and Third Party Expenses shall be allocated to the Investor Partners, and shall be allocated among the Investor Partners in the proportion their Partnership Interest bears to the Partnership Interest of all Investor Partners.

(d) Any sales commission or placement agent fee or due diligence fee or reimbursement paid to a registered broker/dealer or investment adviser shall be specially allocated to the Capital Account of the Investor Partner investing through such registered broker/dealer or investment adviser.

(e) The Partnership shall make a special allocation to the Managing Partner in the amount of the management fee provided under section 5.13. The expense for the management fee shall be allocated to the Investor Partners, and shall be allocated among the Investor Partners in the proportion their Partnership Interest bears to the Partnership Interest of all Investor Partners.

(f) Notwithstanding any provision of this Agreement to the contrary, Partnership losses allocated pursuant to section 8.02 to any Partner for any taxable year shall not exceed the maximum amount of Partnership losses that may be allocated to such Partner without causing such Partner to have an Adjusted Capital Account Deficit at the end of such taxable year. In no event shall the capital account of any Limited Partner be reduced below zero. Such Partnership losses shall be allocated among the Partners whose Capital Account balances are positive in proportion to such positive balances to the extent necessary to reduce the balances of such Partners' Capital Account balances to zero, it being the intention of the Partners that no Partner's Capital Account balance shall fall below zero while any other Partner's Capital Account has a positive balance. Thereafter, all items of loss or deduction shall be

allocated to the Managing Partner. If there have been allocations of loss or deduction pursuant to this section 8.02(f), then all items of income, gain and credit of the Partnership first allocated after such allocations of loss or deduction shall be allocated among the Partners to offset in reverse order such allocations of loss or deduction and thereafter shall be allocated in accordance with the other provisions of this section 8.02.

(g) The allocation provisions herein are intended to comply with applicable provisions of the Code, including Regulations promulgated under Section 704 of the Code, and successor statutes and Regulations thereof, and shall be interpreted and applied in a manner consistent with the Code and Regulations.

**8.03 DETERMINATION OF PROFITS AND LOSSES FOR TAXES.** The Partnership profits and losses shall be determined for all Partnership income tax purposes as of the close of business on December 31 of each year. Such profits and losses shall be the net income or net loss of the Partnership for such period, determined using the either the cash method of accounting or the accrual method of accounting (at the discretion of the Managing Partner) in accordance with U.S. Federal income tax accounting principles and Section 703(a) of the Internal Revenue Code (including any items that are separately stated for purposes of Section 702(a) of the Internal Revenue Code), with the following adjustments for Partnership accounting purposes:

(a) Any income of the Partnership that is exempt from U.S. Federal income tax shall be included as income;

(b) Any expenditures of the Partnership that are described in Section 705(a)(2)(B) of the Internal Revenue Code or treated as so described pursuant to Treas. Reg. §1.704-1(b)(2)(iv)(i) shall be treated as current expenses;

(c) If Partnership assets are distributed to the Partners in kind, such distributions shall be treated as sales of such assets for cash at their respective fair market values in determining Partnership profits and losses;

(d) Gain resulting from the disposition of a property the production from which is subject to depletion and for which gain is recognized for U.S. federal income tax purposes shall be treated as being equal to the corresponding simulated gain as defined in Regulation 704-1(b)(2)(iv)(k);and

(e) All items of income, gain, loss or deduction specially allocated pursuant to Section 8.07 shall be excluded from the determination of Partnership profits and losses.

**8.04 DEPLETABLE PROPERTIES.** Pursuant to the provisions of the Code, all depletion deductions with respect to oil and gas properties in which the Partnership holds a direct or indirect interest shall be computed by the Partners separately. For purposes of computing the depletion deduction: (a) the adjusted tax basis in the Royalty Interests shall be allocated 100% to the Investor Partners and shall be allocated among the Investor Partners in the proportion their Partnership Interest bears to the Partnership Interest of all Investor Partners (notwithstanding the foregoing, the Partners shall at all times be allocated those percentages of such adjusted tax basis as is necessary to insure that subsequent adjustments to each Partner's Capital Account for allocations of simulated depletion, simulated gain, and simulated loss do not lack substantial economic effect for purposes of Section 704(b) of the Code); and (b) the Partners shall be allocated simulated depletion, based upon cost or percentage depletion as the Managing Partner may elect, in the same percentages as the adjusted tax basis of the Royalty Interests is allocated, but not in excess of such adjusted tax basis. For purposes of this section 8.04, adjusted tax basis, simulated depletion, simulated gain, and simulated loss shall have the meanings set forth in Regulations Section 1.704-1(b). The foregoing rules regarding Capital Account adjustments for simulated depletion, simulated gain, and simulated loss are intended to comply with the requirement of the Regulations and shall be interpreted and applied in a manner consistent with such Regulations.

**8.05 ALLOCATION IN THE EVENT OF TRANSFER.** If a Partnership Interest is transferred in accordance with the provisions of this Agreement there shall be allocated to each person who held the transferred interest during the fiscal year of transfer the product of (a) the Partnership's profit or loss allocable to such transferred interest for such fiscal year, and (b) a fraction the numerator of which is the number of days such person held the transferred

interest during such fiscal year and the denominator of which is the total number of days in such fiscal year; provided, however, that the Managing Partner may in its discretion allocate such profit or loss by closing the books of the Partnership immediately after the transfer of an interest or by any other reasonable method permitted by Section 706 of the Code. Such allocation shall be made without regard to the date, amount, or recipient of such transferred interest.

**8.06 CONTRIBUTED PROPERTY.** Profit or loss with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its value at the time of the contribution of such property to the Partnership in accordance with Code Section 704(c).

**8.07 SPECIAL ALLOCATIONS.** The following special allocations shall be made in the following order:

(a) **Minimum Gain Chargeback.** If there is a net decrease in Partnership minimum gain during a Partnership taxable year, each Partner shall be allocated (before any other allocation is made pursuant to this section 8.07) items of income and gain for such year (and, if necessary, for subsequent years) equal to that Partner's share of the net decrease in Partnership minimum gain. A Partner's share of the net decrease in Partnership minimum gain shall be determined in accordance with the Regulations. This section 8.07(a) is intended to comply with the minimum gain chargeback requirement of the Regulations and shall be interpreted consistently therewith.

(b) **Partner Minimum Gain Chargeback.** If there is a net decrease in minimum gain attributable to a Partner nonrecourse debt (determined pursuant to the Regulations) during any Partnership taxable year, certain items of income and gain shall be allocated (on a gross basis) as quickly as possible to those Partners who had a share of the minimum gain attributable to the Partner nonrecourse debt (determined pursuant to the Regulations) in the amounts and manner described in the Regulations. This section 8.07(b) is intended to comply with the minimum gain chargeback requirement set forth in the Regulations relating to partner nonrecourse debt and shall be interpreted consistently therewith.

(c) **Qualified Income Offset Allocation.** In the event any Partner unexpectedly receives any adjustments, allocations or distributions which would cause the negative balance in such Partner's Capital Account to exceed the sum of (1) its obligation to restore a Capital Account deficit upon liquidation of the Partnership, plus (2) its share of Partnership minimum gain, plus (3) such Partner's share of Partner minimum gain, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate such excess negative balance in its Capital Account as quickly as possible. This section 8.07(c) is intended to comply with the alternative test for economic effect set forth in the Regulations and shall be interpreted consistently therewith.

(d) **Partner Nonrecourse Deductions.** Partner nonrecourse deductions determined pursuant to the Regulations shall be allocated pursuant to the Regulations to the Partner who bears the economic risk of loss with respect to such deductions.

(e) **Basis Adjustment.** To the extent an adjustment to the adjusted tax basis of any Partnership assets is required, pursuant to the Code or Regulations, to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain, if the adjustment increases the basis of the asset, or loss, if the adjustment decreases such basis, and such gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to the Regulations.

(f) **Curative Allocations.** The allocations set forth in the preceding provisions of section 8.07 are intended to comply with certain requirements of the Regulations. Notwithstanding any other provision of this Article VIII, such allocations shall be taken into account in allocating profits and losses and items of Partnership income, gain, loss and deductions to the Partners so that, to the extent possible, the net amount of such allocations to each Partner in the current and future periods shall be equal to the net amount of items that would have been allocated to each such Partner if the allocations under the preceding provisions of section 8.07 had not occurred.

**8.08 ADJUSTMENT OF GROSS ASSET VALUES.** Any item of gain or loss resulting from an adjustment of the Gross Asset Value of a Partnership asset shall be allocated to the Partners in accordance with the provisions for distributions to the Partners in effect from time to time, taking into account any anticipated change in distributions. Any adjustment to the Gross Asset Value of a Partnership asset pursuant to the definition of Gross Asset Value in this Agreement shall thereafter be taken into account as a built-in gain or loss for purposes of Code section 704(c).

**8.09 GUARANTEED PAYMENTS.** To the extent any compensation paid to any Partner by the Partnership is determined by the IRS not to be a guaranteed payment under Code Section 707(c) or as not paid to the Partner other than in the person's capacity as a Partner within the meaning of Code Section 707(a), the Partner shall be specially allocated gross income of the Partnership in an amount equal to the amount of that compensation, and the Partner's Capital Account shall be adjusted to reflect the payment of that compensation.

**8.10 PARTNERSHIP WITHHOLDING.** Should the Partnership be required, pursuant to the Code, the laws of any state or any other provision of law, to withhold any amount from amounts otherwise distributable to any Partner or on the basis of income allocable to any Partner, the Partnership shall withhold those amounts, and any amounts so withheld shall be deemed to have been distributed to that Partner under this Agreement. If any sums are withheld pursuant to this provision, the Partnership shall remit the sums so withheld to, and file the required forms with, the Internal Revenue Service, or the appropriate authority of any such state or other applicable government agency. In the event of any claimed over-withholding, a Partner shall be limited to an action against the Internal Revenue Service, or the appropriate authority of any such state or other applicable government agency, for refund and each Partner hereby waives any claim or right of action against the Partnership on account of such withholding. Furthermore, if the amounts required to be withheld exceed the amounts which would otherwise have been distributed to a Partner, the Partner shall contribute any deficiency to the Partnership within ten (10) days after notice from the Partnership. If the deficiency is not contributed within that time, such failure shall constitute a liability of that Partner, and the Partner shall be liable for interest on the amount of such deficiency from the date of notice until paid at an annual rate equal to the lesser of twelve percent (12%) or the highest rate permitted by law. This deficiency shall be repaid in full within ten (10) days after demand (and for this purpose any Partner other than the Partner on whose account such deficiency was made may unilaterally make such demand for and on behalf of the Partnership), and otherwise shall be repaid, without prejudice to any other remedies at law or in equity that the Partnership may have, out of distributions to which the debtor Partner would otherwise subsequently be entitled under this Agreement.

## ARTICLE IX BOOKS AND RECORDS

**9.01 RECORDS AND REPORTS.** At the expense of the Partnership, the Managing Partner shall maintain records and accounts of all operations and expenditures of the Partnership. The books and records of the Partnership shall be prima facie evidence of the Partners or transferees entitled to allocations and distributions. The Partnership shall not be required to recognize the claim of any other person to any Capital Account or Partnership Interest. The Partnership shall keep at its principal place of business the following records:

- (a) A current list of the full name and last known address of each Partner, and its Capital Contributions and Partnership Interest;
- (b) Copies of records to enable a Partner to determine the relative voting rights, if any, of the Partners;
- (c) A copy of the Certificate of Formation of the Partnership and all amendments thereto;
- (d) Copies of the Partnership's federal, state, and local income tax returns and reports, if any, for the three most recent years;
- (e) Copies of this Agreement, together with any amendments thereto; and
- (f) Copies of any financial statements of the Partnership for the three most recent years.



**9.02 EXAMINATION OF BOOKS AND RECORDS.** The books and records shall at all times be maintained at the principal office of the Partnership, and shall be open to the reasonable inspection and examination of the Partners or a transferee who has not been admitted as a Partner, or their duly authorized representatives, during reasonable business hours. An authorized representative must be a person reasonably competent to examine such books and records. Any such person desiring to inspect and examine such records shall make a written request to the Partnership a reasonable time in advance of any time requested for such inspection. If such inspection may include access to confidential information of the Partnership or of other Partners, the Partnership may require the person requesting the inspection to execute an agreement to keep such information confidential and not to use such information other than for legitimate purposes in connection with the ownership or management of the Partnership. Any Partner may, at its own expense, obtain an audit of the books and records of the Partnership for the current and two prior years by a firm of independent certified public accountants selected by the Partner, subject to an appropriate confidentiality agreement. Investor Partners holding a minimum of 10% of the outstanding Partnership Interest (excluding any Partnership Interest, if any, held by the Managing Partner or affiliates) may obtain an audit by a national public accounting firm at the expense of the Partnership if an audit is not contracted for by the Managing Partner with a third party provider. The Partnership shall fully cooperate with any qualified accountants appointed to conduct such audit.

**9.03 INFORMATION ABOUT PARTNERS.** The Partnership shall not be required to provide the name, address or other identifying personal or financial information about a Partner, or any information about the Partnership Interest of any Partner, to any person who is not a Partner unless such information is validly subpoenaed or requested by a governmental agency having jurisdiction over the Partnership. If at any time the Partnership agrees, or is required, to provide any information about Partners or their Partnership Interest, the Partnership shall first obtain (a) the written representation of the person seeking such information that the information is sought for a proper purpose related to Partnership business or management (specifically stating such purpose) or valid governmental proceedings and (b) if deemed appropriate by the Managing Partner, the agreement by such person that the person will not disclose such information to non-Partners and/or will not use such information for anything other than matters related to Partnership business or management or for valid governmental proceedings. The Managing Partner shall determine in its discretion whether the representation and agreement is sufficient to protect the Partnership and its Partners and/or preserve the privacy of information about the Partners, and whether the stated purpose is a proper purpose.

**9.04 TAX RETURNS.** The Managing Partner, as Tax Matters Partner, shall cause the preparation and timely filing of all tax returns required to be filed by the Partnership pursuant to the Code and all other tax returns deemed necessary or required in each jurisdiction in which the Partnership does business. Copies of such returns or pertinent information therefrom shall be furnished to the Partners (or their transferees) within a reasonable time after the end of the Partnership's fiscal year. The Managing Partner shall prepare, or cause to be prepared, and shall provide to each Partner (or their transferee), within 90 days following the close of each fiscal year or as soon as practical thereafter, a Schedule K-1 (form 1065) setting forth in sufficient detail such transactions effected by the Partnership during such fiscal year as shall enable each Partner (or their transferee) to prepare its United States Federal income tax return. Each Partner (and any transferee) agrees that it will not file any tax return inconsistent with allocations or items of income, gain, loss, deduction or credit reflected on any tax return or other tax related filing made by the Partnership.

**9.05 TAX AUDITS.** The Partnership may, if it is eligible and at the discretion of the Tax Matters Partner, elect to opt out of the partnership tax audit regime implemented under Internal Revenue Code Section 6221 for tax years beginning after 2018. The Tax Matters Partner shall notify all Partners of any proceedings commenced by the Internal Revenue Service, and thereafter shall furnish all Partners periodic reports at least quarterly on the status of such proceedings. The Tax Matters Partner is authorized and required to represent the Partnership in connection with all examinations of the Partnership by any taxing authority having jurisdiction over the Partnership, and to take such action, including settlement or litigation of such proceedings, as it, in its discretion, deems to be in the best interest of the Partnership. Each Partner (and any transferee) agrees to cooperate with the Tax Matters Partner and to do or refrain from doing any and all things reasonably requested by the Tax Matters Partner with respect to any such examination or any resulting filing or proceeding. No person other than the Tax Matters Partner shall have any right to (i) participate in any audit of any Partnership tax return; (ii) participate in any proceedings arising out of or in connection with any Partnership audit or tax return, amended tax return or claim for a refund; or (iii) appeal or otherwise challenge any findings in any such proceeding. The Tax Matters Partner shall have sole discretion to determine whether the Partnership will contest any proposed or assessed tax deficiencies or penalties on its own behalf

or on behalf of the Partners (and transferees). Any tax payment deficiency and penalty shall be allocated to and paid by the Partners (or their transferees) who held Partnership Interests in the year under review, in proportion to their respective Partnership Interests in the year under review. Any tax overpayment shall be allocated to the Partners (but not transferees) who hold Partnership Interests in the year in which the tax overpayment is finally determined by the Internal Revenue Service or other taxing authority, in proportion to their respective Partnership Interests. Each Partner (or its transferee) shall pay its proportionate share of any tax payment deficiency or penalty finally determined by the Internal Revenue Service or other taxing authority within 30 days after demand by the Tax Matters Partner. Each Partner (and any transferee) indemnifies and holds each other Partner harmless from payment of such indemnifying Partner's or transferee's proportionate share of any tax payment deficiency.

**9.06 FINANCIAL STATEMENTS.** The Managing Partner may in its discretion obtain an audit, at the expense of the Partnership, of the books of account and records of the Partnership by a firm of independent certified public accountants selected by the Managing Partner. The Managing Partner shall prepare, or cause to be prepared, on a tax reporting basis, and shall provide to each Partner (or their transferee), as soon as practical after the end of each fiscal year, financial statements setting forth:

- (a) a balance sheet of the Partnership as of the end of such fiscal year;
- (b) statements of income for such fiscal year; and
- (c) the Capital Account of each Partner or transferee as of the end of such fiscal year.

Each Partner acknowledges that the Managing Partner's ability to provide information to the Partners depends in part on the ability to obtain information from third parties, which information may not be available or may not be made available on a timely basis, and each Partner agrees that the Managing Partner shall not be liable for untimely, missing or inaccurate information provided by third parties.

## ARTICLE X TRANSFER OF INTERESTS

**10.01 GENERAL.** This Article X shall not apply to initial admission of Partners pursuant to Article III of this Agreement and section 10.04 shall not apply to transfers of Partnership Interests between existing Partners of the Partnership. Partners should note that, as defined, a Transfer includes any pledge or hypothecation of a Partnership Interest. A Partnership Interest, and any interest in a Partnership Interest, may not be Transferred, voluntarily or involuntarily (including by operation of law or otherwise), except in accordance with the provisions of this Article X. A Partner shall obtain the prior written consent of the Managing Partner for any Transfer subject to this Article X other than a Transfer by operation of law. Any attempt to Transfer any interest in a Partnership Interest in violation of this Agreement or any applicable state or federal law shall be void and of no effect, except that any Transfer by operation of law shall result in the transferee having the rights of an assignee who has not been admitted as a Partner, as to allocations and distributions, but not the rights of a Partner under this Agreement unless admitted as a Partner by the Managing Partner. The transferee shall provide to the Managing Partner its taxpayer identification number, passport and related information of any natural person transferee or control person of any transferee, and any other information reasonably necessary to permit the Partnership to file required tax returns or comply with anti-money laundering laws. A Partner that is an entity may change its name, or merge or consolidate with an affiliate, without the prior consent of the Managing Partner, and such action shall not be considered a Transfer subject to this Article X. A Partner may transfer all or part of its Partnership Interest to a trust or other entity established for the benefit of the Partner, or its direct or indirect beneficial owners and/or members of their immediate family, in connection with estate planning, with prior notice to the Managing Partner, and such action shall not be considered a Transfer subject to this Article X; provided that any such transferee shall be admitted as a Partner only upon the consent of the Managing Partner and only if such transferee is at the time an Accredited Investor.

**10.02 PARTNERSHIP INTERESTS ARE RESTRICTED SECURITIES.** Partnership Interests have not been registered under the Securities Act or under the securities laws of any state or other jurisdiction, and may not be offered

or Transferred unless and until registered under such act and laws or the Partnership has received an opinion of counsel satisfactory to the Partnership, in form and substance satisfactory to the Partnership, that such offer or Transfer is in compliance therewith. The Managing Partner may waive the requirement for an opinion of counsel in its discretion. No Transfer shall be made which, in the opinion of counsel to the Partnership, would (i) result in the Partnership being considered to have been terminated for purposes of Section 708 of the Code; (ii) would not satisfy any applicable safe harbor under the Regulations from “publicly traded partnership” status; or (iii) would otherwise result in materially adverse tax consequences to the Partnership or the Partners. The Partnership may require a Partner desiring to transfer its Partnership Interest to provide an opinion of counsel in form and substance satisfactory to the Partnership that such transaction would not result in the Partnership being considered terminated under the Code and Regulations. No Transfer shall be made which, in the opinion of counsel to the Partnership, would result in the assets of the Partnership being considered plan assets for purposes of the Employee Retirement Income Security Act. No Transfer shall be made which, in the opinion of counsel to the Partnership, would require the Partnership to register as an investment company under the Investment Company Act of 1940 or similar laws of other jurisdictions. No Transfer shall be made which, in the opinion of counsel to the Partnership, would require the Partnership to file or register with the United States Commodity Futures Trading Commission or a similar regulator in any other jurisdiction. The transferee shall provide its taxpayer identification number and related information of any natural person transferee or control person of any transferee, and any other information reasonably necessary to permit the Partnership to file required tax returns, to the Managing Partner. The transferee shall provide appropriate identifying information regarding itself or any control person and any other information required by the Managing Partner to comply with any currency transaction laws, financial privacy laws, anti-money laundering laws or similar laws.

**10.03 RIGHT OF FIRST REFUSAL.** Any Partner or Partner’s legal representative desiring to Transfer all or part of its Partnership Interest to a person other than one of the other Partners, for any reason other than a Transfer by operation of law or as a gift, shall first notify the Managing Partner in writing of its intention to Transfer, stating the name and address of the proposed transferee, the amount of Partnership Interest proposed to be Transferred, the consideration proposed to be received therefore, and the proposed terms of the Transfer. The Managing Partner in its discretion shall have the exclusive right and privilege to arrange the purchase of the Partnership Interest proposed to be Transferred, by the Partnership or other Partners, for the proposed consideration within thirty (30) days after the receipt of such written notice. If the Managing Partner does not arrange the purchase of the Partnership Interest so offered, during the next succeeding 90-day period the Partner or Partner’s legal representative desiring to Transfer the Partnership Interest may then Transfer such Partnership Interest to the person and at the price and terms stated in the offer. If the Partnership Interest is not so Transferred, it shall not be subsequently Transferred without first again offering it to the Managing Partner as provided above. This section 10.3 shall not be construed as limiting in any way the authority and discretion of the Managing Partner either to give or withhold its consent to any proposed Transfer of Partnership Interests by a Partner, or to the admission of the transferee as a Partner even though the Managing Partner shall not have exercised the right and privilege to purchase such Partnership Interest.

**10.04 CONSENT REQUIRED FOR SUBSTITUTION OF NEW PARTNER.** Subject to sections 10.01, 10.02 and 10.03, a transferee of any Partnership Interest may become a Partner only upon (a) execution and delivery by the transferee of a written acceptance and adoption of this Agreement, as the same may be amended, together with such other documents, if any, as the Managing Partner may require; (b) the payment to the Partnership by the Partner assigning its Partnership Interest of all reasonable expenses incurred by the Partnership in connection with such assignment; and (c) upon the consent of the Managing Partner, which may, in each case, be given or denied in the absolute discretion of the Managing Partner. Upon such execution, payment and consent, the transferee shall, with respect to the Partnership Interest assigned, be admitted to the Partnership and become a substituted Partner therein. A transferee who is not admitted as a Partner shall be entitled to allocations and distributions in respect to the Partnership Interest transferred but shall not have any other rights under this Agreement.

## **ARTICLE XI DISSOLUTION AND TERMINATION**

**11.01 DISSOLUTION.** The Partnership shall only be dissolved upon the earlier of:

- (a) the Managing Partner, with the consent of a Majority-in-Interest, determining that the Partnership should be dissolved;
- (b) the Managing Partner becoming subject to an Event of Withdrawal, except as provided below in this section 11.01;
- (c) the Partnership becoming insolvent or bankrupt;
- (d) the sale or other disposition of all or substantially all of the Partnership's assets or the termination of all royalty interests owned by the Partnership;
- (e) December 31, 2050, subject to extension by the Managing Partner in its discretion for up to two additional years in order to permit an orderly disposition of Partnership assets; or
- (f) any other event that, under the Texas BOC, would cause its dissolution, provided that the Partnership shall not be dissolved upon the request for a winding up of the Partnership from any Partner.

The merger, consolidation, recapitalization, or reorganization of the Managing Partner shall not be deemed an event requiring winding up or dissolution of the Partnership. The withdrawal of any general partner or the conversion of any general partner interest into a Limited Partner interest shall not be deemed an event requiring winding up or dissolution of the Partnership.

If the Managing Partner becomes subject to an Event of Withdrawal, the Managing Partner or any other Partner shall deliver written notice thereof to all Limited Partners and the Partnership shall be deemed to be reconstituted if there remains at least one Partner willing to serve as Managing Partner (and, in such capacity, to be a general partner), who is approved as Managing Partner by the consent of a Majority-in-Interest, in which case the business of the Partnership shall be carried on and such Partner shall serve as Managing Partner, and, if there is more than one Partner willing to serve as Managing Partner, a Majority-in-Interest shall determine which Partner shall serve as Managing Partner. If no Partner willing to serve as Managing Partner remains, the Partnership shall dissolve and thereafter shall conduct only activities necessary to wind up its affairs unless a Majority-in-Interest votes to reconstitute the partnership. If the Partnership is reconstituted, then:

- (a) the Partnership shall continue until thereafter dissolved in accordance with this Article XI; and
- (b) the Partnership Interest of the former Managing Partner shall be treated thenceforth as the interest of a Limited Partner, and a portion of its Partnership Interest shall be offered to the successor managing partner and the remainder converted in the manner provided in section 5.11(d) of this Agreement; and
- (c) all necessary steps shall be taken to amend or restate this Agreement and the certificate of limited partnership, and the successor Managing Partner may for this purpose exercise the power of attorney granted pursuant to this Agreement.

Upon the occurrence of the event set forth in section 11.01(f) of this Agreement, the Managing Partner shall deliver written notice thereof to all Limited Partners and the Partnership shall be deemed to be reconstituted if, within 90 days after such event, the remaining Partners by the consent of a Majority-in-Interest elect in writing to continue the business of the Partnership. If no election to continue the Partnership is made by a Majority-in-Interest of the remaining Partners within 90 days of the event of dissolution, the Partnership shall dissolve and thereafter shall conduct only activities necessary to wind up its affairs. If the Partnership is reconstituted, then:

- (a) the Partnership shall continue until thereafter dissolved in accordance with this Article XI; and

(b) all necessary steps shall be taken to amend or restate this Agreement and the certificate of limited partnership, and the Managing Partner may for this purpose exercise the power of attorney granted pursuant to this Agreement.

**11.02 EFFECT OF DISSOLUTION.** Upon dissolution, the Partnership shall cease to carry on its business, except as permitted by the Texas BOC. Upon dissolution, the Managing Partner or liquidator shall file a statement of commencement of winding up and publish the notice permitted by the Texas BOC.

**11.03 DISTRIBUTION UPON DISSOLUTION.** Upon a dissolution and termination of the Partnership for any reason, the liquidator shall cause the Partnership to make a full and proper accounting of the assets, liabilities and operations of the Partnership, as of and through the last day of the month in which the dissolution occurs, shall liquidate the assets as promptly as is consistent with obtaining the fair market value thereof, and shall apply and distribute the proceeds therefrom as follows:

- (a) to payment of outstanding liabilities of the Partnership;
- (b) to the Managing Partner in payment of any unpaid management fee;
- (c) to the Partners (or their transferees) in proportion to their respective Capital Accounts until the Capital Account of each Partner (or transferee) has been reduced to zero; and
- (d) then the remainder, if any, shall be distributed to the Investor Partners and to ProAK, in accordance with sections 8.01(a) and (b).

Upon dissolution, each Partner shall look solely to the assets of the Partnership for the return of its Capital Contributions, and shall be entitled only to a cash distribution or a distribution in kind of the Partnership's assets made in accordance with section 11.04 hereof. Upon dissolution, no value shall be attributed to the intangible assets of the Partnership. ProAK shall retain all rights to the Partnership name, any goodwill associated with the Partnership, and all intellectual property assigned to the Partnership or used or developed in whole or in part by it.

**11.04 DISTRIBUTION IN KIND.** If the Managing Partner (or other person acting as liquidator) determines that a portion of the Partnership's assets should be distributed in kind to the Partners in connection with a liquidation of the Partnership, an independent appraisal of the fair market value of each such asset as of a date reasonably close to the date of liquidation shall be obtained. Any unrealized appreciation or depreciation with respect to any asset to be distributed in kind shall be allocated among the Partners (in accordance with the provisions of Article VIII, and assuming that the assets were sold for the appraised value) and taken into consideration in determining the balance in the Partners' Capital Accounts as of the date of final liquidation. Distribution of any such asset in kind to a Partner shall be considered a distribution of an amount equal to the asset's fair market value for purposes of section

**11.05 LIQUIDATING TRUST.** The Managing Partner (or other person acting as liquidator) may establish a liquidating trust for the benefit of the Partners and transfer assets to such trust.

**11.06 LIQUIDATOR.** Any person acting as liquidator shall be protected from liability and entitled to indemnification to the same extent as the Managing Partner.

**11.07 TERMINATION.** Upon the completion of the distribution of Partnership assets as provided in this Article XI, the existence of the Partnership shall be terminated.

**11.08 CERTIFICATE OF TERMINATION.** When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefore and all of the remaining property and assets have been distributed to the Partners, a certificate evidencing such termination may be executed and filed with the Secretary of State of Texas in accordance with the Texas BOC.

**11.09 RETURN OF CONTRIBUTION NONRECOURSE TO OTHER PARTNERS.** Except as provided by law or as expressly provided in this Agreement, upon dissolution, each person shall look solely to the assets of the Partnership for the return of the person's Capital Account. If the Partnership property remaining after the payment or discharge of the debts and liabilities of the Partnership is insufficient to return the Capital Account of one or more persons, including, without limitation, all or any part of that Capital Account attributable to Capital Contributions, then such persons shall have no recourse against any other Partner or transferee.

## ARTICLE XII POWER OF ATTORNEY

**12.01 GRANT.** Each Partner hereby irrevocably makes, constitutes, and appoints the Managing Partner as its true and lawful attorney to exercise, or refrain from exercising, any and all Executive Rights, and to make, sign, execute, acknowledge, swear to, and file with respect to the Partnership:

- (a) all documents of transfer of a Partner's interest and all other instruments to effect such transfer;
- (b) all certificates of limited partnership as are required by law, and all amendments to this Agreement and to the Partnership's certificates of limited partnership regarding a change in the name of the Partnership, or a change in its registered office or registered agent;
- (c) all amendments adopted in compliance with this Agreement;
- (d) all documents (including counterparts of this Agreement) which the Managing Partner deems appropriate to qualify or continue the Partnership as a limited partnership in the jurisdictions in which the Partnership may conduct business; and
- (e) all conveyances and other documents, instruments, and certificates which the Managing Partner deems appropriate to exercise Executive Rights or to effect the certification, dissolution, liquidation, or termination of the Partnership.

The foregoing grant of authority is hereby declared to be irrevocable and a power coupled with an interest, which shall survive the death and disability of any Partner. In the event of any conflict between the provisions of this Agreement and any document executed or filed by the Managing Partner pursuant to the power of attorney granted in this section, this Agreement shall govern.

## ARTICLE XIII GENERAL PROVISIONS

**13.01 GOVERNING LAW.** This Agreement, and the application or interpretation hereof, shall be governed by its terms, by the Texas BOC and by the laws of the state of Texas, without regard to Texas conflict of law provisions that would require or permit reference to the laws of any other jurisdiction, and without reference to the laws of any other jurisdiction, except to the extent such Texas laws are preempted by applicable federal laws. The Partnership hereby elects that each Partnership Interest in the Partnership shall constitute a security governed by Chapter 8 of the Texas Business and Commerce Code - Investment Securities, pursuant to Section 8-103(c).

**13.02 EXECUTION OF ADDITIONAL INSTRUMENTS.** Each Partner hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

**13.03 CONSTRUCTION.** The language in all parts of this Agreement is to be construed according to its fair meaning and is not to be strictly construed for or against any party. Nothing in this Agreement is to be construed as authorizing or requiring any action that is prohibited by the Texas BOC or other applicable law, or as prohibiting any

action that is required by the Texas BOC or other applicable law. The exhibits and attachments referred to in this Agreement constitute an integral part of this Agreement and shall be given effect as such.

**13.04 HEADINGS.** The headings in this Agreement may be consulted to determine the parties' intent with respect to the applicable provisions to the extent those provisions are ambiguous, but shall not override or contradict such provisions.

**13.05 WAIVERS.** Any failure by a party to insist upon the strict performance of any covenant or condition of this Agreement, or to exercise any right or remedy upon a breach of any such covenant or condition, does not constitute waiver of any such covenant or condition or any breach thereof. A party will not be deemed to have waived any right or remedy under this Agreement unless that party has signed a written document to that effect, and any such waiver is applicable only with respect to the specific provision and instance for which it is given.

**13.06 RIGHTS AND REMEDIES CUMULATIVE.** The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy shall not preclude or waive the right to use that right or remedy again or to use any or all other rights or remedies. Such rights and remedies are in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

**13.07 EXHIBITS; ENTIRE AGREEMENT.** All exhibits referred to in this Agreement and attached hereto are incorporated herein by this reference. This Agreement and the subscription agreement for any Partnership Interest executed by any Partner together constitute the entire agreement and understanding between and among all Partners and the Partnership regarding matters covered by such agreements, and shall supersede any prior or contemporaneous oral agreements. This Agreement and any subscription agreement may not be modified without the consent of each affected party, except as provided in section 13.14 of this Agreement.

**13.08 HEIRS, SUCCESSORS AND ASSIGNS.** Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns. The provisions of this Agreement shall bind any person holding a Partnership Interest who has not been admitted as a Partner.

**13.09 CREDITORS.** None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Partnership or of any Partner or by any other person not a party hereto.

**13.10 EXECUTION AND COUNTERPARTS.** An electronic signature or an electronic copy of a signature to this Agreement or any other notice or document regarding the Partnership shall be given legal effect and deemed valid and binding on the person authorizing or transmitting such signature and any person to whom the signature is attributable, whether or not such signature is encrypted or otherwise verified. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

**13.11 FEDERAL INCOME TAX ELECTIONS.** All elections required or permitted to be made by the Partnership under the Code, any state tax laws or any other relevant tax laws shall be made by the Tax Matters Partner in its discretion. The provisions on limitations of liability of the Managing Partner and indemnification set forth in Article V hereof shall be fully applicable to the Tax Matters Partner in its capacity as such.

**13.12 NOTICE.** Each Partner and other person bound by this Agreement agrees that the Partnership may transmit information about or from the Partnership, disclosures and notices electronically on an unencrypted basis (i) via email to the email address designated by the Partner in its initial subscription or subsequently designated by the Partner by a written notice made in accordance with the following sentence, (ii) by access to a web site that the Partnership designates in an email notice the Partnership sends to a Partner at the time the information is available, or (iii) to the extent permissible by law, by access to a web site that the Partnership designates in advance for such purpose. In addition, any notice or document sent to or by the Partnership or any Managing Partner or Partner or transferee may be sent by hand delivery or by facsimile providing confirmation of receipt or by Federal Express or similar courier delivery or by U. S. Postal Service certified mail, return receipt requested, to the party entitled to receive such notice

or other document at the address provided herein for the Partnership for any notice to the Partnership or any Managing Partner and at the address provided to the Partnership by any Partner in its initial subscription agreement for any notice to any Partner or transferee, or any such other address as such person may request in a written notice made in compliance herewith. Such notice or document will be deemed received on the earlier of the date actually received, if provided by email, through a web site, by hand delivery, confirmed facsimile or courier delivery, or three business days after it is deposited in the U.S. mail properly addressed and sent by certified mail, return receipt requested. Notice provided in accordance with this section shall be effective notwithstanding anything in the Texas BOC to the contrary. A Partner may withdraw its consent to receipt of information, disclosures or notices via unencrypted email by notice to the Managing Partner sent in accordance with the second sentence of this section.

**13.13 INVALIDITY.** The invalidity or inability to enforce any particular provision of this Agreement shall not affect the other provisions hereof, and the Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted. If any particular provision herein is construed to be in conflict with the provisions of the Texas BOC, the provisions of this Agreement shall control to the fullest extent permitted by applicable law.

**13.14 AMENDMENTS TO THE AGREEMENT.** The Managing Partner is specifically authorized to make amendments to this Agreement if necessary or appropriate in the Managing Partner's sole discretion to comply with the Internal Revenue Code or to carry out the intent of the distribution provisions, but only if any such amendment does not substantially alter a Partner's right to distributions. The Agreement may be amended in all other instances only by the consent of a Majority-in-Interest except that any amendment to this Section 13.14 shall require the unanimous affirmative vote of all Partners. The Partners by the consent of a Majority-in-Interest may modify or waive any provision of the Texas BOC that is permitted to be modified or waived.

**13.15 ARBITRATION OF DISPUTES.**

(a) Any issue, dispute, claim or controversy (collectively, a Claim) between the undersigned and the Partnership, the Managing Partner, or any officer, director, employee, manager, member, affiliate and legal counsel of any of the aforementioned, arising out of or relating to this Agreement and the undersigned's participation, shall be resolved as provided in this Section 13.15. The arbitrators chosen pursuant to Section 13.15(b), and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement including, but not limited to, any claim or dispute relating to the interpretation, applicability, enforceability or formation of this arbitration agreement or whether this arbitration provision or this Agreement is void or voidable. A party alleging a Claim shall notify the party against whom the Claim is asserted in writing (the Arbitration Notice) of its intention to have the Claim resolved by confidential and binding arbitration. This Arbitration Notice shall be sent so that it is received by the other party no later than ten (10) business days before the initiation of any arbitration proceeding. Any Claim shall be arbitrated in Dallas, Texas, governed by the laws of the State of Texas and in accordance with the Commercial Rules of Arbitration of the American Arbitration Association in effect at that time.

(b) A total of three arbitrators shall be appointed in accordance with this Section 13.15(b). Unless otherwise agreed to in writing by all the parties, within ten (10) business days after the initiation of the arbitration, the parties filing a Claim and the parties against whom the Claim is asserted, shall each appoint one arbitrator, and the two arbitrators so chosen shall select a third arbitrator within thirty (30) calendar days of the expiration of the 10-day period. Unless otherwise agreed to in writing by all the parties, each arbitrator shall have at least ten (10) years of experience in an industry or profession related to the subject matter involved in the Claim, and all arbitration proceedings shall be held, and a transcribed record thereof shall be prepared, in English.

(c) No party involved in the arbitration shall have the right to conduct discovery of the other (except as the arbitrators may so order on the application of another party), but shall furnish to the arbitrators such information as the arbitrators may reasonably request to facilitate the resolution of the Claim. The arbitrators shall announce the award and the reason therefor in writing within one (1) year from the date of the selection of the third arbitrator, or such later date as the parties may agree upon in writing,



(d) All parties to the arbitration shall bear their own expenses of the arbitration, including those relating to the compensation paid to the arbitrators (1/2 of all such costs), their attorney's fees, expert fees and presentation of proof with respect to the Claim. No decision or arbitration award by the arbitrators shall include an award of attorney's fees to any party.

(e) Any award granted by the arbitrators shall not include factual findings and legal reasoning.

(f) Following the entry of any award granted by the arbitrators, a party may move to confirm the award in any court having jurisdiction thereof. Should the award be confirmed by a court of competent jurisdiction, the right of either party to appeal confirmation of the award shall be governed by the provisions of the Federal Arbitration Act.

(g) Nothing in this Agreement shall limit a party's ability to pursue injunctive relief in a court of competent jurisdiction to the extent legally permissible.

**13.16 DETERMINATION OF MATTERS NOT PROVIDED FOR IN THIS AGREEMENT.** The Managing Partner shall decide any and all questions arising with respect to the Partnership and this Agreement that are not specifically or expressly provided for in this Agreement

**13.17 INVESTMENT COMPANY ACT, AND ADVISERS ACT MATTERS.** The Managing Partner is hereby authorized to take any action that it reasonably determines to be necessary or desirable in order that (a) the Partnership will not be deemed to be an "investment company" for purposes of the Investment Company Act of 1940 (as amended), and (b) the Managing Partner, the Investment Advisor, the Loan Servicer and their respective Affiliates, together with any payment to be made hereunder any payment to be made hereunder (including, without limitation, any Carried Interest Distribution), will be in compliance with the Investment Advisers Act of 1940. The actions to be taken under (a) and (b) above may include, without limitation, making structural, operational or other changes in the Partnership or any of its assets, cancelling all or a portion of the unfunded Capital Commitment of any Partner (and causing such Partner to not participate in new Partnership investments thereafter), requiring a Partner to transfer (in whole or in part) its interest to any person designated by the Managing Partner (including to the Partnership in redemption), amending this Agreement in accordance with the terms hereof, or dissolving the Partnership; provided that the Managing Partner shall endeavor to deal with such issue using the least disruptive means available.

**13.18 WAIVER OF JURY TRIAL.** BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER THIS AGREEMENT OR ANY DOCUMENTS RELATED HERETO.

**This Agreement was adopted effective as of March 19, 2019.**

**MANAGING PARTNER:**

**PROAK, LLC**

**By:** \_\_\_\_\_  
**Name: Shawn E. Bartholomae, Manager**

**INITIAL LIMITED PARTNER:**  
**(For purposes of formation of the Partnership)**

**By:** \_\_\_\_\_  
**Name: Shawn E. Bartholomae**

**EXHIBIT A**  
**NORTHERN LIGHTS ROYALTIES IV LP**  
**A Texas limited partnership**

**Partners**

**Effective as of March 19, 2019**

<b><u>Name and Address</u></b>	<b><u>Partnership Interest</u></b>	<b><u>Capital Contribution</u></b>
<b><u>MANAGING PARTNER:</u></b>		
ProAK, LLC	15% Net Distribution Interest	as described
<b><u>LIMITED PARTNER:</u></b>		
Shawn E. Bartholomae	Limited Partner	as reflected on the records of the Company