U.S. ENERGY® Development Corporation

GENESIS DRILLING PROGRAM V, VI and VII LP

LIMITED PARTNERSHIPS
GENERAL OFFERING TERMS

This Memorandum sets forth the terms applicable to three oil and natural gas drilling limited partnerships being offered by U.S. Energy Development Corporation commencing in 2014. The Genesis V, VI and VII Partnerships are being offered to accredited investors only. Individual Retirement Accounts (IRAs), Keogh Plans and Qualified Retirement Plans (collectively hereinafter referred to as "Qualified Entities") may participate in these offerings by contributing funds to, and becoming a member of, a limited liability company (Genesis Drilling V LLC, Genesis Drilling VI LLC or Genesis Drilling VII LLC, each sometimes hereinafter referred to as an "LLC") which shall then acquire units of limited partnership interests. For ease of presentation only, investments by Qualified Entities are also referred to as "units". Participants, including individuals, other than Qualified Entities are sometimes hereinafter referred to as "Non-Qualified Participants". Non-Qualified Participants may invest as investor general partners whose net subscription proceeds are applied first to the payment of intangible drilling costs ("GP Investors"), as limited partners whose net subscription proceeds are applied first to the payment of lease and tangible costs, or as members of an LLC. The net subscription proceeds of the members of the LLCs will be applied first to the payment of lease and tangible costs. Members of the LLCs, including all Qualified Entities, and limited partners whose subscription proceeds will be similarly applied are collectively referred to as "LP/LLC Investors".

The offerings are as follows:

	Minimum	Maximum*	Closing Date
Genesis Drilling Program V LP	$480,000 (12 Units)	$50,000,000 (1,250 Units)	September 30, 2014**
Genesis Drilling Program VI LP	$480,000 (12 Units)	$150,000,000 (3,750 Units)	December 31, 2014
Genesis Drilling Program VII LP	$480,000 (12 Units)	$50,000,000 (1,250 Units)	December 31, 2014***

* Subject to Increase.
** Subject to Extension by the Managing General Partner but no later than December 31, 2014.
*** If the offering for Genesis Drilling Program VII LP does not commence until after December 31, 2014 it will be extended by the Managing General Partner but to no later than December 31, 2015.

These securities are speculative and are subject to certain risks. You should purchase these securities only if you can afford a complete loss of your investment. (See "Risk Factors," Page 4). Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this placement memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

April 1, 2014

If subscriptions for all 1,250 Units ($50,000,000) in Genesis Drilling Program V LP or Genesis Drilling Program VII LP, or for all 3,750 Units ($150,000,000) in Genesis Drilling Program VI LP are accepted prior to the Closing Date, the Managing General Partner may elect to increase the maximum number of Units in Genesis Drilling Program V LP and/or in Genesis Drilling Program VII LP from 1,250 to up to 1,437.5 ($57,500,000) and from 3,750 to up to 4,312.5 ($172,500,000) in Genesis Drilling Program VI LP. Each offering is scheduled to close on or before December 31 in the year Units are first available for subscription.

Each Drilling Program is a limited partnership managed by general partner U.S. Energy Development Corporation of Getzville, New York, and will be funded primarily to drill developmental and step-out oil and natural gas wells and also may participate in exploratory wells or the workover or recompletion of existing wells to reestablish commercial production. Each LLC in which the Qualified Entities, and Non-Qualified Participants who elect to do so, will become members will be managed solely by U.S. Energy Development Corporation.

General partner, limited partner and LLC membership interests are being offered to Non-Qualified Participants at $40,000 per unit (partial units may be accepted in the Managing General Partner's discretion). Qualified Entities may invest in the LLCs in Units of $40,000 each (partial Units may be accepted in the Managing General Partner's discretion). You will be a partner only in the individual Drilling Program, or a member in the individual LLC, in which you invest and will not have any interest, rights or obligations with respect to any other Drilling Program or LLC as a result of such investment.

The units will be offered on a "best-efforts" "minimum-maximum" basis. This means the sponsor must sell at least 12 units in order for an offering to close, and is required to use only its best efforts to sell the remaining units. Therefore, the offering may close even though all units offered have not been sold.

All subscription proceeds will be held in interest-bearing escrow accounts until receipt of the minimum subscriptions. Each offering will close on the Closing Date specified, subject to an earlier closing if subscriptions for the maximum number of units are accepted prior to the Closing Date and subject to the Managing General Partner's right to extend the Closing Date, but not later than the dates specified above. If subscriptions for specified minimum subscriptions are not received by the Closing Date, and you submitted a subscription for that offering, your subscription will be promptly returned to you from the escrow account with applicable interest and without deduction for any fees.

NOTICE REGARDING USE OF THIS MEMORANDUM

This private placement memorandum is for your use only and you may not distribute it to others. The delivery of this private placement memorandum does not imply that its information is correct as of any time after its date.

You should rely only on the information contained in this private placement memorandum or the documents described in "Additional Information." No one is authorized to provide you with information that is different. Also, you should not rely on the information contained in this private placement memorandum as legal or tax advice. You should consult with your personal counsel, accountant, or other advisor as to legal, tax, financial and other related matters concerning your investment in the partnership.

In making an investment decision you and your purchaser representative, if any, must rely on your own examination of the partnership and the terms of the offering, including the merits and risks involved. In addition to providing this private placement memorandum to you, you and your purchaser representative, if any, may inspect during normal business hours and on reasonable notice to the managing general partner at its offices all books of account, records and other documents concerning:

- *the managing general partner;*
- *the partnership;*
- *the units; and*
- *the terms and conditions of the offering.*

You and your purchaser representative, if any, also may ask questions and receive answers from the managing general partner concerning these matters and any additional information deemed necessary by you and your purchaser representative, if any, to verify the accuracy and adequacy of the information contained in this private placement memorandum, to the extent that this additional information is possessed by the managing general partner or can be obtained by the managing general partner without unreasonable effort or expense.

This private placement memorandum is not an offer to sell these securities in any state to any person where the offer and sale is not permitted. You will not be permitted to purchase units and become an investor unless and until your subscription agreement has been accepted by the managing general partner, which reserves the unconditional right to reject your subscription. All subscription documents are included in the subscription packet provided with this private placement memorandum. You must:

- *be aware of, read and understand the legend which is included in the subscription packet as Annex A to the subscription agreement; and*
- *execute the execution page and purchaser questionnaire included in the subscription packet.*

In addition, you must be aware of the following:

The units are restricted securities and you may not transfer or resell them except as permitted under the Securities Act of 1933, as amended, and applicable state securities laws, pursuant to registration or exemption from registration. The sale or other transfer of the units is also restricted by Sections 6.01 and 6.02 of the partnership agreement which is attached to this private placement memorandum as Exhibit (A). You will be required to bear the financial risks of this investment for an indefinite period of time.

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References in this private placement memorandum to the "managing general partner" or "U.S. Energy" means U.S. Energy Development Corporation.

Throughout this private placement memorandum when there is a reference to "you" it is a reference to you as a potential investor or participant in the partnership.

Terms that are defined in this Memorandum are also defined in Article II of the Amended and Restated Certificate and Agreement of Limited Partnership which is annexed hereto as Exhibit A.

The rights and obligations of the managing general partner and you and the other investors in the partnership are governed by the partnership agreement, a copy of which is attached as Exhibit (A) to this private placement memorandum. You should not invest in the partnership without first thoroughly reviewing the partnership agreement.

SUMMARY OF THE OFFERING

This summary highlights information contained in other parts of this private placement memorandum. It is not complete and may not contain all the information that you should consider before investing in partner units. You should read the entire private placement memorandum and the attached exhibits, including the partnership agreement, carefully.

Genesis Drilling Program V, VI and VII LP

Each partnership will be a Delaware limited partnership. U.S. Energy Development Corporation, 2350 North Forest Road, Getzville, New York 14068, (716) 636-0401, will manage each partnership as managing general partner. In many cases, including by acting as a general drilling contractor and operator, the managing general partner will supervise the drilling, completing, reworking and operating of the wells to be drilled by each partnership.

The types of gas and oil wells which the partnership may participate in are described as follows:

- Developmental Wells are wells drilled within the proved area of a natural gas and/or oil reservoir to the depth of a stratigraphic horizon known to be productive. Even with developmental wells, there is still a risk that drilling activities may not produce oil or gas in sufficient quantities to return the investment made. It is anticipated that the majority of the partnership's funds will be invested in Developmental Wells.

- Step-out Wells are wells designed to expand the area of a proved oil or gas reservoir. It is anticipated that the partnership may invest up to 25% of its funds in Step-out Wells.

- Exploratory Wells are wells designed to prove or discover an oil or natural gas reservoir. It is anticipated that the partnership may invest up to 15% of its funds in Exploratory Wells.

Description of Units

Non-Qualified Participants may purchase either:

- investor general partner units;
- limited partner units; or
- membership units in an LLC.

Costs and related tax deductions will be allocated differently for GP Investors and LP/LLC Investors. There are material differences in the federal income tax effects and liability associated with each type of unit.

Qualified Entities may only invest as members of a Delaware limited liability company (Genesis Drilling V LLC, Genesis Drilling VI LLC, or Genesis Drilling VII LLC).

Investor General Partner Units.

- **Tax Effect.** If you invest as an investor general partner, then your share of the partnership's deduction for intangible drilling costs will not be subject to the passive activity limitations. For example, if you buy one $40,000 unit, then generally you may deduct the percentage of your subscription being applied to intangible drilling costs (from approximately $32,000 to as much as $36,800 if 92% of the Investor General Partner's subscription is applied to the payment of intangible drilling costs), in 2014 for wells where drilling is commenced by March 31, 2015 or wells that are completed by April 15, 2015. For any wells that are not spudded by March 31, 2015, you will be entitled to a 2014 deduction for the cost of those intangible drilling services that you pay for that are actually performed by April 15, 2015 and for the remaining intangible drilling costs that you pay for in 2015 (if the offering for Genesis Drilling Program VII LP does not commence until after December 31, 2014, the dates for that partnership will be one year later). (See "A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015).

    - Intangible drilling costs generally means those costs of drilling and completing a well that are currently deductible, as compared to lease costs which must be recovered through the depletion allowance and costs for equipment in the well which must be recovered through depreciation deductions.

    - Approximately 75% of the cost of drilling and equipping a Partnership's wells will be for intangible drilling costs. The remaining 25% will be expended for lease acquisition and tangible equipment expenses. The net subscription proceeds from LP/LLC Investors will be applied to the payment of lease acquisition and tangible equipment expenses. Additionally, each Partnership is authorized to borrow up to 15% of the amount of its subscriptions and the Partnerships each intend to borrow the lesser of that amount or the balance needed to pay lease acquisition and tangible equipment expenses after the contribution from LP/LLC Investors. However, the net subscription proceeds from LP/LLC Investors and proceeds from borrowing may be insufficient to pay all lease acquisition and tangible equipment expenses, meaning that a portion of the net subscription proceeds from GP Investors would be applied to such expenses rather than intangible drilling costs. By way of example, assuming there were no LP/LLC Investors in a Partnership and assuming that Partnership was able to borrow the full 15% of the amount of its subscriptions, the estimated tax deduction for intangible drilling costs for GP Investors in that Partnership would be approximately 80% of the amount invested. If there were no LP/LLC Investors in a Partnership and the Partnership did not borrow any monies to pay lease acquisition and tangible equipment expenses, the estimated tax deduction for intangible drilling costs for GP Investors in that Partnership would be approximately 69% of the amount invested. The amount of IDC deductions for GP Investors may be different in each partnership.

- **Liability.** If you invest as an investor general partner, then you will have unlimited liability regarding partnership activities before you are converted to a limited partner after substantially all of the partnership's wells have been drilled and completed. This means that if:

    - the insurance proceeds;
    - the assets and insurance proceeds of third party sub-contractors who may be liable;
    - the managing general partner's indemnification; and
    - partnership assets

    were not sufficient to satisfy a partnership liability, for which you and the other investor general partners were also liable, then the managing general partner could call on you and the other investor general partners to make additional capital contributions to the partnership from your personal assets to satisfy the liability. You and the other investor general partners do not have an option to refuse to make this additional capital contribution. In addition, you and the other investor general partners have joint and several liability which means generally that a person with a claim against the partnership may sue all or any one or more of the partnership's general partners, including you, for the entire amount of the liability. (See "Actions to be Taken by Managing General Partner to Reduce Risk of Additional Payments by Investor General Partners.")

Limited Partner Units and LLC Units

- Qualified Entity investors, and Non-Qualified Participants who so elect, will become members of a limited liability company ("LLC") in which they will have no management authority. The LLC will acquire limited partner units. The LLC will elect to be taxed as a corporation.

- **Tax Effect.** Distributions to LLC members including Qualified Entity investors will be considered dividends for income tax purposes. Net subscription proceeds from the LLC and from Limited Partners who are LP/LLC Investors will first be applied to the payment of equipment and lease acquisition costs and accordingly there may be no intangible drilling cost deductions. The LLC, not the individual LLC Members, will have depreciation deductions commencing in the year the tangible equipment is placed into service.

    If you invest as a limited partner, then your use of your share of the partnership's deduction for intangible drilling costs, if any (the net subscription proceeds of limited partner investors will be applied first to lease and tangible expenses), generally will be limited to net passive income from "passive" trade or business activities. Passive trade or business activities generally include the partnership and other limited partner investments. This means that you will not be able to deduct your share of the partnership's intangible drilling costs, if any, in 2014 unless you have passive income from investments other than the partnership.

- **Liability.** Qualified Entity investors and Non-Qualified Participants who invest as LLC members or as limited partners will have limited liability meaning they will not be liable for amounts beyond their initial investment and their share of undistributed net profits.

RISK FACTORS

An investment in the partnerships involves a high degree of risk and is suitable only if you have substantial financial means and no need of liquidity in your investment. You should carefully consider the following factors and other information in the private placement memorandum before deciding to invest in the partnership.

Special Risks of the Partnership

No Guarantee of Return of Investment or Rate of Return on Investment Because of Speculative Nature of Drilling Oil and Natural Gas Wells. Oil and natural gas exploration is an inherently speculative activity. Before the drilling of a well, the managing general partner cannot predict with any certainty:

- the amount of oil or natural gas recoverable from the well;
- the time it will take to recover the oil or natural gas; or
- the commodity price of oil or natural gas at the time it will be sold.

There is a risk that you will not recover all of your investment or, if you do recover your investment, that you will not receive a rate of return on your investment which is competitive with other types of investment. You will be able to recover your investment only through the partnership's distributions of the sales proceeds from the production of its oil and natural gas reserves from productive wells. Oil and natural gas reserves generally deplete over time until the wells are no longer economical to operate. All of these distributions to you may be considered a return of capital until you have received 100% of your investment.

Risk That a Well Does Not Return the Amount Paid to Drill and Complete It. There is a risk that even if a well is completed by the partnership and produces oil and natural gas in commercial quantities (that is, revenues from the sale of the oil and/or gas produced from a well exceed the cost of operating such well) it will not produce enough oil and natural gas to pay for the costs of drilling and completing the well, even if tax benefits are considered. Thus, even if all of the partnership's wells are capable of commercial production there is a risk that your investment will not be returned on a cash-on-cash basis.

Risk of Nonproductive Wells in Developmental Drilling. Although drilling developmental wells reduces the risk of drilling nonproductive wells, there is a risk that the partnership will drill some wells which are nonproductive and that must be plugged and abandoned. If one or more of the partnership's wells are nonproductive, then the partnership's productive wells may not produce enough revenues to offset the loss of investment in the nonproductive wells. Also, there is an increased risk that nonproductive wells will be encountered in drilling step-out wells and a greater risk in drilling exploratory wells.

Risk of Reduced Partnership Distributions Because of Decrease in the Price of Natural Gas and Oil. There is no assurance of the price at which the partnership's oil and natural gas will be sold. If oil and natural gas prices decrease, then your share of partnership revenues will decrease accordingly. The price will depend on supply and demand factors largely beyond the control of the partnership. There have been significant increases and decreases in the price of oil and natural gas since 1999, and oil and natural gas prices remain volatile. There is a risk that oil and natural gas prices could decrease in the future.

There is a further risk that the price of oil or natural gas may decrease during the first years of production when the wells achieve their greatest level of production. This would have the greatest adverse effect on partnership distributions to you. While the amount of your distributions can be expected to both increase and decrease during the term of the partnership, ultimately, your return level will decrease, even if there are rising oil and natural gas prices, because of declining production volumes from the partnership wells over time.

Risks Regarding the Partnership's Oil and Natural Gas Markets Which Could Reduce Partnership Distributions. In addition to the risk of decreased natural gas and oil prices described above, there are risks associated with marketing oil, natural gas and the liquids, if any, produced with the natural gas (all collectively referred to as hydrocarbons) which could result in reduced distributions from the partnership to you and the other investors. The managing general partner anticipates that most, if not all, of the partnership's gas production will be marketed on the partnership's behalf by independent natural gas marketers for resale to end-users, and on the spot market as described in "Proposed Activities - Sale of Natural Gas and Oil Production" and "Competition, Markets and Regulation." The managing general partner anticipates that the natural gas liquids produced from the partnership's wells will either be sold to third parties capable of processing the same, for resale to end-users or processed and sold to end-users or distributors, and that oil produced from the partnership's wells will be sold to refineries or similar purchasers. Set forth below are certain risks associated with marketing that may apply to the natural gas, natural gas liquids and/or oil produced from the partnership's wells.

- There is a risk that competition from other marketers will make it more difficult to market the partnership's hydrocarbons.

- Even if the partnership were to sell the partnership's hydrocarbons under a contract with an end-user instead of on the spot market, there can be no assurance that the terms of a the contract will be favorable over the life of the wells. Most contracts provide that prices may be adjusted upward or downward in accordance with the spot market price and market conditions. Thus, there is no assurance of a specific price for the term of the agreement and there is a risk that the price for the partnership's hydrocarbons will be decreased because of market conditions. Furthermore, even if the contract did not provide for price adjustments, in the past, low prices or other difficulties in marketing have resulted in some purchasers renegotiating existing agreements to reduce the price and the volume to be purchased.

- If partnership hydrocarbons are sold to an end-user there is a risk that the partnership may not be paid by the end-user or may experience delays in receiving payment for hydrocarbons that have already been delivered.

- Partnership revenues may be less the further the oil, natural gas or natural gas liquids are transported because of increased transportation costs.

- Distribution of production revenues paid to the Managing General Partner may be delayed or adversely impacted if there are third parties who had claims against the managing general partner.

- Production from the wells may be reduced or shut-in due to seasonal marketing demands since the demand for natural gas is usually greater in the winter months because of residential heating requirements than the summer months. There is also a risk that from time to time the managing general partner will reduce hydrocarbon production awaiting a better price.

- Production from the wells may be restricted due to lack of capacity in the pipelines to which the wells are connected. Capacity restrictions have previously been experienced by certain U.S. Energy operated wells, particularly with pipelines that are closest to end-users, which typically have the lowest transportation costs.

- The quantities of natural gas to be delivered by the partnership may also be affected by factors beyond its control such as:

    - the inability of the wells to deliver natural gas at pipeline quality and pressure;

    - premature exhaustion of reserves; and

    - changes in governmental regulations affecting the production.

- Production from wells drilled in certain areas may be delayed until construction of the necessary pipelines and production facilities is completed.

If You Choose to Invest as a General Partner for the Tax Benefits, Then You Have Greater Risk Than a Limited Partner or LLC Member. If you invest as an investor general partner for the tax benefits instead of as a limited partner or LLC member, then under Delaware law you will have unlimited liability for your partnership's activities until you convert to a limited partner. This could result in you being required to make payments in addition to your original investment in amounts that are impossible to predict because of their uncertain nature. Under the terms of the partnership agreement, if you are an investor general partner you agree to pay only your proportionate share of your partnership's obligations and liabilities. This agreement, however, does not eliminate your liability to third-parties if another investor general partner does not pay his proportionate share of the partnership's obligations and liabilities.

Also, the managing general partner anticipates that the partnership may own less than 100% of the interest in all of its wells. If a court holds you and the other third-party owners of the well liable for the development and operation of a well and the third-party well owner does not pay its proportionate share of the costs and liabilities associated with the well, then the partnership and you and the other investor general partners could be liable to third-parties for those costs and liabilities. However, wells in which the partnership owns less than a 100% interest may involve wells that are not operated by the managing general partner and in those instances the managing general partner will attempt to negotiate with the well operator wherein the well operator will be responsible for the payment of the defaulting third party owner's share of the costs and liabilities.

All partnerships have the benefit of liability insurance maintained by U.S. Energy, as follows: general liability insurance of $1,000,000 per occurrence and $2,000,000 in the aggregate; comprehensive automobile public liability and property damage insurance with combined single limits of $1,000,000; pollution coverage of $1,000,000 per occurrence and in the aggregate; umbrella liability insurance as to bodily injury, property damage and pollution with combined limits of $24,000,000 per occurrence or accident and in the aggregate; and, in certain instances, well control insurance. Additionally, when applicable, each partnership will have the benefit of the insurance coverage and assets of sub-contractors and, all third party operators will be required to maintain insurance coverage. Also, on a well by well basis, when deemed appropriate, the managing general partner will arrange for well control insurance coverage to be in place. It is anticipated that all partnership wells, including wells operated by U.S. Energy, will have such coverage. Wells operated by U.S. Energy and being drilled to the Mississippian Lime formation will have well control insurance coverage of combined single limit of liability of $10,000,000. Nevertheless, as an investor general partner, you may become subject to the following:

- contract liability which is not covered by insurance;
- liability for drilling hazards such as well blowouts, fires and explosions which result in property damage or personal injury or death to third-parties in amounts greater than the insurance coverage; and
- liability for pollution, abuses of the environment and other damages against which the managing general partner cannot insure because coverage is not available or against which it may elect not to insure because of high premium costs or other reasons.

If the partnership's insurance proceeds and assets and the managing general partner's indemnification of you and the other investor general partners were not sufficient to satisfy the liability, then the managing general partner would call for additional funds from you to satisfy your share of the liability. Historically, this has never been necessary for any partnerships sponsored by the managing general partner.

Risk Created by Your Required Reliance on the Managing General Partner and Its Track Record. The managing general partner will have the exclusive right to control the partnership's activities. You should purchase units only if you are willing to entrust all aspects of partnership management to the managing general partner.

The managing general partner has sponsored several oil and gas partnerships since 1999, which are described in "Prior Activities." The managing general partner can offer no assurance that you and the other investors will experience returns, if any, comparable to those experienced by investors in prior drilling programs.

Risk That the Managing General Partner Cannot Meet Its Capital Contribution, Indemnification and Repurchase Obligations Because Its Liquid Net Worth Is Not Guaranteed. The managing general partner has made commitments to you and the other investors regarding the following:

- the payment of a portion of the organization and offering costs;
- indemnification of the investor general partners for liabilities in excess of their pro rata share of partnership assets;
- repurchasing the units; and
- the drilling contract.

A significant financial reversal for the managing general partner could adversely affect its ability to honor these obligations which would reduce the value of the units. See "Financial Information Concerning the Managing General Partner."

The net worth of the managing general partner is based primarily on the estimated gross value of its producing natural gas and oil reserves and is not available in cash without borrowings, if available, or a sale of the properties. Also, if natural gas and oil prices decrease the estimated value of the properties and the net worth of the managing general partner will decrease. There is no assurance that the managing general partner will have the necessary net worth, either currently or in the future, to meet its financial commitments under the partnership agreement. These risks are increased because the managing general partner has made and will make similar financial commitments in other partnerships.

Risks of a Long-Term Investment Because the Units Are Illiquid and Not Readily Transferable. If you invest in the partnership, then you must assume the risks of an illiquid investment. The transferability of the units is limited by state and federal securities laws, tax laws and the partnership agreement. The units cannot be readily liquidated, and there is no market for the sale of the units. Also, a sale of your units could create adverse tax and economic consequences for you.

Risk Regarding Participation With Third-Parties in Drilling Wells. The partnerships have reserved the right to own minority interests in the wells, including less than 5% of the interest in the wells. Thus, the managing general partner anticipates that third-parties will participate with the partnerships in drilling some, or all, of the wells. Additional financial risks exist when the cost of drilling, equipping, completing and operating wells is shared by more than one person. If a partnership pays its share of the costs but another interest owner does not, then the partnership may have to pay the costs of the defaulting party which defaulting party would then lose its interest in the well. (See discussion under "If You Choose to Invest as a General Partner for the Tax Benefits, Then You Have Greater Risk Than a Limited Partner" above.)

Although the managing general partner anticipates that it will serve as general drilling contractor and operator of certain of each partnership's wells, it may not if the partnership owns less than a 50% interest in the well or if the well location is originated by a third-party and as a part of the terms of acquisition the third-party requires that it be named operator, or if the well is part of a joint venture of which U.S. Energy is not the designated operator. If the managing general partner were not the actual operator of the well, then there is a risk that the managing general partner cannot supervise the third-party operator closely enough. Also, decisions concerning how the well is operated and expenditures will be made by a third-party operator and may not be in the best interests of the partnership and you and the other investors. There is a further risk that a third-party operator will have financial difficulties and fail to pay for materials or services on the wells it drills or operates and, in that event, the partnership could incur extra costs in discharging materialmen's and workmen's liens. There is also a risk that if U.S. Energy subsequently assumes the role of operator of a well, that it will not be fully familiar with operations in that geographic area.

The Number of Wells Drilled for the Partnership Depends on the Amount of that Partnership's Subscription Proceeds. If all of the units offered are not sold, then fewer wells will be drilled which decreases the partnership's ability to spread the risks of drilling.

Risk of Loss or Delay Due to Natural Disasters. There is a risk that a partnership's activities could be adversely impacted by a natural disaster, such as a flood, drought or wild fire. While such events are uncommon, their occurrence could result in delays in the completion of the partnership's wells; in interruptions in production from the partnership's wells, potentially for a prolonged period; in lost production; or in temporary increases in operating expenses.

Risk Regarding Limited Information Regarding the Wells. The managing general partner has identified in "Proposed Activities" some of the general areas where wells may be drilled, but has not identified specific wells and may consider other areas. In addition, the managing general partner, in its sole discretion, may substitute wells or the partnership may acquire less than 100% of the interest in the wells. Thus, you may not have any information if the proposed well locations are substituted, and you will not be able to review the relevant geological and production data related to some or most of the wells. Instead, you must rely entirely on the managing general partner to select those well locations, and in the case of substitutions to select new locations, which in the managing general partner's opinion have equal or greater potential than the original locations.

The majority of the managing general partner's early experience was in the Appalachian Basin. In recent years the managing general partner has been more active in other areas and has developed expertise in additional basins. In "Proposed Activities" the managing general partner has identified the basins where the partnership wells may be located. The level of the managing general partner's experience in these basins varies. Similarly, the majority of the managing general partner's experience is in the drilling of vertical wells. However, in recent years the managing general partner has been involved in the drilling of horizontal wells. The partnership anticipates participating in horizontal wells in the basins identified in "Proposed Activities."

Accordingly, the experience of the managing general partner described in "Prior Activities" may not be as beneficial to the partnership as it would if the partnership were exclusively drilling vertical wells in the Appalachian Basin. This will be mitigated by use of consultants and the participation of other, more experienced entities in the operation of the partnership's wells that are drilled outside of the Appalachian Basis or horizontally.

The partnership does not have the right of first refusal in the selection of well locations from the inventory of the managing general partner and its affiliates, and they may sell their well locations to other partnerships, companies, joint ventures or other persons at any time.

There Is a Risk Created by the Lack of Production Data Regarding the Currently Contemplated Drilling Areas. The information in this private placement memorandum regarding the areas where some of the wells proposed to be drilled by the partnership has been prepared by the managing general partner from sources that it believes are reliable. However, there is a risk that the data will not show:

- all the wells drilled in the area; or
- the correct volume of natural gas and oil produced from the wells previously drilled in the area, particularly with respect to wells which have been producing for only a short period of time.

Risk of Potential Depletion of Reserves. Developmental wells are drilled in areas proven by the results of existing wells drilled by the managing general partner or other operators. There is a risk that production from such wells may have partially depleted or drained the reserves that will be targeted by developmental wells drilled by the partnership, thus potentially reducing the volume of oil or natural gas that will be produced by the applicable partnership wells. The potential for partial depletion is one of the many factors the managing general partner will consider in selecting the partnership's wells.

Managing General Partner’s Subordination is not a Guarantee of the Return of Any of Your Investment. If your cumulative cash distributions from your investment result in less than an average 12% annual return for each of the first five 12-month periods of partnership operations beginning with the partnership’s first cash distribution from operations after 75% of the partnership's wells have been drilled, completed and begun generating production revenues, the managing general partner will subordinate its share of the partnership’s net production revenues (that is, the revenues attributable to the Managing General Partner’s 15% working interest in the partnership’s wells) during such five year period up to the amount necessary to achieve such average annual return. The formula by which your average rate of return will be calculated is set out in Section 5.01(b)(4)(ii) of the Amended and Restated Certificate and Agreement of Limited Partnership which is attached as Exhibit (A) to this Memorandum. If the wells produce only a small natural gas and oil volume and/or oil and natural gas prices decrease, then even with subordination your cash flow may be very small and you may not receive a return of 60% (i.e. 12% per annum for five years) of your investment during the subordination period. Also, at any time during the subordination period the managing general partner is entitled to an additional share of partnership revenues to recoup previous subordination distributions to the extent your cash distributions from the partnership exceed the 12% per annum return described above. See Section 5.01(b)(4). “Subordination" in the Agreement of Limited Partnership.

Risk That Borrowings by the Managing General Partner Could Reduce Funds Available for Its Subordination Obligation. The managing general partner anticipates that it will pledge either its partnership interest and/or an undivided interest in the assets of the partnership to secure borrowings for its own corporate purposes. If there was a default to the lender under this pledge arrangement, then this could reduce the amount of the partnership’s net production revenues available to the managing general partner for its subordination obligation to you and the other investors.

Compensation and Fees to the Managing General Partner Regardless of Success of the Partnership’s Activities. The managing general partner and its affiliates may profit from the partnership for their services in drilling, completing and operating the partnership’s wells under the drilling agreement and operating agreement and will receive the other fees described in “Compensation,” regardless of the success of the partnership’s wells.

Risk of Reduced or Delayed Distributions. Although the managing general partner initially intends to, to the extent there is cash flow to distribute, make monthly cash distributions, and has the right to change to quarterly cash distributions, there is a risk that you will not receive cash distributions every period as distributions may be deferred to the extent partnership revenues are used for the following:

- repayment of borrowings;
- costs related to completing some of the wells in additional zones;
- remedial work to improve a well’s producing capability;
- reserves, including a reserve for the estimated costs of eventually plugging and abandoning the wells; or
- indemnification of the managing general partner and its affiliates by the partnership for losses or liabilities incurred in connection with the partnership’s activities.

There is also a risk that distributions from a well the partnership participates in could be delayed for various reasons. For example, units for wells drilled to the Bakken Formation in the Williston Basin can consist of more than a thousand acres with numerous royalty owners and working interest owners. Such wells primarily produce oil and oil purchasers will not begin making payments for the oil they are purchasing until they receive an attorney’s division order title opinion indicating who is entitled to receive such revenues and in what percentages. The high volume of activity in this region has resulted in a backlog of such opinions and delays in their receipt by the oil purchasers. Accordingly, oil purchasers have accumulated payments for oil purchases until the division order title opinion for a well is received.

There is also a risk that low production from the partnership's wells could reduce distributions and potentially result in a loss of investment capital.

Risks Arising From Conflicts of Interest Between Managing General Partner and the Investors. There are potential conflicts of interest between you and the managing general partner and its affiliates, see "Conflicts of Interest". Other than certain guidelines set forth in "Conflicts of Interest," the managing general partner has no established procedures to resolve a conflict of interest.

Risks That Presentment Obligation May Not Be Funded and Repurchase Price May Not Reflect Full Value. Subject to certain conditions, once each year between July 1 and September 30, beginning in the fourth year after the closing of each Offering, you may present your units to the managing general partner for purchase. There is a risk that the managing general partner will determine, in its sole discretion, that it does not have the necessary cash flow or cannot borrow funds for this purpose on reasonable terms. In either event the managing general partner is able to suspend the presentment feature. This risk is further increased because the managing general partner has and will incur similar presentment obligations in connection with other partnerships. Also, the managing general partner may not purchase more than ten percent of the units in any calendar year.

Further, there is a risk that the presentment price may not reflect the full value of the partnership's property or your units because of the difficulty in accurately estimating natural gas and oil reserves. The estimates are merely appraisals of value and may not correspond to realizable value. Reservoir engineering is a subjective process of estimating underground accumulations of natural gas and oil that cannot be measured in an exact way, and the accuracy of the reserve estimate is a function of the quality of the available data and of engineering and geological interpretation and judgment. There can be no assurance that the presentment price paid for your units and any revenues received by you before the presentment will be equal to the purchase price of the units. You might realize a greater return if you retain the units, which you may elect, rather than selling the units to the managing general partner.

The Presentment Feature does not prohibit the sale of your units to the managing general partner, on mutually acceptable terms, at any time before or after the beginning of the fourth year after the closing of this Offering, but the managing general partner is not obligated to make such a purchase.

Risk That the Managing General Partner Will Not Devote the Necessary Time to the Partnership Because Its Management Obligations Are Not Exclusive. The managing general partner must devote the amount of time to the partnership's affairs that it determines is reasonably necessary. However, the managing general partner and its affiliates will be engaged in other natural gas and oil activities and other unrelated business ventures, including real estate activities, for their own account or for the account of others during the term of the partnership, including other partnerships. Thus, there is a risk that the managing general partner will not devote the necessary time to the partnership.

Risk of Prepaying Subscription Proceeds to Managing General Partner. Under the drilling agreement the partnership will be required to immediately pay the managing general partner the investors' share of the entire estimated price for drilling and completing the partnership's wells. Thus, these funds could be subject to claims of the managing general partner's creditors.

Managing General Partner Will Receive Benefit from Development of Partnership Well Locations. Each well location is limited to the drilling or spacing unit permitted by state law or local practice on which one well will be drilled, and the managing general partner may retain interests in the surrounding acreage. The drilling of the partnership wells will provide production and geological information for the surrounding acreage from which the managing general partner can determine the feasibility of drilling wells on the surrounding acreage. However, the partnership will not have the right to, and may not, participate in drilling these wells even if its drilling activities helped determine the value of drilling the wells.

Possible Leasehold Defects. The managing general partner will assign the leases to the partnership without warranting title. There is a risk of title failure.

Transfer of Interests in The Leases and/or Wellbores May Be Subject to Claims Against Managing General Partner Because Leases Will Not Be Transferred Until the Wells Are Completed. Because an assignment of an interest in the lease and/or wellbores will not be made by the managing general partner to the partnership until after the wells are drilled and completed, there is a risk that the transfer could be set aside by a creditor of the managing general partner if it were determined that the managing general partner did not receive reasonable equivalent value for the transfer. In such event, the partnership would receive back no more than the amount it paid for the leases and wells. However, the managing general partner believes the amount being paid by the partnership is fair and reasonable. (See "Proposed Activities - Title to Properties.") Assigning the leases and wells to the partnership after the wells are drilled and completed will not adversely affect the availability of the tax deduction for intangible drilling costs. (See "Federal Income Tax Consequences - Drilling Contracts.)

Risk That Dissolution of the Partnership or Withdrawal or Removal of the Managing General Partner May Have Adverse Effects. If the partnership was dissolved, you could receive a distribution of a direct property interest in the wells and be responsible for the costs and liabilities associated with the property interest. As a joint interest owner, you could have joint and several liability for the obligations or liabilities arising out of joint owner operations. Also, obtaining insurance protection for your property interest or disposing of your property interest might be difficult.

Impact of State and Federal Securities Laws. This offering has not been registered under the Securities Act of 1933. Instead, the partnership in reliance on the "private offering" exemption of Regulation D and exemptions from securities registration under the applicable state securities laws. There is a risk that the offering does not qualify under these exemptions. If suits for rescission are brought for failure to comply with these regulations and laws, then the capital and assets of the managing general partner and the partnership could be adversely affected.

Purchase of Units by Managing General Partner or Its Affiliates. The managing general partner and its officers, directors, and other affiliates may buy units in the partnership equal to the minimum subscriptions which are required for the partnership to begin operations. This creates a risk that you and the other investors will not have the assurance that the minimum subscriptions were bought by unaffiliated third-parties. To the extent that they buy units your voting power will be diluted and there may be a conflict with respect to certain matters.

Risk of Loss From Drilling Hazards. There are numerous possible natural hazards involved in the drilling of wells. These items are not covered by the drilling price and include, for example:

- well craterings and blowouts, fires, and explosions;
- pipeline ruptures or spills and uncontrollable flows of natural gas or well fluids; and
- pollution, releases of toxic gas, accidental leakages, and other environmental hazards and risks.

Any of these hazards may cause damage to property and third-parties such as:

- surface damage;
- bodily injury;
- damage to and loss of equipment;
- reservoir damage; and
- loss of reserves.

If there are uninsured liabilities, then this will reduce the funds available to the partnership and may result in the loss of partnership properties. Also, if you invest as an investor general partner, then you may be liable for these claims.

In 2013, a well being drilled in Oklahoma for USEDC OKC, LLC, an affiliate of U.S. Energy, by NOMAC Drilling, L.L.C. ("NOMAC) was damaged. U.S. Energy believes the damage was caused by the negligence of NOMAC. NOMAC contends that it was not negligent and that, it if were, the industry standard drilling contract under which it was operating excuses it from liability. U.S. Energy and USEDC OKC, LLC dispute that contention. The well can, and will, be repaired. Responsibility for the cost of the repair will be determined. To date, U.S. Energy has paid the legal fees related to the dispute with NOMAC over such responsibility.

Risk of Pollution and Environmental Liabilities. The partnership may be subject to liability for pollution and environmental damage as described above in "Risk of Loss from Drilling Hazards." Thus, if you invest as an investor general partner you might become liable for environmental claims that arose during drilling activities, including claims that were not discovered until after you converted to limited partner status. Also, certain environmental claims may not be covered by insurance.

There is a risk that environmental regulatory matters may:

- substantially increase the partnership's cost of doing business;

- cause delays in the drilling and completion of the partnership's wells;
- cause delays in producing natural gas and oil from the partnership's wells; or
- require modifying operations in certain areas.

In 2012, the New York Department of Environmental Conservation alleged that environmental laws had been violated as a result of silt, from U.S. Energy well sites under construction in Pennsylvania, entering a brook in Pennsylvania during periods of heavy rain, which brook then flowed into New York. U.S. Energy believes there are factual, legal and jurisdictional issues with such allegations and, following U.S. Energy's initial response to the allegations, the Department dropped the allegations involving the majority of its monetary claims. U.S. Energy is responding to the remaining allegations without any cost to the partnerships involved in the subject wells. Also in 2012, the Pennsylvania Department of Environmental Protection alleged U.S. Energy committed certain violations relating to the failure to use best management practices with respect to erosion and sedimentation controls. U.S. Energy has resolved such allegations with the Department. This resulted in the delay of completion activities at certain Pennsylvania wells owned by other partnerships.

Risk of Litigation Over Alleged Water Contamination. Recently there has been increased criticism of the oil and gas industry and particularly of the process of hydrofracturing, which critics claim has adversely impacted nearby aquifers, an allegation which the industry strongly denies. Hydrofracturing has been in use for more than 60 years as a means of enhancing production from wells, and is likely to be used in partnership wells. If area property owners experience water quality issues, there is the possibility of litigation against the Partnership. If the Partnership's wells were determined to have caused or contributed to such issues, the risks would be the same as those described under Risk of Pollution and Environmental Liabilities.

In April, 2011, U.S. Energy was named as a defendant in a lawsuit alleging that it's drilling and completion activities had damaged the water supply at area properties. Prior to the commencement of litigation the New York State Department of Environmental Conservation had investigated the complaint and determined the alleged problems were not the result of U.S. Energy's activities. The lawsuit is being defended by U.S. Energy and its insurance carrier without cost to the partnerships involved in the area gas wells. The attorney for the plaintiffs in the April 2011 case subsequently commenced three additional, similar cases against U.S. Energy. U.S. Energy believes these cases are also without merit and they are being defended without cost to the partnerships involved in the gas wells in the area of the applicable properties. One other case alleging water pollution was commenced against U.S. Energy in 2012. Similarly, U.S. Energy believes this case is without merit and it is being defended by U.S. Energy and its insurance carrier without cost to the partnerships involved in the gas wells in the area of the applicable property.

Risks Resulting From Changes In Laws, Rules or Regulations or the Enforcement Thereof. The activities of the partnerships will be subject to numerous laws, rules and regulations which are enforced on the federal, state and local levels. Changes to such laws, rules or regulations or the method of their enforcement could affect the costs, timing, associated risks, or ability to conduct partnership activities, as well as the profitability of the partnership. The managing general partner cannot control the possibility of such changes.

Risks Related to Potential Availability of Master Limited Partnership. The managing general partner has identified, as a potential investment objective, the possibility of the partnerships eventually participating in a master limited partnership ("MLP") it is contemplating (see Investment Objectives starting on page 19). Participation would involve the exchange of the percentage of partnership assets attributable to the participants who elect to participate in the MLP for units of ownership of the MLP. The number of MLP units the participants would receive would be determined by an appraisal of the partnership's assets.

In light of the discussion of the potential MLP opportunity under the heading Investment Objectives, the availability of participation in a MLP cannot be considered a certainty.

Tax Risks of the Partnership

The Tax Benefits of an Investment in the Partnership are not Guaranteed. An investment in the partnership may be affected by future changes in the tax rates. President Obama has proposed various changes to the tax treatment of oil and gas investments, including elimination of the intangible drilling cost and depletion deductions, which, had they been enacted, could have adversely affected an investment in the partnership. Such changes could be enacted in the future.

You May Owe Taxes in Excess of Your Cash Distributions from the Partnership. There is a risk that you may become subject to income tax liability in excess of cash actually received from the partnership. For example:

- if the partnership borrows money your share of partnership revenues used to pay principal on the loan will be included in your taxable income from the partnership and will not be deductible;

- taxable income or gain may be allocated to you if there is a deficit in your capital account even though you do not receive a corresponding distribution of partnership revenues;

- partnership revenues may be expended by the managing general partner for non-deductible costs or retained to establish a reserve for future estimated costs, including a reserve for the estimated costs of eventually plugging and abandoning the wells; and

- the taxable disposition of partnership property or your units may result in income tax liability in excess of cash distributions.

To the extent the partnership has cash available for distribution, however, it is the managing general partner's policy that partnership distributions will not be less than the managing general partner's estimate of the investors' income tax liability with respect to partnership income.

Your Deduction for Intangible Drilling Costs May Be Limited for Purposes of the Alternative Minimum Tax. GP Investors, and potentially LP/LLC Investors, will be allocated a share of your partnership's deduction for intangible drilling costs. However, alternative minimum taxable income of most investors cannot be reduced by more than 40% by the deduction for intangible drilling costs.

A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015. The partnership will prepay at least that portion of the subscription proceeds attributable to intangible drilling costs to U.S. Energy, as the operator for the partnership, on or before December 31, 2014. A current year tax deduction (i.e. a 2014 deduction) for the entire amount of prepaid Intangible Drilling Costs is available only if (a) the amount of the Intangible Drilling Costs can be determined, in the current year, with reasonable accuracy and (b) drilling of the wells begins before the close of the 90th day after the close of the taxable year (i.e. March 31) and is continuously pursued. The managing general partner believes the Authorities For Expenditure (AFEs), which will be exhibits to the Drilling Agreement, accurately represent the amount of Intangible Drilling Costs that will be incurred and intends to base the 2014 deductions for Intangible Drilling Costs for GP Investors on such AFEs. Since the wells are being drilled on the basis of actual cost plus, it is possible that the actual amount of Intangible Drilling Costs for a partnership well will vary from the AFE. It is also possible that the Internal Revenue Service could challenge the position that the amount of the Intangible Drilling Costs are capable of being determined with reasonable accuracy.

For wells being drilled on a cost plus basis, a current year tax deduction for prepaid Intangible Drilling Costs is also available for those services for which there is a reasonable expectation will be completed within three and one half months after the date of payment (i.e. by April 15, 2015 if prepayment occurs on December 31, 2014). Accordingly, if the drilling of a well does not commence by March 31st, a current year tax deduction for prepaid Intangible Drilling Costs may still be available for those Intangible Drilling Cost services that are reasonably expected to be completed within three and one half months following the date of payment. Deductions for all other Intangible Drilling Costs would be deferred until the following tax year.

Limited Partners Need Passive Income to Use Their Deduction for Intangible Drilling Costs. If you invest in the partnership as a limited partner, other than for certain Type C corporations, your share, if any (the net subscription proceeds of LP/LLC Investors, including persons who invest as limited partners, will be applied first to the payment of lease and tangible expenses and will only be applied to intangible drilling costs to the extent the amount contributed by LP/LLC Investors exceeds total lease and tangible costs), of the partnership's deduction for intangible drilling costs in 2014 will be a passive loss that cannot be used to offset "active" income, such as salary and bonuses or portfolio income like dividends and interest income. Thus, you may not have sufficient passive income from the partnership, or net passive income from your other passive activities if any, in 2014, to offset a portion or all of your passive deduction for intangible drilling costs in 2014. However, any unused passive loss from intangible drilling costs may be carried forward indefinitely to offset your passive income in subsequent years.

Lack of Filing as a Reportable Transaction (Tax Shelter). The managing general partner believes that the partnership is not a reportable transaction required to be disclosed to the IRS. If it is subsequently determined by the IRS or the courts that the partnership was required to be disclosed to the IRS as a reportable transaction, you could be liable for a penalty of up to thirty percent (30%) of the your income tax savings as a result of your participation in the Partnership.

Risks Related to an IRS Audit. While the IRS has not audited prior limited partnerships sponsored by the managing general partner, the IRS may audit the partnership's annual federal information income tax return and, if it does, may challenge the amount of the partnership's deductions and the taxable year in which the deductions were claimed. If your partnership is audited, the IRS may also audit your personal federal income tax returns, including prior years' returns and items that are unrelated to the partnership.

ADDITIONAL INFORMATION

The following is a list of documents relating to each of the offerings and the partnerships which will be made available to you if you request them in writing from the managing general partner:

- opinion of counsel as to the legality of the units;
- articles of incorporation and bylaws of the managing general partner;
- dealer-manager agreement;
- escrow agreement; and insurance policies.

Because statements in this private placement memorandum concerning the contents of any document are summaries of relevant portions of such documents and not necessarily of the entire document, you are urged to read the document for a complete description of its terms. Also, to the extent you and your purchaser representative, if any, deem it necessary to verify the accuracy of the information referred to in this private placement memorandum, then you are invited to:

- ask questions of, and receive answers from, the managing general partner; and
- obtain information concerning the terms and conditions of the offering, to the extent the managing general partner possesses the information or can acquire it with reasonable effort or expense.

This private placement memorandum does not intentionally omit any material fact, or contain any untrue statement of a material fact. No one has been authorized to give you any information or make any agreement which is not expressly stated in this private placement memorandum, or authorized by the foregoing right to request additional information from the managing general partner.

FORWARD LOOKING STATEMENTS AND ASSOCIATED RISKS

Statements, other than statements of historical facts, included in this private placement memorandum and its exhibits address activities, events or developments that the managing general partner and the partnership anticipate will or may occur in the future. These forward-looking statements include such things as:

- investment objectives;
- business strategy;
- estimated future capital expenditures;
- competitive strengths and goals;
- references to future success; and
- other similar matters.

These statements are based on certain assumptions and analyses made by the partnerships and the managing general partner in light of their experience and their perception of historical trends, current conditions and expected future developments. However, whether actual results will conform with these expectations is subject to a number of risks and uncertainties, many of which are beyond the control of the partnership, including:

- general economic, market or business conditions;
- changes in laws or regulations;
- the risk that the wells are productive but do not produce enough revenue to return the investment made;
- the risk that the wells are dry holes;
- uncertainties concerning the price of natural gas and oil; and
- other risks.

Thus, all of the forward-looking statements made in this private placement memorandum and its exhibits are qualified by these cautionary statements. There can be no assurance that actual results will conform with the managing general partner's and the partnership's expectations.

INVESTMENT OBJECTIVES

The partnership's principal investment objectives are to invest its subscription proceeds primarily in developmental wells which will:

- **Cash Distributions.** Provide monthly cash distributions to you beginning approximately 12 months after the closing of the partnership (which may be delayed in the discretion of the managing general partner until sufficient partnership production revenues are received), for the first year, which may, in the managing general partner's discretion, be changed to quarterly thereafter, until the wells are depleted with a preferred average annual cash flow of 12% during the first five years of distributions after seventy five percent of the partnership's wells are generating production revenues, based on cumulative distributions and your original subscription amount. The preferred return and its calculation are described in Section 5.01(b)(4) of the Amended and Restated Certificate and Agreement of Limited Partnership that is attached as Exhibit (A) to this Memorandum. You should review that Section for a more complete explanation of this feature.

- **Tax Deductions.** Prepay funds attributable to intangible drilling costs on or before December 31, 2014 to obtain tax deductions in 2014, for GP Investors, from intangible drilling costs to offset a portion of your taxable income. If the drilling of all of a Partnership's wells is begun by March 31, 2015 or completed by within three and one half months of the date of prepayment, one unit will produce a 2014 tax deduction of from approximately $32,000 to up to $36,800 (if 92% of your investment is applied to the payment of intangible drilling costs), against ordinary income if you invest as an investor general partner and if the Partnership is able to borrow funds to apply to the payment of lease and tangible equipment expenses (if there are no LP/LLC Investors in a Partnership and the Partnership does not borrow any funds to pay lease acquisition and tangible equipment expenses, the tax deduction would be approximately $27,600). If 92% of your investment is applied to the payment of intangible drilling costs and you are in the 39.6%, 35% or 33% tax bracket for 2014, then one unit will save you up to approximately $14,573, $12,880 or $12,144 per unit respectively in federal taxes this year. Most states also allow this type of a deduction against the state income tax. For wells that are not commenced by March 31, 2015, with continuous operations thereafter, the deduction for intangible drilling costs with respect to any services that were not reasonably expected to be completed within three and one half months of the date of prepayment (i.e. April 15, 2015 if prepayment is made on December 31, 2014) will be deferred to the 2015 tax year. (If the offering for Genesis Drilling Program VII LP does not commence until after December 31, 2014, the dates in this paragraph with respect to that partnership will be one year later.)

- **Depletion Allowance.** Offset a portion of gross production income generated by the partnership with tax deductions from percentage depletion which currently is 15%. However, for wells that produce 15 barrels or less of oil per day or 90 mcf or less of natural gas per day, this rate fluctuates from year to year depending on the price of oil, but will not be less than 15% nor more than 25%. Depletion will be allocated among the investors, including the LLC, based upon their interest in partnership revenues.

- **Potential Master Limited Partnership Opportunity.** The managing general partner is contemplating the formation of a master limited partnership ("MLP"). If the managing general partner proceeds, participation in the MLP would initially be offered to participants in certain limited partnerships sponsored by the managing general partner in 2009 and earlier. As is the situation with the partnerships described in this memorandum, a majority by ownership of the participants in a partnership must elect to participate in the MLP for the assets of that partnership to be rolled into the MLP, and only those participants who elect to do so will be included in the MLP. If the managing general partner decides to proceed and if a sufficient number of the participants in the prior partnerships elect to participate, the MLP will be formed. By combining the assets of several partnerships into a MLP, the MLP may have sufficient value to allow it to participate in new drilling and other projects. If a MLP is formed, the managing general partner may periodically thereafter offer participation in the MLP to participants in certain partnerships it sponsored subsequent to 2009, including potentially the partnerships discussed in this memorandum. It is also possible that if a MLP is formed, the MLP may become involved in an initial public offering, which would require a separate securities offering, and which, if successful, would allow units in the MLP to become publically traded, potentially providing greater liquidity for the MLP unit owners.

Attainment of the partnership's investment objectives will depend on many factors, including the ability of the managing general partner to select suitable wells which will be productive and produce enough revenue to return the investment made. The success of the partnership depends largely on future economic conditions, especially the future price of natural gas and oil which is volatile and may decrease. There can be no guarantee that the foregoing objectives will be attained.

ACTIONS TO BE TAKEN BY MANAGING GENERAL PARTNER TO REDUCE RISKS OF ADDITIONAL PAYMENTS BY INVESTOR GENERAL PARTNERS

Non-Qualified Participants may choose to invest as an investor general partner so that you can receive an immediate tax deduction against any type of income. To help reduce the risk that you and other investor general partners could be required to make additional payments to the partnership, the managing general partner will take the actions set forth below:

- **Insurance.** Each Partnership will have the benefit of liability insurance coverage maintained by U.S. Energy during and after drilling operations. Effective limits are $25,000,000 for pollution and general liability claims. All third party operators will also be required to maintain insurance coverage. Additionally, each partnership will have the benefit of the liability insurance coverage maintained by the subcontractors involved. Also, when deemed appropriate on a well by well basis each partnership will have the benefit of well control insurance. It is anticipated that such coverage will be in place for each partnership well.

- **Conversion of Investor General Partner Units to Limited Partner Units.** Your investor general partner units will be automatically converted by the managing general partner to limited partner units after substantially all of the partnership wells have been drilled and completed. The managing general partner anticipates conversion in the fall of 2015. (If the offering for Genesis Drilling

Program VII LP does not commence until after December 31, 2014, the anticipated time for conversion would be the fall of 2016.)

Once your units are converted you will have the lesser liability of a limited partner under Delaware law for obligations and liabilities arising after the conversion. However, you will continue to have the responsibilities of a general partner for partnership liabilities and obligations incurred before the effective date of the conversion. For example, you might become liable for partnership obligations in excess of your subscription during the time the partnership is engaged in drilling activities and for environmental claims that arose during drilling activities but were not discovered until after conversion.

- **Nonrecourse Debt.** The partnership will be permitted to borrow funds only without recourse against your non-partnership assets. Thus, if there is a default under this loan arrangement you cannot be required to contribute funds to the partnership. Any borrowings will be repaid from partnership revenues.

  The amount that may be borrowed at any one time may not exceed an amount equal to 15% of the investors' subscriptions. Because you do not bear the risk of repaying these borrowings with non-partnership assets, the borrowings will not increase the extent to which you are allowed to deduct your individual share of partnership losses.

- **Indemnification.** The managing general partner will indemnify you from any liability incurred in connection with the partnership which is in excess of:

  - your interest in the undistributed net assets of the partnership; and

  - insurance proceeds, if any.

  The managing general partner's indemnification obligation, however, will not eliminate your potential liability if the insurance is not sufficient or available to cover a liability and the managing general partner's assets are insufficient to satisfy its indemnification obligation. There can be no assurance that the managing general partner's assets, including its liquid assets, will be sufficient to satisfy its indemnification obligation.

CAPITALIZATION AND SOURCE OF FUNDS AND USE OF PROCEEDS

Source of Funds

On completion of the offerings, the capital contributions to each of Genesis Drilling Program V LP and Genesis Drilling Program VII LP of you and the other investors will range from $480,000 (12 Units), being the minimum amount for each offering to $50,000,000 (1,250 Units), and up to $57,500,000 (1437.5 Units) if the managing general partner authorizes an over-subscription addition. For Genesis Drilling Program VI LP the capital contributions of Investors would range from $480,000 (12 Units) if the minimum was obtained, to $150,000,000 (3,750

Units) if the maximum was obtained, to up to $172,500,000 (4,312.5 Units) if the managing general partner authorizes an over-subscription addition.

The Managing General Partner, for its capital contribution to the partnerships, will pay the offering, organization and syndication costs which exceed the amounts contributed thereto by the investors, which will be approximately four percent of the total amount invested. Accordingly, the capital contributions of the Managing General Partner will range from approximately:

- $19,200 if 12 units are sold;

  to

- $2,000,000 if 1250 units are sold;

  to

- $2,300,000 if 1437.5 units are sold;

  to

- $6,000,000 if 3750 units are sold;

  to

- $6,900,000 if 4312.5 units are sold.

In addition to its capital contributions described above, the managing general partner may, primarily for wells it is the operator of, pay the costs of constructing, and would then own separate from the partnership, gathering lines to transport the partnership's gas from its wells as discussed in "Proposed Activities."

Use of Proceeds

The subscription proceeds received from the GP Investors are intended to be used to pay 100% of each partnership's share of the intangible drilling costs of drilling and completing the wells, and a portion of the sales commissions, due diligence and related expenses for the offering. If the subscriptions from LP/LLC Investors and loan proceeds from any partnership borrowings are insufficient to pay all of the equipment and lease acquisition costs of a partnership's wells, then a portion of the subscription proceeds from the GP Investors will be applied to the payment of tangible drilling and lease acquisition costs.

The subscription proceeds received from the LP/LLC Investors are intended to be used to pay each partnership's share of the equipment and lease acquisition costs of drilling, completing and equipping the wells (100% of such expenses if sufficient subscriptions are received) and a portion of the sales commissions, due diligence and related expenses for the offering. If the net subscription proceeds received from the LP/LLC Investors exceed the amount needed to pay all equipment and lease acquisition costs, the excess amount will be applied to the payment of intangible drilling costs.

The Managing General Partner will pay the balance of the partnership's organization and offering costs.

The following tables present information concerning the partnership's use of the proceeds provided by both the investors and the managing general partner. Substantially all of the proceeds available to the partnership will be expended for the following purposes and in the following manner (the tables do not allocate expenses between GP Investors and LP/LLC Investors nor do they reflect the use of any partnership loan proceeds to pay a portion of the Equipment and Lease Costs; which would increase the percentage of Investor Capital applied to the payment of Intangible Drilling Costs). The tables assume that 75% of the cost of each partnership's wells will be for intangible drilling costs.

INVESTOR CAPITAL

ENTITY RECEIVING PAYMENT	NATURE OF PAYMENT	12 UNITS SOLD	%[1]	1250 UNITS SOLD	%[1]	1437.5 UNITS SOLD	%[1]	3750 UNITS SOLD	%[1]	4312.5 UNITS SOLD	%[1]
Organization and Offering Expenses:											
Broker-Dealers and Various	Dealer-Manager fee, Sales Commissions, Due Diligence and Marketing fees	$38,400	8%	$4,000,000	8%	$4,600,000	8%	$12,000,000	8%	$13,800,000	8%
Amount Available for Investment:											
Managing General Partner	Intangible Drilling Costs	$331,200	69%	$34,500,000	69%	$39,675,000	69%	$103,500,000	69%	$119,025,000	69%
Managing General Partner	Equipment and Lease Costs	$110,400	23%	$11,500,000	23%	$13,225,000	23%	$34,500,000	23%	$39,675,000	23%
Total Investor Capital:		$480,000	100%	$50,000,000	100%	$57,500,000	100%	$150,000,000	100%	$172,500,000	100%

1 Denotes percentage amount that the items represent to the total capital contribution of the Participants.

MANAGING GENERAL PARTNER CAPITAL

ENTITY RECEIVING PAYMENT	NATURE OF PAYMENT	12 UNITS SOLD	%[2]	1250 UNITS SOLD	%[2]	1437.5 UNITS SOLD	%[2]	3750 UNITS SOLD	%[2]	4312.5 UNITS SOLD	%[2]
Organization and Offering Expenses:											
Broker-Dealers and Various	Dealer-Manager fee, Sales Commissions, Due Diligence and Marketing Fees and Organization Costs	$19,200	100%	$2,000,000	100%	$2,300,000	100%	$6,000,000	100%	$6,900,000	100%

2 Denotes percentage amount that the items represent relative to the total capital contribution of the managing general partner.

Subsequent Source of Funds and Borrowings

Substantially all the subscription proceeds of you and the other investors will be committed or expended after the offering closes. If the partnership requires additional funds for completing some of the wells in additional zones, or additional development or remedial work is required for a well after it begins producing, then these funds may be provided by:

- partnership revenues;
- borrowings from third-parties; or
- borrowings from the managing general partner or its affiliates, although the managing general partner is not contractually committed to loan money to the partnership.

The amount that may be borrowed by the partnership may not at any time exceed 15% of the partnership's subscription proceeds from you and the other investors and must be without recourse to you and the other investors. It is anticipated that each partnership will borrow up to this percentage with the loan proceeds being used to pay lease acquisition and equipment expenses. The partnership's repayment of any borrowings would be from partnership production revenues and would reduce or delay your cash distributions. If the managing general partner loans money to the partnership, then:

- the interest charged to the partnership must not exceed the managing general partner's interest cost or the interest that would be charged to the partnership without reference to the managing general partner's financial abilities or guarantees by unrelated lenders, on comparable loans for the same purpose; and
- the managing general partner may not receive points or other financing charges or fees although the actual amount of the charges incurred from third-party lenders may be reimbursed to the managing general partner.

COMPENSATION

The items of compensation paid to the managing general partner and its affiliates from the partnership are set forth below.

Oil and Natural Gas Revenues

The managing general partner will be allocated 15% of the oil and natural gas revenues of the partnership in return for paying the costs described in "Participation in Costs and Revenues." Irrespective of the cost or market value of the contributions from the managing general partner, the managing general partner's revenue will be limited to such percentage.

Incentive Management Fee

If cumulative distributions to the participants equal 100% of the amount invested by the participants (defined as “Payout”) U.S. Energy shall earn an incentive management fee. The incentive management fee shall be paid by admitting an affiliate of the managing general partner to the partnership and issuing to such affiliate the number of units (including a fraction of a unit if necessary), a portion of which will be assigned by such affiliate to U.S. Energy, required to result in the managing general partner receiving 15%, and such affiliate receiving 10%, of partnership revenues after Payout. Any deduction for tax purposes arising from the payment of the incentive management fee shall be allocated to such affiliate. The right of U.S. Energy to receive the incentive management fee shall not be affected by its resignation or removal as managing general partner.

Lease Costs

The partnerships will acquire from the Managing General Partner, or the Managing General Partner will acquire on behalf of the partnerships, the necessary interests in undeveloped oil and gas leases for the partnership’s wells to be drilled. Such leasehold interests will be acquired for fair market value. Factors which may be considered in determining fair market value include:

- the price involved in the sale of comparable leasehold interests in the same geographic area;
- geological, geophysical, seismic, and engineering expenses relating to the leasehold acreage;
- lease acquisition expenses;
- rentals and ad valorem taxes paid to maintain the lease;
- interest expense;
- administration and overhead expenses;
- legal expense including expenses related to title examination; and
- expenses for other like services related to the leasehold interests, determined using industry standards.

This creates a potential conflict of interest because the Managing General Partner will determine the fair market value of the leasehold interests the partnerships will acquire from the Managing General Partner. However, the managing general partner will endeavor to use one or more of the sources of information above and will exercise reasonable discretion in determining the fair market value of such leases.

In addition, the development of wells on the acreage may provide the managing general partner with offset drill sites by allowing it to ascertain at the partnership’s expense the value of adjacent acreage in which the partnership would not have any interest.

Drilling Contracts

The partnership will enter into drilling agreements including with the managing general partner, to drill and complete the partnership's wells. The proposed form of the Drilling Agreement with the managing general partner is set forth in Exhibit (II) to the partnership agreement. Drilling and completion costs charged to the partnership will be based on a price equal to the actual cost to the Managing General Partner for services and materials provided by unrelated third parties and equal to the prevailing industry rate for the geographic area involved for services provided by the Managing General Partner, plus five percent (5%).

In order to obtain an intangible drilling cost tax deduction for 2014, the net amount available to the partnerships for investment in partnership wells must be paid over to the drilling contractor (the Managing General Partner or another entity) on or before December 31, 2014. It is possible that the amount of such funds attributable to GP Investors that will be applied to the payment of equipment and lease acquisition costs, if any, will not be known by that date since the amount, if any, the partnership will borrow, or will be able to borrow, to pay equipment and lease acquisition costs will not be known. Also, drilling must commence by March 31, 2015. (See "A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015). The partnerships will elect to participate in various wells, as selected by the Managing General Partner, based upon the estimated cost of drilling, completing and equipping such wells. The price a partnership pays for its interest in its wells will be determined based upon actual cost which is likely to vary, sometimes significantly, from the estimated cost. Accordingly, the interests which a partnership acquires in its wells, as well as the identity of the wells, may be adjusted as a result of actual costs. This creates a potential conflict of interest since, if the interest of a partnership in a well is adjusted downward, it is likely that the Managing General Partner may pay the amount attributable to the remaining interest and acquire that interest. Changes in the cost to drill, complete and equip a well can occur for many reasons. For example, in horizontal wells the extent of drilling and completion activities frequently changes as information is obtained during the drilling process.

If a decision is made not to complete a well in which a partnership has elected to participate, the remaining funds allocated to that well will be applied to another well, or wells, or returned to the partnership.

Per Well Charges

Under the operating agreement when the wells begin producing the managing general partner may receive the following from the partnership:

- reimbursement at actual cost for all direct expenses incurred on behalf of the partnership; and

- fees for operating and maintaining the wells during producing operations at a competitive rate for wells which the managing general partner operates, to be set out in an Operating Agreement between the partnership and the managing general partner; or

- fees for supervising the operation and maintenance of wells that are operated by third parties.

The well operating fees will be proportionately reduced to the extent a partnership acquires less than 100% of the interest in the well, and may be adjusted for inflation annually beginning January 1, 2016. Well charges will depend on the owner and operator. If a third party operator is involved the managing general partner shall receive a fee for supervising such activities of $250 per well per month, which will also be proportionately reduced to the extent a partnership acquires less than 100% of the interest in the well. In addition to applicable costs incurred in such well locations, the managing general partner will receive, pursuant to the Partnership Agreement, $500 per well per month, for administrative fees. The monthly administrative fees will be proportionately reduced if the partnership acquires less than 100% of the interest in the well but there will be a minimum monthly administrative fee of $200 per well.

The well supervision fee covers all normal and regularly recurring operating expenses for the production, delivery and sale of natural gas and oil, such as:

- well tending, routine maintenance and adjustment;
- reading meters, recording production, pumping, maintaining appropriate books and records;
- preparing reports to the partnership and to government agencies; and
- collecting and disbursing revenues.

The well supervision fees do not include such things as:

- non-routine maintenance costs;
- water hauling;
- compression;
- natural gas treatment;
- rebuilding of roads; and
- third-party charges for services.

These costs will be charged to the partnership at the invoice cost of the materials purchased or the third-party services performed.

Overriding Royalty

The managing general partner will receive a 3.125% overriding royalty interest in the partnerships' wells.

Dealer-Manager and Sales Fees

Westmoreland Capital, an affiliate of the managing general partner which serves as the dealer-manager, subject to the limits set forth in "Plan of Distribution," may potentially receive on each unit sold to an investor: a dealer-manager fee of up to 2%; a sales commission of 7% a due diligence fee of 0.5%; and a marketing expense fee of 0.5%. Thus the dealer-manager may receive aggregate fees of up to 10% (of which 8% is paid by the investors), as follows:

- $48,000 if $480,000 is received;
- $5,000,000 if $50,000,000 is received;
- $5,750,000 if $57,500,000 is received;
- $15,000,000 if $150,000,000 is received; and
- $17,250,000 if $172,500,000 is received.

All or a portion of the sales commissions, due diligence and marketing expense fees may be reallocated to its selling agents and the sales commission and due diligence fee may also be adjusted provided that the combined amount thereof shall not exceed 7.5%. Also, the dealer-manager may make direct sales as a selling agent and receive all the commissions and fees set forth above.

Westmoreland Capital, except for direct sales, intends to reallocate all sales commissions, due diligence and marketing expense fees to its selling agents and only receive dealer-manager fees on units sold.

The managing general partner also reserves the right to assign a portion of its partnership working interest of up to a 0.75% working interest to the dealer-manager which may be reallocated to certain selected broker/dealers, subject to acceptance by such broker/dealers. Any such assignment shall be subject to revocation by the managing general partner, including, but not limited to, when revenues attributable to such working interest, or fractional part thereof, attain a maximum cumulative amount established by the managing general partner, which shall not exceed 2% of the amount of investor subscriptions. A broker/dealer receiving and accepting such an assignment may reassign such interest to one or more of its registered representatives subject to the revocation rights of the managing general partner.

Gathering Fees

The managing general partner may pay the cost of installing gathering lines and developing a gathering system for the natural gas production from the partnership wells. In such instances the managing general partner will own these gathering lines and system, but will provide their use to the partnership for the life of the partnership and may charge a competitive gathering fee for the use of the gathering system. If the managing general partner is removed as managing general partner by the investors, however, it will charge the partnership a gathering fee at a competitive rate. If compression is required on the managing general partner's gathering system, the managing general partner will install the same and charge the partnership a compression fee.

Also, if other companies' existing pipeline and/or compression facilities are used by a partnership, then the partnership may pay a gathering and marketing fee plus compression fee if utilized. These fees will be proportionately reduced to the extent a partnership acquires less than 100% of the interest in the wells.

Interest and Other Compensation

The managing general partner or an affiliate will have the right to charge a competitive rate of interest and fees on any loan it may make to or on behalf of the partnership. If the managing general partner provides equipment, supplies and other services to the partnership, then it may do so at competitive industry rates.

Estimate of Administrative Costs and Direct Costs to be Borne by the Partnership

Pursuant to the partnership agreement the managing general partner and its affiliates will receive from the partnership an unaccountable, fixed payment reimbursement for their administrative costs which has been determined by the managing general partner to be $500 per well per month. This fee will be proportionately reduced to the extent the partnership acquires less than 100% of the interest in the well, provided that the minimum fee will be $200 per month, and may be adjusted for inflation annually beginning January 1, 2016. This fee will not be received for plugged and abandoned wells.

Direct costs incurred on behalf of the partnership will be billed directly to and paid by the partnership to the extent practicable. The anticipated costs set forth above for the partnership's first 12 months of operation after all of its wells have been placed into production may vary from the estimates shown for numerous reasons which cannot accurately be predicted. These reasons include:

- the number of investors;
- the number of wells drilled;
- the partnership's degree of success in its activities;
- the extent of any production problems;
- inflation; and
- various other factors involving the administration of the partnership.

TERMS OF THE OFFERING

Subscription to the Partnership

Each partnership will offer a minimum of 12 units. The maximum number of units will be 1437.5 (including the over-subscription allotment) for Genesis Drilling Program V LP and Genesis Drilling Program VII LP, and 4312.5 (including the over-subscription allotment) for Genesis Drilling Program VI LP.

Units in the partnership are offered to a limited number of select persons (see "Suitability Standards," below) at a subscription price of $40,000 per unit, and must be paid 100% in cash at the time of subscribing. Your minimum subscription is one unit, however, partial units may be accepted in the managing general partner's discretion. Larger subscriptions will be accepted in $1,000 increments.

Non-Qualified Participants who invest as investor general partners or as limited partners will be a partner only in the partnership in which they invest. Qualified Entity investors and Non-Qualified Participants who invest as members of an LLC will only be a member of the LLC associated with the partnership in which they invest.

The managing general partner will have exclusive management authority for the partnership and for the associated LLC.

Partnership Closings and Escrow

The offering period for Genesis Drilling Program V LP will begin on or after the date of this private placement memorandum, and will end on or before September 30, 2014, subject to extension by the managing general partner, but no later than December 31, 2014. The offering period for Genesis Drilling Program VI LP will commence, in the discretion of the managing general partner, on a date subsequent to the opening date of the Genesis Drilling Program V LP offering, and will end on or before December 31, 2014. The offering period for Genesis Drilling Program VII LP will commence, in the discretion of the managing general partner, on a date subsequent to the opening date of the Genesis Drilling Program VI LP offering. If commenced, the Genesis Drilling Program VII LP offering will end no later than December 31st of the calendar year in which the offering commenced.

No subscriptions to a partnership will be accepted after the first to occur of:

- the receipt of the maximum subscriptions of 1,250 Units, increasing to 1,437.5 Units assuming the managing general partner authorizes an over-subscription allotment of 187.5 additional Units, for Genesis Drilling Program V LP and for Genesis Drilling Program VII LP;

- the receipt of the maximum subscriptions of 3750 Units, increasing to 4,312.5 Units assuming the managing general partner authorizes an over-subscription allotment of 562.5 additional Units, for Genesis Drilling Program VI LP;

- the close of the offering by the managing general partner.

If subscriptions for the minimum subscriptions are not received by the closing date, then the sums deposited in the escrow accounts will be returned to you and the other subscribers with interest and without deduction for any fees. Although they do not currently anticipate doing so, the managing general partner and its affiliates have reserved the right to buy up to 12 units which will be applied to satisfy the $480,000 minimum, and without the managing general partner paying the dealer-manager fee, sales commissions, due diligence fee, and marketing expense fee.

Subscription proceeds will be held in a separate interest bearing escrow accounts at RBS Citizens Bank until the receipt of the minimum subscriptions. On receipt of the minimum subscriptions, the partnership will break escrow. The partnership may, in the managing general partner's sole discretion, begin all activities, including drilling, after breaking escrow. After breaking escrow the partnership funds and additional subscription proceeds may be paid directly to the managing general partner.

You will receive interest on your subscription from the time you subscribe up until two weeks before the partnership breaks escrow at the rate paid by RBS Citizens Bank. The interest will be paid to you approximately two months after the offering closes.

During the partnership's escrow period its subscription receipts may be invested only in bank deposit accounts, including accounts secured by securities of the United States government. After the funds are transferred to the managing general partner and before their use in partnership operations, they may be temporarily invested in income producing short-term, highly liquid investments, in which there is appropriate safety of principal, such as U.S. Treasury Bills. If the managing general partner determines that the partnership may be deemed an investment company under the Investment Company Act of 1940, then the investment activity will cease.

Acceptance of Subscriptions

Your execution of the subscription agreement constitutes your offer to buy units in the partnership, or become a member of the applicable LLC, and to hold the offer open until either:

- your subscription is accepted or rejected by the managing general partner or
- you withdraw your offer.

To withdraw your offer you must give written notice to the managing general partner before your offer is accepted by the managing general partner. Your subscription will be accepted or rejected by the partnership within 30 days of its receipt. The managing general partner's acceptance of your subscription is discretionary and the managing general partner may reject your subscription for any reason without incurring any liability to you for this decision. If your subscription is rejected, then all of your funds will be promptly returned to you with any interest earned on your subscription.

If you are a Non-Qualified Participant who subscribes as an GP Investor or as a limited partner and your subscription is accepted before breaking escrow, then you will be admitted to the partnership not later than 15 days after the release from escrow of the investors' funds to the partnership. If your subscription is accepted after breaking escrow, then you will be admitted to the partnership not later than the last day of the calendar month in which your subscription was accepted by the partnership.

If you are a Qualified Entity or a Non-Qualified Participant who subscribes as a member of a LLC and your subscription is accepted before breaking escrow, then you will become a member of the applicable LLC not later than 15 days after the release from escrow of the investors' funds to the partnership. If your subscription is accepted after breaking escrow, then you will become a member of the applicable LLC not later than the last day of the calendar month in which your subscription is accepted.

Your execution of the subscription agreement and the managing general partner's acceptance also constitutes your:

- execution of the partnership agreement or LLC operating agreement as applicable and your agreement to be bound by its terms as a partner or member as applicable; and

- your grant of a special power of attorney to the managing general partner to file amended certificates of limited partnership, governmental reports and certifications, and other matters.

Drilling Period

Although the managing general partner anticipates spending the entire subscription proceeds soon after the offering closes, the partnership will have a 12-month period after the offering closes to use or commit funds to drilling activities. If, within the 12-month period, a partnership has not used, or committed for use, the net subscription proceeds, then the managing general partner will cause the remainder of the net subscription proceeds to be distributed pro rata to you and the other investors as a return of capital (note, any such distribution to members of an LLC will be through the LLC of which they are a member, which LLC will be a limited partner in the partnership).

Suitability Standards

General Standards and Definition of Accredited Investor. It is the obligation of persons selling the units to make every reasonable effort to assure that the units are suitable for you based on your investment objectives and financial situation, regardless of your income or net worth. You, however, should invest in the partnership only if you are willing to assume the risks of a speculative, illiquid, and long-term investment.

The decision to accept or reject your subscription will be made by the managing general partner, in its sole discretion, and is final. The managing general partner will not accept your subscription until it has reviewed your apparent qualifications and the suitability record must be maintained during the partnership's term and for at least six years thereafter.

This offering is being conducted under Regulation D, which was adopted by the SEC under the Securities Act of 1933. Regulation D sets forth restrictions on the persons from whom subscriptions may be accepted. The partnership offering is made to accredited investors only. As of the date of this private placement memorandum an accredited investor includes "any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:

- Any bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any insurance company as defined in section 2(13) of the Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; Small Business Investment

Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for the benefit of its employees, if such plan has total assets in excess of $5,000,000; 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;

- Any private business development company as defined in section 202(a)(22) of the Investment Advisors Act of 1940;

- Any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

- Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

- Any natural person whose individual net worth, exclusive of the value of such person's principal residence; or joint net worth with that person's spouse, exclusive of the value of such persons' principal residence, at the time of his purchase exceeds $1,000,000;

- Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

- 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 as described in Rule 506(b)(2)(ii) under the Securities Act of 1933; and

- Any entity in which all of the equity owners are "accredited investors."

Fiduciary Accounts and Execution of Subscription Documents. If there is a sale of a unit to a fiduciary account, then all the suitability standards set forth above must be met by:

- the beneficiary;

- the fiduciary account; or

- the donor or grantor who directly or indirectly supplies the funds to purchase the units if the donor or grantor is the fiduciary.

Generally, you are required to execute your own subscription agreement, and the managing general partner will not accept any subscription agreement that has been executed by someone other than you. The only exception is if you have given someone else the legal power of attorney to sign on your behalf and you meet all of the conditions in this private placement memorandum.

PRIOR ACTIVITIES

The tables set forth below reflect certain historical data with respect to prior activities of private placement drilling partnerships, private drilling partnerships and private placement energy asset acquisition partnerships which the managing general partner has sponsored since 1999 and which raised a total of $715,478,334. The tables do not include information concerning wells acquired by the managing general partner through other forms of acquisition such as joint ventures with industry partners or drilling for its own account.

TABLE 1

EXPERIENCE IN RAISING FUNDS
AS OF 12/31/2013

PROGRAM	NUMBER OF PARTNERS	INVESTOR SUBSCRIPTIONS	MANAGING G.P. INVESTMENT	TOTAL CAPITAL	DATE OF COMMENCEMENT OF OPERATIONS	DATE OF COMMENCEMENT OF PRODUCTION	DATE OF FIRST DISTRIBUTIONS
DERBY BROOK 1999	9	$ 400,000	$ 155,250	$ 555,250	Feb-00	Mar-00	Aug-00
TRANSGAS 2000 - 1	12	$ 427,500	$ 173,625	$ 601,125	Mar-01	Jun-01	Aug-01
DUBERSTEIN 2001	2	$ 405,000	$ 173,600	$ 578,600	Oct-01	Dec-01	Apr-02
TRANSGAS 2001 - 1	3	$ 288,166	$ 61,834	$ 350,000	Mar-02	Oct-02	May-03
SINTON JV - 2002	2	$ 70,080	$ 39,920	$ 110,000	Jul-02	Oct-02	May-03
TRANSGAS 2002	10	$ 611,000	$ 258,657	$ 869,657	Feb-03	Feb-03	Jun-03
PLATINUM ENERGY 2003	49	$ 1,500,000	$ 630,000	$ 2,130,000	Jan-04	Feb-04	May-04
PLATINUM ENERGY 2004 A	60	$ 1,593,900	$ 669,438	$ 2,263,338	Dec-04	Apr-05	Jun-05
PLATINUM ENERGY 2004 B	66	$ 1,439,750	$ 602,595	$ 2,042,345	Jan-05	Apr-05	Jun-05
PLATINUM ENERGY 2004 C	19	$ 825,600	$ 348,852	$ 1,174,452	Jan-05	Apr-05	Jun-05
PLATINUM ENERGY 2005 A	63	$ 3,599,975	$ 1,511,990	$ 5,111,965	Oct-05	Mar-06	Apr-06
PLATINUM ENERGY 2005 B	95	$ 3,597,000	$ 1,510,740	$ 5,107,740	Nov-05	Mar-06	May-06
PLATINUM ENERGY 2005 C	145	$ 6,000,000	$ 2,520,000	$ 8,520,000	Feb-06	Apr-06	Jun-06
PLATINUM ENERGY 2005 D	201	$ 6,797,950	$ 2,856,000	$ 9,653,950	Mar-06	Apr-06	Jun-06
PLATINUM ENERGY 2005 E	26	$ 1,496,200	$ 628,404	$ 2,124,604	Mar-06	Apr-06	Jun-06
PLATINUM ENERGY 2006 A	291	$ 10,991,000	$ 4,616,220	$ 15,607,220	Nov-06	Dec-06	Mar-07
PLATINUM ENERGY 2006 B	339	$ 11,000,000	$ 4,620,000	$ 15,620,000	Dec-06	Mar-07	Mar-07
PLATINUM ENERGY 2006 C	410	$ 17,002,000	$ 7,140,840	$ 24,142,840	Jan-07	Apr-07	Jul-07
2007 OMEGA DRILLING PROGRAM 1	351	$ 11,000,000	$ 5,912,500	$ 16,912,500	Jun-07	Sep-07	Dec-07
2007 OMEGA DRILLING PROGRAM 2	218	$ 11,000,000	$ 5,912,500	$ 16,912,500	Jun-07	Sep-07	Dec-07
2007 OMEGA DRILLING PROGRAM 3	266	$ 10,605,213	$ 5,700,302	$ 16,305,515	Jun-07	Oct-07	Jun-08
PLATINUM ENERGY 2007 A	334	$ 14,992,000	$ 6,296,640	$ 21,288,640	Dec-07	Mar-08	Aug-08
PLATINUM ENERGY 2007 B	427	$ 19,998,000	$ 8,399,160	$ 28,397,160	Jan-08	Apr-08	Sep-08
PLATINUM ENERGY 2007 C	293	$ 14,998,000	$ 6,299,160	$ 21,297,160	Feb-08	Sep-08	Oct-08
2008 OMEGA DRILLING PROGRAM 1	328	$ 15,000,000	$ 8,062,500	$ 23,062,500	Jul-08	Apr-09	Apr-09
2008 OMEGA DRILLING PROGRAM 2	399	$ 15,000,000	$ 8,062,500	$ 23,062,500	Jul-08	Apr-09	Apr-09
2008 OMEGA DRILLING PROGRAM 3	345	$ 15,000,000	$ 8,062,500	$ 23,062,500	Jul-08	Apr-09	Apr-09
PLATINUM ENERGY 2008 A	336	$ 15,000,000	$ 6,300,000	$ 21,300,000	Oct-08	Feb-09	Aug-09
PLATINUM ENERGY 2008 B	424	$ 19,845,000	$ 8,334,900	$ 28,179,900	Jan-09	Feb-09	Dec-09
PLATINUM ENERGY 2008 C	351	$ 15,196,000	$ 6,382,320	$ 21,578,320	Jan-09	Jul-09	Jan-10
2009 OMEGA DRILLING PROGRAM 1	361	$ 14,990,000	$ 4,497,000	$ 19,487,000	Jan-10	Aug-10	Jan-11
2009 OMEGA DRILLING PROGRAM 2	295	$ 15,000,000	$ 4,500,000	$ 19,500,000	Jan-10	Aug-10	Jan-11
2009 OMEGA DRILLING PROGRAM 3	331	$ 14,672,000	$ 4,401,600	$ 19,073,600	Jan-10	Aug-10	Jan-11
2009 OMEGA DRILLING PROGRAM 4	166	$ 8,159,000	$ 2,447,700	$ 10,606,700	Jan-10	Aug-10	Jan-11
ALPHA DRILLING PARTNERS 2010 A	367	$ 19,765,000	$ 5,929,500	$ 25,694,500	Jan-11	Nov-10	Sep-11
ALPHA DRILLING PARTNERS 2010 B	502	$ 29,025,000	$ 8,707,500	$ 37,732,500	Jan-11	Nov-10	Sep-11
ALPHA DRILLING PARTNERS 2010 C	343	$ 25,341,000	$ 7,602,300	$ 32,943,300	Jan-11	Nov-10	Sep-11
ALPHA DRILLING PARTNERS 2011 A	344	$ 22,903,000	$ 6,870,900	$ 29,773,900	Dec-11	Feb-12	Aug-12
ALPHA DRILLING PARTNERS 2011 B	522	$ 34,023,000	$ 10,206,900	$ 44,229,900	Dec-11	Feb-12	Aug-12
ALPHA DRILLING PARTNERS 2012 A	457	$ 30,000,000	$ 9,000,000	$ 39,000,000	Aug-12	Nov-12	Jan-13
STRATEGIC ENERGY INCOME FUND I	399	$ 22,766,000	$ -	$ 22,766,000	Jul-10	Sep-10	Dec-10
STRATEGIC ENERGY INCOME FUND II	251	$ 13,739,000	$ -	$ 13,739,000	Nov-11	Jan-12	Mar-12
GENESIS DRILLING PROGRAM I	596	$ 42,655,000	$ 1,919,475	$ 44,574,475	Dec-12	Jan-13	Jun-13
GENESIS DRILLING PROGRAM II	622	$ 42,722,000	$ 1,922,490	$ 44,644,490	Dec-12	Jan-13	Jun-13
GENESIS DRILLING PROGRAM III	617	$ 45,819,000	$ 2,061,855	$ 47,880,855	Aug-13	Sep-13	N/A
GENESIS DRILLING PROGRAM IV	1,163	$ 88,415,000	$ 3,978,675	$ 92,393,675	Oct-13	Nov-13	N/A
STRATEGIC ENERGY INCOME FUND III	273	$ 18,478,000	$ -	$ 18,478,000	May-13	May-13	Oct-13
		$ 734,151,334	**$ 186,288,842**	**$ 920,440,176**			

TABLE 2

WELL STATISTICS - DEVELOPMENT WELLS
AS OF 12/31/2013

PROGRAM	GROSS WELLS GAS	GROSS WELLS OIL	GROSS WELLS DRY	NET WELLS GAS	NET WELLS OIL	NET WELLS DRY
DERBY BROOK 1999	4	-	-	3.00	-	-
TRANSGAS 2000 - 1	6	-	-	3.00	-	-
DUBERSTEIN 2001	10	-	-	8.00	-	-
TRANSGAS 2001 - 1	3	-	-	3.00	-	-
SINTON JV - 2002	4	-	1	0.40	-	0.10
TRANSGAS 2002	9	-	-	3.96	-	-
PLATINUM ENERGY 2003	15	-	1	10.27	-	0.25
PLATINUM ENERGY 2004 A	12	-	-	11.04	-	-
PLATINUM ENERGY 2004 B	13	-	-	9.52	-	-
PLATINUM ENERGY 2004 C	5	8	-	5.00	1.60	-
PLATINUM ENERGY 2005 A	19	9	-	18.51	0.62	-
PLATINUM ENERGY 2005 B	19	9	-	19.00	0.62	-
PLATINUM ENERGY 2005 C	24	16	1	22.35	7.62	0.08
PLATINUM ENERGY 2005 D	19	9	1	18.20	5.54	0.08
PLATINUM ENERGY 2005 E	5	9	-	4.44	1.23	-
PLATINUM ENERGY 2006 A	25	89	2	23.38	29.42	0.24
PLATINUM ENERGY 2006 B	22	89	2	21.80	30.87	0.24
PLATINUM ENERGY 2006 C	50	58	1	48.71	28.08	0.08
2007 OMEGA DRILLING PROGRAM 1	-	232	-	-	74.72	-
2007 OMEGA DRILLING PROGRAM 2	-	234	-	-	76.34	-
2007 OMEGA DRILLING PROGRAM 3	-	233	-	-	75.09	-
PLATINUM ENERGY 2007 A	48	134	1	47.37	32.00	0.13
PLATINUM ENERGY 2007 B	52	142	1	51.16	64.33	0.13
PLATINUM ENERGY 2007 C	32	127	1	31.47	54.34	0.30
2008 OMEGA DRILLING PROGRAM 1	-	270	-	-	89.46	-
2008 OMEGA DRILLING PROGRAM 2	-	253	-	-	89.42	-
2008 OMEGA DRILLING PROGRAM 3	-	245	-	-	89.62	-
PLATINUM ENERGY 2008 A	44	79	-	43.66	27.50	-
PLATINUM ENERGY 2008 B	48	92	-	46.61	52.28	-
PLATINUM ENERGY 2008 C	36	33	-	35.69	31.05	-
2009 OMEGA DRILLING PROGRAM 1	-	184	8	-	65.10	1.94
2009 OMEGA DRILLING PROGRAM 2	-	246	8	-	47.79	2.25
2009 OMEGA DRILLING PROGRAM 3	-	246	8	-	43.60	0.85
2009 OMEGA DRILLING PROGRAM 4	-	198	7	-	21.30	0.54
ALPHA DRILLING PARTNERS 2010 A	5	45	-	0.16	3.14	-
ALPHA DRILLING PARTNERS 2010 B	5	45	-	0.25	4.55	-
ALPHA DRILLING PARTNERS 2010 C	5	45	-	0.22	3.78	-
ALPHA DRILLING PARTNERS 2011 A	2	19	-	0.05	3.70	-
ALPHA DRILLING PARTNERS 2011 B	2	19	-	0.07	5.49	-
ALPHA DRILLING PARTNERS 2012 A	-	19	-	-	4.94	-
GENESIS DRILLING PROGRAM I	2	56	-	1.00	8.75	-
GENESIS DRILLING PROGRAM II	2	57	-	1.00	8.99	-
			Total	**492.28**	**1,082.87**	**7.22**

TABLE 3

INVESTOR OPERATING RESULTS - INCLUDING EXPENSES
AS OF 12/31/2013

PROGRAM	INITIAL CAPITALIZATION	ADDITIONAL CAPITALIZATION	TOTAL CAPITALIZATION	FIXED OPERATING COSTS	ADMINISTRATION COSTS	THIRD - PARTY COSTS	TOTAL EARNED AS OF TABLE
DERBY BROOK 1999	$ 400,000	$ 28,873	$ 428,873	$ 24,125	$ 6,893	$ 37,911	$ 406,543
TRANSGAS 2000 - 1	$ 427,500	$ 6,208	$ 433,708	$ 21,244	$ 6,070	$ 33,383	$ 432,286
DUBERSTEIN 2001	$ 405,000	$ -	$ 405,000	$ 74,562	$ 21,303	$ 117,169	$ 212,483
TRANSGAS 2001 - 1	$ 288,166	$ -	$ 288,166	$ 14,086	$ 4,025	$ 22,135	$ 295,585
SINTON JV - 2002	$ 70,080	$ -	$ 70,080	$ 8,924	$ 2,550	$ 14,024	$ 119,744
TRANSGAS 2002	$ 611,000	$ -	$ 611,000	$ 78,008	$ 22,288	$ 122,584	$ 504,150
PLATINUM ENERGY 2003	$ 1,500,000	$ -	$ 1,500,000	$ 169,192	$ 48,340	$ 265,873	$ 2,322,445
PLATINUM ENERGY 2004 A	$ 1,593,900	$ -	$ 1,593,900	$ 160,076	$ 45,736	$ 251,548	$ 1,420,314
PLATINUM ENERGY 2004 B	$ 1,439,750	$ -	$ 1,439,750	$ 133,305	$ 38,087	$ 209,479	$ 1,168,440
PLATINUM ENERGY 2004 C	$ 825,600	$ -	$ 825,600	$ 107,256	$ 30,645	$ 168,545	$ 726,806
PLATINUM ENERGY 2005 A	$ 3,599,975	$ -	$ 3,599,975	$ 258,479	$ 73,851	$ 406,181	$ 2,268,663
PLATINUM ENERGY 2005 B	$ 3,597,000	$ -	$ 3,597,000	$ 265,538	$ 75,868	$ 417,274	$ 2,487,004
PLATINUM ENERGY 2005 C	$ 6,000,000	$ -	$ 6,000,000	$ 380,024	$ 108,578	$ 597,180	$ 3,877,059
PLATINUM ENERGY 2005 D	$ 6,797,950	$ -	$ 6,797,950	$ 669,119	$ 191,177	$ 1,051,473	$ 4,376,074
PLATINUM ENERGY 2005 E	$ 1,496,200	$ -	$ 1,496,200	$ 155,027	$ 44,294	$ 243,615	$ 818,337
PLATINUM ENERGY 2006 A	$ 10,991,000	$ -	$ 10,991,000	$ 885,064	$ 252,875	$ 1,390,815	$ 4,665,969
PLATINUM ENERGY 2006 B	$ 11,000,000	$ -	$ 11,000,000	$ 897,619	$ 256,463	$ 1,410,544	$ 3,971,113
PLATINUM ENERGY 2006 C	$ 17,002,000	$ -	$ 17,002,000	$ 1,086,946	$ 310,556	$ 1,708,058	$ 5,709,981
2007 OMEGA DRILLING PROGRAM 1	$ 11,000,000	$ -	$ 11,000,000	$ 500,635	$ 143,039	$ 786,712	$ 4,342,239
2007 OMEGA DRILLING PROGRAM 2	$ 11,000,000	$ -	$ 11,000,000	$ 486,812	$ 139,089	$ 764,990	$ 4,974,342
2007 OMEGA DRILLING PROGRAM 3	$ 10,605,213	$ -	$ 10,605,213	$ 466,964	$ 133,418	$ 733,800	$ 4,291,153
PLATINUM ENERGY 2007 A	$ 14,992,000	$ -	$ 14,992,000	$ 653,230	$ 186,637	$ 1,026,504	$ 3,537,379
PLATINUM ENERGY 2007 B	$ 19,998,000	$ -	$ 19,998,000	$ 834,933	$ 238,552	$ 1,312,037	$ 7,456,073
PLATINUM ENERGY 2007 C	$ 14,998,000	$ -	$ 14,998,000	$ 614,490	$ 175,569	$ 965,628	$ 4,744,521
2008 OMEGA DRILLING PROGRAM 1	$ 15,000,000	$ -	$ 15,000,000	$ 422,414	$ 120,690	$ 663,793	$ 4,465,523
2008 OMEGA DRILLING PROGRAM 2	$ 15,000,000	$ -	$ 15,000,000	$ 407,555	$ 116,444	$ 640,444	$ 4,101,199
2008 OMEGA DRILLING PROGRAM 3	$ 15,000,000	$ -	$ 15,000,000	$ 388,366	$ 110,962	$ 610,289	$ 4,515,238
PLATINUM ENERGY 2008 A	$ 15,000,000	$ -	$ 15,000,000	$ 457,499	$ 130,714	$ 718,928	$ 1,968,117
PLATINUM ENERGY 2008 B	$ 19,845,000	$ -	$ 19,845,000	$ 601,616	$ 171,890	$ 945,396	$ 3,424,639
PLATINUM ENERGY 2008 C	$ 15,196,000	$ -	$ 15,196,000	$ 352,286	$ 100,653	$ 553,592	$ 1,671,813
2009 OMEGA DRILLING PROGRAM 1	$ 14,990,000	$ -	$ 14,990,000	$ 13,982	$ 10,986	$ 973,732	$ 4,549,920
2009 OMEGA DRILLING PROGRAM 2	$ 15,000,000	$ -	$ 15,000,000	$ 11,464	$ 9,008	$ 798,415	$ 3,602,964
2009 OMEGA DRILLING PROGRAM 3	$ 14,672,000	$ -	$ 14,672,000	$ 11,157	$ 8,766	$ 776,990	$ 3,716,313
2009 OMEGA DRILLING PROGRAM 4	$ 8,159,000	$ -	$ 8,159,000	$ 6,666	$ 5,238	$ 464,247	$ 2,369,298
ALPHA DRILLING PARTNERS 2010 A	$ 19,765,000	$ -	$ 19,765,000	$ 12,783	$ 10,044	$ 890,244	$ 4,821,389
ALPHA DRILLING PARTNERS 2010 B	$ 29,025,000	$ -	$ 29,025,000	$ 17,785	$ 13,974	$ 1,238,598	$ 6,988,547
ALPHA DRILLING PARTNERS 2010 C	$ 25,341,000	$ -	$ 25,341,000	$ 14,090	$ 11,070	$ 981,236	$ 5,202,350
ALPHA DRILLING PARTNERS 2011 A	$ 22,903,000	$ -	$ 22,903,000	$ 11,344	$ 8,913	$ 790,026	$ 4,866,155
ALPHA DRILLING PARTNERS 2011 B	$ 34,023,000	$ -	$ 34,023,000	$ 16,728	$ 13,143	$ 1,164,965	$ 7,111,165
ALPHA DRILLING PARTNERS 2012 A	$ 30,000,000	$ -	$ 30,000,000	$ 10,577	$ 8,311	$ 736,624	$ 3,536,356
GENESIS DRILLING PROGRAM I	$ 42,655,000	$ -	$ 42,655,000	$ 6,156	$ 4,837	$ 428,730	$ 3,444,535
GENESIS DRILLING PROGRAM II	$ 42,722,000	$ -	$ 42,722,000	$ 6,286	$ 4,939	$ 437,779	$ 3,476,957

The Derby Brook Drilling Program distributions paid includes the purchase of the assets from the partnership by an affiliate in April 2007.
The Transgas Drilling Program 2000 - 1 distributions paid includes the purchase of the assets from the partnership by an affiliate in April 2007.
The Transgas Drilling Program 2001 - 1 distributions paid includes the purchase of the assets from the partnership by an affiliate in April 2007.

TABLE 3A

MANAGING GENERAL PARTNER OPERATING RESULTS - INCLUDING EXPENSES

AS OF 12/31/2013

PROGRAM	INITIAL CAPITALIZATION	ADDITIONAL CAPITALIZATION	TOTAL CAPITALIZATION	FIXED OPERATING COSTS	ADMINISTRATION COSTS	THIRD - PARTY COSTS (1)	TOTAL EARNED AS OF TABLE
DERBY BROOK 1999	$ 155,250	$ 12,374	$ 167,624	$ 9,831	$ 2,809	$ 15,449	$ 61,806
TRANSGAS 2000 - 1	$ 173,625	$ 3,357	$ 176,982	$ 9,244	$ 2,641	$ 14,526	$ 37,861
DUBERSTEIN 2001	$ 173,600	$ -	$ 173,600	$ 74,562	$ 21,303	$ 117,169	$ 283,547
TRANSGAS 2001 - 1	$ 61,834	$ -	$ 61,834	$ 2,863	$ 818	$ 4,498	$ 13,446
SINTON JV - 2002	$ 39,920	$ -	$ 39,920	$ 10,458	$ 2,988	$ 16,434	$ 115,362
TRANSGAS 2002	$ 258,657	$ -	$ 258,657	$ 33,666	$ 9,619	$ 52,903	$ 248,348
PLATINUM ENERGY 2003	$ 630,000	$ -	$ 630,000	$ 75,310	$ 21,517	$ 118,345	$ 1,175,696
PLATINUM ENERGY 2004 A	$ 669,438	$ -	$ 669,438	$ 68,305	$ 19,516	$ 107,336	$ 706,179
PLATINUM ENERGY 2004 B	$ 602,595	$ -	$ 602,595	$ 57,122	$ 16,321	$ 89,763	$ 574,740
PLATINUM ENERGY 2004 C	$ 348,852	$ -	$ 348,852	$ 44,850	$ 12,814	$ 70,478	$ 362,969
PLATINUM ENERGY 2005 A	$ 1,511,990	$ -	$ 1,511,990	$ 108,398	$ 30,971	$ 170,340	$ 1,092,813
PLATINUM ENERGY 2005 B	$ 1,510,740	$ -	$ 1,510,740	$ 114,293	$ 32,655	$ 179,604	$ 1,214,100
PLATINUM ENERGY 2005 C	$ 2,520,000	$ -	$ 2,520,000	$ 134,453	$ 38,415	$ 211,283	$ 1,675,673
PLATINUM ENERGY 2005 D	$ 2,856,000	$ -	$ 2,856,000	$ 202,270	$ 57,791	$ 317,852	$ 1,600,067
PLATINUM ENERGY 2005 E	$ 628,404	$ -	$ 628,404	$ 44,866	$ 12,819	$ 70,504	$ 312,418
PLATINUM ENERGY 2006 A	$ 4,616,220	$ -	$ 4,616,220	$ 207,161	$ 59,189	$ 325,538	$ 1,311,584
PLATINUM ENERGY 2006 B	$ 4,620,000	$ -	$ 4,620,000	$ 202,762	$ 57,932	$ 318,625	$ 1,189,275
PLATINUM ENERGY 2006 C	$ 7,140,840	$ -	$ 7,140,840	$ 248,807	$ 71,088	$ 390,982	$ 1,655,653
2007 OMEGA DRILLING PROGRAM 1	$ 5,912,500	$ -	$ 5,912,500	$ 72,220	$ 20,634	$ 113,488	$ 1,023,906
2007 OMEGA DRILLING PROGRAM 2	$ 5,912,500	$ -	$ 5,912,500	$ 87,238	$ 24,925	$ 137,088	$ 1,364,443
2007 OMEGA DRILLING PROGRAM 3	$ 5,700,302	$ -	$ 5,700,302	$ 59,052	$ 16,872	$ 92,796	$ 841,191
PLATINUM ENERGY 2007 A	$ 6,296,640	$ -	$ 6,296,640	$ 101,185	$ 28,910	$ 159,005	$ 1,048,869
PLATINUM ENERGY 2007 B	$ 8,399,160	$ -	$ 8,399,160	$ 112,177	$ 32,051	$ 176,278	$ 1,717,551
PLATINUM ENERGY 2007 C	$ 6,299,160	$ -	$ 6,299,160	$ 84,435	$ 24,124	$ 132,683	$ 1,214,435
2008 OMEGA DRILLING PROGRAM 1	$ 8,062,500	$ -	$ 8,062,500	$ 55,233	$ 15,781	$ 86,795	$ 964,336
2008 OMEGA DRILLING PROGRAM 2	$ 8,062,500	$ -	$ 8,062,500	$ 45,710	$ 13,060	$ 71,830	$ 912,794
2008 OMEGA DRILLING PROGRAM 3	$ 8,062,500	$ -	$ 8,062,500	$ 43,989	$ 12,568	$ 69,126	$ 908,003
PLATINUM ENERGY 2008 A	$ 6,300,000	$ -	$ 6,300,000	$ 71,067	$ 20,305	$ 111,676	$ 545,803
PLATINUM ENERGY 2008 B	$ 8,334,900	$ -	$ 8,334,900	$ 76,993	$ 21,998	$ 120,990	$ 735,107
PLATINUM ENERGY 2008 C	$ 6,382,320	$ -	$ 6,382,320	$ 80,736	$ 23,067	$ 126,871	$ 688,017
2009 OMEGA DRILLING PROGRAM 1	$ 4,497,000	$ -	$ 4,497,000	$ 1,493	$ 1,173	$ 103,981	$ 759,639
2009 OMEGA DRILLING PROGRAM 2	$ 4,500,000	$ -	$ 4,500,000	$ 2,028	$ 1,593	$ 141,206	$ 813,044
2009 OMEGA DRILLING PROGRAM 3	$ 4,401,600	$ -	$ 4,401,600	$ 1,809	$ 1,421	$ 125,995	$ 792,059
2009 OMEGA DRILLING PROGRAM 4	$ 2,447,700	$ -	$ 2,447,700	$ 1,093	$ 859	$ 76,103	$ 541,227
ALPHA DRILLING PARTNERS 2010 A	$ 5,929,500	$ -	$ 5,929,500	$ 5,478	$ 4,304	$ 381,530	$ 2,405,781
ALPHA DRILLING PARTNERS 2010 B	$ 8,707,500	$ -	$ 8,707,500	$ 7,618	$ 5,986	$ 530,549	$ 3,476,552
ALPHA DRILLING PARTNERS 2010 C	$ 7,602,300	$ -	$ 7,602,300	$ 6,038	$ 4,744	$ 420,530	$ 2,601,756
ALPHA DRILLING PARTNERS 2011 A	$ 6,870,900	$ -	$ 6,870,900	$ 4,862	$ 3,820	$ 338,585	$ 2,409,594
ALPHA DRILLING PARTNERS 2011 B	$ 10,206,900	$ -	$ 10,206,900	$ 7,169	$ 5,633	$ 499,272	$ 3,519,994
ALPHA DRILLING PARTNERS 2012 A	$ 9,000,000	$ -	$ 9,000,000	$ 4,533	$ 3,562	$ 315,695	$ 1,753,069
GENESIS DRILLING PROGRAM I	$ 1,919,475	$ -	$ 1,919,475	$ 1,732	$ 1,361	$ 120,650	$ 816,694
GENESIS DRILLING PROGRAM II	$ 1,922,490	$ -	$ 1,922,490	$ 1,756	$ 1,380	$ 122,296	$ 823,203

(1) Third-Party costs represent payments made to non-affiliated parties and the Managing General Partner and/or its affiliates have not profited from these transactions.

TABLE 4

SUMMARY OF INVESTOR TAX BENEFITS AND CASH DISTRIBUTION RETURNS

AS OF 12/31/2013

PROGRAM	TOTAL INVESTOR CAPITAL	TOTAL EARNED AS OF TABLE	TAX DEDUCTION	FIRST YEAR TAX RATE (1)	TAX REDUCTION	ESTIMATED DEPLETION ALLOWANCE & DEPRECIATION (2)	CUMULATIVE DISTRIBUTIONS & TAX SAVINGS (1)	% OF CASH & TAX SAVINGS
DERBY BROOK 1999	$ 428,873	$ 406,543	100.0%	46.5%	$ 199,426	$ 39,797	$ 645,766	150.57%
TRANSGAS 2000 - 1	$ 433,708	$ 432,286	100.0%	46.5%	$ 201,674	$ 41,263	$ 675,223	155.69%
DUBERSTEIN 2001	$ 405,000	$ 212,483	100.0%	46.0%	$ 186,300	$ 35,233	$ 434,016	107.16%
TRANSGAS 2001 - 1	$ 288,166	$ 295,585	100.0%	46.0%	$ 132,556	$ 27,807	$ 455,948	158.22%
SINTON JV - 2002	$ 70,080	$ 119,744	100.0%	45.5%	$ 31,886	$ 11,895	$ 163,526	233.34%
TRANSGAS 2002	$ 611,000	$ 504,150	100.0%	45.5%	$ 278,005	$ 59,544	$ 841,699	137.76%
PLATINUM ENERGY 2003	$ 1,500,000	$ 2,322,445	100.0%	42.5%	$ 637,500	$ 214,648	$ 3,174,593	211.64%
PLATINUM ENERGY 2004 A	$ 1,593,900	$ 1,420,314	100.0%	42.5%	$ 677,408	$ 143,642	$ 2,241,364	140.62%
PLATINUM ENERGY 2004 B	$ 1,439,750	$ 1,168,440	100.0%	42.5%	$ 611,894	$ 118,522	$ 1,898,856	131.89%
PLATINUM ENERGY 2004 C	$ 825,600	$ 726,806	100.0%	42.5%	$ 350,880	$ 65,870	$ 1,143,556	138.51%
PLATINUM ENERGY 2005 A	$ 3,599,975	$ 2,268,663	100.0%	42.5%	$ 1,529,989	$ 191,707	$ 3,990,360	110.84%
PLATINUM ENERGY 2005 B	$ 3,597,000	$ 2,487,004	100.0%	42.5%	$ 1,528,725	$ 206,912	$ 4,222,641	117.39%
PLATINUM ENERGY 2005 C	$ 6,000,000	$ 3,877,059	100.0%	42.5%	$ 2,550,000	$ 316,381	$ 6,743,440	112.39%
PLATINUM ENERGY 2005 D	$ 6,797,950	$ 4,376,074	100.0%	42.5%	$ 2,889,129	$ 400,850	$ 7,666,053	112.77%
PLATINUM ENERGY 2005 E	$ 1,496,200	$ 818,337	100.0%	42.5%	$ 635,885	$ 80,406	$ 1,534,628	102.57%
PLATINUM ENERGY 2006 A	$ 10,991,000	$ 4,665,969	100.0%	42.5%	$ 4,671,175	$ 458,664	$ 9,795,808	89.13%
PLATINUM ENERGY 2006 B	$ 11,000,000	$ 3,971,113	100.0%	42.5%	$ 4,675,000	$ 416,653	$ 9,062,766	82.39%
PLATINUM ENERGY 2006 C	$ 17,002,000	$ 5,709,981	100.0%	42.5%	$ 7,225,850	$ 561,991	$ 13,497,822	79.39%
2007 OMEGA DRILLING PROGRAM 1	$ 11,000,000	$ 4,342,239	100.0%	42.5%	$ 4,675,000	$ 368,005	$ 9,385,244	85.32%
2007 OMEGA DRILLING PROGRAM 2	$ 11,000,000	$ 4,974,342	100.0%	42.5%	$ 4,675,000	$ 405,784	$ 10,055,125	91.41%
2007 OMEGA DRILLING PROGRAM 3	$ 10,605,213	$ 4,291,153	100.0%	42.5%	$ 4,507,216	$ 358,615	$ 9,156,984	86.34%
PLATINUM ENERGY 2007 A	$ 14,992,000	$ 3,537,379	100.0%	42.5%	$ 6,371,600	$ 344,489	$ 10,253,468	68.39%
PLATINUM ENERGY 2007 B	$ 19,998,000	$ 7,456,073	100.0%	42.5%	$ 8,499,150	$ 627,402	$ 16,582,625	82.92%
PLATINUM ENERGY 2007 C	$ 14,998,000	$ 4,744,521	100.0%	42.5%	$ 6,374,150	$ 414,388	$ 11,533,059	76.90%
2008 OMEGA DRILLING PROGRAM 1	$ 15,000,000	$ 4,465,523	100.0%	42.5%	$ 6,375,000	$ 361,617	$ 11,202,140	74.68%
2008 OMEGA DRILLING PROGRAM 2	$ 15,000,000	$ 4,101,199	100.0%	42.5%	$ 6,375,000	$ 335,685	$ 10,811,884	72.08%
2008 OMEGA DRILLING PROGRAM 3	$ 15,000,000	$ 4,515,238	100.0%	42.5%	$ 6,375,000	$ 358,584	$ 11,248,822	74.99%
PLATINUM ENERGY 2008 A	$ 15,000,000	$ 1,968,117	100.0%	42.5%	$ 6,375,000	$ 208,798	$ 8,551,915	57.01%
PLATINUM ENERGY 2008 B	$ 19,845,000	$ 3,424,639	100.0%	42.5%	$ 8,434,125	$ 327,901	$ 12,186,665	61.41%
PLATINUM ENERGY 2008 C	$ 15,196,000	$ 1,671,813	90.0%	42.5%	$ 5,812,470	$ 1,386,424	$ 8,870,708	58.38%
2009 OMEGA DRILLING PROGRAM 1	$ 14,990,000	$ 4,549,920	90.0%	42.5%	$ 5,733,675	$ 1,253,124	$ 11,536,719	76.96%
2009 OMEGA DRILLING PROGRAM 2	$ 15,000,000	$ 3,602,964	90.0%	42.5%	$ 5,737,500	$ 1,181,893	$ 10,522,357	70.15%
2009 OMEGA DRILLING PROGRAM 3	$ 14,672,000	$ 3,716,313	90.0%	42.5%	$ 5,612,040	$ 1,168,038	$ 10,496,391	71.54%
2009 OMEGA DRILLING PROGRAM 4	$ 8,159,000	$ 2,369,298	90.0%	42.5%	$ 3,120,818	$ 670,937	$ 6,161,052	75.51%
ALPHA DRILLING PARTNERS 2010 A	$ 19,765,000	$ 4,821,389	90.0%	42.5%	$ 7,560,113	$ 1,287,938	$ 13,669,440	69.16%
ALPHA DRILLING PARTNERS 2010 B	$ 29,025,000	$ 6,988,547	90.0%	42.5%	$ 11,102,063	$ 1,881,005	$ 19,971,614	68.81%
ALPHA DRILLING PARTNERS 2010 C	$ 25,341,000	$ 5,202,350	90.0%	42.5%	$ 9,692,933	$ 1,578,388	$ 16,473,670	65.01%
ALPHA DRILLING PARTNERS 2011 A	$ 22,903,000	$ 4,866,155	90.0%	42.5%	$ 8,760,398	$ 1,010,791	$ 14,637,344	63.91%
ALPHA DRILLING PARTNERS 2011 B	$ 34,023,000	$ 7,111,165	90.0%	42.5%	$ 13,013,798	$ 1,493,493	$ 21,618,455	63.54%
ALPHA DRILLING PARTNERS 2012 A	$ 30,000,000	$ 3,536,356	90.0%	42.5%	$ 11,475,000	$ 273,607	$ 15,284,963	50.95%
GENESIS DRILLING PROGRAM I, LP	$ 37,800,000	$ 3,052,478	82.5%	42.5%	$ 13,253,625	$ 434,425	$ 16,740,528	44.3%
GENESIS DRILLING PROGRAM I, LLC	$ 4,855,000	$ 392,057	N/A	42.5%	$ -	$ 368,034	$ 760,091	15.7%
GENESIS DRILLING PROGRAM II, LP	$ 37,800,000	$ 3,076,376	82.5%	42.5%	$ 13,253,625	$ 436,433	$ 16,766,434	44.4%
GENESIS DRILLING PROGRAM II, LLC	$ 4,922,000	$ 400,581	N/A	42.5%	$ -	$ 373,375	$ 773,956	15.7%

(1) The tax rate includes the maximum federal rate and the maximum New York State rate.
(2) Depreciation was applied using an estimated five year recovery period (straight-line) for programs that were allocated tangible well equipment.

TABLE 5

MANAGING GENERAL PARTNER COMPENSATION TABLE
AS OF 12/31/2013

PROGRAM	INITIAL INVESTOR SUBSCRIPTIONS	NON - RECURRING MANAGEMENT FEE	LEASEHOLD DRILLING AND COMPLETION COSTS (1)	CUMULATIVE OPERATOR'S CHARGES	REIMBURSEMENT OF ADMINISTRATIVE OVERHEAD
DERBY BROOK 1999	$ 400,000	$ -	$ 428,873	$ 33,957	$ 9,702
TRANSGAS 2000 - 1	$ 427,500	$ -	$ 433,708	$ 30,487	$ 8,711
DUBERSTEIN 2001	$ 405,000	$ -	$ 405,000	$ 149,124	$ 42,607
TRANSGAS 2001 - 1	$ 288,166	$ -	$ 288,166	$ 16,948	$ 4,842
SINTON JV - 2002	$ 70,080	$ -	$ 70,080	$ 19,382	$ 5,538
TRANSGAS 2002	$ 611,000	$ -	$ 611,000	$ 111,673	$ 31,907
PLATINUM ENERGY 2003	$ 1,500,000	$ -	$ 1,500,000	$ 244,502	$ 69,858
PLATINUM ENERGY 2004 A	$ 1,593,900	$ -	$ 1,593,900	$ 228,381	$ 65,252
PLATINUM ENERGY 2004 B	$ 1,439,750	$ -	$ 1,439,750	$ 190,427	$ 54,408
PLATINUM ENERGY 2004 C	$ 825,600	$ -	$ 825,600	$ 152,106	$ 43,459
PLATINUM ENERGY 2005 A	$ 3,599,975	$ -	$ 3,599,975	$ 366,877	$ 104,822
PLATINUM ENERGY 2005 B	$ 3,597,000	$ -	$ 3,597,000	$ 379,831	$ 108,523
PLATINUM ENERGY 2005 C	$ 6,000,000	$ -	$ 6,000,000	$ 514,477	$ 146,993
PLATINUM ENERGY 2005 D	$ 6,797,950	$ -	$ 6,797,950	$ 871,388	$ 248,968
PLATINUM ENERGY 2005 E	$ 1,496,200	$ -	$ 1,496,200	$ 199,893	$ 57,112
PLATINUM ENERGY 2006 A	$ 10,991,000	$ -	$ 10,991,000	$ 1,092,225	$ 312,064
PLATINUM ENERGY 2006 B	$ 11,000,000	$ -	$ 11,000,000	$ 1,100,381	$ 314,394
PLATINUM ENERGY 2006 C	$ 17,002,000	$ -	$ 17,002,000	$ 1,335,753	$ 381,644
2007 OMEGA DRILLING PROGRAM 1	$ 11,000,000	$ -	$ 11,000,000	$ 572,855	$ 163,673
2007 OMEGA DRILLING PROGRAM 2	$ 11,000,000	$ -	$ 11,000,000	$ 574,050	$ 164,014
2007 OMEGA DRILLING PROGRAM 3	$ 10,605,213	$ -	$ 10,605,213	$ 526,016	$ 150,290
PLATINUM ENERGY 2007 A	$ 14,992,000	$ -	$ 14,992,000	$ 754,414	$ 215,547
PLATINUM ENERGY 2007 B	$ 19,998,000	$ -	$ 19,998,000	$ 947,109	$ 270,603
PLATINUM ENERGY 2007 C	$ 14,998,000	$ -	$ 14,998,000	$ 698,925	$ 199,693
2008 OMEGA DRILLING PROGRAM 1	$ 15,000,000	$ -	$ 15,000,000	$ 477,647	$ 136,471
2008 OMEGA DRILLING PROGRAM 2	$ 15,000,000	$ -	$ 15,000,000	$ 453,265	$ 129,504
2008 OMEGA DRILLING PROGRAM 3	$ 15,000,000	$ -	$ 15,000,000	$ 432,355	$ 123,530
PLATINUM ENERGY 2008 A	$ 15,000,000	$ -	$ 15,000,000	$ 528,566	$ 151,019
PLATINUM ENERGY 2008 B	$ 19,845,000	$ -	$ 19,845,000	$ 678,609	$ 193,888
PLATINUM ENERGY 2008 C	$ 15,196,000	$ -	$ 15,196,000	$ 433,022	$ 123,721
2009 OMEGA DRILLING PROGRAM 1	$ 14,990,000	$ -	$ 14,990,000	$ 15,475	$ 12,159
2009 OMEGA DRILLING PROGRAM 2	$ 15,000,000	$ -	$ 15,000,000	$ 13,492	$ 10,601
2009 OMEGA DRILLING PROGRAM 3	$ 14,672,000	$ -	$ 14,672,000	$ 12,966	$ 10,188
2009 OMEGA DRILLING PROGRAM 4	$ 8,159,000	$ -	$ 8,159,000	$ 7,759	$ 6,096
ALPHA DRILLING PARTNERS 2010 A	$ 19,765,000	$ -	$ 19,765,000	$ 18,261	$ 14,348
ALPHA DRILLING PARTNERS 2010 B	$ 29,025,000	$ -	$ 29,025,000	$ 25,403	$ 19,960
ALPHA DRILLING PARTNERS 2010 C	$ 25,341,000	$ -	$ 25,341,000	$ 20,128	$ 15,815
ALPHA DRILLING PARTNERS 2011 A	$ 22,903,000	$ -	$ 22,903,000	$ 16,206	$ 12,733
ALPHA DRILLING PARTNERS 2011 B	$ 34,023,000	$ -	$ 34,023,000	$ 23,897	$ 18,776
ALPHA DRILLING PARTNERS 2012 A	$ 30,000,000	$ -	$ 30,000,000	$ 15,110	$ 11,872
GENESIS DRILLING PROGRAM I	$ 42,655,000	$ -	$ 40,522,250	$ 7,889	$ 6,198
GENESIS DRILLING PROGRAM II	$ 42,722,000	$ -	$ 40,585,900	$ 8,042	$ 6,319

(1) Excluding the Managing General Partner's contributions.

It should not be assumed that you and the other investors will experience returns, if any, comparable to those experienced by investors in the prior drilling programs for several reasons, including, but not limited to:

- differences in partnership terms;
- well locations;
- partnership size; and
- economic considerations.

The results of the prior drilling programs should be viewed only as a measure of the level of activity and experience of the managing general partner with respect to drilling programs.

Since 1999, oil and natural gas prices have risen and fallen, significantly affecting the basis for returns to investors. A profitable return on investment in the partnership is substantially dependent on the price of oil and natural gas. The managing general partner can offer no assurances concerning oil and gas price levels that the partnerships will experience.

MANAGEMENT

Managing General Partner and Operator

The managing general partner, U.S. Energy Development Corporation, a New York corporation, was incorporated in 1980. As of December 31, 2013, the managing general partner owned interests in approximately 2,135 oil or natural gas wells located in Texas, Louisiana, Ohio, New York, North Dakota, Kansas, Pennsylvania, Montana, Maryland, Colorado, Oklahoma and the Province of Ontario, Canada. The managing general partner has acted as operator with respect to the drilling of more than 2,300 wells from 1980 to December 31, 2013.

The managing general partner has a staff of approximately 103 people including individuals with expertise in geology/geophysics, drilling/completions, accounting, production, and marketing.

In 2013, for the fifth consecutive year, *Inc Magazine 500/5000* ranked U.S. Energy Development Corporation as one of the "Fastest Growing Private Companies in the USA."

The managing general partner's primary offices are located in Amherst, New York.

The financial statements of the managing general partner are included in "Financial Information Concerning the Managing General Partner."

The managing general partner established a revolving credit facility with a national banking institution for working capital purposes and general corporate uses in 2010. This credit facility provided the managing general partner with an initial credit availability of $18,000,000, subject to adjustment based upon periodic reviews by the lender of the value of the loan collateral. As of December 31, 2013, the relationship between the national banking institution and the managing general partner involved a $75,000,000 revolving credit facility. The amount of the revolving credit facility may further increase, or decrease, as a result of periodic reviews of the value of the loan collateral. The credit facility is secured by substantially all of the assets of the managing general partner.

Officers, Directors and Key Personnel

The officers and directors of the managing general partner will serve until their successors are elected. The officers, directors and key personnel of the managing general partner are as follows:

NAME	AGE	POSITION OR OFFICE
Joseph M. Jayson	75	Chairman of the Board of Directors
Judith P. Jayson	73	Director
Jordan M. Jayson	38	Chief Executive Officer and Director
Douglas K. Walch	52	President and Director
Matthew P. Iak	37	Executive Vice President and Director
Alan J. Laurita	67	Director
William H. Mattrey	68	Director
Scott Cockerham	40	Vice President of Business Development
Lynne M. Stewart	57	Controller and Secretary
Todd C. Witmer	38	Senior Geologist
Andrew A. Borden	32	Corporate Counsel
Dennis J. Amidon	55	Production Superintendent

Joseph M. Jayson. Chairman of the Board. Mr. Jayson is also chairman of the board, CEO and director of J.M. Jayson & Co., Inc., Realmark Properties, Inc., Realmark Corporation, U.S. Capital, Inc., and Westmoreland Capital Corporation. He received a Bachelor of Science Degree in Education from Indiana University in 1961 and his Master's Degree from the University of New York at Buffalo in 1963.

Judith P. Jayson. Director. Mrs. Jayson is also the Corporate Trainer for the Sales and Marketing Department. She is a graduate of Saint Mary-of-the-Woods College and has extensive experience in real estate and energy investments. Mrs. Jayson holds several licenses and certifications including FINRA Series 7 and 63 licenses.

Jordan M. Jayson. Chief Executive Officer and Director. Mr. Jayson joined U.S. Energy in 2009. Since joining U.S. Energy he has been involved in information technology, human relations, acquisitions and divestures. He previously served as Executive Vice President where his focus was on developing operations in core areas and identifying new business opportunities. Mr. Jayson is a graduate of Johns Hopkins University. Following his graduation, Mr. Jayson worked in investment banking, portfolio management and trading in both New York and London.

Douglas K. Walch. President and Director. Mr. Walch joined U.S. Energy in 1983 as a geophysicist. In 1990, he was promoted to exploration manager and in 1993 he was promoted to vice-president of exploration. In 1998, he became president, a position he currently holds. Mr. Walch is a past president of the Buffalo Association of Professional Geologists. Additionally, Mr. Walch is a member of the American Association of Petroleum Geologists, the Society of Exploration Geophysicists, the Houston Geological Society and the Pittsburgh Association of Petroleum Geologists. Mr. Walch received his Bachelor of Science Degree as a geophysicist from Binghamton University and is a certified professional geologist in the state of Pennsylvania.

Matthew P. Iak. Executive Vice President and Director. Mr. Iak joined U.S. Energy in 2005, following a successful early career as Vice President of Fisher Investments, Inc., an international money management firm, and bringing with him brokerage experience of managed business in excess of one billion dollars. Mr. Iak holds his series 7, 24 and 63 licenses and is the President of Westmoreland Capital Corporation. Mr. Iak is a graduate of Canisius College.

Alan J. Laurita. Director. Mr. Laurita is a partner in the Buffalo office of Hodgson Russ LLP, a law firm with offices throughout New York State. Previously, he held an executive position with a large, privately owned oil and gas company that was primarily involved in the Appalachian Basin. Mr. Laurita received Bachelor of Science in Business Administration and Juris Doctorate degrees from the State University of New York at Buffalo.

William H. Mattrey. Director. Mr. Mattrey is a partner in the Buffalo, New York law firm of Amigone, Sanchez & Mattrey, L.L.P. Mr. Mattrey received his Bachelor of Arts degree, cum laude, from Canisius College and his Juris Doctorate degree from the State University of New York at Buffalo.

Scott Cockerham. Vice President of Business Development. Mr. Cockerham joined U.S. Energy in 2014. He received his Bachelor of Science degree in Oceanography from the United States Naval Academy and holds a Master of Business Administration degree from the Ross School of Business at the University of Michigan. Mr. Cockerham served as an officer in the U.S. Marine Corps and worked in investment banking, merchant banking and investment management at several national and international companies, including his own private equity firm. Mr. Cockerham is also a founder and director of the Jason George Foundation.

Lynne M. Stewart. Controller and Secretary. Ms. Stewart joined U.S. Energy in 2008. Prior to joining U.S. Energy, she held accounting management positions with various companies, the latest being an oil and gas distributor. Ms. Stewart is a member of the American Institute of Certified Public

Accountants and the New York State Society of Certified Public Accountants. Ms. Stewart received her Bachelor of Business Administration Degree in Accounting from Pace University.

Todd C. Witmer. Senior Geologist. Mr. Witmer joined U.S. Energy in 2001 as a Staff Geologist and was promoted to Senior Geologist in 2005. Mr. Witmer received his Bachelor of Science Degree in Environmental Studies, Bachelor of Arts Degree in Geological Sciences, and Master of Science Degree in Geology from the State University of New York at Buffalo. Mr. Witmer is also a member of AAPG, IOGA of NY, PIOGA and BAPG.

Andrew A. Borden. Corporate Counsel. Mr. Borden joined U.S. Energy in 2011. Prior to joining U.S. Energy, Mr. Borden maintained a diverse legal practice in a large regional law firm. Mr. Borden received his Bachelor of Science degree in Environmental Science from the University of Notre Dame and his Juris Doctorate degree from the University of Wisconsin.

Dennis J. Amidon. Production Superintendent. Mr. Amidon began working for U.S. Energy in 2007, overseeing the company's gas production operations in New York. In addition to managing numerous field employees, he is responsible for the operation of several compressors and gas gathering pipeline systems. Mr. Amidon has over thirty years of gas field experience.

Remuneration

No officer or director of the managing general partner will receive any direct remuneration or other compensation from the partnership. These persons will receive compensation solely from the managing general partner and its affiliated companies, including, for Mr. Iak, Westmoreland Capital Corporation. It is noted that the compensation that will be paid by the managing general partner and/or Westmoreland to Mr. Iak, who oversees the sale of limited partnership interests in programs sponsored by the managing general partner, will reflect the level of sales of such investments.

Security Ownership of Certain Beneficial Owners

100% of the common stock of U.S. Energy Development Corporation is owned by Jayson Enterprises, Ltd., a Texas limited partnership whose partners are members of the Jayson family and various trusts, the trustees of which are members of the Jayson family.

Transactions with Management and Affiliates

Westmoreland Capital Corporation, which is an affiliate of the managing general partner, will be acting as dealer-manager with respect to the offering of units in the partnerships. See "Plan of Distribution."

The managing general partner, its officers, directors, and affiliates may subscribe for units in the partnerships.

PROPOSED ACTIVITIES

Overview of Drilling Activities

The managing general partner anticipates that most of the wells of the partnerships will be developmental wells, which means a well drilled within the proved area of an oil and natural gas reservoir to the depth of a stratigraphic horizon known to be productive. With a view towards accelerating initial cash flow to the partnerships, the managing general partner will consider having the partnerships participate in so-called “workovers” and “recompletions” of existing wells. The managing general partner anticipates that up to 10% of the capital raised in these offerings will be applied to “workovers” or “recompletions”. Each partnership may also be involved in drilling wells that are not classified as developmental and which are considered to involve a higher degree of risk. This would involve wells drilled to extend the boundaries of a proved oil and natural gas reservoir (referred to as Step-Out Wells) and wells drilled in geographic areas where there has not previously been oil or gas production or wells drilled to new horizons or formations in geographic areas where oil and gas production has previously been established (referred to as Exploratory Wells). The managing general partner anticipates that up to 25% of the capital raised in each offering will be applied to wells that are classified as Step-Out Wells and that up to 15% of the capital raised in each offering will be applied to wells that are classified as Exploratory Wells.

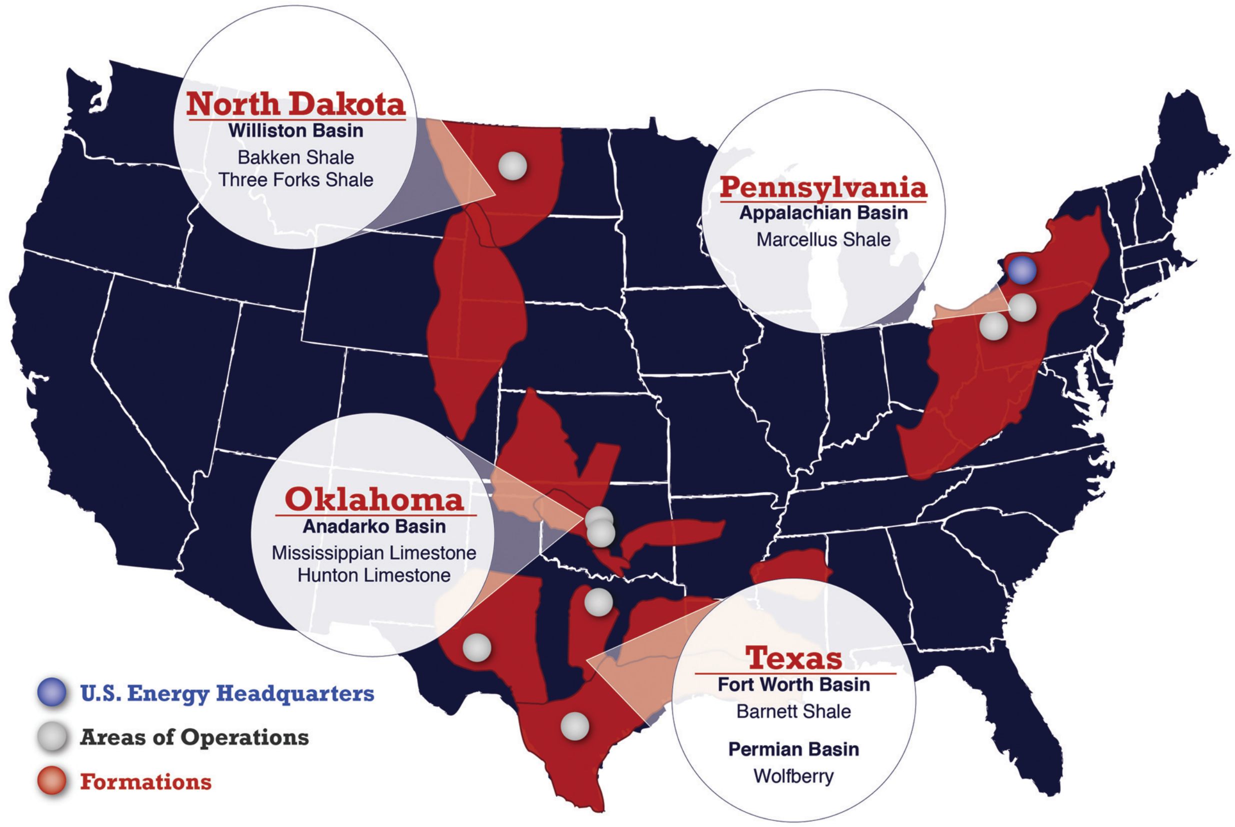
The number of wells drilled by a partnership will depend on the amount of subscription proceeds received and the partnership’s aggregate percentage of the interest in the wells.

The actual amount of the partnership’s interest in each well and the number of wells drilled by the partnership will depend on the following:

- the amount of subscription proceeds received by the partnership;
- where the wells are drilled; and
- whether the managing general partner elects or is required to share a percentage of interest owned in wells with an independent third-party that participates in the drilling of the wells.

Before selecting a well to be drilled by the partnership, the managing general partner will review all available geologic and production data for wells located in the vicinity of the proposed well including, but not limited to:

- various well logs;
- completion reports;
- seismic surveys;
- plugging reports; and
- production reports.



Intended Areas of Operations

It is anticipated that a majority of partnership funds will be expended drilling developmental and step-out wells in five geologic basins, specifically the Anadarko, Fort Worth, Williston, Permian, and Appalachian Basins, each of which is discussed below. A map showing the general location of the five basins is also included. The Anadarko Basin includes portions of Oklahoma and Kansas. The Fort Worth Basin is primarily in Texas. The Williston Basin includes North Dakota and Montana. The Permian Basin includes western Texas and New Mexico. The Appalachian Basin primarily includes New York, Pennsylvania, Ohio, West Virginia, Kentucky and Tennessee. Currently, comparatively higher pricing is available for production consisting of crude oil or "wet" gas (gas containing liquid hydrocarbons that can be removed from the gas stream and be sold separately). The partnerships will focus on projects targeting crude oil or wet gas production. It is anticipated that the majority of each partnership's wells will be drilled to the Mississippian Lime or Hunton Limestone formations in the Anadarko Basin or the Barnett Shale formation in the Fort Worth Basin. Other potential prospect areas include the Wolfberry formations in the Permian Basin, the Bakken Shale and Three Forks Shale formations in the Williston Basin, and Theresa Sandstone formation in the Appalachian Basin.

Anadarko Basin

Mississippian Lime: The Mississippian Limestone of northern Oklahoma and southern Kansas is comprised of four basic members deposited under varying environments. These members consist of the Mississippi Chat, Chester, Meramec and Osage. The favorable reservoir characteristics of the Mississippian Limestone were enhanced by the uplift, alteration, erosion of the original limestone. This play has traditionally been drilled vertically in Oklahoma and therefore has very good well control from prior drilling activities. Operators are now drilling horizontal laterals to interconnect porous zones and natural fracturing. The multi-stage completion then attempts to interconnect the natural fractures and porosity to encounter and stimulate as much of the reservoir as possible. The reserve potential expected from a horizontal well in the Mississippian is 300,000-500,000 BOE recoverable per well. U.S. Energy has been involved in nearly 80 Mississippian Lime wells over the past several years and acts as the operator of certain of those wells.

Hunton Limestone: The Hunton Limestone is a Sulurian-Devonian aged shallow water carbonate that traditionally has been drilled vertically in Oklahoma and is one of the key oil and gas producing horizons in Oklahoma. Operators in northwest Oklahoma have been focusing on developing the Hunton horizontally since the year 2000. The Hunton is approximately 7,000' vertical depth, is approximately 150-200 feet thick and is generally drilled with a 4,000' lateral. Horizontal Hunton Limestone wells have a conservative reserve potential of 125 MBbls of oil and 1.0 Bcf of natural gas. U.S. Energy currently has interests in 20 drilled wells in two project areas with three different operators.

Fort Worth Basin

Barnett Shale: The Barnett Shale in the northern portion of the Fort Worth Basin is known as a "combo" play, due to the reservoir containing a combination of oil, natural gas and natural gas liquids. The Barnett Shale began as a vertical play but evolved into a horizontal play as drilling and hydrofracturing technology improved. The Barnett Shale is approximately 250-300 feet thick at a vertical depth of 7,500-9,000 feet in the area of interest, with an average horizontal lateral length ranging from 3,500-7,000 feet. The reserve potential from a horizontal well in the Barnett Shale is expected to be in the range of 250,000-450,000 BOE recoverable per well. U.S. Energy has participated in drilling nearly 30 Barnett Shale wells over the past several years with two different operators.

Williston Basin

Bakken: The Bakken Shale has rapidly become one of the premier oil shale developments in the country. As an unconventional opportunity, the wells have horizontal extensions of various lengths but usually in excess of 5,000 feet and are hydrofractured with numerous "stages" of sand and water. Another shale that lies below the Bakken is identified as the Three Forks Shale and it has also been targeted in a number of wells drilled to date. The Bakken and Three Forks Shale wells will produce mostly oil with reserve potential of 300-700,000 BOE. The reserves will be produced at relatively high rates initially and usually 50% of the reserves can be produced within the first 3 to 4 years. U.S. Energy has been active in the Bakken Shale for over 5 years and has interests in over 150 wells with nearly 20 different operators.

Permian Basin

Wolfcamp/Spraberry Formations ("Wolfberry"): The managing general partner is currently evaluating a number of opportunities with depths of up to 11,000'. These wells have a number of potential reservoirs including Clearfork, Spraberry, Dean, Wolfcamp, Strawn and Atoka. The wells will produce both oil and gas, with reserve potential of 150,000 BOE (barrels of oil equivalent). U.S. Energy has been active in the Permian Basin since 2005 and currently has interests in 13 producing Wolfberry wells in 3 project areas.

Appalachian Basin

Upper Devonian: Typically found at depths of 2,000' or shallower, these Upper Devonian reservoirs are commonly known as the Bradford 1st, Clarendon, Balltown, Cherry Grove, Tiona and Bradford 2nd. In the areas U.S. Energy has significant operations, the Upper Devonian is usually predominantly oil with associated solution gas. Reserve potential is typically about 4,000 barrels of oil and 15,000 MCF (thousand cubic feet) of gas. Usually wells produce about 50% of their reserve potential in the first 3 – 5 years with the balance being produced over the next 5 – 10 years. U.S. Energy has been involved in drilling wells in these reservoirs for over 30 years and currently has interests in over 1000 wells producing from these formations, most of which are operated by U.S. Energy.

Marcellus Shale: The Middle Devonian aged Marcellus Shale is found throughout the basin, with the greatest thickness being found in central Pennsylvania. The reservoir is considered unconventional and requires considerable fracture stimulations in order to produce in commercial quantities. Depth ranges will generally be 4,000 to 8,000 feet with horizontal extensions of 3,000 to 7,000 feet. Reserve estimates suggest wells that will range from 4,000,000 to 10,000,000 MCF of potential gas reserves. U.S. Energy has been involved in Marcellus Shale development for 5 years and currently has interests in more than 10 Marcellus Shale wells, which are operated by 3 different operators.

Theresa Sandstone: The Theresa Sandstone also referred to as the Galway or Rose Run Sandstone, is a Cambrian-aged sandstone. The extent of the play stretches from western New York, across northwest Pennsylvania and into eastern Ohio. The depth of the Theresa Sandstone is approximately 5,600' and approximately 80-90' thick in the prospect area, which is approximately 30 miles due south of Buffalo, New York. The average porosity in the Theresa Sandstone is 8-10%, and is often seen as high as 18%, with very good permeability. The features that are being targeted are erosional remnants of buried anticlinal structures, beneath the Knox Unconformity. The traps are fault-controlled four-way closures and can be defined by subsurface data and/or seismic data. The reserve potential for the Theresa Sandstone in the prospect area ranges from 300 MMCF – 1500 MMCF of natural gas. U.S. Energy has been involved in 12 Theresa Sandstone wells over the past 6 years, which wells are located near U.S. Energy's existing pipeline gathering systems.

Medina: In the areas where the managing general partner has significant operations; the Medina is found at depths of 2,000 to 4,500 feet and is composed of two reservoirs known as the Grimsby and Whirlpool Sandstones. These wells will produce natural gas with reserve potential of generally 100,000 – 150,000 MCF with roughly 40% of the reserves produced in the first 5 years with the balance over an additional ten year period. U.S. Energy has been active in this play throughout its existence and currently has interests in over 600 wells, most of which it operates.

Assignment Limited to Legal Site to Base of Target Formation / Deep Drilling Rights May Be Retained by Other Parties, Possibly Including the Managing General Partner

For each well in which the partnership participates, the partnership will receive an assignment of its interest in the applicable well bore or lease(s). The assignment will be limited to the base of the deepest producing formation and to the minimum area necessary to comply with applicable state acreage requirements for such well. Interests in the leases may have been limited by prior owners as to depth, formations or acreage. To the extent such lease(s) affect additional acreage or deeper horizons the leasehold interest in the additional acreage and deeper horizons will be retained by the managing general partner.

The calculated fair market value of the leases will not include any value allocable to the drilling rights retained by the managing general partner. If in the future the managing general partner undertakes any activities with respect to the retained acreage or formations, including drilling an exploratory well, then the partnership would not share in the profits, if any, from these activities, nor would it pay any of the associated costs.

Acquisition of Leases

The managing general partner will have the right, in its sole discretion, to select the well locations which the partnerships will drill. The leases covering the acreage on which each well will be drilled will be sold to the partnerships by the managing general partner based on fair market value which price will be proportionately reduced to the extent a partnership acquires less than 100% of the interest in the leases, or will be acquired by the managing general partner for the partnerships on the same basis.

The managing general partner anticipates that a portion of the well locations will be selected by the managing general partner from leases included in its and its affiliates (which includes other partnerships sponsored by the managing general partner) existing leasehold inventory. The managing general partner may also select well locations from leases hereafter acquired by it or its affiliates or from leases owned by independent third-parties. It is expected that most of the partnerships' well locations may be located in areas where the managing general partner or its affiliates have previously conducted drilling operations and will meet the same general criteria for drilling potential as the well locations selected for prior programs.

The managing general partner is continually engaged in acquiring additional leasehold acreage. As of the date of this private placement memorandum, the managing general partner and its affiliates have leased a total of approximately 300,000 gross acres of undeveloped acreage in New York, Ohio, Pennsylvania, Maryland, Texas, Louisiana, North Dakota, Montana, Oklahoma and Kansas.

Because only one well will be drilled on each well location, the number of well locations the managing general partner will assign to the partnerships will be the same as the number of wells which the partnerships have the finances to drill.

Interests of Parties

Generally, production and revenues to a partnership from a well will be net of the applicable landowner's royalty interest and any interest in favor of third-parties such as overriding royalty interests. Landowner's royalty interest generally means an interest which is created in favor of the landowner when a natural gas and oil lease is obtained, and overriding royalty interest generally means an interest which is created in favor of someone other than the landowner. In either case, the owner of the interest receives a specific percentage of the natural gas and oil production free and clear of all costs of development, operation, or maintenance of the well. The interest the partnership will have is known as a working interest and the share of the production and revenues attributable to that interest is known as a net revenue interest.

The managing general partner anticipates that each partnership generally will have a net revenue interest in its leases ranging from 72% to 85% if the partnership owns the entire working interest, which would be proportionately reduced if the partnership owns less than 100% of the working interest. It is likely that the partnerships will own less than 100% of the working interest in many, if not most, of their wells.

Title to Properties

Title to all leases acquired by a partnership will be held in the name of the partnership. However, to facilitate the acquisition of the leases, title to the leases may initially be held in the name of:

- the managing general partner;
- its affiliates; or
- any nominee designated by the managing general partner.

The partnership's title to the leases will be filed for record following completion of the applicable wells.

The managing general partner will take the steps that it deems necessary to assure that the partnerships have acceptable title for its purposes. However, it is not the practice in the natural gas and oil industry to warrant title or obtain title insurance on leases and the managing general partner will provide neither for the leases it assigns to the partnerships. The managing general partner will obtain a favorable formal title opinion for the leases before each well is drilled, but the managing general partner may use its own judgment in waiving title requirements and will not be liable for any failure of title of leases transferred to the partnerships. There also is no assurance that the partnerships will not experience losses from title defects excluded from or not disclosed by the formal title opinion. If the title to the interest in a lease is defective, then the partnership will not have the right to recover against the transferor, the managing general partner or its affiliates, on a title warranty theory.

Drilling and Completion Activities; Operation of Producing Wells

Under the drilling agreement and the operating agreement the responsibility for drilling and completing, or plugging, partnership wells will be on the managing general partner or an affiliate as the general drilling contractor and operator. During drilling operations the managing general partner's duties as general drilling contractor and operator include:

- making the necessary arrangements for drilling and completing partnership wells and related facilities for which it has responsibility under the drilling agreement and the operating agreement;
- managing and conducting all field operations in connection with the drilling, testing, and equipping of the wells; and
- making the technical decisions required in drilling and completing the wells.

The managing general partner, as operator, will determine whether or not to complete each well. If the managing general partner determines that a well should not be completed, then the well will be plugged and abandoned. All of the partnerships' wells will be drilled to a depth sufficient to test thoroughly the objective geological formation, except where a productive formation is encountered uphole of the objective formation.

If there is a co-owner of the well which serves as the actual operator and general drilling contractor instead of the managing general partner, then the managing general partner will still enter into a cost plus drilling agreement and operating agreement with the partnership to drill, complete and operate the wells on the terms described in "Compensation." The managing general partner will review the performance of the third-party operator and general drilling contractor which would include the following:

- monitoring all field operations in connection with drilling, testing and equipping the wells;
- monitoring the technical decisions required in drilling and completing the wells;
- monitoring the costs and expenses charged by the third-party operator; and
- monitoring the accounting and production records for the partnership.

The actual operator will perform services for each well which are customarily performed to operate a well in the same general area as where the well is located. The third-party operator will be reimbursed for its direct costs and will receive either reimbursement of its administrative overhead or well supervision fees pursuant to an operating agreement. These fees will be subject to an annual adjustment for inflation and will be proportionately reduced to the extent the partnership does not acquire 100% of the interest in the well. During producing operations the managing general partner's duties as operator include:

- maintaining the wells, equipment and facilities in good working order during the useful life thereof; and

- performing necessary accounting and administrative functions.

The managing general partner as operator will be reimbursed for its direct expenses and will receive well supervision fees at competitive rates for operating and maintaining the wells during producing operations. The drilling agreement and the operating agreement contain a number of other material provisions which should be carefully reviewed and understood by you and the other prospective investors.

It is possible that a partnership may own less than five percent of the interest in one or more wells. This will decrease the partnership's interest in the well but increase the diversification of the partnership's drilling activities. Any other interest owner in a well will have a separate agreement with the managing general partner with respect to the drilling and operating of the well which may have differing terms and conditions from those contained in the partnership's drilling agreement and the operating agreement. The managing general partner anticipates that it will not be the operator of most of the partnership's wells during drilling operations.

The operator of a partnership's wells is responsible for selling the partnership's natural gas and oil production. For oil and natural gas sold during the prior ten years the managing general partner received an average selling price after deducting all expenses, including transportation expenses, of:

Year	Natural Gas Price per mcf	Oil Price per Barrel
2004	$5.94	$37.66
2005	$8.83	$50.04
2006	$7.43	$60.40
2007	$7.38	$66.49
2008	$8.98	$100.69
2009	$5.30	$58.12
2010	$5.25	$73.31
2011	$4.50	$88.25
2012	$3.61	$84.91
2013	$4.40	$90.22

The partnership's natural gas and oil production may be marketed to third-party natural gas marketers for sale to end-users and on the spot market. Currently, the managing general partner does not know the percentage of the partnerships' natural gas that will be sold to either end-users or on the spot market. Also, the partnerships are unable to predict the price to be paid or quantities to be delivered.

For the wells which it operates, the managing general partner is responsible for constructing the necessary gathering lines from the partnership wells to the pipeline connections with other pipelines. The managing general partner's construction obligation is separate from the partnerships and the managing general partner will own the gathering lines and system which the partnerships will have the right to use throughout the life of the partnerships. The Managing

General Partner has the right to charge for the use of the gathering system at a competitive rate. If the managing general partner is removed as managing general partner by you and the other investors, then it will charge a gathering fee at a competitive rate. Also, in the future the partnerships could be required to pay additional transportation fees to a third-party at a competitive rate if there are other marketing arrangements.

The managing general partner may use financial instruments to hedge the price risk of any of the partnerships' natural gas production, and/or oil production. It has not previously done so.

Marketing of Natural Gas Production from Wells in Other Areas of the United States

The managing general partner expects that natural gas produced from the partnerships' wells will be primarily tied to the spot market price and supplied to:

- natural gas marketers;
- local distribution companies;
- industrial end-users; and/or
- companies generating electricity.

Presence of Liquids in Natural Gas

Various liquid hydrocarbons ("natural gas liquids") are frequently produced with natural gas. If present in sufficient volume they must be removed from the gas stream for the gas to be of pipeline quality. If the volume is sufficient to justify the cost of collecting the natural gas liquids they can be marketed and increase production revenues. The amount of liquids in natural gas varies, not only from producing formation to producing formation but also among different geographic areas within the same formation.

Insurance

The managing general partner will obtain and maintain insurance coverage in amounts and for purposes which would be carried by a reasonable, prudent general contractor and operator in accordance with industry standards. The partnerships will be named as an additional insured under these policies. The managing general partner's current insurance coverage satisfies the following specifications:

- worker's compensation insurance in full compliance with the laws of the State of New York and any other applicable state laws where the managing general partner has drilled;
- comprehensive general public liability and property damage insurance with \$1,000,000 combined single limit coverage and \$2,000,000 aggregate coverage;
- comprehensive automobile public liability and property damage insurance with combined single limits of \$1,000,000;

- pollution coverage of $1,000,000 per occurrence and in the aggregate which protects and defends the insured against property damage or bodily injury claims from third-parties, other than a co-owner of the interest in the well, alleging seepage, pollution or contamination damage resulting from an accident;

- umbrella liability insurance as to bodily injury, property damage and pollution with combined limits of $24,000,000 per occurrence or accident and in the aggregate; and

- well control insurance, as appropriate in the opinion of the managing general partner, on a well by well basis, including combined single limit of liability coverage of $10,000,000 on wells operated by U.S. Energy and drilled to the Mississippian Lime formation, and also a combined single limit of liability coverage of $5,000,000 on salt water disposal wells.

Because the managing general partner will be driller and operator for other partnerships there is a risk that the insurance available to the partnerships could be substantially less if there are claims with respect to the other partnerships. However, there have been no prior successful liability claims against the managing general partner in its history.

These insurance policies will have terms, including exclusions and deductibles, which are standard for the natural gas and oil industry. On request the managing general partner will provide you or your representative access to a copy of its insurance policies. The managing general partner will use its best efforts to maintain insurance coverage which meets or exceeds its current coverage, but may be unsuccessful if the coverage becomes unavailable or too expensive.

If you are an investor general partner and there is going to be an adverse material change in your partnership's insurance coverage, which the managing general partner does not anticipate, then the managing general partner must notify you at least 30 days before the effective date. If the insurance coverage is materially reduced, then you will have the right, to convert your units into limited partner units before the reduction by giving written notice to the managing general partner.

The partnerships will also have the benefit of insurance carried by third party operators and subcontractors (including drillers), which the managing general partner will require to be in place.

Use of Consultants and Subcontractors

The partnership agreement authorizes the managing general partner to use the services of independent outside consultants and subcontractors on behalf of the partnership. The services will normally be paid on a per diem or other cash fee basis and will be charged to the partnership as either a direct cost or as a direct expense under the operating agreement. These charges will be in addition to the unaccountable, fixed payment reimbursement paid to the managing general partner for administrative costs; and well supervision fees paid to the managing general partner as operator.

Geological Information Regarding Currently Contemplated Areas of Operation

The number of wells drilled is dependent on the amount of capital raised and the managing general partner's ability to obtain leases on satisfactory terms. The managing general partner has not authorized any person to make any representations to you concerning any specific wells which will be drilled by the partnerships. You and the other prospective investors should rely only on the information in this private placement memorandum. Geological reports (to the extent available at no significant cost to the managing general partner) concerning the currently contemplated areas of operation, may be viewed on a confidential basis at the offices of the managing general partner.

Well locations in the areas identified will be assigned to the partnerships unless circumstances occur which, in the managing general partner's opinion, lessen the relative suitability of the wells. These considerations include:

- the amount of the subscription proceeds;
- the latest geological data available;
- potential title problems;
- approvals by federal and state departments or agencies;
- agreements with other interest owners in the wells;
- continuing review of other properties which may be available; and
- if no other circumstances occur which in the managing general partner's opinion diminish the relative attractiveness of the proposed wells.

Any substituted and/or additional well locations will meet the same general criteria as outlined in this private placement memorandum and the geological reports. Also, most of the substituted and/or additional well locations will be located in areas where the managing general partner or its affiliates have previously conducted drilling operations. You, however, will not have the opportunity to evaluate for yourself the relevant geophysical, geological, economic or other information regarding the substituted and/or additional well locations.

The purpose of the information regarding the general area of contemplated well locations is to assist you in evaluating the economic potential and risks of drilling wells on the proposed well locations. This includes production information for wells in the general area which the managing general partner believes is an important indicator in evaluating the economic potential of any well to be drilled. There, however, can be no assurance that a well drilled by the partnership will experience production comparable to the production experienced by wells in the surrounding area since the geological conditions in these areas can change in a short distance.

COMPETITION, MARKETS AND REGULATION

Natural Gas Regulation

Governmental agencies regulate the production and transportation of natural gas. Generally, the regulatory agency in the state where a producing natural gas well is located supervises production activities and the transportation of natural gas sold into intrastate markets and the Federal Energy Regulatory Commission ("FERC") regulates the interstate transportation of natural gas.

Natural gas prices are not regulated and the price of natural gas is subject to the supply and demand for the natural gas along with factors such as the natural gas' BTU content and where the wells are located. See "Competition and Markets" below for certain measures which FERC has taken to increase the competitiveness in natural gas markets.

Crude Oil Regulation

Oil prices are not regulated and the price is subject to the supply and demand for oil, along with qualitative factors such as the gravity of the crude oil and sulfur content differentials.

Competition and Markets

There are many companies engaged in natural gas drilling operations in the areas where the partnership is expected to conduct its activities. The natural gas industry is highly competitive in all phases, including acquiring suitable properties for drilling and marketing natural gas and oil. Product availability and price are the principal means of competing in selling natural gas and oil. Many of the partnerships' competitors will have financial resources and staffs larger than those available to the partnerships. While it is impossible to accurately determine the partnerships' industry position, the managing general partner does not consider the partnerships' operations to be a significant factor in the industry.

Current economic conditions indicate that the costs of natural gas and oil exploration and development are increasing gradually. However, the industry historically has experienced periods of rapid cost increases from time to time. There is a risk that over the term of the partnerships there will be fluctuating or increasing costs in doing business which would directly affect the managing general partner's ability to operate the partnerships' wells at acceptable price levels. Also, increases in natural gas prices or other factors may increase the demand for drilling rigs and other related equipment. This may increase the cost to drill the wells or reduce the availability of drilling rigs and related equipment, both of which could adversely affect the partnerships.

In order for you to realize revenues, the natural gas and oil produced by the partnerships' wells must be marketed. As set forth above, natural gas and oil prices are not regulated and instead are subject to supply and demand factors as well as other factors largely beyond the control of the partnerships. For example, reduced natural gas demand and/or excess natural gas supplies will result in lower prices. In recent years natural gas and oil prices have been volatile.

The marketing of production will be affected by numerous factors beyond the control of the partnerships and which cannot be accurately predicted. These factors include, but are not limited to, the following:

- the proximity, availability and capacity of pipeline and other transportation facilities;
- competition from other energy sources such as coal and electricity;
- local, state and federal regulations regarding production and transportation;
- fluctuating seasonal supply and demand because of various factors such as home heating requirements in the winter months;
- the amount of domestic production and foreign imports of natural gas and oil; and
- political instability in oil producing countries.

For example, increased imports of natural gas have occurred in the past and may continue which may increase the supply of natural gas in the U.S. Without a corresponding increase in demand, the imported natural gas would have an adverse effect on both the price and volume of natural gas sales from the partnerships' wells. Past increases in natural gas imports were the result of the North American Free Trade Agreement ("NAFTA"), which eliminated trade and investment barriers in the United States, Canada and Mexico and new pipeline and liquefied natural gas projects which have been constructed and/or proposed to the FERC. Over the last several years there have been significant increases in domestic production from shale formations. Also, members of the Organization of Petroleum Exporting Countries ("OPEC") establish production quotas for petroleum products from time to time with the intent of decreasing, maintaining, or increasing price levels. The managing general partner, however, is unable to predict what effect these actions will have on the price of the natural gas and oil sold from the partnerships' wells.

The various factors affecting the price of natural gas and oil result in regional differences in pricing. Accordingly, it is anticipated that the price which a partnership receives for natural gas and oil products from its wells will not be uniform.

FERC has sought to promote greater competition in natural gas markets in the U.S. Traditionally, natural gas was sold by producers to interstate pipeline companies, which then resold the natural gas to local distribution companies for resale to end-users. FERC changed this market structure by requiring interstate pipeline companies to transport natural gas for others. Thereafter, FERC Order 636 was issued which requires pipeline companies to, among other things, separate their sales services from their transportation services and provide an open access transportation service that is comparable in quality for all natural gas suppliers or producers. The premise behind FERC Order 636 was that the interstate pipeline companies had an unfair advantage over other natural gas suppliers or producers because they could bundle their sales and transportation services together. FERC Order 636 is designed to ensure that no natural gas seller has a competitive advantage over another natural gas seller because it also provides transportation services.

In February, 2000, FERC Order 637 was issued to provide further competitive initiatives by removing price ceilings on short-term capacity release transactions. It also enacted other regulatory policies that are intended to increase the flexibility of interstate natural gas transportation. Further, FERC has required pipeline companies to develop electronic bulletin boards to provide standardized access to information concerning capacity and prices.

There have been several developments which the managing general partner believes have the effect of increasing the demand for natural gas. For example, the Clean Air Act Amendments of 1990 contain incentives for the future development of "clean alternative fuel," which includes natural gas and liquefied petroleum gas for "clean-fuel vehicles." Also, the electricity industry has increased its reliance on natural gas because of increased competition in the electricity industry and the enforcement of stringent environmental regulations. For example, to reduce urban smog the Environmental Protection Agency has sought to enforce environmental regulations which increase the cost of operating coal-fired power plants. The Department of Energy has previously denied financial incentives to utilities to build more nuclear power plants and large scale hydroelectric projects. Together, these policies helped make natural gas the fuel of choice for electricity producers which have started moving away from dirtier-burning fuels, such as coal and oil. The electricity industry has started plans to bring new natural gas-fired power plants into service, some of which are not designed to allow for switching to other fuels.

State Regulations

States where the partnerships' wells may be situated impose a comprehensive statutory and regulatory scheme for natural gas and oil operations which create additional financial and operational burdens. Among other things, these regulations involve:

- new well permit and well registration requirements, procedures and fees;
- minimum well spacing requirements;
- restrictions on well locations and underground gas storage;
- certain well site restoration, groundwater protection and safety measures;
- landowner notification requirements;
- certain bonding or other security measures;
- various reporting requirements; and
- well plugging standards and procedures.

These state regulatory agencies also have broad regulatory and enforcement powers including those associated with pollution and environmental control laws which are discussed below.

Environmental Regulation

The partnerships' drilling and producing operations are subject to various federal, state, and local laws covering the discharge of materials into the environment, or otherwise relating to the protection of the environment. The Environmental Protection Agency and state and local agencies will require the partnerships to obtain permits and take other measures with respect to the discharge of pollutants into navigable waters, disposal of wastewater and air pollutant emissions. If these requirements or permits are violated there can be substantial civil and criminal penalties which will increase if there was willful negligence or misconduct. Also, the partnerships have unlimited liability for cleanup costs under various federal laws such as the Federal Clean Water Act for oil or hazardous substance pollution and the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 for hazardous substance contamination.

The partnerships' liability can also extend to pollution costs that occurred on the leases before they were acquired by the partnerships. Although the managing general partner will not transfer any lease to the partnerships if it has actual knowledge that there is an existing potential environmental liability on the lease, there will not be an independent environmental audit of the leases before they are transferred to the partnerships. Thus, there is a risk that the leases will have potential environmental liability even before drilling begins.

The partnerships' required compliance with these environmental laws and regulations may cause delays or increase the cost of the partnerships' drilling and producing activities. Because these laws and regulations are constantly being revised and changed, the managing general partner is unable to predict the ultimate costs of complying with present and future environmental laws and regulations. Also, the managing general partner is unable to obtain insurance to protect against many environmental claims. (See also Risk of Pollution and Environmental Liabilities.)

Proposed Regulation

From time to time there are a number of proposals being considered in Congress and in the legislatures and agencies of various states that if enacted would significantly and adversely affect the natural gas and oil industry and the partnerships. The proposals involve, among other things:

- limiting the disposal of waste water from wells, which could substantially increase the partnerships' operating costs and make the partnerships' wells uneconomical to produce; and

- changes in the tax laws as described in "Tax Aspects - Changes in the Law."

It is, however, impossible to accurately predict what proposals, if any, will be enacted and their subsequent effect on the partnerships' activities.

PARTICIPATION IN COSTS AND REVENUES

In General

The partnership agreement provides for sharing the partnerships' costs and revenues among the managing general partner and you and the other investors. A tabular summary of the following discussion appears below.

Costs

1. **Organization and Offering Costs.** 8% of the subscription proceeds of you and the other investors will be used to pay organization and offering costs and the balance, being approximately 4% of the amount of subscriptions, will be paid by the managing general partner. However, the managing general partner will not receive any credit towards its required capital contribution for any organization and offering costs that it pays in excess of 4% of the investors' subscriptions.

   - Organization and offering costs generally means all costs of organizing and selling the offering, and includes sales commissions and fees, due diligence fees and any other compensation paid with respect to the sale of units.

2. **Intangible Drilling Costs.** Intangible drilling costs are intended to be charged 100% to the GP Investors.

   - Intangible drilling costs generally means those costs of drilling and completing a well that are currently deductible, as compared with lease costs which must be recovered through the depletion allowance and equipment costs which must be recovered through depreciation deductions.

   Although subscription proceeds of a partnership may be used to pay the costs of drilling different wells depending on when the subscriptions are received, up to 92% of the subscription proceeds of the GP Investors will be used to pay intangible drilling costs regardless of when they subscribe. Also, the IRS could challenge the characterization of a portion of these costs as deductible intangible drilling costs and re-characterize the costs as some other item which may be non-deductible, such as equipment costs and/or lease costs, however, this would have no effect on the allocation and payment of the costs under the partnership agreement.

   If the net subscription proceeds from the LP/LLC Investors exceed the amount required to pay a partnership's lease and equipment costs, any excess funds may, in the discretion of the managing general partner, be applied to the payment of intangible drilling costs. If the net subscription proceeds from the LP/LLC Investors and the proceeds of any loan obtained by the partnership (up to a maximum of 15% of the amount of partnership subscriptions) are insufficient to pay the amount required for a partnership's lease and equipment costs, a portion of the net subscription proceeds from the GP Investors will be applied to the payment of such lease and equipment costs. Intangible Drilling Costs are expected to represent 75% of the total cost of drilling, completing and equipping each partnership's wells, so even if there are no LP/LLC Investors and the partnership does not borrow any money to pay lease and equipment costs, a minimum of 69% of the GP Investors' subscription proceeds should be applied to the payment of intangible drilling costs.

3. **Lease and Equipment Costs.** Net subscription proceeds from the LP/LLC Investors are intended to be applied first to the payment of lease and equipment costs, subject to the provisions of the preceding paragraph. When applicable, the managing general partner will pay separately all pipeline costs.

   - Equipment costs generally means all costs associated with drilling and completing a well which are not currently deductible and are not lease costs.

   - Lease costs are the amounts incurred by the partnerships to acquire the drilling locations on which the partnership's wells will be drilled.

4. **Operating Costs, Direct Costs, Administrative Costs and All Other Costs.** Operating costs, direct costs, administrative costs, and all other partnership costs not specifically allocated will be charged to the parties in the same ratio as the related production revenues are being credited.

   - These costs generally include all costs of partnership administration and the costs of producing and maintaining the partnership's wells.

5. **The Managing General Partner's Required Capital Contribution.** The managing general partner's aggregate capital contributions to the partnerships will be an amount equal to the cost of all organization and offering costs less the portion thereof paid by the investors. The managing general partner's capital contributions will be paid at the time the costs are incurred. In addition to its capital contributions described above, the managing general partner may pay the costs of constructing, and will then own separately from the partnerships, gathering lines to transport the partnerships' natural gas from their wells as discussed in "Proposed Activities."

Revenues

The revenues of each partnership from all of its wells will be commingled and treated as a common fund for the partnership. Thus, regardless of when you subscribe to the partnership you will share in the production revenues from all its wells on the same basis as the other investors in the partnership in proportion to the number of your units. Note that Qualified Entity investors, and Non-Qualified Participants who so elect, will become members of an LLC, which LLC will be a limited partner in the partnership. Distributions, in the nature of dividends, will be made by the LLC to its members proportionately based upon the amounts invested.

1. **Proceeds from the Sale of Leases.** If a partnership well is sold, a portion of the sales proceeds will be allocated to the partners in the same proportion as their share of the adjusted tax basis of the property. Any excess will be credited to the parties in the ratio in which production revenues of the partnership are credited as provided in 4, below.

2. **Interest Proceeds.** Interest earned on your subscription to the partnership up until two weeks before the partnership breaks escrow will be credited to your account and paid approximately

two months after the final closing. The interest rate for investors in the partnership is the rate paid by RBS Citizens Bank. If your subscription is refunded, then any interest allocated to your subscription proceeds will also be refunded. All other interest income, including interest earned on the deposit of production revenues, will be credited as provided in 4, below. The partnership will not receive interest on any monies that are paid to the managing general partner for use in the drilling, completion or operation of wells.

3. **Equipment Proceeds.** Proceeds from the sale or other disposition of equipment will be credited as provided in 4, below.

4. **Production Revenues.** All other revenues of the partnership, including production revenues, will be credited 85% to you and the other investors, and 15% to the managing general partner before Payout (the point when cumulative distributions to the investors equal 100% of the amount of the subscription proceeds) and 75% to you and the other investors, and 15% to the managing general partner and 10% to an affiliate of the managing general partner after Payout (see "Incentive Management Fee."), subject to the managing general partner's subordination of a portion of its share of partnership net production revenues, as described below. Irrespective of the cost of the contributions from the managing general partner, the managing general partner's share of the revenue (other than as an investor in the partnership if the managing general partner purchases one or more units and excepting the managing general partner's overriding royalty interest) shall be limited to the above percentages.

Subordination of Portion of Managing General Partner's Net Revenue Share

Each partnership is structured to provide you and the other investors in the partnership with preferred cash distributions. If cumulative cash distributions from the partnership are not equal to an average of a 12% rate of return in each of the first five 12-month periods beginning with the partnership's first cash distribution from operations after 75% of the partnership's wells are generating production revenues (the "Subordination Period"), the managing general partner will subordinate up to 100% of its working interest share of partnership net production revenues, which is up to 15% of the partnership net production revenues before payout, during the Subordination Period to help achieve this investment feature. The formula by which your average rate of return will be calculated is set out in Section 5.01(b)(4)(ii) of the Amended and Restated Certificate and Agreement of Limited Partnership which is attached as Exhibit (A) to this Memorandum and you should refer to Section 5.01(b)(4) for a more complete explanation of the subordination feature. If your distributions exceed 12% of your subscription in a 12-month period, then the excess will be credited to the next period. Your preferred distributions will not exceed a cumulative total of 60% of your subscription for the five 12-month periods.

- Partnership net production revenues means gross revenues after deduction of the related operating costs, direct costs, administrative costs and all other partnership costs not specifically allocated.

As of December 31, 2013, the managing general partner was subordinating distributions with regard to thirteen partnerships.

The managing general partner anticipates you will benefit from the subordination if the price of natural gas and oil received by the partnership and/or the results of the partnership's drilling activities are unable to provide the required return. However, if the wells produce small natural gas and oil volumes or natural gas and oil prices decrease, then even with subordination your cash flow may be very small and you may not receive a return of 60% of your investment during the subordination period. Calculation of cumulative distributions to you and the other investors will begin with the first partnership cash distribution from operations to you and the other investors in the partnership. However, the 60 month subordination period will begin, and no subordination distributions to you and the other investors will be required until the partnership's first cash distribution after seventy five percent of the partnership wells are drilled, completed and begin producing revenues from the sale of oil and/or natural gas. Subordination distributions will be determined by debiting or crediting current period partnership revenues to the managing general partner as may be necessary to provide the distributions to you and the other investors. At any time during the subordination period the managing general partner is entitled to an additional share of partnership revenues to recoup previous subordination distributions to the extent your cash distributions from the partnership exceed the 12% return described above. The specific formula is set forth in Section 5.01(b)(4)(a) of the partnership agreement.

Table of Participation in Costs and Revenues

The following table sets forth the participation in partnership costs and revenues between the managing general partner and you and the other investors after deducting from the partnership's gross revenues the landowner royalties and any other lease burdens, including the managing general partner's overriding royalty.

	Managing General Partner and Affiliates	**Investors**	**Total**
Partnership Costs:			
Organization and offering costs	33.33%	66.67%	100%
Intangible drilling costs (1)	0%	100%	100%
Equipment and Lease Acquisition costs of drilling and completing wells (2)	0%	100%	100%
Operating costs, administrative costs, direct costs and all other costs before payout	15%	85%	100%
Operating costs, administrative costs, direct costs and all other costs after payout	25%	75%	100%

	Managing General Partner and Affiliates	Investors	Total
Partnership Revenues:			
Interest income		(3)	
All other revenues including production revenues before payout (4)	15%	85%	100%
All other revenues, including production revenues, after payout	25%	75%	100%
Participation in Deductions:			
Intangible drilling costs (1)	0%	100%	100%
Depreciation of equipment (5)	0%	100%	100%
Percentage depletion allowance (4) before payout	15%	85%	100%
Percentage depletion allowance after payout	25%	75%	100%

(1) Net subscription proceeds of GP Investors will be applied first to the payment of intangible drilling costs. However if the net subscription proceeds of LP/LLC Investors and the proceeds of any partnership borrowing are insufficient to pay all equipment and lease acquisition costs, a portion of the net subscription proceeds from GP Investors will be used to pay equipment and lease acquisition costs.

(2) Will be paid first from the net subscription proceeds of LP/LLC Investors, then from the proceeds of any borrowing by the partnership and then, if necessary, from the net subscription proceeds of GP Investors.

(3) Interest earned on your subscription up until two weeks before the offering's final closing will be credited to your account and paid approximately two months after the offering closes. All other interest income, including interest earned on the deposit of operating revenues, will be credited as natural gas and oil production revenues are credited. The partnership will not receive interest on any monies that are paid to the managing general partner for use in the drilling, completion or operation of wells.

(4) These percentages may vary if a portion of the managing general partner's partnership net production revenues is subordinated as discussed above.

(5) Allocated in accordance with the payment for such equipment.

Allocation and Adjustment Among Investors

The investor's share of the partnership's revenues, gains, income, costs, expenses, losses and other charges and liabilities generally will be charged and credited, among you and the other investors, pro rata in accordance with your respective units. These charges and credits will take into account any investor general partner's status as a defaulting investor general partner.

Distributions

The managing general partner will review the partnership accounts at least quarterly to determine whether cash distributions are appropriate and the amount to be distributed, if any. The partnership will distribute those funds which the managing general partner does not believe are necessary for the partnership to retain. Also, funds will not be advanced or borrowed for distribution purposes if the distribution amount would exceed the partnership's accrued and received revenues for the previous four quarters, less paid and accrued operating costs with respect to the revenues. Any cash distributions from the partnership to the managing general partner will only be made in conjunction with distributions to you and the other investors and only out of funds properly allocated to the managing general partner's account. Each LLC will make distributions to its members promptly following its receipt of partnership distributions.

Liquidation

Each partnership will continue in existence for 25 years unless it is terminated earlier by a final terminating event as described below, or an event which causes the dissolution of a limited partnership under state law. However, if the partnership terminates on an event which causes a dissolution under state law and it is not a final terminating event, then a successor limited partnership will automatically be formed. Thus, only on a final terminating event will the partnership be liquidated. A final terminating event is any of the following:

- the election to terminate the partnership by either the managing general partner or the affirmative vote of investors whose units equal 65% of the total units, or the affirmative vote of investors whose units equal more than 50% of the total units to participate in a roll-up into a master limited partnership;

- the termination of the partnership under §708(b)(1)(A) of the Internal Revenue Code; or

- the partnership ceases to be a going concern.

On liquidation you will receive your interest in the partnership. Generally, this means, after payments to partnership creditors, an undivided interest in the partnership assets in the ratio your capital account bears to all capital accounts until they have been reduced to zero. Thereafter, your interest in the remaining partnership assets will equal your interest in the related partnership revenues.

Any in-kind property distributions to you must be made to a liquidating trust or similar entity, unless you affirmatively consent to receive an in-kind property distribution after being told of the risks associated with the direct ownership; or there are alternative arrangements in place which assure that you will not be responsible for the operation or disposition of the partnership properties. If the managing general partner has not received your written consent to the in-kind distribution within 30 days after it is mailed, then it will be presumed that you have not consented. The managing general partner may then sell the asset to either an independent third party or to itself or an affiliate. If the asset is sold to the managing general partner or an affiliate, then it must be sold at fair market value as determined by an independent expert. Also, if the partnership is liquidated, the managing general partner will be repaid for any debts owed it by the partnership before there are any payments to you and the other investors.

CONFLICTS OF INTEREST

In General

Conflicts of interest are inherent in natural gas and oil partnerships involving non-industry investors because the transactions are entered into without arms' length negotiation. Your interests and those of the managing general partner and its affiliates may be inconsistent in some respects or in certain instances, and the managing general partner's actions may not be the most advantageous to you.

The following discussion describes certain possible conflicts of interest that may arise for the managing general partner and its affiliates in the course of the partnerships, and for some of the conflicts of interest, but not all, certain limitations which are designed to reduce, but which will not eliminate, the conflicts. Other than these limitations the managing general partner has not established procedures to resolve a conflict of interest and under the terms of the partnership agreement the managing general partner may resolve the conflict of interest in its sole discretion and best interest.

The discussion below is not intended to be inclusive, and other transactions or dealings may arise in the future that could result in conflicts of interest for the managing general partner and its affiliates.

Conflicts Regarding Transactions with the Managing General Partner and its Affiliates

Although the managing general partner believes that the compensation and reimbursement that it and its affiliates will receive in connection with the partnerships are reasonable, the compensation has been determined solely by the managing general partner and did not result from negotiations with any unaffiliated third-party dealing at arms' length. The managing general partner and its affiliates will be entitled to receive compensation and reimbursement from the partnerships for their services in drilling, completing and operating the partnerships' wells under the drilling contract and the operating agreement and will receive the other fees described in "Compensation" regardless of the success of the partnerships' wells. The managing general partner or its affiliates providing the services or equipment can be expected to profit from the transactions, and it may be in the managing general partner's best interest to enter into contracts with itself and its affiliates rather than unaffiliated parties even if the contract terms, or skill and experience, offered by the unaffiliated third-parties is comparable.

The partnership agreement provides that when the managing general partner and any affiliate provide services or equipment to a partnership, their fees must be competitive with the fees charged by unaffiliated persons in the same geographic area engaged in similar businesses. Also, any services for which the managing general partner or an affiliate is to be compensated that are not described in this private placement memorandum or the partnership agreement must be set forth in a written contract which describes the services to be rendered and the compensation to be paid.

Conflict Regarding the Drilling Agreement and the Operating Agreement

The managing general partner anticipates that all the wells of the partnerships will be drilled and operated under the drilling agreement and the operating agreement. This creates a continuing conflict of interest for the managing general partner since it will be required to monitor and enforce, on behalf of the partnerships, its own compliance with the provisions of these agreements.

Conflicts Regarding Sharing of Costs and Revenues

The managing general partner will receive a percentage of revenues greater than the percentage of costs that it pays. This sharing arrangement may create a conflict of interest between the managing general partner and you and the other investors in the partnerships concerning the determination of which wells will be drilled by the partnerships based on the risk and profit potential associated with the wells.

Conflicts Regarding Tax Matters Partner

The managing general partner will serve as the partnerships' tax matters partner and represent each partnership before the IRS. The managing general partner will have broad authority to act on behalf of you and the other investors in any administrative or judicial proceeding involving the IRS, and this authority may involve conflicts of interest. For example, potential conflicts include:

- whether or not to expend partnership funds to contest a proposed adjustment by the IRS, if any, to:

- the amount of the partnership's deduction for intangible drilling costs, which is intended to be allocated 100% to the GP Investors;

- the amount of the managing general partner's depreciation deductions which are intended to be allocated in accordance with payment for the partnership's equipment; 100% of the LP/LLC Investors net subscription proceeds are expected to be allocated to equipment and lease acquisition costs; and

- the amount of the managing general partner's reimbursement from the partnership for expenses incurred by it in its role as the tax matters partner. Such expenses will be calculated at an hourly rate for employees of U.S. Energy and at cost plus ten percent for materials and third party services.

Conflicts Regarding Other Activities of the Managing General Partner, the Operator and Their Affiliates

The managing general partner will be required to devote to each partnership the time and attention which it considers necessary for the proper management of the partnership's activities. However, the managing general partner and its affiliates have sponsored and continue to manage other natural gas and oil drilling partnerships, which may be concurrent, and will engage in unrelated business activities including those associated with their real estate ventures, either for their own account or on behalf of other partnerships, joint ventures, corporations or other entities in which they have an interest. Thus, they will have conflicts of interest in allocating management time, services and other activities. The managing general partner will determine the allocation of its management time, services and other functions on an as-needed basis consistent with its fiduciary duties among the partnership and its other partnerships.

Subject to its fiduciary duties, the managing general partner will not be restricted in any manner from participating in other businesses or activities, even if these other businesses or activities are competitive with the partnerships' activities and operate in the same areas as the partnership.

Conflicts Involving the Acquisition of Leases

The managing general partner will select, in its sole discretion, the wells to be drilled by the partnerships. Conflicts of interest may arise concerning which wells will be drilled by the partnerships, and which wells will be drilled by the managing general partner and its affiliates, their other affiliated partnerships or third-party programs in which they serve as driller/operator. It may be in the managing general partner's or its affiliates' advantage to have a partnership bear the costs and risks of drilling a particular well rather than another affiliate. These potential conflicts of interest will be increased if the managing general partner organizes and allocates wells to more than one partnership at a time.

The lease or leases will be sold to the partnership by the managing general partner, or acquired by the managing general partner for a partnership, for each well location. The leases sold to the partnership by the managing general partner or its affiliates will be limited to the drilling or spacing unit on which one partnership well will be drilled, which will be the minimum acreage allowable under law with respect to a well location, and the managing general partner will retain all surrounding acreage. The partnership's drilling activities will provide the managing general partner with geological and production information from which it can determine the feasibility of drilling wells on the surrounding acreage. However, the partnership will not participate in drilling these wells.

The price at which leases will be sold by the managing general partner to the partnerships will be based upon fair market value as determined by the managing general partner without independent evaluation or arms-length negotiation. Certain of the factors to be considered by the managing general partner in determining fair market value are identified under Compensation – Lease Costs. This creates a conflict of interest.

No procedures, other than the guidelines set forth below and in "Procedures to Reduce Conflicts of Interest," have been established by the managing general partner to resolve any conflicts which may arise. The partnership agreement provides that the managing general partner and its affiliates will abide by the guidelines set forth below.

(1) **Transfer of Less than the Managing General Partner's and its Affiliate's Entire Interest.** If the managing general partner sells or transfers to the partnership less than all of its ownership in any drill site then it must comply with the following conditions:

- the interest retained by the managing general partner must be a proportionate interest;

- the managing general partner’s obligations and the partnership’s obligations must be substantially the same after the sale or transfer of the interest by the managing general partner or its affiliates; and

- the managing general partner’s interest in revenues must not exceed the amount proportionate to its retained interest.

For example, if the managing general partner transfers 50% of its interest in a drill site to the partnership and retains a 50% interest, then the partnership will not pay any of the costs associated with the managing general partner’s retained interest as a part of the transfer. This limitation does not prevent the managing general partner or its affiliates from subsequently dealing with their retained interest as they may choose with unaffiliated parties or affiliated partnerships. For example, the managing general partner may sell its retained interest to a third-party for a profit.

(2) **No Sale of Undeveloped Leases to the Managing General Partner and Its Affiliates.** The managing general partner and its affiliates, including an affiliated partnership, may not purchase any undeveloped leases from the partnership.

(3) **Sale of Producing Properties to the Managing General Partner and its Affiliates, Including Affiliated Limited Partnerships.** The partnership may sell a producing property to an affiliated partnership without the consent of the investors provided that:

- the respective obligations and revenue sharing of all parties to the transaction are substantially the same and the compensation arrangement or any other interest or right of either the managing general partner or its affiliates is the same in each affiliated partnership, or if different, the aggregate compensation of the managing general partner or the affiliate is reduced to reflect the lower compensation arrangement; and

- the sale must be made at fair market value as determined by an independent expert selected by the managing general partner.

The partnership may also sell a producing property to the managing general partner and its affiliates other than an affiliated partnership provided that:

- the sale must be made at fair market value as determined by an independent expert selected by the managing general partner; and

- the sale is consented to by investors whose units equal a majority of the total units.

These arrangements will create a conflict of interest for the managing general partner because of either its dual representation or lack of independence.

(4) **Leases Will Be Acquired Only for Stated Purpose of the Partnership.** A partnership will acquire only leases that are reasonably expected to meet the stated purposes of the partnership. No leases will be acquired for the purpose of a subsequent sale unless the acquisition is made after a well has been drilled to a depth sufficient to indicate that the acquisition would be in the partnership's best interest.

Conflicts Between Investors and the Managing General Partner as an Investor

Because the managing general partner and its affiliates have reserved the right to buy up to the 12 units needed to be subscribed to Investors to close, you and the other investors will not have the assurance that the minimum subscriptions of $480,000 were purchased by unaffiliated third-parties. Also, any subscription by the managing general partner, its officers, directors, or affiliates will affect the voting rights of you and the other investors and there may be a conflict with respect to certain matters. The managing general partner and its officers, directors and affiliates are not prohibited from voting with respect to any matter. Further, the inability of you and the other investors to obtain a list of the investors makes it more difficult to call a meeting of the investors and to vote on certain matters.

Conflicts Concerning Management of the LLCs

Qualified Entity investors and Non-Qualified Participants who so elect will become members of an LLC and the LLC will become a limited partner in the applicable partnership. Management of the LLC will be vested in U.S. Energy, the managing general partner, meaning that the managing general partner will be voting the interest of the LLC in any matter being voted on by the partnership. The LLC Operating Agreement requires the LLC manager (U.S. Energy) to poll the members of the LLC on any issue being voted on by the partnership and to cast a proportionate share of the LLC's vote to reflect the responses it receives. The proportionate share of the LLC's vote attributable to the LLC members who do not respond in such poll will be cast as determined by the manager.

Lack of Independent Underwriter

The terms of this offering, the partnership agreement, the drilling agreement and the operating agreement were determined by the managing general partner without arms' length negotiations. You and the other investors have not been separately represented by legal counsel, who might have negotiated more favorable terms for you and the other investors in the offering and the agreements.

Also, there was not an extensive in-depth "due diligence" investigation of the existing and proposed business activities of the partnerships and the managing general partner which would be provided by independent underwriters. Although Westmoreland Capital, which is affiliated with the managing general partner, serves as dealer-manager and may receive a due diligence fee for certain due diligence investigations conducted by the selling agents which will be re-allowed to the selling agents, its due diligence examination concerning this offering cannot be considered to be independent.

Conflicts Concerning Legal Counsel

It is anticipated that legal counsel to the managing general partner will also serve as legal counsel to the partnerships and that this dual representation will continue in the future. If a future dispute arises between the managing general partner and you and the other investors in a partnership, then the managing general partner will cause you and the other investors to retain separate counsel. Also, if the managing general partner is advised by counsel that it reasonably believes its representation of the partnership will be adversely affected by its responsibilities to the managing general partner, then the managing general partner will cause you and the other investors to retain separate counsel.

Conflicts Regarding Presentment Feature

You and the other investors have the right to present your units to the managing general partner for repurchase once each year between July 1 and September 30, beginning July 1, 2018. This feature creates the following conflicts of interest between you and the managing general partner.

- The managing general partner may suspend the presentment feature if it does not have the necessary cash flow or it cannot borrow funds for this purpose on terms which it deems reasonable. Both of these determinations related to the suspension are subjective and may be made in the managing general partner's sole discretion.
- The managing general partner will also determine the repurchase price based on a reserve report that it prepares and is reviewed by an independent expert, which it chooses. The formula for arriving at the repurchase price has many subjective determinations that are within the discretion of the managing general partner.

Conflicts Regarding Managing General Partner Withdrawing an Interest

A conflict of interest is created with you and the other investors by the managing general partner's right to mortgage its interest in the partnerships' wells to be used as collateral for a loan to the managing general partner. If there was a default under the loan, this could reduce the amount of the managing general partner's net production revenues available for its subordination obligation to you and the other investors in the partnerships.

Procedures to Reduce Conflicts of Interest

In addition to the procedures set forth in "Conflicts Involving the Acquisition of Leases," the managing general partner and its affiliates will comply with the following procedures in the partnership agreement to reduce some of the conflicts of interest with you and the other investors. The managing general partner does not have any other conflict of interest resolution procedures. Thus, conflicts of interest between the managing general partner and you and the other investors may not necessarily be resolved in your best interests. However, the managing general partner believes that its significant capital contribution to the partnerships will reduce the conflicts of interest.

(1) **Fair and Reasonable.** The managing general partner will not sell, transfer, or convey any property to, or purchase any property from, the partnerships except under transactions that are fair and reasonable, nor take any action with respect to the assets or property of the partnerships which does not primarily benefit the partnerships.

(2) **No Compensating Balances.** The managing general partner may not use a partnership's funds as a compensating balance for its own benefit.

(3) **Future Production.** The managing general partner may not commit the future production of a partnership well exclusively for its own benefit.

(4) **Disclosure.** If an agreement or arrangement binds a partnership, then it must be fully disclosed in the private placement memorandum.

(5) **No Loans from a Partnership to the Managing General Partner.** A partnership may not loan money to the managing general partner.

(6) **No Rebates.** The managing general partner may not participate in any business arrangements which would circumvent these guidelines including receiving rebates or give-ups.

(7) **Sale of Assets.** Other than a sale of the producing properties to an affiliated partnership, the sale of all or substantially all of the assets of a partnership may only be made with the consent of investors whose units equal a majority of the total units.

(8) **Participation in Other Partnerships.** If a partnership participates in other partnerships or joint ventures then the terms of the arrangements must not circumvent any of the requirements contained in the partnership agreement, including the following:

- there may be no duplication or increase in organization and offering expenses, the managing general partner's compensation, partnership expenses or other fees and costs;
- there will be no substantive change in the fiduciary and contractual relationship between the managing general partner and you and the other investors; and
- there may be no diminishment in your voting rights.

(9) **Investments.** Partnership funds may not be invested in the securities of another person except in the following instances:

- investments in interests made in the ordinary course of the partnership's business;
- temporary investments in income producing short-term highly liquid investments, in which there is appropriate safety of principal, such as U.S. Treasury Bills; multi-tier arrangements meeting the requirements of (8) above;
- investments involving less than 5% of the total subscription proceeds of the partnership which are a necessary and incidental part of a property acquisition transaction; and

- investments in entities established solely to limit a partnership's liabilities associated with the ownership or operation of property or equipment, provided that duplicative fees and expenses are prohibited.

(10) **Marketing Arrangements.** All benefits from marketing arrangements or other relationships affecting property of the managing general partner or its affiliates and the partnership must be fairly and equitably apportioned according to the respective interests of each in the property.

Policy Regarding Roll-Ups

It is possible at some indeterminate time in the future that the partnerships may become involved in a roll-up. In general, a rollup means a transaction involving the acquisition, merger, conversion, or consolidation of the partnership with or into another partnership, corporation or other entity, and the issuance of securities by the roll-up entity to you and the other investors in the partnership. A roll-up will also include any change in the rights, preferences, and privileges of you and the other investors in the partnership.

These changes could include the following:

- increasing the managing general partner's compensation;
- amending your voting rights;
- listing the units on a national securities exchange or on NASDAQ;
- changing the partnership's fundamental investment objectives; or
- materially altering the partnership's duration.

If a roll-up should occur in the future, the partnership agreement provides various policies, including the following:

- an independent expert must appraise all partnership assets and you must receive a summary of the appraisal in connection with the proposed roll-up;
- if you vote "no" on the roll-up proposal and the roll-up proceeds, then you will be offered a choice of:
    - accepting the securities of the roll-up entity;
    - remaining a partner in the partnership and preserving your units in the partnership, however the affirmative vote of the owners of more than 50% of the units in the partnership to participate in the roll-up will result in the dissolution of the partnership; or
    - receiving cash in an amount equal to your pro-rata share of the appraised value of the partnership's net assets; and

- the partnership will not participate in a proposed roll-up:
  - unless approved by investors whose units equal a majority of the total units;
  - which would result in the diminishment of your voting rights under the roll-up entity's chartering agreement;
  - in which your right of access to the records of the roll-up entity would be less than those provided by the partnership agreement; or
  - in which any of the transaction costs would be borne by the partnership if the proposed roll-up is not approved by investors whose units equal a majority of the total units.

FIDUCIARY RESPONSIBILITY OF THE MANAGING GENERAL PARTNER

In General

The managing general partner will manage each partnership and its assets. In conducting the partnership's affairs the managing general partner is accountable to you as a fiduciary and it must exercise good faith and deal fairly with you and the other investors in the partnership. If the managing general partner breaches its fiduciary responsibilities, then you are entitled to an accounting and the recovery of any economic loss caused by the breach. Also, the managing general partner has a fiduciary responsibility for the safekeeping and use of all funds and assets of the partnership whether or not in the managing general partner's possession or control. Also, the managing general partner may not employ, or permit another to employ, the funds or assets in any manner except for the exclusive benefit of the partnership. This is a rapidly expanding and changing area of the law and if you have questions concerning the duties of the managing general partner you should consult your own counsel.

Limitations on Managing General Partner Liability as Fiduciary

Under the terms of the partnership agreement, the managing general partner, the operator, and their affiliates have limited their liability to the partnership and to you and the other investors for any loss suffered by the partnership or you and the other investors which arises out of any action or inaction on their part if:

- they determined in good faith that the course of conduct was in the best interest of the partnership;
- they were acting on behalf of, or performing services for, the partnership; and
- their course of conduct did not constitute gross negligence or willful misconduct.

Thus, you and the other investors may have a more limited right of action than you would have had without these limitations in the partnership agreement.

In addition, the partnership agreement provides for indemnification of the managing general partner, the operator, and their affiliates by the partnership against any losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by them in connection with the partnership provided that they meet the standards set forth above. However, there is a more restrictive limitation for indemnification for losses arising from or out of an alleged violation of federal or state securities laws. Also, to the extent that any indemnification provision in the partnership agreement purports to include indemnification for liabilities arising under the Securities Act of 1933, as amended, you should be aware that, in the SEC's opinion, this indemnification is contrary to public policy and therefore unenforceable.

Any payments arising from the indemnification or agreement to hold harmless are recoverable only out of the partnership's:

- tangible net assets;
- revenues; and
- insurance proceeds.

Still, use of partnership funds or assets for indemnification would reduce amounts available for partnership operations or for distribution to you and the other investors.

The partnership will not pay the cost of the portion of any insurance which insures the managing general partner, the operator, or an affiliate against any liability for which they cannot be indemnified. In addition, partnership funds can be advanced to them for legal expenses and other costs incurred in any legal action for which indemnification is being sought only if the partnership has adequate funds available and certain conditions in the partnership agreement are met.

TAX ASPECTS

Summary of Tax Opinion

The managing general partner has received the tax opinion of special counsel (Hodgson Russ LLP), which is included as Exhibit (C) to this private placement memorandum. This section of the private placement memorandum is a summary of the tax opinion and discussion of material, federal income tax consequences of the purchase, ownership and disposition of the general and limited partner interests. You are strongly urged to read the entire tax opinion.

The tax opinion represents only special counsel's best legal judgment, and has no binding effect or official status. It is only special counsel's prediction as to the outcome of the issues addressed and the results are not certain. As required by IRS regulations, special counsel's opinions state whether it is "more likely than not" that the predicted outcome will occur. There is no assurance that the present laws or regulations will not be changed and adversely affect you. Also, the IRS may challenge the deductions claimed by the partnerships or you, or the taxable year in which the deductions are claimed, and no guaranty can be given that the challenge would not be upheld if litigated. No advance ruling on any tax consequence of an investment in the partnerships will be requested from the IRS.

Different tax considerations than those addressed in this discussion may apply to foreign persons, corporations, partnerships, trusts and other prospective investors that are not treated as individuals for federal income tax purposes. Also, the treatment of the tax attributes of the partnerships may vary among investors.

You are urged to seek qualified, professional assistance in the preparation of your federal, state and local tax returns with specific reference to your own tax situation.

In special counsel's opinion it is more likely than not that the following tax treatment will be upheld if challenged by the IRS and litigated.

Partnership Classification. Each partnership will be classified as a partnership for federal income tax purposes, and not as a corporation. The partnership, as such, will not pay any federal income taxes, and all items of income, gain, loss, and deduction of the partnership will be reportable by the partners in the partnership.

Passive Activity Classification.

- Generally, the passive activity limitations on losses under §469 of the Internal Revenue Code will apply to limited partners, but will not apply to investor general partners before the conversion of investor general partner units to limited partner units.

- The partnership's income and gain from its natural gas and oil properties which are allocated to limited partners, other than converted investor general partners, generally will be characterized as passive activity income which may be offset by passive activity losses.

- Income or gain attributable to investments of working capital of the partnership will be characterized as portfolio income, which cannot be offset by passive activity losses.

Not a Publicly Traded Partnership. Assuming that no more than 10% of the units are transferred in any taxable year of the partnership, other than in private transfers described in Treas. Reg. §1.7704-1(e), the partnership will not be treated as a "publicly traded partnership" under the Internal Revenue Code.

Availability of Certain Deductions. Business expenses, including payments for personal services actually rendered in the taxable year in which accrued, which are reasonable, ordinary and necessary and do not include amounts for items such as lease acquisition costs, organization and syndication fees and other items which are required to be capitalized, are currently deductible.

Intangible Drilling Costs. The partnership will elect to deduct currently all intangible drilling costs. However, each investor may elect instead to capitalize and deduct all or part of his share of the intangible drilling costs ratably over a 60-month period as discussed in "Minimum Tax - Tax Preferences", below. Subject to the foregoing, intangible drilling costs paid by a partnership under the terms of bona fide drilling contracts for the partnership's wells will be deductible in the taxable year in which the payments are made and the drilling services are rendered, assuming the amounts are fair and reasonable consideration and subject to certain restrictions summarized below, including basis and "**at risk" limitations and the passive activity loss limitation with respect to the limited partners.**

Prepayments of Intangible Drilling Costs. The managing general partner anticipates that the drilling of most, if not all, partnership wells will begin in 2014 or 2015 and that the partnership will prepay in 2014 all of its intangible drilling costs for those partnership wells. Assuming that the amounts are fair and reasonable, and based in part on the factual assumptions set forth above and below, in the opinion of special counsel the prepayments of intangible drilling costs will be deductible for the 2014 taxable year even though all owners in the well will not be required to prepay intangible drilling costs, subject to certain restrictions summarized below, including basis and "at risk" limitations, and the passive activity loss limitation with respect to the limited partners.

The foregoing opinion is based in part on the assumptions that:

- the intangible drilling costs will be required to be prepaid in 2014 for specified wells under the drilling agreement. Please see "Drilling Contracts" for details;

- the amounts attributable to intangible drilling cost items in the AFEs attached as exhibits to the Drilling Agreement accurately reflect the amounts that will be incurred for intangible drilling costs;

- under the drilling agreement the drilling of the wells is required to be, and actually is, begun on or before March 31, 2015, and the wells are continuously drilled until completed, if warranted, or abandoned; and

- the required prepayments are not refundable to the partnership and any excess prepayments are applied to intangible drilling costs of substitute wells. It should be noted that, if payments were refunded to the Partnership, then such refunded amounts would be treated as ordinary income under I.R.C. § 111; Treas. Reg. § 1.111-1(a).

Depletion Allowance. The greater of cost depletion or percentage depletion will be available to all investors as a current deduction against the partnership's natural gas and oil production income, subject to certain restrictions summarized below.

Depreciation. A depreciation deduction will be available to the LP/LLC Investors (and to the GP Investors if they pay any portion of the tangible equipment costs) for the payment of equipment costs, commencing in the year such equipment is placed in service.

Tax Basis of Units. Each investor's adjusted tax basis in his units will be increased by his total subscription proceeds.

At Risk Limitation on Losses. Each investor initially will be "at risk" to the full extent of his subscription proceeds.

Allocations. Assuming the effect of the allocations of income, gain, loss and deduction, or items thereof, set forth in the partnership agreement, including the allocations of basis and amount realized with respect to natural gas and oil properties, is substantial in light of an investor's tax attributes that are unrelated to the partnership, the allocations will have "substantial economic effect" and will govern each investor's distributive share of those items to the extent the allocations do not cause or increase deficit balances in the investors' capital accounts.

Subscription. No gain or loss will be recognized by the investors on payment of their subscriptions.

Profit Motive and No Tax Shelter Registration. Based on the managing general partner's representation that the partnership will be conducted as described in this private placement memorandum, the partnership will possess the requisite profit motive under §183, of the Internal Revenue Code and is not required to register with the IRS as a tax shelter.

IRS Anti-Abuse Rule. Based on the managing general partner's representation that the partnership will be conducted as described in this private placement memorandum, the partnership will not be subject to the anti-abuse rule set forth in Treas. Reg. § 1.701-2.

Overall Evaluation of Tax Benefits. Based on special counsel's conclusion that substantially more than half of the material tax benefits of the partnership, in terms of their financial impact on a typical investor, more likely than not will be realized if challenged by the IRS, the tax benefits of the partnership, in the aggregate, which are a significant feature of an investment in the partnership by a typical original investor more likely than not will be realized as contemplated by the private placement memorandum.

Unrelated Business Taxable Income

Based on the managing general partner's representation that the partnerships and limited liability companies will be organized, and their businesses conducted, as described in this Private Placement Memorandum, distributions to the LLC Members from the limited liability companies of which they are a member will not be classified as unrelated business taxable income.

Summary of Material Tax Issues

In General

The following is a summary of the material federal income tax consequences of the purchase, ownership and disposition of Investor General Partners Units and Limited Partner Units that will apply to typical Participants. However, there is no assurance that the present laws or regulations will not be changed and adversely affect a Participant. The IRS may challenge the deductions claimed by a Partnership or a Participant, or the taxable year in which such deductions are claimed, and no guaranty can be given that the challenge would not be upheld if litigated.

The practical utility of the tax aspects of any investment depends largely on each Participant's particular income tax position in the year in which items of income, gain, loss or deduction are properly taken into account in computing his or her federal income tax liability. In addition, except as otherwise noted, different tax considerations may apply to foreign persons, corporations, partnerships, trusts and other prospective Participants that are not treated as individuals for federal income tax purposes. Also, the treatment of the tax attributes of the Partnerships may vary among Participants. Accordingly, each Participant is urged to seek qualified, professional assistance and advice from an independent advisor in the preparation of his or her federal, state and local tax returns with specific reference to his or her own tax situation.

Partnership Classification

For federal income tax purposes, a partnership is not a taxable entity. Thus, the partners, rather than the partnership, receive any tax deductions, as well as the income, from the operations engaged in by the partnership.

Under the regulations, a business entity with two or more members is classified for federal tax purposes as either a corporation or a partnership. Treas. Reg. § 301.7701-2(a). The term corporation includes a business entity organized under a State statute which describes the entity as a corporation, body corporate, body politic, joint stock company or joint stock association. The Partnership was formed under the Delaware Revised Uniform Limited Partnership Act which describes the Partnership as a "partnership." Consequently, the Partnership will automatically be classified as a partnership unless it elects to be classified as a corporation. See Treas. Reg. § 301.7701-2(c). In this regard, the Managing General Partner has represented that the Partnership will not elect to be taxed as a corporation. The managing general partner has also represented that the limited liability companies will elect to be taxed as a corporation.

Limitations on Passive Activities

Under the passive activity rules of § 469 of the Code, all income of a taxpayer who is subject to the rules is categorized as:

- income from passive activities such as limited partners' interests in a business;
- active income such as salary, bonuses, etc.; or
- portfolio income. "Portfolio income" consists of interest, dividends and royalties, unless earned in the ordinary course of a trade or business; and gain or loss not derived in the ordinary course of a trade or business on the sale of property that generates portfolio income or is held for investment.

Losses generated by "passive activities" can offset only passive income and cannot be applied against active income or portfolio income.

The passive activity rules apply to individuals, estates, trusts, closely held C corporations, which generally are corporations in which five or fewer individuals own directly or indirectly more than 50% of the stock, and personal service corporations other than corporations where the owner employees together own less than 10% of the stock. However, a closely held C corporation, other than a personal service corporation, may use passive losses and credits to offset taxable income of the company figured without regard to passive income or loss or portfolio income.

Passive activities include any trade or business in which the taxpayer does not materially participate on a regular, continuous, and substantial basis. Under the Partnership Agreement, Limited Partners will not have material participation in the Partnership and generally will be subject to the passive activity rules.

Investor General Partners also do not materially participate in the Partnership. However, because the Partnership will own only Working Interests in its wells and Investor General Partners will not have limited liability under the Delaware Revised Uniform Limited Partnership Act until they are converted to Limited Partners, their deductions generally will not be treated as passive deductions before the conversion. (See "Conversion from Investor General Partner to Limited Partner", below.) However, if an Investor General Partner invests in the Partnership through an entity which limits his liability, such as a limited partnership, limited liability company, or S corporation, he will be treated the same as a Limited Partner and generally will be subject to the passive activity limitations. Contractual limitations on the liability of Investor General Partners under the Partnership Agreement such as, insurance, limited indemnification, etc., will not cause Investor General Partners to be subject to the passive activity limitations.

A taxpayer's at risk amount is reduced by losses allowed under § 465 even if the losses are suspended by the passive loss limitation. (See " 'At Risk' Limitation For Losses," below.) Similarly, a taxpayer's basis is reduced by deductions even if the deductions are disallowed under the passive loss limitation. (See "Tax Basis of Units," below.)

Suspended losses may be carried forward, but not back, and used to offset future years' passive activity income. A suspended loss is allowed in full when the entire interest is sold to an unrelated third party in a taxable transaction, and in part on the disposition of substantially all of the passive activity if the suspended loss as well as current gross income and deductions can be allocated to the part disposed of with reasonable certainty. In an installment sale, passive losses become available in the same ratio that gain recognized each year bears to the total gain on the sale.

Any suspended losses remaining at a taxpayer's death are allowed as deductions on his final return, subject to a reduction, to the extent the basis of the property in the hands of the transferee exceeds the property's adjusted basis immediately before the decedent's death. If a taxpayer makes a gift of his entire interest in a passive activity, the basis in the property of the person receiving the gift is increased by any suspended losses and no deductions are allowed. If the interest is later sold at a loss, the basis in the property of the person receiving the gift is limited to the fair market value of the property on the date the gift was made.

Publicly Traded Partnership Rules

Net losses of a partner from each publicly traded partnership are suspended and carried forward to be netted against income from that publicly traded partnership only. In addition, net losses from other passive activities may not be used to offset net income from a publicly traded partnership. However, in the opinion of Special Counsel it is more likely than not that the

Partnership will not be characterized as a publicly traded partnership under the Code, so long as no more than 10% of the Units are transferred in any taxable year of the Partnership, other than in private transactions described in Treas. Reg. § 1.7704-1(e).

Conversion from Investor General Partner to Limited Partner

Investor General Partner Units will be converted to Limited Partner Units after substantially all of the Partnership Wells have been drilled and completed, which the Managing General Partner anticipates will be in the fall of 2015. Thereafter, each Investor General Partner will have limited liability as a limited partner under the Delaware Revised Uniform Limited Partnership Act with respect to his interest in the Partnership.

Concurrent with such conversion, the Investor General Partner will become subject to the passive activity limitations. However, because an Investor General Partner will have a non-passive loss in 2014 as a result of the Partnership's deduction for Intangible Drilling Costs, the Code requires that his net income from Partnership Wells following the conversion must continue to be characterized as non-passive income which cannot be offset with passive losses. An Investor General Partner's conversion of his Units into Limited Partner Units should not have any other adverse tax consequences unless the Investor General Partner's share of any Partnership liabilities is reduced as a result of the conversion. A reduction in a partner's share of liabilities is treated as a constructive distribution of cash to the partner, which reduces the basis of the partner's interest in the partnership and is taxable to the extent it exceeds such basis. (See "Tax Basis of Units," below.)

Taxable Year

The Partnership intends to adopt a calendar year taxable year. The taxable year of the Partnership is important to a prospective Participant because the Partnership's deductions, income and other items of tax significance must be taken into account in computing the Participant's taxable income for his taxable year within or with which the Partnership's taxable year ends. The tax year of a partnership generally must be the tax year of one or more of its partners who have an aggregate interest in partnership profits and capital of greater than 50%.

2014 Expenditures

The Managing General Partner anticipates that all of the Partnerships' subscription proceeds from GP Investors will be expended in 2014 and that the related income and deductions generated by the Partnership, including the deduction for Intangible Drilling Costs, will be reflected on the Participants' federal income tax returns for that period. (See "Capitalization and Source of Funds and Use of Proceeds", "Participation in Costs and Revenues." and "A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015.")

The Managing General Partner anticipates that the drilling of most, if not all, Partnership Wells will begin in 2014 or 2015 and the Partnership will prepay in 2014 all of its costs for those Partnership Wells. The deductibility in 2014 of these advance payments cannot be guaranteed.

The managing general partner has also indicated that it is possible that the offering for Genesis Drilling Program VII LP may not commence until after December 31, 2014. If this in fact occurs, one year should be added to each of the dates in the preceding two paragraphs as they apply to Genesis Drilling Program VII LP.

Availability of Certain Deductions

Ordinary and necessary business expenses, including reasonable compensation for personal services actually rendered, are deductible in the year incurred. Treasury Regulation § 1.162-7(b)(3) provides that reasonable compensation is only the amount that would ordinarily be paid for like services by like enterprises under like circumstances. The Managing General Partner has represented to Special Counsel that to the best of its knowledge the amounts payable to the Managing General Partner and its Affiliates, including the amounts paid to the Managing General Partner or its Affiliates as general drilling contractor and operator, are the amounts which would ordinarily be paid for similar services in similar transactions. (See "Drilling Contracts.")

The fees paid to the Managing General Partner and its Affiliates will not be currently deductible to the extent it is determined that they are in excess of reasonable compensation, properly characterized as organization or syndication fees or other capital costs such as the acquisition cost of the Leases, or not "ordinary and necessary" business expenses (See "Partnership Organization and Syndication Fees" below). In the event of an audit, payments to the Managing General Partner and its Affiliates by the Partnership will likely be scrutinized by the IRS to a greater extent than payments to an unrelated party.

Intangible Drilling Costs

Assuming the Partnership drills a well and makes a proper election, then, subject to the passive activity loss rules applicable to the Participants, each GP Investor will be entitled to deduct his share of Intangible Drilling Costs, which include items which do not have salvage value, such as labor, fuel, repairs, supplies and hauling necessary to the drilling of a well. (See "Participation in Costs and Revenues" and "Limitations on Passive Activities," above.) These deductions are subject to recapture as ordinary income rather than capital gain on the disposition of the property or a Participant's Units. (See "Sale of the Properties" and "Disposition of Units," below.) Also, productive well Intangible Drilling Costs may subject a Participant to an alternative minimum tax in excess of regular tax unless the Participant elects to deduct all or part of these costs ratably over a 60 month period. (See "Minimum Tax, Tax Preferences," below.)

Ninety-two percent (92%) of the subscription proceeds received by the Partnership from the GP Investors are intended to be used to pay the Intangible Drilling Costs. (This percentage will be lower, if net subscription proceeds from LP/LLC Investors and partnership loan proceeds, if any, are insufficient to pay partnership lease acquisition and equipment expenses.) The IRS could challenge the characterization of a portion of these costs as deductible Intangible Drilling Costs and re-characterize the costs as some other item which may be non-deductible, however, this would have no effect on the allocation and payment of the costs under the Partnership Agreement.

Pursuant to the terms of the Drilling Agreement which the Partnership will enter into with U.S. Energy, the Partnership will prepay the estimated amounts necessary to drill its wells, including the estimated amount of Intangible Drilling Costs, in 2014. In order for the GP Investors to have a 2014 deduction for Intangible Drilling Costs, in addition to the requirements for when drilling must begin (see "A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015."), it must be established that they are liable for such costs and the amount of that liability must be able to be determined with reasonable accuracy. The Partnership and Drilling Agreements establish the fact of liability. The Managing General Partner believes the AFEs that will be attached as exhibits to the Drilling Agreement accurately represent the approximate actual costs that will be incurred and intends to rely on such AFEs in the preparation of the partnership tax returns, including the K-1s for the GP Investors. It is possible that the IRS could challenge the position that the amount of Intangible Drilling Costs was able to be determined with reasonable accuracy, which, if successful, could result in the deduction, or a portion of the deduction, for Intangible Drilling Costs being deferred to 2015. (If the offering for Genesis Drilling Program IV LP does not commence until after December 31, 2014, one year should be added to each of the dates in this paragraph as it relates to that Partnership.)

In the case of corporations, other than S corporations, which are "integrated oil companies," the amount allowable as a deduction for Intangible Drilling Costs in any taxable year is reduced by 30%. Integrated oil companies are:

- those taxpayers who directly or through a related person engage in the retail sale of natural gas and oil and whose gross receipts for the calendar year from those activities exceed $5 million; or
- those taxpayers and related persons who have refinery production in excess of 75,000 barrels on any day during the taxable year. Therefore, it is unlikely this will apply to any Participant.

Each Participant should consult with his personal tax advisor concerning the tax benefits to him of the Partnership's deduction for Intangible Drilling Costs in light of the Participant's own tax situation.

Drilling Contracts

The Partnership will enter into a Drilling Agreement with the Managing General Partner or its Affiliates, as a third party general drilling contractor, to drill and complete wells for the Partnership on a cost plus basis. The price will be proportionately reduced to the extent the Partnership acquires less than 100% of the Working Interest in the well.

The Partnership will attempt to comply with the guidelines established in federal tax law with respect to prepaid Intangible Drilling Costs. The Drilling Agreement will require the Partnership to prepay in 2014 Intangible Drilling Costs for specified wells the drilling of which will begin in 2014 or 2015. Prepayments should not result in a loss of current deductibility where there is a legitimate business purpose for the required prepayment, the contract is not merely a sham to control the timing of the deduction and there is an enforceable contract of economic substance. The Drilling Agreement will require the Partnership to prepay the Intangible Drilling Costs of the wells in order to lock in one or more drilling rig owners to work on the partnerships' wells and to enable the Operator to commence site preparation for the wells, obtain suitable subcontractors at the then current prices and insure the availability of equipment and materials. Under the Drilling Agreement excess prepaid amounts, if any, will not be refundable to the Partnership but will be applied to Intangible Drilling Costs to be incurred in drilling additional wells. Under federal tax law, the provision for substitute wells should not result in the prepayments being characterized as refundable deposits.

The likelihood that prepayments will be challenged by the IRS on the grounds that there is no business purpose for the prepayment is increased in the event prepayments are not required with respect to 100% of the Working Interest. The Managing General Partner anticipates that less than 100% of the Working Interest will be acquired by the Partnership in all of its wells and prepayments will not be required of all holders of the Working Interest. However, in the view of Special Counsel, a legitimate business purpose for the required prepayments may exist under guidelines set forth in federal tax law, even though prepayment is not required, or actually received, by the drilling contractor with respect to a portion of the Working Interest.

In addition to the foregoing, a current deduction for prepaid Intangible Drilling Costs under a cost plus contract is limited to those costs which are prepaid and which can be estimated with reasonable accuracy and is available only if the drilling of the wells begins before the close of the 90th day after the close of the taxable year. Drilling begins when there is actual penetration of the ground by a drill bit. The Managing General Partner will attempt to cause the drilling of all prepaid Partnership Wells to begin on or before March 31, 2015. However, the drilling of any Partnership Well may be delayed due to circumstances beyond the control of the Partnership or the drilling contractor. Such circumstances include the unavailability of drilling rigs, weather conditions, inability to obtain drilling permits or access right to the drilling site, or title problems. Due to the foregoing factors no guaranty can be given that the drilling of all prepaid Partnership Wells required by the Drilling Agreement to begin on or before March 31, 2015, will actually begin by that date. In that event, deductions claimed in 2014 for prepaid Intangible Drilling Costs could be disallowed and deferred to the 2015 taxable year.

In a decision of the United States Tax Court in Caltex Oil Venture vs. Commissioner of Internal Revenue Service (138 T.C. 2 (January 12, 2012)), the Tax Court has ruled that under the all events test set forth in Section 461 of the Code and the regulations promulgated thereunder, a cost-plus contract which segregates the services to be rendered into various components may provide an intangible drilling cost deduction with respect to those components for which payment is made during the taxable year, provided that the segregated services may reasonably be expected to be performed within 3½ months of the date of payment. The Managing General Partner will endeavor to identify those services that can reasonably be expected to be completed within 3½ months and pay for them in 2014. However, if a well is not completed within the specified time period, a substantial portion of the intangible drilling costs may be deferred until 2015.

No assurance can be given that on audit the IRS would not disallow the current deductibility of a portion or all of any prepayments of Intangible Drilling Costs under the Partnership's drilling contracts, which would decrease the amount of the Participant's deductions for the current taxable year, or that the challenge would not ultimately be sustained. In the event of disallowance, the deduction would be available in the year the work is actually performed.

Depletion Allowance

Proceeds from the sale of the Partnership's natural gas and oil production will constitute ordinary income. A certain portion of that income will not be taxable because of the depletion allowance which permits the deduction from gross income for federal income tax purposes of either the percentage depletion allowance or the cost depletion allowance, whichever is greater. These deductions are subject to recapture as ordinary income rather than capital gain on the disposition of the property or a Participant's Units. (See "Sale of the Properties" and "Disposition of Units," below.)

Cost depletion for any year is determined by dividing the adjusted tax basis for the property by the total units of natural gas or oil expected to be recoverable from the property and then multiplying the resultant quotient by the number of units actually sold during the year. Cost depletion cannot exceed the adjusted tax basis of the property to which it relates.

Percentage depletion generally is available to taxpayers other than integrated oil companies. Percentage depletion is based on the Participant's share of the Partnership's gross income from its natural gas and oil properties.

The rate of percentage depletion for domestic oil and gas production from marginal properties is 15%. This rate fluctuates from year to year depending on the price of oil, but will not be less than 15% or more than 25%. Under §§ 613A(c)(1) and 613(a) of the Code, percentage depletion may not exceed 100% of the net income from each natural gas and oil property before the deduction for depletion, and is limited to 65% of the taxpayer's taxable income for a year computed without regard to percentage depletion, net operating loss carry backs and capital loss carry backs.

Availability of percentage depletion must be computed separately for each Participant and not by the Partnership or for Participants as a whole. Potential Participants are urged to consult their own tax advisors with respect to the availability of percentage depletion to them.

Depreciation - Modified Accelerated Cost Recovery System ("MACRS")

Costs for tangible equipment acquired and/or placed in service by the Partnership for drilling, operating and/or completing the oil and natural gas wells are depreciable under the Modified Accelerated Cost Recovery System ("MACRS"). IRS Revenue Procedure 87-56, Class 13.1 (Drilling of Oil and Gas Wells) lists a recovery period of five years for general depreciation purposes for tangible equipment "used in the drilling of onshore oil and gas wells and the provision of geophysical and other exploration services." IRS Revenue Procedure 87-56, Class 13.2 (Exploration for and Production of Petroleum and Natural Gas Deposits) lists a recovery period of seven years for general depreciation purposes for tangible equipment "used by petroleum and natural gas producers for drilling of wells and production of petroleum and natural gas, including gathering pipelines and related storage facilities, petroleum and natural gas offshore transportation facilities used by producers and others consisting of platforms, compression or pumping equipment, and gathering and transmission lines to the first onshore transshipment facilities." The Tangible Investors, will provide the funds, from their subscription proceeds, to purchase the equipment and will receive the depreciation deductions related thereto. Accordingly, it is not anticipated that IDC Investors will be entitled to depreciation deductions.

Tax Basis of Units

A Participant's share of the Partnership's loss is generally deductible only to the extent of the adjusted basis of the Participant's Units at the end of the Partnership's taxable year. The adjusted basis of the Units will be adjusted, but not below zero, for any gain or loss to the Participant from a disposition by the Partnership of a natural gas or oil property, and will be increased by the Participant's cash subscription payment, share of the Partnership's income, and share, if any, of the Partnership's debt. The adjusted basis of a Participant's Units will be reduced, but not below zero, by (i) the Participant's share of Partnership losses, (ii) Partnership expenditures which are not deductible in computing the Partnership's taxable income or loss and which are not capital expenditures, (iii) the Participant's deduction for depletion for any Partnership oil and gas property (to the extent it does not exceed the proportionate share of the adjusted basis of the property allocated to such Participant), and (iv) any cash distributions from the Partnership to the Participant.

The reduction in a Participant's share of Partnership liabilities, if any, is considered a cash distribution. Participants will not be personally liable on any Partnership loans; however, Investor General Partners will be liable for other obligations of the Partnership. (See "Risk Factors Special Risks of the Partnership.") Should cash distributions exceed the tax basis of the Participant's Units, taxable gain would result to the extent of the excess. (See "Distributions From the Partnership," below.)

3.8 Percent Net Investment Income Tax

Section 1411 levies a 3.8% tax (commonly referred to as the Net Investment Income Tax) on certain individuals, trusts, and estates, but not entities exempt from tax such as Qualified Entity investors. Thus, Section 1411 will not apply to Qualified Entity investors. For individuals, the amount subject to tax is the lesser of an individual's net investment income for the tax year, or the excess of the individual's modified adjusted gross income for the tax year over the threshold amount. I.R.C. § 1411(a)(1). In other words, the tax does not apply unless the individual's modified adjusted gross income exceeds the applicable threshold. Under Section 1411, the threshold amounts are as follows: $250,000 for married individuals filing jointly or as a surviving spouse; $200,000 for individuals filing single or head or household; and $125,000 for married individuals filing separately. I.R.C. § 1411(b). Because application of Section 1411 to each individual investor will depend on his specific circumstances, potential individual Non-Qualified Participants are urged to consult their own tax advisors with respect to the application of Section 1411 to them.

For purposes of Section 1411, net investment income includes, among other income items, dividends, and, generally, income from a trade or business that is a passive activity, as defined by Section 469. I.R.C. § 1411(c). As a result, Partnership income allocated to individual limited partners (as passive income) will constitute net investment income for purposes of Section 1411. Likewise, dividends distributed by the LLC to individual members will constitute net investment income for purposes of Section 1411.

Partnership income allocated to individual GP Investors, however, may, or may not, constitute net investment income. As discussed above (under "Limitations on Passive Activities"), a GP Investor's interest is considered active for purposes of Section 469. As such, Partnership income allocated to an individual GP Investor will not be passive income and, therefore, will not be net investment income. Even after the GP Investor converts his interest to a limited partner interest (discussed below under "Conversion From Investor General Partner to Limited Partner"), his net income from the Partnership will continue the active characterization <u>for purposes of Section 469</u>. I.R.C. § 469(c)(3), (4). However, it is unclear whether that characterization will apply for purposes of Section 1411; the Final Treasury Regulations under Section 1411 (promulgated on December 2, 2013) failed to resolve this uncertainty. For purposes of Section 1411, the Final Treasury Regulations do, however, generally follow Section 469's characterization of income and gain. See Treas. Reg. § 1.1411-5. As a result, an individual GP Investor has a reasonable position that, for purposes of Section 1411, Partnership income allocated to his interest remains characterized as active after it is converted to a limited partner interest and, thus, will not be net investment income; however, absent authority confirming that position, it is unclear whether that position is proper. Accordingly, income allocated to an individual GP Investor's active interest before conversion to a limited partner interest will not constitute net investment income, but income allocated to an individual GP Investor after conversion may, or may not, constitute net investment income.

"At Risk" Limitation For Losses

Subject to the limitations on "passive losses" generated by the Partnership in the case of Limited Partners and a Participant's basis in his Units, each Participant may use his share of the Partnership's losses to offset income from other sources. (See "Limitations on Passive Activities" and "Tax Basis of Units," above.) However, a Participant, other than a corporation which is neither an S corporation nor a corporation in which five or fewer individuals own more than 50% of the stock, who sustains a loss in connection with the Partnership's natural gas and oil activities may deduct the loss only to the extent of the amount the Participant has "at risk" in the Partnership at the end of a taxable year.

A Participant's initial "at risk" amount generally is the amount of money the Participant pays for his Units. However, borrowed amounts will not be considered "at risk" if the amounts are borrowed from any person who has an interest, other than as a creditor, in the Partnership or from a related person to a person, other than the Participant, having such an interest.

"Loss" means the excess of a Participant's allowable deductions for a taxable year from the Partnership over the amount of income actually received or accrued by the Participant during the year from the Partnership. The amount a Participant has "at risk" may not include the amount of any loss that he is protected against through nonrecourse loans, guarantees, stop loss agreements, or other similar arrangements.

The amount of any loss that is disallowed will be carried over to the next taxable year and utilized to the extent a Participant is "at risk." Further, a Participant's "at risk" amount in subsequent taxable years with respect to the Partnership will be reduced by that portion of the loss which is allowable as a deduction.

The Participants' cash subscription payments to the Partnership are usually "at risk". Because income, gains, losses, and distributions of the Partnership affect the amount considered to be "at risk," the extent to which a Participant is "at risk" must be determined annually. Previously allowed losses must be included in gross income if a Participant's "at risk" amount is reduced below zero. The amount included in income under this recapture provision may be deducted in a subsequent taxable year to the extent of any increase in the amount which the Participant has "at risk."

Distributions From the Partnership

Generally, a cash distribution from the Partnership to a Participant in excess of the adjusted basis of the Participant's Units immediately before the distribution is treated as gain, as though it arose from the sale or exchange of the Participant's Units to the extent of such excess. If property is distributed by the Partnership to the Managing General Partner and the Participants, certain basis adjustments may be made by the Partnership, the Managing General Partner and the Participants. No loss will be recognized by the Participants on these distributions. Also, disproportionate distributions of property and liquidating distributions may result in taxable gain or loss. (See "Disposition of Units" and "Termination of the Partnership," below.)

Sale of the Properties

In 2014, net long-term capital gains of a non-corporate taxpayer on the sale of assets held more than a year are taxed at a maximum rate of 20%. The maximum rate applies to the extent a taxpayer's income exceeds the thresholds set for the 39.6% tax rate bracket ($400,000 for single filers; $450,000 for joint filers; and $425,000 for heads of households). For taxpayers that fall below that threshold, a maximum rate of 15% applies (a 0% rate applies for taxpayers with income that falls below the top of the 15% tax rate bracket). The annual capital loss limitation for non-corporate taxpayers is the amount of capital gains plus the lesser of $3,000, which is reduced to $1,500 for married persons filing separate returns, or the excess of capital losses over capital gains.

Natural gas and oil properties generally will qualify as a capital asset or as property used in a trade or business, and therefore, if the property was held for the requisite holding period, any gain will constitute capital gain subject to depreciation recapture on equipment and recapture of any Intangible Drilling Costs, depletion deductions and certain losses on previous sales, if any, of the Partnership's assets, which produce ordinary income to the extent of the recapture of gain as ordinary income. Intangible Drilling Costs that are incurred in connection with a natural gas and oil property may be recaptured as ordinary income when the property is disposed of by the Partnership. In addition, the deductions for depletion which reduced the adjusted basis of the property are subject to recapture as ordinary income, and all gain on disposition of tangible personal property is treated as ordinary income to the extent of MACRS deductions claimed by the Partnership.

The amount to be recaptured as ordinary income is the lesser of: (i) the aggregate amount of expenditures that were deducted as intangible drilling costs, development costs or exploration costs with respect to such property and which, but for such deduction, would have been included in the adjusted basis of such property, and depletion deductions that reduced the adjusted basis of the property, or (ii) the excess of the amount realized in a sale, exchange or involuntary conversion (or fair market value if the disposition is not such a transaction), over the adjusted basis of the property.

Other gains and losses on sales of natural gas and oil properties will generally result in ordinary gains or losses.

Disposition of Units

The sale or exchange, including a repurchase by the Managing General Partner, of all or part of a Participant's Units held by a Participant for more than 12 months will generally result in recognition of long term capital gain or loss. However, previous deductions for depletion and/or Intangible Drilling Costs may be recaptured as ordinary income rather than capital gain. If the interest is held for 12 months or less, then the gain or loss will generally be short term gain or loss. Also, a Participant's pro rata share of the Partnership's liabilities, if any, as of the date of the sale or exchange must be included in the amount realized. Therefore, the gain recognized may result in a tax liability greater than the cash proceeds, if any, from such disposition. In addition to gain from a passive activity, a portion of any gain recognized by a Limited Partner on the sale or other disposition of his Units will be characterized as portfolio income under § 469 of the Code to the extent the gain is itself attributable to portfolio income, e.g. interest on investment of working capital.

A gift of a Unit may result in federal and/or state income tax and gift tax liability of the Participant, and interests in different partnerships do not qualify for tax free like kind exchanges. Other dispositions of a Participant's Units, including a repurchase of the Units by the Managing General Partner, may or may not result in recognition of taxable gain. However, no gain should be recognized by an Investor General Partner whose Units are converted to Limited Partner Units so long as there is no change in his share of the Partnership's liabilities or certain Partnership assets as a result of the conversion.

A Participant who sells or exchanges all or part of his Units is required to notify the Partnership within 30 days or by January 15 of the following year, if earlier. After receiving the notice, the Partnership is required to make a return with the IRS stating the name and address of the transferor and the transferee and such other information as may be required by the IRS. The Partnership must also provide each person whose name is set forth in the return a written statement showing the information set forth on the return.

If a Participant sells or exchanges all of his Units, the taxable year of the Partnership will close with respect to that Participant, but not the remaining Participants, on the date of sale or exchange, with a proration of partnership items for the Partnership's taxable year. If a Participant sells less than all of his Units, the Partnership year will not terminate with respect to the selling Participant, but his proportionate share of items of income, gain, loss, and deduction will be determined by taking into account his varying interests in the Partnership during the taxable year. Deductions generally may not be allocated to a person acquiring an interest from a selling Participant for a period before the purchaser's admission to the Partnership.

No disposition of a Unit, including repurchase of the Unit by the Managing General Partner, should be made by any Participant before consultation with his tax advisor.

Minimum Tax - Tax Preferences

With limited exceptions, all taxpayers are subject to the alternative minimum tax. If the alternative minimum tax exceeds the regular tax, then the excess is payable in addition to the regular tax. The alternative minimum tax is intended to insure that no one with substantial income can avoid tax liability by using deductions and credits. The alternative minimum tax accomplishes this objective by not treating favorably certain items that are treated favorably for purposes of the regular tax, including the deduction for Intangible Drilling Costs.

The tax preference for Intangible Drilling Costs applies in full to integrated oil companies. See I.R.C. § 57 (a)(2)(A). On the other hand, "independent" oil and gas producers (defined in IRC § 613A(d) as producers who do not have more than $5,000,000 in retail sales of oil or gas in a year and who do not refine more than 75,000 barrels of crude oil on any given day during the year), such as investors in an oil and gas partnership, are excluded from the preference amount, but only to the extent that the exclusion does not exceed 40% of the amount that the Participant's alternative minimum taxable income would have been had the exclusion not applied. I.R.C. § 57 (a)(2)(E). In other words, the repeal of the excess Intangible Drilling Costs tax preference for independent producers may not result in more than a 40% reduction in the amount of the taxpayer's alternative minimum taxable income computed as if the excess intangible drilling costs preference had not been repealed.

The Intangible Drilling Costs tax preference is the amount by which the excess Intangible Drilling Costs paid or incurred during the taxable year exceed 65% of the Participant's net income from natural gas and oil properties for that taxable year. I.R.C. § 57 (a)(2)(A). Excess Intangible Drilling Costs are the excess of the Participant's regular tax deduction for such costs (including the amortization of the capitalized portion of such costs by integrated oil companies) over the amount that would have been allowable for the taxable year, if such costs had been capitalized and amortized over a period of 120 months from the month in which production from the well commenced or, if the Participant elects, over the period that could be used to determine cost depletion. I.R.C. § 57 (a)(2)(B). The election to use cost depletion to compute straight-line recovery of Intangible Drilling Costs is made separately for each well. Treas. Reg. § 7.57(d)-1(b)(2). Both depletable and depreciable Intangible Drilling Costs for the taxable year are taken into account. Treas. Reg. § 7.57(d)-1(c). The election can be made whether or not the Participant uses cost depletion in computing taxable income. Treas. Reg. § 7.57(d)-1(b)(4). However, the election is made by the Partnership rather than by each Participant. Treas. Reg. § 7.57(d)-1(b)(5). The preference does not apply to Intangible Drilling Cost associated with the drilling of a non-productive well. I.R.C. § 57 (a)(2)(B)(i).

Each Participant may elect to deduct all or part of his share of the Partnership's Intangible Drilling Costs, if any, as a current business expense or amortize the costs ratably over a 60 month period beginning with the month in which costs were paid or incurred (if the Participant makes this election, no Intangible Drilling Costs tax preference amount will result). I.R.C. § 59 (e). However, certain amounts paid to contractors must be capitalized if they are either: (i) amounts properly allocable to the cost of depreciable property, or (ii) amounts paid only out of production or proceeds from production if these amounts are depletable income to the Participant. See Treas. Reg. § 1.162-5(a). This election also applies for regular tax purposes and can be revoked only with the IRS's consent. I.R.C. § 59 (e)(4)(B). As a result of making this election, the electing Participant's tax deduction for any Intangible Drilling Costs will be reduced by the amount that is capitalized, and the electing Participant's Intangible Drilling Costs deductions will not be a preference item for alternative minimum tax purposes. See I.R.C. § 59(e)(6).

The likelihood of a Participant incurring, or increasing, any minimum tax liability by virtue of an investment in the Partnership must be determined on an individual basis, and requires consultation by a prospective Participant with his personal tax advisor.

Limitations on Deduction of Investment Interest

Investment interest expense is deductible by a non-corporate taxpayer only to the extent of net investment income each year, with an indefinite carry-forward of disallowed investment interest. Investment interest generally includes all interest on debt not incurred in a person's active trade or business except consumer interest, qualified residence interest, and passive activity interest under § 469 of the Code. Accordingly, an Investor General Partner's share of any interest expense incurred by the Partnership before the Investor General Partner Units are converted to Limited Partner Units will be subject to the investment interest limitation. In addition, an Investor General Partner's income and losses, including Intangible Drilling Costs, from the Partnership will be considered investment income and losses for purposes of this limitation. Losses allocable to an Investor General Partner will reduce his net investment income and may affect the deductibility of his investment interest expense, if any.

Net investment income is the excess of investment income over investment expenses. Investment income includes: gross income from interest, dividends, rents, and royalties; portfolio income under the passive activity rules, which includes working capital investment income; and income from a trade or business in which the taxpayer does not materially participate if the activity is not a passive activity. In the case of Investor General Partners, this includes Partnership income before the conversion of Investor General Partner Units to Limited Partner Units. Investment expenses include deductions, other than interest, that are directly connected with the production of net investment income, including actual depreciation or depletion deductions allowable. No item of income or expense subject to the passive activity loss rules of § 469 of the Code is treated as investment income or investment expense.

Allocations

The Partnership Agreement allocates to Participants their share of the Partnership's income, gains, losses, and deductions, including any deduction for Intangible Drilling Costs according to the provisions of the partnership agreement. Allocations of certain items are made in ratios that are different than allocations of other items. (See "Participation in Costs and Revenues.") The Participants' Capital Accounts are adjusted to reflect these allocations and the Capital Accounts, as adjusted, will be given effect in distributions made to the Participants on liquidation of the Partnership or any Participant's Units. Generally, the basis of natural gas and oil properties owned by the Partnership for computation of cost depletion and gain or loss on disposition will be allocated and reallocated when necessary in the ratio in which the expenditure giving rise to the tax basis of each property was charged as of the end of the year.

Allocations made in a manner that is disproportionate to the respective interests of the Participants in the Partnership of any item of partnership income, gain, loss, deduction or credit will not be given effect unless the allocation has "substantial economic effect", as that term is defined in federal tax law.

There are special rules for the allocation of depletion contained in the regulations promulgated under Section 613(c)(7)(D) of the Code. Under those regulations a partner's proportionate share in the adjusted basis of partnership property, which is used to determine each partner's share of depletion, may be determined based on his interest in partnership income if the partnership agreement so provides, unless there exists a written provision or an understanding with other partners that the share of any partnership income is to reduce for any purpose other than to reflect the admission of a new partner.

The partnership intends to allocate depletion among the partners in proportion to income. The partnership agreement does not provide for the reduction of any partner's share of partnership income except in connection with the awarding of a partnership interest to an affiliate of the general partner upon Payout. This reduction in interest, as the result of an admission of a new partner, meets the requirements of the Section 613(c)(7)(D) regulations and, accordingly, the allocation of depletion based upon income should be respected.

Special provisions apply to deductions related to nonrecourse debt. For example, if the Managing General Partner or an Affiliate makes a nonrecourse loan to the Partnership ("partner nonrecourse liability"), Partnership losses, deductions, or § 705(a)(2)(B) expenditures attributable to the loan must be allocated to the Managing General Partner, and if there is a net decrease in partner nonrecourse liability minimum gain with respect to the loan, the Managing General Partner must allocate income and gain equal to the net decrease.

In the event of a sale or transfer of a Participant's Unit or the admission of an additional Participant, Partnership income, gain, loss and deductions generally will be allocated among the Participants on a daily basis according to their varying interests in the Partnership during the taxable year. In addition, in the discretion of the Managing General Partner, Partnership property may be revalued on the admission of additional Participants, or if certain distributions are made to the Participants, to reflect unrealized income, gain, loss or deduction inherent in the Partnership's property for purposes of adjusting the Participants' Capital Accounts.

It should also be noted that each Participant's share of Partnership items of income, gain, loss and deduction must be taken into account whether or not there is any distributable cash. A Participant's share of Partnership revenues applied to the repayment of loans or the reserve for plugging wells, for example, will be included in his gross income in a manner analogous to an actual distribution of the income to him. Thus, a Participant may have tax liability on taxable income from the Partnership for a particular year in excess of any cash distributions from the Partnership to him with respect to that year. To the extent the Partnership has cash available for distribution, however, it is the Managing General Partner's policy that Partnership distributions will not be less than the Managing General Partner's estimate of the Participants' income tax liability with respect to Partnership income.

If any allocation under the Partnership Agreement is not recognized for federal income tax purposes, each Participant's share of the items subject to the allocation generally will be determined in accordance with his interest in the Partnership, determined by considering relevant facts and circumstances. To the extent deductions allocated by the Partnership Agreement exceed deductions which would be allowed under a reallocation by the IRS, Participants may incur a greater tax burden. However, assuming the effect of the special allocations set forth in the Partnership Agreement is substantial in light of a Participant's tax attributes that are unrelated to the Partnership, in the opinion of Special Counsel it is more likely than not that the allocations will have "substantial economic effect" and will govern each Participant's share of those items to the extent the allocations do not cause or increase deficit balances in the Participants' Capital Accounts.

Partnership Borrowings

The use of Partnership revenues taxable to Participants to repay Partnership borrowings could create income tax liability for the Participants in excess of cash distributions to them, because repayments of principal are not deductible for federal income tax purposes. In addition, interest on the loans will not be deductible unless the loans are bona fide loans that will not be treated as Capital Contributions. Whether a "loan" to the Partnership represents in substance, debt or equity is a question of fact to be determined from all the surrounding facts and circumstances.

Partnership Organization and Syndication Fees

Eight percent (8%) of the subscription proceeds received by the Partnership from the Participants will be used to pay expenses connected with the issuance and sale of Units, such as promotional expenses, the Dealer Manager fee, Sales Commissions, due diligence fees, marketing expense fee, and other selling expenses, professional fees and printing costs and the balance of such costs (approximately four percent (4%) of the amount of the subscription proceeds) will be paid by the

Managing General Partner as part of the Partnership's Organization and Offering Costs and any related deductions, which the Managing General Partner does not anticipate will be material in amount, will be allocated proportionately to the Participants and the Managing General Partner.

Tax Elections

The Partnership may elect to adjust the basis of Partnership property on the transfer of a Unit by sale or exchange or on the death of a Participant, and on the distribution of property by the Partnership to a Participant (the § 754 election). The general effect of such an election is that transferees of the Units are treated, for purposes of depreciation and gain, as though they had acquired a direct interest in the Partnership assets and the Partnership is treated for these purposes, on certain distributions to Participants, as though it had newly acquired an interest in the Partnership assets and therefore acquired a new cost basis for the assets. Any election, once made, may not be revoked without the consent of the IRS. The Partnership may also make various elections for federal tax reporting purposes that could result in various items of income, gain, loss and deduction being treated differently for tax purposes than for accounting purposes.

Disallowance of Deductions Under Section 183 of the Code

Under § 183 of the Code, a Participant's ability to deduct his share of the Partnership's losses on his federal income tax return could be lost if the Partnership lacks the appropriate profit motive as determined from an examination of all facts and circumstances at the time. Section 183 creates a presumption that an activity is engaged in for profit, if, in any three of five consecutive taxable years, the gross income derived from the activity exceeds the deductions attributable to the activity. Thus, if the Partnership fails to show a profit in at least three out of five consecutive years, this presumption will not be available and the possibility that the IRS could successfully challenge the Partnership deductions claimed by a Participant would be substantially increased.

The fact that the possibility of ultimately obtaining profits is uncertain, standing alone, does not appear to be sufficient grounds for the denial of losses under § 183. Based on the Managing General Partner's representation that the Partnership will be conducted as described in this private placement memorandum, in the opinion of Special Counsel it is more likely than not that the Partnership will possess the requisite profit motive.

Termination of the Partnership

Under § 708(b) of the Code, the Partnership will be considered as terminated for federal income tax purposes if within a 12 month period there is a sale or exchange of 50% or more of the total interest in Partnership capital and profits. The closing of the Partnership year may result in more than 12 months' income or loss of the Partnership being allocated to certain Participants for the year of termination, for example, in the case of Participants using fiscal years other than the calendar year. Under § 731 of the Code, a Participant will realize taxable gain on a termination of the Partnership to the extent that money regarded as distributed to him exceeds the adjusted basis of his Units. The conversion of Investor General Partner Units to Limited Partner Units, however, will not terminate the Partnership.

Lack of Filing as a Reportable Transaction (Tax Shelter)

Section 6111 of the Code generally requires a material advisor of a "reportable transaction" (tax shelter) to file a statement with the Secretary of the Treasury. For purposes of these provisions, a "reportable transaction" is generally defined to include transactions which have a potential for tax avoidance or tax evasion. Types of reportable transactions include: (1) listed transactions, (2) confidential transactions for which the subscribers have paid a minimum fee ($250,000 for corporate taxpayers and $50,000 for non-corporate taxpayers) to advisors for a tax strategy or other advice, (3) transactions with contractual protection, (4) loss transactions, and (5) transactions of interest. (Treas. Reg. § 1.6011-4.)

The Managing General Partner does not believe that the Partnership will be a "reportable transaction" because: (1) the purpose of the Partnership is to locate, produce and market natural gas and oil on an economic basis, (2) the Partnership is not a listed transaction (as identified by the IRS), (3) the Partnership is not a confidential transaction for which a "minimum fee" has been paid, (4) participants' fees will not be refunded if the tax consequences are other than as set forth herein, (5) the losses (under § 165 of the Code (loss deductions), as clarified by Treas. Reg. § 1.6011-4(b)(5)(i)(C) and Revenue Procedure 2004-66) generated by the Partnership are not anticipated to exceed $2,000,000 in any single year or $4,000,000 in a combination of years, and (6) the Partnership is not a "transaction of interest" (as identified by the IRS). Accordingly, the Managing General Partner does not intend to file the formation of the Partnership with the IRS as a reportable transaction.

If it is subsequently determined by the IRS or the courts that the Partnership was required to be disclosed to the IRS as a reportable transaction, the Managing General Partner would be subject to certain penalties, including a penalty of $50,000 for failure to disclose (or $200,000 in the case of a listed transaction). However, based on the representations of the Managing General Partner, we are of the opinion that the Partnership, more likely than not, is not required to file with the IRS as a reportable transaction.

Investor Lists

Section 6112 of the Code requires that any person who is a "material advisor" with respect to a reportable transaction must maintain a list identifying each person with respect to whom the advisor acted as a material advisor and setting forth other required information. For the reasons described above, the Managing General Partner does not believe the Partnership is subject to the requirements of § 6112. If this determination is wrong, § 6708 of the Code provides for a penalty of $10,000 for each day after the due date that such list is not furnished to the IRS, unless the failure is due to reasonable cause.

Tax Returns and Audits

In General. The tax treatment of all partnership items is generally determined at the partnership, rather than the partner level, and the partners are generally required to treat partnership items on their individual returns in a manner that is consistent with the treatment of the partnership items on the partnership return. I.R.C. §§ 6221 and 6222. Regulations define "partnership items" for this purpose as including distributive share items that must be allocated among the partners, such as partnership liabilities, data pertaining to the computation of the depletion allowance, and guaranteed payments.

Generally, the IRS must conduct an administrative determination as to partnership items at the partnership level before conducting deficiency proceedings against a partner, and the partners must file a request for an administrative determination before filing suit for any credit or refund. The period for assessing tax against a Partner attributable to a partnership item may be extended as to all partners by agreement between the IRS and the Managing General Partner, which will serve as the Partnership's representative ("Tax Matters Partner") in all administrative and judicial proceedings conducted at the partnership level. The Tax Matters Partner generally may enter into a settlement on behalf of, and binding on, Participants owning less than a 1% profits interest if there are more than 100 Participants in the Partnership. In addition, a partnership with at least 100 partners may elect to be governed under simplified tax reporting and audit rules as an "electing large partnership." These rules also facilitate the matching of partnership items with individual partner tax returns by the IRS. The Managing General Partner does not anticipate that the Partnership will make this election. By executing the Partnership Agreement, each Participant agrees that he will not form or exercise any right as a member of a notice group and will not file a statement notifying the IRS that the Tax Matters Partner does not have binding settlement authority.

In the event of an audit of the return of the Partnership, the Tax Matters Partner, pursuant to advice of counsel, will use its best efforts to take all actions necessary, in its discretion, to preserve the rights of the Participants. All expenses of any proceedings undertaken by the Tax Matters Partner, which might be substantial, will be paid for by the Partnership. The Tax Matters Partner is not obligated to contest adjustments made by the IRS.

Tax Returns. A Participant's income tax returns are the responsibility of the Participant. The Partnership will provide each Participant with the tax information applicable to his investment in the Partnership necessary to prepare such returns.

IRS Anti Abuse Rule. Under Treas. Reg. § 1.701-2, if a principal purpose of a partnership is to reduce substantially the partners' federal income tax liability in a manner that is inconsistent with the intent of the partnership rules of the Code, based on all the facts and circumstances, the IRS is authorized to remedy the abuse. Based on the Managing General Partner's representation that the Partnership will be conducted as described in this private placement memorandum, in the opinion of Special Counsel it is more likely than not that the Partnership will not be subject to the anti-abuse rule set forth in Treas. Reg. § 1.701-2.

State and Local Taxes

The Partnership will operate in states and localities that impose a tax on its assets or its income, or on each Participant. Deductions which are available to Participants for federal income tax purposes may not be available for state or local income tax purposes. A Participant's share of the net income or net loss of the Partnership generally must be included in determining his reportable income for state or local tax purposes in the jurisdiction in which he is a resident. To the extent that a non-resident Participant pays tax to a state because of Partnership operations within that state, he may be entitled to a deduction or credit against tax owed to his state of residence with respect to the same income. To the extent that the Partnership operates in certain jurisdictions, state or local estate or inheritance taxes may be payable on the death of a Participant in addition to taxes imposed by his own domicile.

Prospective Participants should consult with their own tax advisors concerning the possible effect of various state and local taxes on their personal tax situations.

Social Security Benefits and Self Employment Tax

A Limited Partner's share of income or loss from the Partnership is excluded from the definition of "net earnings from self-employment." No increased benefits under the Social Security Act will be earned by Limited Partners and if any Limited Partners are currently receiving Social Security benefits, their shares of Partnership taxable income will not be taken into account in determining any reduction in benefits because of "excess earnings."

An Investor General Partner's share of income or loss from the Partnership will constitute "net earnings from self-employment" for these purposes. I.R.C. § 1402(a). For 2014 the ceiling for social security tax of 12.4% is $113,700 and there is no ceiling for Medicare tax of 2.9%. Self-employed individuals can deduct one half of their self-employment tax.

Foreign Partners

The Partnership will be required to withhold and pay to the IRS tax at the highest rate under the Code applicable to Partnership income allocable to foreign Participants, even if no cash distributions are made to them. A purchaser of a foreign Participant's Units may be required to withhold a portion of the purchase price and the Managing General Partner may be required to withhold with respect to taxable distributions of real property to a foreign Participant. These withholding requirements described above do not obviate United States tax return filing requirements for foreign Participants. In the event of over-withholding, a foreign Participant must file a United States tax return to obtain a refund.

SUMMARY OF PARTNERSHIP AGREEMENT

Note: The rights and obligations of the managing general partner and you and the other investors in the partnership are governed by the partnership agreement, a copy of which is attached as Exhibit (A) to this private placement memorandum. You should not invest in the partnership without first thoroughly reviewing the partnership agreement. The following is a summary of the material provisions in the partnership agreement which are not covered elsewhere in this private placement memorandum.

Liability of Limited Partners

The partnership will be governed by the Delaware Revised Uniform Limited Partnership Act. If you invest in the partnership as a limited partner, then generally you will not be liable to third-parties for the obligations of the partnership. However, there are the following exceptions if you:

- also invest as an investor general partner;
- take part in the control of the business of the partnership in addition to the exercise of your rights and powers as a limited partner;
- fail to make a required capital contribution to the extent of the required capital contribution; or
- for a period of two years, receive any capital contributions "wrongfully" returned to you in violation of the partnership agreement or Delaware law to the extent of the capital contribution wrongfully returned to you, with interest thereon. This includes, but is not limited to, any distribution to you and the other limited partners to the extent that, after giving effect to the distribution, all liabilities of the partnership exceed partnership assets.

Amendments

Amendments to the partnership agreement may be proposed in writing by:

- the managing general partner and adopted with the consent of investors whose units equal a majority of the total units; or
- investors whose units equal 25% of the total units and adopted by an affirmative vote of investors whose units equal 65% of the total units.

The partnership agreement may also be amended by the managing general partner without the consent of the investors for certain limited purposes. However, an amendment which materially and adversely affects the investors can be made only with the consent of the affected investors.

Notice

The following provisions apply regarding notices:

- when the managing general partner gives you and the other investors notice it begins to run from the date of mailing the notice and is binding even if not received;
- the notice periods are frequently quite short, a minimum of 15 business days, and apply to matters which may seriously affect your rights; and
- if you fail to respond in the specified time to the managing general partner's request for approval of or concurrence in a proposed action, then you, will conclusively be deemed to have approved the action unless the partnership agreement expressly requires your affirmative approval.

Voting Rights

At any time investors whose units equal 25% or more of the total units in the partnership may call a meeting to vote, or vote without a meeting, on the matters set forth below without the concurrence of the managing general partner. On the matters being voted on you are entitled to one vote per unit or if you own a fractional unit, that fraction of one vote equal to the fractional interest in the unit. Investors whose units equal 65% of the total units may vote to:

- dissolve the partnership;
- remove the managing general partner (in situations involving the bankruptcy or insolvency of the managing general partner only a majority vote is required, in all situations the selection of a substitute managing general partner requires a majority vote);
- remove the operator and elect a new operator; and
- amend the partnership agreement; provided, however, any amendment may not:
    - without the approval of you or the managing general partner increase the duties or liabilities of you or the managing general partner or increase or decrease the sharing of profit or losses or required capital contributions of you or the managing general partner; and
    - without the unanimous approval of all investors in the partnership affect the classification of partnership income and loss for federal income tax purposes.

The managing general partner, its officers, directors, and affiliates may also subscribe for units in the partnership and they may vote on all matters including those set forth above. Also, other than a sale of the producing properties to an affiliated partnership, investors whose units equal a majority of the total units must approve or disapprove the sale of all or substantially all of the assets of the partnership.

Generally, you will be entitled to vote with respect to all partnership matters at any time a meeting is called by either:

- the managing general partner, or
- investors owning 25% or more of the total units.

However, the inability of you and the other investors to obtain a list of the investors will make it difficult to call a meeting of the investors and for you and the other investors to exercise your right to vote on the matters set forth above.

Access to Records

Generally, you will have access to all records of the partnership other than an investor list. However, logs, well reports and other drilling and operating data may be kept confidential for reasonable periods of time, and information which is proprietary to the managing general partner and not the partnership will be kept confidential.

Withdrawal of Managing General Partner

The managing general partner will have the right to withdraw as managing general partner and sell or otherwise dispose of its entire interest at any time with the consent of investors whose units equal a majority of the total units. Otherwise, after 5 years, the managing general partner may voluntarily withdraw as managing general partner for whatever reason by giving 120 days' written notice to you and the other investors. Although the withdrawing managing general partner is not required to provide a substitute managing general partner, a new managing general partner may be substituted by the affirmative vote of investors whose units equal a majority of the total units. If the managing general partner would withdraw and the investors failed to elect to continue the partnership and to designate a substitute managing general partner, then the partnership would terminate and dissolve. This could result in adverse tax and other consequences.

Also, subject to a required participation of not less than 1% of the partnership's revenues, the managing general partner may partially withdraw a property interest in the partnership's wells equal to or less than its revenue interest for whatever reason without the consent of you and the other investors. The managing general partner will then have the right to sell or otherwise dispose of its interest.

SUMMARY OF OPERATING AGREEMENT

The managing general partner will serve as the operator of the partnership's wells under the operating agreement, Exhibit (III) to the partnership agreement. The operator may be replaced at any time on 60 days' advance written notice by the managing general partner acting on behalf of the partnership on the affirmative vote of investors whose units equal 65% of the total units.

The operating agreement provides a number of material provisions, including, without limitation, those set forth below:

- The operator’s right to assign its rights under the operating agreement to a successor operator.

- The operator’s indemnification of the partnership against loss resulting from or caused by the operator, its employees, agents, independent contractors or subcontractors.

- The prescribed insurance coverage to be maintained by the operator, a pro rata portion of the costs of which will be charged back to the partnership.

- An initial term of ten years with automatic two-year renewal terms unless the partnership notifies the operator in writing that it elects not to renew the operating agreement.

The foregoing is a summary of the material provisions of the proposed form of operating agreement which are not covered elsewhere in this private placement memorandum. It is qualified in its entirety by reference to the form attached to the partnership agreement as Exhibit (III). You should not subscribe to the partnership without first thoroughly reviewing the operating agreement.

REPORTS TO INVESTORS

Under the partnership agreement the partnership will provide you and the other investors the reports set forth below. The cost of all the reports will be paid by the partnership as direct costs.

- A report of monthly distributions for the first year of operations and thereafter quarterly reports of income and expenses and any other material partnership activity; and

- By March 15 of each year, you will receive the information which is required for you to file your federal and state income tax returns.

- You and the other investors will also have access to certain other records of the partnership, excluding a list of participants but including financial statements, upon adequate notice, at any reasonable time.

PRESENTMENT FEATURE

Beginning July 1, 2018, you and the other investors may make a written request for the managing general partner to repurchase your units. You are not required to offer your units to the managing general partner and you may receive a greater return if you retain your units. Presentment may only be made between July 1 and September 30 of each year and an investor may not present his unit(s) more frequently than once per year. The managing general partner may immediately suspend its repurchase obligation by notice to you if it determines, in its sole discretion, that it:

- does not have the necessary cash flow; or
- cannot borrow funds for this purpose on terms it deems reasonable.

The managing general partner will not purchase less than one unit unless the fractional unit represents your entire interest, nor more than 10% of the units in the partnership in any calendar year. If fewer than all units presented at any time are to be purchased, then the units to be purchased will be selected by lot. The managing general partner may not waive the limit on its purchasing more than 10% of the units in the partnership in any calendar year.

The managing general partner's obligation to purchase the units presented may be discharged for its benefit by a third-party or an affiliate. If you sell your unit it will be transferred to the party who pays for it and you will be required to deliver an executed assignment of your unit along with any other documents that the managing general partner requests. In accordance with Treas. Reg. §1.7704-1(f), the repurchase may not be made by the managing general partner until 60 calendar days after you notify the partnership in writing of your intention to exercise the presentment. The repurchase will not be considered effective until a cash payment has been made to you.

The amount attributable to the partnership's natural gas and oil reserves will be determined based on the most recent reserve report prepared by an independent third party provided that it was prepared within twelve months of the valuation date, and otherwise based on the last reserve report prepared by the managing general partner and reviewed by an independent expert. Alternatively, when presenting his Units to the Managing General Partner a participant may elect to have the valuation based on a new reserve report of the partnership to be prepared by an independent expert at the sole cost of the participant. Beginning in July of 2018 the managing general partner will estimate the present worth of future net revenues attributable to the partnership's interest in proved reserves, if requested. In making this estimate, the managing general partner will use:

- a 10% discount rate;
- a constant oil price; and
- base natural gas prices on the existing natural gas contracts at the time of the repurchase.

Your presentment will not be considered effective until the following conditions are satisfied:

- you receive the information concerning your interest in the present worth of the partnership's future net revenues;
- you agree to the presentment price as calculated below; and
- payment has been made to you in cash.

Your presentment price will be your share of the partnership's net assets (after deduction of partnership liabilities). The presentment price will include the sum of the following partnership items:

- an amount based on 70% of the present worth of future net revenues from the proved reserves, determined as described above;
- cash on hand;
- prepaid expenses and accounts receivable, less a reasonable amount for doubtful accounts; and
- the estimated market value of all assets not separately specified above, determined in accordance with standard industry valuation procedures.

There will be deducted from the foregoing sum the following items:

- an amount equal to all debts, obligations and other liabilities, including accrued expenses; and
- any distributions made to you between the date of the request and the actual payment. However, if any cash distributed was from the sale, after the presentment request, of natural gas, oil or of a producing property, for purposes of determining the reduction of the presentment price, the distributions will be discounted at the same rate used to take into account the risk factors employed to determine the present worth of the partnership's proved reserves.

The amount may be further adjusted by the managing general partner for estimated changes from the date of the reserve report to the date of payment of the presentment price to you because of the following:

- the production or sales of, or additions to, reserves and lease and well equipment, sale or abandonment of leases, and similar matters occurring before the presentment request; and
- any of the following occurring before payment of the presentment price to you:
- changes in well performance;

- increases or decreases in the market price of natural gas or oil;
- revision of regulations relating to the importing of hydrocarbons; and
- changes in income, ad valorem and other tax laws such as material variations in the provisions for depletion and similar matters.

TRANSFERABILITY OF UNITS

Restrictions on Transfer Imposed by the Securities Laws, the Tax Laws and the Partnership Agreement

Your ability to sell or otherwise transfer your units is restricted by the securities laws, the tax laws, and the partnership agreement as described below.

First, the units have not been registered under the Securities Act of 1933, as amended, or under the securities laws of any state. Instead, the units are being offered and sold under exemptions from registration under the 1933 Act, including the exemption contained in Section 4(2) of the 1933 Act and Regulation D adopted under the 1933 Act. These exemptions impose restrictions on your subsequent transfer of the units under the securities laws and you will not be able to sell, assign, pledge, hypothecate or transfer your unit unless there is:

- an effective registration of the unit under the 1933 Act and qualification under applicable state securities law; or
- an opinion of counsel acceptable to the managing general partner that the registration and qualification of the unit are not required.

The managing general partner and the partnership are not obligated to, and do not intend to, register the units for resale.

Second, under the tax laws, you will not be able to sell, assign, exchange or transfer your unit if it would, in the opinion of partnership's counsel, result in the following:

- the termination of the partnership for tax purposes; or
- the partnership being treated as a "publicly traded" partnership for tax purposes.

Finally, under the partnership agreement you may not transfer your unit unless the managing general partner consents. The partnership will recognize the assignment of one or more whole units unless you own less than a whole unit, in which case your entire fractional interest must be assigned.

Any transfer that is consented to by the managing general partner when the assignee of the unit does not become a substituted partner as described below will be effective as of

- midnight of the last day of the calendar month in which it is made; or

- at the managing general partner's election, 7:00 A.M. of the following day.

Conditions to Becoming a Substitute Partner

Under the partnership agreement an assignee of a unit may become a substituted partner only upon meeting certain further conditions. A substitute partner is entitled to all of the rights of full ownership of the assigned units including the right to vote. The conditions to become a substitute partner are as follows:

- the assignor of the unit gives the assignee the right;

- the managing general partner consents to the substitution;

- the assignee pays all costs and expenses incurred in connection with the substitution; and

- the assignee executes and delivers the instruments to effect the substitution and to confirm his agreement to be bound by all terms of the partnership agreement.

The partnership will amend its records at least once each calendar quarter to effect the substitution of substituted partners.

PLAN OF DISTRIBUTION

Commissions

The units will be offered on a "best efforts" basis by Westmoreland Capital Corporation, which is an affiliate of the managing general partner, acting as dealer-manager, and by other selected registered broker/dealers, which are members of the FINRA, acting as selling agents. Best efforts means that the dealer-manager and selling agents will not guarantee the sale of a certain amount of units. Also, the units may be offered and sold by the officers and directors of the managing general partner without receiving any sales commission or other compensation for the sale of the units.

To the extent allowed by law, the dealer-manager or the selling agents will manage and oversee the offering of the units as described above and will receive on each unit sold:

- a dealer-manager fee of up to 2%;

- a 7% sales commission;

- a 0.5% due diligence fee;

  The amounts of the sales commission and due diligence fee may be adjusted provided that the combined amount thereof shall not exceed 7.5%; and

- a marketing fee of 0.5% which is subject to recoupment by the Managing General Partner for marketing expenses.

The managing general partner also reserves the right to assign a portion of its partnership working interest (of up to a 0.75% working interest) to the dealer-manager, which may be reallocated to selected broker/dealers, subject to their acceptance of such assignment, which may be reallocated to certain selected selling agents. Any such assignment shall be subject to revocation by the managing general partner, including, but not limited to, when revenues attributable to such working interest, or fractional part thereof, attain a maximum cumulative amount established by the managing general partner, which shall not exceed 2% of the amount of investor subscriptions.

All or a portion of the sales commissions, and the due diligence and marketing fees may be re-allowed by the dealer-manager to the registered broker/dealers and by the broker/dealers to their registered representatives in such amounts as they determine. The managing general partner may also use the services of one or more wholesalers. All or a portion of the 2% dealer-manager fee and the 0.75% partnership working interest may be re-allowed to the wholesalers for subscriptions obtained through their efforts. The dealer-manager will retain any fees and commissions not re-allowed to the selling agents. Also, the dealer-manager may make direct sales as a selling agent and receive all the fees and commissions set forth above.

Westmoreland Capital Corporation, the dealer-manager, except for direct sales, intends to reallocate all sales commissions, due diligence and marketing fees to its selling agents and only receive dealer-manager fees on units sold.

Notwithstanding the foregoing, the managing general partner shall not be required to pay the dealer-manager fee, the sales commission, the due diligence fee, the marketing fee or 0.75% partnership working interest on subscriptions received from the managing general partner, its officers, directors and affiliates, or investors who purchase units through officers and directors of the managing general partner and the amount thereof shall not be paid by such persons. Westmoreland Capital Corporation may elect to waive receipt of any or all of the dealer-manager working interest; and the broker/dealers may elect to waive receipt of any or all of the sales commission, the due diligence fee, the marketing fee, and the 0.75% partnership working interest on subscriptions received from broker/dealers and their registered representatives and any waived amounts shall not be paid by such broker/dealers and registered representatives.

After the minimum subscriptions are received by the partnership and the checks have cleared the banking system, the dealer-manager fee, the sales commissions, the due diligence fee and the marketing fee will be paid to the dealer-manager and broker/dealers approximately every two weeks until the offering of the partnership closes.

Indemnification

The dealer-manager may be deemed an underwriter as that term is defined in the Securities Act of 1933 and the sales commissions, dealer-manager fees, due diligence fees, and marketing fees may be deemed underwriting compensation. Also, the managing general partner and the dealer-manager have agreed to indemnify each other. It is further anticipated that the managing general partner or the dealer-manager and each broker/dealer will agree to indemnify each other against certain liabilities, including liabilities under the 1933 Act.

Bad Actor Prohibition

The Securities and Exchange Commission has adopted a rule which is intended to prohibit certain persons, classified as “Bad Actors”, from participating in the issuance or sale of securities under Section 506, which includes the offering described in this Private Placement Memorandum. The rule affects persons who would be compensated for the sale of such securities or who are the issuer, or have a controlling position in an entity which is the issuer, of a security (“Covered Persons”). Such Covered Persons are prohibited from participating in the issuance or sale of securities under Section 506 if they have engaged in a “Disqualifying Event”, as described in the rule, which effectively classifies them as a “Bad Actor”. The rule imposes a duty on the issuer, and persons involved in the sale, of securities to ascertain that no “Bad Actors” are involved. U.S. Energy Development Corporation and Westmoreland Capital Corporation have accordingly made a determination that no Covered Person affiliated with either entity has a Disqualifying Event. Additionally, the section of the Subscription Agreement, for participation in the partnership, that is to be signed by the Registered Representative who dealt with a proposed participant includes a representation that such Registered Representative would not be classified as a Bad Actor.

Bad Actor Disclosures

The Securities and Exchange Commission Rule referenced above further provides that entities who have events which would disqualify them from participating in the sale of securities under Rule 506 may still participate if such events occurred before September 23, 2013 and if such events are disclosed to potential investors. While the selling group or the offerings described in this Private Placement Memorandum has not yet been finalized, the entities identified below have previously participated in the sale of securities sponsored by the managing general partner and it is anticipated that they may be part of the selling group for these offerings. Accordingly, the following disclosures are being made:

Capital Financial Services, Inc.: On or about December 16, 2011, the United States Securities and Exchange Commission issued an Order pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, as amended (the “***Exchange Act***”), ordering Capital Financial Services, Inc. to cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act of 1933, as amended, Section 10(b) of the Exchange Act and Rule 10B-5 thereunder. The Commission alleged that Capital Financial had failed to conduct necessary due diligence on certain offerings it was involved in the sale of, even though it was paid a due diligence fee in addition to commissions. The offerings involved were subsequently determined to be part of a Ponzi scheme. The Commission's order resulted from an offer of settlement by Capital Financial which the Commission found acceptable.

On December 19, 2006, Investors Capital Corp (“ICC”), without admitting or denying liability, entered into a Consent Order with the Massachusetts Securities Division (the “Division”). The Division alleged that ICC engaged in unethical and dishonest practices, failed to properly supervise its registered representatives and failed to create and maintain required books and records, in violation of Sections 204(a)(2)(G), 204(a)(2)(J) and Section 203 of the Massachusetts Uniform Securities Act. The Consent Order required ICC to pay a civil fine of $500,000 and offer a penalty-free surrender to certain equity-indexed annuity purchasers in Massachusetts

Mr. James Crawford CRD# 1327638 was suspended by the State of Virginia from offering sales of alternative investments or from making any commissions from the sale of alternate investments for the three month period commencing December 23, 2012 and ending March 23, 2013. The suspension resulted from the settlement of a proceeding wherein it was alleged that Mr. Crawford made a material misrepresentation in the offer and sale of securities which were designated as high risk by improperly marketing them as lower to moderate risk securities. Mr. Crawford denied such allegations but did enter into the settlement which included the suspension.

SALES MATERIAL

In addition to the private placement memorandum, associated supplement (if any) and accompanying subscription packet, the managing general partner may use the following sales material with the offering of the units:

- a brochure entitled "Investment Summary, U.S. Energy Development Corporation, Genesis Drilling Program V, VI or VII LP",
- the managing general partner's corporate profile, if available and if approved for use by the applicable broker-dealer,
- miscellaneous natural gas and oil articles, and
- a mailer.

The managing general partner has not authorized the use of other sales material and the offering of units is made only by means of this private placement memorandum. The sales materials are not complete, and they are not an offer to sell any of the units which is made only by this private placement memorandum.

You should rely only on the information contained in this private placement memorandum and supplements (if any) in making your investment decision. No one is authorized to provide you with information that is different.

LEGAL OPINIONS

Hodgson Russ LLP, attorneys at law, has issued its opinion to the managing general partner regarding the validity and due issuance of the units and its opinion on material tax consequences to individual investors in the partnership. However, the factual statements in this private placement memorandum are those of the managing general partner, and counsel has not given any opinions with respect to any of the tax or other legal aspects of this offering except as expressly set forth above.

INDEPENDENT AUDITORS

The financial statements of U.S. Energy Development Corporation as of and for the year ended June 30, 2013, included in this Private Placement Memorandum have been audited by Grant Thornton LLP, independent auditors as stated in their report appearing herein.

LITIGATION

The managing general partner knows of no litigation pending or threatened to which the managing general partner, the partnerships or their affiliates is subject or may be a party, which it believes would have a material adverse effect on the partnerships or its business, and no such proceedings are known to be contemplated by governmental authorities or other parties.

As a result of damage to a well believed to have been caused by the negligence of NOMAC Drilling, L.L.C., USEDC OKC, LLC, an affiliate of U.S. Energy, withheld payment of all or part of certain invoices received from NOMAC. (See "Risk of Loss From Drilling Hazards.") NOMAC has commenced litigation against U.S. Energy and USEDC OKC, LLC to collect the withheld amounts, which will enable a court to determine the responsibility for the cost of repairing the referenced well.

FINANCIAL INFORMATION CONCERNING THE MANAGING GENERAL PARTNER

The Genesis Drilling Program V, VI and VII LP Limited Partnerships will each be formed prior to its offering commencement date. The partnerships have not or will not conduct any operating activities prior to its offering. Financial information concerning the managing general partner is provided in this memorandum.

The securities offered by this private placement memorandum are not securities of, nor are you acquiring an interest in, the managing general partner, its affiliates, or any other entity other than the specific partnership in which you elect to invest.

U.S. ENERGY DEVELOPMENT CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements and
Report of Independent Certified Public Accountants

June 30, 2013 and 2012

U.S. ENERGY DEVELOPMENT CORPORATION
AND SUBSIDIARIES

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholder
U.S. Energy Development Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of U.S. Energy Development Corporation (a New York corporation) and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S. Energy Development Corporation and Subsidiaries as of June 30, 2013 and 2012, and the results of their consolidated operations and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental oil and gas disclosures contained in Note 18 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the audit procedures applied in the audits of the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Grant Thornton LLP

Cleveland, Ohio
October 23, 2013

U.S. ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$ 38,982,676	$ 34,651,417
Accounts receivable	7,868,152	4,286,708
Refundable income taxes	-	3,845,697
Employee advances	276,195	235,258
Notes receivable - current portion	875,631	406,364
Inventory	925,609	851,361
Work in progress	538,849	3,432,217
Prepaid expenses	801,435	471,656
Prepaid well costs	41,016,797	20,279,449
Total current assets	91,285,344	68,460,127
Oil and Gas Properties:		
Investments in oil and gas partnerships, net of accumulated depletion of $37,151,569 and $29,168,541	101,842,315	95,065,627
Proven oil and gas leasehold properties, net of accumulated depletion of $12,335,478 and $10,885,836	26,799,916	15,748,921
Unproven leasehold properties	11,648,210	13,900,725
Net oil and gas properties	140,290,441	124,715,273
Property and equipment, net of accumulated depreciation of $8,165,450 and $6,485,290	3,175,151	4,366,340
Net property and equipment	3,175,151	4,366,340
Other assets:		
Notes receivable - long-term portion	241,616	665,284
Other assets	992,567	659,593
Total other assets	1,234,183	1,324,877
Total assets	$ 235,985,119	$ 198,866,617

The accompanying notes to consolidated financial statements are an integral part of these statements.

U.S. ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets, Continued
June 30, 2013 and 2012

Liabilities and Stockholder's Equity	2013	2012
Current liabilities:		
Current portion of long-term debt	$ 444,832	$ 746,505
Accounts payable	7,860,580	4,048,376
Accrued liabilities	11,310,972	6,961,479
Accrued income taxes	1,575,706	6,709,764
Deferred income	50,771,714	63,946,332
Obligations associated with drilling contracts - oil and gas partnerships	2,818,737	6,090,571
Total current liabilities	74,782,541	88,503,027
Long-term liabilities:		
Long-term debt, less current portion	50,644,580	30,770,564
Deferred income taxes	29,154,966	18,302,693
Asset retirement obligation	5,979,296	5,305,833
Related party liabilities	922,806	-
Total long-term liabilities	86,701,648	54,379,090
Contingencies and commitments		
Stockholder's equity:		
Common stock - no par value, 200 shares authorized; 10 shares issued and outstanding	50,000	50,000
Additional paid-in capital	500,000	500,000
Retained earnings	73,950,930	55,434,500
Total stockholder's equity	74,500,930	55,984,500
Total liabilities and stockholder's equity	$ 235,985,119	$ 198,866,617

The accompanying notes to consolidated financial statements are an integral part of these statements.

U.S. ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income
Years ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Oil and gas production	$ 9,572,072	$ 6,261,235
Drilling services - oil and gas partnerships	101,015,978	121,356,143
Oil and gas partnerships production, gross	53,396,324	38,427,872
Management and well service revenue	6,691,304	6,808,431
	170,675,678	172,853,681
Limited partners' share - oil and gas partnerships production	(44,230,630)	(33,805,360)
Total operating revenue	126,445,048	139,048,321
Operating expenses:		
Drilling expenses - oil and gas partnerships	72,580,290	75,839,347
Oil and gas production, management and well services	4,404,050	4,067,260
Impairment	377,264	1,967,971
Depreciation, depletion and amortization	11,460,052	9,445,180
General and administrative expenses	6,635,239	4,663,589
Total operating expenses	95,456,895	95,983,347
Operating income	30,988,153	43,064,974
Other income (expenses):		
Interest income	132,070	102,378
Interest expense	(987,292)	(385,342)
Gain on sale of property	668,531	-
Other income	215,278	352,300
Total other income	28,587	69,336
Income before provision for income taxes	31,016,740	43,134,310
Provision for income taxes	12,500,310	17,732,289
Net income	$ 18,516,430	$ 25,402,021

The accompanying notes to consolidated financial statements are an integral part of these statements.

U.S. ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholder's Equity
Years ended June 30, 2013 and 2012

	Common Stock		Additional		Total
	Number of Shares	Amount	paid-in capital	Retained earnings	Stockholder's Equity
Balance at June 30, 2011, as originally reported	10	$ 50,000	$ 500,000	$ 48,567,546	$ 49,117,546
Restatements (see Note 2)	-	-	-	(18,535,067)	(18,535,067)
Balance at June 30, 2011, as restated	10	50,000	500,000	30,032,479	30,582,479
Net income	-	-	-	25,402,021	25,402,021
Balance at June 30, 2012	10	50,000	500,000	55,434,500	55,984,500
Net income	-	-	-	18,516,430	18,516,430
Balance at June 30, 2013	10	$ 50,000	$ 500,000	$ 73,950,930	$ 74,500,930

The accompanying notes to consolidated financial statements are an integral part of these statements.

U.S. ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income	$ 18,516,430	$ 25,402,021
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	11,460,052	9,445,180
Deferred income taxes	10,852,273	4,158,931
Gain on sale of properties	(668,531)	-
Abandonment of exploration costs	362,259	2,140,339
Change in marketable securities	3,395	(15,537)
Changes in:		
Accounts receivable	(3,584,839)	(2,364,258)
Refundable income taxes	3,845,697	(2,035,697)
Inventory	(74,248)	947,216
Work in progress	2,893,368	(3,077,378)
Prepaid expenses	(329,779)	(85,256)
Prepaid well costs	(20,737,348)	(13,522,997)
Advances made to employees	(40,937)	(13,754)
Other assets	(203,974)	(647,020)
Accounts payable	3,812,204	2,133,720
Accrued liabilities	4,349,493	5,229,297
Accrued income taxes	(5,134,058)	6,709,764
Deferred income	(13,174,618)	(67,725,698)
Other liabilities	922,806	-
Net cash provided by (used in) operating activities	13,069,645	(33,321,127)
Cash flows from investing activities:		
Issuance of notes receivable	(472,470)	-
Repayments of notes receivable	426,871	378,968
Purchase of property and equipment	(523,049)	(697,133)
Proceeds from sale of leasehold properties	733,487	-
Investments in oil and gas partnerships	(9,010,113)	(15,484,896)
Investments in oil and gas leasehold properties	(16,064,621)	(8,038,714)
Obligations associated with drilling contracts - oil and gas partnerships	(3,271,834)	(1,897,037)
Net cash used in investing activities	(28,181,729)	(25,738,812)

The accompanying notes to consolidated financial statements are an integral part of these statements.

U.S. ENERGY DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from financing activities:		
Deferred financing costs	$ (129,000)	$ -
Proceeds from issuance of long-term debt	260,093	15,000,000
Repayments of revolving credit facility	(59,450,000)	(99,000,000)
Proceeds from credit facility	94,450,000	89,000,000
Principal repayments of long-term debt	(15,687,750)	(412,018)
Net cash provided by financing activities	19,443,343	4,587,982
Net increase (decrease) in cash and cash equivalents	4,331,259	(54,471,957)
Cash and cash equivalents at beginning of year	34,651,417	89,123,374
Cash and cash equivalents at end of year	$ 38,982,676	$ 34,651,417
Supplemental disclosures of cash flows information:		
Interest paid	$ 987,292	$ 385,342
Income taxes paid	$ 12,257,775	$ 9,853,921
Noncash operating, investing, and financing transactions:		
Acquisition of equipment under capital leases	$ -	$ 61,565
Amount financed	-	(61,565)
Asset retirement obligations	(461,230)	-
Property and Equipment	461,230	-
Cash paid	$ -	$ -

The accompanying notes to consolidated financial statements are an integral part of these statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Business

U.S. Energy Development Corporation (U.S. Energy) is engaged primarily in the acquisition, development, production, exploration and sale of crude oil and natural gas. U.S. Energy's primary activities are located in the United States (New York, Pennsylvania, Ohio, West Virginia, Texas, Louisiana, Maryland, Kansas, North Dakota, Oklahoma, Montana) and Ontario, Canada. The Company sponsors and manages tax-advantaged investment partnerships, in which it coinvests to finance the exploration and development of its acreage ("the Partnerships").

(b) Principles of Consolidation

The consolidated financial statements include the accounts of U.S. Energy and its wholly-owned subsidiaries, Oilmark and Company, Inc. and USEDC OKC, LLC (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. In accordance with established practice in the oil and gas industry, the Company includes its pro rata share of assets, liabilities, revenues and costs and expenses of the investment partnerships in which it has an interest.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

(d) Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly-liquid cash investments purchased with an initial maturity of three months or less to be cash equivalents.

(e) Accounts Receivable

Accounts receivable are carried at estimated net realizable value. Receivables deemed uncollectible are charged directly to expense. Trade credit is generally extended on a short-term basis; therefore accounts receivable do not bear interest, although a finance charge may be applied to such receivables that are past due. At June 30, 2013 and 2012, all accounts receivable have been deemed fully collectible by management.

(f) Inventory

Inventory consists of well equipment, drilling parts and supplies and is stated at the lower of cost (first-in, first-out basis) or market.

(1) Summary of Significant Accounting Policies, Continued

(g) Oil and Gas Properties

The Company accounts for its investments in oil and gas properties on the "successful efforts" method of accounting. Under successful efforts costing, except for acquisition costs of properties, a direct relationship between costs incurred and specific reserves discovered is required before costs are identified with assets. Costs of property acquisitions for both developmental and exploratory wells are capitalized when incurred. If an exploratory well (a well drilled outside a proven area) is deemed to be nonproductive, the capitalized costs, net of any salvage value, is charged to expense. The costs of a developmental well (a well drilled within a proven area and to a depth known to be productive) are capitalized as part of the cost of the area's proven reserves whether the individual well is productive or nonproductive. The Company allocates a portion of its general and administrative expenses which can be directly attributable to the acquisition and development of proven properties, which amounted to $611,000 and $1,057,000 for the years ended June 30, 2013 and 2012, respectively.

Depletion of oil and gas properties is computed on the units-of-production method based on the current period's production in relation to the properties' estimated proven developed oil and gas reserves as determined by the Company's management. Cost centers for depletion purposes are determined on a well basis.

Based on historical experience, capitalized costs of unproven properties are periodically assessed for impairment. Impairment provisions are charged to exploration expense. Net capitalized costs of acquisition, exploration, and development of proven properties are periodically assessed for impairment, generally by formation, whenever there are events or circumstances that indicate that their carrying amounts may not be recoverable. If an asset group's costs are impaired (i.e., exceeding expected, future cash flow therefrom), then capitalized costs are reduced to the estimated fair value of the asset group. For the years ended June 30, 2013 and 2012, the Company recognized $377 thousand and $2.0 million, respectively, of impairment of long-lived assets which were defined as a Level 3 fair value measurements (see Note 1(q)).

Gains and losses on the sale or abandonment of oil and gas properties are reflected in operations.

The Company capitalizes interest on borrowed funds related to capital projects only for periods that activities are in progress to bring these projects to their intended use. The weighted average interest rate used to capitalize interest on borrowed funds by the Company was 4% for the year ended June 30, 2013. The total amount capitalized in 2013 amounted to $642,458. There was no interest capitalized during the year ended June 30, 2012.

(1) Summary of Significant Accounting Policies, Continued

(h) Property and Equipment

Property and equipment are recorded at cost. Vehicles, office furniture and equipment and field equipment are depreciated on the straight-line method over their estimated useful lives which range between four and six years. Drilling rigs are depreciated on the straight-line method over six years, which represents the life of the capital lease used to acquire the asset. Gathering systems are depreciated on the straight-line method over six years. Maintenance and repairs are charged to operations as incurred while major renewals and improvements are capitalized.

(i) Work in progress

Work in progress represents well costs incurred as of June 30, 2013 and 2012 which have not been billed or transferred to specific wells.

(j) Prepaid Well Costs

Prepaid well costs represent amounts paid to operators of certain wells for future costs to be incurred on the Company's behalf.

(k) Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for consolidated financial statement and income tax purposes. Such differences relate to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), basis differences between financial statement reporting and income taxes for investments in oil and gas partnerships and leasehold properties, syndication costs and asset retirement obligations. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Company has analyzed tax positions taken for filing with the Internal Revenue Service and all state and local jurisdictions where it operates. The Company believes that income tax positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on its financial condition, results of operations or cash flows. Accordingly, the Company has not recorded any reserves, or related accruals for interest and penalties, for uncertain income tax positions at June 30, 2013 and 2012.

The Company's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

(1) Summary of Significant Accounting Policies, Continued

(l) Environmental

The Company is subject to extensive Federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of gas, oil or chemical substances at various sites.

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and when the costs can be reasonably estimated.

(m) Advertising

Advertising costs are expensed as incurred. Total advertising costs amounted to $69,615 and $82,935 for the years ended June 30, 2013 and 2012, respectively.

(n) Asset Retirement Obligations

The Company accounts for asset retirement obligations as required under ASC 410 “Accounting for Retirement Asset Obligations” (“ASC 410”). ASC 410 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, with the associated asset retirement costs being capitalized as a part of the carrying amount of the long-lived asset. The Company has asset retirement obligations related to the plugging and abandonment of its oil and gas wells. ASC 410 requires the Company to consider estimated salvage value in the calculation of depreciation, depletion and amortization.

(o) Revenue Recognition

The Company conducts certain energy activities through, and a portion of its revenues are attributable to, investment partnerships. The Company contracts with the investment partnerships to drill partnership wells. The contracts require that the investment partnerships must pay the Company the full contract price upon execution. The income from a drilling contract is recognized as the services are performed using the percentage of completion method. On an uncompleted contract, the Company classifies the difference between the contract payments it has received and the revenue earned as a current liability.

The Company recognizes well service revenues at the time the services are performed. The Company is also entitled to receive administration fees according to the respective partnership agreements, and recognizes such fees as income when services are performed.

The Company records the income from the working interests and overriding royalties of wells in which it owns an interest when the gas and oil are delivered.

(1) Summary of Significant Accounting Policies, Continued

(o) Revenue Recognition, Continued

Because there are timing differences between the delivery of natural gas and oil and the Company's receipt of a delivery statement, the Company has unbilled revenues. These revenues are accrued based upon volumetric data from the Company's records and the Company's estimates of the related transportation and compression fees which are, in turn, based upon applicable product prices. The Company had unbilled trade receivables at June 30, 2013 and 2012 of approximately $2.7 million and $1.7 million, respectively, net of subordination, which is included in accounts receivable on the consolidated balance sheet.

(p) Syndication Costs

Program marketing and offering costs incurred by the Company are capitalized as part of its investment in the limited partnerships and depleted in future periods.

(q) Fair Value of Financial Instruments

Management has established a hierarchy to measure the Company's financial instruments at fair value which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs represent market data obtained from independent sources; whereas, unobservable inputs reflect the Company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical, unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 – Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

The carrying amount of financial instruments pertaining to cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses reported in the consolidated balance sheet approximates their fair value due to the short-term nature of these instruments. The Company believes that based on the terms of various long-term debt arrangements the carrying values approximate the fair value. Management estimates the fair value of its asset retirement obligations based on discounted cash flow projections using numerous estimates, assumptions and judgments at the date of establishment of the asset retirement obligation and is defined as a Level 3 fair value measurement (see Note 15).

(r) Derivative Instruments

The Company enters from time to time into certain financial contracts to manage its exposure to movement in commodity prices. The Company uses financial swap and collar instruments to hedge its forecasted natural gas and oil sales against the variability in expected future cash flows attributable to changes in market prices. The Company manages and reports the derivative assets and liabilities on the basis of its net exposure to market risks and credit risks by counterparty, measured at fair value. Changes in a derivative instrument's fair value are recognized currently in the consolidated statements of income. The Company uses a market approach fair value methodology to value the assets and liabilities for its outstanding derivative contracts and due to the nature of the contracts they are considered Level 2 instruments under the fair value hierarchy. The Company reflected net derivative assets on its consolidated balance sheets of $183,000 and $186,400 at June 30, 2013 and 2012, respectively.

(2) Restatements

Beginning Stockholder's equity was restated at July 1, 2011 for corrections to the June 30, 2011 financial statements aggregating $18,535,067 (decrease to retained earnings). The restatements pertained to: unrecorded accretion (decrease to retained earnings) of $1,140,428 for asset retirement obligations ("ARO") for producing wells in accordance with prevailing accounting literature, decrease in retained earnings of $55,489,878 to record the impact of recording the Company's investments in oil and gas limited partnerships under the proportional consolidation method of accounting instead of the fair value method of accounting in accordance with prevailing accounting literature, increase in retained earnings of $34,390,631 for the capitalization of syndication costs incurred by the Company (net of depletion) as part of its investment in the limited partnerships that were previously expensed, a decrease to retained earnings of $560,630 for other restatements related primarily to unrecorded depreciation expense, and an increase to retained earnings of $4,265,238 for deferred taxes related to the tax impact of the various restatements described above.

(3) Property and Equipment

Property and equipment at June 30, 2013 and 2012 consists of the following:

	2013	2012
Office furniture and equipment	$ 383,149	$ 327,787
Vehicles	1,691,451	1,615,017
Field equipment	396,240	368,640
Drilling rigs	3,160,152	3,160,152
Leasehold improvements	13,775	13,775
Gathering systems	5,695,834	5,366,259
	11,340,601	10,851,630
Less accumulated depreciation	(8,165,450)	(6,485,290)
	$ 3,175,151	$ 4,366,340

(3) Property and Equipment (continued)

Depreciation expense charged to operations for the years ended June 30, 2013 and 2012 amounted to $1,714,238 and $1,698,868, respectively.

(4) Notes Receivable

During the year ended June 30, 2010, the Company issued a $1,932,521 note receivable to Dakota-USEDC, LLC (DU, LLC), a related entity in which the Company maintains a 50% ownership interest, for certain costs incurred on DU, LLC's behalf related to the construction of a stripping plant. The note bears interest at 7% and is payable in monthly installments of $39,042, including interest, through January 1, 2015. The outstanding balance at June 30, 2013 and 2012 was $675,599 and $1,071,648, respectively. The Company accounts for its interest in DU, LLC using the equity method of accounting and as of June 30, 2013 and 2012 the carrying value of the investment totaled $826,994 and $623,022, respectively.

On December 4, 2012, the Company issued a $472,470 note receivable to WBH Energy, LP, a joint interest partner in various drilling projects. The note bears interest at 10% and is payable in eleven monthly installments of $10,000, which includes interest, and a final balloon installment payment due on December 31, 2013. The balance as of June 30, 2013 is $441,648.

Future annual maturities of the notes receivable are as follows:

June 30, 2014	$ 875,631
June 30, 2015	241,616
	$ 1,117,247

(5) Investments in Oil and Gas Properties, Net

The Company has investments in joint ventures that own oil and gas properties and gathering systems located in New York, Pennsylvania, Ohio, Texas, Louisiana, Maryland, Kansas, North Dakota, Oklahoma, Montana, West Virginia and Canada. It also owns general and limited partnership interests in oil and gas partnerships it sponsored to the public. Ownership interest varies with each partnership. The Company also acquires, explores, and operates oil and gas properties for its own account.

Depletion of oil and gas properties charged to income amounted to $9,533,581 and $7,552,770 for the years ended June 30, 2013 and 2012, respectively.

The Company serves as general partner and has full and exclusive discretion in the management of the oil and gas limited partnerships. The oil and gas limited partnership agreements generally provide that the limited partners pay 100% of the intangible drilling costs and in certain partnerships, up to 100% of the well equipment and leases, and a portion of the organizational and offering costs.

(5) Investments in Oil and Gas Properties, Net (continued)

In certain partnerships, the Company may contribute up to 100% of well equipment, leases and organizational and offering costs. The Company receives a percentage interest in the limited partnerships of between 5% - 35% and charges a set monthly administrative and well tending fee from $50 - $500 per well.

(6) Drilling Services and Deferred Income

(a) Drilling Services

The Company recognizes revenue from drilling services under agreements to provide wells to oil and gas limited partnerships on the percentage of completion method for financial accounting purposes. The underlying partnership agreements provide for either turnkey wells at fixed prices or a cost plus arrangement to the various oil and gas limited partnerships.

The drilling costs include that portion of the well costs raised from the limited partners with the Company's contribution being recorded as a capital investment in the oil and gas partnerships. As costs are incurred in the completion of the wells, related income is recognized and the deferred income related to the oil and gas partnerships is reduced. Contract costs include labor, materials, supplies, repairs and maintenance, and operating overhead allocations.

The Company charges general and administrative expenses to expense as incurred. Changes in job performance, job conditions and estimated profitability on uncompleted contracts may result in revisions to costs and income. When, during the course of drilling operations, conditions are encountered that were unforeseen in the preparation of the original cost estimate, the investors will either increase or decrease its costs in the well with no effect on U.S. Energy's investment.

(b) Deferred Income

Deferred income represents future commitments that exist as a result of money raised under the oil and gas limited partnership offerings for wells that the Company has yet to complete. Deferred income amounted to $50,771,714 and $63,946,332 at June 30, 2013 and 2012, respectively.

(c) Obligations Associated With Drilling Contracts – Oil and Gas Partnerships

Under the terms of certain 2009, 2010 and 2011 limited partnership offerings, 10% of the offering proceeds were designated for tangible well equipment purchases. Such amounts are initially recorded as a liability in the consolidated balance sheet and are reduced when such equipment is purchased.

The amount of the obligation for equipment purchases totaled $2,818,737 and $6,041,581 at June 30, 2013 and 2012, respectively, and represents the remaining portion of the limited partners' offering proceeds to be spent on tangible well equipment. For the 2012 offering, 10% of the proceeds were designated for organizational and offering costs.

(6) Drilling Services and Deferred Income, Continued

(c) Obligations Associated With Drilling Contracts – Oil and Gas Partnerships (continued)

The amount of the obligation related to these costs totaled $0 and $48,990 at June 30, 2013 and 2012, respectively.

(d) Contingency

On a partnership by partnership basis, the Company may be required to subordinate its net partnership revenue to its investor partners' cash distributions from the partnership equal to at least 1% per month of the respective subscriptions determined on a cumulative basis, in accordance with the terms of the partnership agreement, for a maximum of 5 years.

The Company may also benefit from the recovery of prior amounts paid. The total amount subordinated for the years ended June 30, 2013 and 2012 was approximately $3 million and $5 million, respectively, which represented 6% and 14% of oil and gas partnerships gross production revenue, respectively. This potential adjustment is subject to commodity prices, volumes, well counts and timing.

(7) Long-Term Debt

On June 30, 2010, the Company entered into a loan agreement with Bank of Oklahoma, National Association (BONA) that provided for a revolving credit facility in the principal amount of $18,000,000, due June 30, 2012, with an interest rate at the BONA applicable prime (4%). This agreement was amended on June 30, 2011 (First Amendment) effectuating an increase to the commitment amount to $25,000,000 and extending the maturity date to June 30, 2013. On April 6, 2012, the agreement was amended (Second Amendment) to establish a term loan facility in the amount of $15,000,000, due June 30, 2014 at the BONA applicable prime rate. On June 29, 2012, the agreement was further amended (Third Amendment) to, among other terms, recast the revolver commitment in the amount of $15,000,000, until April 6, 2015 with interest at the applicable BONA prime rate (4%). On December 26, 2012, the agreement was further amended (Fourth Amendment) to increase the revolver commitment to a maximum of $25,000,000. On June 28, 2013, the Company entered into an amended and restated loan agreement with BONA and Regions Bank, which provides for an increase in the revolver commitment to $75,000,000 (initially limited to $50,000,000), due June 28, 2016, with interest at the applicable BONA prime rate (4%). Under this loan agreement, the term loan facility was terminated.

(7) Long-Term Debt, Continued

A summary of the Company's long-term debt at June 30, 2013 and 2012 is as follows:

	2013	2012
Promissory (term) note with the Bank of Oklahoma, National Association (BONA) totaling $15 million was executed on April 6, 2012. The note is initially payable in twelve consecutive monthly installments of interest only through April 2013, calculated at the BONA applicable prime rate (4% at June 30, 2012) followed by twenty-three consecutive monthly principal installments of $160,000 plus interest at 4% with a final payment of all unpaid principal and accrued interest due and payable at the term loan final maturity date of April 6, 2015. Note was repaid in June, 2013 (see above).	$ -	$ 15,000,000
Revolving credit facility with the Bank of Oklahoma, National Association (BONA), and Regions Bank in 2013, BONA in 2012, providing for total available borrowings of $75 million in 2013 and $15 million in 2012 and requiring monthly interest-only payments, calculated at the BONA applicable prime rate (4% at June 30, 2013 and 2012) through maturity of June 28, 2016. The facility is collateralized by qualified proven oil and gas reserves, as defined.	50,000,000	15,000,000
Equipment financing leases payable - due in various monthly installments ranging from $1,602 to $12,026 including interest at rates ranging from 0% to 7.9% per annum and expiring between April 2013 and October 2016. The leases are secured by the equipment financed (see Note 10).	1,089,412	1,517,069
Total	51,089,412	31,517,069
Less current portion	(444,832)	(746,505)
Long-term debt, less current portion	$ 50,644,580	$ 30,770,564

Future annual principal maturities of long-term debt for the three years following June 30, 2013 and thereafter are as follows:

2014	$ 444,832
2015	458,209
2016	50,186,371
	$ 51,089,412

(7) Long-Term Debt, Continued

The BONA/Regions Bank facility contains certain financial covenants pertaining to the Company's tangible net worth and operating performance. At June 30, 2013 and 2012, the Company was in compliance with these covenants.

(8) Related Party Liabilities

For certain 2012 partnerships, the Company as General Partner has outstanding obligations for the drilling and completion of certain wells amounting to $922,806 as of June 30, 2013.

(9) Accrued Liabilities

Accrued liabilities at June 30, 2013 and 2012 consists of the following:

	2013	2012
Vendor purchases	$10,684,690	$5,376,232
Payroll	185,699	1,310,756
Lease operating costs	120,525	216,531
Other	320,058	57,960
	$11,310,972	$6,961,479

(10) Lease Commitments

The Company is the lessee of certain equipment under capital lease obligations expiring at various dates through 2016 (see Note 7). The assets are depreciated over periods approximating the length of the lease. Depreciation of assets under capital leases amounted to $465,538 and $457,092 for the years ended June 30, 2013 and 2012, respectively, and is included in depreciation expense in the accompanying consolidated statement of income.

A summary of property held under capital leases at June 30, 2013 and 2012 is as follows:

	2013	2012
Equipment	$ 3,145,188	$ 3,145,188
Less accumulated depreciation	(2,089,937)	(1,624,399)
	$ 1,055,251	$ 1,520,789

Minimum future lease payments under capital lease agreements as of June 30, 2013 are as follows:

2014	$ 508,720
2015	490,114
2016	189,849
Total minimum lease payments	1,188,683
Less amount representing interest	(99,271)
Present value of minimum lease payments	$ 1,089,412

(10) Lease Commitments, Continued

The Company had previously entered into sublease agreements in which it received payments equivalent to the scheduled payments required under certain of the above-mentioned capital lease obligations. Sublease income for the year ended June 30, 2012 amounted to $392,812. As of August 16, 2012 the assets under the capital lease obligations were not actively generating sublease income and, therefore, there are currently no sublease payments from such date forward.

The Company has an operating lease for leased premises with a term of thirty-six months beginning on August 1, 2011. The amount of lease payments made for the years ended June 30, 2013 and 2012 were $238,735 and $215,014, respectively. Future annual payments under this lease for 2014 amount to $260,657.

(11) Income Taxes

The provision for income taxes consisted of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Current:		
Federal	$ 1,260,891	$ 11,227,812
State	387,146	2,345,546
	1,648,037	13,573,358
Deferred	9,977,614	3,094,444
Change in valuation allowance	874,659	1,064,487
Total	$ 12,500,310	$ 17,732,289

Income tax expense differs from the statutory rate applied to pre-tax income mainly due to state and local taxes and an increase in the valuation allowance.

The significant components of deferred tax assets and liabilities as of June 30, 2013 and 2012 are as follows:

	2013	2012
Deferred tax asset:		
Asset retirement obligation	$ 587,784	$ 517,613
Syndication costs	5,971,476	5,096,817
Other	157,602	22,754
Total deferred tax assets	6,716,862	5,637,184
Deferred tax liabilities:		
Deferred revenue	$ 3,907,101	$ -
Prepaid intangible drilling costs	5,382,162	-
Depletion	804,199	865,388
Fixed assets	1,368,124	985,482
Investments in oil and gas properties	18,075,512	16,919,854
Other	363,254	72,336
Total deferred tax liabilities	29,900,352	18,843,060

(11) Income Taxes, Continued

Valuation allowance	(5,971,476)	(5,096,817)
Net deferred tax liabilities	$ 29,154,966	$ 18,302,693

The Company currently capitalizes and depletes certain syndication and marketing costs related to its oil and gas investments for financial reporting purposes. Ultimately, these costs will be realized as a capital loss for tax purposes upon liquidation of the oil and gas investments. At this time, the Company does not believe that it is more likely than not that it will be able to utilize this deferred tax asset. As a result, the Company has recorded a valuation allowance against this deferred tax asset to the amount that management believes is more likely than not to be recognized.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company believes it is no longer subject to federal income tax examinations for tax years prior to 2009.

(12) Employee Benefit Plan

The Company has a qualified deferred benefit plan under Internal Revenue Code Section 401(k) for all eligible employees, as defined. The Company contributes at a rate of 25% of employee contributions, up to 4% of the employee's wages. The Company contribution amounted to $38,080 and $29,703 for the years ended June 30, 2013 and 2012, respectively.

(13) Related Party Transactions

The Company recognized revenue from drilling services rendered to related oil and gas partnerships amounting to $101,015,978 and $121,356,143 for the years ended June 30, 2013 and 2012, respectively.

The Company recognized revenue from the oil and gas partnerships for reimbursements of well service and administration expenses rendered amounting to $5,483,575 and $5,157,207 for the years ended June 30, 2013 and 2012, respectively.

The Company has an ownership interest in Dakota-USEDC, LLC and has issued a note receivable to the partnership. The Company received interest totaling $65,046 and $83,096 for the years ended June 30, 2013 and 2012, respectively (see Note 4). The Company received no distributions for the years ended June 30, 2013 and 2012.

(14) Concentrations

The Company maintains its cash accounts in several banks where the balance often exceeds the Federal Deposit Insurance Corporation (FDIC) insured limit.

The Company's bank balances as of June 30, 2013 and 2012 are categorized as follows:

(14) Concentrations, Continued

	2013	2012
Amount insured by FDIC	$ 750,526	$ 1,131,906
Amount in U.S. Treasuries	22,879,338	11,808,173
Amount uninsured	23,056,944	24,832,112
Total bank balances	$ 46,686,808	$ 37,772,191

The Company sells natural gas, crude oil and NGLs under contracts to various purchasers in the normal course of business. For the year ended June 30, 2013, the Company had four customers that individually accounted for approximately 16%, 15%, 12% and 10%, respectively of the Company's combined natural gas, crude oil and NGL combined revenue.

For the year ended June 30, 2012, the Company had two customers that individually accounted for approximately 27% and 23% of the Company's combined natural gas, crude oil and NGL combined revenue.

For the years ended June 30, 2013 and 2012, purchases from two vendors comprised approximately 41% and 32%, respectively, of total purchases made by the Company. Accounts payable to these vendors at June 30, 2013 and 2012 amounted to $2,069,749 and $864,942, respectively.

(15) Asset Retirement Obligations

The Company recognized an estimated liability for the plugging and abandonment of its gas and oil wells. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company also considered the estimated salvage value in the calculation of depreciation, depletion and amortization.

The estimated liability was based on the Company's historical experience in plugging and abandoning wells, estimated remaining lives of those wells based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future and federal and state regulatory requirements. The liability was discounted using an assumed credit-adjusted risk-free interest rate. The Company measures its asset retirement obligation fair value using Level 3 inputs in its assumptions. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs or remaining lives of the wells, or if federal or state regulators enact new plugging and abandonment requirements.

A reconciliation of the Company's liability for well plugging and abandonment costs recorded on the Partnership's consolidated combined balance sheets for the year ended June 30, 2013 and 2012 are as follows:

(15) Asset Retirement Obligations, Continued

	2013	2012
Asset retirement obligations, beginning of period	$ 5,305,833	$ 4,838,562
Revision to prior year estimates (non-cash)	218,161	273,729
Addition –current year (non-cash)	243,069	-
Accretion expense	212,233	193,542
Asset retirement obligations, end of period	$ 5,979,296	$ 5,305,833

(16) Contingencies

The Company, from time to time, may be involved in litigation that is incidental to business. Currently, management does not believe that there are any matters outstanding that would have a material adverse effect on the Company's financial position or results of operation.

(17) Subsequent Events

The Company has evaluated events after June 30, 2013, and through October 23, 2013, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(18) Supplemental Oil and Gas Information (Unaudited)

The following estimates of proven, undeveloped and developed reserve quantities and related standardized measure of discounted future net pretax cash flow are estimates only and do not purport to reflect realizable values or fair market values of the Company's reserves. The estimates were prepared by the Company's management. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the Company's reserves are located in the United States and Canada.

Proven undeveloped reserves are estimated reserves of crude oil (including condensate and natural gas liquids) 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. Proven developed reserves are those expected to be recovered through existing wells, equipment, and operating methods.

The standardized measure of discounted future net cash flows is computed by applying the twelve month futures strip value price of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proven oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proven reserves. The estimated future net cash flows are then discounted using a rate of 10 percent a year to reflect the estimated timing of the future cash flows.

(18) Supplemental Oil and Gas Information (Unaudited), Continued

Future operating expenses and development costs are computed primarily by the Company's management by estimating the expenditures to be incurred in developing and producing the Company's proven oil and natural gas reserves at the end of the year, based on year end costs and assuming continuation of existing economic conditions.

The report was prepared using base oil and gas prices (without regional or system adjustments) of $88.13 and $90.00 per barrel in 2013 and 2012 and $3.44/Mcf and $4.10/Mcf in 2013 and 2012, respectively. Lease and well operating costs used in the report are based on historical operating expenses which include direct lease and field-level costs along with the Company's estimate of the portion of its headquarters general and administrative overhead expenses necessary to operate the properties.

All prices and lease and operating costs are held flat for the first twelve months following the report's effective date and are then increased throughout the lives of the properties by 3% annually.

Proven reserves at June 30, 2013 are as follows:

	Unaudited	
	Oil (Bbls)	Gas (Mcf)
Proven developed and undeveloped reserves:		
Proven developed producing reserves	1,497,868	24,587,058
Proven developed nonproducing reserves	338,866	1,681,763
Proven undeveloped reserves	3,242,214	19,759,346
Total proven reserves	5,078,948	46,028,167

Proven reserves at June 30, 2012 are as follows:

	Unaudited	
	Oil (Bbls)	Gas (Mcf)
Proven developed and undeveloped reserves:		
Proven developed producing reserves	1,330,596	22,662,846
Proven developed nonproducing reserves	128,536	2,313,163
Proven undeveloped reserves	1,662,818	12,800,953
Total proven reserves	3,121,950	37,776,962

(18) Supplemental Oil and Gas Information (Unaudited), Continued

Standardized measure of discounted future pre-tax net cash flows at June 30, 2013 and 2012 are as follows:

	Unaudited	
	2013	2012
Future cash inflows	$ 852,160,407	$ 610,162,451
Future production costs	(273,993,766)	(177,124,929)
Future development costs	(104,211,359)	(44,615,090)
Future pretax net cash flows discount at 10% annually for estimated timing of cash flows	(271,419,614)	(214,548,108)
Standardized measure of discounted future pretax net cash flows related to proven oil and gas reserves	$ 202,535,668	$ 173,874,324

Exhibit List

Genesis Drilling Program V, VI and VII LP
Limited Partnership

Exhibit (A) Amended and Restated Certificate and Agreement of Limited Partnership

Exhibit (I-A)……………….Managing General Partner Signature Page

Exhibit (I-B)………………..Subscription Agreement

Exhibit (II)…………………. Drilling Agreement

Exhibit (III)…………………Operating Agreement

Exhibit (B) Limited Liability Company Operating Agreement

Exhibit (C) Tax Opinion

GENESIS DRILLING PROGRAM V, VI or VII LP

PRIVATE PLACEMENT MEMORANDUM

DATED April 1, 2014

EXHIBIT (A)

AMENDED AND RESTATED CERTIFICATE

AND

AGREEMENT OF LIMITED PARTNERSHIP ("Partnership Agreement")

Including the following exhibits attached to the Partnership Agreement:

- **Managing General Partner Signature Page – Exhibit (I-A)**
- **Subscription Agreement – Exhibit (I-B(i) and (ii))**
- **Drilling Agreement – Exhibit (II)**
- **Operating Agreement – Exhibit (III)**

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These securities have not been registered under the Securities Act of 1933, as amended, or any applicable state securities acts. These securities must be acquired for investment, are restricted as to transferability, and may not be transferred or sold except in conformance with the restrictions contained in Article VI of this Amended and Restated Certificate and Agreement of Limited Partnership and in the Subscription Agreement and Annex A, Exhibit (1-B) to this Amended and Restated Certificate and Agreement of Limited Partnership.

AMENDED AND RESTATED CERTIFICATE AND AGREEMENT OF LIMITED PARTNERSHIP GENESIS DRILLING PROGRAM V, VI or VII LP

THIS AMENDED AND RESTATED CERTIFICATE AND AGREEMENT OF LIMITED PARTNERSHIP ("AGREEMENT"), amending and restating the original Certificate of Limited Partnership, is made and entered into as of ___________________________, 201__, by and among U.S. Energy Development Corporation, referred to as "U.S. Energy" or the "Managing General Partner," and the remaining parties from time to time signing a Subscription Agreement for Limited Partner Units, these parties sometimes referred to as "Limited Partners," or for Investor General Partner Units, these parties sometimes referred to as "Investor General Partners."

ARTICLE I
FORMATION

1.01. **Formation.** The parties hereto form a limited partnership pursuant to the Delaware Revised Uniform Limited Partnership Act, on the terms and conditions set forth in this Agreement.

1.02. **Certificate of Limited Partnership**. This document shall constitute not only the agreement among the parties, but also shall constitute the Amended and Restated Certificate and Agreement of Limited Partnership of the Partnership. This document may be filed or recorded in the public offices required under applicable law or deemed advisable in the discretion of the Managing General Partner. Amendments to the certificate of limited partnership shall be filed or recorded in the public offices required under applicable law or deemed advisable in the discretion of the Managing General Partner.

1.03. **Name, Principal Office and Residence.**

1.03(a). **Name.** The name of the Partnership is Genesis Drilling Program V, VI or VII LP.

1.03(b). **Residence.** The residence of the Managing General Partner shall be its principal place of business at 2350 North Forest Road, Getzville, New York 14068, which shall also serve as the principal place of business of the Partnership. The residence of each Participant shall be as set forth on the Subscription Agreement executed by the Participant.

All addresses shall be subject to change on notice to the parties.

1.03(c). **Agent for Service of Process.** The name and address of the agent for service of process shall be The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801-1120.

1.04. **Purpose.** The Partnership shall engage in all phases of the natural gas and oil business. This includes, without limitation, exploration for, development and production of natural gas and oil on the terms and conditions set forth below and any other proper purpose under the Delaware Revised Uniform Limited Partnership Act.

The Managing General Partner may not, without the affirmative vote of Participants whose Units equal a majority of the total Units:

(i) change the investment and business purpose of the Partnership; or

(ii) cause the Partnership to engage in activities outside the stated business purposes of the Partnership through joint ventures with other entities.

ARTICLE II
DEFINITION OF TERMS

2.01. **Definitions.** As used in this Agreement, the following terms shall have the meanings set forth below:

1. "Accredited Investor" means Accredited Investor, as that term is defined in Regulation D as adopted by the Securities and Exchange Commission as of the date of acceptance of the Participant's subscription. As of the date of the Private Placement Memorandum the term includes "any person who comes within any of the following categories or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:

(1) Any bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any insurance company as defined in section 2(13) of the Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for the benefit of its employees, if such plan has total assets in excess of $5,000,000; 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;

(2) Any private business development company as defined in section 202(a)(22) of the Investment Advisors Act of 1940;

(3) Any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

(4) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

(5) Any natural person whose individual net worth, exclusive of the value of such person's principal residence; or joint net worth with that person's spouse, exclusive of the value of such persons' principal residence, at the time of his purchase exceeds $1,000,000;

(6) Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

(7) 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 as described in 17 CFR §230.506(b)(2)(ii); and

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

2. "Administrative Costs" means all customary and routine expenses incurred by the Sponsor for the conduct of Partnership administration, including: legal, finance, accounting, secretarial, travel, office rent, telephone, data processing and other items of a similar nature. Administrative Costs shall be limited as follows:

(i) no Administrative Costs charged shall be duplicated under any other category of expense or cost; and

(ii) no portion of the salaries, benefits, compensation or remuneration of controlling persons of the Managing General Partner shall be reimbursed by the Partnership as Administrative Costs. Controlling persons include directors, executive officers and those holding five percent or more equity interest in the Managing General Partner or a person having power to direct or cause the direction of the Managing General Partner, whether through the ownership of voting securities, by contract, or otherwise.

3. "Administrator" means the official or agency administering the securities laws of a state.

4. "Affiliate" means with respect to a specific person:

   (i) any person directly or indirectly owning, controlling, or holding with power to vote 10% or more of the outstanding voting securities of the specified person;

   (ii) any person 10% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the specified person;

   (iii) any person directly or indirectly controlling, controlled by, or under common control with the specified person;

   (iv) any officer, director, trustee or partner of the specified person; and

   (v) if the specified person is an officer, director, trustee or partner, any person for which the person acts in such capacity.

5. "Agreement" means this Amended and Restated Certificate and Agreement of Limited Partnership, including all exhibits to this Agreement.

6. "Assessments" means additional amounts of capital which may be mandatorily required of or paid voluntarily by a Participant beyond his subscription commitment.

7. "Assignment" means a conveyance of an interest in leases and/or the well bore for a Partnership well to the Partnership.

8. "Capital Account" or "account" means the account established for each party to this Agreement, maintained as provided in §5.02 and its subsections.

9. "Capital Contribution" means the amounts agreed to be contributed to the Partnership by a party under §§3.04 and 3.05 and their subsections.

10. "Code" means the Internal Revenue Code of 1986, as amended.

11. "Cost" when used with respect to the sale or transfer of property to the Partnership, means:

   (i) the sum of the prices paid by the seller or transferor to an unaffiliated person for the property, including bonuses;

   (ii) title insurance or examination costs, brokers' commissions, filing fees, recording, costs, transfer taxes, if any, and like charges in connection with the acquisition of the property;

   (iii) a pro rata portion of the seller's or transferor's actual necessary and reasonable expenses for seismic and geophysical services; and

(iv) rentals and ad valorem taxes paid by the seller or transferor with respect to the property to the date of its transfer to the buyer or transferee, interest and points actually incurred on funds used to acquire or maintain the property, and the portion of the seller's or transferor's reasonable, necessary and actual expenses for geological, engineering, drafting, accounting, legal and other like services allocated to the property cost in conformity with generally accepted accounting principles and industry standards, except for expenses in connection with the past drilling of wells which are not producers of sufficient quantities of natural gas and oil to make commercially reasonable their continued operations, and provided that the expenses set forth in this subsection (iv) shall have been incurred not more than 36 months before the sale or transfer by the Partnership.

"Cost" when used with respect to services, means the reasonable, necessary and actual expense incurred by the seller on behalf of the Partnership in providing the services, determined in accordance with generally accepted accounting principles.

As used elsewhere, "Cost" means the price paid by the seller in an arm's length transaction.

12. "Dealer-Manager" means Westmoreland, an Affiliate of the Managing General Partner and the broker/dealer which will manage the offering and sale of the Units.

13. "Development Well" means a well drilled within the proved area of a natural gas or oil reservoir to the depth of a stratigraphic Horizon known to be productive.

14. "Direct Costs" means all actual and necessary costs directly incurred for the benefit of the Partnership and generally attributable to the goods and services provided to the Partnership by parties other than the Sponsor or its Affiliates. Direct Costs:

(i) may not include any cost otherwise classified as Organization and Offering Costs, Administrative Costs, Intangible Drilling Costs, Tangible Costs, Operating Costs or costs related to the Leases; but

(ii) may include the cost of services provided by the Sponsor or its Affiliates if the services are provided under written contracts and in compliance with §4.03(d)(7) or pursuant to the Managing General Partner's role as Tax Matters Partner.

15. "Distribution Interest" means an undivided interest in the assets of the Partnership after payments to creditors of the Partnership or the creation of a reasonable reserve therefor, in the ratio the positive balance of a party's Capital Account bears to the aggregate positive balance of the Capital Accounts of all of the parties determined after taking into account all Capital Account adjustments for the taxable year during which liquidation occurs (other than those made pursuant to liquidating distributions). Provided, however, after the Capital Accounts of all of the parties have been reduced to zero, the interest in the remaining assets of the Partnership shall equal a party's interest in the related revenues of the Partnership as set forth in §5.01 and its subsections of this Agreement.

16. "Drill Site" means the drilling or spacing unit on which one Partnership Well will be drilled and, if warranted, completed.

17. "Drilling Agreement" means the proposed Drilling Agreement between the Managing General Partner, as general drilling contractor, and the Partnership, a copy of the proposed form of which is attached to this Agreement as Exhibit (II).

18. "Exploratory Well" means a well drilled:

    (i) to find commercially productive hydrocarbons in an unproved area;

    (ii) to find a new commercially productive Horizon in a field previously found to be productive of hydrocarbons at another Horizon; or

    (iii) to significantly extend a known prospect.

19. "Farmout" means an agreement whereby the owner of the leasehold or Working Interest agrees to assign his interest in certain specific acreage to the assignees, retaining some interest such as an Overriding Royalty Interest, an oil and gas payment, offset acreage or other type of interest, subject to the drilling of one or more specific wells or other performance as a condition of the assignment.

20. "Final Terminating Event" means any one of the following:

    (i) the expiration of the fixed term of the Partnership;

    (ii) the giving of notice to the Participants by the Managing General Partner of its election to terminate the affairs of the Partnership;

    (iii) the giving of notice by the Participants to the Managing General Partner of their similar election through the affirmative vote of Participants whose Units equal 65% of the total Units or the election by Participants owning more than 50% of the total Units to participate in a Roll-Up; or

    (iv) the termination of the Partnership under §708(b)(1)(A) of the Code or the Partnership ceases to be a going concern.

21. "GP Investors" means the Investor General Partners.

22. "Horizon" means a zone of a particular formation; that part of a formation of sufficient porosity and permeability to form a petroleum reservoir.

23. "Incentive Management Fee" means a fee that will be earned by the Managing General Partner if Payout is achieved and which will be paid by the admission of an Affiliate of the Managing General Partner to the Partnership as a Limited Partner and the issuance to that Affiliate of the number of Units (including a fraction of a Unit if necessary), a

portion of which will be assigned by such Affiliate to the Managing General Partner, required for the Managing General Partner to receive fifteen percent, and for such Affiliate to receive ten percent, of partnership revenues after Payout.

24. "Independent Expert" means a person with no material relationship to the Sponsor or its Affiliates who is qualified and who is in the business of rendering opinions regarding the value of natural gas and oil properties based on the evaluation of all pertinent economic, financial, geologic and engineering information available to the Sponsor or its Affiliates.

25. "Initial Closing Date" means the date after the minimum amount of subscription proceeds has been received when subscription proceeds are first withdrawn from the escrow account.

26. "Intangible Drilling Costs" or "Non-Capital Expenditures" means those expenditures associated with property acquisition and drilling and completing natural gas and oil wells that under present law are generally accepted as fully deductible currently for federal income tax purposes. This includes all expenditures made with respect to any well before the establishment of production in commercial quantities for wages, fuel, repairs, hauling, supplies and other costs and expenses incident to and necessary for drilling the well and preparing the well for the production of natural gas or oil, that are currently deductible pursuant to Section 263(c) of the Code and Treasury Reg. Section 1.612-4, which are generally termed "intangible drilling and development costs," including the expense of plugging and abandoning any well before a completion attempt.

27. "Interim Closing Date" means those date(s) after the Initial Closing Date of the Partnership, but before the Offering Termination Date, that the Managing General Partner, in its sole discretion, applies additional subscription proceeds to additional Partnership activities, including drilling activities.

28. "Investor General Partners" means:

    (i) the persons signing the Subscription Agreement as Investor General Partners; and

    (ii) the Managing General Partner to the extent of any optional subscription as an Investor General Partner under §3.03(b)(2).

    All Investor General Partners shall be of the same class and have the same rights.

29. "Landowner's Royalty Interest" means an interest in production, or the proceeds therefrom, to be received free and clear of all costs of development, operation, or maintenance, reserved by a landowner on the creation of a natural gas and oil Lease.

30. "Leases" means full or partial interests in natural gas and oil leases, natural gas and oil mineral rights, fee rights, licenses, concessions, or other rights under which the holder is entitled to explore for and produce natural gas and/or oil, and further includes any contractual rights to acquire any such interest.

31. “Limited Liability Company” means Genesis Drilling V, VI or VII LLC, a Delaware limited liability company whose members are Qualified Entities or Non-Qualified Participants who elect to invest as members of a Limited Liability Company (a “LLC”), and which itself is a Limited Partner.

32. “Limited Partners” means:

    (i) the persons signing the Subscription Agreement as Limited Partners;

    (ii) the Managing General Partner to the extent of any optional subscription as a Limited Partner under §3.03(b)(2);

    (iii) the Investor General Partners on the conversion of their Investor General Partner Units to Limited Partner Units under §6.01(b); and

    (iv) any other persons who are admitted to the Partnership as additional or substituted Limited Partners.

    Except as provided in §3.05(b) with respect to the required additional Capital Contributions of Investor General Partners, all Limited Partners shall be of the same class and have the same rights.

33. “LP/LLC Investors” means:

    (i) The Limited Liability Companies and their members; and

    (ii) The Non-Qualified Participants who elect to invest as Limited Partners.

34. “Managing General Partner” means:

    (i) U.S. Energy Development Corporation; or

    (ii) any Person admitted to the Partnership as a general partner other than as an Investor General Partner under this Agreement who is designated to exclusively supervise and manage the operations of the Partnership.

35. “Managing General Partner Signature Page” means an execution and subscription instrument in the form attached as Exhibit (I-A) to this Agreement, which is incorporated in this Agreement by reference.

36. “Net Revenue Interest” means that percentage of revenues attributable to the natural gas and oil rights subject to a particular Lease which a party acquiring a Lease is entitled to receive by virtue of its interest in the Lease.

37. “Non-Qualified Participant” means an entity, including individuals, that is not a Qualified Entity and that is a Participant.

38. "Offering Termination Date" means the date after the minimum amount of subscription proceeds has been received on which the Managing General Partner determines, in its sole discretion, the Partnership's subscription period is closed and the acceptance of subscriptions ceases, which shall not be later than the earlier of:

(i) For GP Investors, December 31, 2014 [for Genesis Drilling Program V or VI LP] or December 31st of the calendar year during which the offering is commenced [for Genesis Drilling Program VII LP]; or

(ii) the time that subscriptions for the maximum number of Units set forth in §3.03(c)(1) have been received and accepted by the Managing General Partner.

39. "Operating Agreement" means the proposed Operating Agreement between the Managing General Partner as Operator, and the Partnership, a copy of the proposed form of which is attached to this Agreement as Exhibit (III).

40. "Operating Costs" means expenditures made and costs incurred in producing and marketing natural gas or oil from completed wells, including, but not limited to:

(i) labor, fuel, repairs, hauling, materials, supplies, utility charges and other costs incident to or related to producing and marketing natural gas and oil;

(ii) ad valorem and severance taxes;

(iii) insurance and casualty loss expense; and

(iv) compensation to well operators or others for services rendered in conducting or supervising those operations.

Operating Costs also include reworking, workover, subsequent equipping and similar expenses relating to any well, including the costs of completing a well to the Medina (or such other development target formation) if the well has first been completed and produced only from a shallower formation pursuant to the Turnkey Drilling Agreement.

41. "Operator" means the Managing General Partner as operator of the Partnership Wells, or such other Person as may be designated by the Managing General Partner.

42. "Organization and Offering Costs" means all costs of organizing and selling the offering including, but not limited to:

(i) total underwriting and brokerage discounts and commissions (including fees of the underwriters' attorneys);

(ii) expenses for printing, engraving, mailing, salaries of employees while engaged in sales activities, charges of transfer agents, registrars, trustees, escrow holders, depositaries, engineers and other experts;

(iii) expenses of qualification of the sale of the securities under federal and state law, including taxes and fees, accountants' and attorneys' fees; and

(iv) other front-end fees.

43. "Original Limited Partner" means the person making the initial Limited Partner Capital Contribution in connection with the formation of the Partnership.

44. "Overriding Royalty Interest" means an interest in the natural gas and oil produced under a specified natural gas and oil lease or leases included in the Partnership, or the proceeds from the sale of the natural gas and oil, carved out of the Working Interest, to be received free and clear of all costs of development, operation, or maintenance.

45. "Participants" means:

(i) the Managing General Partner to the extent of its optional subscription under §3.03(b)(2);

(ii) the Limited Partners; and

(iii) the Investor General Partners.

46. "Partners" means:

(i) the Managing General Partner;

(ii) the Investor General Partners; and

(iii) the Limited Partners.

47. "Partnership" means Genesis Drilling Program V, VI or VII LP, the Delaware limited partnership formed under this Agreement.

48. "Partnership Net Production Revenues" means gross revenues after deduction of the related Operating Costs, Direct Costs, Administrative Costs and all other Partnership costs not specifically allocated.

49. "Partnership Well" means a well, some portion of the revenues from which is received by the Partnership.

50. "Payout" means the point at which cumulative distributions to the Limited Partners and Investor General Partners equals the total of the amounts invested by the Limited Partners and Investor General Partners. The Limited Liability Company is included as a Limited Partner in such calculation.

51. "Person" means a natural person, partnership, corporation, association, trust or other legal entity.

52. “Program” means one or more limited or general partnerships or other investment vehicles formed, or to be formed, for the primary purpose of:

(i) exploring for natural gas, oil and other hydrocarbon substances; or

(ii) investing in or holding any property interests which permit the exploration for or production of hydrocarbons or the receipt of such production or the proceeds thereof.

53. “Proved Developed Oil and Gas Reserves” means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

54. “Proved Reserves” means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic predictability is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes:

(a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and

(b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data.

In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following:

(a) oil that may become available from known reservoirs but is classified separately as “indicated additional reserves”;

(b) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;

(c) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and

(d) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

55. “Proved Undeveloped Reserves” means reserves that are expected to be recovered either:

(i) from new wells on undrilled acreage; or

(ii) from existing wells where a relatively major expenditure is required for recompletion.

Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

56. “Qualified Entity” means Individual Retirement Accounts, Keogh Plans, Qualified Retirement Plans and similar entities.

57. “Recompletion” means the stimulation of a previously completed well by hydrofracture or similar means, in either the same or an additional horizon as previously completed, to establish production from such well.

58. “Roll-Up” means a transaction involving the acquisition, merger, conversion or consolidation, either directly or indirectly, of the Partnership and the issuance of securities of a Roll-Up Entity. The term does not include:

(i) a transaction involving securities of the Partnership that have been listed for at least 12 months on a national exchange or traded through the National Association of Securities Dealers Automated Quotation National Market System; or

(ii) a transaction involving the conversion to corporate, trust or association form of only the Partnership if, as a consequence of the transaction, there will be no significant adverse change in any of the following:

(a) voting rights;

(b) the term of existence of the Partnership;

(c) the Managing General Partner's compensation; and

(d) the Partnership's investment objectives.

59. "Roll-Up Entity" means a partnership, trust, corporation or other entity that would be created or survive after the successful completion of a proposed roll-up transaction.

60. "Sales Commissions" means all underwriting and brokerage discounts and commissions incurred in the sale of Units in the Partnership payable to registered broker/dealers, but excluding:

(i) the Dealer-Manager fee unless the Dealer-Manager is not legally able to receive it;

(ii) a due diligence fee;

(iii) a marketing fee; and

(iv) an assignment of a portion of the Managing General Partner's working interest (of up to a 0.75% working interest) to certain selected broker/dealers, subject to their acceptance of such assignment, which assignment shall also be subject to revocation by the managing general partner, including, but not limited to, when revenues attributable to such working interest, or fractional part thereof, attain a maximum cumulative amount established by the Managing General Partner, which shall not exceed 2% of the amount of investor subscriptions.

61. "Selling Agents" means those broker/dealers selected by the Dealer-Manager which will participate in the offer and sale of the Units.

62. "Sponsor" means any person directly or indirectly instrumental in organizing, wholly or in part, a program or any person who will manage or is entitled to manage or participate in the management or control of a program. The definition includes:

(i) the managing and controlling general partner(s) and any other person who actually controls or selects the person who controls 25% or more of the exploratory, development or producing activities of the program, or any segment thereof, even if that person has not entered into a contract at the time of formation of the program; and

(ii) whenever the context so requires, the term "sponsor" shall be deemed to include its Affiliates.

"Sponsor" does not include wholly independent third-parties such as attorneys, accountants, and underwriters whose only compensation is for professional services rendered in connection with the offering of Units.

63. "Step-out Well" means a well designed to expand the area of a proved oil or gas reservoir.

64. "Subscription Agreement" means an execution and subscription instrument in the form attached as Exhibits (I-B(i)) [for all subscriptions other than those made through a Registered Investment Advisor] and (I-B(ii)) [for subscriptions made through a Registered Investment Advisor] to this Agreement, which is incorporated in this Agreement by reference.

65. "Tangible Costs" or "Capital Expenditures" means those costs associated with drilling and completing natural gas and oil wells which are generally accepted as capital expenditures under the provisions of the Internal Revenue Code. This includes all costs of equipment, parts and items of hardware used in drilling and completing a well, and those items necessary to deliver acceptable natural gas and oil production to purchasers to the extent installed downstream from the wellhead of any well and which are required to be capitalized under applicable provisions of the Code and regulations promulgated under the Code.

66. "Tax Matters Partner" means the Managing General Partner.

67. "Units" means the Limited Partner interests and the Investor General Partner interests in the Partnership purchased by Participants under, the provisions of §3.03 and its subsections, or issued in payment of the Incentive Management Fee, including any rights to profits, losses, income, gain, credits, deductions, cash distributions or returns of capital or other attributes of the Units.

68. "U.S. Energy" means U.S. Energy Development Corporation, a New York corporation, whose principal executive offices are located at 2350 North Forest Road, Getzville, New York 14068.

69. "Westmoreland" means Westmoreland Capital Corporation, whose principal executive offices are located at 2350 North Forest Road, Getzville, New York 14068 and which serves as Dealer-Manager.

70. "Working Interest" means an interest in a natural gas and oil leasehold which is subject to some portion of the cost of development, operation, or maintenance.

71. "Workover" means operations on a previously productive well to restore or increase production.

ARTICLE III
SUBSCRIPTIONS AND FURTHER CAPITAL CONTRIBUTIONS

3.01. **Designation of Managing General Partner and Participants.** U.S. Energy shall serve as Managing General Partner of the Partnership. U.S. Energy shall further serve as a Participant to the extent of any subscription made by it under §3.03(b)(2).

Limited Partners, including the Limited Liability Companies, and Investor General Partners, including Affiliates of the Managing General Partner, shall serve as Participants.

3.02. **Participants.**

3.02(a). **Limited Partner at Formation.** Joseph M. Jayson, as Original Limited Partner, has acquired one Unit and has made a Capital Contribution of $100.

On the admission of one or more Limited Partners, the Partnership shall return to the Original Limited Partner his Capital Contribution and shall reacquire its Unit. The Original Limited Partner shall then cease to be a Limited Partner in the Partnership with respect to the Unit.

3.02(b). **Offering of Interests.** The Partnership is authorized to admit to the Partnership at the Initial Closing Date, any Interim Closing Date(s), and the Offering Termination Date additional Participants whose Subscription Agreements for Units are accepted by the Managing General Partner if, after the admission of the additional Participants, the total Units do not exceed the maximum number of Units set forth in §3.03(c)(1).

3.02(c). **Admission of Participants and Escrow Account.** No action or consent by the Participants shall be required for the admission of additional Participants under this Agreement.

All subscribers' funds shall be held by an independent escrow holder in an interest bearing account and shall not be released to the Partnership until the receipt of the minimum amount of subscription proceeds set forth in §3.03(c)(2). Thereafter, subscriptions may be paid directly to the Partnership account.

3.03. **Subscriptions to the Partnership.**

3.03(a). **Subscriptions by Participants.** A Participant's subscription to the Partnership shall be the amount so designated on his Subscription Agreement.

3.03(a)(1). **Subscription Price and Minimum Agreed Subscription.** The subscription price of a Unit in the Partnership shall be $40,000, payable as set forth in this Agreement. The minimum subscription per Participant shall be one Unit ($40,000). However, the Managing General Partner, in its discretion, may accept subscriptions for partial Units.

Larger subscriptions shall be accepted in $1,000 increments.

3.03(a)(2). **Effect of Subscription.** Execution of a Subscription Agreement shall serve as an agreement by the Participant to be bound by each and every term of this Agreement.

3.03(b). **Subscriptions by Managing General Partner.**

3.03(b)(1). **Managing General Partner's Required Contribution.** The Managing General Partner, as a general partner and not as a Participant, shall pay the costs charged to it as set forth in the Agreement.

3.03(b)(2). **Managing General Partner's Optional Additional Subscription.** In addition to the Managing General Partner's required subscription under §3.03(b)(1), the Managing General Partner may subscribe to up to 12 Units under the provisions of §3.03(a) and its subsections on the same basis as a Participant under §3.03(a) and its subsections, and to that extent shall be deemed a Participant in the Partnership for all purposes under this Agreement.

The Managing General Partner shall not be required to pay the Dealer-Manager fee, the Sales Commission, the due diligence fee, or the marketing fee on subscriptions received from the Managing General Partner, its officers, directors and Affiliates and Participants who buy Units through the officers and directors of the Managing General Partner.

3.03(b)(3). **Effect of and Evidencing Subscription.** The Managing General Partner has executed a Managing General Partner Signature Page which:

(i) evidences the Managing General Partner's required subscription under §3.03(b)(1); and

(ii) may be amended to reflect the amount of any optional subscription under §3.03(b)(2).

Execution of the Managing General Partner Signature Page serves as an agreement by the Managing General Partner to be bound by each and every term of this Agreement.

3.03(c). **Maximum** Number of Units and Minimum Amount of Subscription Proceeds.

3.03(c)(1). **Maximum Number of Units.** The maximum number of Units subscribed to may not exceed 1437.5 in Genesis Drilling Program V or VII LP or 4312.5 in Genesis Drilling Program VI LP. Units that may be issued to an Affiliate of the Managing General Partner in payment of the Incentive Management Fee, if earned shall not be included in the calculation of the maximum number of Units.

3.03(c)(2). **Minimum Amount of Subscription Proceeds.** The minimum amount of subscription proceeds shall equal at least $480,000.

The Managing General Partner, its officers, directors, and Affiliates, may purchase the number of Units needed to satisfy the required minimum amount of subscription proceeds. If at the Offering Termination Date the minimum amount of subscription proceeds has not been received and accepted, then all monies deposited by subscribers shall be promptly returned to them. They shall receive interest earned on their subscription proceeds from the date the monies were deposited in escrow through the date of refund.

The partnership may break escrow and begin its drilling activities in the Managing General Partner's sole discretion on receipt of the minimum subscriptions.

3.03(d). **Acceptance of Subscriptions.**

3.03(d)(1). **Discretion by the Managing General Partner.** Acceptance of subscriptions shall be discretionary with the Managing General Partner. The Managing General Partner may reject any subscription for any reason it deems appropriate.

3.03(d)(2). **Time Period in Which to Accept Subscriptions.** A Participant's subscription to the Partnership and the Managing General Partner's acceptance of the subscription shall be evidenced by the execution of a Subscription Agreement by the Participant and by the Managing General Partner.

Subscription Agreements shall be accepted or rejected by the Partnership within 30 days of their receipt. If a subscription is rejected, then all funds shall be returned to the subscriber promptly.

3.03(d)(3). **Admission to the Partnership.** The Participants shall be admitted to the Partnership as follows:

(i) not later than 15 days after the release from escrow of Participants' funds to the Partnership; and

(ii) after the close of the escrow account not later than the last day of the calendar month in which their Subscription Agreements were accepted by the Partnership.

3.04. **Additional Capital Contributions of the Managing General Partner.**

3.04(a). **Additional Capital Contributions of the Managing General Partner.** In addition to any Capital Contribution required of the Managing General Partner as provided in §3.03(b)(1) and any optional Capital Contribution as a Participant as provided in §3.03(b)(2), the Managing General Partner shall contribute cash sufficient to pay all costs charged to it under this Agreement to the extent the costs exceed:

(i) its Capital Contribution pursuant to §3.03(b); and

(ii) its share of undistributed revenues.

These Capital Contributions shall be paid by the Managing General Partner at the time the costs are required to be paid by the Partnership.

3.04(b). **Minimum Amount of Managing General Partner's Required Contribution.** The Managing General Partner is required to make aggregate Capital Contributions to the Partnership of those amounts of Organization and Offering Costs that are not paid from the subscriptions of the Investor General Partners and Limited Partners. Any Organization and Offering Costs paid by the Managing General Partner in excess of 4% of the Partnership's subscription proceeds shall not be credited towards the Managing General Partner's required Capital Contribution, but shall be included in the Managing General Partner's Capital Account. The Managing General Partner is required to maintain a minimum Capital Account balance equal to 1% of the total positive Capital Account balances for the Partnership.

3.04(c). **On Liquidation the Managing General Partner Must Contribute Deficit Balance in Its Capital Account.** The Managing General Partner shall contribute to the Partnership any deficit balance in its Capital Account on either of the following events:

(i) the liquidation of the Partnership; or

(ii) the liquidation of the Managing General Partner's interest in the Partnership.

This shall be determined after taking into account all adjustments for the Partnership's taxable year during which the liquidation occurs (other than adjustments made under this requirement), by the end of the taxable year in which its interest in the Partnership is liquidated or, if later, within 90 days after the date of the liquidation.

3.04(d). **Interest for Contributions.** The interest of the Managing General Partner in the capital and revenues of the Partnership is in consideration for, and is the only consideration for, its Capital Contribution to the Partnership.

3.05. **Payment of Subscriptions.**

3.05(a). **Managing General Partner's Subscriptions.** The Managing General Partner shall:

(i) pay the costs charged to it when incurred by the Partnership, subject to §3.04(b); and

(ii) pay any optional subscription under §3.03(b)(2) in the same manner as provided for the payment of Participant subscriptions.

3.05(b). **Participant Subscriptions and Additional Capital Contributions of the Investor General Partners.**

3.05(b)(1). **Payment of Subscription Agreements.** A Participant shall pay the amount designated as the subscription price on the Participant's Subscription Agreement 100% in cash at the time of subscribing. A Participant shall receive interest on his subscription proceeds up until two weeks before the Initial Closing Date at the deposit rate paid by RBS Citizens Bank.

3.05(b)(2). **Additional Required Capital Contributions of the Investor General Partners.** Investor General Partners are obligated to make Capital Contributions to the Partnership when called by the Managing General Partner (in addition to their subscriptions) for their pro rata share of any Partnership obligations and liabilities which are recourse to the Investor General Partners and are represented by their ownership of Units before the conversion of Investor General Units to Limited Partner interests under §6.01(b).

3.05(b)(3). **Default Provisions.** The failure of an Investor General Partner to timely make a required additional Capital Contribution under this section results in his personal liability to the other Investor General Partners for the amount in default. The remaining Investor General Partners, pro rata, must pay the defaulting Investor General Partner's share of Partnership liabilities and obligations. In that event, the remaining Investor General Partners:

(i) shall have a first and preferred lien on the defaulting Investor General Partner's interest in the Partnership to secure payment of the amount in default plus interest at the legal rate;

(ii) shall be entitled to receive 100% of the defaulting Investor General Partner's cash distributions directly from the Partnership until the amount in default is recovered in full plus interest at the legal rate; and

(iii) may commence legal action to collect the amount due plus interest at the legal rate.

3.05(b)(4). **Limited Liability Company.** Non-Qualified Participants and Qualified Entities may contribute funds to, and on doing so and being accepted by the manager thereof, shall become members of the Limited Liability Company. The Limited Liability Company shall, in turn, become a Limited Partner in the Partnership. The Limited Liability Company shall utilize the net amount of the funds contributed by its members to acquire Units as a Limited Partner in the Partnership and may increase the number of Units to which it subscribes as additional members become part of the Limited Liability Company.

3.06. **Partnership Funds.**

3.06(a). **Fiduciary Duty.** The Managing General Partner shall have a fiduciary responsibility for the safekeeping and use of all Partnership funds and assets, whether or not in the Managing General Partner's possession or control. The Managing General Partner shall not employ, or permit another to employ, the funds and assets in any manner except for the exclusive benefit of the Partnership.

3.06(b). **Special Account after the Receipt of the Minimum Amount of Subscription Proceeds.** Following the receipt of the minimum amount of subscription proceeds and breaking escrow, the funds of the Partnership shall be held in a separate interest-bearing account maintained for the Partnership and shall not be commingled with funds of any other entity.

3.06(c). **Investment.**

3.06(c)(1). **Investments in Other Entities.** Partnership funds may not be invested in the securities of another person except in the following instances:

(i) investments in Working Interests or undivided Lease interests made in the ordinary course of the Partnership's business;

(ii) temporary investments made as set forth in §3.06(c)(2);

(iii) multi-tier arrangements meeting the requirements of §4.03(d)(15);

(iv) investments involving less than 5% of the Partnership's subscription proceeds which are a necessary and incidental part of a property acquisition transaction; and

(v) investments in entities established solely to limit the Partnership's liabilities associated with the ownership or operation of property or equipment, provided, in these instances duplicative fees and expenses shall be prohibited.

3.06(c)(2). **Permissible Investments Before Investment in Partnership Activities.** After the Initial Closing Date and until proceeds from the offering are invested in the Partnership's operations, the proceeds may be temporarily invested in income producing short-term, highly liquid investments, in which there is appropriate safety of principal, such as U.S. Treasury Bills.

ARTICLE IV
CONDUCT OF OPERATIONS

4.01. **Acquisition of Leases.**

4.01(a). **Assignment to Partnership.**

4.01(a)(1). **In General.** The Managing General Partner shall select, acquire and sell or cause to be sold to the Partnership full or partial interests in Leases, by any method customary in the oil and gas industry, subject to the terms and conditions set forth below.

The Partnership shall acquire only Leases reasonably expected to meet the stated purposes of the Partnership. No Leases shall be acquired for the purpose of a subsequent sale unless the acquisition is made after a well has been drilled to a depth sufficient to indicate that the acquisition would be in the Partnership's best interest. Provided however that the Partnership may sell leases, or interests in leases, it has acquired to unaffiliated third-parties if such sale is, in the opinion of the Managing General Partner, in the best interest of the Partnership. The compensation the Partnership shall pay for the Leases shall be based on their fair market value as determined, in good faith, by the Managing General Partner.

To the greatest extent possible, the Leases shall be acquired by the Partnership with a portion of the net subscription proceeds from the LP/LLC Investors.

4.01(a)(2). **Federal and State Leases.** The Partnership is authorized to acquire Leases on federal and state lands.

4.01(a)(3). **Managing General Partner's Discretion as to Terms and Burdens of Acquisition.** Subject to the provisions of §4.03(d) and its subsections, the acquisitions of Leases or other property may be made under any terms and obligations, including:

(i) any limitations as to the Horizons to be assigned to the Partnership; and

(ii) subject to any burdens, as the Managing General Partner deems necessary in its reasonable discretion.

4.01(a)(4). **Cost of Leases.** All Leases shall be:

(i) acquired from the Managing General Partner, the Operator or their Affiliates for fair market value; or

(ii) acquired from unaffiliated third parties, as selected by the Managing General Partner, at fair market value.

4.01(a)(5). **The Managing General Partner, the Operator or Their Affiliates' Rights in the Remainder Interests.** To the extent the Partnership does not acquire a full interest in a Lease from the Managing General Partner or its Affiliates, the remainder of the interest in the Lease may be held by the Managing General Partner or its Affiliates. They may either:

(i) retain and exploit the remaining interest for their own account; or

(ii) sell or otherwise dispose of all or a part of the remaining interest.

Profits from the exploitation and/or disposition of their retained interests in the Leases shall be for the benefit of the Managing General Partner or its Affiliates to the exclusion of the Partnership.

4.01(a)(6). **No Breach of Duty.** Subject to the provisions of §4.03 and its subsections, acquisition of Leases from the Managing General Partner, the Operator or their Affiliates shall not be considered a breach of any obligation owed by the Managing General Partner, the Operator or their Affiliates to the Partnership or the Participants.

4.01(b). **Overriding Royalty Interests.** Except for the 3.125% Overriding Royalty Interest provided for in §5.01(a)(7) neither the Managing General Partner, the Operator nor any Affiliate shall retain any Overriding Royalty Interest on the Lease interests acquired by the Partnership.

4.01(c). **Title and Nominee Arrangements.**

4.01(c)(1). **Legal Title.** Legal title to all Leases acquired by the Partnership shall be held on a permanent basis in the name of the Partnership. However, Partnership properties may be held temporarily in the name of:

(i) the Managing General Partner;

(ii) the Operator;

(iii) their Affiliates; or

(iv) in the name of any nominee designated by the Managing General Partner to facilitate the acquisition of the properties.

4.01(c)(2). **Managing General Partner's Discretion.** The Managing General Partner shall take the steps which are necessary in its best judgment to render title to the Leases to be acquired by the Partnership acceptable for the purposes of the Partnership. The Managing General Partner shall be free, however, to use its own best judgment in waiving title requirements that appear in title reports it obtains for the Leases.

The Managing General Partner shall not be liable to the Partnership or to the other parties for any mistakes of judgment; nor shall the Managing General Partner be deemed to be making any warranties or representations, express or implied, as to the validity or merchantability of the title to the Leases assigned to the Partnership or the extent of the interest covered thereby except as otherwise provided in the Assignment.

4.01(c)(3). **Commencement of Operations.** The Partnership shall not begin operations on the Leases acquired by the Partnership unless the Managing General Partner is satisfied that necessary title requirements have been satisfied.

4.02. **Conduct of Operations.**

4.02(a). **In General.** The Managing General Partner shall establish a program of operations for the Partnership. Subject to the limitations contained in Article III of this Agreement concerning the maximum Capital Contribution which can be required of a Limited Partner, the Managing General Partner, the Limited Partners, and the Investor General Partners agree to participate in the program so established by the Managing General Partner.

4.02(b). **Management.** Subject to any restrictions contained in this Agreement, the Managing General Partner shall exercise full control over all operations of the Partnership.

4.02(c). **General Powers of the Managing General Partner.**

4.02(c)(1). **In General.** Subject to the provisions of §4.03 and its subsections, and to any authority which may be granted the Operator under §4.02(c)(3)(b), the Managing General Partner shall have full authority to do all things deemed necessary or desirable by it in the conduct of the business of the Partnership. Without limiting the generality of the foregoing, the Managing General Partner is expressly authorized to engage in:

(i) the making of all determinations of which Leases, wells and operations will be participated in by the Partnership, which includes:

(a) which Leases are developed;

(b) which Leases are abandoned; or

(c) which Leases are sold or assigned to other parties, including other investor ventures organized by the Managing General Partner, the Operator, or any of their Affiliates;

(ii) the negotiation and execution on any terms deemed desirable in its sole discretion of any contracts, conveyances, or other instruments, considered useful to the conduct of the operations or the implementation of the powers granted it under this Agreement, including, without limitation:

(a) the making of agreements for the conduct of operations;

(b) the furnishing of equipment, facilities, supplies and material, services, and personnel; and

(c) the exercise of any options, elections, or decisions under those agreements;

(iii) the exercise, on behalf of the Partnership or the parties, in the manner that the Managing General Partner in its reasonable judgment deems best, of all rights, elections and options granted or imposed by any agreement, statute, rule, regulation, or order;

(iv) the making of all decisions concerning the desirability of payment, and the payment or supervision of the payment, of all delay rentals and shut-in and minimum or advance royalty payments;

(v) the selection of full or part-time employees, outside consultants and contractors and the determination of their compensation and other terms of employment or hiring;

(vi) the maintenance of insurance for the benefit of the Partnership and the parties as it deems necessary, but in no event less in amount or type than that set forth in the Drilling Agreement and Operating Agreement;

(vii) the use of the funds and revenues of the Partnership, and the borrowing on behalf of, and the loan of money to, the Partnership, on any terms that are consistent with §4.02(e) that it sees fit, for any purpose, including without limitation:

  (a) the conduct or financing, in whole or in part, of the drilling and other activities of the Partnership;

  (b) the conduct of additional operations; and

  (c) the repayment of the borrowings or loans used initially to finance those operations or activities;

(viii) the disposition, hypothecation, sale, exchange, release, surrender, reassignment or abandonment of any or all assets of the Partnership (including, without limitation, the Leases, wells, equipment and production therefrom) provided that the sale of all or substantially all of the assets of the Partnership shall only be made as provided in §4.03(d)(6);

(ix) the formation of any further limited or general partnership, tax partnership, joint venture, or other relationship which it deems desirable with any parties who it, in its sole and absolute discretion, selects, including any of its Affiliates;

(x) the control of any matters affecting the rights and obligations of the Partnership, including:

  (a) the employment of attorneys to advise and otherwise represent the Partnership;

  (b) the conduct of litigation and other incurring of legal expense; and

  (c) the settlement of claims and litigation;

(xi) the operation of producing wells drilled on the Leases owned by the Partnership, or on a Drill Site which includes any part of the Leases;

(xii) the exercise of the rights granted to it under the power of attorney created under this Agreement; and

(xiii) the incurring of all costs and the making of all expenditures in any way related to any of the foregoing.

4.02(c)(2). **Scope of Powers.** The Managing General Partner's powers shall extend to any operation participated in by the Partnership or affecting its Leases, or other property or assets, irrespective of whether or not the Managing General Partner is designated operator of the operation by any outside persons participating in the operation.

4.02(c)(3). **Delegation of Authority.**

4.02(c)(3)(a). **In General.** The Managing General Partner may subcontract and delegate all or any part of its duties under this Agreement to any entity chosen by it, including an entity related to it. The party shall have the same powers in the conduct of the duties as would the Managing General Partner. The delegation, however, shall not relieve the Managing General Partner of its responsibilities under this Agreement.

4.02(c)(3)(b). **Delegation to Operator.** The Managing General Partner is specifically authorized to delegate any or all of its duties to the Operator by executing the Drilling Agreement and the Operating Agreement. This delegation shall not relieve the Managing General Partner of its responsibilities under this Agreement.

4.02(c)(4). **Related Party Transactions.** Subject to the provisions of §4.03 and its subsections, any transaction which the Managing General Partner is authorized to enter into on behalf of the Partnership under the authority granted in this section and its subsections, may be entered into by the Managing General Partner with itself or with any other general partner, the Operator or any of their Affiliates.

4.02(d). **Additional Powers.** In addition to the powers granted the Managing .General Partner elsewhere in this Agreement, the Managing General Partner, when specified, shall have the following additional express powers.

4.02(d)(1). **Drilling Contracts.** All Partnership Wells, whether drilled by U.S. Energy under the Drilling Agreement or otherwise, shall be drilled, completed and equipped on the basis of cost plus five percent (5%). The Managing General Partner may elect to reduce the Partnership's Working Interest in a Well to offset drilling and completion costs which exceed the estimated cost of such Well.

4.02(d)(2). **Power of Attorney.**

4.02(d)(2)(a). **In General.** Each Participant appoints the Managing General Partner his true and lawful attorney-in-fact for him and in his name, place and stead and for his use and benefit, from time to time:

(i) to create, prepare, complete, execute, file, swear to, deliver, endorse and record any and all documents, certificates or other instruments required or necessary to amend this Agreement as authorized under the terms of this Agreement, or to qualify the Partnership as a limited partnership or partnership in commendam and to conduct business under the laws of any jurisdiction in which the Managing General Partner elects to qualify the Partnership or conduct business; and

(ii) to create, prepare, complete, execute, file, swear to, deliver, endorse and record any and all instruments, assignments, security agreements, financing statements, certificates and other documents as may be necessary from time to time to implement the borrowing powers granted under this Agreement.

4.02(d)(2)(b). **Further Action.** Each Participant authorizes the attorney-in-fact to take any further action which the attorney-in-fact considers necessary or advisable in connection with any of the foregoing. Each Participant acknowledges that the power of attorney granted under this section:

(i) is a special power of attorney coupled with an interest and irrevocable; and

(ii) shall survive the assignment by the Participant of the whole or a portion of his Units; except when the assignment is of all of the Participant's Units and the purchaser, transferee or assignee of the Units, with the consent of the Managing General Partner, is admitted as a successor Participant, the power of attorney shall survive the delivery of the assignment for the sole purpose of enabling the attorney-in-fact to execute, acknowledge and file any agreement, certificate, instrument or document necessary to effect the substitution.

4.02(d)(2)(c). **Power of Attorney to Operator.** The Managing General Partner is hereby authorized to grant a Power of Attorney to the Operator on behalf of the Partnership.

4.02(d)(3). **Amended Certificate of Limited Partnership.** The Managing General Partner is authorized to execute and file the amended certificate of limited partnership contemplated by 6.01(b)(1) hereof.

4.02(e). **Borrowings and Use of Partnership Revenues.**

4.02(e)(1). **Power to Borrow or Use Partnership Revenues.**

4.02(e)(1)(a). **In General.** If additional funds over the Participants' Capital Contributions are needed for Partnership operations, then the Managing General Partner may:

(i) use Partnership revenues for such purposes;

(ii) borrow the funds from unaffiliated third parties; or

(iii) the Managing General Partner and its Affiliates may advance to the Partnership the funds necessary under §4.03(d)(8)(b), although they are not obligated to advance the funds to the Partnership.

4.02(e)(1)(b). **Limitation on Borrowing.** The borrowings (other than credit transactions on open account customary in the industry to obtain goods and services) shall be subject to the following limitations:

(i) the borrowings must be without recourse to the Investor General Partners and the Limited Partners except as otherwise provided in this Agreement; and

(ii) the amount that may be borrowed at any one time may not exceed an amount equal to 15% of the Partnership's subscription proceeds.

4.02(f). **Tax Matters Partner.**

4.02(f)(1). **Designation of Tax Matters Partner.** The Managing General Partner is designated the Tax Matters Partner of the Partnership under §6231(a)(7) of the Code. The Managing General Partner is authorized to act in this capacity on behalf of the Partnership and the Participants and to take any action, including settlement or litigation, which it in its sole discretion deems to be in the best interest of the Partnership.

4.02(f)(2). **Costs Incurred by Tax Matters Partner.** Costs incurred by the Tax Matters Partner shall be considered a Direct Cost of the Partnership. Such costs shall be calculated at an hourly rate for employees for the Tax Matters Partner and at cost plus ten percent for materials and third party services.

4.02(f)(3). **Notice to Participants of IRS Proceedings.** The Tax Matters Partner shall notify all Participants of any partnership administrative proceedings commenced by the Internal Revenue Service, and thereafter shall furnish all Participants periodic reports at least quarterly on the status of the proceedings.

4.02(f)(4). **Participant Restrictions.** Each Participant agrees as follows:

(i) he will not file the statement described in Section 6224(c)(3)(B) of the Code prohibiting the Managing General Partner as the Tax Matters Partner for the Partnership from entering into a settlement on his behalf with respect to partnership items (as such term is defined in Section 6231(a)(3) of Code) of the Partnership;

(ii) he will not form or become and exercise any rights as a member of a group of Partners having a 5% or greater interest in the profits of the Partnership under Section 6223(b)(2) of the Code; and

(iii) the Managing General Partner is authorized to file a copy of this Agreement (or pertinent portions of this Agreement) with the Internal Revenue Service pursuant to Section 6224(b) of the Code if necessary to perfect the waiver of rights under this subsection.

4.03. **General Rights and Obligations of the Participants and Restricted and Prohibited Transactions.**

4.03(a)(1). **Limited Liability of Limited Partners.** Limited Partners shall not be bound by the obligations of the Partnership other than as provided under the Delaware Revised Uniform Limited Partnership Act. Limited Partners shall not be personally liable for any debts of the Partnership or any of the obligations or losses of the Partnership beyond the amount of the subscription price designated on the Subscription Agreement executed by each respective Limited Partner unless:

(i) they also subscribe to the Partnership as Investor General Partners; or,

(ii) in the case of the Managing General Partner if it purchases Limited Partner Units.

4.03(a)(2). **No Management Authority of Participants.** Participants, other than the Managing General Partner if it buys Units, shall have no power over the conduct of the affairs of the Partnership. No Participant, other than the Managing General Partner if it buys Units, shall take part in the management of the business of the Partnership, or have the power to sign for or to bind the Partnership.

4.03(b). **Reports and Disclosures.**

4.03(b)(1). **Quarterly Reports, Annual Reports and Financial Statements.** Beginning with the 2015 (2016 for Genesis Drilling Program VII LP if the offering for such Partnership does not commence until after December 31, 2014) calendar year, the Partnership shall provide each Participant a quarterly report of income and expenses and any other material Partnership activity.

4.03(b)(2). **Tax Information.** The Partnership shall, by March 15 of each year, prepare, or supervise the preparation of, and transmit to each Participant the information needed for the Participant to file the following:

(i) his federal income tax return;

(ii) any required state income tax return; and

(iii) any other reporting or filing requirements imposed by any governmental agency or authority.

4.03(b)(3). **Audited Financial Statements.** Commencing with the 2014 (2015 for Genesis Drilling Program VII LP if the offering for that program commences after December 31, 2014) fiscal year, the Partnership shall have audited financial statements, including a balance sheet and statement of cash flows, prepared by an independent accounting firm. Audited financial statements shall be provided for: the first five years of the Partnership's existence; any subsequent fiscal year during which the Managing General Partner is subordinating its revenues pursuant to 5.01(b)(4) hereof; and any subsequent fiscal year for which the Managing General Partner, in its sole discretion, determines to be in the best interest of the Partnership.

4.03(b)(4). **Independent Reserve Report.** The managing general partner may, no more frequently than annually, have a reserve report of the partnership's oil and gas properties prepared by an Independent Expert.

4.03(b)(5). **Cost of Reports.** The cost of all reports described in this Agreement, unless otherwise specifically noted, shall be paid by the Partnership as Direct Costs.

4.03(b)(6). **Participant Access to Records.** The Participants and/or their representatives shall be permitted access to all records of the Partnership other than a list of Participants. The Participant may inspect and copy any of the records, other than a list of the Participants, after giving adequate notice at any reasonable time.

Notwithstanding the foregoing, the Managing General Partner may keep logs, well reports and other drilling and operating data confidential for reasonable periods of time, and information which is proprietary to the Managing General Partner and not the Partnership may be kept confidential. The Managing General Partner may release information concerning the operations of the Partnership to the sources that are customary in the industry or required by rule, regulation, or order of any regulatory body.

4.03(b)(7). **Required Length of Time to Hold Records.** The Managing General Partner shall maintain and preserve during the term of the Partnership and for six years thereafter all accounts, books and other relevant documents. This includes a record that a Participant meets the suitability standards established in connection with an investment in the Partnership.

4.03(c). **Meetings of Participants.**

4.03(c)(1). **Procedure for a Participant Meeting.**

4.03(c)(1)(a). **Meetings May Be Called by Managing General Partner or Participants.** Meetings of the Participants may be called as follows:

(i) by the Managing General Partner; or

(ii) by Participants whose Units equal 25% or more of the total Units for any matters for which Participants may vote.

The call for a meeting by Participants shall be deemed to have been made on receipt by the Managing General Partner of a written request from holders of the requisite percentage of Units stating the purpose(s) of the meeting.

4.03(c)(1)(b). **Notice Requirement.** The Managing General Partner shall deposit in the United States mail within 15 days after the receipt of the request, written notice to all Participants of the meeting and the purpose of the meeting. The meeting shall be held on a date not less than 30 days nor more than 60 days after the date of the mailing of the notice, at a reasonable time and place.

Notwithstanding the foregoing, the date for notice of the meeting may be extended for a period of up to 60 days, if in the opinion of the Managing General Partner the additional time is necessary to permit preparation of proxy or information statements or other documents required to be delivered in connection with the meeting by the SEC or other regulatory authorities.

4.03(c)(1)(c). **May Vote by Proxy.** Participants shall have the right to vote at any Participant meeting either:

(i) in person; or

(ii) by proxy.

4.03(c)(2). **Special Voting Rights.** At the request of Participants whose Units equal 25% or more of the total Units, the Managing General Partner shall call for a vote by Participants. Each Unit is entitled to one vote on all matters, and each fractional Unit is entitled to that fraction of one vote equal to the fractional interest in the Unit. Participants whose Units equal 65% of the total Units may, without the concurrence of the Managing General Partner or its Affiliates, vote to:

(i) dissolve the Partnership;

(ii) remove the Managing General Partner and elect a new Managing General Partner;

(iii) remove the Operator and elect a new Operator; and

(iv) amend this Agreement; provided however:

(a) any amendment may not increase the duties or liabilities of any Participant or the Managing General Partner or increase or decrease the profit or loss sharing or required Capital Contribution of any Participant or the Managing General Partner without the approval of the Participant or the Managing General Partner; and

(b) any amendment may not affect the classification of Partnership income and loss for federal income tax purposes without the unanimous approval of all Participants.

Also, other than sale of the Partnership's producing properties to an Affiliated partnership, Participants whose Units equal a majority of the total Units must approve or disapprove the sale of all or substantially all of the assets of the Partnership.

4.03(c)(3). **No Restrictions on Managing General Partner's Voting Rights.** With respect to Units owned by the Managing General Partner or its Affiliates, the Managing General Partner and its Affiliates may vote or consent on all matters including those matters set forth in §4.03(c)(2) above.

4.03(c)(4). **Restrictions on Limited Partner Voting Rights.** The exercise by the Limited Partners of the rights granted Participants under §4.03(c), except for the special voting rights granted Participants under §4.03(c)(2), shall be subject to the prior legal determination that the grant or exercise of the powers will not adversely affect the limited liability of Limited Partners. Notwithstanding the foregoing, if in the opinion of counsel to the Partnership, the legal determination is not necessary under Delaware law to maintain the limited liability of the Limited Partners, then it shall not be required. A legal determination under this paragraph may be made either pursuant to:

(i) an opinion of counsel, the counsel being independent of the Partnership and selected on the vote of Limited Partners whose Units equal a majority of the total Units held by Limited Partners; or

(ii) a declaratory judgment issued by a court of competent jurisdiction.

The Investor General Partners may exercise the rights granted to the Participants whether or not the Limited Partners can participate in the vote if the Investor General Partners own the requisite percentage of Units necessary to take the action.

4.03(d). **Transactions with the Managing General Partner.**

4.03(d)(1). **Transfer of Drill Sites to the Partnership.** The Managing General Partner or an Affiliate shall sell Leases composing individual Drill Sites to the Partnership. The Managing General Partner or an Affiliate may in its sole discretion:

(i) transfer the minimum acreage allowable under law with respect to a Drill Site or utilize a wellbore assignment for such transfer;

(ii) retain all horizons below the anticipated total depth of the Partnership's well; and

(iii) retain all surrounding acreage and wells for its own account.

4.03(d)(2). **Transfer of Less than the Managing General Partner's and its Affiliates' Entire Interest.** A sale to the Partnership of less than all of the ownership of the Managing General Partner or an Affiliate (excluding another Program in which the interest of the Managing General Partner or its Affiliates is substantially similar to or less than their interest in the Partnership) in any Drill Site shall not be made unless:

(i) the interest retained by the Managing General Partner or the Affiliate is a proportionate Working Interest;

(ii) the respective obligations of the Managing General Partner or its Affiliates and the Partnership are substantially the same after the sale of the interest by the Managing General Partner or its Affiliates; and

(iii) the Managing General Partner's interest in revenues does not exceed the amount proportionate to its retained Working Interest.

With respect to its retained interest the Managing General Partner shall not Farmout a Lease for the primary purpose of avoiding payment of its costs relating to drilling the Lease. This section does not prevent the Managing General Partner or its Affiliates from subsequently dealing with their retained interest as they may choose with unaffiliated parties or Affiliated partnerships.

4.03(d)(3). **No Sale of Undeveloped Leases to the Managing General Partner.** The Managing General Partner and its Affiliates, including an Affiliated partnership, shall not purchase from the Partnership any undeveloped Leases.

4.03(d)(4). **Transactions Must Be Fair and Reasonable.** Neither the Managing General Partner nor any Affiliate shall sell, transfer, or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except:

(i) under transactions that are fair and reasonable; nor

(ii) take any action with respect to the assets or, property of the Partnership which does not primarily benefit the Partnership.

(iii) Further, for purposes of any asset, including but not limited to lease interests or well sites from the Managing General Partner, an affiliate of the Managing General Partner, or a partnership sponsored by the Managing General Partner, the purchase price shall be for fair market value.

4.03(d)(5). **Sale of Producing Properties to the Managing General Partner and its Affiliates Including Affiliated Limited Partnerships.** The Partnership may sell producing properties to an Affiliated partnership without the consent of the Participants, provided that:

(i) the respective obligations and revenue sharing of all parties to the transaction are substantially the same and the compensation arrangement or any other interest or right of either the Managing General Partner or its Affiliates is the same in each Affiliated partnership or if different, the aggregate compensation of the Managing General Partner or the Affiliate is reduced to reflect the lower compensation arrangement; and

(ii) the sale shall be made at fair market value as determined by an Independent Expert.

The Partnership may sell producing properties to the Managing General Partner and its Affiliates, other than an Affiliated partnership, provided that:

(i) the sale shall be made with the consent of Participants whose Units equal a majority of the total Units; and

(ii) the sale shall be made at fair market value as determined by an Independent Expert.

4.03(d)(6). **Sale of All Assets.** Other than a sale of the Partnership's producing properties to an Affiliated partnership as set forth in §4.03(d)(5), the sale of all or substantially all of the assets of the Partnership (including, without limitation, Leases, wells, equipment and production therefrom) shall be made only with the consent of Participants whose Units equal a majority of the total Units.

4.03(d)(7). **Services.**

4.03(d)(7)(a). **Competitive Rates.** The Managing General Partner and any Affiliate shall not render to the Partnership any oil field, equipage or other services nor sell or lease to the Partnership any equipment or related supplies unless the compensation, price or rental therefor is competitive with the compensation, price or rental of other persons in the area engaged in the business of rendering comparable services or selling or leasing comparable equipment and supplies which could reasonably be made available to the Partnership.

4.03(d)(7)(b). **If Not Disclosed in the Private Placement Memorandum or This Agreement Then Services by the Managing General Partner Must be Described in a Separate Contract.** Any services for which the Managing General Partner or an Affiliate is to receive compensation other than those described in this Agreement or the Private Placement Memorandum shall be set forth in a written contract which precisely describes the services to be rendered and all compensation to be paid.

4.03(d)(8). **Loans.**

4.03(d)(8)(a). **No Loans from the Partnership.** No loans or advances shall be made by the Partnership to the Managing General Partner or any Affiliate.

4.03(d)(8)(b). **Loans to the Partnership.** Neither the Managing General Partner nor any Affiliate shall loan money to the Partnership if the interest, points, and other financing charges and fees exceed that which would be charged to the Partnership (without reference to the Managing General Partner's or the Affiliate's financial abilities or guarantees) by unrelated lenders, on comparable loans for the same purpose.

4.03(d)(9). **No Farmouts.** The Partnership shall not Farmout its Leases.

4.03(d)(10). **No Compensating Balances.** Neither the Managing General Partner nor any Affiliate shall use the Partnership's funds as compensating balances for its own benefit.

4.03(d)(11). **Future Production.** Neither the Managing General Partner nor any Affiliate shall commit the future production of a well developed by the Partnership exclusively for its own benefit.

4.03(d)(12). **Marketing Arrangements.** All benefits from marketing arrangements or other relationships affecting the property of the Managing General Partner or its Affiliates and the Partnership shall be fairly and equitably apportioned according to the respective interests of each in the property.

4.03(d)(13). **Advance Payments.** Advance payments by the Partnership to the Managing General Partner and its Affiliates are prohibited except when advance payments are required to secure the tax benefits of prepaid Intangible Drilling Costs and for a business purpose.

4.03(d)(14). **No Rebates.** No rebates or give-ups may be received by the Managing General Partner or any Affiliate nor may the Managing General Partner or any Affiliate participate in any reciprocal business arrangements which would circumvent these guidelines.

4.03(d)(15). **Participation in Other Partnerships.** If the Partnership participates in other partnerships or joint ventures (multi-tier arrangements), then the terms of any of these arrangements shall not result in the circumvention of any of the requirements or prohibitions contained in this Agreement, including the following:

(i) there shall be no duplication or increase in organization and offering expenses, the Managing General Partner's compensation, Partnership expenses or other fees and costs;

(ii) there shall be no substantive alteration in the fiduciary and contractual relationship between the Managing General Partner and the Participants; and

(iii) there shall be no diminishment in the voting rights of the Participants.

4.03(d)(16). **Roll-Up Limitations.**

4.03(d)(16)(a). **Requirement for Appraisal and Its Assumptions.** In connection with a proposed Roll-Up, an appraisal of all Partnership assets shall be obtained from a competent Independent Expert. If the appraisal will be included in a prospectus used to offer securities of a Roll-Up Entity, then the appraisal shall be filed with the SEC and the Administrator as an exhibit to the registration statement for the offering. Accordingly, an issuer using the appraisal shall be subject to liability for violation of Section 11 of the Securities Act of 1933 and comparable provisions under state law for any material misrepresentations or material omissions in the appraisal.

Partnership assets shall be appraised on a consistent basis. The appraisal shall be based on all relevant information, including current reserve estimates prepared by an independent petroleum consultant, and shall indicate the value of the Partnership's assets as of a date immediately before the announcement of the proposed Roll-Up transaction. The appraisal shall assume an orderly liquidation of the Partnership's assets over a 12-month period.

The terms of the engagement of the Independent Expert shall clearly state that the engagement is for the benefit of the Partnership and the Participants. A summary of the independent appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to the Participants in connection with a proposed Roll-Up.

4.03(d)(16)(b). **Rights of Participants Who Vote Against Proposal.** In connection with a proposed Roll-Up, Participants who vote "no" on the proposal shall be offered the choice of:

(i) accepting the securities of the Roll-Up Entity offered in the proposed Roll-Up;

(ii) remaining as Participants in the Partnership and preserving their Units in the Partnership, provided, however, that an affirmative vote by Participants owning more than 50% of the Units to participate in the Roll-Up shall constitute a vote to terminate the Partnership; or

(iii) receiving cash in an amount equal to the Participants' pro rata share of the appraised value of the net assets of the Partnership.

4.03(d)(16)(c). **No Roll-Up If Diminishment of Voting Rights.** The Partnership shall not participate in any proposed Roll-Up which, if approved, would result in the diminishment of any Participant's voting rights under the Roll-Up Entity's chartering agreement.

In no event shall the democracy rights of Participants in the Roll-Up Entity be less than those provided for under §§4.03(c)(1) and 4.03(c)(2) of this Agreement. If the Roll-Up Entity is a corporation, then the democracy rights of Participants shall correspond to the democracy rights provided for in this Agreement to the greatest extent possible.

4.03(d)(16)(d). **No Roll-Up If Accumulation of Shares Would be Impeded.** The Partnership shall not participate in any proposed Roll-Up transaction which includes provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the Roll-Up Entity (except to the minimum extent necessary to preserve the tax status of the Roll-Up Entity).

The Partnership shall not participate in any proposed Roll-Up transaction which would limit the ability of a Participant to exercise the voting rights of its securities of the Roll-Up Entity on the basis of the number of Units held by that Participant.

4.03(d)(16)(e). **No Roll-Up If Access to Records Would Be Limited.** The Partnership shall not participate in a Roll-Up in which Participants' rights of access to the records of the Roll-Up Entity will be less than those provided for under §§4.03(b)(5) and 4.03(b)(6) of this Agreement.

4.03(d)(16)(f). **Cost of Roll-Up.** The Partnership shall not participate in any proposed Roll-Up transaction in which any of the costs of the transaction would be borne by the Partnership if

Participants whose Units equal a majority of the total Units do not vote to approve the proposed Roll-Up.

4.03(d)(16)(g). **Roll-Up Approval.** The Partnership shall not participate in a Roll-Up transaction unless the Roll-Up transaction is approved by Participants whose Units equal a majority of the total Units.

4.03(d)(17). **Disclosure of Binding Agreements.** Any agreement or arrangement which binds the Partnership must be disclosed in the Private Placement Memorandum.

4.04. **Designation, Compensation and Removal of Managing General Partner and Removal of Operator.**

4.04(a). **Managing General Partner.**

4.04(a)(1). **Term of Service.** U.S. Energy shall serve as the Managing General Partner of the Partnership until either it:

(i) is removed pursuant to §4.04(a)(3); or

(ii) withdraws pursuant to §4.04(a)(3)(f).

4.04(a)(2). **Compensation of Managing General Partner.** In addition to the compensation set forth in §§4.01(a)(4) and 4.02(d)(1), the Managing General Partner and its Affiliates shall receive the compensation set forth in §§4.04(a)(2)(b) through 4.04(a)(2)(g), and in §5.01(b)(5).

4.04(a)(2)(a). **Charges Must Be Necessary and Reasonable.** Charges by the Managing General Partner and its Affiliates for goods and services must be fully supportable as to:

(i) the necessity of the good and services; and

(ii) the reasonableness of the amount charged.

All actual and necessary expenses incurred by the Partnership may be paid out of the Partnership's subscription proceeds and out of Partnership revenues.

4.04(a)(2)(b). **Direct Costs.** The Managing General Partner shall be reimbursed for all Direct Costs. Direct Costs, however, shall be billed directly to and paid by the Partnership to the extent practicable.

4.04(a)(2)(c). **Administrative Costs.** The Managing General Partner shall receive an unaccountable, fixed payment reimbursement for its Administrative Costs of $500 per oil or gas well per month which shall be proportionately reduced to the extent the Partnership acquires less than 100% of the Working Interest in the well, provided that the minimum Administrative Costs for a well shall be $200 per month. The Managing General Partner shall not receive the unaccountable, fixed payment reimbursement for plugged or abandoned wells. The fixed payment for Administrative Costs is subject to adjustment annually for inflation.

4.04(a)(2)(d). **Third-Party Fees.** If a third-party's pipeline and/or compression facilities are used to market gas produced from the Partnership's wells, the Partnership will pay the third party the applicable fees, including if applicable a marketing fee, based upon market rates. If the Managing General Partner's pipeline and/or compression facilities are used by the Partnership, in addition to, or instead of, a third-party's facilities, compression and/or gathering fees may be paid to the Managing General Partner, and the fees may be increased in the Managing General Partner's sole discretion to a competitive rate at any subsequent time. These fees will be proportionately reduced to the extent the Partnership acquires less than 100% of the interest in the wells.

4.04(a)(2)(e). **Dealer-Manager Fee.** Subject to §3.03(b)(2), to the extent allowed by law the Dealer-Manager or such other selling agents selected by the Managing General Partner may receive from the Managing General Partner on each Unit sold to investors:

(i) Dealer-Manager fee of up to 2%;

(ii) Sales Commission which shall not exceed 7%;

(iii) a due diligence fee, which when combined with the Sales Commission shall not exceed 7.5%; and

(iv) a marketing fee of .5%, which shall be subject to recoupment by the Managing General Partner for marketing expenses it advances.

The Managing General Partner has also reserved the right to assign a portion of its partnership working interest (up to a 0.75% working interest) to the Dealer-Manager which may be reallocated to certain selected broker/dealers, subject to acceptance by such broker/dealers. Any such assignment shall be subject to revocation by the Managing General Partner including, but not limited to, when revenues attributable to such working interest, or any fractional part thereof, attain a maximum cumulative amount established by the Managing General Partner, which shall not exceed 2% of the amount of investor subscriptions. A broker/dealer receiving and accepting such an assignment may reassign such interest to one or more of its registered representatives subject to the revocation rights of the Managing General Partner.

The Dealer-Manager may waive all or any of the Dealer-Manager fee, the Sales Commission, the due diligence fee, the marketing fee, and the portion of the partnership working interest; and the broker/dealers may waive all or any of the Sales Commission, the due diligence fee, the marketing fee, and the portion of the partnership working interest, with respect to Units purchased by broker/dealers and their registered representatives and any amounts so waived shall not be collected from such purchasers.

4.04(a)(2)(f). **Drilling Agreement and Operating Agreement.** The Managing General Partner and its Affiliates shall receive compensation as set forth in the Drilling Agreement and the Operating Agreement.

4.04(a)(2)(g). **Other Transactions.** The Managing General Partner and its Affiliates may enter into transactions under §4.03(d)(7) with the Partnership and shall be entitled to compensation under that section.

4.04(a)(3). **Removal of Managing General Partner.**

4.04(a)(3)(a). **65% Vote Required to Remove the Managing General Partner.** Except as provided in §4.04(a)(3)(b) the Managing General Partner may be removed at any time on 60 days' advance written notice to the outgoing Managing General Partner, by the affirmative vote of Participants whose Units equal 65% of the total Units. If Participants vote to remove the Managing General Partner from the Partnership, then Participants must elect by an affirmative vote of Participants whose Units equal 65% of the total Units either to:

(i) terminate, dissolve and wind up the Partnership; or

(ii) continue as a successor limited partnership under all the terms of this Partnership Agreement, as provided in §7.01(c).

If the Participants elect to continue as a successor limited partnership, then the Managing General Partner shall not be removed until a substituted Managing General Partner has been selected by an affirmative vote of Participants whose Units equal a majority of the total Units and installed as such.

4.04(a)(3)(b). **Majority Vote Required to Remove the Managing General Partner Under Special Circumstances.** The Managing General Partner may be removed on 30 days' advance written notice to the outgoing Managing General Partner, by the affirmative vote of Participants whose Units equal a majority of the total Units if (a) the Managing General Partner files a petition or request for liquidation, reorganization, adjustment of debts, arrangement, adjudication as a bankrupt or similar relief under the bankruptcy, insolvency or similar laws of the United States of America or any state or territory thereof; consents to the filing of a petition in any bankruptcy, liquidation or insolvency proceedings; consents to the appointment of a receiver, trustee, agent or officer performing similar functions with respect to any substantial part of its assets; makes a general assignment for the benefit of its creditors; or institutes or consents to any other type of insolvency proceeding; or (b) a receiver, custodian, trustee, or officer performing similar functions is appointed for the Managing General Partner; or a request or petition for liquidation, reorganization, arrangement or adjudication as a bankrupt or other relief under the bankruptcy, insolvency or similar laws of the United States of America or any state or territory thereof is filed against the Managing General Partner; and such appointment is not vacated or such petition or proceeding is not dismissed within sixty (60) days after such appointment, filing or institution. If the Participants vote to remove the Managing General Partner from the

Partnership pursuant to this subsection, then the Participants must elect by an affirmative vote of the Participants whose Units equal a majority of the total Units either to:

(i) terminate, dissolve and wind up the Partnership; or

(ii) continue as a successor limited partnership under all of the terms of this Partnership, as provided in §7.01(c).

If the Participants elect to continue as a successor limited partnership, a successor Managing General Partner shall be elected by Participants whose Units equal a majority of the total Units.

4.04(a)(3)(c). **Valuation of Managing General Partner's Interest in the Partnership.** If the Managing General Partner is removed, then the Managing General Partner's interest in the Partnership shall be determined by appraisal by a qualified Independent Expert. The Independent Expert shall be selected by mutual agreement between the removed Managing General Partner and the incoming Managing General Partner. The appraisal shall take into account an appropriate discount, to reflect the risk of recovery of natural gas and oil reserves, but not less than that utilized in the most recent presentment offer, if any.

The cost of the appraisal shall be borne by the Partnership.

4.04(a)(3)(d). **Method of Payment.** The method of payment to the Managing General Partner shall be as follows:

(i) when the termination is voluntary or pursuant to §4.04(a)(3)(b), the method of payment shall be a non-interest bearing unsecured promissory note with principal payable, if at all, from distributions which the Managing General Partner otherwise would have received under the Partnership Agreement had the Managing General Partner not been terminated; and

(ii) when the termination is pursuant to §4.04(a)(3)(a), the method of payment shall be either (a), (b), or (c) below as determined by the incoming Managing General Partner:

(a) the Partnership pays 100% cash; or

(b) the substitute managing general partner pays 100% cash; or

(c) the Partnership and/or the substitute Managing General Partner pays 50% down and gives a promissory note for five years with the interest rate being an amount equal to the prime rate on the date of termination as published by the Wall Street Journal, and requiring quarterly payments of principal and interest.

4.04(a)(3)(e). **Termination of Contracts.** The removed Managing General Partner, at the time of its removal shall cause, to the extent it is legally possible, its successor to be transferred or assigned all its rights, obligations and interests as Managing General Partner of the Partnership in contracts entered into by it on behalf of the Partnership. In any event, the removed Managing General Partner and any substitute managing general partner shall use their best efforts to cause the rights, obligations and interests of the Managing General Partner as Managing General Partner of the Partnership in any such contract to terminate at the time of its removal.

Notwithstanding any other provision in this Agreement, the Partnership or the successor Managing General Partner shall not:

(i) be a party to any natural gas purchase agreement that the Managing General Partner or its Affiliates enters into with a third-party or have any rights pursuant to the natural gas purchase agreement; and

(ii) shall not receive any interest in the Managing General Partner's and its Affiliates' pipeline or gathering system or compression facilities other than the right to transport natural gas which, at the Managing General Partner's election, may be subject to a competitive rate for the use of the gathering lines to move gas or oil produced by the Partnership's wells.

4.04(a)(3)(f). **The Managing General Partner's Right to Voluntarily Withdraw.** At any time beginning 5 years after the Offering Termination Date of the Partnership and the Partnership's primary drilling activities, the Managing General Partner may voluntarily withdraw as Managing General Partner on giving 120 days' written notice of withdrawal to the Participants. If the Managing General Partner withdraws, then the following conditions shall apply:

(i) the Managing General Partner's interest in the Partnership shall be determined as described in §4.04(a)(3)(b) above with respect to removal; and

(ii) the interest shall be distributed to the Managing General Partner as described in §4.04(a)(3)(c)(i) above.

The Managing General Partner may also voluntarily withdraw as Managing General Partner as described in §6.03. On the voluntary withdrawal of the Managing General Partner under either this section or §6.03, a substituted Managing General Partner may be selected by an affirmative vote of Participants whose Units equal a majority of the total Units and installed as such.

4.04(a)(3)(g). **The Managing General Partner's Right to Withdraw Property Interest.** The Managing General Partner has the right at any time to withdraw a property interest held by the Partnership in the form of a Working Interest in the Partnership Wells equal to or less than its respective interest in the revenues of the Partnership under the conditions set forth in §6.03.

If the Managing General Partner withdraws an interest, then:

(i) it shall fully indemnify the Partnership against any additional expenses which may result from a partial withdrawal of its interests;

(ii) the withdrawal may not result in a greater amount of Direct Costs or Administrative Costs being allocated to the Participants; and

(iii) the expenses of withdrawing shall be borne by the withdrawing Managing General Partner.

4.04(a)(4). **65% Vote Required to Remove Operator.** The Operator may be removed and a new Operator may be substituted at any time on 60 days' advance written notice to the outgoing Operator by the Managing General Partner acting on behalf of the Partnership on the affirmative vote of Participants whose Units equal 65% of the total Units.

The Operator shall not be removed until a substituted Operator has been selected by an affirmative vote of Participants whose Units equal 65% of the total Units and installed as such.

4.05. **Indemnification and Exoneration.**

4.05(a)(1). **Standards for the Managing General Partner Not Incurring Liability to the Partnership or Participants.** The Managing General Partner, the Operator, and their Affiliates shall not have any liability whatsoever to the Partnership or to any Participant for any loss suffered by the Partnership or Participants which arises out of any action or inaction of the Managing General Partner, the Operator, or their Affiliates if:

(i) the Managing General Partner, the Operator, and their Affiliates determined in good faith that the course of conduct was in the best interest of the Partnership;

(ii) the Managing General Partner, the Operator, and their Affiliates were acting on behalf of, or performing services for, the Partnership; and

(iii) the course of conduct did not constitute gross negligence or willful misconduct of the Managing General Partner, the Operator, or their Affiliates.

4.05(a)(2). **Standards for Managing General Partner Indemnification.** The Managing General Partner, the Operator, and their Affiliates shall be indemnified by the Partnership against any losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by them in connection with the Partnership, provided that:

(i) the Managing General Partner, the Operator, and their Affiliates determined in good faith that the course of conduct which caused the loss or liability was in the best interest of the Partnership;

(ii) the Managing General Partner, the Operator, and their Affiliates were acting on behalf of, or performing services for, the Partnership; and

(iii) the course of conduct was not the result of gross negligence or willful misconduct of the Managing General Partner, the Operator, or their Affiliates.

Payments arising from such indemnification or agreement to hold harmless are recoverable out of the tangible net assets of the Partnership, revenues from operations, and any insurance proceeds.

4.05(a)(3). **Standards for Securities Law Indemnification.** Notwithstanding anything to the contrary contained in the above, the Managing General Partner, the Operator, and their Affiliates and any person acting as a broker/dealer shall not be indemnified for any losses, liabilities or expenses, arising from or out of an alleged violation of federal or state securities laws by that party unless:

(i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee;

(ii) the claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee; or

(iii) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the SEC with respect to the issue of indemnification for violations of securities laws.

4.05(a)(4). **Standards for Advancement of Funds to the Managing General Partner and Insurance.** The advancement of Partnership funds to the Managing General Partner, the Operator, or their Affiliates for legal expenses and other costs incurred as a result of any legal action for which indemnification is being sought is permissible only if the Partnership has adequate funds available and the following conditions are satisfied:

(i) the legal action relates to acts or omissions with respect to the performance of duties or services on behalf of the Partnership;

(ii) the legal action is initiated by a third-party who is not a Participant, or the legal action is initiated by a Participant and a court of competent jurisdiction specifically approves the advancement; and

(iii) the Managing General Partner or its Affiliates undertake to repay the advanced funds to the Partnership, together with the applicable legal rate of interest thereon, in cases in which the party is found not to be entitled to indemnification.

The Partnership shall not bear the cost of that portion of insurance which insures the Managing General Partner, the Operator, or their Affiliates for any liability for which they could not be indemnified under §§4.05(a)(1) and 4.05(a)(2).

4.05(b). **Liability of Partners.** Under the Delaware Revised Uniform Limited Partnership Act the Investor General Partners are liable jointly and severally for all liabilities and obligations of the Partnership. Notwithstanding the foregoing, as among themselves, the Investor General

Partners hereby agree that each shall be solely and individually responsible only for his pro rata share of the liabilities and obligations of the Partnership.

In addition, the Managing General Partner agrees to use its corporate assets and not the assets of the Partnership to indemnify each of the Investor General Partners against all Partnership related liabilities which exceed the Investor General Partner's interest in the undistributed net assets of the Partnership and insurance proceeds, if any. Further, the Managing General Partner agrees to indemnify each Investor General Partner against any personal liability as a result of the unauthorized acts of another Investor General Partner.

If the Managing General Partner provides indemnification, then each Investor General Partner who has been indemnified shall and does hereby transfer and subrogate his rights for contribution from or against any other Investor General Partner to the Managing General Partner.

4.05(c). **Order of Payment of Claims.** Claims shall be paid as follows:

(i) first, out of any insurance proceeds;

(ii) second, out of the assets and revenues of the Partnership; and

(iii) last, by the Managing General Partner as provided in §§3.05(b)(2) and (3) and 4.05(b).

No Limited Partner shall be required to reimburse the Managing General Partner, the Operator, or their Affiliates or the Investor General Partners for any liability in excess of his agreed Capital Contribution, except:

(i) for a liability resulting from the Limited Partner's unauthorized participation in Partnership management; or

(ii) from some other breach by the Limited Partner of this Agreement.

4.05(d). **Authorized Transactions Are Not Deemed to Be a Breach.** No transaction entered into or action taken by the Partnership or the Managing General Partner, the Operator, or their Affiliates, which is authorized by this Agreement to be entered into or taken with the party shall be deemed a breach of any obligation owed by the Managing General Partner, the Operator, or their Affiliates to the Partnership or the Participants.

4.06. **Other Activities.**

4.06(a). **The Managing General Partner May Pursue Other Natural Gas and Oil Activities for Its Own Account.** The Managing General Partner, the Operator, and their Affiliates are now engaged, and will engage in the future, for their own account and for the account of others, including other investors, in all aspects of the natural gas and oil business. This includes without limitation, the evaluation, acquisition and sale of producing and nonproducing Leases, and the exploration for and production of natural gas, oil, and other minerals.

The Managing General Partner is required to devote only so much of its time as is necessary to manage the affairs of the Partnership. Except as expressly provided to the contrary in this Agreement, and subject to fiduciary duties, the Managing General Partner, the Operator, and their Affiliates may do the following:

(i) continue their activities, or initiate further activities, individually, jointly with others, or as a part of any other limited or general partnership, tax partnership, joint venture, or other entity or activity to which they are or may become a party, in any locale and in the same fields, areas of operation or prospects in which the Partnership may likewise be active;

(ii) reserve partial interests in Leases being sold and assigned to the Partnership or any other interests not expressly prohibited by this Agreement;

(iii) deal with the Partnership as independent parties or through any other entity in which they may be interested;

(iv) conduct business with the Partnership as set forth in this Agreement; and

(v) participate in other investor operations, as investors or otherwise.

The Managing General Partner and its Affiliates shall not be required to permit the Partnership or the Participants to participate in any such operations in which they may be interested or share in any profits or other benefits from the operations.

4.06(b). **Managing General Partner May Manage Multiple Partnerships.** The Managing General Partner or its Affiliates may manage multiple Programs simultaneously. This could create conflicts of interest which the Managing General Partner will attempt to resolve in an equitable manner.

4.06(c). **Partnership Has No Interest in Natural Gas Contracts or Pipelines and Gathering Systems.** Notwithstanding any other provision in this Agreement, the Partnership shall not be a party to any natural gas supply agreement that the Managing General Partner, the Operator, or their Affiliates enter into with a third-party and shall not have any rights under the natural gas supply agreement.

Further, the Partnership shall not receive any interest in the Managing General Partner's, the Operator's, and their Affiliates' pipeline or gathering system or compression facilities other than the right to transport the natural gas for the life of the Partnership. The owner of the pipeline or gathering system or compression facilities may charge the Partnership a fee, at a competitive rate, for the use thereof. If the Managing General Partner is removed, then it will charge the Partnership a gathering fee at a competitive rate.

ARTICLE V
PARTICIPATION IN COSTS AND REVENUES, CAPITAL ACCOUNTS, ELECTIONS AND DISTRIBUTIONS

5.01. **Participation in Costs and Revenues.** Except as otherwise provided in this Agreement, all income and expense shall be allocated 85% to the Participants and 15% to the Managing General Partner before Payout and 75% to the Participants, 15% to the Managing General Partner and 10% to an Affiliate of the Managing General Partner after Payout.

5.01(a). **Costs.** Costs shall be allocated as set forth below.

5.01(a)(1). **Organization and Offering Costs.** 8% of the amount invested by the Participants will be applied to the payment of Organization and Offering Costs and the balance of such costs (approximately 4% of the amount invested by the Participants) will be paid by the Managing General Partner.

5.01(a)(2). **Intangible Drilling Costs.** Intangible Drilling Costs shall be charged 100% to the GP Investors. Provided, however, that if the net subscription proceeds from the LP/LLC Investors exceeds the amount necessary to pay all lease acquisition and Tangible Costs, any such excess amount that is not, in the discretion of the Managing General Partner, refunded to the LP/LLC Investors, may be applied to the payment of Intangible Drilling Costs.

5.01(a)(3). **Lease Acquisition and Tangible Costs.** Lease Acquisition and Tangible Costs shall be charged 100% to the LP/LLC Investors. Provided, however, that if the net subscription proceeds from the LP/LLC Investors and the proceeds of any Partnership borrowings for such purpose are insufficient to pay all lease acquisition and Tangible Costs, then any required additional amounts shall be paid, pro rata, from the net subscription proceeds of the other Participants.

5.01(a)(4). **Allocation of Depreciation.** Depreciation shall be allocated to the LP/LLC Investors provided that if the GP Investors pay any portion of the Tangible Costs pursuant to 5.01(a)(3), a proportionate share of Depreciation shall be allocated to the GP Investors.

5.01(a)(5). **Allocation of Depletion.** Pursuant to Section 613A(c)(7)(D) and the regulations promulgated thereunder, the Partnership's adjusted basis in Partnership property, used for purposes of allocating depletion to the Partners, shall be allocated based on each Partner's interest in Partnership income set forth in Section 5.01 above.

5.01(a)(6). **Compensation Deduction.** If any Partner, including the Managing General Partner or an Affiliate of the Managing General Partner, has compensation income upon the receipt of an interest in the Partnership upon Payout, the corresponding deduction shall be allocated to such Partner.

5.01(a)(7). **Operating Costs, Direct Costs, Administrative Costs and All Other Costs.** Operating Costs, Direct Costs, Administrative Costs, and all other Partnership costs not specifically allocated shall be charged to the parties in the same ratio as the related production revenues are being credited.

5.01(a)(8). **Allocation of Intangible Drilling Costs at Partnership Closings.** Intangible Drilling Costs of a well or wells to be drilled and completed with the proceeds of a Partnership closing shall be charged 100% to the Participants who are admitted to the Partnership in that closing and shall not be reallocated to take into account other Partnership closings. Intangible Drilling Costs shall be allocated to the GP Investors provided that if the LP/LLC Investors pay any portion of the Intangible Drilling Costs pursuant to 5.01(a)(2), a proportionate share of the Intangible Drilling Costs shall be allocated to the LP/LLC Investors.

5.01(a)(9). **Managing General Partner's Overriding Royalty Interest.** The Managing General Partner shall be entitled to receive an Overriding Royalty Interest of 3.125%.

5.01(b). **Revenues.** Revenues of the Partnership from all sources and wells shall be commingled and credited as set forth below.

5.01(b)(1). **Allocation of Revenues On Disposition of Property.** If the Partners' Capital Accounts are adjusted to reflect the simulated depletion of a natural gas or oil property of the Partnership, then the portion of the total amount realized by the Partnership on the taxable disposition of the property that represents recovery of its simulated tax basis in the property shall be allocated to the Partners in the same proportion as the aggregate adjusted tax basis of the property was allocated to the Partners (or their predecessors in interest). If the Partners' Capital Accounts are adjusted to reflect the actual depletion of a natural gas or oil property of the Partnership; then the portion of the total amount realized by the Partnership on the taxable disposition of the property that equals the Partners' aggregate remaining adjusted tax basis in the property shall be allocated to the Partners in proportion to their respective remaining adjusted tax basis in the property. Any excess shall be credited to the parties in accordance with the sharing ratios provided in §5.01 above.

5.01(b)(2). **Interest.** Interest earned on each Participant's subscription proceeds until two weeks before the Initial Closing Date under §3.05(b)(1) shall be credited to the accounts of the respective subscribers who paid the subscriptions to the Partnership and paid approximately two months after the Offering Termination Date.

All other interest income, including interest earned on the deposit of production revenues, shall be credited as provided in §5.01 above.

5.01(b)(3). **Other Revenues.** All other revenues of the Partnership shall be credited to the parties in accordance with the sharing ratios provided in §5.01 above.

5.01(b)(4). **Subordination.** The Managing General Partner shall subordinate up to 100% of its working interest share of Partnership Net Production Revenues (i.e., up to 15% of the Partnership Net Production Revenues before Payout) to the receipt by Participants if cumulative cash distributions from the Partnership to the Participants do not equal an average rate of return of 12% of their Units in each of the first five 12-month periods of Partnership operations after production revenues are being received from 75% of the Partnership's Wells. In this regard:

(i) the 60-month subordination period shall begin with the first cash distribution from operations to the Participants after 75% of all Partnership wells have been drilled, completed and begun generating production revenues;

(ii) the Participant's average rate of return will be calculated monthly or quarterly during the subordination period (depending upon whether monthly or quarterly distributions are then being made) by dividing the cumulative total of all distributions made to the Participants by the number of months that have expired since the beginning of the subordination period, multiplying the result by twelve (12), and dividing that result by the total amount invested by the Participants.

(iii) subsequent subordination distributions, if any, shall be determined and made at the time of each subsequent distribution of revenues to the Participants; and

(iv) the Managing General Partner shall not subordinate more than 100% of its share of Partnership Net Production Revenues (i.e., net of the related costs as provided in §5.01(a)(4)) in any subordination period.

The subordination shall be determined by:

(v) carrying forward to subsequent 12-month periods the amount, if any, by which cumulative cash distributions to Participants (including any subordination payments) are less than:

(a) 12% of the amount of the Participants' Units in the first 12-month period;

(b) 24% of the amount of the Participants' Units in the second 12-month period;

(c) 36% of the amount of the Participants' Units in the third 12-month period; or

(d) 48% of the amount of the Participants' Units in the fourth 12-month period (no carry forward is required if the distributions are less than 60% of the amount of the Participants' Units in the fifth 12-month period because the Managing General Partner's subordination obligation terminates on the expiration of the fifth 12-month period) ; and

(vi) reimbursing the Managing General Partner for any previous subordination payments to the extent cumulative cash distributions to Participants (including any subordination payments) would exceed:

(a) 12% of the amount of the Participants' Units in the first 12-month period;

(b) 24% of the amount of the Participants' Units in the second 12-month period;

(c) 36% of the amount of the Participants' Units in the third 12-month period;

(d) 48% of the amount of the Participants' Units in the fourth 12-month period; or

(e) 60% of the amount of the Participants' Units in the fifth 12-month period.

The Managing General Partner's subordination obligation shall be further subject to the following conditions:

(vii) the subordination obligation may be prorated in the Managing General Partner's discretion, e.g., in the case of a quarterly distribution the Managing General Partner will not have any subordination obligation if the distributions to Participants equal 3% or more of the amount of their Units assuming there is no subordination owed for any preceding periods;

(viii) if Participants' distributions exceed 12% of the amount of the Participants' Units in a 12-month period, then the excess will be credited to the next period;

(ix) the Participants' preferred distributions shall not exceed a cumulative total of 60% of the amount of the Participants' Units for the five 12-month periods;

(x) the Managing General Partner shall not be required to return Partnership distributions previously received by it, even though a subordination obligation arises after the distributions;

(xi) no subordination payments to Participants or reimbursements to the Managing General Partner shall be made after the expiration of the fifth 12-month subordination period; and

(xii) subject to the foregoing provisions of this section, only Partnership revenues in the current distribution period shall be debited or credited to the Managing General Partner as may be necessary to provide, to the extent possible, subordination distributions to the Participants and reimbursements to the Managing General Partner.

5.01(b)(5). **Incentive Management Fee.** If Payout is achieved U.S. Energy shall be entitled to receive an Incentive Management Fee which shall be paid by admitting an Affiliate of U.S. Energy to the Partnership as a Limited Partner and issuing to that Affiliate the number of Units (including a fraction of a unit if necessary), a portion of which will be assigned by such Affiliate to U.S. Energy, required to entitle U.S. Energy to receive fifteen percent and such Affiliate to receive ten percent of the Partnership's revenues. The right of U.S. Energy to receive the Incentive Management Fee shall not be affected by its resignation or removal as Managing General Partner.

5.01(c). **Allocations.**

5.01(c)(1). **Allocations among Participants.** Except as provided otherwise in this Agreement, costs and revenues charged or credited to the Participants as a group shall be allocated among the Participants, including the Managing General Partner to the extent of any optional subscription under §3.03(b)(2), in the ratio of their respective Units.

5.01(c)(2). **Managing General Partner's Discretion in Making Allocations For Federal Income Tax Purposes.** In determining the proper method of allocating income and expense among the parties, or in making any other allocations under this Agreement, the Managing General Partner may adopt any method of allocation which it, in its reasonable discretion, selects, if, in its sole discretion based on advice from its legal counsel or accountants, a revision to the allocations is required for the allocations to be recognized for federal income tax purposes either because of the promulgation of Treasury Regulations or other developments in the tax law. Any new allocation provisions shall be provided by an amendment to this Agreement and shall be made in a manner that would result in the most favorable aggregate consequences to the Participants as nearly as possible consistent with the original allocations described in this Agreement.

5.01(c)(3). **Allocation of Expense of Incentive Management Fee.** Any deduction for the expense of the Incentive Management Fee, if it is earned, shall be allocated to U.S. Energy.

5.02. **Capital Accounts and Allocations Thereto.**

5.02(a). **Capital Accounts for Each Party to the Agreement.** A single, separate Capital Account shall be established for each party to this Agreement, regardless of the number of interests owned by the party, the class of the interests and the time or manner in which the interests were acquired. Participants shall not be required to restore any deficit balances in their Capital Accounts except as set forth in §5.03(h).

5.02(b). **Charges and Credits.**

5.02(b)(1). **General Standard.** Except as otherwise provided in this Agreement, the Capital Account of each party shall be determined and maintained in accordance with Treas. Reg. §1.704-1(b)(2)(iv) and shall be increased by:

(i) the amount of money contributed by him to the Partnership;

(ii) the fair market value of property contributed by him (without regard to §7701(g) of the Code) to the Partnership (net of liabilities secured by the contributed property that the Partnership is considered to assume or take subject to under §752 of the Code); and

(iii) allocations to him of Partnership income and gain (or items thereof), including income and gain exempt from tax and income and gain described in Treas. Reg.

§1.704-1(b)(2)(iv)(g), but excluding income and gain described in Treas. Reg. §1.704-1(b)(4)(i);

and shall be decreased by:

(iv) the amount of money distributed to him by the Partnership;

(v) the fair market value of property distributed to him (without regard to §7701(g) of the Code) by the Partnership (net of liabilities secured by the distributed property that he is considered to assume or take subject to under §752 of the Code);

(vi) allocations to him of Partnership expenditures described in §705(a)(2)(B) of the Code; and

(vii) allocations to him of Partnership loss and deduction (or items thereof), including loss and deduction described in Treas. Reg. §1.704-1(b)(2)(iv)(g), but excluding items described in (vi) above, and loss or deduction described in Treas. Reg. §1.704-1(b)(4)(i) or (iii).

5.02(b)(2). **Exception.** If Treas. Reg. §1.704-1(b)(2)(iv) fails to provide guidance, Capital Account adjustments shall be made in a manner that:

(i) maintains equality between the aggregate governing Capital Accounts of the Partners and the amount of Partnership capital reflected on the Partnership's balance sheet, as computed for book purposes;

(ii) is consistent with the underlying economic arrangement of the Partners; and

(iii) is based, wherever practicable, on federal tax accounting principles.

5.02(c). **Discretion of Managing General Partner in the Method of Maintaining Capital Accounts.** Notwithstanding any other provisions of this Agreement, the method of maintaining Capital Accounts may be changed from time to time, in the discretion of the Managing General Partner, to take into consideration §704 and other provisions of the Code and such rules, regulations and interpretations relating thereto as may exist from time to time.

5.02(d). **Revaluations of Property.** In the discretion of the Managing General Partner the Capital Accounts of the Partners may be increased or decreased to reflect a revaluation of Partnership property, including intangible assets such as goodwill, (on a property-by-property basis except as otherwise permitted under §704(c) of the Code and the regulations thereunder) on the Partnership's books, in accordance with Treas. Reg. §1.704-1(b)(2)(iv)(f).

5.02(e). **Amount of Book Items.** In cases where §704(c) of the Code or §5.02(e) applies, Capital Accounts shall be adjusted in accordance with Treas. Reg. §1.704-1(b)(2)(iv)(g) for allocations of depreciation, depletion, amortization and gain and loss, as computed for book purposes, with respect to the property.

5.03. **Allocation of Income, Deductions and Credits.**

5.03(a). **In General.**

5.03(a)(1). **Certain Deductions Are Allocated to Party Charged with Expenditure.** To the extent permitted by law and except as otherwise provided in this Agreement, all deductions and credits, including but not limited to, intangible drilling and development costs and depreciation shall be allocated to the party who has been charged herein with the expenditure giving rise to the deductions and credits; and to the extent permitted by law, these parties shall be entitled to the deductions and credits in computing taxable income or tax liabilities to the exclusion of any other party. Also, any Partnership deductions that would be nonrecourse deductions if they were not attributable to a loan made or guaranteed by the Managing General Partner or its Affiliates shall be allocated to the Managing General Partner to the extent required by law.

5.03(a)(2). **Income and Gain Allocated in Accordance With Revenues.** Except as otherwise provided in this Agreement, all items of income and gain, including gain on disposition of assets, shall be allocated in accordance with the related revenue allocations set forth in §5.01(b) and its subsections.

5.03(b). **Tax Basis of Each Property.** Subject to §704(c) of the Code, the tax basis of each oil and gas property for computation of cost depletion and gain or loss on disposition shall be allocated and reallocated when necessary based on the capital interest in the Partnership as to the property and the capital interest in the Partnership for this purpose as to each property shall be considered to be owned by the parties to this Agreement in the ratio in which the expenditure giving rise to the tax basis of the property has been charged as of the end of the year.

5.03(c). **Gain or Loss on Natural Gas and Oil Properties.** Each party shall separately compute its gain or loss on the disposition of each natural gas and oil property in accordance with the provisions of §613A(c)(7)D) of the Code, and the calculation of the gain or loss shall consider the party's adjusted basis in his property interest computed as provided in §5.03(b) and the party's allocable share of the amount realized from the disposition of the property.

5.03(d). **Gain on Depreciable Property.** Gain from each sale or other disposition of depreciable property shall be allocated to each party whose share of the proceeds from the sale or other disposition exceeds its contribution to the adjusted basis of the property in the ratio that the excess bears to the sum of the excesses of all parties having an excess.

5.03(e). **Loss on Depreciable Property.** Loss from each sale, abandonment or other disposition of depreciable property shall be allocated to each party whose contribution to the adjusted basis of the property exceeds its share of the proceeds from the sale, abandonment or other disposition in the proportion that the excess bears to the sum of the excesses of all parties having an excess.

5.03(f). **Allocation If Recapture Treated As Ordinary Income.** Any recapture treated as an increase in ordinary income by reason of §§1245, 1250, or 1254 of the Code shall be allocated to the parties in the amounts in which the recaptured items were previously allocated to them; provided that to the extent recapture allocated to any party is in excess of the party's gain from the disposition of the property, the excess shall be allocated to the other parties but only to the extent of the other parties' gain from the disposition of the property.

5.03(g). **Tax Credits.** If a Partnership expenditure (whether or not deductible) that gives rise to a tax credit in a Partnership taxable year also gives rise to valid allocations of Partnership loss or deduction (or other downward Capital Account adjustments) for the year, then the Partners' interests in the Partnership with respect to the credit (or the cost giving rise thereto) shall be in the same proportion as the Partners' respective distributive shares of the loss or deduction (and adjustments). Identical principles shall apply in determining the Partners' interests in the Partnership with respect to tax credits that arise from receipts of the Partnership (whether or not taxable).

5.03(h)(1). **Deficit Capital Accounts and Qualified Income Offset.** Notwithstanding any provisions of this Agreement to the contrary, an allocation of loss or deduction which would result in a Participant having a deficit Capital Account balance as of the end of the taxable year to which the allocation relates, if charged to the Participant, (to the extent the Participant is not required to restore the deficit to the Partnership), taking into account:

(i) adjustments that, as of the end of the year, reasonably are expected to be made to the Participant's Capital Account for depletion allowances with respect to the Partnership's natural gas and oil properties;

(ii) allocations of loss and deduction that, as of the end of such year, reasonably are expected to be made to the Participant pursuant to §§704(e)(2) and 706(d) of the Code and Treas. Reg. §1.751-1(b)(2)(ii); and

(iii) distributions that, as of the end of such year, reasonably are expected to be made to the Participant to the extent they exceed offsetting increases to the Participant's Capital Account (assuming for this purpose that the fair market value of Partnership property equals its adjusted tax basis) that reasonably are expected to occur during (or prior to) the Partnership taxable years in which the distributions reasonably are expected to be made, shall be charged to the Managing General Partner. Further, the Managing General Partner shall be credited with an additional amount of Partnership income or gain equal to the amount of the loss or deduction as quickly as possible (to the extent such chargeback does not cause or increase deficit balances in the Participants' Capital Accounts which are not required to be restored to the Partnership).

Notwithstanding any provisions of this Agreement to the contrary, if a Participant unexpectedly receives an adjustment, allocation, or distribution described in (i), (ii), or (iii) above, or any other distribution, which causes or increases a deficit balance in the Participant's Capital Account which is not required to be restored to the Partnership, the Participant shall be allocated items of income and gain (consisting of a pro rata portion of each item of Partnership income, including gross income, and gain for the year) in an amount and manner sufficient to eliminate the deficit balance as quickly as possible.

5.03(h)(2). **Additions.** For purposes of §5.03(h)(1), the amount of a Partner's share of minimum gain shall be added to the limited dollar amount, if any, of the deficit balance in the Partner's Capital Account that the Partner is obligated to restore the Partnership.

5.03(i). **Minimum Gain Chargeback.** Notwithstanding any other provision of this Agreement, if there is a net decrease in partnership minimum gain for a Partnership taxable year, the Partners shall be allocated items of Partnership income and gain in accordance with Treas. Reg. §1.704-2(t); and to the extent there is a net decrease during a Partnership taxable year in the minimum gain attributable to a Partner nonrecourse debt, then any Partner with a share of the minimum gain attributable to the debt at the beginning of such year shall be allocated items of Partnership income and gain in accordance with Treas. Reg. §1.704-2(i).

5.03(j). **Partners' Allocable Shares.** Except as otherwise provided in this Agreement, each Partner's allocable share of Partnership income, gain, loss, deductions and credits shall be determined by the use of any method prescribed or permitted by the Secretary of the Treasury by regulations or other guidelines and selected by the Managing General Partner which takes into account the varying interests of the Partners in the Partnership during the taxable year. In the absence of these regulations or guidelines, except as otherwise provided in this Agreement, the allocable share shall be based on actual income, gain, loss, deductions and credits economically accrued each day during the taxable year in proportion to each Partner's varying interest in the Partnership on each day during the taxable year.

5.04. **Elections.**

5.04(a). **Election to Deduct Intangible Costs.** The Partnership's federal income tax return shall be made in accordance with an election under the option granted by the Code to deduct Intangible Drilling Costs.

5.04(b). **No Election Out of Subchapter K.** No election shall be made by the Partnership, any Partner, or the Operator for the Partnership to be excluded from the application of the partnership provisions of Subchapter K of the Code.

5.04(c). **Compensation Income.** If it is determined that any taxable income results to any party by reason of its entitlement to a share of profits or revenues of the Partnership before the profit or revenue has been realized by the Partnership, the resulting deduction as well as any resulting gain, shall be separately allocated to that party.

5.04(d). **§754 Election.** In the event of the transfer of a Unit in the Partnership, or on the death of an individual party to this Agreement, or in the event of the distribution of property to any party to this Agreement, the Managing General Partner may choose for the Partnership to file an election in accordance with the applicable Treasury Regulations to cause the basis of the Partnership's assets to be adjusted for federal income tax purposes as provided by §§734 and 743 of the Code.

5.05. **Distributions.**

5.05(a). **In General.**

5.05(a)(1). **Quarterly Review of Accounts.** Initial cash distributions to the Participants will be made when the Managing General Partner determines sufficient funds are available for such purpose and will be made monthly for the following eleven months. Thereafter the Managing General Partner shall review the accounts of the Partnership at least quarterly to determine whether cash distributions are appropriate and the amount to be distributed, if any.

5.05(a)(2). **Distributions.** The Partnership shall distribute funds to the Managing General Partner and the Participants allocated to their accounts which the Managing General Partner deems unnecessary to retain by the Partnership.

5.05(a)(3). **No Borrowings.** In no event, however, shall funds be advanced or borrowed for purposes of distributions, if the amount of the distributions would exceed the Partnership's accrued and received revenues for the previous four quarters, less paid and accrued Operating Costs with respect to the revenue. The determination of revenues and costs shall be made in accordance with generally accepted accounting principles, consistently applied.

5.05(a)(4). **Distributions to the Managing General Partner.** Cash distributions from the Partnership to the Managing General Partner shall only be made in conjunction with distributions to Participants and only out of funds properly allocated to the Managing General Partner's account.

5.05(a)(5). **Reserve.** At any time after three years from the date each Partnership Well is placed into production, the Managing General Partner shall have the right to deduct each month from the Partnership's proceeds of the sale of the production from the well any amount it deems necessary in its sole discretion for the purpose of establishing a fund to cover the estimated costs of plugging and abandoning the well.

5.05(b). **Distribution of Uncommitted Subscription Proceeds.** Any subscription proceeds not expended or committed for expenditure, as evidenced by a written agreement, by the Partnership within 12 months of the Offering Termination Date of the Partnership, except necessary operating capital, shall be distributed pro rata to the Participants in the ratio that the subscription price designated on each Participant's Subscription Agreement bears to the total subscription prices designated on all of the Participants' Subscription Agreements, as a return of capital.

For purposes of this subsection, "committed for expenditure" shall mean contracted for, actually earmarked for or allocated by the Managing General Partner to the Partnership's drilling operations, and "necessary operating capital" shall mean those funds which, in the opinion of the Managing General Partner, should remain on hand to assure continuing operation of the Partnership.

5.05(c). **Distributions on Winding Up.** On the winding up of the Partnership distributions shall be made as provided in §7.02.

5.05(d). **Interest and Return of Capital.** It is agreed among the parties to this Agreement that no party shall under any circumstances be entitled to any interest on amounts retained by the Partnership. Each Participant shall look only to his share of distributions, if any, from the Partnership for a return of his Capital Contribution.

ARTICLE VI
TRANSFER OF INTERESTS

6.01. **Transferability.**

6.01(a). **In General.**

6.01(a)(1). **Consent Required.** In addition to other restrictions on transferability provided in this Agreement, Units in the Partnership (and any rights to income or other attributes of the Units) shall be nontransferable except transfers to, or with the written consent of, the Managing General Partner.

6.01(a)(2). **Rights of Assignee.** Unless an assignee becomes a substituted Participant in accordance with the provisions set forth below, he shall not be entitled to any of the rights granted to a Participant under this Agreement, other than the right to receive all or part of the share of the profits, losses, income, gain, credits and cash distributions or returns of capital to which his assignor would otherwise be entitled.

6.01(b). **Conversion of Investor General Partner Units to Limited Partner Units.**

6.01(b)(1). **Automatic Conversion.** After substantially all of the Partnership Wells have been drilled and completed the Managing General Partner shall file an amended certificate of limited partnership with the Secretary of State of the State of Delaware for the purpose of converting the Investor General Partner Units to Limited Partner Units.

6.01(b)(2). **Investor General Partners Shall Have Contingent Liability.** On conversion the Investor General Partners shall be Limited Partners entitled to limited liability; however, they shall remain liable to the Partnership for any additional Capital Contribution required for their proportionate share of any Partnership obligation or liability arising before the conversion of their Units as provided in §3.05(b)(2).

6.01(b)(3). **Conversion Shall Not Affect Allocations.** The conversion shall not affect the allocation to any Participant of any item of Partnership income, gain, loss, deduction or credit or other item of special tax significance other than Partnership liabilities, if any. Further, the conversion shall not affect any Participant's interest in the Partnership's natural gas and oil properties and unrealized receivables.

6.01(b)(4). **Right to Convert if Change in Insurance.** Notwithstanding the foregoing, the Managing General Partner shall notify all Participants at least 30 days before the effective date of any adverse material change in the Partnership's insurance coverage. If the insurance coverage is to be materially reduced, then the Investor General Partners shall have the right to convert their Units into Limited Partner Units before the reduction by giving written notice to the Managing General Partner.

6.02. **Special Restrictions on Transfers.**

6.02(a**). In General.** Transfers are subject to the following general conditions:

(i) only whole Units may be assigned unless the Participant owns less than a whole Unit, in which case his entire fractional interest must be assigned;

(ii) the costs and expenses associated with the assignment must be paid by the assignor Participant;

(iii) the assignment must be in a form satisfactory to the Managing General Partner; and

(iv) the terms of the assignment must not contravene those of this Agreement.

Transfers of Units are subject to the following additional restrictions set forth in §§6.02(a)(1) and 6.02(a)(2).

6.02(a)(1). **Securities Laws Restriction.** Subject to transfers permitted by §6.04 and transfers by operation of law, no Units shall be sold, assigned, pledged, hypothecated or transferred unless there is either:

(i) an effective registration of the Units under the Securities Act of 1933, as amended and qualification under applicable state securities laws; or

(ii) an opinion of counsel acceptable to the Managing General Partner that the registration and qualification of the Units are not required.

Transfers are also subject to any conditions contained in the Subscription Agreement and Annex A.

6.02(a)(2). **Tax Law Restrictions.** Subject to transfers permitted by §6.04 and transfers by operation of law, no sale, exchange, transfer or assignment of a Unit shall be made which, in the opinion of counsel to the Partnership, would result in the Partnership being either:

(i) terminated for tax purposes under §708 of the Code; or

(ii) treated as a "publicly-traded" partnership for purposes of §469(k) of the Code.

6.02(a)(3). **Substitute Participant.**

6.02(a)(3)(a). **Procedure to Become Substitute Participant.** An assignee of a Participant's Units shall become a substituted Participant entitled to all the rights of a Participant if, and only if:

(i) the assignor gives the assignee the right;

(ii) the Managing General Partner consents to the substitution, which consent shall be in the Managing General Partner's absolute discretion;

(iii) the assignee pays to the Partnership all costs and expenses incurred in connection with the substitution; and

(iv) the assignee executes and delivers the instruments (in form and substance satisfactory to the Managing General Partner) necessary or desirable to effect the substitution and to confirm the agreement of the assignee to be bound by all of the terms of this Agreement.

6.02(a)(3)(b). **Rights of Substitute Participant.** A substitute Participant is entitled to all of the rights attributable to full ownership of the assigned Units including the right to vote.

6.02(b). **Effect of Transfer.**

6.02(b)(1). **Amendment of Records.** The Partnership shall amend its records at least once each calendar quarter to effect the substitution of substituted Participants.

Any transfer permitted under this Agreement when the assignee does not become a substituted Participant shall be effective:

(i) as of midnight of the last day of the calendar month in which it is made; or

(ii) at the Managing General Partner's election, 7:00 A.M. of the following day.

6.02(b)(2). **Transfer Does Not Relieve Transferor of Certain Costs.** No transfer (including a transfer of less than all of a Participant's Units or the transfer of Units to more than one party) shall relieve the transferor of its responsibility for its proportionate part of any expenses, obligations and liabilities under this Agreement related to the Units so transferred, whether arising before or after the transfer.

6.02(b)(3). **Transfer Does Not Require An Accounting.** No transfer of a Unit shall require an accounting by the Managing General Partner. Also, no transfer shall grant rights under this Agreement, including the exercise of any elections, as between the transferring parties and the remaining parties to this Agreement to more than one party unanimously designated by the transferees and, if he should have retained an interest under this Agreement, the transferor.

6.02(b)(4). **Notice.** Until the Managing General Partner receives a proper designation acceptable to it, the Managing General Partner shall continue to account only to the person to whom it was furnishing notices before the time pursuant to §8.01 and its subsections. This party shall continue to exercise all rights applicable to the Units previously owned by the transferor.

6.03. **Right of Managing General Partner to Hypothecate and/or Withdraw Its Interests.** The Managing General Partner shall have the authority, without the consent of the Participants and without affecting the allocation of costs and revenues received or incurred under this Agreement, to hypothecate, pledge, or otherwise encumber, on any terms it sees fit, either:

(i) its Partnership interest; or

(ii) an undivided interest in the assets of the Partnership equal to or less than its respective interest in the revenues of the Partnership.

All repayments of such borrowings and costs, interest or other charges related to the borrowings shall be paid separately by the Managing General Partner. In no event shall the repayments, costs, interest, or other charges related to the borrowings be charged to the account of the Participants.

In addition, subject to a required participation of not less than 1% of the Partnership's subscription proceeds, the Managing General Partner may withdraw a property interest held by the Partnership in the form of a Working Interest in the Partnership Wells equal to or less than its respective interest in the revenues of the Partnership without the consent of the Participants. The Managing General Partner shall then have the right to sell or otherwise dispose of its interest. The Managing General Partner shall also have the right to withdraw as Managing General Partner and sell or otherwise dispose of its entire interest with the consent of Participants whose Units equal a majority of the total Units.

6.04. **Presentment.**

6.04(a). **In General.** Participants shall have the right to present their Units to the Managing General Partner subject to the conditions and limitations set forth in this Section. A Participant, however, is not obligated to present his Units for repurchase.

The Managing General Partner shall not be obligated to purchase more than 10% of the Units in any calendar year and the Managing General Partner may not waive this 10% limit. The Managing General Partner also shall not purchase less than one Unit unless the lesser amount represents the Participant's entire interest in the Partnership or a Qualified Entity's entire interest in the Limited Liability Company, however, the Managing General Partner may waive this limitation.

A Participant may present his Units in writing to the Managing General Partner between July 1 and September 30 of every year beginning July 1, 2018 (if the offering for Genesis Drilling Program VII LP does not commence until after December 31, 2014, this date shall be July 1, 2019 for Genesis Drilling Program VII LP) subject to the following conditions:

(i) A Participant may only present his units once per year;

(ii) in accordance with Treas. Reg. §1.7704-1(f), the repurchase may not be made until at least 60 calendar days after the Participant notifies the Partnership in writing of the Participant's intention to exercise the repurchase right; and

(iii) the repurchase shall not be considered effective until the Participant:

(a) receives the information concerning his interest in the net revenues;

(b) agrees to the presentment price; and

(c) has been paid in cash.

6.04(b). **Valuation of Partnership Reserves.** The amount attributable to Partnership reserves shall be determined based on the most recent third-party reserve report obtained pursuant to Subsection 4.03(b)(4) hereof if such report was completed within the prior twelve (12) months, or on the last reserve report of the Partnership prepared by the Managing General Partner if it is more recent. Provided, however, that the Participant may elect, when presenting his units to the Managing General Partner to have the valuation based on a new reserve report of the Partnership to be prepared by an Independent Expert at the sole cost of such Participant. In such event, the Independent Expert shall be selected by the Participant subject to the approval of the Managing General Partner, which shall not be unreasonably withheld.

The calculation of the repurchase price shall be as set forth in §6.04(c).

6.04(c). **Calculation of Presentment Price.** The presentment price shall be based on the Participant's share of the net assets and liabilities and of future net revenues of the Partnership and allocated to each Participant in the ratio that the number of his Units bears to the total number of Units. The presentment price shall include the sum of the following Partnership items:

(i) an amount based on 70% of the present worth of future net revenues from the Proved Reserves determined as described in §§6.04(b) and 4.03(b)(3);

(ii) cash on hand;

(iii) prepaid expenses and accounts receivable less a reasonable amount for doubtful accounts; and

(iv) the estimated market value of all assets, not separately specified above, determined in accordance with standard industry valuation procedures.

There shall be deducted from the foregoing sum the following items:

(i) an amount equal to all debts, obligations, and other liabilities, including accrued expenses; and

(ii) any distributions made to the Participants between the date of the request and the actual payment. However, if any cash distributed was derived from the sale, after the presentment request, of natural gas, oil, or other mineral production, or of a producing property owned by the Partnership, for purposes of determining the reduction of the presentment price, the distributions shall be discounted at the same rate used to take into account the risk factors employed to determine the present worth of the Partnership's Proved Reserves.

6.04(d). **Further Adjustment May Be Allowed.** The presentment price may be further adjusted by the Managing General Partner for estimated changes therein from the date of the report to the date of payment of the presentment price to the Participants because of the following:

(i) the production or sales of, or additions to, reserves and lease and well equipment, sale or abandonment of Leases, and similar matters occurring before the request for repurchase; and

(ii) any of the following occurring before payment of the presentment price to the selling Participants:

(a) changes in well performance;

(b) increases or decreases in the market price of natural gas, oil, or other minerals;

(c) revision of regulations relating to the importing of hydrocarbons;

(d) changes in income, ad valorem, and other tax laws such as material variations in the provisions for depletion; and

(e) similar matters.

6.04(e). **Selection by Lot.** If less than all Units presented at any time are to be purchased, then the Participants whose Units are to be purchased will be selected by lot.

The Managing General Partner's obligation to purchase Units presented may be discharged for its benefit by a third-party or an Affiliate. The Units of the selling Participant will be transferred to the party who pays for them. A selling Participant will be required to deliver an executed assignment of his Units, together with any other documents that the Managing General Partner may reasonably request.

6.04(f). **No Obligation of the Managing General Partner to Establish a Reserve.** The Managing General Partner shall have no obligation to establish any reserve to satisfy the presentment obligations under this section.

6.04(g). **Suspension of Presentment Feature.** The Managing General Partner may suspend this presentment feature by so notifying Participants at any time if it:

(i) does not have sufficient cash flow; or

(ii) is unable to borrow funds for this purpose on terms it deems reasonable.

In addition, the presentment feature may be conditioned, in the Managing General Partner's sole discretion, on the Managing General Partner's receipt of an opinion of counsel that the transfers will not cause the Partnership to be treated as a "publicly traded partnership" under the Code.

The Managing General Partner shall hold the repurchased Units for its own account and not for resale.

ARTICLE VII
DURATION, DISSOLUTION, AND WINDING UP

7.01. **Duration.**

7.01(a). **Twenty-Five Year Term.** The Partnership shall continue in existence for a term of 25 years from the effective date of this Agreement unless sooner terminated as set forth below.

7.01(b). **Termination.** The Partnership shall terminate following the occurrence of:

(i) a Final Terminating Event; or

(ii) any event which under the Delaware Revised Uniform Limited Partnership Act causes the dissolution of a limited partnership.

7.01(c). **Continuance of Partnership Except On Final Terminating Event.** Other than on the occurrence of a Final Terminating Event, the Partnership or any successor limited partnership shall not be wound up, but shall be continued by the parties and their respective successors as a successor limited partnership under all the terms of this Agreement. The successor limited partnership shall succeed to all of the assets of the Partnership. As used throughout this Agreement, the term "Partnership" shall include the successor limited partnerships and the parties to the successor limited partnerships.

7.02. **Dissolution and Winding Up.**

7.02(a). **Final Terminating Event.** On the occurrence of a Final Terminating Event, the affairs of the Partnership shall be wound up and there shall be distributed to each of the parties its Distribution Interest in the remaining Partnership assets.

7.02(b). **Time of Liquidating Distribution.** To the extent practicable and in accordance with sound business practices in the judgment of the Managing General Partner, liquidating distributions shall be made by:

(i) the end of the taxable year in which liquidation occurs (determined without regard to §706(c)(2)(A) of the Code); or

(ii) if later, within 90 days after the date of the liquidation.

Notwithstanding, the following amounts need not be distributed within the foregoing time periods so long as the withheld amounts are distributed as soon as practical:

(i) amounts withheld for reserves reasonably required for liabilities of the Partnership; and

(ii) installment obligations owed to the Partnership.

7.02(c). **In-Kind Distributions.** Any in-kind property distributions to the Participants shall be made to a liquidating trust or similar entity for the benefit of the Participants, unless at the time of the distribution:

(i) the Managing General Partner offers each Participant the election of receiving in-kind property distributions and the Participant accepts the offer after being advised of the risks associated with direct ownership; or

(ii) there are alternative arrangements in place which assure the Participants that they will not, at any time, be responsible for the operation or disposition of Partnership properties.

It shall be presumed that a Participant has refused his consent if the Managing General Partner has not received the consent within 30 days after the Managing General Partner mailed the request for consent.

7.02(d). **Sale If No Consent.** Any Partnership asset which would otherwise be distributed in-kind to a Participant, except for the failure or refusal of the Participant to give his written consent to the distribution, may instead be sold by the Managing General Partner to either an independent third-party or to the Managing General Partner or an Affiliate. If the asset is sold to the Managing General Partner or an Affiliate, then the asset must be sold at fair market value as determined by an Independent Expert.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

8.01. **Notices.**

8.01(a). **Method.** Any notice required under this Agreement shall be:

(i) in writing; and

(ii) given by mail or by nationally recognized overnight delivery service addressed to the party to receive the notice at the address designated in §1.03.

If there is a transfer of Units under this Agreement, no notice to the transferee shall be required, nor shall the transferee have any rights under this Agreement, until notice has been given to the Managing General Partner.

No transfer of Units under this Agreement shall increase the Managing General Partner's duty to give notice. If there is a transfer of Units under the Agreement to more than one party, then notice to any owner of any interest in the Units shall be notice to all owners of the Units.

8.01(b). **Change in Address.** The address of any party to this Agreement may be changed by written notice as follows:

(i) to the Participants if there is a change of address by the Managing General Partner; or

(ii) to the Managing General Partner if there is a change of address by a Participant.

8.01(c). **Time Notice Deemed Given.** If the notice is given by the Managing General Partner, then the notice shall be considered given, and any applicable time shall run, from the date the notice is place in the mails or delivered to the nationally recognized overnight delivery service.

If the notice is given by any Participant, then the notice shall be considered given and any applicable time shall run from the date the notice is received.

8.01(d). **Effectiveness of Notice.** Any notice to a party other than the Managing General Partner, including a notice requiring concurrence or non-concurrence, shall be effective, and any failure to respond binding, irrespective of the following:

(i) whether or not the notice is actually received; or

(ii) any disability or death on the part of the noticee, even if the disability or death is known to the party giving the notice.

8.01(e). **Failure to Respond.** Except when this Agreement expressly requires affirmative approval of a Participant, any Participant who fails to respond in writing within the time specified to a request by the Managing General Partner for approval of or concurrence in a proposed action shall be conclusively deemed to have approved the action. The time period shall be not less than 15 business days from the date of mailing of the request or date of the delivery of the request to a nationally recognized overnight delivery service.

8.02. **Time.** Time is of the essence of each part of this Agreement.

8.03. **Applicable Law.** The terms and provisions of this Agreement shall be construed under the laws of the State of Delaware.

8.04. **Agreement in Counterparts.** This Agreement may be executed in counterpart and shall be binding on all parties executing this or similar agreements from and after the date of execution by each party.

8.05. **Amendment.**

8.05(a). **Procedure for Amendment.** No changes in this Agreement shall be binding unless proposed in writing by:

(i) the Managing General Partner and adopted with the consent of Participants whose Units equal a majority of the total Units; or

(ii) Participants whose Units equal 25% of the total Units and approved by an affirmative vote of Participants whose Units equal 65% of the total Units.

8.05(b). **Circumstances Under Which the Managing General Partner Alone May Amend.** The Managing General Partner is authorized to amend this Agreement and its exhibits without the consent of Participants in any way deemed necessary or desirable by it to:

(i) add or substitute, in the case of an assigning party, additional Participants;

(ii) enhance the tax benefits of the Partnership to the parties; or

(iii) satisfy any requirements, conditions, guidelines, options, or elections contained in any opinion, directive, order, ruling, or regulation of the SEC, the IRS, or any other federal or state agency, or in any federal or state statute, compliance with which it deems to be in the best interest of the Partnership.

Notwithstanding the foregoing, no amendment materially and adversely affecting the interests or rights of Participants shall be made without the consent of the Participants whose interests will be so affected.

8.06. **Additional Partners.** Each Participant consents to the admission to the Partnership of additional Participants as the Managing General Partner, in its discretion, chooses to admit.

8.07. **Legal Effect.** This Agreement shall be binding on and inure to the benefit of the parties, their heirs, devisees, personal representatives, successors and assigns, and shall run with the interests subject to this Agreement. The terms "Partnership," "Limited Partner," "Investor General Partner," "Participant," "Partner," "Managing General Partner," "Operator," or "parties" shall equally apply to any successor limited partnership, and any heir, devisee, personal representative, successor or assign of a party.

IN WITNESS WHEREOF, the parties to this Agreement set their hands and seal as of the day and year shown above.

U.S. ENERGY DEVELOPMENT CORPORATION
Managing General Partner

By: ____

Attest:

____
(SEAL) Secretary

EXHIBIT (I-A)

MANAGING GENERAL PARTNER SIGNATURE PAGE

EXHIBIT (I-A)
MANAGING GENERAL PARTNER SIGNATURE PAGE

Attached to and made a part of the AMENDED AND RESTATED CERTIFICATE AND AGREEMENT OF LIMITED PARTNERSHIP of GENESIS DRILLING PROGRAM V, VI or VII LP.

The undersigned agrees to:

1. serve as the Managing General Partner of GENESIS DRILLING PROGRAM V, VI or VII LP (the "Partnership"), and hereby executes, swears to and agrees to all the terms of the Partnership Agreement;

2. pay the required subscription of the Managing General Partner under §3.03(b)(1) of the Partnership Agreement; and

3. subscribe to the Partnership as follows:

   (a) $__________________ [_____ Unit(s)] under §3.03(b)(2) of the Partnership Agreement as a Limited Partner; or

   (b) $__________________ [_____ Unit(s)] under §3.03(b)(2) of the Partnership Agreement as an Investor General Partner.

Managing General Partner:

U.S. Energy Development Corporation

By: ________________________________

Address:

2350 North Forest Road
Getzville, New York 14068

ACCEPTED this ____ day of ___________, 2014.

U.S. ENERGY DEVELOPMENT CORPORATION
Managing General Partner

By: ______________________________________

Attest:

____
(SEAL) Secretary

EXHIBIT (I-B)

SUBSCRIPTION AGREEMENT

EXHIBIT (I-B)

SUBSCRIPTION AGREEMENT AND ANNEX A

Included in Subscription Packet

EXHIBIT (II)

DRILLING AGREEMENT

EXHIBIT (II)

DRILLING AGREEMENT

THIS AGREEMENT is made and entered into as of this _____ day of _____________, 2014 by and between GENESIS DRILLING PROGRAM V, VI or VII LP, a Delaware limited partnership with its principal office located at 2350 North Forest Road, Getzville, NY 14068, (the "Owner"), and U.S. ENERGY DEVELOPMENT CORPORATION, a New York corporation with its principal office at 2350 North Forest Road, Getzville, NY 14068 ("U.S. Energy").

Introductory Statement

The Owner holds certain rights to locate, drill and recover oil and gas from oil and gas drill sites complying with legally mandated minimum spacing and subject to applicable lease boundaries, as described under oil and gas leases, copies of which are attached hereto collectively as Exhibit A-1 and made a part hereof (the "Leases" or the "Proposed Leases"). The Owner wishes to enter into this Agreement whereby U.S. Energy will drill or cause to have drilled on the Leases certain wells which are set forth on Exhibit A-2 attached hereto and made a part hereof (the "Wells") for the production of gas and/or oil, and to enter into an Operating Agreement with U.S. Energy with respect to operating the Wells once completed. The Owner reserves the right to substitute Wells.

NOW, THEREFORE, for and in consideration of the mutual representations, warranties, covenants and conditions contained in this Agreement, and intending to be legally bound, the Owner and U.S. Energy agree as follows:

1.01. **Payment for Drilling and Completion.**

1.01(a). **Amount.** As compensation to U.S. Energy for its performance of the drilling and completion operations under this Agreement and subject to U.S. Energy's compliance with the provisions of this Agreement, the Owner shall pay to U.S. Energy the total cost of the completed Wells plus five percent (5%) of such amount. The Owner shall pay to U.S. Energy, in advance upon the execution of this Agreement, the estimated cost of drilling, completing and equipping the Wells, including the amounts to be paid to U.S. Energy (i.e. 5% of the total cost of drilling, completing and equipping the Wells) for its services hereunder, pursuant to the Authority for Expenditures attached hereto as Exhibit A-3 and made a part hereof (the "AFEs"). This shall apply to Wells to be drilled and operated by U.S. Energy and to Wells that will be operated by unaffiliated third parties.

Owner and U.S. Energy acknowledge that circumstances may arise, such as a change in regulatory requirements, which require additional activities not contemplated in the AFE, or that if a decision is made by the Owner to conduct activities beyond those contemplated in the AFE, such as increasing the length of a lateral and/or the number of completion (hydrofracturing) stages in a horizontal well, then the cost of the Well will need to be appropriately adjusted.

In situations where the cost of a Well has been increased and exceeds the amount allocated for that Well by the Owner, U.S. Energy may, if necessary, proportionately reduce the working interest percentage in such Well, being assigned to Owner.

The price to be paid by the Owner to U.S. Energy shall be proportionately reduced to the extent the Owner owns less than 100% of the Working Interest in the Wells.

In the case of gas Wells, hook-up (with a gathering system) of the Wells to the gas transmission lines may be provided by U.S. Energy at its sole expense separately from this Agreement. U.S. Energy and third-parties shall own all of the gathering lines and gathering systems which they provide.

1.01(b). **Business Purpose of the Prepayment.** Prepayment of the estimated amount to be paid by the Owner, on or before December 31, 2014, is necessary to facilitate the effort to drill the Wells within the time frame herein set forth. Prepayment enables U.S. Energy to do the following:

(i) begin site preparation for the Wells,

(ii) obtain suitable subcontractors for drilling and completing the Wells at currently prevailing prices, and

(iii) insure the availability of equipment and materials.

1.01(c). **Nonrefundable Payment and Substitute Wells.** Before operations begin on a Well site, the Owner reserves the right to substitute Well sites. The payments of the estimated price from the Owner to U.S. Energy shall be nonrefundable in all events. Any costs paid by the Owner which are not earned by U.S. Energy because the Well is drilled, completed and equipped at a lower cost than anticipated or because a Well is not completed shall be retained by U.S. Energy and shall be applied for the Owner's account to the costs for an additional well or wells to be drilled.

1.01(d). **Completion Notice.** U.S. Energy shall certify that each Well has been logged and shall advise Owner by telephone as provided in Section 9.01(c) of its opinion as to whether completion is justified based on the logging and other geological information. Within 12 hours of the telephone call, Owner must decide whether it wishes U.S. Energy to complete the Well.

2.01. **Drilling.**

2.01(a). **U.S. Energy's Responsibilities.** U.S. Energy shall furnish all labor, tools, equipment, materials, supplies and services necessary to the proper operation of the drilling rigs and the completion or plugging of the Wells. U.S. Energy shall perform the work in a workmanlike manner and in accordance with good drilling practices.

The parties agree that U.S. Energy shall not begin any drilling operations until Owner approves title for the Well. Before beginning to drill, U.S. Energy shall obtain all governmental and utility permits, approvals and variances for drilling and completing the Wells.

U.S. Energy shall use its best efforts to do the following:

(i) begin to drill all of the Wells on or before March 31, 2015 (March 31, 2016 for GENESIS DRILLING PROGRAM VII LP if the offering for such Partnership does not commence until after December 31, 2014), including arrange for the acquisition of survey and permits and stake and clear by bulldozer all drill sites; and

(ii) except as otherwise provided in this Agreement, drill to a depth sufficient to test thoroughly the applicable target formation (unless production in Paying Quantities as defined below is encountered at a shallower depth), fracture the same, and complete the Wells.

2.01(b). **Discoveries in Upper Formations.** In the event of an unexpected hydrocarbon discovery in Paying Quantities at an upper formation above the specified formation, U.S. Energy shall immediately notify Owner by telephone in accordance with Section 9.01(c) of the discovery and the cost options of completion or continuance of drilling. The Owner shall then notify U.S. Energy within 12 hours of its decision to:

(i) complete the upper formation, or

(ii) attempt to drill to the specified formation unless ,further drilling is impossible in the opinion of U.S. Energy.

Should a decision be reached to attempt completion in a formation uphole of the target formation, then, if the cost of the Well as completed in the uphole formation, including the 5% thereof to be paid to U.S. Energy, is less than the estimated amount shown on the AFE for such Well any remaining amounts shall be applied for the Owner's account to costs for an additional well or wells.

Should the Owner desire to complete the Well at a later date to the target or other formation, U.S. Energy shall be the operator and complete the Well on a cost (including overhead) plus 5% basis, in proportion to the share of the Working Interest owned by the Owner in the Well.

2.01(c). **Procedures if Production Is Not Found in Paying Quantities.** If any Well fails to encounter production in Paying Quantities, U.S. Energy shall plug the Well in accordance with Section 3.01 below and any remaining funds set aside for such well shall be applied as set forth in Section 1.01(c).

2.01(d). **Definition of Paying Quantities.** For purposes of this Agreement, the term "Paying Quantities", as determined in the discretion of U.S. Energy, with the consent the Owner, shall mean the quantities of gas and/or oil from a Well the current gross receipts of which (less royalties thereon) would exceed the then current operating expenses allowable to the Well after taking into account an amount to recover the costs of drilling and completing the Well.

3.01. **Dry Holes.** If any Well or Wells are dry holes or if, in U.S. Energy's judgment, a Well will not produce oil or gas in Paying Quantities and it wishes to plug and abandon the Well as a dry hole, then U.S. Energy shall first secure the consent of the Owner's managing general partner to the plugging. The Well or Wells shall then be plugged and abandoned as promptly as possible. U.S. Energy shall arrange and acquire at the Owner's expense any permits required for any plugging and abandonment, including any plugging and restoration bonds if needed. U.S. Energy shall effect the plugging and abandonment in the manner required by the applicable laws and regulations of the state in which the Well is located.

On any plugging and abandoning, any salvageable equipment shall be retained by U.S. Energy for the account of the Owner, as its respective interest in the Well might appear, and used for an additional well or wells to be drilled.

4.01. **Dual Completion.** If oil is encountered during the drilling of any gas Well, or gas is encountered during the drilling of any oil Well in what appears to be Paying Quantities, then U.S. Energy with the concurrence of the Owner shall:

(i) complete the Well for the production of the oil, or gas; or

(ii) rework or complete for the production of oil and gas.

In the case of a dual completion for the production of oil and gas the additional costs of the dual completion shall be paid by Owner to U.S. Energy in proportion to the share of the Working Interest owned by the Owner in the Well on a cost (including overhead) plus 5% basis.

5.01. **Services Provided by U.S. Energy.** If services related to the drilling, completion, equipping, and/or placing into production of the Wells are provided by U.S. Energy, such services shall be charged at a competitive rate in the geographic area in which the applicable Well is situate. Charges for services provided by U.S. Energy shall be included in the total cost of a Well when cost plus five percent is calculated.

6.01. **Operations and Management.** All Wells which are completed under this Agreement shall be operated by U.S. Energy under the terms and conditions of a certain Operating Agreement between U.S. Energy and the Owner. The Operating Agreement shall be executed by the parties before beginning the actual drilling of any of the Wells under this Agreement.

7.01. **Insurance.**

7.01(a). **Scope of Coverage.** Insurance coverage shall be obtained pursuant to the terms and conditions of the Operating Agreement entered into between Owner and U.S. Energy which includes the following:

(i) workmen's compensation and employer's liability insurance as may be required by the laws of the state where the Wells are situate;

(ii) comprehensive general public liability and property damage insurance with $1,000,000 combined single limit coverage and $2,000,000 aggregate coverage;

(iii) comprehensive automobile public liability and property damage insurance with combined single limits of $1,000,000;

(iv) pollution coverage of $1,000,000 per occurrence and in the aggregate which protects and defends the insured against property damage or bodily injury claims from third parties, other than a co-owner of the interest in the Well, alleging seepage, pollution or contamination damage resulting from an accident;

(v) excess liability umbrella policy for $24,000,000, including coverage for pollution, bodily injury and property damage;

(iv) when required, in the discretion of the Owner on a well by well basis, well control insurance, in such amounts, to the extent available, as reasonably determined by Owner.

8.01. **Entire Costs and Liens.**

8.01(a). **Risk of Loss.** The expense and risk of drilling, completing and plugging the Wells shall be borne by Owner.

8.01(b). **Discharge of Liens.** U.S. Energy shall not permit any lien or charge to be fixed, filed, or otherwise assessed against any leasehold interest of U.S. Energy, the Owner or any drilling or operating equipment located on the leaseholds. If any lien or charge is asserted or filed against U.S. Energy, Owner or any leasehold property belonging to them or the drilling or operating equipment located on the leaseholds, then U.S. Energy shall promptly cause the lien or charge to be discharged, or bonded, within 30 days of the filing or perfection of the lien or charge. U.S. Energy shall notify the Owner in writing of the discharge.

8.01(c). **Owner's Rights.** If U.S. Energy fails to cause the lien or charge to be discharged, then the Owner may discharge the lien or charge. If this occurs then U.S. Energy shall promptly reimburse the Owner for all amounts expended in so discharging the lien or charge including legal fees incurred in connection therewith.

8.01(d). **Contractor's Lien.** U.S. Energy does not waive its lien, if any, with respect to any sums due it under this Agreement.

9.01 **Access to Wells.**

9.01(a). **Access.** The Owner, its general and limited partners, and designated representative shall have:

(i) access to the Wells at all reasonable times, at its or their sole risk except to the extent of any available insurance, to inspect or observe operations and logging; and

(ii) access at reasonable times to information pertaining to the drilling and development of the Wells.

9.01(b). **Reports.** With reference to the Wells to be drilled, U.S. Energy shall furnish the Owner or its designated representative with the following:

(i) daily drilling reports by telephone;

(ii) copies of records of any tests which may be made in the bore hole and of the analyses which may be made of materials taken from the bore hole;

(iii) copies of induction logs to be picked up at the well site and on completion or abandonment, composite copies of all logs run in the Wells; and

(iv) if any Well is abandoned as a dry hole, a certified copy of the plugging records showing that the Well has been plugged and abandoned or copies of documents indicating the disposition of the Well to third-parties if the disposition is required by contract or lease or is deemed to be appropriate by U.S. Energy.

9.01(c). **Telephone Reports.** Telephone reports shall be made by calling Owner's designated representative as designated from time to time to U.S. Energy and reporting to the representative or leaving a message with him.

10.01. **Services, Materials and Equipment.**

10.01(a). **Subcontracts.** U.S. Energy may contract with oil and gas field contracting firms whether or not affiliated with U.S. Energy to perform certain drilling and other services related to the Wells at competitive prices.

10.01(b). **Quality of Equipment.** Materials and equipment to be obtained by U.S. Energy shall be new or used, and in all events shall be serviceable for the purposes intended.

10.01(c). **Competitive Rates.** If any person or firm affiliated with U.S. Energy supplies materials or services to or on behalf of U.S. Energy under this Agreement, the materials or services shall be supplied at competitive prices.

11.01. **Separate Entities.**

11.01(a). **Relationship Between Parties.** None of the rights, duties or obligations of the parties to this Agreement or the terms of this Agreement shall be construed as creating:

(i) a joint venture;

(ii) a partnership;

(iii) an employee-employer relationship; or

(iv) any other legal entity whereby one party is responsible individually or otherwise for the acts, whether by commission or omission, debts, liabilities or charges of any other party incurred in connection with the drilling, completing, plugging or abandoning of any Well or the leasehold properties covered by this Agreement.

11.01(b). **Independent Contractor Status.** U.S. Energy is an independent contractor in its performance under this Agreement.

12.01. **Modifications, Counterparts.**

12.01(a). **Modification.** No change, modification, or alteration of this Agreement shall be valid unless it is in writing, signed by the parties and no course of dealing between the parties shall be construed to alter the terms of this Agreement.

12.01(b). **Counterparts.** If this Agreement is executed in counterparts, any executed copy of this Agreement shall be deemed an original for any and all purposes.

13.01. **Compliance with Law.**

13.01(a). **Agreement Subject to All Laws.** This Agreement shall be subject to all valid and applicable local, state and federal laws, rules, regulations and orders, and the operations conducted under this Agreement shall be performed in accordance with these laws, rules, regulations and orders. This includes reports, drilling permits, the posting of plugging and restoration bonds, well spacing and other drilling, operating and completing regulations.

13.01(b). **Agreement Deemed Modified.** If this Agreement, any provisions of this Agreement, or operations contemplated by this Agreement, are found to be inconsistent with or contrary to any laws, rules, regulations or orders, the latter shall be deemed to control and this Agreement shall be regarded as modified to conform with these laws, rules, regulations, or orders. The Agreement so modified shall continue in full force and effect.

14.01. **Indemnification.** U.S. Energy shall indemnify, defend and hold harmless the Owner and its general and limited partners, its legal representatives, successors and assigns from any and all claims, damages, causes of actions, suits, whether in law or equity, loss, liability, cost or expense including legal fees arising out of, resulting from, or caused by any action or failure to act by U.S. Energy, its employees, agents, independent contractors or subcontractors.

15.01. **Successors.** The terms, covenants and conditions of this Agreement shall be binding on and shall inure to the benefits of the parties to this Agreement and their respective legal representatives, successors and assigns.

16.01 **Assignment.**

16.01(a). **Assignments by U.S. Energy.** U.S. Energy shall not be entitled to assign its rights under this Agreement without first having obtained the written consent of the Owner. However, there is no restriction on U.S. Energy's right to assign its working interests in the Wells, if any, or to subcontract any of its duties or obligations under this Agreement.

If U.S. Energy shall sell, transfer or assign its interests under this Agreement after having obtained the consent of the Owner, the purchaser or recipient of the interests shall assume the obligations and be entitled to the benefits of this Agreement, and, effective as of the date of such approved sale, U.S. Energy shall be released from such obligations.

16.01(b). **Assignments by Owner.** Owner shall not be entitled to sell, transfer or assign its rights under this Agreement without first having obtained the written consent of U.S. Energy, which shall not be unreasonably withheld. In the event of a sale, transfer or assignment, the purchaser or recipient shall assume the obligations and be entitled to the benefits of this Agreement.

17.01. **Termination.**

17.01(a). **Removal of U.S. Energy as Contractor**. U.S. Energy may be removed and a new drilling contractor substituted in its place under this Agreement by the Owner on the occurrence of any of the following events:

(i) the filing by or against (and not cured within 30 days) or the consent of U.S. Energy to any application or petitions under any bankruptcy, reorganization, arrangement, insolvency, dissolution or liquidation law, statute or regulation;

(ii) the taking or entry of any final judgment for the payment of money in excess of $100,000 against U.S. Energy which remains outstanding for a period of more than 30 days unless discharged in full or the execution is stayed within the 30-day period;

(iii) the making by U.S. Energy of any assignment for the benefit of creditors or the admission by it in writing of its inability to pay its debts generally as they become due or the consent by it to the appointment of a receiver, trustee, or liquidator of it or its assets; or

(iv) a material breach of this Agreement by U.S. Energy after notice of the breach to U.S. Energy by Owner and on U.S. Energy failing to cure the breach within 30 days after the notice.

17.01(b). **Compensation.** On any removal or other termination under this Agreement, U.S. Energy shall be entitled to retain or receive its compensation as evidenced by invoices, statements of charges, or other proof of expenditures accruing under this Agreement before the removal unless U.S. Energy has committed a material breach of this Agreement.

17.01(c). **Liability.** On any removal or other termination under this Agreement, U.S. Energy shall, however, remain liable with respect to matters accruing before removal or other termination.

All amounts paid by the Owner under this Agreement which were not earned by U.S. Energy before the removal including amounts due to the Owner because of a material breach of this Agreement by U.S. Energy, shall be promptly paid by U.S. Energy to the substituted drilling contractor for the Owner's account.

17.01(d). **Owner May Terminate Well Operation.** The Owner at its sole discretion may terminate any Well operation.

18.01. **Representations and Warranties.** U.S. Energy represents and warrants to Owner that:

(i) it is a corporation duly organized, validly existing, and in good standing under the laws of the State of New York;

(ii) it has the power to enter into this Agreement; and

(iii) there is no prohibition in its charter or other corporate documents prohibiting U.S. Energy from entering into this Agreement.

19.01. **Resignation.** U.S. Energy shall have no right to resign under this Agreement until after:

(i) the drilling, completion and hook-up if applicable, or

(ii) the plugging and abandonment, as the case may be, of all the Wells to be drilled under this Agreement.

20.01. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York pertaining to contracts performed and executed in the State of New York.

21.01. **Amendment.** Any provision of this Agreement may be waived or modified at any time by the mutual consent of the Owner and U.S. Energy if written and signed by the parties.

22.01. **Integration.** This Agreement together with the Exhibits to this Agreement and the Operating Agreement referred to in this Agreement, contains the entire agreement of the parties with respect to the subject matter of this Agreement.

23.01. **Attorney Fees.** The parties agree that in the event of any litigation begun under this Agreement, the prevailing party as determined on final judgment of a court of competent jurisdiction shall be entitled to reimbursement of all court costs and reasonable attorneys' fees.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the day and year first above written.

U.S. ENERGY DEVELOPMENT CORPORATION

By: ____
Douglas K. Walch, President

GENESIS DRILLING PROGRAM V, VI or VII LP

By: ____
U.S. Energy Development Corporation,
Managing General Partner

By: ____
Douglas K. Walch, President

EXHIBIT A-1

LEASES

To be determined by the Managing General Partner

EXHIBIT A-2

LIST OF WELLS

To be determined by the Managing General Partner

EXHIBIT A-3

AUTHORITY FOR EXPENDITURE

To be determined by the Managing General Partner

EXHIBIT (III)

OPERATING AGREEMENT

EXHIBIT (III)

OPERATING AGREEMENT

THIS AGREEMENT is made and entered into as of this _____ day of ______________, 2014 by and between GENESIS DRILLING PROGRAM V, VI or VII LP, located at 2350 North Forest Road, Getzville, NY 14068 ("Partnership"), and U.S. ENERGY DEVELOPMENT CORPORATION, a New York corporation with its principal office at 2350 North Forest Road, Getzville, NY 14068 ("U.S. Energy").

Introductory Statement

U.S. Energy:

- has obtained in the name of the Partnership or has obtained by assignment or otherwise, certain oil and gas properties covering the tracts of land described in Exhibit A and made a part hereof (the "Leases");
- has caused the assignment of the Leases to the Partnership or has assigned or reassigned an interest in the Leases to Partnership;
- has entered into a Drilling Agreement with Partnership whereby U.S. Energy will drill or cause to have drilled wells on the Leases (the "Wells") for the production of gas and/or oil; and
- desires to enter into an Operating Agreement with Partnership with respect to operating the wells once completed.

NOW THEREFORE, for and in consideration of the mutual representations, warranties, covenants and conditions contained in this Agreement, and intending to be legally bound U.S. Energy and Partnership agree as follows:

1.01. **Operation and Management.** All Wells which are completed under the Drilling Agreement shall be operated by U.S. Energy or a qualified subcontractor selected by U.S. Energy on as nearly a continuous basis as is possible in accordance with good oil and gas field practices in a prudent manner. The duties of U.S. Energy or the subcontractor shall include, but not be limited to those set forth below.

1.01(a). **Operations and Personnel.** U.S. Energy shall operate, supervise and manage the Wells and provide all personnel to perform the work or contract with independent third-parties to perform the services.

1.01(b). **Marketing the Oil and Gas.** U.S. Energy or a joint venture participant (the gas marketer), at U.S. Energy's election, shall assist with the arrangements for the sale and transportation of all gas, liquid petroleum gas products, oil or other products produced by the Wells:

(i) at prices not less than the market price prevailing in the field from time to time; and

(ii) on terms including escalation provisions that are the most favorable terms reasonably available to a seller.

However, this right to market the oil and gas is subject to the Partnership's right to take in-kind, or separately dispose of, its share of oil and gas not previously delivered to a purchaser. Also, U.S. Energy's authority to sell the Partnership's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances.

1.01(c). **Payment of Royalties and Other Expenses.** U.S. Energy shall receive the gross proceeds from the oil and gas sales, and shall deduct and pay from the gross proceeds:

(i) all royalties (if not already deducted by the purchaser or the gas marketer);

(ii) all well maintenance compensation due it under Section 2.01 of this Agreement; and

(iii) all expenses charged by third-parties incurred in operating the Wells for which payment or reimbursement is authorized under this Agreement as reflected against appropriate vouchers or other evidence of the expenses. U.S. Energy shall then make monthly payments of the pro-rata share of the balance to Partnership.

1.01(d). **Supervision After Production Begins.** After hookup of the gas Wells to gas transmission lines and/or completion as oil producers if appropriate, U.S. Energy shall arrange for any additional labor, equipment and materials which may be required for the continued and successful operation of the Wells. This includes lease costs, solvents, additional rig time, repairs or replacement of equipment, regulators, gauges, charts and the like.

1.01(e). **Plugging and Abandonment.** U.S. Energy shall plug and abandon or arrange for plugging and abandoning any Well at the time Partnership directs when any well becomes uneconomical to operate. The plugging and abandoning shall be effected in accordance with applicable provisions of law. The salvage from the plugging and abandoning shall be promptly turned over to the owners of the wells, as their interest might appear.

1.01(f). **Governmental Permits.** U.S. Energy shall obtain all governmental approvals and permits for operating, plugging or abandoning the Wells, as the case may be.

1.01(g). **Monthly Statements.** Each month U.S. Energy shall provide a statement showing receipts and disbursements. This includes amounts due for royalties, well maintenance fees, taxes and other expenses with vouchers or other appropriate evidence available on request.

1.01(h). **Annual Reports.** U.S. Energy shall provide an annual report on request from Partnership concerning the preceding period's operations. This includes production records and all information necessary for Partnership to properly file its tax returns including Schedule K-1's and reports on a timely basis.

The Partnership and its authorized representatives shall have on 24 hour prior notice access during normal business hours to all of U.S. Energy's records relevant to the operations under this Agreement.

2.01. **Reimbursements and Well Supervision Fees.**

2.01(a). **Amount.** U.S. Energy shall receive from Partnership in proportion to the share of the Working Interest owned by the Partnership in the Wells the following:

(i) payment or reimbursement of all necessary and reasonable expenses relating to the Wells as contemplated by this Agreement, including non-routine maintenance cost, water hauling, rebuilding of roads, any third-party costs for tax preparation, and third-party costs for well maintenance and tending and other third-party charges for services; and

(ii) a well supervision fee of $250 per month for each oil well and $300 per month for each gas Well operated by U.S. Energy under this Agreement in the northern Appalachian Basin during months of production, payable only with respect to the months the Well is actually in operation or production. For wells operated by U.S. Energy in other areas, the monthly fee shall be a competitive rate comparable to rates being charged by others in the same geographic area. The well supervision fee covers all normal and regularly recurring operating expenses for the production, delivery and sale of gas when performed by U.S. Energy, such as: well tending, routine maintenance and adjustment; reading meters, recording production, pumping, maintaining appropriate books and records; preparing reports to the Partnership and to government agencies; and collecting and disbursing revenues; or

(iii) for wells operated by third parties, U.S. Energy shall have the right to receive a supervisory fee of up to $250 per well per month.

2.01(b). **Shut-In Wells.** During any month of shut-in production U.S. Energy shall continue custodial services which are necessary to protect the Well for which it will be paid by the Partnership $110 per month per Well which amount shall be proportionately reduced to the extent the Partnership owns less than 100% of the Working Interest in the Wells.

2.01(c). **Inflation Adjustment.** Each of the fees specified in 2.01(a) and 2.01(b) shall be reviewed on the 1st of January of each year beginning on January 1, 2016, and is subject to increase to maintain the fee at a level comparable to fees paid to other companies in the same general geographic area providing similar services.

3.01. **Employees.** The number of employees and their selection, and the hours of labor and their compensation shall be determined by U.S. Energy. All employees shall be employees of U.S. Energy or its subcontractors, as appropriate.

4.01. **Insurance.**

4.01(a). **Scope of Coverage.** If available, U.S. Energy shall carry and maintain for the benefit of U.S. Energy and Partnership as their interest may appear, insurance with financially responsible insurance carriers as follows:

(i) workmen's compensation and employer's liability insurance as may be required by the laws of the State of New York;

(ii) comprehensive general public liability and property damage insurance with $1,000,000 combined single limit coverage and $2,000,000 aggregate coverage;

(iii) comprehensive automobile public liability and property damage insurance with combined single limits of $1,000,000;

(iv) pollution coverage of $1,000,000 per occurrence and in the- aggregate which protects and defends the insured against property damage or bodily injury claims from third-parties, other than a co-owner of the interest in, the well, alleging seepage, pollution or contamination damage resulting from an accident;

(v) excess liability umbrella policy for $24,000,000, including coverage for pollution, bodily injury and property damage; and

(vi) when required, in the discretion of the Partnership on a well by well basis, well control insurance, in such amounts, to the extent available, as reasonably determined by the Partnership.

4.01(b). **Certificates and Cancellation Notice.** Certificates or memoranda of the insurance shall be delivered to the Partnership on or before execution of this Agreement. The Partnership is entitled to 60 days' prior written notice of any cancellation.

4.01(c). **Partnership as Additional Insured.** In order to properly disclose the Partnership's relationship to U.S. Energy's insurance carriers, the Partnership and U.S. Energy agree that the Partnership must be named as "Additional Insured" on U.S. Energy's comprehensive general liability and excess liability (umbrella) policies.

The Partnership shall pay its pro rata portion of the cost of this insurance as determined by U.S. Energy.

5.01. **Liens.**

5.01(a). **Discharge of Liens.** U.S. Energy shall not permit any lien or charge to be fixed, filed or otherwise assessed against any leasehold interest of Partnership or any drilling or operating equipment located on the leaseholds. If any lien or charge is asserted or filed against U.S. Energy, Partnership, any leasehold property belonging to Partnership or the drilling or operating equipment located on the leaseholds, then U.S. Energy shall promptly cause the lien or charge to be discharged, or bonded, within 30 days of the filing or perfection of the lien or charge and shall notify Partnership in writing of the discharge, or bonding.

5.01(b). **Partnership's Rights.** If U.S. Energy fails to cause the lien or charge to be discharged, or bonded, then the Partnership may discharge the lien or charge. If this occurs then the Partnership may retain from any payment thereafter due to U.S. Energy pursuant to this Agreement all amounts expended in so discharging the lien or charge including legal fees incurred in connection with the lien. U.S. Energy shall refund to the Partnership all monies which Partnership paid in discharging the lien or charge which are in excess of any payment due or to become due to U.S. Energy under this Agreement.

5.01(c). **Operator Lien.** U.S. Energy does not waive its lien, if any, with respect to any sums due it under this Agreement.

6.01 **Access to Wells.** The Partnership and its general and limited partners shall have:

(i) access to the Wells at all reasonable times, at its or their sole risk, to inspect or observe operations; and

(ii) access at reasonable times to information pertaining to the operation of the Wells.

7.01. **Services, Materials and Equipment**.

7.01(a). **Subcontracts.** U.S. Energy may contract with oil and gas field contracting firms whether or not affiliated with U.S. Energy to perform certain services related to the Wells at competitive prices.

7.01(b). **Quality of Equipment.** Materials and equipment to be obtained by U.S. Energy shall be new or used, and in all events shall be serviceable for the purposes intended.

7.01(c). **Competitive Rates.** If any person or firm affiliated with U.S. Energy supplies materials or services to or on behalf of U.S. Energy under this Agreement, then the materials or service shall be supplied at competitive prices.

8.01. **Separate Entities.**

8.01(a). **Relationship Between Parties.** None of the rights, duties or obligations of the parties to this Agreement or the terms of this Agreement shall be construed as creating:

(i) a joint venture;

(ii) a partnership;

(iii) an employee-employer relationship; or

(iv) any other legal entity whereby one party is responsible individually or otherwise for the acts, whether by commission or omission, debts, liabilities or charges of any other party incurred in connection with the operating, plugging, or abandoning of any Well or the leasehold properties covered by this Agreement.

8.01(b). **Independent Contractor Status.** U.S. Energy is an independent contractor in its performance under this Agreement.

9.01. **Modifications, Counterparts.**

9.01(a). **Modification.** No change, modification, or alteration of this Agreement shall be valid unless it is in writing, signed by the parties to this Agreement and no course of dealing between the parties shall be construed to alter the terms of this Agreement.

9.01(b). **Counterparts.** If this Agreement is executed in counterparts, any executed copy of this Agreement shall be deemed an original for any and all purposes.

10.01. **Compliance with Law.**

10.01(a). **Agreement Subject to All Laws.** This Agreement shall be subject to all valid and applicable state and federal laws, rules, regulations and orders, and the operations conducted under this Agreement shall be performed in accordance with these laws, rules, regulations and orders.

10.01(b). **Agreement Deemed Modified.** If this Agreement, any provision of this Agreement, or operations contemplated by this Agreement are found to be inconsistent with or contrary to any laws, rules, regulations or orders, the latter shall be deemed to control and this Agreement shall be regarded as modified to conform with these laws, rules, regulations, and orders. The Agreement as so modified shall continue in full force and effect.

11.01. **Indemnification.** U.S. Energy shall indemnify, defend and hold harmless Partnership and its general and limited partners, legal representatives, successors and assigns from any and all claims, damages, causes of action, suits, whether in law or equity, loss, liability, cost or expense including legal fees arising out of, resulting from, or caused by any action or failure to act by U.S. Energy, its employees, agents, independent contractors or subcontractors with respect to the obligations of U.S. Energy under this Agreement.

12.01. **Successors.** The terms, covenants and conditions of this Agreement shall be binding on and shall inure to the benefit of the parties to this Agreement and their respective legal representatives, successors and assigns.

13.01. **Assignment by U.S. Energy**. U.S. Energy shall be entitled to assign its rights under this Agreement. If U.S. Energy shall sell, transfer or assign its interests under this Agreement, the purchaser or recipient of the interests shall assume the obligations and have the benefits of this Agreement.

14.01. **Termination.**

14.01(a). **Removal of U.S. Energy as Operator.** U.S. Energy may be removed, at the sole discretion of the Partnership, and this Agreement shall be terminated on the occurrence of any of the following events:

(i) the filing by or against (and not cured within 30 days) or the consent of U.S. Energy to any applications or petitions under any bankruptcy, reorganization, arrangement, insolvency, dissolution or liquidation law, statute or regulation;

(ii) the taking or entry of any final judgment for the payment of money in excess of $100,000 against U.S. Energy which remains outstanding for a period of more than 30 days unless discharged in full or stayed within the 30-day period;

(iii) the making by U.S. Energy of any assignment for the benefit of creditors or the admission by it in writing of its inability to pay its debts generally as they become due or the consent by it to the appointment of a receiver, trustee or liquidator of it or its assets; or

(iv) by the Partnership on the vote of partners whose units equal 65% of the total units.

(v) Termination pursuant to (i), (ii) or (iii) above shall be effective immediately upon the Partnership giving written notice thereof to U.S. Energy at the address noted in the first paragraph of this Agreement. Termination pursuant to (iv) above shall be effective on the date stated in a written notice thereof given by the Partnership to U.S. Energy, which date shall not be less than 15 days from the date such notice is received by U.S. Energy.

14.01(b). **Compensation.** On any such removal and termination under this agreement, U.S. Energy shall be entitled to retain or receive its compensation accruing before the removal.

14.01(c). **Liability.** U.S. Energy shall remain liable with respect to matters accruing before removal or termination.

15.01. **Renewal.**

15.01(a). **Initial Term.** This Agreement shall be for an initial term of ten years.

15.01(b). **Renewals.** After the initial ten-year term the Agreement shall be renewed automatically by Partnership for additional and successive two-year renewal terms unless written notice is given to U.S. Energy at least 90 days before the end of any term. U.S. Energy shall also be paid increased well supervision fees in accordance with Section 2.01 of this Agreement.

If this Agreement shall not be renewed for any additional two-year term (either after the initial ten-year term or after any two-year renewal term), U.S. Energy shall be required, at the option of Partnership, to continue its services and obligations under this Agreement for a one year period, at a rate equal to the then current rate plus a 15% increase.

15.01(c). **Termination.** On the termination of:

(i) the initial ten-year term of this Agreement if not renewed;

(ii) any two-year renewal term if not subsequently renewed; or

(iii) the one-year additional term following the end of the first ten-years or any renewal term with the 15% increase in fees;

U.S. Energy shall have no further responsibilities under this Agreement except with respect to matters accruing before the termination and it shall be entitled to retain or receive its fees accruing before the termination.

16.01. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

17.01. **Amendment.** Any provision of this Agreement may be waived or modified at any time by the mutual consent of Partnership and U.S. Energy in writing and signed by the parties.

18.01. **Integration.** This Agreement together with the Exhibits to this Agreement contains the entire agreement of the parties with respect to the subject matter of this Agreement.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the day and year first above written.

U.S. ENERGY DEVELOPMENT CORPORATION

By: ____
Douglas K. Walch, President

GENESIS DRILLING PROGRAM V, VI or VII LP

By: ____
U.S. Energy Development Corporation,
Managing General Partner

By: ____
Douglas K. Walch, President

EXHIBIT A

LEASES

To be determined by the Managing General Partner

EXHIBIT (B)

LIMITED LIABILITY COMPANY OPERATING AGREEMENT

OPERATING AGREEMENT
OF GENESIS DRILLING V, VI or VII LLC

THIS OPERATING AGREEMENT (this "Agreement") is entered into as of _______________, 2014 by the parties whose names appear on Schedule A hereto, or on any amendment of, or addendum to, Schedule A, approved by the Manager, which parties are hereinafter referred to as the members ("Members") of Genesis Drilling V, VI or VII LLC (the "Company").

WHEREAS, the Members desire to set forth the terms and conditions relating to the governance of the Company as set forth in this Agreement.

NOW, THEREFORE, the Members hereby agree as follows:

1. Definitions. As used in this Agreement, the following defined terms have the following meanings:

(a) Act. "Act" means the Delaware Limited Liability Company Act, and any successor statute, as amended from time to time.

(b) Company. "Company" means Genesis Drilling V, VI or VII LLC.

(c) Manager. "Manager" means, at any time, the person or entity who or which is then managing the business of the Company in accordance with the terms of this Agreement. The initial Manager of the Company is U.S. Energy Development Corporation whose address for the transaction of business is 2350 North Forest Road, Getzville, New York 14068.

(d) Membership Interest. "Membership Interest" means the interest of the Members in the Company, including without limitation the right to vote, the right to share in the profits and losses of the Company and the right to receive distributions and allocations from the Company.

2. Formation. The Company has been formed as a limited liability company pursuant to the provisions of the Act.

3. Name. The Company will conduct business under the name "Genesis Drilling V, VI or VII LLC" or such other names as the Manager may designate after notice to the Members, which notice may be sent by U.S. Mail to the addresses on Schedule A or to a replacement address that has been provided, in writing, by a Member to the Manager.

4. Principal Office. The principal office of the Company is 2350 North Forest Road, Getzville, New York 14068, or at such other place as the Manager may designate. The Company may maintain other offices as the Manager deems advisable after receiving the written approval of the Members.

5. **Purpose.** The Company is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Act and engaging in any and all activities necessary or incidental to the foregoing.

The Company shall utilize the Capital Contributions of the Members to acquire, in the name of the Company, units of limited partnership in Genesis Drilling Program V, VI or VII LP (the "Partnership") according to the terms and conditions set out in the Confidential Private Placement Memorandum for such limited partnerships dated April 1, 2014 (the "PPM"). The Company shall acquire such units as a limited partner and shall thereafter exercise the rights, and fulfill any obligations, of a limited partner in such entity.

6. **Membership Interest.** The Members own a 100% Membership Interest in the Company.

7. **Capital Contribution.** Each Member has made, or will make, a capital contribution to the Company and such contribution is reflected in Schedule A hereto and in the Members' capital account.

8. **Additional Capital Contributions.** The Members are not required to make any additional capital contribution to the Company.

9. **Assignment.** The Members may only assign, in whole or in part, the Members' Membership Interest to entities that are, as of the date of such assignment, both Qualified Entities and Accredited Investors as such terms as defined in the PPM.

10. **Admission of Additional Members.** One or more additional members of the Company may be admitted to the Company upon the approval of the Manager. The Manager may only approve entities, including individuals, that satisfy the requirements set forth below, as new Members in accordance with the terms set forth below. The decision whether or not to approve an entity that meets the requirements set forth below shall be in the sole discretion of the Manager.

(a) The proposed new Member must be an accredited investor as described in the PPM.

(b) The proposed new Member must be a Qualified Entity as described in the PPM or a Non-Qualified Participant who has elected to invest as a member of the Company.

(c) The proposed new Member must complete a subscription agreement, which shall be similar in form and content to the subscription agreement Particpants (as described in the PPM) must complete to participate in Genesis Drilling Program V, VI or VII LP.

(d) A proposed new Member's minimum capital contribution must be $40,000 (however, the Manager for good cause and in its sole discretion, may approve a proposed new Member making a lower capital contribution). Capital contributions in excess of $40,000 must be made in increments of $1,000.

(e) The proposed new Member must execute an amendment of, or addendum to, this Agreement, identifying it as a Member of the Company and agreeing to be bound by the terms and provisions of this Agreement.

11. <u>Liability to Third Parties</u>. No Members will be liable for the debts, obligations or liabilities of the Company, including under a judgment, decree or order of a court.

12. <u>Allocation of Profits and Losses</u>. The Company's profits and losses will be allocated to the Members according to the Member's Membership Interest, which shall be determined by the percentage a Member's capital contribution represents of the total of all capital contributions by the Members.

13. <u>Distributions</u>. Distributions from the Company will be made to the Members according to the Member's Membership Interest at the times and in the aggregate amounts determined by the Manager and in compliance with applicable law.

14. <u>Tax Election</u>. The Company shall elect to be taxed as a corporation.

15. <u>Management of the Company</u>.

(a) <u>Management by Manager</u>. The powers of the Company will be exercised by, or under the authority of, and the business and affairs of the Company will be managed under the direction of, the Manager. Any person or entity dealing with the Company, other than a Member, may rely on the authority of the Manager and officers appointed thereby in taking any action in the name of the Company without inquiry into the provisions of, or compliance with, this Agreement, regardless of whether that action is actually taken in accordance with the provisions of this Agreement.

(b) <u>Powers of the Manager</u>. Except as otherwise herein provided, the Manager will have full, complete and exclusive power to manage and control the Company, and will have the authority to take any action the Manager deems to be necessary, convenient or advisable in connection with the management of the Company.

(c) The Manager will at all times act in a fiduciary capacity for the Company. The Manager will devote such time, effort and skill to the Company's business affairs as reasonably necessary and proper for the Company's welfare and success but shall not be prohibited from engaging in other business activities, including within the oil and gas industry. The Manager may, for its own account or as part of another entity, engage in business activities that may be deemed to be in competition with the Company.

(d) Notwithstanding the foregoing, the Manager will not have the authority to perform any of the following acts, except with the prior written consent of the Members, or as authorized by this Agreement:

(i) merge the Company with or into another entity;

(ii) sell, dissolve or terminate the Company or any like or similar transactions;

(iii) confess a judgment against the Company in any amount;

(iv) make any loan or advance any sum of money to any party for any reason, or guarantee the indebtedness of any other party;

(v) dissolve or liquidate the Company;

(vi) sell or otherwise dispose of all, or substantially all, of the assets of the Company or of any major portion of the assets of the Company;

(vii) set or change the compensation paid to the Manager;

(viii) modify the lines of business in which the Company is engaged, or terminate or expand the existing lines of business; or

(ix) enter into any other material transaction outside the ordinary course of business.

(e) Votes of the Partnership. In the event the participants in the Partnership are to vote on any matter the Manager shall poll the Members on such issue by sending written notice to the Members of the matter to be voted on and providing a form on which each Member can indicate how such Member wants the Company to vote on that issue. The Manager shall cast a proportionate share of the Company's vote in such election to reflect the responses received from the Members and shall vote the proportionate share attributable to the Members who do not respond as the Manager, in its discretion, shall determine.

16. Liability for Certain Acts. The Manager will not be liable for any debts, obligations or liabilities of the Company, whether arising in tort, contract or otherwise, solely by reason of being a Manager or acting (or omitting to act) in such capacity or participating (as an employee, consultant, contractor or otherwise) in the conduct of the business of the Company. The Manager shall not be liable to the Company or the Members for any loss suffered by the Company or Members arising out of any action or inaction on the part of the Manager if: the Manager determined in good faith that its course of conduct was in the best interest of the Company; the Manager was acting on behalf of, or was performing services for, the Company; and the Manager's course of conduct did not constitute gross negligence or willful misconduct.

17. Indemnification. The Company will indemnify and hold harmless the Manager from and against any losses, judgments, liabilities, expenses, and amounts paid in settlement of any claims sustained by the manager in connection with the Company, provided that:

(a) the manager determined in good faith that the course of conduct which caused the loss or liability was in the best interest of the Company;

(b) the manager was acting on behalf of, or performing services for, the Company; and

(c) the course of conduct was not the result of gross negligence or willful misconduct of the manager.

1. **Resignation.** The Manager may resign at any time that is more than five years after the closing of the offering for Genesis Drilling Program V, VI or VII LP, as applicable, with respect to LP/LLC Investors, as defined in the Private Placement Memorandum, by giving 120 days advance written notice to the Members. The resignation of the Manager will take effect 125 days following the mailing of such notice to the Members or at any later time specified in such notice. Unless otherwise specified in such notice, the acceptance of the resignation will not be necessary to make it effective. The resignation of a Manager who is also a Member will not affect the Manager's rights as a Member and will not constitute a withdrawal of a Member.

2. **Election of New Manager Following Resignation.** Upon the Manager's resignation a new Manager will be elected by written consent of the Members owning a majority of the Membership Interest.

3. **Removal.** The Manager may be removed, at any time, with or without cause, on 60 days advance written notice to the Manager by the written action of Members owning 65% or more of the Membership Interest. However, such removal shall not become effective until a substitute Manager has been selected by the affirmative written vote of Members owning 65% or more of the Membership Interest, and installed as such.

4. **No Management by Other Persons.** Except and only to the extent delegated by the Manager in writing, no other person or entity other than the Manager will be an agent of the Company or have any right, power or authority to transact any business in the name of the Company or to act for or on behalf of or to bind the Company.

5. **Foreign Qualification.** The Company may qualify to transact business as a foreign limited liability company in any jurisdiction the Manager determines necessary or appropriate to carry out the business activities of the Company and shall deliver all certificates and other instruments that are necessary to qualify, continue or terminate the Company as a foreign limited liability company in all such jurisdictions in which the Company may conduct business activities.

6. **Presentment.** Any Member may require the Manager to exercise the presentment feature provided in §6.04 of the Amended and Restated Certificate and Agreement of Limited Partnership for Genesis Drilling Program V, VI or VII LP as to the units attributable to such Member's capital contribution to the Company.

7. **Dissolution.** The Company will dissolve and its business will be wound up upon the first to occur of the following: (a) the expiration of twenty five years from the date of the closing of the offering for Genesis Drilling Program V, VI or VII LP; (b) the dissolution and winding up of Genesis Drilling Program V, VI or VII LP; (c) the affirmative, written vote of Members owning 65% or more of the Membership Interest; or (d) the entry of a decree of judicial dissolution under the Act.

8. **Governing Law.** This Agreement is governed by, and will be construed in accordance with, the laws of the State of Delaware, without regard to conflict of laws principles.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Members have executed this Operating Agreement as of the day and year first above written.

MEMBERS:

Name: ______________________________
By: ________________________________
Title: ______________________________

Name: ______________________________
By: ________________________________
Title: ______________________________

Name: ______________________________
By: ________________________________
Title: ______________________________

Name: ______________________________
By: ________________________________
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Name: ______________________________
By: ________________________________
Title: ______________________________

Name: ______________________________
By: ________________________________
Title: ______________________________

MANAGER:

The undersigned hereby accepts an appointment as the Manager of the Company:

U.S. Energy Development Corporation

By: ________________________________
Douglas K. Walch, President

SCHEDULE A

MEMBER NAME AND ADDRESS	**CAPITAL CONTRIBUTION**

Richard F. Campbell
Partner
Direct Dial: 716.848.1409
Direct Facsimile: 716.819.4639
rcampbell@hodgsonruss.com

December 27, 2013

U.S. Energy Development Corporation
2350 North Forest Road
Getzville, New York 14068

Re: **Genesis Drilling Program V, VI, and VII L.P.**

Ladies and Gentlemen:

You, as Managing General Partner, have requested our opinion on the material Federal income tax consequences of an investment in Genesis Drilling Program V, VI, and VII L.P. (each, a "Partnership" and collectively, the "Partnerships"), each of which is a limited partnership formed under the Delaware Revised Uniform Limited Partnership Act. We have acted as Special Counsel to the Partnerships with respect to the offering of Units in them. Capitalized terms used and not otherwise defined in this letter have the respective meanings assigned to them in the Amended and Restated Certificate and Agreement of Limited Partnership for each Partnership (the "Partnership Agreement").

Our opinion is based on our review of the Private Placement Memorandum for the Partnerships, including the Operating Agreement and the Partnership Agreement included as exhibits to the Private Placement Memorandum, and existing statutes, rulings and regulations, as presently interpreted by judicial and administrative bodies. Any changes could result in different tax consequences and could render our opinions inapplicable. Our opinion herein is written to support the promotion and marketing of the Units. Our relationship with you as Special Counsel does not include any compensation arrangement involving a referral fee, fee-sharing, or other referral agreement.

In rendering our opinions, we have made reasonable efforts to obtain from you certain representations with respect to each Partnership. Any material inaccuracy in the representations may render our opinions inapplicable. Following are the relevant facts applicable to each Partnership, which have been represented to us and upon which we have relied in rendering our opinion:

- The Partnership Agreement for each Partnership will be executed by the Managing General Partner and either the Limited Partners or the Investor General Partners (collectively referred to as a "Participant" or the "Participants") and recorded in all places required under the Delaware Revised Uniform Limited

Partnership Act and any other applicable limited partnership act. Also, each Partnership will be operated in accordance with the terms of the Partnership Agreement, the Private Placement Memorandum and the Delaware Revised Uniform Limited Partnership Act, and any other applicable limited partnership act.

- The Partnerships will be subject to the partnership provisions of the Internal Revenue Code ("Code") and will not elect to be taxed as corporations.

- The Limited Liability Companies each will elect to be treated as a corporation for Federal tax purposes.

- The Managing General Partner of the Partnerships anticipates that most of the wells of the Partnerships will be developmental wells. The Managing General Partner anticipates that up to 10 percent of the capital raised in these offerings will be applied to "workovers" or "recompletions". The Managing General Partner anticipates that up to 25 percent of the capital raised in each offering will be applied to wells that are classified as Step-Out Wells and that up to 15 percent of the capital raised in each offering will be applied to wells that are classified as Exploratory Wells.

- To the best of the knowledge of the Managing General Partner, the respective amounts that will be paid to the Managing General Partner or its Affiliates under the Partnership Agreement and the Operating Agreement, including the estimated profit to the Managing General Partner for serving as operator, are amounts that would ordinarily be paid for similar services in similar transactions between persons having no affiliation and dealing with each other "at arm's length."

- The Partnerships will elect to deduct currently any Intangible Drilling Costs.

- The amounts paid for any Intangible Drilling Costs will be fair and reasonable.

- The Partnerships each will have a calendar year taxable year.

- The Operating Agreement for each Partnership will be duly executed and will govern the acquisition, operation and/or completion of the Partnership's wells and related energy assets.

- Based on the Managing General Partner's experience and the intended operations of each Partnership, the Managing General Partner reasonably believes that the aggregate deductions, including depletion deductions, and 350 percent of the aggregate credits, if any, which will be claimed by the Managing General Partner and the Participants, will not during the first five tax years following the funding of each Partnership exceed twice the amounts invested by the Managing General Partner and the Participants, respectively.

- The Units will not be traded on an established securities market.

- Each Participant will have an objective to carry on the business of the Partnership for profit.

- Any amount borrowed by a Participant and contributed to the Partnership will not be borrowed from a person who has an interest in the Partnership, other than as a creditor, or a related person, as defined in Section 465 of the Code, to a person, other than the Participant, having an interest in the Partnership and the Participant will be severally, primarily, and personally liable for the borrowed amount; and

- No Participant will have protected himself from loss for amounts contributed to the Partnership through nonrecourse financing, guarantees, stop loss agreements or other similar arrangements.

We have considered the provisions of 31 CFR, Part 10, Section 10.35 (Treasury Department Circular. No. 230) on covered opinions and this letter addresses all significant Federal income tax issues associated with an investment in the Partnerships by an individual Participant who is a resident citizen of the United States. We consider material those issues which:

- would affect significantly a Participant's deductions or losses arising from his investment in the Partnerships and with respect to which, under present law, there is a reasonable possibility of challenge by the Internal Revenue Service ("IRS"); or

- are expected to be of fundamental importance to a Participant but as to which a challenge by the IRS is unlikely.

Also, as required by Circular 230, our opinions state whether it is "more likely than not" that the predicted outcome will occur. Accordingly, in our opinion it is more likely than not that the following tax treatment will be upheld if challenged by the IRS and litigated:

Partnership Classification. Each Partnership will be classified as a partnership for Federal income tax purposes, and not as a corporation. Each Partnership, as such, will not pay any Federal income taxes, and all items of income, gain, loss and deduction of each Partnership will be reportable by the Partners. *See "Partnership Classification."*

Passive Activity Classification.

- Generally, the passive activity limitations on losses under Section 469 will apply to Limited Partners, but will not apply to Investor General Partners before the conversion of Investor General Partner Units to Limited Partner Units.

- Each Partnership's income and gain from its natural gas and oil properties which are allocated to Limited Partners, other than converted Investor General Partners, generally will be characterized as passive activity income which may be offset by passive activity losses.

- Income or gain attributable to investments of working capital of the Partnerships will be characterized as portfolio income, which cannot be offset by passive activity losses.

  See "Limitations on Passive Activities."

Not a Publicly Traded Partnership. Assuming that no more than 10 percent of the Units are transferred in any taxable year of each Partnership (other than in private transfers described in Treasury Regulation Section 1.7704-l(e)), such Partnership will not be treated as a "publicly traded partnership" under the Internal Revenue Code. *See "Limitations on Passive Activities" and "Publicly Traded Partnership Rules."*

Availability of Certain Deductions. Business expenses, including payments for personal services actually rendered in the taxable year in which accrued, which are reasonable, ordinary and necessary and do not include amounts for items such as Lease acquisition costs, organization and syndication fees and other items which are required to be capitalized, are currently deductible. *See "Availability of Certain Deductions" and "Partnership Organization and Syndication Fees."*

Intangible Drilling Costs. The Partnerships will each elect to deduct currently all Intangible Drilling Costs. However, each Participant may elect instead to capitalize and deduct all or part of his share of the Intangible Drilling Costs ratably over a 60-month period as discussed in "Minimum Tax Preferences", below. Subject to the foregoing, Intangible Drilling Costs paid by each Partnership under the terms of bona fide drilling contracts for the Partnership's wells will be deductible in the taxable year in which the payments are made and the drilling services are rendered, assuming the amounts are fair and reasonable consideration and subject to certain restrictions summarized below, including basis and "at risk" limitations and the passive activity loss limitation with respect to the Limited Partners.

Prepayments of Intangible Drilling Costs. The Managing General Partner anticipates that the drilling of most, if not all, of each Partnership's wells will begin in 2014 or 2015 and that each Partnership will prepay in 2014 all of its Intangible Drilling Costs for those Partnership wells. Assuming that the amounts are fair and reasonable, and based in part on the factual assumptions set forth above and below, in the opinion of special counsel the prepayments of Intangible Drilling Costs will be deductible for the 2014 taxable year even though all owners in the well will not be required to prepay Intangible Drilling Costs, subject to certain restrictions summarized below, including basis and "at risk" limitations, and the passive activity loss limitation with respect to the Limited Partners.

The foregoing opinion is based in part on the assumptions that:

- the Intangible Drilling Costs will be required to be prepaid in 2014 for specified wells under the drilling agreement. *Please see "Drilling Contracts" for details;*

- the amounts attributable to Intangible Drilling Cost items in the AFEs attached as exhibits to the Drilling Agreement accurately reflect the amounts that will be incurred for Intangible Drilling Costs;

- under the Drilling Agreement the drilling of the wells is required to be, and actually is, begun on or before March 31, 2015, and the wells are continuously drilled until completed, if warranted, or abandoned; and

- the required prepayments are not refundable to the Partnerships and any excess prepayments are applied to Intangible Drilling Costs and substitute wells. It should be noted that, if payments were refunded to the Partnerships, then such refunded amounts would be treated as ordinary income under Code Section 111 and Treasury Regulation Section 1.111-1(a).

Depletion Allowance. The greater of cost depletion or percentage depletion will be available to all eligible Participants as a current deduction against the Partnership's natural gas and oil production income, subject to certain restrictions summarized below. *See "Depletion Allowance."*

Depreciation. A depreciation deduction will be available to the Limited Partners for the payment of equipment costs, commencing in the year such equipment is placed in service (and to the Investor General Partners if they pay any portion of the tangible equipment costs).

Tax Basis of Units. Each Participant's adjusted tax basis in his Unit(s) will be increased by his total subscription proceeds.

At Risk Limitation on Losses. Each Participant initially will be "at risk" to the full extent of his subscription. *See "At Risk Limitation For Losses."*

Allocations. Assuming the effect of the allocations of income, gain, loss and deduction, or items thereof, set forth in each Partnership Agreement, including the allocations of basis and amount realized with respect to natural gas and oil properties, is substantial in light of a Participant's tax attributes that are unrelated to the Partnership, the allocations will have "substantial economic effect" and will govern each Participant's distributive share of those items to the extent the allocations do not cause or increase deficit balances in the Participants' capital accounts.

Subscription. No gain or loss will be recognized by the Participants on payment of their subscriptions.

Profit Motive and No Tax Shelter Registration. Based on the Managing General Partner's representation that the Partnerships will be conducted as described in the Private Placement Memorandum, each Partnership will possess the requisite profit motive under Section 183 of the Code and is not required to file with the IRS as a reportable transaction (tax shelter). *See "Disallowance of Deductions Under Section 183 of the Code" and "Lack of Filing as a Reportable Transaction (Tax Shelter)."*

IRS Anti-Abuse Rule. Based on the Managing General Partner's representation that the Partnership will be conducted as described in the Private Placement Memorandum, each Partnership will not be subject to the anti-abuse rule set forth in Treasury Regulation Section 1.701-2. *See "IRS Anti-Abuse Rule".*

Overall Evaluation of Tax Benefits. It is our overall conclusion that a Participant's Federal tax treatment of an investment in the Genesis Drilling Program V, VI, and VII L.P. Limited Partnerships, as described above, is more likely than not the proper Federal tax treatment. The discussion in the Private Placement Memorandum under the caption "TAX ASPECTS," insofar as it contains statements of Federal income tax law, is correct in all material respects. *See "Tax Aspects" in the Private Placement Memorandum.*

Unrelated Business Taxable Income. If the Limited Liability Companies elect to be taxed as corporations, the distributions to the LLC Members from the Limited Liability Company of which they are a Member will not be classified as unrelated business taxable income.

Our opinion is limited to the opinions expressed above with respect to applicable law as of the date of this letter. With respect to some of the issues, existing law provides little guidance. Although our opinions express what we believe a court would, probably conclude if presented with the applicable issues, our opinions are only predictions of the outcome of the particular tax issues being addressed. There is no assurance that the IRS will not challenge our interpretations or that the challenge would not be sustained in the courts and cause adverse tax consequences to the Participants. Taxpayers bear the burden of proof to support claimed deductions, and opinions of counsel are not binding on the IRS or the courts.

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In General

The following is a summary of the material Federal income tax consequences of the purchase, ownership and disposition of Limited Partner Units or Investor General Partner Units that will apply to typical Participants. The discussion is based on the provisions of the

Internal Revenue Code ("Code") in effect on December 27, 2013. All Section references below are to the Code as in effect then. However, there is no assurance that the present laws or regulations will not be changed and adversely affect a Participant. The IRS may challenge the deductions claimed by a Partnership or a Participant, or the taxable year in which such deductions are claimed, and no guaranty can be given that the challenge would not be upheld if litigated.

The practical utility of the tax aspects of any investment depends largely on each Participant's particular Federal income tax position in the year in which items of income, gain, loss or deduction are properly taken into account in computing his or her Federal income tax liability. In addition, except as otherwise noted, different tax considerations may apply to foreign persons, corporations, partnerships, trusts and other prospective Participants that are not treated as individual U.S. resident citizens for Federal income tax purposes. Also, the treatment of the tax attributes of the Partnerships may vary among Participants. **Accordingly, each Participant is urged to seek qualified, professional assistance and advice from an independent advisor in the preparation of his or her Federal, state and local tax returns with specific reference to his or her own tax situation.**

1. **Partnership Classification**

For Federal income tax purposes, a partnership is not a taxable entity. Thus, the Partners, rather than the Partnership, receive any tax deductions, as well as the income, from the operations engaged in by the Partnership.

Under the regulations, a business entity with two or more members is classified for Federal tax purposes as either a corporation or a partnership. Treas. Reg. § 301.7701-2(a). The term corporation includes a business entity organized under a State statute which describes the entity as a corporation, body corporate, body politic, joint-stock company or joint-stock association. Each Partnership was formed under the Delaware Revised Uniform Limited Partnership Act which describes each Partnership as a "partnership." Consequently, each Partnership will automatically be classified as a partnership unless it elects to be classified as a corporation. See Treas. Reg. § 301.7701-2(c). In this regard, the Managing General Partner has represented that the Partnerships will not elect to be taxed as corporations. The Managing General Partner has also represented that the Limited Liability Companies will each elect to be taxed as a corporation.

2. **Limitations on Passive Activities**

Under the passive activity rules of Section 469, all income of a taxpayer who is subject to the rules is categorized as:

- income from passive activities such as limited partners' interests in a business;
- active income such as salary, bonuses etc.; or
- portfolio income.

- "Portfolio income" consists of: interest, dividends and royalties; unless earned in the ordinary course of a trade or business, and gain or loss not derived in the ordinary course of a trade or business on the sale of property that generates portfolio, income or is held for investment.

Losses generated by "passive activities" can offset only passive income and cannot be applied against active income or portfolio income.

The passive activity rules apply to individuals, estates, trusts, closely held C corporations, which generally are corporations in which five or fewer individuals own directly or indirectly more than 50 percent of the stock, and personal service corporations other than corporations where the owner-employees together own less than 10 percent of the stock. However, a closely held C corporation, other than a personal service corporation, may use passive losses and credits to offset taxable income of the company figured without regard to passive income or loss or portfolio income.

Passive activities include any trade or business in which the taxpayer does not materially participate on a regular, continuous, and substantial basis. Under each Partnership Agreement, Limited Partners will not have material participation in the Partnership and generally will be subject to the passive activity limitation rules.

Investor General Partners also will not materially participate in the Partnership. However, because the Partnership will own only Working Interests in its wells and Investor General Partners will not have limited liability under the Delaware Revised Uniform Limited Partnership Act until they are converted to Limited Partners, their deductions generally will not be treated as passive deductions before the conversion. *See "Conversion from Investor General Partner to Limited Partner," below.* However, if an Investor General Partner invests in the Partnership through an entity which limits his liability, such as a limited partnership, limited liability company, or S corporation, he will be treated the same as a Limited Partner and generally will be subject to the passive activity limitations. Contractual limitations on the liability of Investor General Partners under the Partnership Agreement such as, insurance, limited indemnification, etc., will not cause Investor General Partners to be subject to the passive activity limitations.

A taxpayer's at-risk amount is reduced by losses allowed under Section 465 even if the losses are suspended by the passive loss limitation. *See "At Risk Limitation For Losses," below.* Similarly, a taxpayer's basis is reduced by deductions even if the deductions are disallowed under the passive loss limitation. *See "Tax Basis of Units," below.*

Suspended losses may be carried forward, but not back, and used to offset future years' passive activity income. A suspended loss is allowed in full when the entire interest is sold to an unrelated third-party in a taxable transaction, and in part on the disposition of substantially all of the passive activity if the suspended loss as well as current gross income and deductions can be allocated to the part disposed of with reasonable certainty. In an installment sale, passive losses become available in the same ratio that gain recognized each year bears to the total gain on the sale.

Any suspended losses remaining at a taxpayer's death are allowed as deductions on his final return, subject to a reduction to the extent the basis of the property in the hands of the transferee exceeds the property's adjusted basis immediately before the decedent's death. If a taxpayer makes a gift of his entire interest in a passive activity, the basis in the property of the person receiving the gift is increased by any suspended losses and no deductions are allowed. If the interest is later sold at a loss, the basis in the property of the person receiving the gift is limited to the fair market value of the property on the date the gift was made.

3. **3.8 Percent Net Investment Income Tax**

Section 1411 levies a 3.8% tax (commonly referred to as the Net Investment Income Tax) on certain individuals, trusts, and estates, but not entities exempt from tax such as Qualified Entity investors. Thus, Section 1411 will not apply to Qualified Entity investors. For individuals, the amount subject to tax is the lesser of an individual's net investment income for the tax year, or the excess of the individual's modified adjusted gross income for the tax year over the threshold amount. I.R.C. § 1411(a)(1). In other words, the tax does not apply unless the individual's modified adjusted gross income exceeds the applicable threshold. Under Section 1411, the threshold amounts are as follows: $250,000 for married individuals filing jointly or as a surviving spouse; $200,000 for individuals filing single or head or household; and $125,000 for married individuals filing separately. I.R.C. § 1411(b). **Because application of Section 1411 to each individual Participant will depend on his specific circumstances, potential individual Non-Qualified Participants are urged to consult their own tax advisors with respect to the application of Section 1411 to them.**

For purposes of Section 1411, net investment income includes, among other income items, dividends, and, generally, income from a trade or business that is a passive activity, as defined by Section 469. I.R.C. § 1411(c). As a result, Partnership income allocated to individual Limited Partners (as passive income) will constitute net investment income for purposes of Section 1411. Likewise, dividends distributed by the LLC to individual members will constitute net investment income for purposes of Section 1411.

Partnership income allocated to individual Investor General Partners, however, may, or may not, constitute net investment income. As discussed above (under "Limitations on Passive Activities"), an Investor General Partner's interest is considered active for purposes of Section 469. As such, Partnership income allocated to an individual Investor General Partner will not be passive income and, therefore, will not be net investment income. Even after the Investor General Partner converts his interest to a Limited Partner interest (discussed below under "Conversion From Investor General Partner to Limited Partner"), his net income from the Partnership will continue the active characterization <u>for purposes of Section 469</u>. I.R.C. § 469(c)(3), (4). However, it is unclear whether that characterization will apply for purposes of

Section 1411; the Final Treasury Regulations under Section 1411 (promulgated on December 2, 2013) failed to resolve this uncertainty. For purposes of Section 1411, the Final Treasury Regulations do, however, generally follow Section 469's characterization of income and gain. See Treas. Reg. § 1.1411-5. As a result, an individual Investor General Partner has a reasonable position that, for purposes of Section 1411, Partnership income allocated to his interest remains characterized as active after it is converted to a Limited Partner interest and, thus, will not be net investment income; however, absent authority confirming that position, it is unclear whether that position is proper. Accordingly, income allocated to an individual Investor General Partner's active interest before conversion to a Limited Partner interest will not constitute net investment income, but income allocated to an individual Investor General Partner after conversion may, or may not, constitute net investment income.

4. **Publicly Traded Partnership Rules**

Net losses of a partner from each publicly traded partnership are suspended and carried forward to be netted against income from that publicly traded partnership only. In addition, net losses from other passive activities may not be used to offset net income from a publicly traded partnership. However, in the opinion of Special Counsel, it is more likely than not that each Partnership will not be characterized as a publicly traded partnership under the Code, so long as no more than 10 percent of the Units are transferred in any taxable year of such Partnership, other than in private transactions described in Treasury Regulation Section 1.7704-l(e).

5. **Conversion from Investor General Partner to Limited Partner**

Investor General Partner Units will be converted to Limited Partner Units after substantially all of the Partnership Wells have been drilled and completed, which the Managing General Partner anticipates will be in the fall of 2015. Thereafter, each Investor General Partner will have limited liability as a Limited Partner under the Delaware Revised Uniform Limited Partnership Act with respect to his interest in the Partnership.

Concurrent with such conversion, the Investor General Partner will become subject to the passive activity limitations. However, because an Investor General Partner will have a non-passive loss in 2014 as a result of the Partnership's deduction for Intangible Drilling Costs, the Code requires that his net income from Partnership Wells following the conversion must continue to be characterized as non-passive income which cannot be offset with passive losses. I.R.C. § 469(c)(3), (4). As discussed above, an Investor General Partner's conversion of his Unit(s) into Limited Partner Unit(s) may, or may not, subject the Investor General Partner to the 3.8% Net Investment Income Tax; however, the conversion should not have any other adverse tax consequences, unless the Investor General Partner's share of any Partnership liabilities is reduced as a result of the conversion. A reduction in a partner's share of liabilities is treated as a constructive distribution of cash to the partner, which reduces the basis of the partner's interest in the partnership and is taxable to the extent it exceeds such basis. *See "Tax Basis of Units," below.*

6. **Taxable Year**

Each Partnership intends to adopt a calendar year taxable year. The taxable year of each Partnership is important to a prospective Participant because such Partnership's deductions, income and other items of tax significance must be taken into account in computing the Participant's taxable income for his taxable year within or with which such Partnership's taxable year ends. The tax year of a partnership generally must be the tax year of one or more of its partners who have an aggregate interest in partnership profits and capital of greater than 50 percent.

7. **2014 Expenditures**

The Managing General Partner anticipates that all of the Partnerships' subscription proceeds from Investor General Partners will be expended in 2014 and that the related income and deductions generated by the Partnerships, including the deduction for Intangible Drilling Costs, will be reflected on the Participants' Federal income tax returns for that period. *See "Capitalization and Source of Funds and Use of Proceeds", "Participation in Costs and Revenues." and "A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015."*

The Managing General Partner anticipates that the drilling of most, if not all, Partnership Wells will begin in 2014 or 2015 and each Partnership will prepay in 2014 all of its costs for those Partnership Wells. The deductibility in 2014 of these advance payments cannot be guaranteed.

The Managing General Partner has also indicated that it is possible that the offering for Genesis Drilling Program VII LP may not commence until after December 31, 2014. If this in fact occurs, one year should be added to each of the dates in the preceding two paragraphs as they apply to Genesis Drilling Program VII LP.

8. **Availability of Certain Deductions**

Ordinary and necessary business expenses, including reasonable compensation for personal services actually rendered, are deductible in the year incurred. Treasury Regulation Section 1.162-7(b)(3) provides that reasonable compensation is only the amount that would ordinarily be paid for like services by like enterprises under like circumstances. The Managing General Partner has represented to Special Counsel that to the best of its knowledge the amounts payable to the Managing General Partner and its Affiliates, including the amounts paid to the Managing General Partner or its Affiliates as general drilling contractor and operator, are the amounts which would ordinarily be paid for similar services in similar transactions. *See "Drilling Contracts."*

The fees paid to the Managing General Partner and its Affiliates will not be currently deductible to the extent it is determined that they are in excess of reasonable compensation, properly characterized as organization or syndication fees or other capital costs such as the acquisition cost of the Leases, or not "ordinary and necessary" business expenses. *See "Partnership Organization and Syndication Fees," below.* In the event of an audit, payments to the Managing General Partner and its Affiliates by the Partnerships will likely be scrutinized by the IRS to a greater extent than payments to an unrelated party.

9. **Intangible Drilling Costs**

Assuming the Partnership drills a well and makes a proper election, then, subject to the passive activity loss rules applicable to the Participants, each Investor General Partner will be entitled to deduct his share of Intangible Drilling Costs, which include items which do not have salvage value, such as labor, fuel, repairs, supplies and hauling necessary to the drilling of a well. (See "Participation in Costs and Revenues" and "Limitations on Passive Activities," above). These deductions are subject to recapture as ordinary income rather than capital gain on the disposition of the property or a Participant's Unit(s). *See "Sale of the Properties" and "Disposition of Units," below.* Also, productive well Intangible Drilling Costs may subject a Participant to an alternative minimum tax in excess of regular tax unless the Participant elects to deduct all or part of these costs ratably over a 60 month period. *See "Minimum Tax, Tax Preferences," below.*

Ninety-two percent of the subscription proceeds received by each Partnership from the Investor General Partners are intended to be used to pay the Intangible Drilling Costs. The IRS could challenge the characterization of a portion of these costs as deductible Intangible Drilling Costs and re-characterize the costs as some other item which may be non-deductible; however, this would have no effect on the allocation and payment of the costs under the Partnership Agreement.

Pursuant to the terms of the Drilling Agreement which each Partnership will enter into with the Managing General Partner, each Partnership will prepay the estimated amounts necessary to drill its wells, including the estimated amount of Intangible Drilling Costs, in 2014. In order for the Investor General Partners to have a 2014 deduction for Intangible Drilling Costs, in addition to the requirements for when drilling must begin (see "A Current Year Deduction for Prepaid Intangible Drilling Costs Requires That Drilling Begins by March 31, 2015"), it must be established that they are liable for such costs and the amount of that liability must be able to be determined with reasonable accuracy. The Partnership and Drilling Agreements establish the fact of liability. The Managing General Partner believes the AFEs that will be attached as exhibits to the Drilling Agreement accurately represent the approximate actual costs that will be incurred and intends to rely on such AFEs in the preparation of the partnership tax returns, including the K-1s for the Investor General Partners. It is possible that the IRS could challenge the position that the amount of Intangible Drilling Costs was able to be determined with reasonable accuracy, which, if successful, could result in the deduction, or a portion of the deduction, for Intangible Drilling Costs being deferred to 2015. *If the offering for Genesis Drilling Program VII LP does not commence until after December 31, 2014, one year should be added to each of the dates in this paragraph as it relates to that Partnership.*

In the case of corporations, other than S corporations, which are "integrated oil companies," the amount allowable as a deduction for Intangible Drilling Costs in any taxable year is reduced by 30 percent. Integrated oil companies are:

- those taxpayers who directly or through a related person engage in the retail sale of natural gas and oil and whose gross receipts for the calendar year from those activities exceed $5 million; or

- those taxpayers and related persons who have refinery production in excess of 75,000 barrels on any day during the taxable year. Therefore, it is unlikely this will apply to any Participant.

Each Participant should consult with his personal tax advisor concerning the tax benefits to him of the Partnership's deduction for Intangible Drilling Costs in light of the Participant's own tax situation.

10. **Drilling Contracts**

Each Partnership will enter into a Drilling Agreement with the Managing General Partner or its Affiliates, as a third party general drilling contractor, to drill and complete wells for the Partnership on a cost plus basis. The price will be proportionately reduced to the extent the Partnership acquires less than 100 percent of the Working Interest in the well.

The Partnerships will attempt to comply with the guidelines established in Federal tax law with respect to prepaid Intangible Drilling Costs. The Drilling Agreement will require the Partnership to prepay in 2014 Intangible Drilling Costs for specified wells the drilling of which will begin in 2014 or 2015. Prepayments should not result in a loss of current deductibility where there is a legitimate business purpose for the required prepayment, the contract is not merely a sham to control the timing of the deduction and there is an enforceable contract of economic substance. The Drilling Agreement will require each Partnership to prepay the Intangible Drilling Costs of the wells in order to lock in one or more drilling rig owners to work on the Partnership's wells and to enable the Operator to commence site preparation for the wells, obtain suitable subcontractors at the then current prices and insure the availability of equipment and materials. Under the Drilling Agreement excess prepaid amounts, if any, will not be refundable to the Partnership but will be applied to Intangible Drilling Costs to be incurred in drilling additional wells. Under Federal tax law, the provision for substitute wells should not result in the prepayments being characterized as refundable deposits.

The likelihood that prepayments will be challenged by the IRS on the grounds that there is no business purpose for the prepayment is increased in the event prepayments are not required with respect to 100 percent of the Working Interest. The Managing General Partner anticipates that less than 100 percent of the Working Interest will be acquired by each Partnership in all of its wells and prepayments will not be required of all holders of the Working Interest. However, in the view of Special Counsel, a legitimate business purpose for the required prepayments may exist under guidelines set forth in Federal tax law, even though prepayment is not required, or actually received, by the drilling contractor with respect to a portion of the Working Interest.

In addition to the foregoing, a current deduction for prepaid Intangible Drilling Costs under a cost plus contract is limited to those costs which are prepaid and which can be estimated with reasonable accuracy and is available only if the drilling of the wells begins before the close of the 90th day after the close of the taxable year. Drilling begins when there is actual penetration of the ground by a drill bit. The Managing General Partner will attempt to cause the drilling of all prepaid Partnership Wells to begin on or before March 31, 2015. However, the drilling of any Partnership Well may be delayed due to circumstances beyond the control of the Partnership or the drilling contractor. Such circumstances include the unavailability of drilling rigs, weather conditions, inability to obtain drilling permits or access right to the drilling site, or title problems. Due to the foregoing factors no guaranty can be given that the drilling of all prepaid Partnership Wells required by the Drilling Agreement to begin on or before March 31, 2015, will actually begin by that date. In that event, deductions claimed in 2014 for prepaid Intangible Drilling Costs could be disallowed and deferred to the 2015 taxable year.

The United States Tax Court in Caltex Oil Venture vs. Commissioner of Internal Revenue Service, 138 T.C. 2 (January 12, 2012) has ruled that under the all events test set forth in Section 461 of the Code and the regulations promulgated thereunder, a cost-plus contract which segregates the services to be rendered into various components may provide an intangible drilling cost deduction with respect to those components for which payment is made during the taxable year, provided that the segregated services may reasonably be expected to be performed within 3½ months of the date of payment. The Managing General Partner will endeavor to identify those services that can reasonably be expected to be completed within 3½ months and pay for them in 2014. However, if a well is not completed within the specified time period, a substantial portion of the Intangible Drilling Costs may be deferred until 2015.

No assurance can be given that on audit the IRS would not disallow the current deductibility of a portion or all of any prepayments of Intangible Drilling Costs under the Partnership's drilling contracts, which would decrease the amount of the Participant's deductions for the current taxable year, or that the challenge would not ultimately be sustained. In the event of disallowance, the deduction would be available in the year the work is actually performed.

11. **Depletion Allowance**

Proceeds from the sale of the Partnerships' natural gas and oil production will constitute ordinary income. A certain portion of that income will not be taxable because of the depletion allowance which permits the deduction from gross income for Federal income tax purposes of either the percentage depletion allowance or the cost depletion allowance, whichever is greater. These deductions are subject to recapture as ordinary income rather than capital gain on the disposition of the property or a Participant's Unit(s). *See "Sale of the Properties" and "Disposition of Units," below.*

Cost depletion for any year is determined by dividing the adjusted tax basis for the property by the total units of natural gas or oil expected to be recoverable from the property and then multiplying the resultant quotient by the number of units actually sold during the year. Cost depletion cannot exceed the adjusted tax basis of the property to which it relates.

Percentage depletion generally is available to taxpayers other than integrated oil companies. Percentage depletion is based on the Participant's share of the Partnership's gross income from its natural gas and oil properties.

The rate of percentage depletion for domestic oil and gas production from marginal properties is 15 percent. This rate fluctuates from year to year depending on the price of oil, but will not be less than 15 percent or more than 25 percent. Under Sections 613A(c)(1) and 613(a) of the Code, percentage depletion may not exceed 100 percent of the net income from each natural gas and oil property before the deduction for depletion, and is limited to 65 percent of the taxpayer's taxable income for a year computed without regard to percentage depletion, net operating loss carry backs and capital loss carry backs.

Availability of percentage depletion must be computed separately for each Participant and not by each Partnership or for Participants as a whole. Potential Participants are urged to consult their own tax advisors with respect to the availability of percentage depletion to them.

12. **Depreciation -Modified Accelerated Cost Recovery System ("MACRS")**

Costs for tangible equipment acquired and/or placed in service by each Partnership for drilling, operating and/or completing the oil and natural gas wells are depreciable under the Modified Accelerated Cost Recovery System ("MACRS"). IRS Revenue Procedure 87-56, Class 13.1 (Drilling of Oil and Gas Wells) lists a recovery period of five years for general depreciation purposes for tangible equipment "used in the drilling of onshore oil and gas wells and the provision of geophysical and other exploration services." IRS Revenue Procedure 87-56, Class 13.2 (Exploration for and Production of Petroleum and Natural Gas Deposits) lists a recovery period of seven years for general depreciation purposes for tangible equipment "used by petroleum and natural gas producers for drilling of wells and production of petroleum and natural gas, including gathering pipelines and related storage facilities, petroleum and natural gas offshore transportation facilities used by producers and others consisting of platforms, compression or pumping equipment, and gathering and transmission lines to the first onshore transshipment facilities." The Limited Partners will provide the funds from their subscription proceeds to purchase the equipment and will receive the depreciation deductions related thereto. Accordingly, it is not anticipated that Investor General Partners will be entitled to depreciation deductions.

13. **Tax Basis of Units**

A Participant's share of the Partnership's loss is generally deductible only to the extent of the adjusted basis of the Participant's Unit(s) at the end of the Partnership's taxable year. The adjusted basis of the Unit(s) will be adjusted, but not below zero, for any gain or loss to the Participant from a disposition by the Partnership of a natural gas or oil property, and will be increased by the Participant's cash subscription payment, share of the Partnership's income, and share, if any, of the Partnership's debt. The adjusted basis of a Participant's Unit(s) will be reduced, but not below zero, by (i) the Participant's share of Partnership losses, (ii) Partnership expenditures which are not deductible in computing the Partnership's taxable income or loss and which are not capital expenditures, (iii) the Participant's deduction for depletion for any Partnership oil and gas property (to the extent it does not exceed the proportionate share of the adjusted basis of the property allocated to such Participant), and (iv) any cash distributions from the Partnership to the Participant.

The reduction in a Participant's share of Partnership liabilities, if any, is considered a cash distribution. Participants will not be personally liable on any Partnership loans, however, Investor General Partners will be liable for other obligations of the Partnership. (See "Risk Factors Special Risks of the Partnership.") Should cash distributions exceed the tax basis of the Participant's Unit(s), taxable gain would result to the extent of the excess. *See "Distributions From the Partnership," below.*

14. **"At Risk" Limitation For Losses**

Subject to the limitations on "passive losses" generated by the Partnership in the case of a Limited Partner, and a Participant's basis in his Unit(s), each Participant may use his share of a Partnership's losses to offset income from other sources. *See "Limitations on Passive Activities" and "Tax Basis of Units," above.* However, a Participant, other than a corporation which is neither an S corporation nor a corporation in which five or fewer individuals own more than 50 percent of the stock, who sustains a loss in connection with the Partnership's natural gas and oil activities may deduct the loss only to the extent of the amount the Participant has "at risk" in the Partnership at the end of a taxable year.

A Participant's initial "at risk" amount generally is the amount of money the Participant pays for his Unit(s). However, borrowed amounts will not be considered "at risk" if the amounts are borrowed from any person who has an interest, other than as a creditor, in the Partnership or from a related person to a person, other than the Participant, having such an interest.

"Loss" means the excess of a Participant's allowable deductions for a taxable year from a Partnership over the amount of income actually received or accrued by the Participant during the year from such Partnership. The amount a Participant has "at risk" may not include the amount of any loss that he is protected against through nonrecourse loans, guarantees, stop-loss agreements, or other similar arrangements.

The amount of any loss that is disallowed will be carried over to the next taxable year and utilized to the extent a Participant is "at risk." Further, a Participant's "at risk" amount in subsequent taxable years with respect to a Partnership will be reduced by that portion of the loss which is allowable as a deduction.

The Participants' cash subscription payments to the Partnerships are usually "at risk". Because income, gains, losses, and distributions of the Partnership affect the amount considered to be "at risk," the extent to which a Participant is "at risk" must be determined annually. Previously allowed losses must be included in gross income if a Participant's "at risk" amount is reduced below zero. The amount included in income under this recapture provision may be deducted in a subsequent taxable year to the extent of any increase in the amount which the Participant has "at risk".

15. **Distributions From the Partnership**

Generally, a cash distribution from the Partnership to a Participant in excess of the adjusted basis of the Participant's Unit(s) immediately before the distribution is treated as gain, as though it arose from the sale or exchange of the Participant's Unit(s) to the extent of such excess. If property is distributed by the Partnership to the Managing General Partner and the Participants, certain basis adjustments may be made by such Partnership, the Managing General Partner and the Participants. No loss will be recognized by the Participants on these distributions. Also, disproportionate distributions of property and liquidating distributions may result in taxable gain or loss. *See "Disposition of Units" and "Termination of the Partnership," below.*

16. **Sale of the Properties**

In 2014, net long-term capital gains of a non-corporate taxpayer on the sale of assets held more than a year are taxed at a maximum rate of 20 percent. The maximum rate applies to the extent a taxpayer's income exceeds the thresholds set for the 39.6 percent tax rate bracket ($406,750 for single filers; $457,600 for joint filers; $432,000 for heads of households; and $228,000 for married individuals filing separately). For taxpayers that fall below that threshold, a maximum rate of 15 percent applies (a 0 percent rate applies for taxpayers with income that falls below the top of the 15 percent tax rate bracket). The annual capital loss limitation for non-corporate taxpayers is the amount of capital gains plus the lesser of $3,000, which is reduced to $1,500 for married persons filing separate returns, or the excess of capital losses over capital gains.

Natural gas and oil properties generally will qualify as a capital asset or as property used in a trade or business and, therefore, if the property was held for the requisite holding period, any gain will constitute capital gain subject to depreciation recapture on equipment and recapture of any Intangible Drilling Costs, depletion deductions and certain losses on previous sales, if any, of the Partnership's assets, which produce ordinary income to the extent of the recapture of gain as ordinary income. Intangible Drilling Costs that are incurred in connection with a natural gas and oil property may be recaptured as ordinary income when the property is disposed of by the Partnership. In addition, the deductions for depletion which reduced the adjusted basis of the property are subject to recapture as ordinary income, and all gain on disposition of tangible personal property is treated as ordinary income to the extent of MACRS deductions claimed by the Partnership.

The amount to be recaptured as ordinary income is the lesser of: (i) the aggregate amount of expenditures that were deducted as Intangible Drilling Costs, development costs or exploration costs with respect to such property and which, but for such deduction, would have been included in the adjusted basis of such property, and depletion deductions that reduced the adjusted basis of the property, or (ii) the excess of the amount realized in a sale, exchange or involuntary conversion (or fair market value if the disposition is not such a transaction), over the adjusted basis of the property.

Other gains and losses on sales of natural gas and oil properties will generally result in ordinary gains or losses.

17. **Disposition of Units**

The sale or exchange, including a repurchase by the Managing General Partner, of all or part of a Participant's Unit(s) held by a Participant for more than 12 months will generally result in a recognition of long-term capital gain or loss. However, previous deductions for depletion, Intangible Drilling Costs, or both may be recaptured as ordinary income rather than capital gain. If the interest is held for 12 months or less, then the gain or loss will generally be short-term gain or loss. Also, a Participant's pro rata share of the Partnership's liabilities, if any, as of the date of the sale or exchange must be included in the amount realized. Therefore, the gain recognized may result in a tax liability greater than the cash proceeds, if any, from such disposition. In addition to gain from a passive activity, a portion of any gain recognized by a Limited Partner on the sale or other disposition of his Unit(s) will be characterized as portfolio income under Section 469 of the Code to the extent the gain is itself attributable to portfolio income (e.g. interest on investment of working capital).

A gift of a Unit may result in Federal and/or State income tax and gift tax liability for the Participant, and interests in different partnerships do not qualify for like-kind exchange treatment. Other dispositions of a Participant's Unit(s), including a repurchase of the Unit(s) by the Managing General Partner, may or may not result in recognition of taxable gain. However, no gain should be recognized by an Investor General Partner whose Unit(s) are converted to Limited Partner Unit(s) so long as there is no change in his share of the Partnership's liabilities or certain Partnership assets as a result of the conversion.

A Participant who sells or exchanges all or part of his Unit(s) is required to notify the Partnership within 30 days or by January 15 of the following year, if earlier. After receiving the notice, the Partnership is required to make a return with the IRS stating the name and address of the transferor and the transferee and such other information as may be required by the IRS.

The Partnership must also provide each person whose name is set forth in the return a written statement showing the information set forth on the return.

If a Participant sells or exchanges all of his Unit(s), the taxable year of the Partnership will close with respect to that Participant, but not the remaining Participants, on the date of sale or exchange, with a proration of Partnership items for the Partnership's taxable year. If a Participant sells less than all of his Unit(s), the Partnership year will not terminate with respect to the selling Participant, but his proportionate share of items of income, gain, loss, and deduction will be determined by taking into account his varying interests in the Partnership during the taxable year. Deductions generally may not be allocated to a person acquiring an interest from a selling Participant for a period before the purchaser's admission to the Partnership.

No disposition of a Unit, including repurchase of the Unit by the Managing General Partner, should be made by any Participant before consultation with his tax advisor.

18. **Minimum Tax –Tax Preferences**

With limited exceptions, all taxpayers are subject to the alternative minimum tax. If the alternative minimum tax exceeds the regular tax, then the excess is payable in addition to the regular tax. The alternative minimum tax is intended to insure that no one with substantial income can avoid tax liability by using deductions and credits. The alternative minimum tax accomplishes this objective by not treating favorably certain items that are treated favorably. For purposes of the regular tax, including the deduction for Intangible Drilling Costs.

The tax preference for Intangible Drilling Costs applies in full to integrated oil companies. See I.R.C. § 57 (a)(2)(A). On the other hand, "independent" oil and gas producers (defined in IRC Section 613A(d) as producers who do not have more than $5,000,000 in retail sales of oil or gas in a year and who do not refine more than 75,000 barrels of crude oil on any given day during the year), such as investors in an oil and gas partnership, are excluded from the preference amount, but only to the extent that the exclusion does not exceed 40 percent of the amount that the Participant's alternative minimum taxable income would have been had the exclusion not applied. I.R.C. § 57 (a)(2)(E). In other words, the repeal of the excess intangible drilling costs tax preference for independent producers may not result in more than a 40 percent reduction in the amount of the taxpayer's alternative minimum taxable income computed as if the excess intangible drilling costs preference had not been repealed.

The Intangible Drilling Costs tax preference is the amount by which the excess Intangible Drilling Costs paid or incurred during the taxable year exceed 65 percent of the Participant's net income from natural gas and oil properties for that taxable year. I.R.C. § 57 (a)(2)(A). Excess Intangible Drilling Costs are the excess of the Participant's regular tax deduction for such costs (including the amortization of the capitalized portion of such costs by integrated oil companies) over the amount that would have been allowable for the taxable year, if such costs had been capitalized and amortized over a period of 120 months from the month in which production from the well commenced or, if the Participant elects, over the period that could be used to determine cost depletion. I.R.C. § 57 (a)(2)(B). The election to use cost depletion to compute straight-line recovery of Intangible Drilling Costs is made separately for each well. Treas. Reg. § 7.57(d)-1(b)(2). Both depletable and depreciable Intangible Drilling Costs for the taxable year are taken into account. Treas. Reg. § 7.57(d)-1(c). The election can be made whether or not the Participant uses cost depletion in computing taxable income. Treas. Reg. § 7.57(d)-1(b)(4). However, the election is made by the Partnership rather than by each Participant. Treas. Reg. § 7.57(d)-1(b)(5). The preference does not apply to Intangible Drilling Costs associated with the drilling of a non-productive well. I.R.C. § 57 (a)(2)(B)(i).

Each Participant may elect to deduct all or part of his share of the Partnership's Intangible Drilling Costs, if any, as a current business expense or amortize the costs ratably over a 60-month period beginning with the month in which costs were paid or incurred (if the Participant makes this election, no Intangible Drilling Costs tax preference amount will result). I.R.C. § 59(e). However, certain amounts paid to contractors must be capitalized if they are either: (i) amounts properly allocable to the cost of depreciable property, or (ii) amounts paid only out of production or proceeds from production if these amounts are depletable income to the Participant. See Treas. Reg. § 1.612-4(a). This election also applies for regular tax purposes and can be revoked only with the IRS's consent. I.R.C. § 59 (e)(4)(B). As a result of making this election, the electing Participant's tax deduction for any Intangible Drilling Costs will be reduced by the amount that is capitalized, and the electing Participant's Intangible Drilling Costs deductions will not be a preference item for alternative minimum tax purposes. See I.R.C. § 59(e)(6).

The likelihood of a Participant incurring, or increasing, any minimum tax liability by virtue of an investment in a Partnership must be determined on an individual basis, and requires consultation by a prospective Participant with his personal tax advisor.

19. **Limitations on Deduction of Investment Interest**

Investment interest expense is deductible by a non-corporate taxpayer only to the extent of net investment income each year, with an indefinite carry-forward of disallowed investment interest. Investment interest generally includes all interest on debt not incurred in a person's active trade or business except consumer interest, qualified residence interest, and passive activity interest under Section 469 of the Code. Accordingly, an Investor General Partner's share of any interest expense incurred by the Partnership before the Investor General Partner Units are converted to Limited Partner Units will be subject to the investment interest limitation. In addition, an Investor General Partner's income and losses, including Intangible Drilling Costs, from the Partnership will be considered investment income and losses for purposes of this limitation. Losses allocable to an Investor General Partner will reduce his net investment income and may affect the deductibility of his investment interest expense, if any.

Net investment income is the excess of investment income over investment expenses. Investment income includes: gross income from interest, dividends, rents, and royalties; portfolio income under the passive activity rules, which includes working capital investment income; and income from a trade or business in which the taxpayer does not materially participate if the activity is not a passive activity. In the case of Investor General Partners, this includes Partnership income before the conversion of Investor General Partner Units of Limited Partner Units. Investment expenses include deductions, other than interest, that are directly connected with the production of net investment income, including actual depreciation or depletion deductions allowable. No item of income or expense subject to the passive activity loss rules of Section 469 of the Code is treated as investment income or investment expense.

20. **Allocations**

Each Partnership Agreement allocates to Participants their share of the Partnership's income, gains, losses, and deductions, including any deduction for Intangible Drilling Costs according to the provisions of the Partnership Agreement. Allocations of certain items are made in ratios that are different than allocations of other items. *See "Participation in Costs and Revenues, Capital Accounts, Elections and Distributions" in the Private Placement Memorandum.* The Participants' Capital Accounts are adjusted to reflect these allocations and the Capital Accounts, as adjusted, will be given effect in distributions made to the Participants on liquidation of the Partnership or any Participant's Units. Generally, the basis of natural gas and oil properties owned by the Partnership for computation of cost depletion and gain or loss on disposition will be allocated and reallocated when necessary in the ratio in which the expenditure giving rise to the tax basis of each property was charged as of the end of the year.

Allocations made in a manner that is disproportionate to the respective interests of the Participants in the Partnership of any item of Partnership income, gain, loss, deduction or credit will not be given effect unless the allocation has "substantial economic effect", as that term is defined in Federal tax law.

There are special rules for the allocation of depletion contained in the regulations promulgated under Section 613A(c)(7)(D) of the Code. Under those regulations a partner's proportionate share in the adjusted basis of partnership property, which is used to determine each partner's share of depletion, may be determined based on his interest in partnership income if the partnership agreement so provides, unless there exists a written provision or an understanding with other partners that the share of any partnership income is to reduce for any purpose other than to reflect the admission of a new partner.

The Partnerships intend to allocate depletion among the Participants in proportion to income. The Partnership Agreements do not provide for the reduction of any Participant's share of Partnership income except in connection with the awarding of a Partnership interest to an affiliate of the Managing General Partner upon Payout. This reduction in interest, as the result of an admission of a new Partner, meets the requirements of the Section 613A(c)(7)(D) regulations and, accordingly, the allocation of depletion based upon income should be respected.

Special provisions apply to deductions related to nonrecourse debt. For example, if the Managing General Partner or an Affiliate makes a nonrecourse loan to the Partnership ("partner nonrecourse liability"), Partnership losses, deductions, or Section 705(a)(2)(B) expenditures attributable to the loan must be allocated to the Managing General Partner, and if there is a net decrease in Partner nonrecourse liability minimum gain with respect to the loan, the Managing General Partner must allocate income and gain equal to the net decrease.

In the event of a sale or transfer of a Participant's Unit or the admission of an additional Participant, Partnership income, gain, loss and deductions generally will be allocated among the Participants on a daily basis according to their varying interests in such Partnership during the taxable year. In addition, in the discretion of the Managing General Partner, each Partnership's property may be revalued on the admission of additional Participants, or if certain distributions are made to the Participants, to reflect unrealized income, gain, loss or deduction inherent in a Partnership's property for purposes of adjusting the Participants' Capital Accounts.

It should also be noted that each Participant's share of Partnership items of income gain, loss and deduction must be taken into account whether or not there is any distributable cash. A Participant's share of Partnership revenues applied to the repayment of loans or the reserve for plugging wells, for example, will be included in his gross income in a manner analogous to an actual distribution of the income to him. Thus, a Participant may have tax liability on taxable income from the Partnership for a particular year in excess of any cash distributions from such Partnership to him with respect to that year. To the extent the Partnerships have cash available for distribution, however, it is the Managing General Partner's policy that Partnership distributions will not be less than the Managing General Partner's estimate of the Participants' income tax liability with respect to Partnership income.

If any allocation under the Partnership Agreement is not recognized for Federal income tax purposes, each Participant's share of the items subject to the allocation generally will be determined in accordance with his interest in such Partnership, determined by considering relevant facts and circumstances. To the extent deductions allocated by a Partnership Agreement exceed deductions which would be allowed under a reallocation by the IRS, Participants may incur a greater tax burden. However, assuming the effect of the special allocations set forth in a Partnership Agreement is substantial in light of a Participant's tax attributes that are unrelated to such Partnership, in the opinion of Special Counsel it is more likely than not that the allocations will have "substantial economic effect" and will govern each Participant's share of those items to the extent the allocations do not cause or increase deficit balances in the Participants' Capital Accounts.

21. **Partnership Borrowings**

The use of Partnership revenues taxable to Participants to repay Partnership borrowings could create income tax liability for the Participants in excess of cash distributions to them because repayments of principal are not deductible for Federal income tax purposes. In addition, interest on the loans will not be deductible unless the loans are bona fide loans that will not be treated as Capital Contributions. Whether a "loan" to the Partnership represents in substance, debt or equity is a question of fact to be determined from all the surrounding facts and circumstances.

22. **Partnership Organization and Syndication Fees**

Eight percent of the subscription proceeds received by each Partnership from the Participants will be used to pay expenses connected with the issuance and sale of Units, such as promotional expenses, the Dealer Manager fee, Sales Commissions, due diligence fees, marketing expense fee, and other selling expenses, professional fees and printing costs and the balance of such costs (approximately four percent) of the amount of the subscription proceeds) will be paid by the Managing General Partner as part of the Partnership's Organization and Offering Costs and any related deductions, which the Managing General Partner does not anticipate will be material in amount, will be allocated proportionately to the Participants and the Managing General Partner.

23. **Tax Elections**

The Partnership may elect to adjust the basis of Partnership property on the transfer of a Unit by sale or exchange or on the death of a Participant, and on the distribution of property by the Partnership to a Participant (the Section 754 election). The general effect of such an election is that transferees of the Units are treated, for purposes of depreciation and gain, as though they had acquired a direct interest in the Partnership assets and the Partnership is treated for these purposes, on certain distributions to Participants, as though it had newly acquired an interest in the Partnership assets and therefore acquired a new cost basis for the assets. Any election, once made, may not be revoked without the consent of the IRS. The Partnership may also make various elections for Federal tax reporting purposes that could result in various items of income, gain, loss and deduction being treated differently for tax purposes than for accounting purposes.

24. **Disallowance of Deductions Under Section 183 of the Code**

Under Section 183 of the Code, a Participant's ability to deduct his share of the Partnership's losses on his Federal income tax return could be lost if the Partnership lacks the appropriate profit motive as determined from an examination of all facts and circumstances at the time. Section 183 creates a presumption that an activity is engaged in for profit, if, in any three of five consecutive taxable years, the gross income derived from the activity exceeds the deductions attributable to the activity. Thus, if the Partnership fails to show a profit in at least three out of five consecutive years, this presumption will not be available and the possibility that the IRS could successfully challenge the Partnership deductions claimed by a Participant would be substantially increased.

The fact that the possibility of ultimately obtaining profits is uncertain, standing alone, does not appear to be sufficient grounds for the denial of losses under Section 183. Based on the Managing General Partner's representation that the Partnerships will be conducted as described in the Private Placement Memorandum, in the opinion of Special Counsel it is more likely than not that the Partnerships will possess the requisite profit motive.

25. **Termination of the Partnership**

Under Section 708(b) of the Code, the Partnership will be considered as terminated for Federal income tax purposes if within a 12 month period there is a sale or exchange of 50 percent or more of the total interest in Partnership capital and profits. The closing of the Partnership year may result in more than 12 months' income or loss of the Partnership being allocated to certain Participants for the year of termination, for example, in the case of Participants using fiscal years other than the calendar year. Under Section 731 of the Code, a Participant will realize taxable gain on a termination of a Partnership to the extent that money regarded as distributed to him exceeds the adjusted basis of his Unit(s). The conversion of Investor General Partner Units to Limited Partner Units, however, will not terminate the Partnership.

26. **Lack of Filing as a Reportable Transaction (Tax Shelter)**

Section 6111 of the Code generally requires a material advisor of a "reportable transaction" (tax shelter) to file a statement with the Secretary of the Treasury. For purposes of these provisions, a "reportable transaction" is generally defined to include transactions which have a potential for tax avoidance or tax evasion. Types of reportable transactions include: (1) listed transactions, (2) confidential transactions for which the subscribers have paid a minimum fee ($250,000 for corporate taxpayers and $50,000 for non-corporate taxpayers) to advisors for a tax strategy or other advice, (3) transactions with contractual protection, (4) loss transactions, and (5) transactions of interest. Treas. Reg. § 1.6011-4.

The Managing General Partner does not believe that the Partnerships will be "reportable transactions" because: (1) the purpose of each Partnership is to locate, produce, and market natural gas and oil on an economic basis, (2) each Partnership is not a listed transaction (as identified by the IRS), (3) each Partnership is not a confidential transaction for which a "minimum fee" has been paid, (4) Participants' fees will not be refunded if the tax consequences are other than as set forth herein, (5) the losses, under Section 165 of the Code (loss deductions), as clarified by Treasury Regulation Section 1.6011-4(b)(5)(i)(C) and Revenue Procedure 2004-66, generated by each Partnership are not anticipated to exceed $2,000,000 in any single year or $4,000,000 in a combination of years, and (6) the Partnerships are not a "transaction of interest" (as identified by the IRS). Accordingly, the Managing General Partner does not intend to file the formation of Partnerships with the IRS as reportable transactions.

If it is subsequently determined by the IRS or the courts that the Partnerships were required to be disclosed to the IRS as reportable transactions, the Managing General Partner would be subject to certain penalties, including a penalty of $50,000 for failure to disclose (or $200,000 in the case of a listed transaction). However, based on the representations of the Managing General Partner, we are of the opinion that each Partnership, more likely than not, is not required to file with the IRS as a reportable transaction.

27. **Investor Lists**

Section 6112 of the Code requires that any person who is a "material advisor" with respect to a reportable transaction must maintain a list identifying each person with respect to whom the advisor acted as a material advisor and setting forth other required information. For the reasons described above, the Managing General Partner does not believe the Partnerships are subject to the requirements of Section 6112. If this determination is wrong, Section 6708 of the Code provides for a penalty of $10,000 for each day after the due date that such list is not furnished to the IRS, unless the failure is due to reasonable cause.

28. **Tax Returns and Audits**

In General. The tax treatment of all partnership items is generally determined at the partnership, rather than the partner level, and the partners are generally required to treat partnership items on their individual returns in a manner that is consistent with the treatment of the partnership items on the partnership return. I.R.C. §§ 6221 and 6222. Regulations define "partnership items" for this purpose as including distributive share items that must be allocated among the partners, such as partnership liabilities, data pertaining to the computation of the depletion allowance, and guaranteed payments.

Generally, the IRS must conduct an administrative determination as to partnership items at the partnership level before conducting deficiency proceedings against a partner, and the partners must file a request for an administrative determination before filing suit for any credit or refund. The period for assessing tax against a Participant attributable to a Partnership item may be extended as to all Participants by agreement between the IRS and the Managing General Partner, which will serve as each Partnership's representative ("Tax Matters Partner") in all administrative and judicial proceedings conducted at the Partnership level. The Tax Matters Partner generally may enter into a settlement on behalf of, and binding on, Participants owning less than a 1 percent profits interest if there are more than 100 Participants in a Partnership. In addition, a partnership with at least 100 partners may elect to be governed under simplified tax reporting and audit rules as an "electing large partnership." These rules also facilitate the matching of partnership items with individual partner tax returns by the IRS. The Managing General Partner does not anticipate that the Partnerships will make this election. By executing the Partnership Agreement, each Participant agrees that he will not form or exercise any right as a member of a notice group and will not file a statement notifying the IRS that the Tax Matters Partner does not have binding settlement authority.

In the event of an audit of the return of the Partnership, the Tax Matters Partner, pursuant to advice of counsel, will use its best efforts to take all actions necessary, in its discretion, to preserve the rights of the Participants. All expenses of any proceedings undertaken by the Tax Matters Partner, which might be substantial, will be paid for by such Partnership. The Tax Matters Partner is not obligated to contest adjustments made by the IRS.

29. **Tax Returns**

A Participant's income tax returns are the responsibility of the Participant. Each Partnership will provide each Participant with the tax information applicable to his investment in such Partnership necessary to prepare such returns.

30. **IRS Anti-Abuse Rule**

Under Treasury Regulation Section 1.701-2, if a principal purpose of a partnership is to reduce substantially the partners' Federal income tax liability in a manner that is inconsistent with the intent of the partnership rules of the Code, based on all the facts and circumstances, the IRS is authorized to remedy the abuse. Based on the Managing General Partner's representation that the Partnerships will be conducted as described in the Private Placement Memorandum, in the opinion of Special Counsel it is more likely than not that the Partnerships will not be subject to the anti-abuse rule set forth in Treasury Regulation Section 1.701-2.

31. **State and Local Taxes**

Each Partnership will operate in states and localities that impose a tax on its assets or its income, or on each Participant. Deductions which are available to Participants for Federal income tax purposes may not be available for state or local income tax purposes. A Participant's share of the net income or net loss of the Partnership generally must be included in determining his reportable income for state or local tax purposes in the jurisdiction in which he or she is a resident. To the extent that a non-resident Participant pays tax to a state because of Partnership operations within that state, he may be entitled to a deduction or credit against tax owed to his state of residence with respect to the same income. To the extent that the Partnerships operate in certain jurisdictions, state or local estate or inheritance taxes may be payable on the death of a Participant in addition to taxes imposed by his own domicile.

Prospective Participants should consult with their own tax advisors concerning the possible effect of various state and local taxes on their personal tax situations.

32. **Severance and Ad Valorem (Real Estate) Taxes**

The Partnerships may incur various ad valorem or severance taxes imposed by state or local taxing authorities.

33. **Social Security Benefits and Self-Employment Tax**

A Limited Partner's share of income or loss from the Partnership is excluded from the definition of "net earnings from self-employment." No increased benefits under the Social Security Act will be earned by Limited Partners and if any Limited Partners are currently receiving Social Security benefits, their shares of Partnership taxable income will not be taken into account in determining any reduction in benefits because of "excess earnings."

An Investor General Partner's share of income or loss from the Partnership will constitute "net earnings from self-employment" for these purposes. I.R.C. § 1402(a). For 2014 the ceiling for social security tax of 12.4 percent is $117,000 and there is no ceiling for Medicare tax of 2.9 percent. Self-employed individuals can deduct one half of their self-employment tax.

34. **Foreign Partners**

The Partnerships will be required to withhold and pay to the IRS tax at the highest rate under the Code applicable to Partnership income allocable to foreign Participants, even if no cash distributions are made to them. A purchaser of a foreign Participant's Unit(s) may be required to withhold a portion of the purchase price and the Managing General Partner may be required to withhold with respect to taxable distributions of real property to a foreign Participant. These withholding requirements described above do not obviate United States tax return filing requirements for foreign Participants. In the event of over-withholding, a foreign Participant must file a United States tax return to obtain a refund.

35. **Estate and Gift Taxation**

For the 2014 tax year:

- The annual gift tax exclusion is $14,000 per done.
- The maximum Federal estate tax rate is 40 percent.
- The Federal estate tax exemption amount is $5.34 million.

There is no Federal tax on lifetime or testamentary transfers of property between spouses.

We consent to the use of this letter as an exhibit to the Private Placement Memorandum, and all amendments to the Private Placement Memorandum, and to all references to this firm in the Private Placement Memorandum.

Very truly yours,

HODGSON RUSS LLP

By:
Richard F. Campbell

RFC/wst

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