

INVESTOR “DUE DILIGENCE” CHECKLIST

The Company: Visit the website of the company with whom you are considering investing. Learn as much as you can about the company. Speak with management and the CEO personally, if necessary. Make sure they are eager to answer your questions and address your concerns. Make sure that they provide all information to you in writing. Make sure they provide you with disclaimers, cautionary statements, etc. regarding the risk of oil and natural gas development, and that they require you to be an Accredited investor as defined by the SEC. Confirm as to whether or not they are a registered or bonded operator with the state’s oil and gas division? This is a very important first step.

The Investment: Understand the investment vehicle being used and the type of entity involved. Consider whether the investment is right for you? Are you a sophisticated Accredited investor as defined by the SEC? Are you experienced at making business decisions? Are you comfortable with the degree of risk involved? Can you afford the loss of your risk capital / entire investment? Can you take advantage of any tax benefits? Consult your CPA and/or legal counsel if you need more specific advice on any investment. Is the investment vehicle structured in such a way that would allow you to maximize your tax benefit?

Field Operations: Visit the drilling site, if possible. Not only is it exciting and educational to experience the "oil field" first hand, but you can see how the Company operates with landowners, service companies, etc. Does the Company serve as the well operator of record for your project or do they only syndicate the project’s operations? It is very important that investors can work directly with the operator of record for their project wells. Does the Company provide a summary of their operational experience in the area accompanied by production information to support the Company’s goals, production targets and business objectives? What is the name and address of the Company that purchases the oil and/or gas? Can the Company provide you with well information such as third-party post-drilling reports, well log report, drilling permits, well plat/survey, proposed structure maps and other information prepared by third party, certified and registered petroleum geologist(s)?

Private Placement Offering: The Company should make offerings only through a private placement memorandum or prospectus that provides material disclosures to the participants. Does the Company provide financial information? Does the Company provide its investors with a turnkey arrangement to protect against cost overruns? Does the Company provide investors with a turnkey AFE (Authority for Expenditure)? Does the Company disclose the fact that they earn a profit through the turnkey arrangement? Does the Company operate under an “Accredited Investor Only” SEC Regulation D, Rule 506 exemption? Does the Company make the necessary state and federal form D filings required by the exemption?

Third-party Reports: Does the Company provide certified lease title for drilling projects? Does the Company provide extensive geoscience and an operations plan to explore, find and develop oil and gas reserves? Does the Company provide you with certificate of insurance confirming sufficient coverage in the areas of workers compensation, general liability, etc.?

Make sure you ask questions regarding these important areas. It is also in the investor’s best interest to visit the Company’s office and field operations.

“Important Considerations” - Before Making an Investment

- 1) Are you an SEC defined Accredited Investor?
- 2) Are you sophisticated in making business and investment decisions?
- 3) Do you have discretionary funds set aside to make a more speculative investment?
- 4) Are you the sole decision maker?
- 5) Can you afford the potential loss of your entire investment?
- 6) Do you pay both state and federal income taxes?
- 7) Do you need tax deductions, in current and/or future years, to off-set higher income?
- 8) How does the 100% IDC tax deduction affect you?
- 9) Do you have sufficient liquidity to make a long-term investment?
- 10) Are you prepared to visit the operator in the field and at their corporate office?
- 11) Do you understand that the original plan for the drilling program may change and that the well program, engineering, timelines, costs and plans may change as progress is made for the drilling program?
- 12) Have you reviewed the entire private placement memorandum offering including all of the risks associated with oil and gas investments?
- 13) Does the Managing General Partner / Well Operator provide you with production information, geology and geoscience that support the partnership's economic objectives?
- 14) Does the Managing General Partner / Well Operator provide you with general liability, pollution and well control insurance coverage?
- 15) Does the Managing General Partner / Well Operator provide you with a turnkey drilling arrangement?