INVESTOR GUIDE – FAQ's

By Bryan Energy Mgmt., LLC

Q. Why natural gas and why now?

A. Natural gas is a vital component of the global energy supply. It is one of the cleanest, safest, and most useful of all energy sources. As the primary resource used for electrical generation, natural gas has grown in popularity because it burns cleaner than oil and coal and produces less greenhouse gases.

Natural gas is now a major international commodity. World demand continues to grow as countries search for clean, reliable sources of energy. Additionally, a construction boom in refineries and power and petrochemical plants in the developing world is expected to significantly increase the demand for natural gas.

Q. What is the impact – both economic and environmental - of natural gas drilling?

A: America, as does the rest of the world, runs on energy. By developing domestic reserves of natural gas, we can simultaneously solve three serious problems facing our great nation:

1. ***Decrease greenhouse gas emissions:*** Clean-burning natural gas emits 30% less carbon dioxide than oil and 50% less than coal. These are important statistics if we are to understand how to reduce U.S. greenhouse gas emissions, most of which are made up of carbon dioxide. To view a chart detailing the environmental impact of oil, coal and natural gas, visit www.naturalgas.org.
2. ***Increase our energy independence:*** By developing our domestic reserves, we reduce our reliance on foreign oil and help secure our energy future.
3. ***Reduce unemployment:*** Natural gas development supports nearly 3 million jobs in 49 states. A recent Penn State study, *"An Emerging Giant: Prospects and Economic Impacts of Developing the Marcellus Shale Natural Gas Play",* found that developing Pennsylvania's Marcellus Shale could generate **$13.5 billion** in value added and **175,000 future jobs**. New York, West Virginia, Texas, Louisiana, Arkansas and Oklahoma also have significant potential to develop shale gas and benefit economically.

Q. What is the Marcellus Shale and why all the excitement?

A. Named after the city of Marcellus New York, the shale is a Devonian age (390 million years old) part of a geological structure known as the Hamilton group. It formed when Devonian age seas covered much of what is now known as North America. The **Marcellus Shale Formation** is *the largest source of domestic natural gas yet discovered in the United States.* The shale – buried as deep as 9,000 feet - is found beneath about 60 percent of Pennsylvania's total land mass. Geologists employ a variety of technologies and techniques to locate and extract the natural gas.

The Marcellus Shale has generated a considerable amount of excitement for one reason –***huge Natural Gas reserves***. Researchers estimate that the formation holds 500 trillion cubic feet of natural gas in its shale deposits deep beneath the earth's surface. While the geological formation known as the Marcellus Shale had been known about for decades, there were no tools to extract the gas. New technologies such as vertical drilling, followed by horizontal drilling, combined with fracturing techniques, make it possible to now recover the gas reserves.

INVESTOR GUIDE—FAQ's, Continued

Q. How are natural gas prices determined?

A. Because of its volatility, the price of natural gas cannot be predicted. Supply and demand factors influence pricing, making it beyond the control of Bryan Management, LLC and its partnerships.

Two different elements determine the price that Bryan Management, LLC receives for its gas. The first is based on New York Mercantile Exchange ('NYMEX') futures contracts. The NYMEX is the world's largest physical commodity futures exchange and trading forum for energy and precious metals. The NYMEX futures contract is the standard source from which all gas pricing originates. The second element is basis, which is the spot market price at a location minus the NYMEX futures price for gas at that location. The basis differential may be either positive or negative.

Q. Who chooses drilling locations?

A. The wells for the partnerships are selected by the Managing General Partner and the resident petroleum geologist of Bryan Management, LLC. Important considerations include past production of nearby (offset) wells, good pipeline access, and potential returns.

Q. What does it mean to fracture or frac a well?

A. *Hydraulic Fracturing* is used to free natural gas trapped in shale rock formations. The high pressure fracing technique injects a liquid mix of 99 percent water and sand into the rock. Fractures are created within the rock, forming pathways that allow the natural gas to flow to the wellhead. More than 90 percent of the natural gas wells in the United States have used hydraulic fracturing to boost production.

Q. What are the anticipated tax benefits of an investment in a Bryan Energy Limited Partnership?

A. Anticipated tax benefits may include:
- ✓ Intangible Drilling Cost (IDCs) deduction of 80-90% of the investment against active income if subscribed to as an investor general partner, passive income if subscribed to as a limited partner in the year in which the investment is made.
- ✓ Depreciation of tangible drilling costs equal to 10-20% of the investment over a seven year cost recovery period beginning when the equipment is put into service.
- ✓ Under current percentage depletion, there is a deduction of 15% of gross production income. Depletion is a true tax shelter, similar to an additional tax write-off, eliminating taxes on some of the oil & gas gross production income generated.

Q. When will I receive interest on my subscription payment?

A. Interest accrues on your subscription proceeds from the time of deposit in the escrow account until paid to the managing general partner for use in the partnership's drilling activities. You will be paid interest prior to the partnership's first cash distributions from operations.

Q. When do distributions from a partnership start?

A. Distributions begin approximately six months after the final closing of the partnership offering.

Q. What is the taxation of distributions?

A. The proceeds from the sale of a partnership's natural gas and oil production are considered ordinary income under the tax code. A portion of this income will not be taxable due to the depletion allowance and the depreciation deduction.