August 10, 2016

To the Partners of the
BP Capital Energy Fund, LP &
BP Capital Energy Fund II, LP

Re: June and July 2016 recap

The past two months witnessed high levels of volatility as continually evolving fundamentals clashed with psychological echo effects from last year's price action. We believe part of the $12 (or ~24%) pullback in prices from early June highs has been misinterpretation of fundamental adjustment in the midst of overall market tightening. In addition, high levels of market net length coupled with timing comparisons to last year, have led to a reduction in said length and increases in shorts.

Over the latter part of 2015 and into the first several months of 2016, global refinery margins were quite strong, sending an economic signal to maximize refinery output with the focus on lighter end products (gasoline). This was in response to continued high levels of gasoline demand growth, not only in the U.S., but worldwide as a result of improving economic activity and low absolute prices and was also exacerbated by an abnormally mild 2015/16 winter which further prompted a shift in yields away from unwanted heating oil/diesel. There was a belief by many in the marketplace, gasoline inventories would exhibit the same tightness witnessed last driving season. What has in fact happened, is a wall of gasoline supply arrived right at a time of peak summer usage; mitigating expected gasoline draws and leading to somewhat bloated gasoline inventories. Casual market observers and journalists have pointed to this as evidence the market remains oversupplied and reason for continued low (or lower) prices. We strongly disagree, but acknowledge the optics are poor unless more completely analyzed.

It is our belief, petroleum markets continue to improve/tighten. Current product excess is a direct result of high refinery utilization (ie crude burn) and evidence is ample of higher cost crude storage having drawn down over the past several months to meet refinery demand. Today's refinery run cuts due to low margins are already leading to less product supply, product draws, and improving margins. We believe this will continue and ultimately begin the next phase of further crude draws in order to meet product demand and replenish drawdowns in those stocks. In other words, the tightening in petroleum markets will take place over a continuing alternating cycle of product demand related crude runs, which leads to high demand for crude feedstock, in turn weighing on refinery margins, leading to run cuts, product draws and improving margins starting the cycle over again. This is the natural process of cleaning up a previously oversupplied market and we push back strongly on the notion there is anything abnormal at present.

We remain focused on the medium- and long-term belief that the market is currently in deficit and in the early stages of what will be larger drawdown in global inventories. This will take place in fits and starts as witnessed during the second quarter with high levels of unplanned outages resulting in

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price and positioning getting ahead of themselves. Today's price weakness will shortly give way to further tightness as we rapidly approach a fourth quarter seasonal ramp in demand which will again witness much tighter fundamentals and required draws on inventories. In addition, OPEC continues to show signs of stress with Saudi officials indicating their desire, and policy related goals, will be to achieve said higher prices (this is again at odds with casual observations and we would be more than happy to discuss further with those interested).

On a separate note, U.S. Natural Gas fundamentals continue their slow but steady improvement as the massive year over year surplus in inventories has been substantially removed. We believe this process will continue and remain constructive future prospects for gas markets this winter and into next summer.

West Texas Intermediate crude began June at $49.10 and moved higher to peak early in the month at $51.67. WTI has subsequently traded as low as $39.19 earlier this month before bouncing to current levels around $42. Brent has performed similarly and is currently trading around $44. U.S. Natural Gas entered June at $2.288 and moved sharply higher to peak at $2.998 in early July before retreating to current levels around $2.56.

If you have any questions, give David, Brian or me a call.

Sincerely,

Boone Pickens

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