bp capital

January 8, 2013

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

Re: December 2012 results

December exhibited market action similar to 2012 as a whole. Crude markets traded largely in a sideways pattern and Natural Gas continued to trade in a volatile fashion heavily influenced by increasingly balanced supply and demand considerations. Much like last month, the Fund's oil positions performed relatively well, offset by losses in natural gas.

Market commentary and price action was dominated almost exclusively by speculation around the outcome of U.S. fiscal cliff negotiations. Most risk-assets were volatile inside recent ranges with markets trying to handicap each incremental headline or comment coming out of the debate. Natural gas, on the other hand, was negatively affected by abnormally warm December weather. While most weather forecasters expected a normal winter relative to 10-year averages, the significantly warm pattern in December requires much cooler weather (or lower prices) going forward in order to balance the market.

2012, as a whole, proved to be a relatively difficult year for the commodity space, registering the first down performance since 2008. Energy futures in general, were relatively flat on the year. On a continuation basis, Brent crude finished the year up just shy of $4, or +3.5%. West Texas Intermediate finished the year down $7, or -7%. Natural gas was up $0.36, or +12%, but was much lower on a contract basis.

As we enter 2013, we expect the crude markets to perform much the same as the last two years with a few notable exceptions. We expect the discount West Texas Intermediate (WTI) has maintained to Brent and other seaborne crudes will began to tighten due to additional pipe and takeaway capacity being brought online in the mid-continent. We also believe while North American crude production will continue to accelerate, any downside associated with additional production will be mitigated by higher cost of development, and lagging global supply issues related to ageing fields and persistent geopolitical tensions. These circumstances should present attractive trading opportunities while waiting for broader trends to develop. In the natural gas market, we are constructive in the medium and long-term. As production begins to moderate and demand continues to accelerate led by electric generation, industrial and manufacturing industries, there will be opportunities for plays with significant upside in the not too distant future.

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The Fund was down in December, losing 0.53% net of fees and expenses. The Fund was up 6.61% for the year and the net asset value at December 31 was approximately $103 million.

If you have any questions, give me a call.

Sincerely,

Boone

Boone Pickens