

Greetings,

FUND – I
OCTOBER'S SUMMARY & HIGHLIGHTS

- **Crawford** (#80502) = **Bella**
= **Hyde**
= **Cooley**
= **John Baker** } **Flowing!**
- **Raspberry** (#70201) = **Pickens #3** = **PRODUCING** = Decent
= **Johnson #1** = Spud Now
- **North East Oplin** (#61001)
 - **Straley #1** = New recompletion attempt up hole = soon
- **Waterfloods** = Another downtick
- **Portfolio of Producers** = Increased by **1** to **65** wells
- **Alaska** = Cook Inlet Situation = Very messy
- **Prices** = Oil = Declining
= NG = Increased, but hitting a ceiling?
- **Hedges** = Solid
- **Cash payout** = **\$44/Unit**
= **\$470/Unit YTD**
= \$22,370/Unit Cumulative (Class A Units) = **2.1x**
= Class B Units = **52%** Return on Contributed Capital
- **Debt Amortization** = **\$39M (\$43/Unit)** (this month)
= YTD = **\$205M**
= **\$398/Class A Unit**
= **\$69/Class B Unit** (excludes \$975 per Unit amortized by Fund - III prior to merger)
- **Preferred Units = Completed @ 112 Units (\$268,800)**
- **First Keystone's Preferred Partners** = New arrangements in place

FIRST KEYSTONE ENERGY FUND – VI, L.P.

You should have received the **Offering Memorandum** by now. **Closing** will be in late **January** (tentative). *Let me know if you would like to confer about it.*

A number of Partners have asked if the new Fund will be concentrating on oil and shunning NG. The answer is “yes”, but not exactly. First, *drilling* for NG right now is not a sound proposition from a financial standpoint. So we will not do that!

However, we may also pursue an opportunistic *contrarian* strategy. First Keystone’s view is that natural gas will continue to expand as a crucial component of the overall US energy consumption picture. Right now, there is a massive imbalance of supply versus demand. Therefore, natural gas investment returns are substandard right now, and may continue to be until public policies on this energy source are re-tuned.

Our new Fund – VI, however, will seek out a special class of deals where little or no capital has to be deployed into *drilling* until the pricing environment turns around. Our investment template is simply to buy solid low-maintenance *producing* wells with abundant contiguous *undeveloped* reserves. Our pricing is to pay primarily for the *producing* wells, and to step into the undeveloped acreage at rock-bottom pricing assumptions.

This strategy is obviously appropriate for “patient money” since the NG turnaround could easily take five years. Executing on the strategy will be laborious since many possible deals will have to be examined while searching for the few that fit these tight criteria.

Preferred Units

The Offering is closed. We have placed 112 Units, which generated proceeds of \$268,800. The level of **dilution** of total Units is **12%**. Your fully executed Subscription Agreement signifying your ownership in these Units will be mailed out to you within a week.

Merger of Fund – III into Fund - I

The fully executed Subscription Agreements to former Fund – III Partners will be mailed out within one week. These executed documents signify your ownership in the Fund – I Class B Units.

New Deal Making & Alaska

We were recently brought up to speed on the situation in **Alaska** for the **Kitchen Lights Prospect** (#60201). We have learned (confidentially) that, even though drilling has been proceeding, the interrelationships of the various owners have become increasingly murky and strained. We have also learned some disturbing things about the conduct of the operator whose new name is **Furie Operating** (evidently, a successor to **Cornucopia**, although many

of the same principals are still in the picture). Our source also indicates that there has been additional geophysical analysis that has been conducted, and that the apparent results are excellent. This source indicates that there could be trouble ahead. We are digging deeper into this convoluted situation.

The Fund received additional cash due to that sale of black shale rights at **Womack** (#80203-03 – Fisher County, TX) in the amount of \$7/Unit. (These proceeds were received in November.)

Summary of Upcoming Drilling Activities

The **Johnson #1 (Rasberry Prospect - #70201-07)** will be drilled very shortly. **Crawford** (#80502) is quiet. (A break which is much welcomed!)

Current & Past Month's Drilling and Operational Activities

The initial volumes at the **Pickens #3 (Rasberry Prospect - #70201-06)** appear to be at best adequate – volumes at the well have not yet found a plateau. At under 30 BOPD (right now), it is way below the potential that ought to be realized from a *direct offset* to the prolific **Pickens #1**. We will need to monitor its decline rate.

Over at **North East Oplin** (#61001), **Straley #1** (#61001-03) may have gained another reprieve from being executed. (In other words, Chisholm is going to make one last attempt to make this well work by attempting a completion way up the hole at the Hope Sands.)

At **Crawford** (#80502), finally, **Cooley**, **John Baker**, **Hyde**, and **Bella** all kicked over and are now producing oil! Their levels have been about average for this field (roughly 50 to 80 BOPD), with a few better-than-average days here and there. Bella, however, which has been plagued by mechanical issues, continues to have problems. Thus, its volumes are very erratic. Overall, the field has turned the corner. But, that was a long wait!

The problems at **Mad Island (Matagorda Bay Prospect - #80601)** are being resolved by painstaking micromanagement of a delicate situation by Bill Rutter, Jr. The completion process ought to be reactivated in January.

Production Activities

Fund – I's "**Portfolio of Producers**" increased by a net of **1** to **65** wells as of October 31^s, due to the additions of the **Hyde #1-36** and the **John Baker #1-35** which came onstream by the end of October, and the deletion of the **Herber** (which was sold). In the next month, **Bella**, **Cooley**, and **Pickens #3** will join the ranks.

PORTFOLIO OF PRODUCERS

<u>Well</u>	<u>Code #</u>	<u>Prospect/Field</u>	<u>Location</u>	<u>Operator</u>	<u>NWI</u>
Nunn #1	50901	Apache Southeast Prospect	Caddo County, OK	GLB	3.45%
Orf #1 ⁴	80201-01	Apache Southeast Prospect	Caddo County, OK	GLB	5.9%
Leon #1 ⁴	80201-02	Apache Southeast Prospect	Caddo County, OK	GLB	5.33%
Anderson #1	51001-01	Oplin Prospect	Callahan County, TX	Chisholm	32%
Anderson #5	51001-06	Oplin Prospect	Callahan County, TX	Chisholm	32%
Anderson #6	51001-07	Oplin Prospect	Callahan County, TX	Chisholm	32%
Arnold #1	60202-01	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Arnold #1A	60202-08	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Arnold #2	60202-02	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Arnold #2A	60202-07	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Arnold #3	60202-05	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Arnold #4	60202-06	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Wyatt #2	60202-03	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Belt #1	60202-04	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Belt #2	60202-09	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Belt-Arnold #1	60202-11	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Williams-Belt #1	60202-13	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Williams-Belt #2	60202-16	Roadbend Prospect	Dickens County, TX	Chisholm	4.88%
Fry #1	60202-20	Roadbend Prospect	Dickens County, TX	Chisholm	3.31%
Atlas Paving #1-35	60101-01	Fairgrounds Prospect	Oklahoma City, OK	Charter Oak	3%
Fairgrounds #1-36 ²	60101-02	Fairgrounds Prospect	Oklahoma City, OK	Charter Oak	3%
Tim #1-8H	50903-03	Grey Wolf Prospect	Ellis County, OK	Charter Oak	3.2%
Jimmie Herring #1 ¹	61101-01	Jimmie Herring Prospect	Runnels County, TX	Enrich	20%
Jimmie Herring #2 ¹	61101-02	Jimmie Herring Prospect	Runnels County, TX	Enrich	20%
Jimmie Herring #5 ¹	61101-05	Jimmie Herring Prospect	Runnels County, TX	Enrich	20%
Jimmie Herring #6 ^{1, 2}	61101-08	Jimmie Herring Prospect	Runnels County, TX	Enrich	20%
Schwertner #1 ¹	61101-06	Jimmie Herring Prospect	Runnels County, TX	Enrich	21.81%

SK Unit #1 ²	110601-01	Jimmie Herring Prospect	Runnels County, TX	Enrich	21.82%
J. Fry #1 ^{1, 2}	60801-02	Live Oak West Prospect	Callahan County, TX	Chisholm	24.8%
J. Fry #2 ^{1, 2, 3}	60801-06	Live Oak West Prospect	Callahan County, TX	Chisholm	24.8%
Eaton #2 ¹	61001-02	North East Oplin Prospect	Callahan County, TX	Chisholm	26.07%
Bowen #1 ^{1, 4}	70102-01	Rasberry Prospect	Foard County, TX	Chisholm	22.2%
Anderson #1 ^{1, 4}	70102-02	Rasberry Prospect	Foard County, TX	Chisholm	22.2%
Anderson #2 ^{1, 4}	70102-03	Rasberry Prospect	Foard County, TX	Chisholm	22.2%
Pickens #1 ⁴	70102-04	Rasberry Prospect	Foard County, TX	Chisholm	14.8%
Pickens #2 ⁴	70102-05	Rasberry Prospect	Foard County, TX	Chisholm	14.8%
Thorpe #1 ^{1, 2, 4}	70601-01	Southwest Oplin	Runnels County, TX	Chisholm	26.5%
Dale Cave #3 ⁴	80203-01	Dale Cave Prospect	Fisher County, TX	Sojourner	6.5%
Dale Cave #4 ⁴	80203-02	Dale Cave Prospect	Fisher County, TX	Sojourner	6.5%
Womack ⁴	80203-03	Dale Cave Prospect	Fisher County, TX	Sojourner	6.5%
JP and Travis Martin #1 ⁴	80203-04	Dale Cave/Womack Prospect	Fisher County, TX	Sojourner	2%
Smedley Estate #1-7 ⁴	80502-01	Crawford Prospect	McClain County, OK	Charter Oak	2%
Sunburst Farms #1-18 ⁴	80502-02	Crawford Prospect	McClain County, OK	Charter Oak	0.98%
Thompson Ranch #1 ⁴	80502-03	Crawford Prospect	McClain County, OK	Charter Oak	2%
Kay Barry #1-12 ⁴	80502-04	Crawford Prospect	McClain County, OK	Charter Oak	1.91%
Henson Haven #1-6 ⁴	80502-05	Crawford Prospect	McClain County, OK	Charter Oak	1.94%
Rex #1-18 ⁴	80502-06	Crawford Prospect	McClain County, OK	Charter Oak	0.25%
Cheyenne #1-18R ⁴	80502-07	Crawford Prospect	McClain County, OK	Charter Oak	0.33%
Reigning Horse #1-8 ⁴	80502-08	Crawford Prospect	McClain County, OK	Charter Oak	1.8%
JM Holdings #1-35 ⁴	80502-12	Crawford Prospect	McClain County, OK	Charter Oak	2%
Zuck #1-1 ⁴	80502-09	Crawford Prospect	McClain County, OK	Charter Oak	2%
Mainord #1-12 ⁴	80502-11	Crawford Prospect	McClain County, OK	Charter Oak	1.85%
Little Rex #1-18 ⁴	80502-13	Crawford Prospect	McClain County, OK	Charter Oak	0.46%
Steele Brandt #1-8 ⁴	80502-15	Crawford Prospect	McClain County, OK	Charter Oak	1.96%
Drain #1-36 ⁴	80502-10	Crawford Prospect	McClain County, OK	Charter Oak	2%

Misty #1-36 ⁴	80502-14	Crawford Prospect	McClain County, OK	Charter Oak	2%
Stapp #1-6 ⁴	80502-17	Crawford Prospect	McClain County, OK	Charter Oak	2%
Hyde #1-36	80502-18	Crawford Prospect	McClain County, OK	Charter Oak	2.87%
John Baker #1-35	80502-20	Crawford Prospect	McClain County, OK	Charter Oak	2%
Richard #1 ⁴	110101-01	Atkinson Prospect	McClain County, OK	GLB	7.41%
Lester #1 ⁴	110101-02	Atkinson Prospect	McClain County, OK	GLB	7.41%
Keith #1 ⁴	80901-01	Keith Prospect	McClain County, OK	GLB	1%
Aetna #1 ⁴	80901-02	Keith Prospect	McClain County, OK	GLB	1%
Cook #1 ⁴	80901-03	Keith Prospect	McClain County, OK	GLB	1%

¹ Acquired from Fund – II

² Not economic (i.e., will not payout)

³ Barely producing

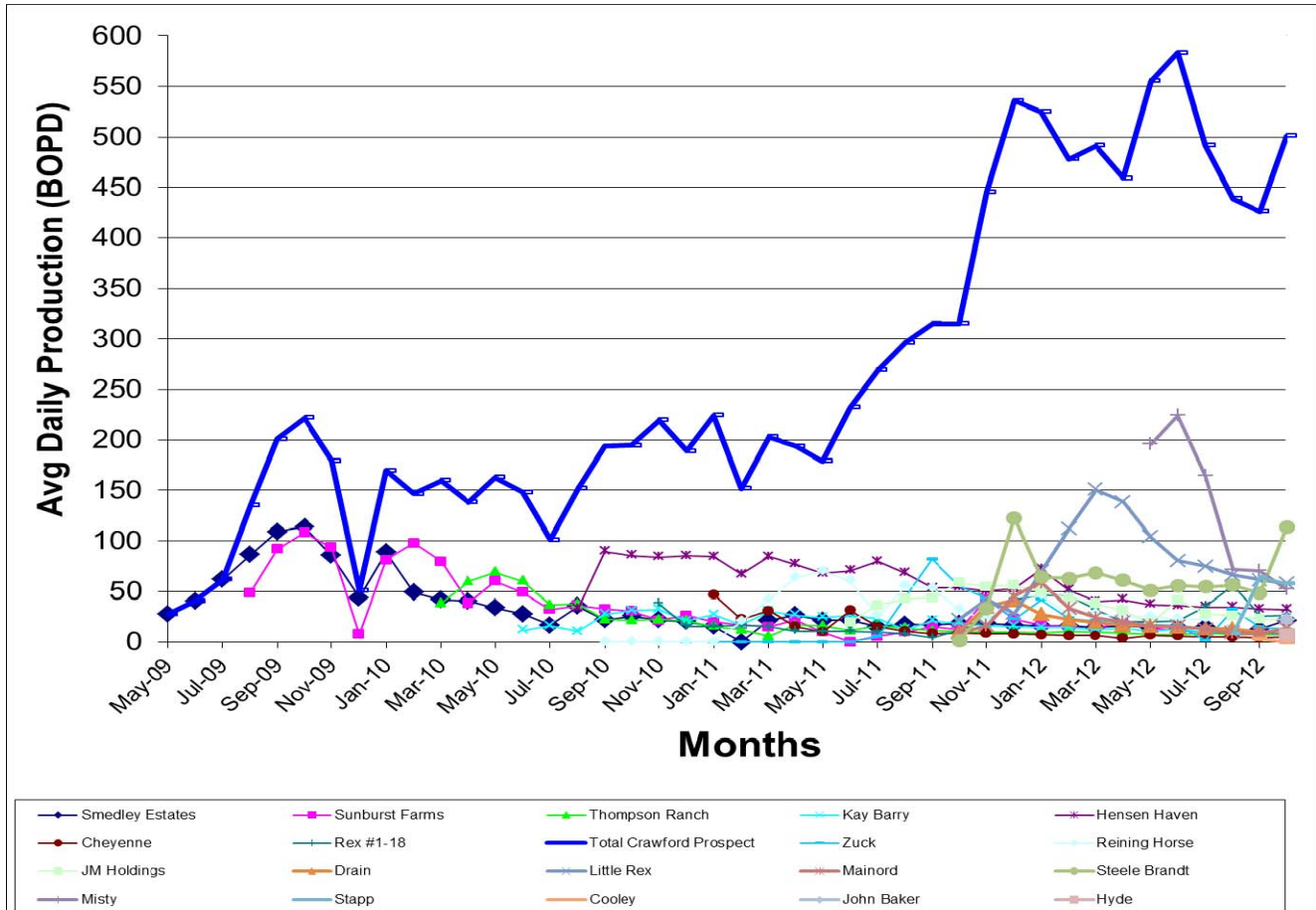
⁴ Acquired from Fund – III

Texas: Herring/Schwertner (#61101-06) = same. **Thorpe #1 (Southwest Oplin Prospect - #80102-03-01)** = more interrupted flow situations, but a nice bounce back after a workover. **Pickens #1 and #2** = dropped off to 83 BOPD (down 7 BOPD), but still running better-than-plan. Cactus Schroeder attributes this decline to “natural reservoir depletion”. Although only six months old, the Pickens wells have paid out, already. The original **Raspberry** (#70201) wells are on plan, too. **Eaton #2 (Northeast Oplin Prospect - #61101)** = same @ 10 BOPD. **Oplin** (#51001) = were down even further! **Dale Cave** (#80203) = down a lot, but **Womack** steadied itself. **JP and Travis Martin** @ 9 BOPD (September) was decent. **Roadbend’s** (#60202) production was down by 4 to 105 BOPD. *Troubling.*

Oklahoma: Charter Oak’s **Fairgrounds** (#60101) = same (nil), and **Atlas Paving** = same (nil). GLB’s **Nunn #1 (Apache Southeast Prospect - #50901-01)** = rebounded. **Herber #1-8 (Grey Wolf Prospect - #50903-01)** = sold. **Keith** (#80901-01) et. al. and **Orf #1 (Apache Southeast Prospect - #80201-01)** were firm, but **Cook** was up. **Leon #1 (Apache Southeast Prospect - #80201-02)** = poor. Over at **Atkinson** (#110101), the **Richard #1** has bounced back, reaching all the way to 18 BOPD in October. We remain concerned about this well, but are relieved that the workovers have turned around the situation. Unfortunately, **Lester** (which was only completed in July) has plunged from a high of 67 BOPD in August down to 24 BOPD in October – this rate of decline means that this well is not going to measure up to its peer group. (Refer to discussion under “*Financing/Bank Debt*” for the implications of this disappointment.)

Crawford (#80502) was up by a healthy 75 BOPD to 501 BOPD and better yet, is continuing to grow in November, due to that batch of recently completed wells. We expect a near-record month to occur in November. Congratulations to Joe Brevetti and his team at Charter Oak!

First Keystone Energy Fund - I, L.P.
Avg Daily Production - Crawford Prospect
Production Through 10/31/12



Financial Matters

Distributions – **\$44/Unit** (a slight decrease of \$3/Unit). In October, most of the funds from the issuance of the Preferred Units had been collected, but none of those Units were outstanding for very long, and thus, the distributions in respect of those Units was of minimal effect. They will kick in – nearly at full force – as of November 1. (As stated previously, they represent a net dilution of 12%.) November's payout will be adversely impacted by an annual expense of taxes payable to the state of Texas.

Product Pricing – Oil prices continue to decline, although heightened Mid East turmoil now involving the Israelis, translated into a “bounce”. NG is still strong, although it dipped about a month ago.

Revenue & Hedging Matters – We earned more money on the settlement of our hedge in October (**\$5.85/bbl or \$4.37/Unit**). Our mark-to-market (“MtM”) positions are improving as oil prices slump.

This table indicates the current components of the Fund's hedge portfolio:

First Keystone Energy Fund-I, L.P.
Overview of Hedge Positions (Report J.4)
Sub-schedule J.4A - Summary of Current Positions
As of 10/31/12

<u>Commodity Hedged</u>	<u>Hedge #</u>	<u>Type of Position</u>	<u>L/S</u>	<u>Price</u>	<u>Index</u>	<u>Time Period Covered</u>	<u># of Contracts</u>	<u>This Fund's % Participation</u>
Oil	01.12.12A	PUT	L	\$95	WTI	Nov 12 – Dec 13	0.5	60%
Oil	11.17.11A	SWAP	S	\$95.75	WTI	Nov 12 – Dec 13	0.5	75%
Oil	11.17.11B	CALL	L	\$115	WTI	Nov 12 – Dec 12	0.5	75%
Oil	11.17.11C	SWAP	S	\$95.75	WTI	Jan 13 – Dec 13	0.5	60%
Oil	06.11.12A	CALL	L	\$100	WTI	Jan 13 – Dec 13	0.5	60%
Oil	06.11.12B	CALL	L	\$105	WTI	Jan 14 – Dec 14	1.0	80%

Note: (1) Each natural gas contract represents 10,000 MMBtu's of monthly production and each oil contract represents 1,000 Bbls of monthly oil production.

Monthly Reporting and Budget Analysis – See below. We will be issuing a post-Merger financial statement as of September.

Financing/Bank Debt – N/A

LOAN SUMMARY – In October, **\$47/Unit** was deployed toward debt service. As of October 31st, the Fund's outstanding **loan balance** with WNB was **\$904M (\$1,001/Unit)**; and

cumulative amortization of principal out of normal cash flows has reached **\$398/Unit** (which does not include \$975/Unit amortized by Fund – III prior to merger).

“Write-Downs”: Most likely, your Managing Partner will elect to make a draw from our *reserve account* and a pay-down of most of our loan balance tied to the **Lester** well. (**Richard** is on the **Watch List**, but (fortunately!) more than half of the original borrowings on that particular well have already been paid off.) We will also review certain other Crawford wells, too.

First Keystone Energy Fund-I, L.P. Summary of Debt Outstanding 10/31/2012		
	Total Company	Per Unit
Debt Outstanding at the Beginning of the month	\$943,000	\$1,045
Drawdowns Taken during the Month		\$0
Required Amortization	\$6,872	\$8
Elective Amortization	\$39,121	\$43
Excess	\$32,249	\$36
Ratio Actual Amortization vs. Plan	5.69	
Loan Balance at 10/31/12	\$903,879	\$1,001
Interest Expense Paid	\$3,320	\$4
Borrowing Base Remaining	\$122,411	\$136

Burn Rate & CapEx & Reserves – Fund - I's cash deployed or “*Burn Rate*” for the month of October was \$88M and was deployed for the following purposes:

Pickens #3 Drilling Cash Call	\$45M
Johnson #1 Drilling Cash Call	\$37M
GP Admin Fees & Internal Accounting	\$ 6M

Burn rate increased substantially in October vs. September. This increase is according to plan, and is entirely attributable to the drilling at Rasberry. Burn Rate in November and December should remain high (and “on plan”) as we will fund the completion on the Pickens #3 and Johnson #1 wells. The burn rate will track the pace of planned drilling in the Rasberry Prospect. CapEx = \$625M, of which \$122M has been deployed to date.

Financial Statements – The July - September Financial Statements are being posted right now. We apologize for the lengthy delays.

Macroeconomics and Politics

N/A

Reporting & Website & Administrative Matters

As you should know by now, we have added two new Preferred Partners, both from Oklahoma City, **Charter Oak Production Co., LLC** (Joe Brevetti, Principal & P.E.) and **GLB Exploration, Inc.** (Glenn Blumstein, President). For several years now, these two firms have been the most active operators with whom First Keystone has been drilling. Our level of confidence in them has increased along with our numbers of our experiences with them. They have proven themselves to be very nimble, entrepreneurial, rigorous – and most important of all – successful at finding oil. They will be a key part of the future of the upcoming Fund – VI. We also wanted to let you know that the status of First Keystone's relationship with Chisholm Exploration has been modified, and that, even though we are still involved in some of its ongoing producing fields (especially in Fund – I), we will not be moving forward with Cactus Schroeder any further as one of our Preferred Partners.

Recently, many of our Partners have been experiencing formatting problems with our Monthly Managing Partner's Reports when they are sent out in the body of an email message. Therefore, from this point forward, we will send out each month's report as an attachment instead of in the body of an email.

For those partners that have purchase Preferred Units, your October **Account Statements** will be updated to include your investment in the Preferred Units. The October statement will be posted by the end of the first week in December.

Conclusion & A Look Ahead

The cutover to oil on the part of those five **Crawford** wells finally occurred! **Pickens #3** is being completed right now – the initial rates of flow have been quite disappointing. The next well in **Rasberry** (i.e., **Johnston #1**) is being drilled very soon. (It is more speculative than the Pickens #3.)

The Big Financial Picture: This Partnership is essentially moving “on plan”. But there's a lack of “*outlier*” news that exceeds expectations. Revenues are actually running below the forecasts used in our **Official Information Statement** (July 31, 2012), but so is drilling activity (which means reduced CapEx). In other words, they cancel each other out. It would sure help, of course, if that long-awaited **Roadbend** waterflood would kick in. Even though there is a lot of debt service to fund, we are handling it since the **PRODUCERS** are performing. Nevertheless, we continue to monitor the weaklings, and thanks to a strong *reserve account*, we are on very solid ground, if and when some write-downs are warranted.

Have a great Holiday Season!

Cordially,

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