

Greetings,

FUND – IV

OCTOBER'S SUMMARY & HIGHLIGHTS

- o Recent/Upcoming Spuds = 6
- o Active/Imminent Completions = 2
- o Ongoing Completions = 1
- o Rose Valley Prospect (#101101) = Lewis #14-7 and Fisher #18-10 = Underway
- o Kirkwood Mountain #1-29 (North Healdton – #110601-03) = Drilling completed
- o Rosie Fappiano (SW Dibble Prospect - #110803-02) = Offset to Claire Benson
= Drilling = complete
- o Squaw Valley #1-24 (North Healdton - #110601-02) = Gas
- o Mount Rose #1-29 (North Healdton – #110601-03) = PRODUCING
- o Zeta (Big Sandy - #110902-03) = No oil yet
- o Eddie #2-31H (Big Sandy Prospect - #110902-04) = PRODUCING = disappointing
- o Lone Grove (#120601-01) = Queen Mary = Frac = January
- o Mad Island (#110503) = Progress!
- o Portfolio of Producers = Increased by 3 to 21
- o Prices = Oil = Declining
= NG = Increased, but hitting a ceiling?
- o Hedges = Solid
- o CAPITAL CALL (NEW) = MANDATORY = \$500/Unit = Due January 15, 2013
- o Bank Loan = Borrowing Base = Increase coming
- o Debt Amortization = \$11M (\$21/Unit) (this month)
= YTD = \$44M (\$84/Unit)
- o Cash payout = \$675/Unit in October
= Annualized cash-on-cash return = 104%
= \$1,756/Unit YTD
= \$2,050/Unit Cumulative
- o First Keystone's Preferred Partners = New arrangements in place

MANDATORY CAPITAL CALL #6

\$500 per Unit = DUE on January 15, 2013.

This “call” is another one that **follows** #5 which was due on October 31, 2012.
See discussion below in “Financial Matters”.

(There will be a penalty of 1% per month for tardy payments.)

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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.

New Deal-Making Activities

N/A

Summary of Upcoming Drilling and Completion Activities

Thanks to the great performance of **Chris #1 (East Orr Prospect - #101103-04)**, GLB is going to drill *two wells in a row* offsetting it and **Romines**. They are the **Bertha #1** and **Claude #1**. Timing for the spud about one month. *Expectations are high*.

We are going to go forward with Chisholm on two new wells in the **Farmer Ranch Prospect** (#101102). (Our interest level is reduced to 7.5% and our outlay (dry hole) is \$9M for the Farmer #2 and \$19M for the Farmer C#1.) They are shallow wells that have been set up as a result of the recent seismic study.

Also, **Rose Valley** (#101101) is off-and-running. The **Lewis #14-7** is underway and it will be followed by the **Fisher #18-10**. Our share of each (dry hole) is \$17M.

The **Chisholm Trail** project (#110901) = delayed to next year.

Current & Past Month's Drilling Activities

Summary: Recent activity has focused on existing wells that have not yet hit their stride (e.g., **Squaw Valley, Mountain Rose, Zeta, TDS, and Sharon**). Plus, there are a handful of others which are brand new, and for which we have high expectations.

Status of Wells **RECENTLY** Drilled or Underway

<u>Well Name</u>	<u>Current Status</u>	<u>Comments</u>
Squaw Valley #1-24 (North Healdton Prospect - #110601-02)	PRODUCING	Came up hole to produce @ Tussey = Gas = solid. Mechanical issues.
Mount Rose #1-29 (North Healdton Prospect - #110601-03)	PRODUCER	Flowing @ 50 to 80 BOPD; expect better
Zeta (Big Sandy Prospect – #110902-02)	PROBABLE DISCOVERY	Frac occurred, but no oil
Eddie #2-31H (Big Sandy Prospect - #110902-04)	PRODUCING	Flowing; very disappointing volumes. Troubleshooting still.
TDS #1 (Simon Prospect - #110701-01)	PRODUCER (Non-economic)	Combined 2 zones = disappointment
Sharon #1 (East Orr Prospect - #101103-03)	PRODUCER (Non-economic)	Came up hole to Seventh Sanders = 7 BOPD
Queen Mary #1 (Lone Grove Prospect - #120601-01)	PROBABLE DISCOVERY	Frac = delayed to January

Rosie Fappiano (Southwest Dibble Prospect - #110803-02)	PROBABLE DISCOVERY	Waiting for completion
#1-ST #1 (Mad Island Project - #110503-01)	POSSIBLE DISCOVERY	Progress; should start within 90 days.
Kirkwood Mountain #1-29 (North Healdton Prospect - #110601-04)	POSSIBLE DISCOVERY	Mapping out a completion plan. Should be good.

At **North Healdton** (#110601), the next well, **Kirkwood Mountain #1-29**, is now finished and a completion plan is being defined. The well is going to be solid according to Joe Brevetti.

Drilling on Charter Oak's offset to **Claire Benson** (Southwest Dibble Prospect - #110803), the **Rosie Fappiano**, is done; and the completion process will start soon.

The **Queen Mary #1** (#120601-01) at **Lone Grove** (**PROBABLE DISCOVERY**) is still waiting on a frac, now slated for January.

At **Zeta** (**Big Sandy Prospect** - #110902-02), GLB came up-hole to the *Atoka* zone, but the well has not flowed at a meaningful volume. We are advised that it will be a long slow wait. Also at Big Sandy, the **Eddie #2-31H** (#110902-03) was drilled and fracked. Surprisingly, the frac waters did NOT come rushing back. Its flow rates have been way below targets, and the operating team is troubleshooting some more. *We are concerned.*

Charter Oak finally came up the hole on the **Squaw Valley #1** and **Mount Rose #1-29** (**North Healdton Prospect** - #110601) to the **Tussey**. As expected, Mount Rose responded positively and is now flowing at 50 to 80 BOPD, but Joe Brevetti anticipates it should actually improve. Certainly, a higher volume is needed in order to fulfill our financial targets. Squaw Valley, on the other hand, is not doing so well. Mechanical issues are being addressed right now. It is, however, producing a very decent level of NG. (If prices were not depressed, we would be pleased!)

The **Sharon** (**East Orr Prospect** - #101103-03) was recompleted at the **Seventh Sanders**. It has been disappointing – recent volumes are at 7 BOPD – this well is **NON-ECONOMIC**.

Completion of **Mad Island** (**Matagorda Bay Prospect** - #110503) will recommence (probably January).

In sum, most activity centered on making new wells do what they are intended to do. Two of them turned out to be let-downs: **Sharon** and **TDS**. Two look strong: **Chris** and **Mount Rose**. Several others remain unresolved, but not looking very good at this moment: **Zeta** and **Eddie #2**. **Squaw Valley** is an enigma; it is flowing NG in decent quantities. The oil is missing.

Production & Operational Activities

Fund – IV's "**Portfolio of Producers**" increased by **3** to **21** as of October 31st with the additions of the **Mount Rose #1-29**, **Eddie #1-31H** (purchased), and **Eddie #2-31H**.

PORTFOLIO OF PRODUCERS

<u>Well</u>	<u>Code #</u>	<u>Prospect/Field</u>	<u>Location</u>	<u>Operator</u>	<u>NWI</u>
S&S Cattle #1 *	101001-01	Red Bird Prospect	Okfuskee County, OK	GLB	10%
Ross #1 *	101001-02	Red Bird Prospect	Okfuskee County, OK	GLB	10%
Romines #1	101103-01	East Orr Prospect	Love County, OK	GLB	12.5%
Sharon #1	101103-02	East Orr Prospect	Love County, OK	GLB	12.5%
Day #1	91101-01	East Dalwood Prospect	Dickens County, TX	Hollis Sullivan	7.09%
Richard #1	110102-01	Atkinson Prospect	McClain County, OK	GLB	7%
Lester #1	110102-03	Atkinson Prospect	McClain County, OK	GLB	7%
Morphew #1	110201-01	Centerfield Prospect	Garvin County, OK	GLB	10%
Carson #1	110201-02	Centerfield Prospect	Garvin County, OK	GLB	10%
King Air #1	110702-01	Roadbend North Prospect	Dickens County, TX	Chisholm	10%
Reece #1 *	91101-02	East Dalwood Prospect	Dickens County, TX	Canan-Mowrey	7.09%
Lois #1	101103-02	East Orr Prospect	Love County, OK	GLB	12.5%
Chris #1	101103-04	East Orr Prospect	Love County, OK	GLB	12.5%
Farmer A#1	101102-01	Farmer Ranch Prospect	Callahan County, TX	Chisholm	22.5%
Alpine Meadows #1-30	110601-01	North Healdton Prospect	Carter County, OK	Charter Oak	2.5%
Squaw Valley #1-24	110601-02	North Healdton Prospect	Carter County, OK	Charter Oak	2.5%
Mount Rose #1-29	110601-03	North Healdton Prospect	Carter County, OK	Charter Oak	2.5%

Claire Benson #1-19	110803-01	Southwest Dibble Prospect	McClain County, OK	Charter Oak	3%
TDS #1 *	110701-01	Simon Prospect	Love County, OK	GLB	12.5%
Eddie #1-31H	110902-03	Big Sandy Prospect	Jackson County, OK	GLB	3%
Eddie #2-31H	110902-04	Big Sandy Prospect	Jackson County, OK	GLB	3%

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

North & Central Texas: The **Day #1 (East Dalwood Prospect - #91101-01)** continued solid at 11 BOPD – but the **Reece #1** was off a little (to 9 BOPD). **King Air #1 (Roadbend North Prospect - #110702-01)** slid by another 1 BOPD to 5.5 – **not good**. (**Labrant #1** = shut in.) **Farmer A-1** = decline again – now it is under 1 BOPD. **Conclusion:** **Underwhelming**.

Central Oklahoma: **Red Bird Prospect (#101001)** wells (i.e., **S&S Cattle** and **Ross #1**) = same. **Morphew #1 (Centerfield Prospect - #110201-01)** was off slightly (still near 10 BOPD). **Carson #1 (Centerfield) @ 27 BOPD** fell much faster than we would like. **Richard #1 (Atkinson Prospect)** = is bouncing back further – up to 18 BOPD. (It is still on our **Watchlist**.) **Lester (Atkinson Prospect)** was very **weak @ 24 BOPD**. Lester is a real disappointment given its proximity to several wells that are performing much better. **Claire Benson #1-19 (Southwest Dibble Prospect - #110803-01)** is still steady @ 60 BOPD = **very satisfactory**. **Alpine Meadows #1-30 (North Haldton Prospect - #110601-01)** was flat @ 56 +/- BOPD, but soft thus far in November.

South Oklahoma: **Romines #1 (East Orr Prospect - #101103-01)** = 108 BOPD (down 7). **Chris #1** = 121 BOPD = looks like another Romines! **Lois #1** = dropped more to 16 BOPD, but a workover was recently completed, and the well bounced back. **Sharon** = 7 BOPD (**non-economic**). **TDS #1** = zones were combined, but it has settled in at about 8 BOPD (**non-economic**). **Eddie #1** = N/A.

Financial Matters

Distributions – In October, the Fund paid out **\$675/Unit** in distributions, including \$636/Unit in distributions related to the non-recurring gains on the sale of the Rushness working interest and the Womack acreage. Cumulative payouts have now reached **\$2,050/Unit**. (Indeed, non-recurring revenues comprised 82% of October's total payout pool that results – under our normal computations – at over \$700/Unit in distributable income. We used this unusual situation to deduct from your payout pool an amount equal to \$35/Unit that had been deployed to set up our oil hedge for 2014.)

Looking Ahead: We would like to see this Fund's rate of payouts (from recurring revenues) move up to 150 bp/month (i.e., \$116/Unit or 18% annualized) and move toward 200 bp by mid-year. With our use of debt for recent drilling, that target will be hard to attain right away since a lot of cash flow is diverted into a quick retirement of the loan for that particular well. But, if we bring in a few more really good wells, like the **Chris #1**, that throw off surplus cash (after debt service), then those performances will translate into enhanced returns.

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

Revenue & Hedging Matters – We earned more money on the settlement of our hedge in October (\$5.66/bbl or \$2.97/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-IV, 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	30%
Oil	11.17.11A	SWAP	S	\$95.75	WTI	Nov 12 – Dec 13	0.5	25%
Oil	11.17.11B	CALL	L	\$115	WTI	Nov 12 – Dec 12	0.5	25%
Oil	11.17.11C	SWAP	S	\$95.75	WTI	Jan 13 – Dec 13	0.5	35%
Oil	06.11.12A	CALL	L	\$100	WTI	Jan 13 – Dec 13	0.5	35%
Oil	06.11.12B	CALL	L	\$105	WTI	Jan 14 – Dec 14	1.0	45%

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.

Financial Statements – The July and August Financial Statements are being posted right now. We apologize for the delay.

Burn Rate & CapEx & Reserves – The “Burn Rate” for the month of October was consistent with plan at \$87M and was used to fund the following operating/drilling items:

Drilling Expenses – Durant #1	\$50M
Drilling Expenses – Rosie Fappiano	\$28M
Internal Accounting & GP Admin Fees	\$ 9M

The timing of our CapEx plan has changed. We now expect to deploy only \$258M in the 4Q12, and an additional \$1.1MM in 1H13. The total CapEx plan of \$1.4MM has decreased by approximately \$100M, as an offset to Big Sandy was removed from the plan. All other recent changes are timing-related, as wells were moved from 4Q12 until 1Q13.

However, we have incurred expenses that need to be paid from equity, and not debt. Therefore, we are conducting a **CAPITAL CALL** because we will, among other things, replenish our reserve accounts and pay for costs incurred for **DRY HOLES**.

Capital Call

MANDATORY CAPITAL CALL (#6)

DUE JANUARY 15, 2013

*The capital call is in the amount of **\$500 per Unit***

There will be a penalty of 1% per month for tardy payments

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At the moment, we are going with a \$500/Unit Capital Call (#6) to occur in January (due on the 15th). We are also studying the Fund's capital call needs for 1H13, and we expect another one in the Spring. The exact amount will be driven by CapEx requirements, debt availability and avoidance of too much leverage. We will be more specific early next year.

Financing/Bank Debt – Our loan base *is expected to be revised upward modestly* in November.

LOAN SUMMARY – In October, **\$23/Unit** was deployed toward debt service. As of October 31st, the Fund's outstanding **loan balance** with WNB was **\$499M (\$933/Unit)**; and cumulative amortization of principal out of normal cash flows has reached **\$44M (\$84/Unit)**.

First Keystone Energy Fund - IV, L.P. Summary of Debt Outstanding 10/31/2012

	Total Company	Per Unit
Debt Outstanding at the Beginning of the month	\$367,436	\$687
Drawdowns Taken during the Month	\$142,617	\$267
Required Amortization	\$11,111	\$21
Elective Amortization	\$11,111	\$21
Excess	\$0	\$0
Ratio Actual Amortization vs. Plan	1.00	
Loan Balance at 10/31/12	\$498,942	\$933
Interest Expense Paid	\$1,287	\$2
Borrowing Base Remaining	\$178,835	\$334

Macroeconomics and Politics

N/A

Reporting & Website & Administrative Matters

Your **Account Statements** will be up to date through September this week.

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.

Conclusion & A Look Ahead

We are now enjoying the financial benefits from several recent portfolio additions, **Chris** being the most notable. In terms of volumes, however, **Zeta, Lester, TDS,** and **Sharon** have been very disappointing. **Squaw Valley** and **Eddie #2** still struggle to some degree, but we do not know their ultimate outcomes. They should be “decent”. On the other hand, **Mount Rose** should be good, while **Queen Mary** ought to be superlative.

The Big Picture: Fund – IV is now well into its **Developmental Drilling Phase**, and my role as the Managing Partner, is to channel capital into proposed wells that appear to offer very high rates of return. From here on out, we will be very selective, looking to add high-profit wells. The drilling immediately ahead should yield solid results – certainly those **East Orr** development wells should be very good. These are the wells that ought to boost rates of return. Lastly, keep your fingers crossed that those two wells underway at **Rose Valley** find oil!

Your Managing Partner will be visiting with our operators this week. I'll let you know (right away) if any important new news crops up! Have a great Holiday Season!

Cordially,

FIRST KEYSTONE ENERGY FUND – IV, L.P.

By First Keystone Energy Group,
Managing Partner

Jeffrey P. Price
Principal
P.O. Box 4
Wycombe, PA 18980
Office: (215) 598-3000
Fax: (215) 598-0650
Mobile: (267) 278-0557