

First Keystone Energy Fund - III, L.P.

Statement of Income

(Income Tax Basis)

July 2012

	Current Month	Year to Date
	\$ %	\$ %
Revenue		
Oil and Gas Production	\$64,431	\$426,990
Proceeds from Hedge	\$4,478	(\$2,477)
Total Revenue	\$68,909	\$424,513
Lease Operating Expenses (Recurring)		
Lease Operating Expenses	\$10,392	\$56,979
Intangible Drilling and Completion Costs	\$0	\$0
Marketing and Transportation	\$0	\$162
Severance Taxes	\$3,702	\$25,066
State Withholding Tax	\$0	\$0
Ad Valorem Taxes	\$0	\$0
Total Lease Operating Expenses (Recurring)	\$14,094	\$82,207
Net Lease Operating Income	<u>\$54,815</u>	<u>\$342,306</u>
Operating Expenses (Non-Recurring)		
Lease Operating Expenses	\$0	\$2,994
Intangible Costs - Rework	\$0	\$0
Depletion	\$0	\$0
Amortization and Depreciation	\$0	\$0
Total Operating Expenses (Non-recurring)	\$0	\$2,994
Drilling and Completion Costs		
Lease Operating Expenses	\$0	\$0
Intangibles	\$24,660	\$153,846
Dry Hole Expense	\$0	\$0
Total Drilling and Completion	\$24,660	\$153,846
Total Drilling and Non-recurring Expenses	<u>\$24,660</u>	<u>\$156,840</u>
Net Income (Operations)	<u>\$30,155</u>	<u>\$185,466</u>
Fund's Administrative Expenses	\$624	\$35,862
Other Expenses		
Interest Expense	\$3,739	\$30,705
Interest Income	\$0	\$0
Transaction Related Expenses	\$0	\$0
Gain on Sale of Leaseholds		\$21,969
Amortization of Basis in Hedges (Settled)	\$2,793	\$11,205
Net Income	<u>\$22,999</u>	<u>\$129,663</u>

First Keystone Energy Fund - III, L.P.

Balance Sheet

(Income Tax Basis)

7/31/2012

Assets

Current Assets

Cash

Cash - First National Bank of Newtown (checking)	(\$74,785)	
Cash - Western National Bank (money market)	<u>\$1,366</u>	

Total Cash (\$73,419)

Notes Receivable - Fund I & II \$0 \$0

Prepaid Expenses - Merger \$4,462 \$4,462

Prepaid Investments

Atkinson - Lester #1 \$67,892

Dale Cave/Womack \$0

Crawford Prospect - #80502 \$38,105

Total Prepaid Investments \$105,997

Total Current Assets \$37,040

Cash Reserves Set aside for:

Sahlman Note Amortization \$34,710

KPG Accrued Interest \$0

Dry Holes \$35,000

Development Wells

Overruns \$22,375

Reserves Temporarily Allocated to Cash

Total Cash Reserves \$92,085

Fixed Assets

Lease and Well Equipment \$222,716

Intangible Assets

Hedge Costs \$57,914

Non-Producing Leaseholds \$55,111

Producing Leaseholds ⁽²⁾ \$127,323

Leasehold held for Sale \$0

Formation Costs \$24,750

Financing Costs \$21,435

Seismic and Geology \$33,838

Total Intangible Assets \$320,371

Total Assets \$672,212

Liabilities and Partner's Capital

Sahlman Note \$66,895

Current Liabilities

WNB Revolving Line of Credit \$293,424

Advance from KPG (FL) ⁽¹⁾ \$184,929

Due to/from Funds \$1,849

Due to General Partner \$0

Total Current Liabilities \$480,202

Partner's Contributions \$2,202,450

Partner's Distributions (\$904,591)

Prior Year Income(Loss) (\$1,302,407)

Current Year Income (Loss) \$129,663

Total Partner's Capital \$125,115

Total Liabilities and Partner's Capital \$672,212

Note: (1) The balance on the Bridge Note with KPG(FL) does not include the accrued unpaid interest because these financial statements are created on a cash basis. As of 3/31/12 the interest and fees due to KPG (FL) LLC is \$11,891. In accordance with the terms of the Bridge Note, all interest and fees are payable to the lender upon repayment of the principal balance of the Note. Fund-III created a cash reserve in January for the monthly interest due on this Note. The balance in the reserve account is \$4719 through 3/31/12

(2) Producing leaseholds include all acreage and prospect fees and capitalizable leasehold renewals. The largest component of the total amount is the Raspberry prospect at \$47M

First Keystone Energy Fund - III, L.P.
Statement of Changes in Operating Cash Flows
(Income Tax Basis)
July 2012

	<i>Current Month</i>		<i>Year to Date</i>	
Net Income	\$22,999		\$129,663	
Adjustments for non-Cash Items				
Depletion	\$ -			
Depreciation				
Less: Changes in Operating Assets and Liabilities				
Notes Receivable	0		0	
Other Assets	3,105		11,489	
Prepaid Investments	(38,190)		58,874	
Hedge Activities	(2,793)		1,394	
Producing Leasehold Investments	(689)		3,812	
Non-Producing Leasehold Investments	2,398		11,432	
Fixed Assets	26,852		64,204	
Due to/from affiliates	(2,004)		(31)	
Accounts Payable	0		0	
Debt Drawdown	(66,413)		(103,243)	
Total Changes in Operating Assets and Liabilities	<u>\$ (77,734)</u>		<u>\$ 47,931</u>	
Plus: Changes in Investment Activities				
Partner Contributions	\$0		0	
Partner Distributions	(\$25,041)		(132,290)	
Total Changes in Investment Activities	<u>(25,041)</u>		<u>(132,290)</u>	
Net Increase (Decrease) in Cash Balances	<u>\$ 75,692</u>		<u>\$ (50,558)</u>	
Cash Balances at the Beginning of the Period	<u>(\$57,026)</u>	18,666	69,222	18,664
Cash Balances at the end of the Period	<u><u>\$18,666</u></u>	\$ -	<u><u>\$18,666</u></u>	\$ (2.00)

First Keystone Energy Fund - III, L.P.
Sources of Distributable Cash Flow (I.4)
(Income Tax Basis)
7/31/2012

	Raspberry - #80101	Thorpe - #80102	Apache SE - #80201	Dale Cave - #80203	Crawford - #80502	Kocurek - #80602	Keith - #80901	Catwalk Creek - #81102	Atkinson - #110101	Total
Current Month										
Gross Revenue										
Oil Revenue	\$32,381		\$1,334	\$4,352	\$15,356	\$0	\$521	\$0	\$7,272	\$61,216
Gas		\$623	\$414		\$1,018	\$0	\$25	\$0	\$1,135	\$3,215
Gain on Sale of Leasehold Assets										\$0
Total Gross Revenue	<u>\$32,381</u>	<u>\$623</u>	<u>\$1,748</u>	<u>\$4,352</u>	<u>\$16,374</u>	<u>\$0</u>	<u>\$546</u>	<u>\$0</u>	<u>\$8,407</u>	<u>\$64,431</u>
Production Taxes	\$1,493	\$47	\$138	\$201	\$1,179	\$0	\$39	\$0	\$605	\$3,702
Marketing Expenses										\$0
Total Production Taxes	<u>\$1,493</u>	<u>\$47</u>	<u>\$138</u>	<u>\$201</u>	<u>\$1,179</u>	<u>\$0</u>	<u>\$39</u>	<u>\$0</u>	<u>\$605</u>	<u>\$3,702</u>
Total Operating Expenses	\$3,573	\$1,617	\$304	\$407	\$4,284	\$0	\$139	\$0	\$561	\$10,885
Net Revenue	<u>\$27,315</u>	<u>(\$1,041)</u>	<u>\$1,306</u>	<u>\$3,744</u>	<u>\$10,911</u>	<u>\$0</u>	<u>\$368</u>	<u>\$0</u>	<u>\$7,241</u>	<u>\$49,844</u>
Less: Administrative Expenses										\$24,805
Net Distributable Income	<u>\$27,315</u>	<u>(\$1,041)</u>	<u>\$1,306</u>	<u>\$3,744</u>	<u>\$10,911</u>	<u>\$0</u>	<u>\$368</u>	<u>\$0</u>	<u>\$7,241</u>	<u>\$25,039</u>
Income per L.P. Unit										\$120
% Return on Contributed Capital - Annualized										13.6%

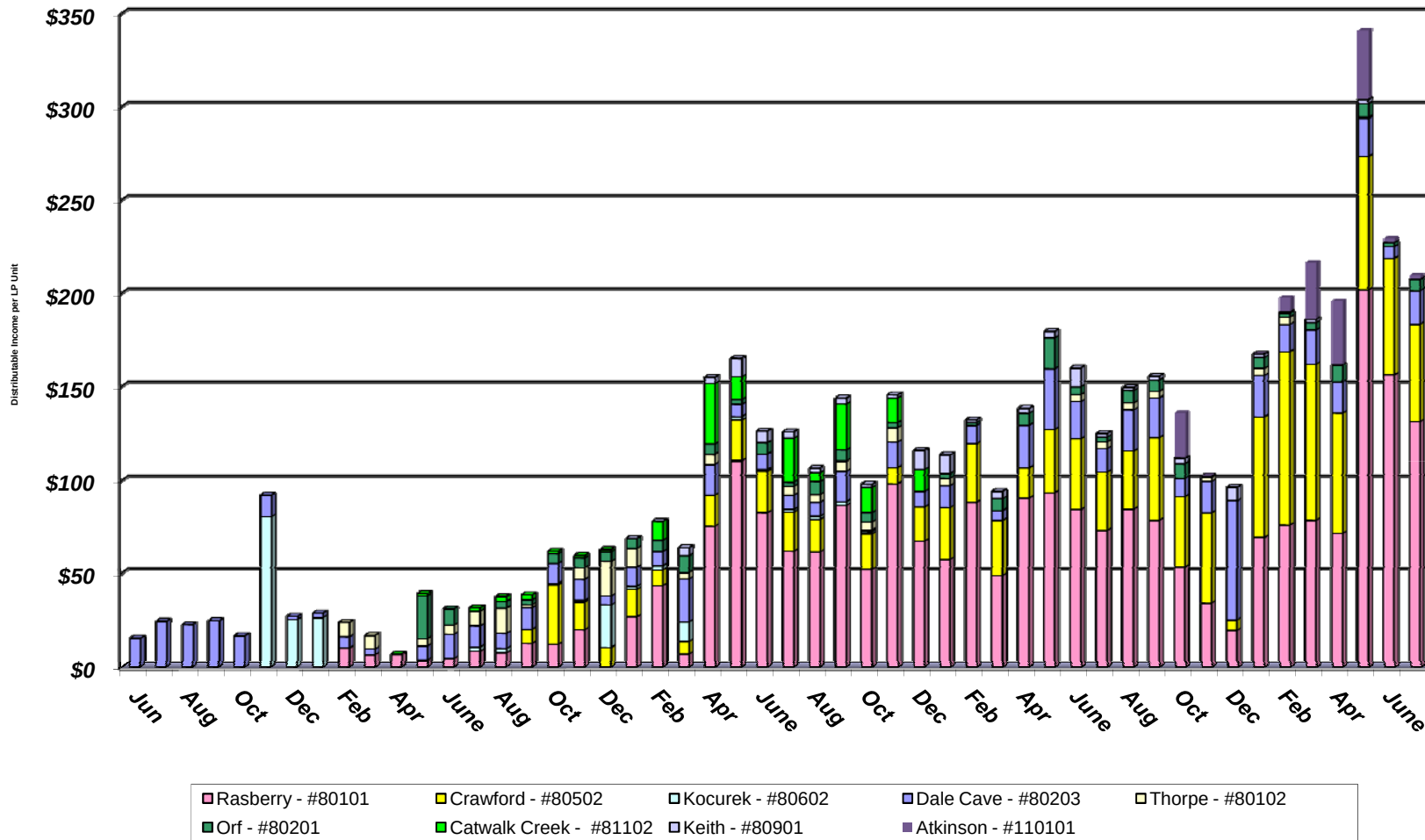
Year to Date										
Gross Revenue										
Oil Revenue	\$186,913		\$9,216	\$33,250	\$115,858		\$2,668	\$0	\$52,725	\$400,630
Gas		\$6,115	\$3,769		\$12,162	\$0	\$1,757	\$222	\$2,335	\$26,360
Gain on Sale of Leasehold Assets										\$0
Total Gross Revenue	<u>\$186,913</u>	<u>\$6,115</u>	<u>\$12,985</u>	<u>\$33,250</u>	<u>\$128,020</u>	<u>\$0</u>	<u>\$4,425</u>	<u>\$222</u>	<u>\$55,060</u>	<u>\$426,990</u>
Production Taxes	\$8,612	\$458	\$1,053	\$1,532	\$8,835	\$0	\$618	\$22	\$3,946	\$25,076
Marketing Expenses										\$0
Total Production Taxes	<u>\$8,612</u>	<u>\$458</u>	<u>\$1,053</u>	<u>\$1,532</u>	<u>\$8,835</u>	<u>\$0</u>	<u>\$618</u>	<u>\$22</u>	<u>\$3,946</u>	<u>\$25,076</u>
Total Operating Expenses	\$14,112	\$4,911	\$3,522	\$6,234	\$14,483	\$0	\$405	\$0	\$13,913	\$57,580
Net Revenue	<u>\$164,189</u>	<u>\$746</u>	<u>\$8,410</u>	<u>\$25,484</u>	<u>\$104,702</u>	<u>\$0</u>	<u>\$3,402</u>	<u>\$200</u>	<u>\$37,201</u>	<u>\$344,334</u>
Less: Administrative Expenses										\$175,847
Net Distributable Income	<u>\$164,189</u>	<u>\$746</u>	<u>\$8,410</u>	<u>\$25,484</u>	<u>\$104,702</u>	<u>\$0</u>	<u>\$3,402</u>	<u>\$200</u>	<u>\$37,201</u>	<u>\$168,487</u>
Income per L.P. Unit										\$806
Contributed Capital										
% Return on Contributed Capital - Annualized										13.1%

Cumulative										
Gross Revenue										
Oil Revenue	\$632,809	\$0	\$48,369	\$179,491	\$262,836	\$0	\$22,417	\$40,269	\$52,725	\$1,186,190
Gas	\$0	\$48,634	\$16,020	\$0	\$34,469	\$0	\$4,290	\$3,654	\$2,335	\$107,067
Gain on Sale of Leasehold Assets						\$70,719		\$115,000		\$185,719
Total Gross Revenue	<u>\$632,809</u>	<u>\$48,634</u>	<u>\$64,389</u>	<u>\$179,491</u>	<u>\$297,305</u>	<u>\$70,719</u>	<u>\$26,707</u>	<u>\$158,923</u>	<u>\$55,060</u>	<u>\$1,478,976</u>
Production Taxes	\$29,094	\$3,580	\$5,080	\$8,163	\$20,787	\$6,234	\$2,219	(\$151)	\$3,946	\$75,007
Marketing Expenses	\$0	\$0	\$0	\$90	\$0	\$919	\$0	\$948	\$0	\$1,957
Total Production Taxes	<u>\$29,094</u>	<u>\$3,580</u>	<u>\$5,080</u>	<u>\$8,253</u>	<u>\$20,787</u>	<u>\$7,153</u>	<u>\$2,219</u>	<u>\$797</u>	<u>\$3,946</u>	<u>\$76,964</u>
Total Operating Expenses	\$67,444	\$16,436	\$13,871	\$33,364	\$32,672	\$5,237	\$2,642	\$4,480	\$13,913	\$176,145
Net Revenue	<u>\$536,271</u>	<u>\$28,619</u>	<u>\$45,438</u>	<u>\$137,874</u>	<u>\$243,846</u>	<u>\$58,329</u>	<u>\$21,846</u>	<u>\$153,646</u>	<u>\$37,201</u>	<u>\$1,225,868</u>
Less: Administrative Expenses										\$24,805
Net Distributable Income	<u>\$536,271</u>	<u>\$28,619</u>	<u>\$45,438</u>	<u>\$137,874</u>	<u>\$243,846</u>	<u>\$58,329</u>	<u>\$21,846</u>	<u>\$153,646</u>	<u>\$37,201</u>	<u>\$1,201,063</u>
Income per L.P. Unit										\$5,747
Contributed Capital										\$10,550
% Return on Contributed Capital - Annualized										12.1%

Note:

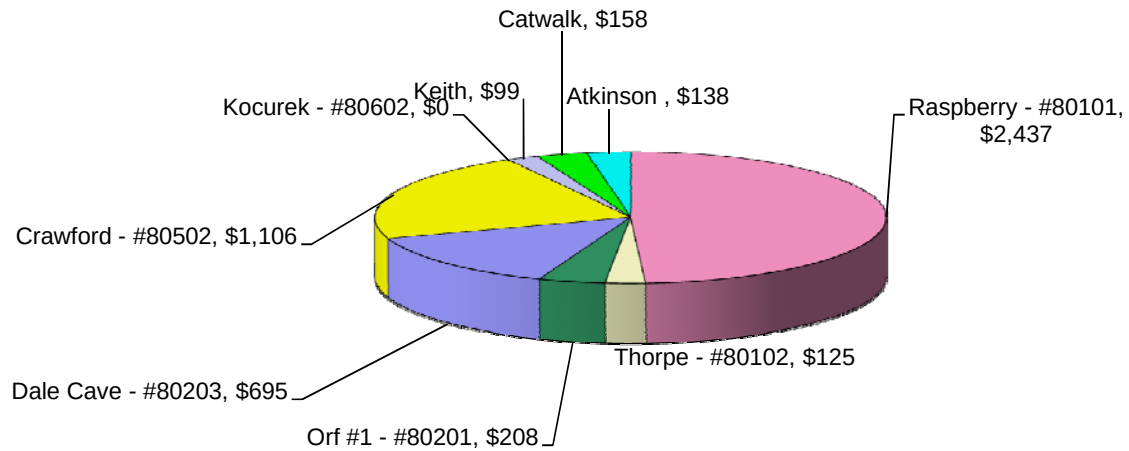
- (1) Net Distributable Income on this chart *includes* the revenue from the Kocurek well. These proceeds are not booked as revenue, as the investment in this well was made via First Keystone Energy Fund-V, L.P. Subordinated Notes, and all proceeds to this fund are payments of interest and principal.
- (2) This table depicts net revenues generated by properties and does not include administrative expenses.

First Keystone Energy Fund - III, L.P.
Sources of Distributable Cash Flow (I.4)
(Income Tax Basis)
Months Through 7/31/12



Note: (1) The calculation of distributable cash flow is based upon the revenue checks received each month less the JIB for the same month (i.e. it is based upon the month the JIB pertains to , not the month is is paid). This amount ties to actual distributions to partners

First Keystone Energy Fund - III, L.P.
Sources of Distributable Cash Flow (I.4)
(Income Tax Basis)
Cumulative Through July 2012



First Keystone Energy Fund - III, L.P.
Analysis of Lease Operating Expenses
(Income Tax Basis)
July 2012

	Current Month	Year to Date
Lease Operating Expenses (Recurring)		
Lease Operating Expenses		
Rooke Ranch (#71201)		0
Raspberry - (#80101)	3,435	18,024
Thorpe (#80102)	1,617	5,504
Apache Southeast (#80201)	1,250	4,762
Dale Cave (#80203)	1,185	7,663
East Merkel (#80401)		986
East Dallwood (#80501)		0
Crawford (#80502)	1,672	10,542
Atkinson (#101102)	1,186	9,065
Keith (#80901)	47	433
Catwalk Creek (#81102)		0
Total Lease Operating Expenses	<u>10,392</u>	<u>56,979</u>
Intangible Drilling and Completion Costs		
Rooke Ranch (#71201)		0
Thorpe (#80102)		0
Apache Southeast (#80201)		0
Dale Cave (#80203)		0
Total Intangible Drilling Costs	<u>0</u>	<u>0</u>
Total Lease Operating Expenses (Recurring)	<u>\$10,392</u>	<u>\$56,979</u>
Total Drilling and Non-Recurring Expenses		
Lease Operating Expenses		
Dale Cave (#80203)		2,615
Thorpe (#80102)		379
Atkinson (#101102)		0
Total Lease Operating Expenses	<u>0</u>	<u>2,994</u>
Intangible Drilling and Completion Costs		
Rooke Ranch (#71201)		0
Raspberry - (#80101)	139	68,191
Thorpe #1 (#80102-01)		0
Apache Southeast (#80201)		2,734
Dale Cave (#80203)	4,751	12,606
East Dallwood (#80501)		0
Crawford (#80502)	9,722	53,614
Atkinson (#101102)	10,048	16,693
Keith (#80901)		8
Catwalk Creek (#81102)		0
Total Intangible Drilling Costs	<u>24,660</u>	<u>153,846</u>
Total Drilling and Non-recurring	<u>\$24,660</u>	<u>\$156,840</u>