

First Keystone Energy Fund - III, L.P.

Statement of Income

(Income Tax Basis)

August 2012

	Current Month	Year to Date
	\$ %	\$ %
Revenue		
Oil and Gas Production	\$56,827	\$481,352
Proceeds from Hedge	\$3,015	\$538
Total Revenue	\$59,842	\$481,890
Lease Operating Expenses (Recurring)		
Lease Operating Expenses	\$5,294	\$62,273
Intangible Drilling and Completion Costs	\$0	\$0
Marketing and Transportation	\$0	\$162
Severance Taxes	\$3,210	\$28,017
State Withholding Tax	\$0	\$0
Ad Valorem Taxes	\$0	\$0
Total Lease Operating Expenses (Recurring)	\$8,504	\$90,452
Net Lease Operating Income	<u>\$51,338</u>	<u>\$391,438</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	\$68,996	\$222,842
Dry Hole Expense	\$0	\$0
Total Drilling and Completion	\$68,996	\$222,842
Total Drilling and Non-recurring Expenses	<u>\$68,996</u>	<u>\$225,836</u>
Net Income (Operations)	<u>(\$17,658)</u>	<u>\$165,602</u>
Fund's Administrative Expenses	\$2,612	\$38,474
Other Expenses		
Interest Expense	\$4,335	\$35,040
Interest Income	\$0	\$0
Transaction Related Expenses	\$0	\$0
Gain on Sale of Leaseholds	\$8,936	\$30,905
Amortization of Basis in Hedges (Settled)	\$2,793	\$13,998
Net Income	<u>(\$18,462)</u>	<u>\$108,995</u>

First Keystone Energy Fund - III, L.P.

Balance Sheet - Final Pre-Merger

(Income Tax Basis)

8/31/2012

Assets

Current Assets

Cash

Cash - First National Bank of Newtown (checking)	(\$36,695)	
Cash - Western National Bank (money market)	<u>\$1,366</u>	

Total Cash (\$35,329)

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

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

Prepaid Investments

Atkinson - Lester #1 \$0

Raspberry \$17,760

Crawford Prospect - #80502 \$57,493

Total Prepaid Investments \$75,253

Total Current Assets \$44,386

Cash Reserves Set aside for:

Sahlman Note Amortization

KPG Accrued Interest \$0

Dry Holes

Development Wells

Overruns \$22,375

Reserves Temporarily Allocated to Cash

Total Cash Reserves \$22,375

Fixed Assets

Lease and Well Equipment \$239,754

Intangible Assets

Hedge Costs \$55,121

Non-Producing Leaseholds \$57,282

Producing Leaseholds \$129,494

Leasehold held for Sale \$0

Formation Costs \$24,750

Financing Costs \$21,435

Seismic and Geology \$33,838

Total Intangible Assets \$321,920

Total Assets \$628,435

Liabilities and Partner's Capital

Sahlman Note \$0

Current Liabilities

WNB Revolving Line of Credit ⁽¹⁾ \$571,515

Advance from KPG (FL) ^(1,2) \$184,929

Due to/from Funds \$1,849

Due to General Partner \$0

Total Current Liabilities \$758,293

Partner's Contributions \$2,202,450

Partner's Distributions (\$1,138,896)

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

Current Year Income (Loss) \$108,995

Total Partner's Capital (\$129,858)

Total Liabilities and Partner's Capital \$628,435

(1) This balance sheet represents the final pre-merger statements for FKEF-III, L.P. Immediately prior to the merger of FKEF-I, L.P. and FKEF-III, L.P. \$245,500 in additional debt was drawn on the WNB revolving line of credit. The purpose of this loan draw was to fund \$1,000 per Unit in distributions (per the Merger Agreement) and to pay off the unreserved portion of the remaining balance of the Sahlman Bridge Note (\$36.5M). This balance sheet reflects both transactions. In addition, the balance of the bridge note with KPG (FL) LLC was paid off as part of the merger transaction. The debt to pay off this loan balance was drawn on FKEF-I, L.P. and the repayment of that loan is NOT reflected in this balance sheet.

Note:

(2) Debt was drawn on the account of FKEF-I, L.P. to payoff the remaining balance of the loan from KPG (FL) LLC.

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

	<i>Current Month</i>	<i>Year to Date</i>
Net Income	(\$18,462)	\$108,995
Adjustments for non-Cash Items		
Depletion	\$ -	
Depreciation		
Less: Changes in Operating Assets and Liabilities		
Notes Receivable	0	0
Other Assets	(1,197)	8,084
Prepaid Investments	(8,549)	50,325
Hedge Activities	(2,793)	(1,399)
Producing Leasehold Investments	2,171	5,983
Non-Producing Leasehold Investments	2,171	13,603
Fixed Assets	17,038	81,242
Due to/from affiliates	0	(31)
Accounts Payable	0	0
Debt Drawdown	(278,091)	(381,334)
Total Changes in Operating Assets and Liabilities	<u>\$ (269,250)</u>	<u>\$ (223,527)</u>
Plus: Changes in Investment Activities		
Partner Contributions	\$0	0
Partner Distributions	(\$234,305)	(366,595)
Total Changes in Investment Activities	<u>(234,305)</u>	<u>(366,595)</u>
<i>Net Increase (Decrease) in Cash Balances</i>	<u>\$ 16,483</u>	<u>\$ (34,073)</u>
Cash Balances at the Beginning of the Period	<u>\$18,666</u>	69,222
Cash Balances at the end of the Period	<u><u>(\$35,149)</u></u>	<u><u>(\$35,149)</u></u>

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

	Current Month	Year to Date
Lease Operating Expenses (Recurring)		
Lease Operating Expenses		
Rooke Ranch (#71201)		0
Raspberry - (#80101)	1,240	19,264
Thorpe (#80102)	1,117	6,621
Apache Southeast (#80201)	740	5,502
Dale Cave (#80203)		7,663
East Merkel (#80401)		986
East Dallwood (#80501)		0
Crawford (#80502)	1,558	12,100
Atkinson (#101102)	550	9,615
Keith (#80901)	89	522
Catwalk Creek (#81102)		0
Total Lease Operating Expenses	<u>5,294</u>	<u>62,273</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>\$5,294</u>	<u>\$62,273</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)		68,191
Thorpe #1 (#80102-01)		0
Apache Southeast (#80201)	(75)	2,659
Dale Cave (#80203)		12,606
East Dallwood (#80501)		0
Crawford (#80502)	12,776	66,390
Atkinson (#101102)	56,295	72,988
Keith (#80901)		8
Catwalk Creek (#81102)		0
Total Intangible Drilling Costs	<u>68,996</u>	<u>222,842</u>
Total Drilling and Non-recurring	<u>\$68,996</u>	<u>\$225,836</u>

First Keystone Energy Fund - III, L.P.
Sources of Distributable Cash Flow (I.4)
(Income Tax Basis)
8/31/2012

	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	\$31,068		\$1,756	\$3,539	\$16,301	\$0	\$0	\$0	\$2,466	\$55,130
Gas		\$199	\$443		\$1,029	\$0	\$26	\$0	\$0	\$1,697
Gain on Sale of Leasehold Assets										\$0
Total Gross Revenue	<u>\$31,068</u>	<u>\$199</u>	<u>\$2,199</u>	<u>\$3,539</u>	<u>\$17,330</u>	<u>\$0</u>	<u>\$26</u>	<u>\$0</u>	<u>\$2,466</u>	<u>\$56,827</u>
Production Taxes	\$2,266	\$15	\$45	\$163	\$541	\$0	\$2	\$0	\$178	\$3,210
Marketing Expenses										\$0
Total Production Taxes	<u>\$2,266</u>	<u>\$15</u>	<u>\$45</u>	<u>\$163</u>	<u>\$541</u>	<u>\$0</u>	<u>\$2</u>	<u>\$0</u>	<u>\$178</u>	<u>\$3,210</u>
Total Operating Expenses	<u>\$1,239</u>	<u>\$1,117</u>	<u>\$271</u>	<u>\$795</u>	<u>\$2,295</u>	<u>\$0</u>	<u>\$40</u>	<u>\$0</u>	<u>\$509</u>	<u>\$6,266</u>
Net Revenue	<u>\$27,563</u>	<u>(\$933)</u>	<u>\$1,883</u>	<u>\$2,581</u>	<u>\$14,494</u>	<u>\$0</u>	<u>(\$16)</u>	<u>\$0</u>	<u>\$1,779</u>	<u>\$47,351</u>
Less: Administrative Expenses										\$19,667
Net Distributable Income	<u>\$27,563</u>	<u>(\$933)</u>	<u>\$1,883</u>	<u>\$2,581</u>	<u>\$14,494</u>	<u>\$0</u>	<u>(\$16)</u>	<u>\$0</u>	<u>\$1,779</u>	<u>\$27,684</u>
Income per L.P. Unit										\$132
% Return on Contributed Capital - Annualized										15.1%

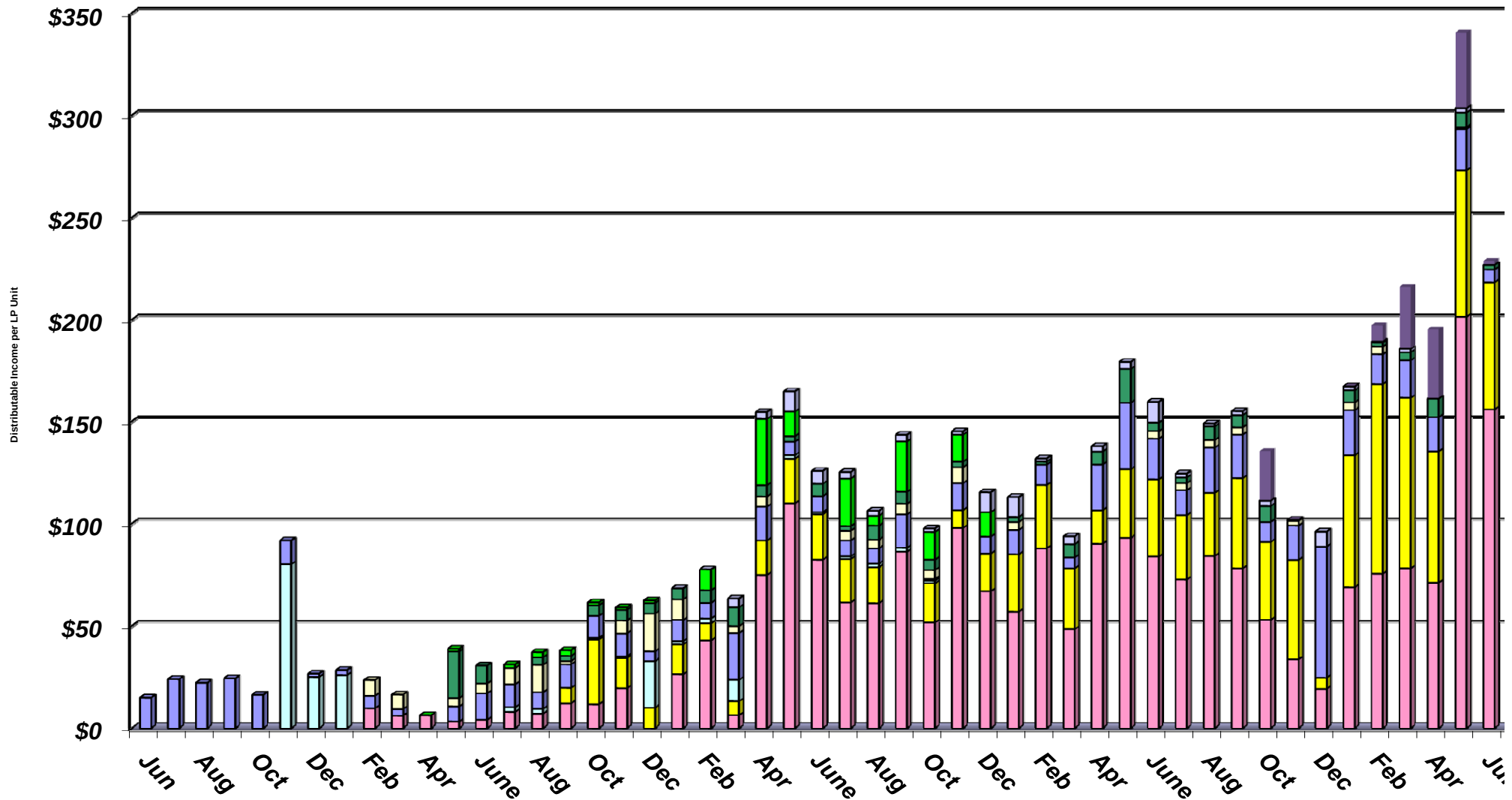
Year to Date										
Gross Revenue										
Oil Revenue	\$217,981		\$10,972	\$36,789	\$132,159		\$2,668	\$0	\$52,726	\$453,295
Gas		\$6,314	\$4,212		\$13,191	\$0	\$1,783	\$222	\$2,335	\$28,057
Gain on Sale of Leasehold Assets										\$0
Total Gross Revenue	<u>\$217,981</u>	<u>\$6,314</u>	<u>\$15,184</u>	<u>\$36,789</u>	<u>\$145,350</u>	<u>\$0</u>	<u>\$4,451</u>	<u>\$222</u>	<u>\$55,061</u>	<u>\$481,352</u>
Production Taxes	\$10,878	\$473	\$1,098	\$1,695	\$9,376	\$0	\$620	\$22	\$3,865	\$28,027
Marketing Expenses										\$0
Total Production Taxes	<u>\$10,878</u>	<u>\$473</u>	<u>\$1,098</u>	<u>\$1,695</u>	<u>\$9,376</u>	<u>\$0</u>	<u>\$620</u>	<u>\$22</u>	<u>\$3,865</u>	<u>\$28,027</u>
Total Operating Expenses	<u>\$15,351</u>	<u>\$6,028</u>	<u>\$3,793</u>	<u>\$7,029</u>	<u>\$16,778</u>	<u>\$0</u>	<u>\$445</u>	<u>\$0</u>	<u>\$14,422</u>	<u>\$63,846</u>
Net Revenue	<u>\$191,752</u>	<u>(\$187)</u>	<u>\$10,293</u>	<u>\$28,065</u>	<u>\$119,196</u>	<u>\$0</u>	<u>\$3,386</u>	<u>\$200</u>	<u>\$36,774</u>	<u>\$389,479</u>
Less: Administrative Expenses										\$193,308
Net Distributable Income	<u>\$191,752</u>	<u>(\$187)</u>	<u>\$10,293</u>	<u>\$28,065</u>	<u>\$119,196</u>	<u>\$0</u>	<u>\$3,386</u>	<u>\$200</u>	<u>\$36,774</u>	<u>\$196,171</u>
Income per L.P. Unit										\$939
Contributed Capital										
% Return on Contributed Capital - Annualized										13.3%

Cumulative										
Gross Revenue										
Oil Revenue	\$663,877	\$0	\$50,125	\$183,030	\$279,137	\$0	\$22,417	\$40,269	\$52,726	\$1,238,854
Gas	\$0	\$48,833	\$16,463	\$0	\$35,498	\$0	\$4,316	\$3,654	\$2,335	\$108,764
Gain on Sale of Leasehold Assets						\$70,719		\$115,000		\$185,719
Total Gross Revenue	<u>\$663,877</u>	<u>\$48,833</u>	<u>\$66,588</u>	<u>\$183,030</u>	<u>\$314,635</u>	<u>\$70,719</u>	<u>\$26,733</u>	<u>\$158,923</u>	<u>\$55,061</u>	<u>\$1,533,337</u>
Production Taxes	\$31,360	\$3,595	\$5,125	\$8,326	\$21,328	\$6,234	\$2,221	(\$151)	\$3,865	\$78,039
Marketing Expenses	\$0	\$0	\$0	\$90	\$0	\$919	\$0	\$948	\$0	\$1,957
Total Production Taxes	<u>\$31,360</u>	<u>\$3,595</u>	<u>\$5,125</u>	<u>\$8,416</u>	<u>\$21,328</u>	<u>\$7,153</u>	<u>\$2,221</u>	<u>\$797</u>	<u>\$3,865</u>	<u>\$79,996</u>
Total Operating Expenses	<u>\$68,683</u>	<u>\$17,553</u>	<u>\$14,142</u>	<u>\$34,159</u>	<u>\$34,967</u>	<u>\$5,237</u>	<u>\$2,682</u>	<u>\$4,480</u>	<u>\$14,422</u>	<u>\$181,902</u>
Net Revenue	<u>\$563,834</u>	<u>\$27,686</u>	<u>\$47,321</u>	<u>\$140,455</u>	<u>\$258,340</u>	<u>\$58,329</u>	<u>\$21,830</u>	<u>\$153,646</u>	<u>\$36,774</u>	<u>\$1,271,440</u>
Less: Administrative Expenses										\$19,667
Net Distributable Income	<u>\$563,834</u>	<u>\$27,686</u>	<u>\$47,321</u>	<u>\$140,455</u>	<u>\$258,340</u>	<u>\$58,329</u>	<u>\$21,830</u>	<u>\$153,646</u>	<u>\$36,774</u>	<u>\$1,251,773</u>
Income per L.P. Unit										\$5,989
Contributed Capital										\$10,550
% Return on Contributed Capital - Annualized										12.4%

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 8/31/12



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

