

Greetings,

FUND – IV

DECEMBER'S SUMMARY & HIGHLIGHTS

- o **Recent Spuds = 2**
- o **Active/Imminent Completions = 7**
- o **Ongoing Completions = 1**
- o **Future Drilling = Temporary lull**
- o **New Prospect = Ardmore South 77 (#121201) (via GLB)**
- o **Rose Valley Prospect (#101101) = Lewis #14-7 & Fisher #18-10 = Completions underway**
- o **Kirkwood Mountain #1-29 (North Healdton – #110601-03) = Completion underway**
- o **Queen Mary #1 (Lone Grove Prospect - #120601-01) = Frac'd over the weekend**
- o **Bertha #1 (East Orr Prospect - #101103-05) = Frac'd yesterday**
- o **Rosie Fappiano (SW Dibble Prospect - #110803-02) = Now completing up-hole zones**
- o **Zeta (Big Sandy Prospect - #110902-02) = DRY HOLE**
- o **Portfolio of Producers = Increased by 1 to 23**
- o **Prices = Oil = Trading in a narrow range; recent upward flurry**
= NG = Disappointing
- o **Hedges = Significantly improved arrangement being worked out**
= Bought a floor on balance of **Cal13 @ \$95.80**
- o **CAPITAL CALL = MANDATORY = \$500/Unit = Due January 15, 2013**
= Another modest one in a few months very likely
- o **Debt Amortization = Routine = \$11M (\$21/Unit) (this month)**
= **"Extra" = \$44M (\$83/Unit) (attributable to under-performing wells)**
= YTD = **\$110M (\$209/Unit)**
- o **Cash payout = \$88/Unit in December**
= Annualized cash-on-cash return = **14%**
= **\$1,910/Unit YTD**
= **\$2,204/Unit Cumulative**
- o **Fund - VI = Closing = January 31st**

MANDATORY CAPITAL CALL #6

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

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

Please make your check payable to **First Keystone Energy Fund – IV, L.P.**
and mail to:

P.O. Box 4, Wycombe, PA 18980

FIRST KEYSTONE ENERGY FUND – VI, L.P.

You should have received the **Supplemental Memorandum** (dated January 5th) by now. **Closing** will be on **January 31**. We are continuing to conduct **webinars** to enable Partners to hear updates and to learn about the new Fund. *Let us know if you would like to participate.*

We have now lined up 7 new projects for this Fund. More projects are under evaluation. **Supplemental Memorandum #1** spells out the details on them and another update will be issued prior to Closing. We are very pleased with the responses from current LPs and new LPs thus far.

New Deal-Making Activities

We took a very unusual move late last year by agreeing to participate in a brand new prospect. It is called **Ardmore South 77 Prospect** (#121201) and it is a geological clone of the impressive **Lone Grove Prospect** (#120601) just 3.5 miles to the north. We took only a 1% piece which translates into a risk commitment of \$9,700 (or only 0.2% of our capital). Drilling will be late winter/spring.

Summary of Upcoming Drilling and Completion Activities

There is a temporary lull ahead. Surprising!

Chisholm's two new wells in the **Farmer Ranch Prospect** (#101102) will not be drilled until Spring. We are waiting to review the seismic study before deciding on participating. Chisholm also is proposing another well at **Roadbend North** (#110702) – a disappointment – this Fund will take a pass.

The **Chisholm Trail** project (#110901) = Unknown.

Current & Past Month's Drilling Activities

Summary: Activity on *crucial* wells is underway! *The ones to watch most closely are Bertha, Romines #2, and Queen Mary.*

Status of Wells **RECENTLY** Drilled or Underway

<u>Well Name</u>	<u>Current Status</u>	<u>Comments</u>
Lewis #14-7 (Rose Valley Prospect - #101101-01)	PRODUCING	Looks very good.
Fisher #18-10 (Rose Valley Prospect - #101101-02)	PROBABLE DISCOVERY	Completion steps nearly done. Decent.
Zeta (Big Sandy Prospect – #110902-02)	DRY HOLE	Frac occurred, still no oil, shut-in.
Queen Mary #1 (Lone Grove Prospect - #120601-01)	PROBABLE DISCOVERY	Frac = underway.
Rosie Fappiano (Southwest Dibble Prospect - #110803-02)	PRODUCER	Completion @ key up-hole zones = underway
#1-ST #1 (Mad Island Project - #110503-01)	POSSIBLE DISCOVERY	Work should be underway within a month.
Kirkwood Mountain #1-29 (North Healdton Prospect - #110601-04)	POSSIBLE DISCOVERY	Active completion
Bertha #1 (East Orr Prospect - #101103-05)	PROBABLE DISCOVERY	Frac = yesterday. Should be very good.
Romines #2 (East Orr Prospect - #101103-06)	PROBABLE DISCOVERY	Frac = early February. Should be very good.

The initial phase of drilling at **Rose Valley** (#101101) has progressed very nicely. The first well, **Lewis #14-7** is now a **PRODUCER** after going through a methodical completion. It looks very good. Next, the **Fisher #18-10** is less clear-cut. It is a **PROBABLE DISCOVERY**, but the ongoing completion has not shown it to be as good, thus far. In short, the preliminary assessment at Rose Valley is more than satisfactory. Messrs. Dimit and Clanton of Ares will drill a few more wells – shifting their focus a bit toward the **Lansing** zone which has been a very positive surprise – to further validate this play. Their game plan of a significant **Liquidity Event** is still in the cards.

Completion at Charter Oak's offset to **Claire Benson (Southwest Dibble Prospect - #110803)**, the **Rosie Fappiano**, has been underway, too. First, the deepest zone (the Bromide) was completed – yielding only minimal volumes – not very interesting. Second, the more important zones (i.e., Viola, Hunton) are now being completed – they are more important. It is a **PRODUCER**, but we do not yet have a clear picture.

Chris #1 (East Orr Prospect - #101103-04) is an exceptional well, but it is plagued by persistent mechanical problems. It is important that GLB successfully troubleshoot this well as it is a crucial piece of our financial picture. Until it is put back on an even keel, this well's erratic performance will hurt us. In the last month, GLB has drilled two more wells at East Orr directly offsetting Chris and Romines #1. (They are **Bertha #1** and **Romines #2**.) The logs look just right, but we will not know what we have until these wells are frac'd and completed. They, too, are very important. Bertha is being frac'd right now! Romines #2 is about two weeks behind.

The **Queen Mary #1 (#120601-01)** at **Lone Grove (PRODUCER)** = frac = this multi-day procedure is currently underway. It is complex since it has never been done before in the **Viola** zone in this county. Potential for very big impact on our distributable income.

At **Zeta (Big Sandy Prospect - #110902-02)** = this well is essentially a **DRY HOLE**. Other owners are considering drilling a horizontal – we look askance at this idea considering the poor quality of the rock near our wellbore. **Eddie #2-31H (#110902-03)** flow rates = way below targets. Still troubleshooting. **Eddie #1** = needs to be re-booted.

Charter Oak's **Mount Rose #1-29 (North Healdton Prospect - #110601)** has been steadily rising. That is good, but it is still at levels far below our targets – disappointment. The next well, **Kirkwood Mountain #1-29** = has been frac'd, but completion process is slowed down (**PROBABLE DISCOVERY**).

Bill Rutter has cleaned up the problems at **Mad Island (Matagorda Bay Prospect - #110503)**, and now COMPLETION is expected to recommence probably within a month. The issues are engineering and water invasion.

In conclusion, here's the most recent assessment:

Winners: Lewis

Acceptable: Fisher

Losers: Eddie #2, Zeta, Mount Rose (downgraded)

Unknowns: Queen Mary, Rosie Frappiano, Bertha, Romines #2, Mad Island, Kirkwood

To summarize, a lot is going on, and the focus is completion processes. In next month's report, we should have a great deal more clarification about these wells' performances.

Production & Operational Activities

Fund – IV's "**Portfolio of Producers**" increased by **1** to **23** as of December 31st with the addition of **Lewis**, although it was merely in a completion "mode".

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%
Rosie Fappiano	110803-02	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%
Lewis #14-7	101101-01	Rose Valley Prospect	Pratt and Stafford Counties, KS	Ares	6.5%

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

North & Central Texas: The **Day #1** and **Reece #1** (**East Dalwood Prospect** - #9110) slid a little. **King Air #1** (**Roadbend North Prospect** - #110702-01) = solid/stable. **Farmer #A-1** = nil.

Central Oklahoma: **Red Bird Prospect** (#101001) wells (i.e., **S&S Cattle** and **Ross #1**) = nil. **Morphew #1** (**Centerfield Prospect** - #110201-01) = Steady/flat. **Carson #1** (**Centerfield**) = declining = very disappointing. **Richard #1** (**Atkinson Prospect**) = was way down in November (@ 10 BOPD), but almost doubled to 17 BOPD in December as a result of maintenance. **Lester** (**Atkinson Prospect**) = slumped back to 14 BOPD (November), but was up to 22 BOPD in December.

Charter Oak's wells have been weak: **Claire Benson #1-19** (**Southwest Dibble Prospect** - #110803-01) softened (by 4) to 51 BOPD (still a good well). **Alpine Meadows #1-30** (**North Healdton Prospect** - #110601-01) was down by 5 to 44 BOPD (paid out). **Mount Rose #1-29** is @ 35+ BOPD (and continues to increase a bit) and **Squaw Valley #1-24** (mostly NG) (both at **North Healdton**) is under-performing and getting worse.

South Oklahoma: **Romines #1** (**East Orr Prospect** - #101103-01) = Strong. **Chris #1** = Way down due to continual mechanical difficulties. **Troubling**. **Lois #1** = Steep decline. **Sharon** = 4 BOPD. **TDS #1** = down to 4 BOPD (anemic). **Eddie #1** = **Shut-in**.

Financial Matters

Distributions – In December, the Fund paid out **\$88/Unit** in distributions, an increase of \$22/Unit from November. Cumulative payouts have now reached **\$2,204/Unit**. We see a significant increase building throughout the course of this year, but the *steepness of the ascent* is dependent on the **profitability** of the key wells, identified in this report that are now undergoing completions.

Product Pricing – Oil prices have been stable; while NG has firmed up. Recent instability in Algeria – prices suddenly rose by nearly \$3/bbl – created a very nice window to hedge.

Revenue & Hedging Matters – We earned more money on the settlement of our hedge in November (**\$7.09/bbl or \$2.89/Unit**) due to lower oil prices. 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 12/31/12**

<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	Jan 13 – Dec 13	0.5	30%
Oil	11.17.11A	SWAP	S	\$95.75	WTI	Jan 13 – Dec 13	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.

This Fund turns out to be under-protected by our existing Cal13 hedge (only about 15% to 20% of our production was covered). Accordingly, with this flurry in oil prices late this past week, we have locked in another hedge at **\$95.80/bbl** for the balance of this year. Preliminarily, we will be about 50% to 65% hedged – now, we are on really solid ice! Next, we are turning our attention to **Cal14**.

Financial Statements – The November Financial Statements were posted to the website this week; and the preliminary December Statements will be posted by the end of January. The December Statements will not be finalized until the completion of the tax return. (We do not expect there to be any material adjustments to the preliminary statements.)

K-1s and Other Tax Matters – Our accounting firm, **WeiserMazars**, is working on K-1s for this Fund. We expect them to be ready by March 15th.

Oklahoma – We have not previously filed a return in Oklahoma because we have only incurred cumulative *losses*. With the size of the drilling program and number of producing wells in Oklahoma, Fund - I will have taxable income in Oklahoma in the near future and, therefore, we will be required to file a tax return. We have engaged Johnson Miller to file a tax return in the state of Oklahoma beginning in 2011 and they are nearing completion on that project. In order to capture the previous losses and be in a position to utilize them to offset future gains, we need to file an OK return starting in 2011. What does this mean for the Limited Partners? You will receive a K-1 for the state of OK and you can elect to file a return for Oklahoma beginning in the tax year 2011.

Burn Rate & CapEx & Reserves – The “Burn Rate” for the month of December was consistent with plan at \$200M and was used to fund the following operating/drilling items:

Drilling Expenses – Bertha #1	\$98M
Completion Expenses – Eddie #2-31	\$36M

Completion Expenses – Kirkwood Mountain #1-29	\$22M
Completion Expenses – Lewis #14-7	\$17M
Completion Expenses – Fisher #18-10	\$17M
Internal Accounting & GP Admin Fees	\$10M

The overall size of the CapEx plan remains consistent, however, the timing of expenditures continue to shift. The drilling and completion of East Orr wells is occurring approximately 30 days sooner than originally planned, and the timing of the three wells planned for Farmer Ranch (originally scheduled for January) has been delayed by approximately 90 days (until March/April).

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

Please make your check payable to **First Keystone Energy Fund – IV, L.P.**
and mail to:
P.O. Box 4, Wycombe, PA 18980

Financing/Bank Debt – We are pleased with the very significant increase that this Partnership has received from WNB with regard to the size of our Borrowing Base (increased up to approximately \$1MM) – a big vote of confidence in our assets! It enables us to continue to grow our asset base with a prudent component of leverage.

The January 15th capital call included \$167M designated to be used as cash reserves to reduce debt associated with **underperforming** assets with the aim of ending up with a balance of \$100M in the reserve account. In December and January, we utilized \$137M to pay down the loan balances on the loans associated with several underperforming wells (Lester \$45M, Squaw Valley \$42M, Mount Rose \$17M and Eddie #2 \$32M). That level was \$71M higher than planned, and that leaves a balance of \$29M remaining in the cash reserve account. In addition, there are several other wells that we are monitoring closely. These “**Watchlist**” wells may also require a write-down of part or all of their outstanding loan balances; thus, **the remaining cash reserves are not adequate**. Compounding the problem, the working capital in this Fund is below minimums and will soon need to be replenished. **Another capital call will, thus, soon be in the offing.**

LOAN SUMMARY – In December, **\$109/Unit** was deployed toward debt service. Of this amount, \$11M (or \$21/Unit) was our routine principal reduction and \$44M (\$83/Unit) was additional pay-down on the Durant (dry hole). We will be making additional loan pay-downs on other underperforming assets in January in the amount of \$136M (\$253/Unit). As of December 31st, the Fund’s outstanding **loan balance** with WNB was **\$553M (\$1,033/Unit)**; and cumulative amortization of principal out of normal cash flows has reached **\$110M (\$209/Unit)**.

First Keystone Energy Fund - IV, L.P.
Summary of Debt Outstanding
12/31/2012

	Total Company	Per Unit
Debt Outstanding at the Beginning of the month	\$487,831	\$912
Drawdowns Taken during the Month	\$120,216	\$575
Required Amortization	\$11,111	\$21
Elective Amortization	\$55,410	\$104
Excess	\$44,299	\$83
Ratio Actual Amortization vs. Plan	4.99	
Loan Balance at 12/31/12	\$552,637	\$1,033
Interest Expense Paid	\$2,541	\$5
Borrowing Base Remaining	\$271,158	\$507

Macroeconomics and Politics

The bleak picture for NG may be brightening. Talk of exporting NG has gotten serious enough that even the venerable bastion of liberalism (i.e., anti-fossil fuels), the ***New York Times***, has jumped on the bandwagon! (See “*Sending Natural Gas Abroad*” from the December 15th issue of the ***New York Times*** (attached).)

Reporting & Website & Administrative Matters

Your **Account Statements** are up-to-date through November. Preliminary December statements will be posted by the end of January. The 2012 figures will not, however, be finalized until our accounting firm, WeiserMazars, completes the tax return and K-1s.

We are currently updating our “**Well Performance Report**” (**Report F.1**) for the key prospects in each Fund. The purpose of this project is to analyze the profitability of both the prospect in total and the individual wells within that prospect. With this analytical tool, we are able to better understand the breakeven point of each well and how we are tracking toward recouping our original investment to drill and complete the well. This analysis is a key tool in making decisions regarding our participation in future wells within each prospect. We have identified six prospects to focus on with the initial round of these studies: **East Orr** (Fund – IV), **Raspberry** (Fund – I), **Crawford** (Fund – I), **Atkinson** (both), **East Dalwood** (Fund – IV), and **North Haldton** (Fund – IV). We anticipate having them available on the website by the end of January. (They will be located under the tab called “*Our Projects*”.) After preliminarily reviewing them, these reports are both interesting and reveal some eye-opening statistics. These insights will be the subjects of our upcoming reports to you.

Conclusion & A Look Ahead

This Partnership's **Developmental Drilling Phase** is in full stride – we are focused on achieving *high rates of return*. Hence, we are picking our spots more selectively. Both **Bertha** and **Romines #2** – two prospective wells with lofty expectations – have now been drilled, and we are simply waiting on the completion processes to be carried out. The long-awaited **Queen Mary** frac is now underway – the entire process will take about one week – and we also have high expectations for it. Several other wells to watch include the **Kirkwood** and **Lewis** and **Fisher**. **Lewis**, in particular, looks like it will beat our target. Wild card? **Mad Island!**

As for financial matters, we were taken aback at the large amount of “write-offs” that this Partnership must go through to pay down (immediately) loans tied to *underperforming* assets. Even though we have plenty of other strong producing assets that are not tied to our debts, our practice is to link a specific producing asset to a particular slug of our debt. (It's as if each well had its own individual mortgage.) Thus, if that asset were to falter, then we must promptly pay down the loan to a level that that particular well's cash flow can support. Hence, the *wholesale write-down* over the last month of balances tied to that handful of laggard wells. As General Partner, it is painful to have to execute on this procedure, but we must never have loans on the books that are not offset by performing assets. This policy is prudent, and most anything else is not. Consequently, the need for another modest-sized capital call is hastened.

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