

FOFM

FOFM, LLC



FO Oil & Gas, LLC

Fund Presentation

FO Oil & Gas III, Ltd.

\$7.5 Million

Oil and Gas Exploration and Development Fund

June 2010

Confidential

“Rise early, work late, strike oil.”

J. Paul Getty, 1892-1976
Founder of Getty Oil
Formula for Success

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Business Opportunity

FO Oil & Gas III, Ltd. (“Fund III” or the “Fund”) is structured to provide affluent clients with direct access to the exploration and development of oil and gas properties in areas identified, developed, and managed by industry professionals with a long and proven track record of oil and gas development success. In this regard, the key characteristics of Fund III include:

- The Fund is established for the exclusive purpose of developing and exploiting three “Project Areas,” each of which is either an extension of, adjacent to (i.e., near an existing field), or offsetting (i.e., near an existing well) existing production in which the FO Energy, Ltd. Principals¹ have an ongoing interest.
- The objective of the Fund is to build cash flow and profits not only through oil and gas production, but also through development of strategic assets such as proved undeveloped drill locations along with key acreage and seismic data with a view toward continued development or sale of these assets at significant gain to investors.
- The FO Energy Principals, Fund I, and Fund II have invested over \$3.5 million in the adjacent and offsetting areas, which has resulted in the discovery of two separate oil and gas pools. In addition, as reservoir experience has increased, drilling success has risen to 75%, and successful wells can return many times their investment. One recent well has returned 65% of the investment in just three months and will likely recover 100% in the next two months.
- The FO Energy Principals are committing at least 25% (\$1.875m) as Limited Partners.
- The Fund managers have unparalleled experience in oil and gas development, exploitation, and production over the last 40+ years, including having gained years of experience working in or adjacent to the Project Areas.
- Upon closing, the Fund will have an interest in nearly 14,000 acres within the Project Areas and is in the process of acquiring another 6,000 to 7,000 acres. This acreage is contained within three exploration Project Areas, thereby significantly enhancing the probability of success.
- Drilling opportunities within the Project Areas will target the prolific Trempealeau and Rose Run formations, which occur at relatively shallow depths of 3,000 to 7,000 feet. Since the drilling is relatively shallow, the cost to drill and complete a well is between \$260,000 and \$550,000, depending upon the total well depth.

1. The principals of FO Energy, Ltd. are Henry S. Belden, IV, Todd A. Lensman, Leo A. Schrider, and John B. Thomas (the “FO Energy Principals”).

Business Opportunity (cont.)

- A number of drill sites have already been identified on two of the Project Areas through the interpretation and analysis of geologic and geophysical data.
- Oil is the target objective and it is generally believed that oil prices will continue to rise over time as global economic and demographic expansion will continue to require greater amounts of energy (see the Oil and Gas Outlook section in the Appendix).
- The Fund is purchasing the initial acreage positions from FO Energy, Ltd. at \$120 per acre. The price, which compares to a cost of about \$95 per acre (approx. 3,595 acres), is equal to the price recently paid by industry partners for comparable acreage.
- The General Partner is not charging transaction or other fees on the costs and expenses of the Fund or the disposition of Fund assets.
- Capital will only be called as needed. The plan provides for capital calls over a five-year period in approximately the following percentages: 2010 (20%); 2011 (20%); 2012 (21%); 2013 (22%), and 2014 (17%). Taking into consideration projected revenue, net cash invested should never be more than 50% of committed capital – even before tax benefits. Further, the Fund is projected to be cash on cash positive in 2016, not taking into consideration the tax benefits or the sale of any Fund assets. The Fund will not use leverage or financing.
- The Fund is carefully structured to align the interest of the Limited Partners with the General Partner. The General Partner participates in the profit of the Fund only after the Limited Partners receive the return of their capital, plus the preferred return, and the Fund is not charging capital call or transaction fees.
- The General Partner is providing a repurchase program for the Limited Partners in the event the oil and gas assets are not sold.
- Based on our projections, the annual rate of return to the Limited Partners is between 23% and 40% after all fees and expenses, depending upon the timing of the sale of Fund assets. The returns are even greater when taking into consideration the tax benefits¹ of oil and gas investing (see the Tax Benefits section in the Appendix). Of course, these returns may be higher or lower depending upon a number of factors, including project success, commodity prices, etc.

Further information about this opportunity is available on our website at www.FO-FM.com or you may contact us directly at the addresses found on page 27.

1. In order to accelerate the deduction of expenses, the Limited Partner must be liable for losses during the period of well drilling. The Fund insures against these losses and none of the FO Energy Principals has ever incurred any personal loss related to these activities.

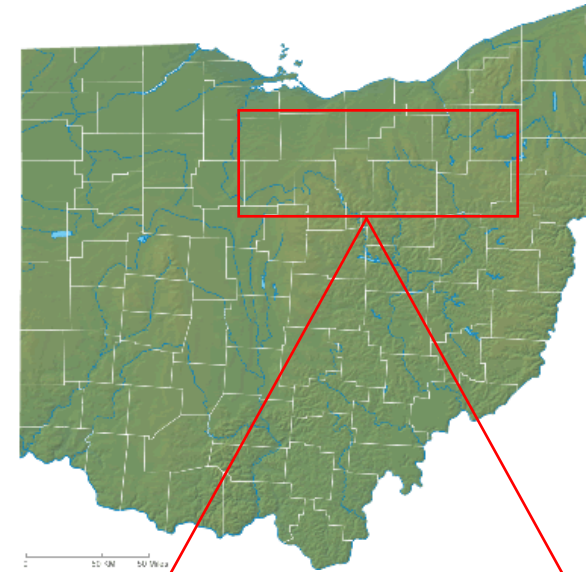
Project Areas

There are three areas of development, including:

- Huron/Seneca Counties (“Property A”), consisting of a 12.5% interest in +-14,000 acres, which is adjacent to existing production owned by the FO Energy Principals.
- Huron County (“Property B”), consisting of an approximate 22.0% interest in +-6,000 acres, which is an extension along the same geologic trend as currently producing wells owned by the FO Energy Principals.
- Stark County (“Property C”), consisting of a 43.75% interest in +-1,200 acres, which is offsetting very productive wells held by the FO Energy Principals, Fund I, and Fund II.

Ohio Oil and Gas History

Unknown to those living outside of the state, Ohio has a long and proud history of oil and gas production. Dating back to 1884 when John D. Rockefeller participated in the discovery of the Trenton Limestone to current day where new geologic and field technology is resulting in significant finds, Ohio continues to produce. According to the Ohio Oil & Gas Association website (www.ooga.org), the combined value of oil and gas production in Ohio exceeds \$1 billion annually.



Project Areas – Adjacent Production

An important characteristic of the Fund is that the Project Areas are near prolific pools of production.

Project Areas A and B are near:

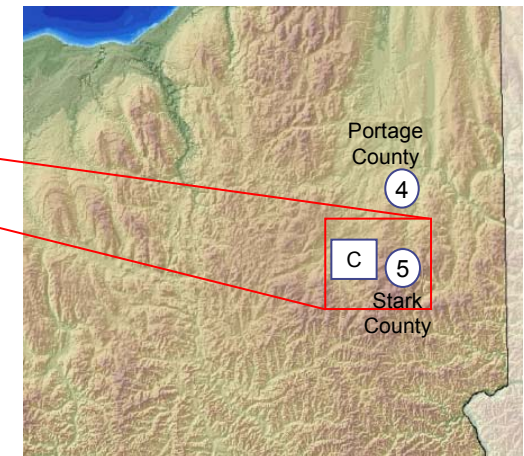
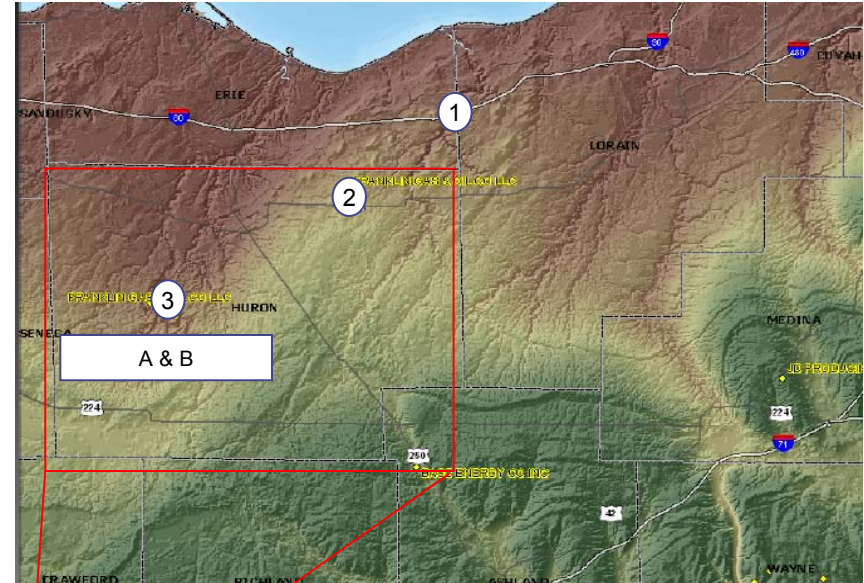
	Pool (Year / No. of Wells)	Production (BOE)*
1	Birmingham (1966 / 6 wells)	1,650,000
2	Wakeman (2001 / 17 wells)	315,000
3	Peru (2006 / 5 wells)	53,000

Project Area C is near:

	Pool (Year / No. of Wells)	Production (BOE) *
4	Randolph (1991 / 154 wells)	5,200,000
5	Marlboro (1997 / 40 wells)	1,155,000

Each of these pools continues to produce. The FO Energy Principals are participants in the Wakeman and Peru pools, which continue to be developed. Fund I is a participant in production offsetting Project Area C, including the Vaughn 1A well (in the Marlboro pool) that has produced 41,000 BOEs since April, 2007.

* Cumulative production in BOEs (“Barrels of Oil Equivalent”) where one barrel of oil equals 6 mcf of natural gas. It is also important to recognize that these figures do not reflect the value of proved reserves or future production.



Development Strategy

Overall, the strategy is to create a valuable asset in each of the Project Areas by unlocking the oil and gas production potential in known oil and gas areas through key acquisitions, seismic work, and proving production potential. Once this is achieved, the assets may be sold or continue to be developed and produced, whichever offers the best return on investment. Individually, each of the areas is at a different stage of development and, as such, the development from this point differs.

Project Areas	Property A	Property B	Property C
Acres – Gross / Net	+14,000 / 1,750	+6,000 / 1,320	+1,200 / 525
Operating Partner	Franklin Gas & Oil, LLC Wooster, Ohio		M&M Royalty, Ltd. Canton, Ohio
Qualifications	Over 50 years of oil and gas drilling experience, including 10+ years in the target area. Responsible for development of the Wakeman and Peru pools.		Over 25 years of oil and gas drilling experience drilling wells similar to the target area.
Agreement in Place	Yes	In process	In process
Acreage Acquired	Yes	Yes	Yes
Seismic Shot	2D Shot	No	2D Shot
Initial Drill Sites Identified	Yes	No	Yes

Investment Objective and Value Creation

The investment objective is to create maximum cash flow and value within each of the Project Areas that is realized via the production of oil and gas, the sale of developed assets, or a combination of both. The potential for value creation includes the value of Proved Developed Producing reserves (PDPs), Proved Developed Non-Producing reserves (PDNPs), Proved Undeveloped reserves (PUDs), and Unproved reserves (based upon drilling success, seismic data, and leasehold interests). Based upon these criteria, we would estimate that if the drilling results confirm the potential that we believe exists in the Project Areas, and commodity prices are at estimated levels, potential value would approximate the below figures. It is also important to realize that the below figures are after Fund fees and expenses charged against revenue and also do not take into consideration the income tax benefits of oil and gas investing, which considerably enhance the economic value of the investment (see the Tax Benefits of Oil and Gas Investing section).

Estimated Potential Value	Property A	Property B	Property C	Total
Production Wells PDPs and PDNPs Value (a)	35 \$3,464,000	33 \$5,695,000	13 \$9,289,000	81 \$18,448,000
PUD Wells PUDs Value (b)	25 \$1,125,000	25 \$1,750,000	10 \$3,030,000	60 \$5,905,000
Unproved Reserves – Land and Seismic Value (c)	\$300,000	\$500,000	\$200,000	\$1,000,000
Total (d)	\$4,889,000	\$7,945,000	\$12,519,000	\$25,353,000

- (a) Projected revenue to the Fund from commencement to June 30, 2015 plus the estimated present value (PV10) of Proved reserves at June 30, 2015, after Fund expenses. For these purposes, production is assumed to be similar to the production results in the applicable adjacent or offsetting areas and prices are assumed to be \$4.00 per mcf of gas and \$75.00 per barrel of oil.
- (b) Estimated at the development or sale value of Proved Undeveloped reserves at June 30, 2015.
- (c) Estimated at the development or sale value of Unproved reserves at June 30, 2015.
- (d) Includes the aggregate value to the General Partner and the Limited Partners.

Investment Costs

The investment costs associated with development of the Project Areas consist primarily of leasehold, seismic, and drilling. Below is a preliminary allocation of these costs among the Project Areas. In this regard, however, it is important to understand that: i.) these costs are estimates and will change as seismic or drilling results dictate modifying the capital allocation; ii.) we will discontinue deploying capital in an area if we do not consider it to be a good investment; and, iii.) we will increase the deployment of capital as opportunities arise.

Costs	Property A	Property B	Property C	Unallocated	Total
Leasehold	\$210,000	\$200,000	\$100,000		\$510,000
Seismic	95,000	400,000	70,000		565,000
Drilling	1,000,000	1,750,000	2,800,000		5,550,000
Capital				\$350,000	350,000
Fund Expenses (a)				525,000	525,000
Total	\$1,305,000	\$2,350,000	\$2,970,000	\$875,000	\$7,500,000

(a) Fund expenses include \$225,000 of Fund closing expenses and the funding of management fees for eight quarters, after which time it is projected that the management fees will be payable from Fund revenues.

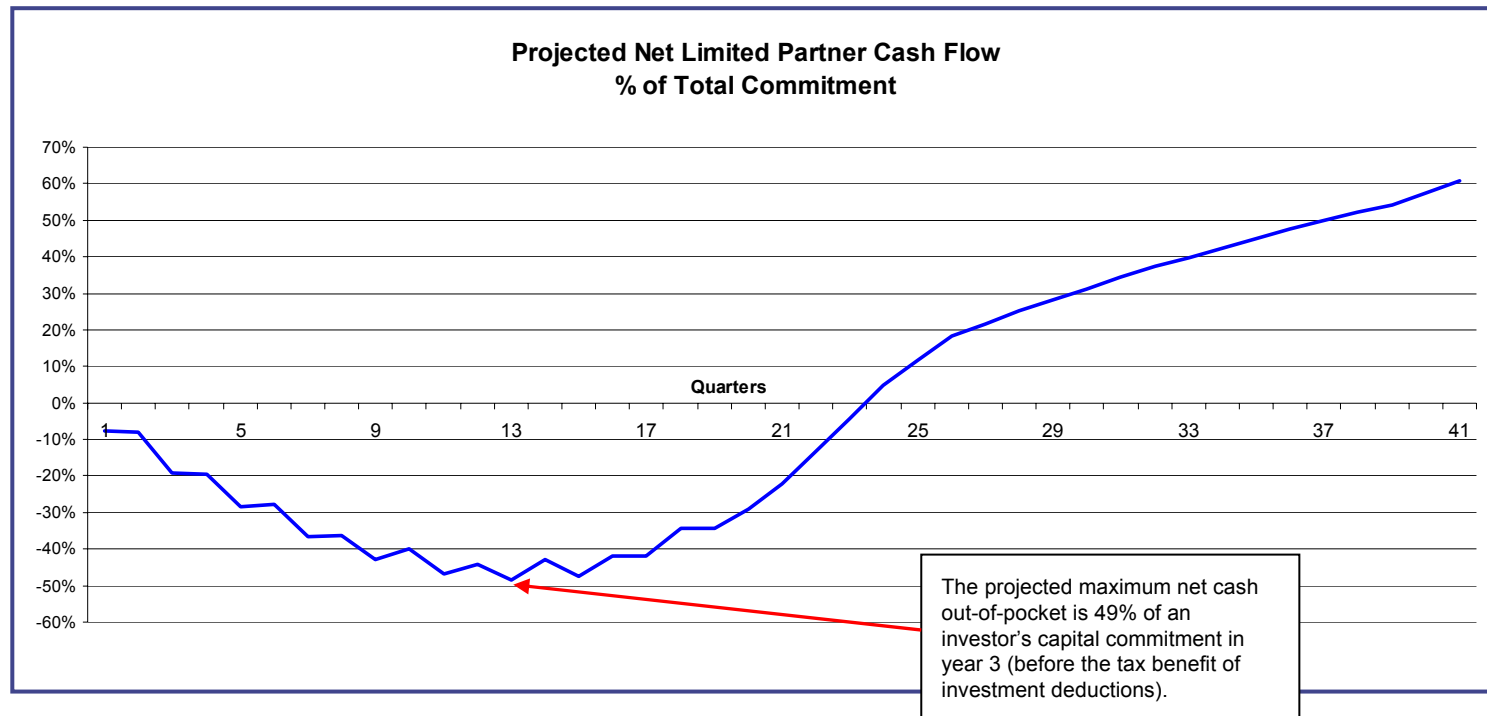
Investment Timing

As the Project Areas are exploratory in nature, the draw upon capital is over a longer period than for specific well drilling-only ventures. This is because of the time requirements needed to acquire leaseholds, perform and analyze seismic data, select and permit drill sites, and drill the selected locations. As such, we would expect to call and deploy capital consistent with the following timeline.

Investment Timing	Leasehold	Seismic	Drilling	Other	Total
@ Fund Closing	\$265,000	\$40,000	\$0	\$250,000	\$555,000
2010	165,000	130,000	500,000	150,000	945,000
2011	40,000	190,000	1,150,000	150,000	1,530,000
2012	20,000	85,000	1,375,000	125,000	1,605,000
2013	20,000	120,000	1,375,000	100,000	1,615,000
2014	-	-	1,150,000	100,000	1,250,000
2015 +	-	-	-	-	-
Total	\$510,000	\$565,000	\$5,550,000	\$875,000	\$7,500,000

Net Outstanding Investment

As a result of the investment occurring over a five-year period, combined with the expected commencement of revenue generation in the second year of the Fund, we project that not more than about 50% of an investor's commitment to the Fund would be outstanding at any time. The projection below assumes full investment of the Fund and no sale of Fund properties or assets.



Exit Strategy

An exit strategy is important to all private investments. Fortunately for oil and gas investments, there is an inherent exit strategy through the production and sale of oil and gas. In addition, these tend to be very good interests to pass to heirs through an estate to generate cash flow for them on a tax-preferred basis. Nonetheless, our intention is to provide a full or partial exit to the investment through a combination of the sale of developed properties and repurchase of Limited Partner interests.

- *Sale of developed properties.* It is our intention to develop each of the Project Areas over the five-year investment period and then undertake to market and sell these interests. Of course, the ability to effectively sell a Project Area is dependent upon a number of factors including the development success, supply and demand for oil and gas, commodity prices, purchaser financing availability, etc.
- *Repurchase of Limited Partner interests.* Within one year after payout to the Limited Partners, if we have not yet sold the Project Areas, the General Partner will offer to purchase so much of the Limited Partner interests as may be acquired using one-half of the then General Partner cash flow from its interest in the Fund. The price of the offer to purchase will be determined by independent valuation of the interests. Under our current model, if no property sales have occurred, payout (the time at which the Limited Partners have received their cash plus the preferred return) is projected to occur in 2016.

Fund Management



Henry S. Belden, IV

- Co-Founder and Chairman of FOFM, LLC and FO Oil & Gas, LLC
- Former CEO and Chairman of Belden & Blake Corporation from October, 1978 to July, 1997; responsible for taking the company public prior to its sale to TPG
- Over 50 years of experience in oil and gas investment and operations
- Member of the Ohio Oil and Gas Hall of Fame
- Member of several corporate and charitable boards



Todd A. Lensman

- Co-Founder and President of FOFM, LLC and FO Oil & Gas, LLC
- Founder or co-founder of numerous business entities and investment vehicles in the United States and Europe
- Managing Partner of FO Oil & Gas I, Ltd. and FO Oil & Gas II, Ltd.
- Licensed as an attorney, Certified Public Accountant, and Registered Investment Advisor
- Over 10 years of experience in oil and gas investment and operations



John B. Thomas

- Vice-President of FO Oil & Gas, LLC and responsible for exploration activities
- Formerly a Senior Geologist for EnerVest Operating, LLC and Vice-President of Exploration for Belden & Blake Corporation
- Responsible for over 120 successful Knox and Trenton Formation wells and several key Appalachian Basin discoveries
- Continues to focus upon faulted and fractured reservoirs, as well as new oil and gas potential below the Knox unconformity
- Instrumental in the development and implementation of FO Oil & Gas I, Ltd. and FO Oil & Gas II, Ltd.
- Holds B.S., Geology and M.S., Geology degrees from Muskingum College and Kent State University, respectively
- Member of American Association of Petroleum Geologists, Ohio Geological Society, and Ohio Oil & Gas Association
- Over 25 years of experience in oil and gas exploration, development, and operations



Leo A. Schrider

- Advisor to FO Oil & Gas, LLC and related entities on oil and gas activities
- Petroleum Engineer with 47 years of oil and gas experience
- Experience includes 23 years with Belden & Blake Corporation, and, prior to that, Shell Oil Company and the Department of Energy
- Responsible for assembling and managing FO Oil & Gas I, Ltd. and FO Oil & Gas II, Ltd.
- Member of the Ohio Oil and Gas Hall of Fame
- Member of the Society of Petroleum Engineers Board of Directors, former Chairman of the Petroleum Transfer Council Board
- Has published more than 35 technical papers related to oil and gas technology
- Holds B.S., Petroleum Engineering degree from and performed graduate studies at West Virginia University

Fund Management (cont.)



John E. Farren

- Vice-President and Client Advisor with FOFM, LLC
 - Responsible for the firm's family office services and financial planning activities
 - 15 years of experience in financial services, investment, trust administration, and planning
 - Previously the manager of financial planning services for a regional bank
 - Licensed as an attorney and holds General Securities Representative and Registered Investment Advisor licenses
-



John T. Konovsky, Jr.

- General Counsel of FOFM, LLC
 - Practices in the areas of private investment, estate planning, business formation, acquisition and divestiture
 - Oversees the structuring and implementation of the private investment transactions
 - Supervises the firm's securities regulation processes and compliance activities
 - Over 12 years of experience as an attorney
-



David M. Patterson

- Financial Analyst for FOFM, LLC
 - Responsible for financial analysis, private equity administration, public investment administration and financial reporting
 - Manages the firm's private equity financial analysis and modeling
 - Previously a senior analyst with Cole Vision Corporation and portfolio specialist with General Electric
 - Holds a degree in finance and a MBA
-



Debra L. Lensman

- Controller of FOFM, LLC
- Responsible for the firm's internal accounting, reporting, and financial compliance
- Oversees the subsidiary companies, private investment, investor reporting
- Over 21 years of accounting experience, including 10 years with a certified public accounting firm
- A Certified Public Accountant

Summary of Principal Terms

The Fund:	FO Oil & Gas III, Ltd. (“Fund III” or the “Fund”), an Ohio Limited Partnership
General Partner:	FO Oil & Gas, LLC, a wholly-owned subsidiary of FOFM, LLC
Fund Manager:	FOFM, LLC and FO Energy Development, LLC
Committed Capital:	\$7,500,000
Closing Date:	June 30, 2010, or upon the fulfillment of Committed Capital
Investor Suitability:	Limited Partnership Interests are offered in units of \$250,000 to Accredited Investors
General Partner and Related Parties Commitments:	The General Partner will make a cash Commitment equal to 1% of the aggregate Commitments. The FO Energy Principals will make an aggregate Limited Partner Commitment equal to at least 25% of the aggregate Commitments.
Investment Period:	Five years from the final closing
Fund Term:	Ten years, subject to two consecutive one-year extensions at the election of the General Partner and approval of Limited Partners holding a majority of the Limited Partner interests.
Distributions:	In general, the Partners will first receive a return of all capital called, plus an 8% annual preferred return on these amounts. After this “Payout,” distributions shall be made 50% to the General Partner and 50% to the Limited Partners until the total distributions ratio is 80% to the Limited Partners and 20% to the General Partner. Thereafter, all distributions shall be paid 80% to the Limited Partners and 20% to the General Partner.
Repurchase of LP Interests:	Within one year after Payout, the General Partner shall offer to acquire so much of the Limited Partner interests as may be acquired using one-half of the then General Partner cash flow from its interest in the Fund and based upon the value of such interests as determined by independent valuation.
Management Fee:	During the Fund Term, 2% per annum of the aggregate Commitments, payable from production or quarterly in advance if pursuant to a call upon the Partners.
Transaction Fees:	The General Partner will not charge transaction or other fees on the costs and expenses of the Fund or the acquisition or disposition of Fund assets.
Organization Expenses:	The Fund will bear up to \$225,000 of organizational and marketing expenses, which shall include a 2% fee to the General Partner on the amounts subscribed. Any expenses in excess of this amount shall be borne by the General Partner.

FO Oil & Gas III, Ltd.

FO Oil & Gas, LLC

FO Oil & Gas, LLC – Firm History and Background

FO Oil & Gas, LLC is a wholly-owned subsidiary of FOFM, LLC. FOFM was formed in 1998 to undertake private investment transactions and provide wealth management and family office services to affluent individuals and families. FO Oil & Gas was formed to pursue and manage private oil and gas investment activities, including partnering arrangements with a number of operating industry partners.

The firm's oil and gas activities start with Henry S. ("Chic") Belden, IV, who is the Chairman and a Co-Founder of FOFM. Mr. Belden has enjoyed a long career in the oil and gas industry for over 50 years and is a member of the Ohio Oil and Gas Hall of Fame. Mr. Belden continues to be active in the firm's oil and gas activities.

These activities expanded when Leo Schrider joined the firm in 2005 and we formed FO Oil & Gas I, Ltd., which provided a vehicle for our clients and investors to participate directly in oil and gas activities. Mr. Schrider is a Petroleum Engineer with 47 years of experience in oil and gas production, having worked at Belden & Blake Corporation, Shell Oil Company, and the U.S. Department of Energy.

We further expanded our oil and gas activities in 2007 with the addition of John Thomas as the Vice-President of FO Oil & Gas, LLC. Mr. Thomas is a Petroleum Geologist whose activities have been focused upon identifying exploratory oil and gas plays throughout the Appalachian Basin. Mr. Thomas began his career working with Mr. Belden and Mr. Schrider at Belden & Blake Corporation (now EnerVest) and is responsible for some of the largest well oil and gas finds in Ohio.

In 2007, we also formed FO Energy, Ltd. and FO Energy Development, LLC for the purpose of increasing the development of exploration plays throughout the Appalachian Basin.

The firm's oil and gas exploration and development activities are now conducted through a group of entities that includes FO Oil & Gas, LLC; FO Energy, Ltd.; FO Energy Development, LLC; FO Oil & Gas I, Ltd.; and FO Oil & Gas II, Ltd.

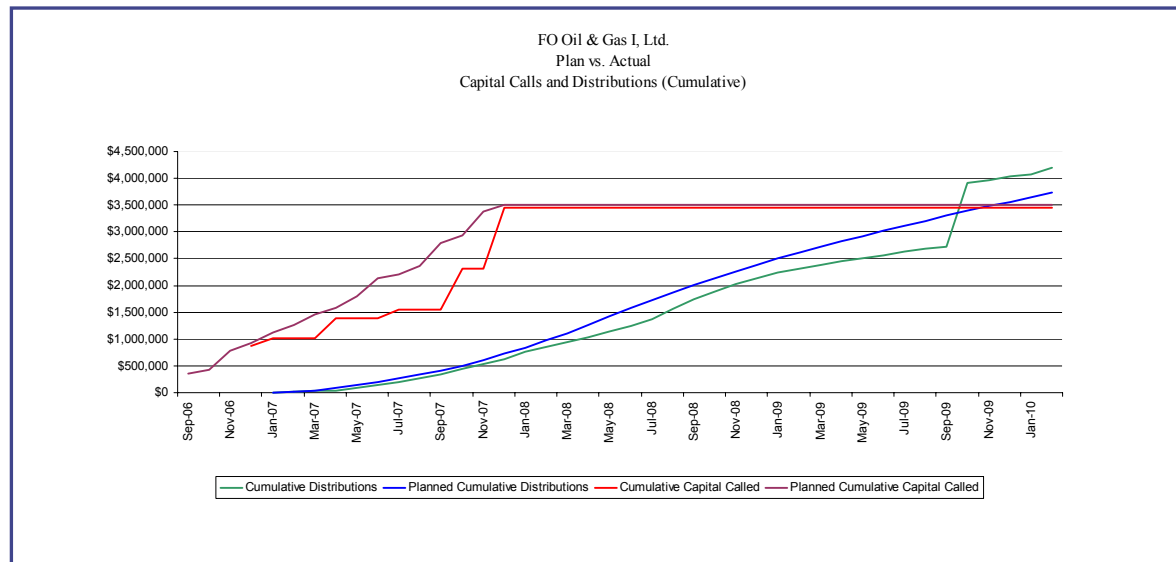
Please visit our website at www.FO-FM.com.

FO Oil & Gas I, Ltd. (“Fund I”)

FO Oil & Gas I, Ltd. (“Fund I”), formed in 2006, is invested in oil and gas land acquisition and drilling projects with select drilling and operating partners throughout the Appalachian Basin. The investment is divided between developmental drilling and exploratory drilling projects and is managed by the same individuals as Fund III.

To date, Fund I has returned 130% of the gross investment and continues to produce oil and gas revenue. Taking into consideration the estimated remaining reserves, Fund I has a current pre-tax benefit annual internal rate of return of approximately 33%. The tax benefits could increase this return by 10-15%, depending upon the investor’s tax situation (see the Tax Benefits of Oil and Gas Investing section).

Fund I focused on the exploratory and developmental drilling in Ohio and Pennsylvania. Similar to the objectives of Fund III, Fund I obtained and profitably sold acreage interests and undertook exploratory drilling in the Marlboro pool (the Vaughn 1A well). Unlike Fund III, however, Fund I included a component of lower-return developmental drilling.



FO Oil & Gas II, Ltd. (“Fund II”)

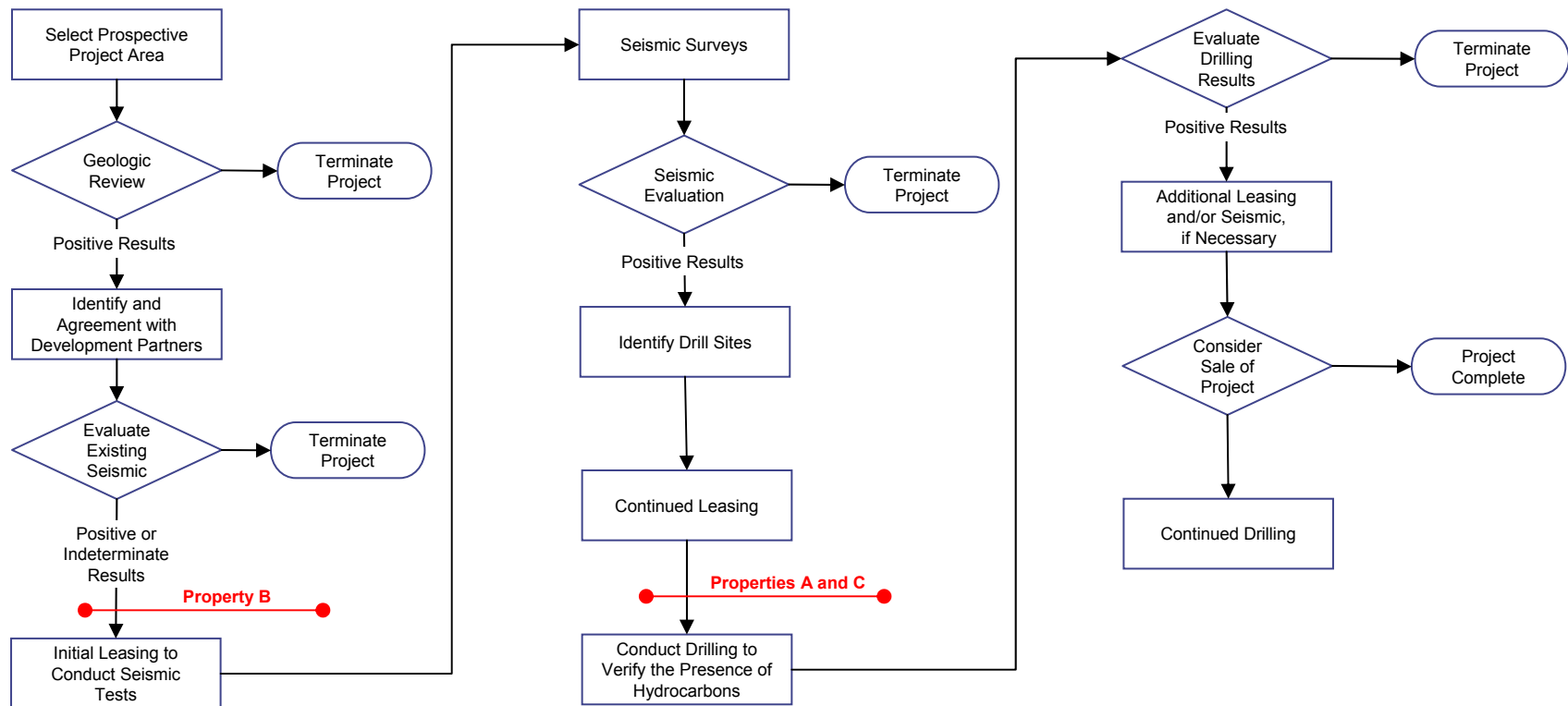
FO Oil & Gas II, Ltd., formed in 2008, is invested in oil and gas land acquisition and drilling projects with select drilling and operating partners throughout the Appalachian Basin and the development of exploratory projects in northern and northwestern Ohio. The investment is divided between developmental drilling and exploratory drilling projects and is managed by the same individuals as Fund III.

Fund II continues to deploy investments in oil and gas drilling projects. We temporarily halted capital calls during the period from November, 2008 until June, 2009 as the correlation between drilling costs and commodity pricing did not make for prudent investments. However, as the global recovery has progressed, we have recommenced capital projects in Fund II with a focus upon drilling five wells targeting the Trenton and Trempealeau formations in central and northwest Ohio.

Although it is too early to determine the internal rate of return for Fund II, we are most excited about the prospects for Fund II. In fact, we are viewing the northwest Ohio activity as potentially proving a field that would contain a number of locations. Last year, we drilled two exploratory wells on this acreage. Each of the wells exhibited both oil and gas hydrocarbons at less than 2,000 feet. After further geological and geophysical studies of the area and additional seismic data, we have determined that this area is very attractive for further exploration and development. Similar to Fund III, this Fund II activity could provide value to Fund II beyond actual oil and gas production.

Overview of Oil and Gas Development Process

Oil and gas development typically occurs in several stages. At certain stages of the process the project may be deemed uneconomic and terminated. As reflected below, the current Project Areas are well along in the process. This materially enhances probable success of the project, but does not guarantee success.



Oil and Gas Outlook

Each year the U.S. Energy Information Administration (EIA) publishes its Annual Energy Outlook. In April, the EIA published its *Annual Energy Outlook 2010*. The completed document is available on our website (www.FO-FM.com) or on the EIA website (<http://www.eia.doe.gov/>). Some relevant points to consider from the report include:

- The EIA outlines a Reference case, a High Oil Price case, and a Low Oil Price case to forecast future oil prices.
 - The Reference (or middle) case is characterized by current practices, politics, economics, the assumption that the world economy and demand for liquids returns to 2008 consumption levels of just under 86 million barrels per day, and that OPEC maintains its share of supply at about 40%, where it has been for 15 years. In this case, the EIA forecasts oil prices at *\$95 per barrel in 2015 and \$133 per barrel in 2035* (2008 dollars).
 - The High Oil Price case assumes that in addition to the resumption of demand, governments use quotas, fiscal regimes, and varying degrees of nationalization to increase production revenues. Under this scenario, OPEC produces 35% of the production and world oil prices rise to over *\$150 per barrel in 2015 and to \$210 per barrel in 2035*.
 - In the Low Oil Price case, the EIA assumes that “greater competition and international cooperation will guide the development of political and fiscal regimes in both consuming and producing nations, facilitating coordination and cooperation among them.” This assumes that non-OPEC producing nations (like the U.S.) will develop fiscal policies and investment regimes that encourage private-sector participation in the development of resources and that OPEC production would increase to 50% of overall supply. In this case, prices would stabilize at *\$51 per barrel*.
- The EIA outlines a Reference case, a No Sunset case, and an Extended Policy case to forecast future natural gas prices.
 - The Reference case assumes that current laws and regulations remain unchanged. In this case, natural gas prices are projected to average *\$5.70 per mcf in 2015 and \$8.06 in 2035*.
 - The No Sunset case envisions an extension of tax credits and incentives for renewable fuels and energy saving programs. Under this case, prices are *\$5.68 per mcf in 2015 and \$7.51 in 2035*.
 - In the Extended Policy case, the government adopts a variety of measures to increase the use of renewable energy sources and reduce overall energy consumption. In this case, natural gas prices are *\$5.75 per mcf in 2015 and \$7.37 in 2035*.
- Our Fund III projections assume prices are \$75.00 per barrel of oil and \$4.00 per mcf of natural gas.

Tax Benefits of Oil and Gas Investing

There are several significant tax benefits to investing in oil and gas projects. These benefits may add to the investment internal rate of return by 10-15%, and include:

- *Deduction of expenses and losses (non-application of passive loss rules).* Generally, taxpayers are only permitted to deduct passive activity¹ losses and deductions against other passive activity gains and income, thus limiting the benefit of these deductions. However, an oil and gas working interest holder (i.e., Limited Partner) is permitted to deduct losses and deductions attributable to the working interest to offset other income (e.g., salary, other business income, interest, and dividends). This provision provides a significant tax benefit to investors. In order to do so, the working interest holder must be liable for losses, which we insure against.
- *Deduction of intangible drilling costs.* In most non-oil and gas investments, the investment is not deductible, except that it offsets the capital gain realized from the investment upon liquidation. However, tax laws permit oil and gas investors to deduct “intangible drilling costs” against the investor’s ordinary income in the year incurred. “Intangible drilling costs” are certain expenses incurred in drilling oil and gas wells (generally 60-75% of the well costs). In addition, well costs that are not classified as intangible are depreciated over a five-year period.
- *Depletion deduction.* The depletion deduction is the greater of the cost depletion (based upon cost basis of the well) and percentage depletion (which is 15% of the gross income from the oil and gas production).

The above deductions may be limited in individual circumstances as a result of overall deduction limitations or under alternative minimum tax provisions. Please consult your tax advisor to review your individual situation.

1. A passive activity is any activity that involves the conduct of a trade or business, and in which the taxpayer does not materially participate. Material participation is generally defined as working at least 500 hours per year in the activity.

Disclaimer

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