

EXHIBIT 3

Production Allocation Methodology

◆ New drill wells - Fixed Allocation Method

Allocate production to each zone based on initial stabilized production rate from each zone.

- Measure initial stabilized flow rate from lower zone producing into sales line.
- Measure initial stabilized flow rate from both zones commingled producing into sales line.
- Lower zone allocation = Lower zone rate / Commingled rate
- Upper zone allocation = $\frac{(\text{Commingled rate} - \text{Lower zone rate})}{\text{Commingled rate}}$
- Example: Lower zone rate - 400 MCFD
Commingled rate - 1,000 MCFD

$$\begin{aligned}\text{Lower zone allocation} &= 400/1,000 \\ &= 40\%\end{aligned}$$

$$\begin{aligned}\text{Upper zone allocation} &= (1,000-400)/1,000 \\ &= 60\%\end{aligned}$$

Production Allocation Methodology

◆ Adding New Zone to Existing Zone - Initially Subtraction Method followed by Fixed Allocation Method

- Subtraction Method (+/- 1st 12 months)
 - Forecast production rate by month for existing zone utilizing established decline curve for zone
 - Subtract forecasted rate from commingled rate to define new zone rate
 - Utilize subtraction method for +/- 12 months until new zone rate stabilizes, then utilize fixed allocation method with current rates
- Fixed Allocation Method (after Subtraction Method)
 - Utilize forecasted rate from established decline curve for lower zone
 - Calculate upper zone rate by subtracting lower zone rate from commingled rate
 - Lower zone allocation = $\frac{\text{Lower zone rate}}{\text{Commingled rate}}$
 - Upper zone allocation = $\frac{(\text{Commingled rate} - \text{Lower zone rate})}{\text{Commingled rate}}$