PRODUCTION ALLOCATION METHODOLOGY

New Drill Wells & Recompletions

Initially Subtraction Method followed by Fixed Allocation (Ratio) Method

Subtraction Method (Six to Twelve Months)

- Determine stabilized flow rate for existing zone (for recompletion – decline curve) or lower zone (for new drill – initial stabilized rate) and forecast production rate by month
- Subtract forecasted rate from commingled rate to determine production rate on new commingled zone
- Utilize subtraction method for six to twelve months until new zone rate stabilizes, then utilize fixed allocation method with current rates

Fixed Allocation Method (after Subtraction Method)

- Utilize forecasted rate for existing or lower zone
- Calculate upper zone rate by subtracting existing or lower zone rate from commingled rate
- Lower zone allocation = $\frac{\text{Lower zone rate}}{\text{Commingled rate}}$
- Upper zone allocation = (Commingled rate - Lower zone rate) / Commingled rate
- Example: Lower or existing zone rate - 400 MCFD (forecast after 6 to 12 months)
  Commingled rate - 1000 MCFD

  Lower zone allocation = 400 / 1000
  = 40%

  Upper zone allocation = (1000-400) / 1000
  = 60%