

Analysis helps determine farm-in fractional interest

Abstract

Equations are developed for obtaining the fractional interest that a farm-in or farm-out company requires when farming in or out of a property. This fractional interest can then serve as the beginning value for negotiating a final percentage. Farm-in and farm-out deals are a common method of financing exploration in the oil and gas industry. They are even used sometimes to finance workovers to stimulate production from a well that is not achieving its true potential. The most common deal would involve a farm-in company paying the costs of one or more exploration and appraisal wells on a permit or prospect in exchange for a certain percentage interest in the prospect. But, what are the economics of such deals. Can they be worthwhile for both the farm-in and farm-out parties. An analysis of such deals can help point the way as to when one should farm-in or farm-out a prospect.

Authors:

[Towler, B F](#) ^[1]

[+ Show Author Affiliations](#)

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