

7. The Chief Engineer will prepare operation schedules setting out time and method of producing each well so as to secure the optimum oil production with the optimum gas production and to insure an even flow of gas to the plant.

8. The Chief Engineer will study the ~~individual~~ leases and wells and will recommend remedial or corrective work to the owners of the wells. Under no circumstances shall the Chief Engineer have authority to direct a well owner to undertake remedial or corrective works other than such work as is necessary to permit the taking of bottom hole pressures and/or gas-oil ratios.

9. The Chief Engineer will be responsible for the Artesia office of the Loco Hills Pressure Maintenance Association, Inc.

10. In order to carry out the obligation of the operator to properly produce his wells to prevent wasting of gas and to deliver proper flow of gas to the plant, it is agreed that the chief engineer shall report to the Executive Committee any well permitting the wasting of gas or which fails to deliver the proper amount of gas to the system and the Executive Committee shall authorize the Engineer to order said well to be shut in until such practices are remedied. In the event such an order is made, and the operator fails to comply with the order, then such operator shall not be entitled to receive any payments from the Association for injection wells and shall not be entitled to receive any shares of stock or any other privileges or benefits so long as such harmful practices are continued. If an order is issued by the Engineer to shut in a well, the Engineer shall serve a written notice upon the operator by delivering a copy thereof to the person in charge of the wells for the operator and by mailing a copy thereof to the office of the operator as shown by the books of the Association. Such notice shall state the well to be shut in and the practices which are objectionable in the opinion of the Engineer and the steps required to correct such practices. The operator may appeal any such order to the Executive Committee and/or to the Board of Directors.

EXHIBIT 7

- B U D G E T - -

<u>DISBURSEMENTS</u>			<u>RECEIPTS</u>
Operating Expense	\$ 5,000.00	8¢ per bbl. (for bank)	\$7,200.00
Bank Note & Interest	7,200.00 *	7¢ per bbl. (for input wells)	6,300.00
Input wells	8,100.00	Sale Gas & Butane	10,500.00
Wells shut in	1,800.00		
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	\$ 22,100.00		\$ 24,000.00

* Repayment of loan to bank - approximately four years.

A UNIT OPERATION AGREEMENT

This agreement made and entered into by and between the parties, whose signatures appear below, this _____ day of _____, 1947,

WITNESSETH THAT WHEREAS the Kinfolks Trust, a Trust Estate is the owner of a certain oil and gas lease from the State of New Mexico insofar as it covers the SW/4 NW/4 of Section 32 Township 17, South Range 30 East, N.M.P.M., Eddy County, New Mexico, upon which is located the Kinfolks Trust-State No. 3, a producing well, and

WHEREAS Aston and Fair, a tenancy in common composed of Bert Aston and R. W. Fair, is the owner of a certain oil and gas lease from the State of New Mexico insofar as it covers the SE/4 NW/4 of said section 32, upon which is located the Aston and Fair-State No. 6B, a producing well, and

WHEREAS Bert Aston, R. W. Fair, C. A. Scheurich, Mrs. Wirt Franklin, and Carl Hatch, a joint ownership is the owner of a certain oil and gas lease insofar as it covers the N/2 SW/4 of Section 32 and that the Aston and Fair-Scheurich State No. 3, a producing well is located on the NW/4 SW/4 of said section 32 and the Aston and Fair-Scheurich State No. 4 well which is located on the NE/4 SW/4 of said Section 32, is now and has been since the date of the completion thereof been used as an input well, and

WHEREAS the parties hereto desire to operate all of said acreage as above described as a unit for the purpose of providing for the most efficient and economic recovery of oil and gas and to achieve the maximum ultimate recovery thereof without waste,

NOW THEREFORE it is mutually stipulated and agreed as follows:

1. That all of said tracts of land as above described shall be operated subject and subservient to the rules and regulations of the Loco Hills Pressure Maintenance Association Inc. and the orders of the Oil Conservation Commission of the

E. L. B.

State of New Mexico, and that the area included in the lands above described shall be known as the Scheurich Unit.

2. That the Aston & Fair-Scheurich State No. 4 well located on the NE/4 SW/4 of said Section 32 shall be continued to be used as an input well in accordance with the rules and regulations of the Loco Hills Pressure Maintenance Association Inc. and order Number 562 of the Oil Conservation Commission effective April 1, 1944.

3. That in order to compensate the owners of the lease on which said input well is located for the loss of production from said input well, and subject to the approval of the Oil Conservation Commission of the State of New Mexico, the Scheurich Unit shall drill a well 2310 feet from the North line and 1260 feet from the West line of said Section 32. In view of the fact that the Aston and Fair-Scheurich State No. 4 well was capable of producing well in excess of the top allowable at the time of completion thereof, when it was designated as an input well, it is desired by the parties hereto to request a top allowable for the new well to be drilled on the unorthodox location as set out above, provided the Oil Conservation Commission of the State of New Mexico consents to said unorthodox location.

4. That the Scheurich Unit will operate all wells producing within the unit and that the production from all of the wells drilled or to be drilled on said lands within the unit area shall be divided among the owners thereof in the same proportion that the acreage owned by each party hereto bears to the whole area within said unit.

5. That the Scheurich Unit will not request a top allowable on any 40 acre tract within said Scheurich Unit unless the well on such 40 acre tract is capable of producing said top allowable.

Kinfolks Trust, a Trust Estate

By _____
R. W. Fair, Trustee.

Aston and Fair, a tenancy in common

By _____
Bert Aston, Manager

Bert Aston, R.W. Fair, C.A. Scheurich,
Mrs. Wirt Franklin and Carl Hatch, a
Joint Ownership.

By _____
Bert Aston, Manager