



RECEIVED OGD

Aubrey Dunn
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

2015 MAY -5 P 3:09
COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766
www.nmstatelands.org

Certified Mail; Return Receipt Requested; Receipt No.; 7012 3460 0003 1310 4207

April 29, 2015

Blue Sky NM, Inc.
7941 Katy Freeway, Suite 522
Houston, TX 77024
Attn: Mr. Aqeel Virk

R: 4608
C: 5030

Re: Termination Notice: Artesia Metex Unit Agreement (Eddy County, New Mexico)

Dear Mr. Virk:

By letter dated June 2, 2014, the New Mexico State Land Office (SLO) required Blue Sky NM Inc. /Canyon E & P Company to show cause why the Artesia Metex Unit should not be terminated. That letter referred to earlier meetings held between the State Land Office and Blue Sky NM, Inc. during which on-going violations of SLO rules had been discussed. The June 2, 2014 SLO letter gave Blue Sky 30-day's notice that SLO would terminate this Unit Agreement if listed violations were not corrected in 30 days.

Blue Sky responded to SLO's termination notice by letter dated June 30, 2014, requesting an additional six (6) months to correct violations, based on Blue Sky's efforts on another unit (the Twin Lakes Unit). The State Land Office has reviewed Blue Sky's response of June 30, 2014 and finds that it is not in the best interest of the state trust lands to extend this unit any further, and finds that the following violations in the June 2, 2014 letter have not been corrected:

- The date of last production from this unit was May 2013. This violates Section 20 (Effective Date and Term) of the Artesia Metex Unit Agreement, which provides that the Unit Agreement shall remain in effect "so long as Unitized Substances are capable of being produced in quantities sufficient to pay the costs of operation and should production cease, so long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are in progress on the Unitized Land." Blue Sky failed to bring any information to SLO's attention indicating that it has met this requirement of the Unit Agreement subsequent to SLO's June 2, 2014 notice.
- Royalties due have not been reported or paid since approximately September 2006, as required by 19.2.57 NMAC and as noticed in SLO's June 2, 2014. Blue Sky failed to bring any information to SLO's attention indicating that it has met this requirement of the Unit Agreement subsequent to SLO's June 2, 2014 notice.

In addition, Blue Sky NM Inc. does not have a Surface Improvement Damage Bond filed with this office, and Blue Sky NM Inc. is therefore operating this unit without the approval of the NM State Land Office in violation of 19.2.100.23 NMAC. Blue Sky has also failed to follow requirements for resignation/removal of unit operators and designation of a new unit operator in violation of Sections 6 and 7 of the Artesia Metex Unit Agreement.

Blue Sky, NM Inc.

April 29, 2015

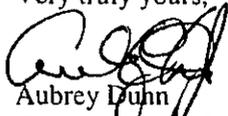
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As Blue Sky has failed to correct the noticed violations, and continues to violate SLO and Unit Agreement requirements, please be advised that the Commissioner of Public Lands has hereby terminated the Artesia Metex Unit effective April 17, 2015, pursuant to §19-10-20 NMSA 1978.

Please advise all interested parties of this action.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,



Aubrey Dunn
Commissioner of Public Lands

AD/pm/JJP

cc: Reader File,
NMOCD Attention: Mr. Daniel Sanchez
TRD-Attention: Ms. Billie Luther
RMD-Attn: Mr. Kurt McFall
Pete Domenici, Jr.
Jennifer Pruett, Associate Counsel

As the following leases may be affected or expired by termination of this Unit Agreement, copies of this letter are also being sent to:

| | | |
|--------|------|--|
| B07966 | 0023 | CHUZA PETROLEUM |
| B09603 | 0017 | OXY Y-1 COMPANY |
| B10371 | 0000 | FLOYD STYLES VILAS P SHELDON |
| B10453 | 0007 | TRUST |
| B11083 | 0028 | KHODY LAND & MINERALS CO. |
| B11083 | 0006 | YATES BROTHERS |
| B11339 | 0012 | TOM SCHNEIDER |
| B11595 | 0000 | CHEVRON U S A INC |
| E00828 | 0002 | MEWBOURNE OIL COMPANY YATES PETROLEUM |
| E02123 | 0002 | CORPORATION |
| E05071 | 0007 | KHODY LAND & MINERALS CO. |
| L03757 | 0001 | OXY Y-1 COMPANY YATES PETROLEUM |
| LG1418 | 0000 | CORPORATION |
| X00647 | 0405 | KHODY LAND & MINERALS CO. |
| X00647 | 0339 | LEONARD NICHOLS BP AMERICA PRODUCTION |
| X00648 | 0148 | COMPANY |

2,4609 R: 4608
 # C: 5031 C: 5030
 300005

Unit Name ARTESIA METEX UNIT (WATERFLOOD)
 Operator Yates Drilling Company
 County Eddy

RECEIVED OGD

| DATE APPROVED | OCC CASE NO. 5030 OCC ORDER NO. R-4608 | EFFECTIVE DATE | TOTAL ACREAGE | STATE | 2015 MAY -8 P 3:00 FEDERAL | INDIAN-FEE | SEGREGATION CLAUSE | TERM |
|--------------------------|---|------------------|---------------|----------|-------------------------------|------------|--------------------|--------|
| Commissioner 11-29-73 | Commission 8-13-73 | December 1, 1973 | 2,016.93 | 2,016.93 | -0- | -0- | Yes | 5 yrs. |

UNIT AREA

TERMINATED
 EFFECTIVE DATE 4-17-2015
 APPROVAL DATE 4-29-2015

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM
 Section 24: NW/4NE/4, S/2NE/4, S/2
 Section 25: N/2, SW/4, N/2SE/4, SW/4SE/4
 Section 26: E/2E/2, SW/4SE/4
 Section 35: N/2NE/4
 Section 36: N/2NW/4

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
 Section 19: Lots 2, 3, 4, E/2SW/4, W/2SE/4, NE/4SE/4
 Section 30: Lots 1, 2, E/2NW/4, W/2NE/4, NE/4SW/4

Unit Name ARTESIA METES UNIT (WATERFLOOD)
 Operator YATES DRILLING COMPANY
 County EDDY

TERMINATED
EFFECTIVE DATE 4-17-2015
APPROVAL DATE 4-29-2015

| STATE TRACT NO. | LEASE NO. | INSTI-TUTION | SEC. | TWP. | RGE. | SUBSECTION | RATIFIED DATE | ACRES | ACREAGE NOT RATIFIED | LESSEE |
|-----------------|------------|--------------|----------|------|------|--|--------------------|--------|----------------------|--------------------------------------|
| 1. | 648-131 | AG. Col. | 24 25 | 18S | 27E | NW/4NE/4, S/2NE/4 SE/4NE/4, S/2NW/4, NW/4NW/4, SW/4, W/2SE/4, NE/4SE/4 | 9-7-73 | 560.00 | | Depco, Inc. |
| 2. | 648-131 | Ag. Col | 24 | 18S | 27E | W/2SW/4 | 9-7-73 | 80.00 | | Depco, Inc. |
| 3. | LG-1418 | AG.Col. | 24 | 18S | 27E | NE/4SW/4 | 10-25-73 | 40.00 | | Yates Pet. Corp. |
| 4. | 648-134 | AG.Col. | 24 | 18S | 27E | SE/4SW/4 | 10-25-73 | 40.00 | | Yates Pet. Corp. |
| 5. | B-9603-17 | AG.Col. | 24 | 18S | 27E | NW/4SE/4 | 10-25-73 | 40.00 | | Yates Drilling Co. |
| 6. | B-10453-7 | AG.Col. | 24 | 18S | 27E | S/2SE/4 | 6-30-73 | 80.00 | | Vilas P. Sheldon |
| 7. | L-3757-1 | Ag.Col. | 24 | 18S | 27E | NE/4SE/4 | 10-25-73 | 40.00 | | Yates Drilling Co. |
| 8. | B-7966-13 | Univ. | 19 | 18S | 28E | Lot 2(SW/4NW/4) | 10-8-73 8-27-73 | 43.48 | | R. D. Collier C. A. Denton |
| 9. | B-11595 | Univ. | 19 | 18S | 28E | Lots 3, 4, (W/2SW/4), SE/4SW/4 | 9-4-73 | 126.81 | | Gulf Oil Corporation |
| 10. | B-11595 | Univ. | 19 | 18S | 28E | NE/4SW/4 | 9-4-73 | 40.00 | | Gulf Oil Corporation |
| 11. | B-11339-9 | Univ. | 19 | 18S | 28E | W/2SE/4 | 7-24-73 | 80.00 | | Cities Service Oil Co. |
| 12. | E-828 | Univ. | 19 | 18S | 28E | NE/4SE/4 | 9-4-73 | 40.00 | | Gulf Oil Corporation |
| 13. | B-11083-19 | Ag.Col. | 26 | 18S | 27E | E/2NE/4 | 9-7-73 10-4-73 | 80.00 | | Depco, Inc. Husky Oil Co. |
| 14. | E-2123 | Ag.Col. | 26 | 18S | 27E | SW/4SE/4 | 9-4-73 | 40.00 | | Gulf Oil Corporation |
| 15. | B-11083-6 | Ag.Col. | 26 | 18S | 27E | E/2SE/4 | 10-25-73 | 80.00 | | Mary E. Yates, c/o Yates Brothers |
| 16. | E-5071-5 | Ag.Col. | 35 | 18S | 27E | N/2NE/4 | 9-7-73 10-4-73 | 80.00 | | Depco, Inc. Husky Oil Company |

Unit Name ARTESIA METEX UNIT (WATERFLOOD)
 Operator YATES DRILLING COMPANY
 County EDDY

| STATE TRACT NO. | LEASE NO. | INSTI-TUTION | SEC. | TWP. | RGE. | SUBSECTION | RATIFIED | | ACREAGE NOT RATIFIED | LESSEE |
|-----------------|-----------|--------------|------|------|------|-------------------------------------|----------|--------|----------------------|----------------------|
| | | | | | | | DATE | ACRES | | |
| 17. | 648-131 | Ag. Col. | 25 | 18S | 27E | N/2NE/4, NE/4NW/4 | 9-7-73 | 120.00 | | Depco, Inc. |
| 18. | E-2123 | AG. Col. | 25 | 18S | 27E | SW/4NE/4 | 9-4-73 | 40.00 | | Gulf Oil Corporation |
| 19. | B-10371 | C.S. | 36 | 18S | 27E | N/2NW/4 | 11-29-73 | 80.00 | | B. M. Hester |
| 20. | 647-368 | Univ. | 30 | 18S | 28E | Lot 1 (NW/4NW/4), E/2NW/4, NE/4SW/4 | 9-7-73 | 163.34 | | Depco, Inc. |
| 21. | 647-339 | Univ. | 30 | 18S | 28E | W/2NE/4 | 10-9-73 | 80.00 | | Leonard Nichols |
| 22. | 647-368 | Univ. | 30 | 18S | 28E | Lot 2 (SW/4NW/4) | 9-7-73 | 43.30 | | Depco, Inc. |

TERMINATED
 EFFECTIVE DATE 4.17.2015
 APPROVAL DATE 4.29.2015