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Aubrey Dunn
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

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2015 MAY -5 P 3:09
COMMISSIONER'S OFFICE

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Certified Mail; Return Receipt Requested; Receipt No.; 7012 3460 0003 1310 4184

April 29, 2015

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

R 17359
C: 7985

Re: Termination Notice
Marlisue Queen Unit Agreement
Chaves County, New Mexico

Dear Mr. Virk:

By letter dated June 2, 2014, the New Mexico State Land Office required Blue Sky NM Inc. /Canyon E & P Company to show cause why the Marlisue Queen 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 violation in the June 2, 2014 letter has not been corrected:

- The date of last production from this unit was February 2007. This violates Section 23 (Effective Date and Term) of the Marlisue Queen Unit Agreement, which provides that the term of the Unit Agreement shall be "for and during the time that Unitized Substances are being produced from the Unitized Land and so long thereon without cessation of more than ninety (90) consecutive days..." A Field Inspection of this property conducted on February 6, 2014 by this office revealed that, "no activity on this unit was found and all wells need to be plugged pursuant to the NMOC rules and regulations and reclaimed pursuant to State Land Office Rule 19.2.100.67." 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.

Blue Sky, NM Inc.
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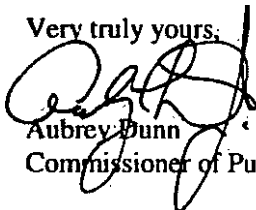
In addition, Blue Sky NM Inc. does not have a Surface Improvement Damage Bond filed with this office, and therefore Blue Sky NM Inc. is operating this unit without the approval of the New Mexico State Land Office in violation of 19.2.100.23 NMAC. Blue Sky has also failed to follow requirements for resignation/removal of unit operators and designation of a new unit operator in violation of Sections 7 and 8 of the Marlisue Queen Unit Agreement.

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 Marlisue Queen 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.
L04749-0 Marathon Oil Company
K06772-2 Kerr-McGee O/G Onshore, LP

12:73 99
C17985

TERMINATED DUE TO LACK OF PRODUCTION
UNIT NAME: MARLISUE QUEEN UNIT
OPERATOR: CANYON E & P
COUNTY: CHAVES

RECEIVED OCD

UNIT NUMBER: 300040

2015 MAY -8 P 3:08

DATE APPROVED	OCD CASE NO. OCD ORDER NO.	TOTAL ACREAGE	STATE	FEDERAL	INDIAN FEE	SEGREGATION CLAUSE	TERM
EFFECTIVE 4/17/2015	CASE NO. ORDER NO.	440.00	440.00	0.00	0	EXTENDED	5 YEARS & SO LONG AS

APPROVALS

SLO-04/15/2015

TOWNSHIP 14 SOUTH, RANGE 29 EAST

SECTION 24: NE/2SW/4	40.00
SECTION 24: N/2, N/2SE/4	400.00

OCD