



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. Agcel 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.

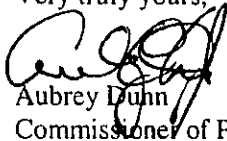
In addition, Blue Sky NM Inc. does not have a Surface Improvement Damage Bond filed with this office, and Blue Sky NM Inc. is therefore operating this unit without the approval of the NM State Land Office in violation of 19.2.100.23 NMAC. Blue Sky has also failed to follow requirements for resignation/removal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

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

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

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

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 18S	27E 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 DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
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