Update on Mexico – 2017 GPS

June 13, 2017

Presenter: José Sifuentes D. (Partner)
jsifuentes@nhg.com.mx
Company: Nader, Hayaux & Goebel (Mexico Law Firm)
Country: Mexico

1. Introduction – Mexico's Energy Reform in a Nutshell

NADER HAYAUX & GOEBEL

Private Investment in the Oil & Gas Industry was Prohibited

Activities open to the Private Sector:

- Upstream – Provide Services and Products to Pemex subject to Pemex's Terms and Conditions
- Midstream – Gas Transportation (as of 1994)
- Downstream – Retail of Gas, Gasoline and Diesel

NADER HAYAUX & GOEBEL

Reform Entailed

- Amendments to the Mexican Constitution
- 9 New Laws
- 12 Amended Laws
- New Regulation along the entire value chain of the Oil & Gas Industry
- New regulatory bodies and complete overhaul of existing ones

NADER HAYAUX & GOEBEL

New Oil & Gas Regime

- Allows private and FOREIGN investment
- Underground Hydrocarbons remain property of Mexico
- Upstream – E&P Contracts (and the corresponding blocks and fields) are auctioned and awarded by CNH
- Midstream and Downstream – All activities subject to the attainment of permits
- Reserves – Can be reported by IOC's (with an E&P contract) for accounting and financial purposes, on the understanding that underground hydrocarbons are property of Mexico

NADER HAYAUX & GOEBEL

2. Round 1, Round 2, What is Next?

Round 1 Summary and Statistics

NADER HAYAUX & GOEBEL

4 Bidding Processes between December 2014 and March 2017

1.1 First Bidding Process.

- 14 Shallow Water Blocks for Exploration and Production– Located in the Southernmost part of the Gulf of Mexico
- Production Sharing Agreements
- 25 Interested Companies
- 2 Blocks Awarded
- Committed Investments for US$11 Billion

1.2 Second Bidding Process.

- 5 Shallow Water Blocks for Production– Also Located in the Southernmost part of the Gulf of Mexico
- Production Sharing Agreements
- 14 Interested Companies
- 3 Blocks Awarded
- Committed Investments for US$600 Million

1.3 Third Bidding Process.

- 25 Onshore Mature Blocks for Production – Located in the States of Tamaulipas, Veracruz and Tabasco
- License Agreements
- 51 Interested Companies
- 25 Blocks Awarded
- Committed Investments for US$133 Million

1.4 Fourth Bidding Process.

- 10 Deep Water Blocks for Exploration and Production – Located in the Cinturón Plegado Perdido and Cuenca Salina Areas of the Gulf of Mexico
- License Agreements
- 26 Interested Companies
- 8 Blocks Awarded
- Committed Investments for US$34.4 Billion

NADER HAYAUX & GOEBEL

Round 1 – Lessons Learned

- Size and block characteristics matter.
- Minimum and Maximum Government takes Must be disclosed upfront
- Flexibility is needed for bidding procedures and transfer of participation percentages (interests) in the blocks in a secondary market
- Transparency is Key

NADER HAYAUX & GOEBEL

Round 1 - News

- On March 2016, ENI International (a winner of Round 1.2, the Amoca Area) was the first company to drill a well in Mexican territory other than Pemex in over 75 years
- Renaissance Oil (a Canadian company) is currently Mexico's second most important producer of crude oil, juts after Pemex
- Renaissance Oil was also the first private oil company in Mexico to sell crude oil produced from Round 1
- On March 23, 2017, ENI International made the first private oil & gas discovery in Mexican territory in over 75 years, in the Amoca Area

Round 2 Summary and Statistics

4 Bidding Processes between July 2016 and December 2017

2.1 First Bidding Process.

- 15 Shallow Water Blocks for Exploration and Production– Located in the Gulf of Mexico
- Production Sharing Agreements
- 25 Interested Companies
- Results to be announced on June 19, 2017 (NEXT WEEK)

2.2 Second Bidding Process.

- 12 Onshore Blocks for Exploration and Production– Located in Burgos, Cinturon Plegado de Chiapas and Cuencas del Sureste
- License Agreements
- 18 Interested Companies
- Results to be announced on July 12, 2017

2.3 Third Bidding Process.

- 14 Onshore Blocks for Exploration and Production– Located in Burgos, Tampico-Misantla and Cuencas del Sureste
- License Agreements
- 35 Interested Companies
- Results to be announced on July 12, 2017

2.4 Fourth Bidding Process.

- Deep water blocks of 1,000 KM2 each
- Onshore non-conventional fields 200 KM2 each
- Call expected on June 2017
- Results by December 2017

Pemex Farmouts

Trion Farmout (Migration of a Pemex Field/Asignación)

- 1,285 KM2
- License Agreement
- Executed on March 3, 2017
- Signing Bonus for US$624 Million
- Expected Investment US$7 Billion
- Pemex retains a 40% interest and will not operate
- Operator is BHP Billiton

NADER HAYAUX & GOEBEL

What is Next?

- Round 2.4 (as explained before)

- Round 3
  - 3.1
  - 3.2

More PEMEX Farmouts
- Ayin-Batsil
- Cardenas-Mora
- Ogarrio

- Prequalification Certificate for 5 Years

- Pick Your Block

What is Pick your Block?

3. The Social Component

The social component – Part 1

The Corporate Social component for oil & gas companies in México is needed to protect the valid interests of the involved parties (communities and O&G company) and has 4 main lines:

1. The Corporate Social Responsibility (CSR)

- CSR is not required by statute,
- O&G company will benefit by acting in compliance with the values supporting the law, ethical standards and Mexican norms.
- Activities like: Philanthropy, environment, ethical labor practices, volunteering, transparency.

2. The Evaluation of Social Impact (EVIS)

- Every person with a contract, a permit or an authorization need to file one.
- Considers: General project info, methodology, impact area, base line, indigenous people, social impact, social management for mitigation purposes.

The social component – Part 2

3. The ground occupation

- In order to use the land, the O&G company is obligated, by law, to share a percentage of the income to the owner / legitimate owner of the land, ranging from:
  - 0.5% to 3% for natural gas (not associated);
  - 0.5% to 2% for other hydrocarbons

4. Different processes

- There are several ways to share the benefits of an O&G project, some of them are mandatory, and other are recommended. In all cases, a fair and just treatment of all the interest at stake is required and achievable.
- Examples of different processes: administrative, judicial, private, etc.
- Local counsel is needed in order to evaluate, negotiate and achieve satisfactory outcome for all parties, specially with "*ejidos*" and "*comunidades*".
- Footnote: Pemex is the major donor in Mexico.

4. Business Opportunities

Business Opportunities

Upstream

- Round 2.4 (Deep Water and Non-Conventional)
- Round 3.1 (Shallow Water)
- Round 3.2 (Deep Water)
- Pemex Farmouts
- Pick Your Block (Mature Fields, Non-Conventional, Shallow Water, Deep Water)

Midstream and Downstream

- Pipelines (for any product)
- Storage of Refined Products* (*Gasoline, Diesel and Jet Fuel)
- Storage of Crude Oil
- Refining Capacity (we import 50% of refined products, Mexico is the 6th gasoline consumer in the World)
- Gas Processing Facilities
- LNG Activities (Compression, Decompression, Storage)
- Importation and Retail of Refined Products

Business Opportunities

OTHER

- Mexico's will hire a new trader of its crude oil
- Midsize and small oil companies (to operate mature fields or specialized in non-conventional plays)
- Banks (experts on RBL)
- Drilling experts, reserve calculators, infrastructure developers, environmental experts, specialized software, specialized services for rigs, maintenance services, specialized SECURITY services, manufacturers of specialized equipment, port and logistics infrastructure and services

5. Mexican Elections

Mexican Elections

Federal Elections on July 2018.

- President
- Entire Senate (128)
- Entire House of Representatives (500)

Everyone is going to be new

Campaigns commence as early as July 2017 (next month)

Risk of Reverting the Energy Reform

- Legal Aspect
- Technical Aspect
- Social Aspect

NADER HAYAUX & GOEBEL

Thank you!