



2018 OCS Advisory Board Workshop

Offshore Mexico E&P: What Operators North of the Border Need to Know

By: **Steven P. Otilar**

Akin Gump
STRAUSS HAUER & FELD LLP

Table of Contents

- **Mexico Upstream Reform Refresher**

- **Top Ten Things to Know**
 1. Who is Who in Mexico?
 2. Results so Far
 3. No Leases in Mexico – PSC & License
 4. Operator Liability
 5. Transfer of Interests
 6. JOAs - U.S. vs. Mexico
 7. Doing Deals with Pemex - Farmout
 8. Political Risk
 9. Dispute Resolution
 10. Unitization

- **Bonus Material**
 1. Unitization
 2. Seismic and G&G Information

MEXICO UPSTREAM REFRESHER

March 18, 1938, Mexican President Lázaro Cárdenas signed an order that expropriated the assets of nearly all of the foreign oil companies operating in Mexico



Mexico Update – Energy Reform



Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Who's Who in Mexico – Government Actors

Cabinet-Level Departments

**Ministry of Finance and
Public Credit**
SHCP

In charge of bids and contract
guidelines

Ministry of Energy
SENER

Sets general energy policy and
determines with CNH which fields
to open to bid in each round

**Ministry of Environment
and Natural Resources**
SEMARNAT

Determines environmental and
industry safety through policy

Independent Regulators

**National Hydrocarbons
Commission**
CNH

Regulates upstream activities
and manages bid process

**Energy Regulatory
Commission**
CRE

Regulates electricity and
mid and downstream for hydrocarbons

**National Agency of
Industrial Safety &
Environmental Protection**
ASEA

Supervises and regulates the
environmental impact of
hydrocarbons

**National Center for
Natural Gas Control**
CENEGAS

Supervises and regulates
natural gas activities

**Economic Competition
Federal Commission**
COFECE

Supervises and regulates market
competition and antitrust matters

**Mexican Petroleum Fund
for Stabilization and
Development**
Fondo

Manages public income from
exploration and production activities

State Operating Companies

Petroleos Mexicanos
PEMEX

A productive enterprise of the
state focused on oil and gas

**Comision Federal de
Electricidad**
CFE

A productive enterprise of the
state focused on electricity

Bilateral Counterparts

		
Energy Policy	Department of Interior Department of Energy	SENER
Financial/Fiscal Policy	Department of Treasury	SHCP (Hacienda)
Upstream	BOEM	CNH
Midstream	FERC	CRE & CENEGAS
Environmental Policy	EPA	SEMARNAT
Environmental Operations	BSEE	ASEA
Operations	BOEM	CNH
Antitrust	Department of Justice	COFECE

Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

US and Mexico – Similar where it counts the most

- Geology

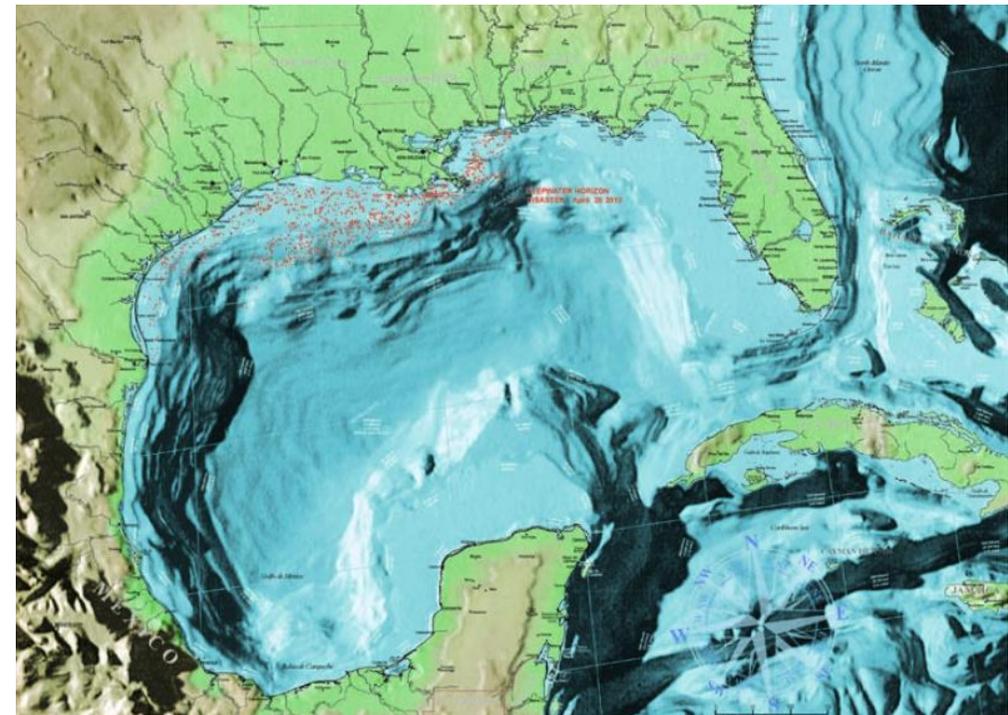
- ❖ Similar geological characteristics across GOM formations regardless of national boundaries
- ❖ Expertise and technology developed in US GOM can be used in Mexico GOM
- ❖ Familiarity with pressure, geological characteristics, and exploration and evaluation techniques

- Operating Conditions

- ❖ Similar weather and operating conditions across GOM
- ❖ Ability to coordinate operations from US or Mexico
- ❖ Providers of goods and services readily available

- Political Risk?

- ❖ New system, untested
- ❖ US 2010 moratorium
- ❖ Transparency



Results So Far: Round 1

Round 1.1 (Shallow Offshore Exploration Areas)

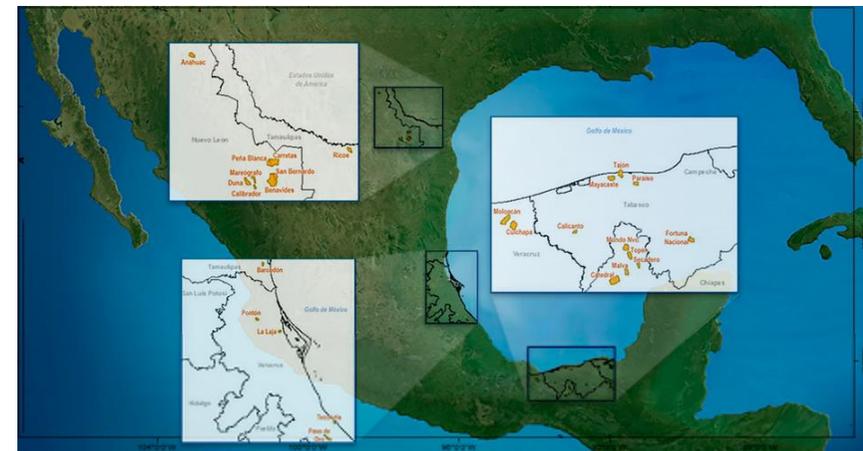
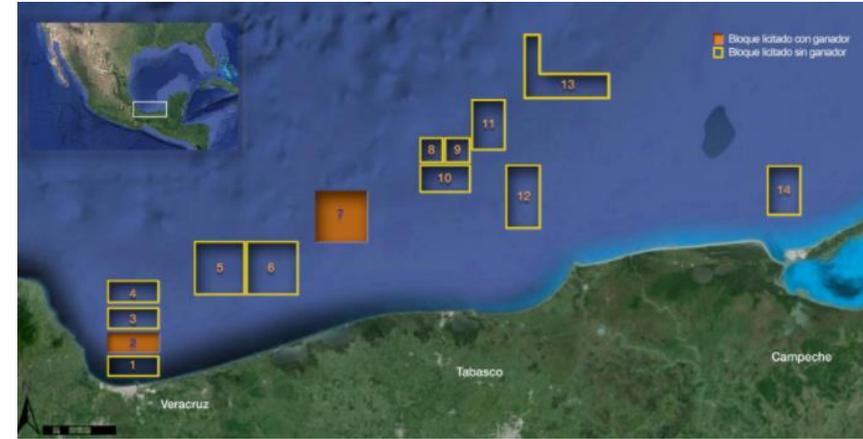
- Blocks 2 and 7: Talos Energy, Premier and Sierra (*Zama*)

Round 1.2 (Shallow Offshore Production Areas)

- Block 1: ENI (*Amoca 2*)
- Block 2: Panamerican Energy and E&P Hidrocarburos
- Block 4: Fieldwood Energy and Petrobal

Round 1.3 (Onshore Production Areas)

- Renaissance Oil Corp.
- Strata Campos Maduros SAPI de CV
- Grupo Diarcqo
- Compania Petrolera Perseus SA de CV
- Servicios de Extraccion Petrolera Lifting
- Canamex Dutch BV
- Diavaz Offshore, SAPI de CV
- Roma Energy Holdings LLC
- Grupo Diarcqo SA de CV
- Renaissance Oil Corp SA de CV
- Strata Campos Maduros SAPI de CV
- Geo Estrators SA de CV



Result So Far: Round 1 (continued)

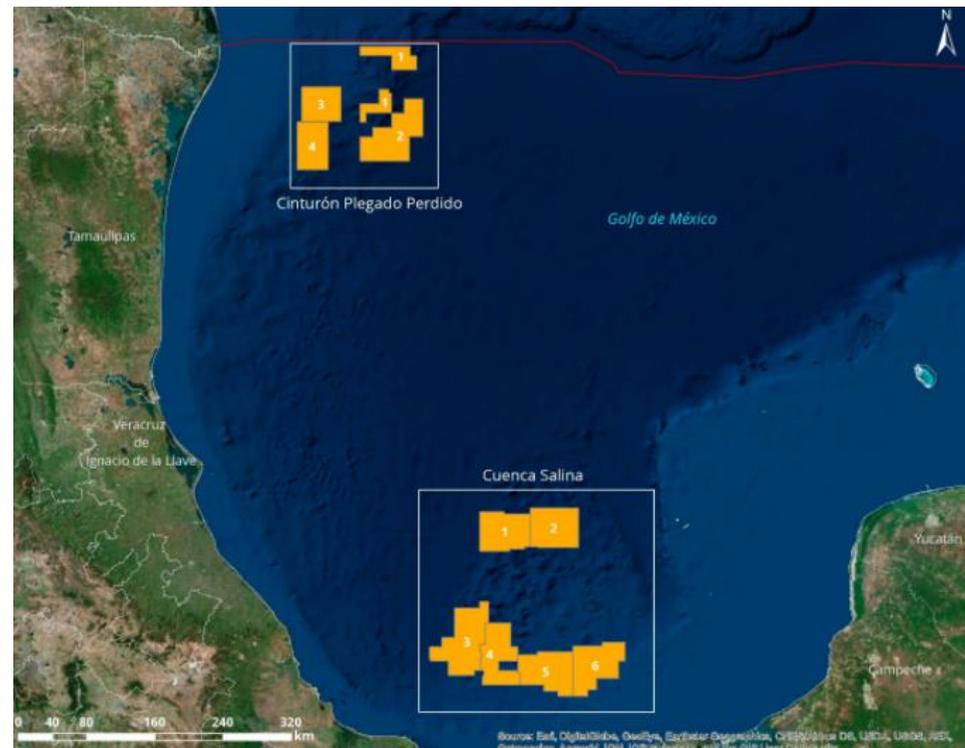
Round 1.4 (Deep Water and Heavy Oil Exploration Areas)

- **Perdido Fold Belt**

- Block 1: CNOOC
- Block 2: Total E&P and ExxonMobil
- Block 3: Chevron, Pemex and Inpex Corp.
- Block 4: CNOOC

- **Salina basin**

- Block 1: Statoil, BP and Total
- Block 3: Statoil, BP, and Total
- Block 4: PC Carigali and Sierra Oil & Gas
- Block 5: Murphy Oil, Ophir, PC Carigali and Sierra Oil



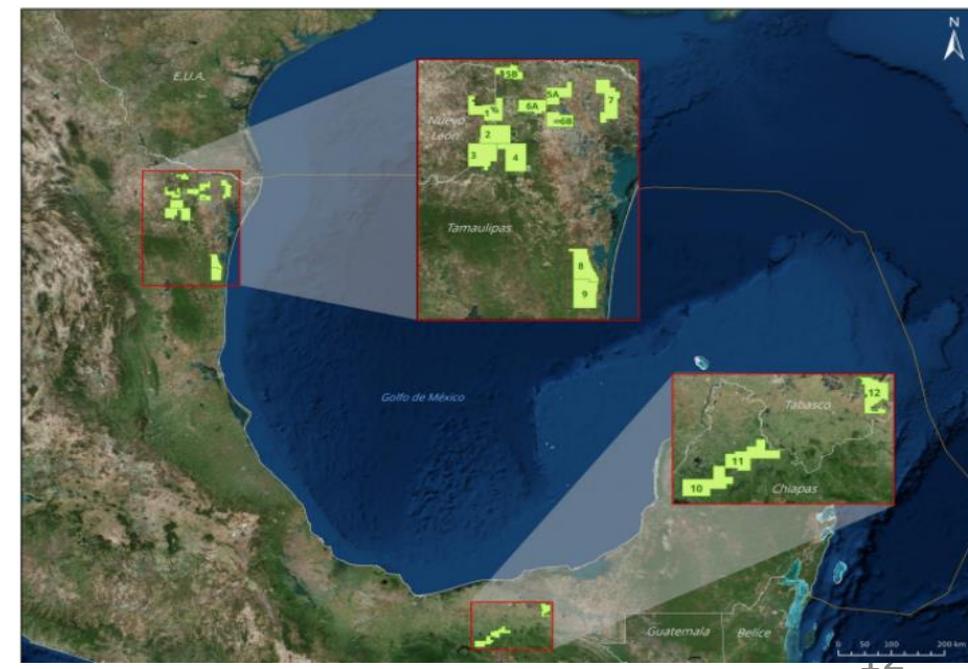
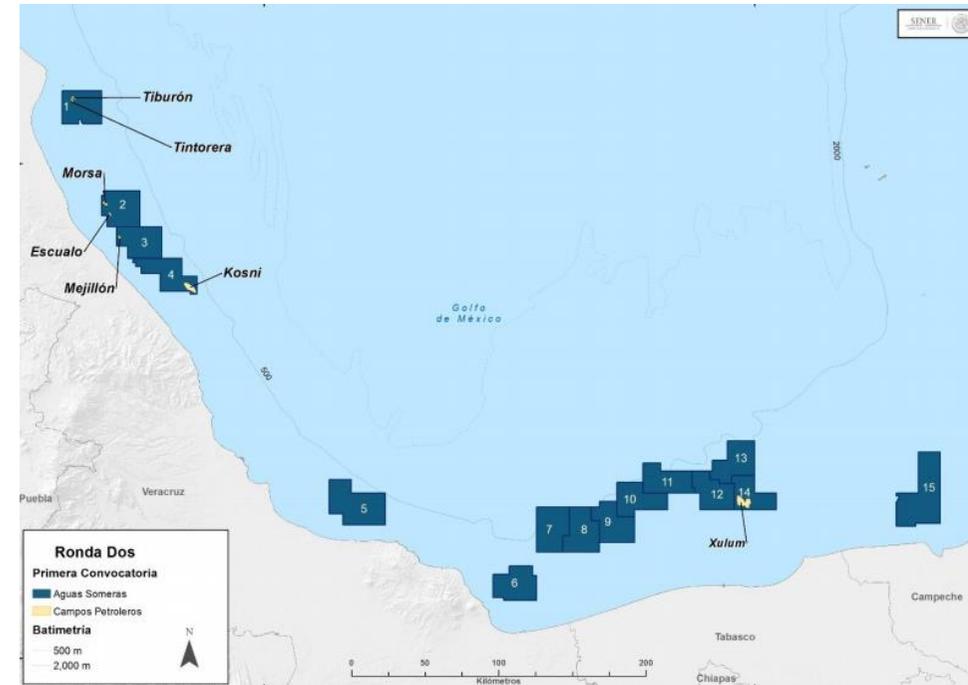
Results So Far: Round 2

Round 2.1 (Shallow Water Exploration)

- Block 2: DEA Deutsche and PEMEX
- Block 6: PC Carigali and Ecopetrol
- Block 7: ENI, Capricorn Energy and Citla Energy
- Block 8: Ecopetrol and PEMEX
- Block 9: Capricorn Energy and Citla Energy
- Block 10: ENI
- Block 11: Repsol and Sierra
- Block 12: Lukoil
- Block 14: ENI and Citla Energy
- Block 15: Total and Shell

Round 2.2 (Onshore Exploration and Production)

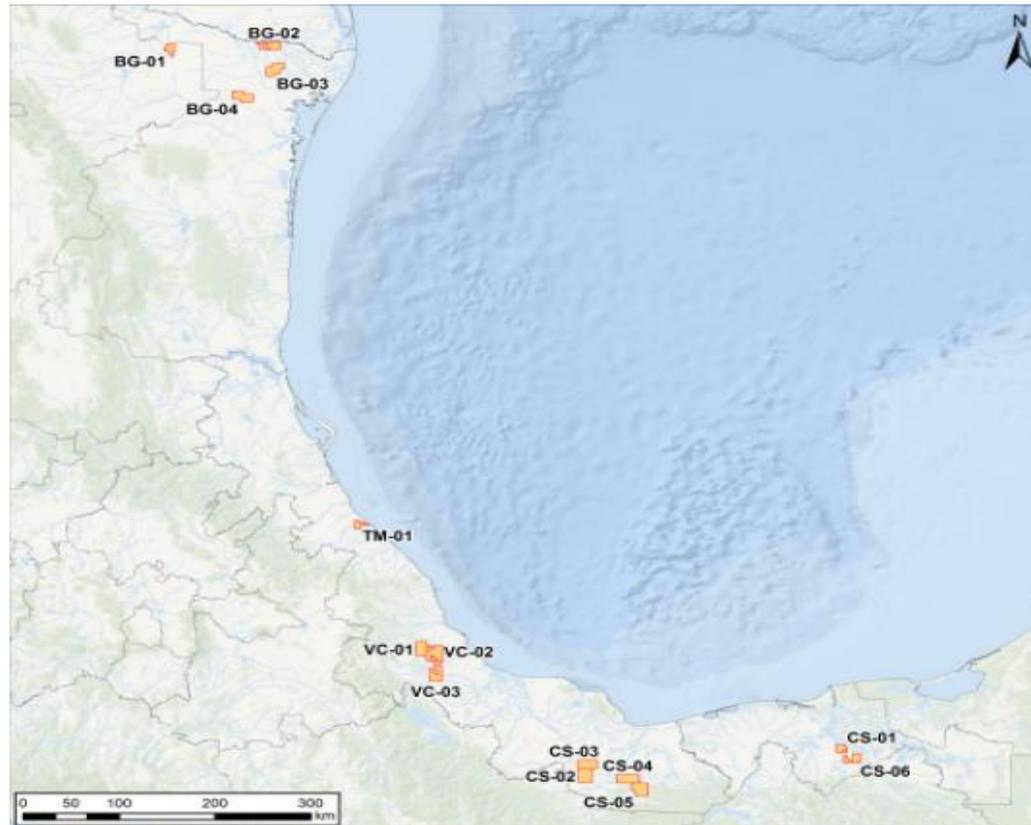
- Block 1: Iberoamericana and PJP4
- Block 4: Sun God and Jaguar
- Block 5: Sun God and Jaguar
- Block 7: Sun God and Jaguar
- Block 8: Sun God and Jaguar
- Block 9: Sun God and Jaguar
- Block 10: Sun God and Jaguar



Results So Far: Round 2 (continued)

Round 2.3 (Onshore Exploration and Production)

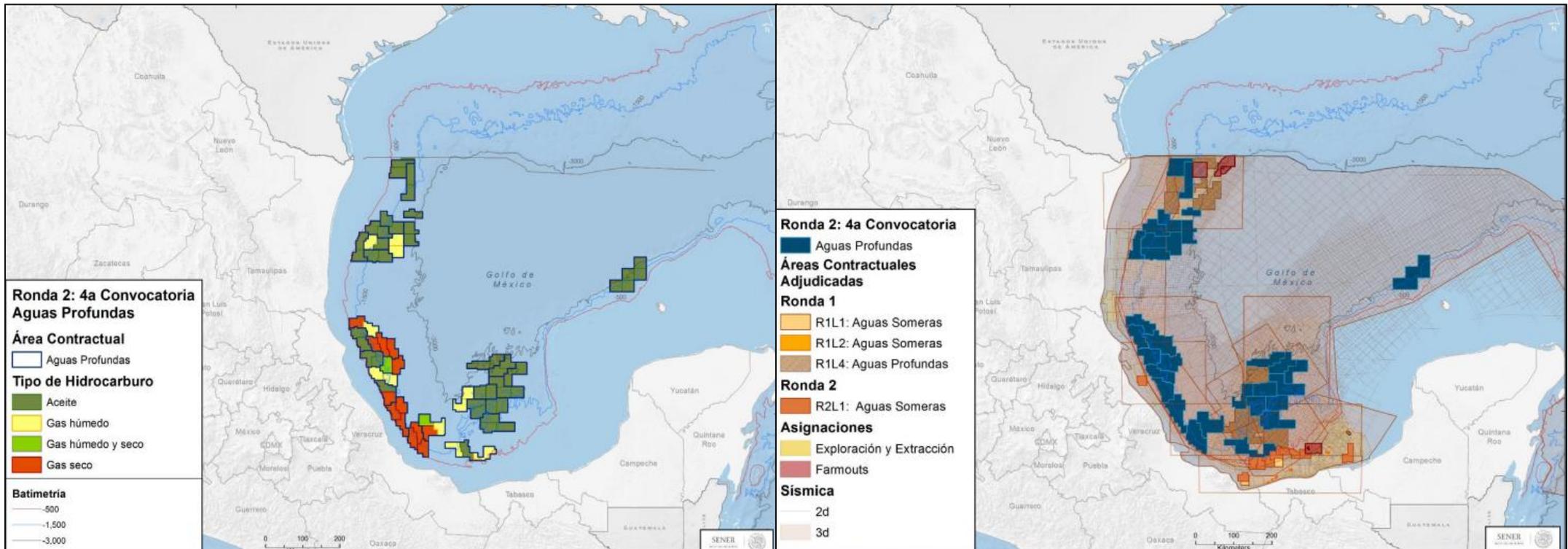
- Block 1: Iberoamericana and PJP4
- Block 2: Newpek and Verdad Exploration
- Block 3: Newpek and Verdad Exploration
- Block 4: Iberoamericana and PJP4
- Block 5: Jaguar
- Block 6: Shandong, Sicoval and Nuevas Soluciones
- Block 7: Jaguar
- Block 8: Jaguar
- Block 9: Jaguar
- Block 10: Shandong, Sicoval and Nuevas Soluciones
- Block 11: Shandong, Sicoval and Nuevas Soluciones
- Block 12: Carso Oil and Gas
- Block 13: Carso Oil and Gas
- Block 14: Jaguar



Round 2.4 – Deep Water Exploration

- **January 31, 2018**
- 30 Contract Areas located in Perdido Area, Salina Basin, Yucatan Platform and Mexican Ridges
- Total Surface Area: 70,866 km²
- Prospective Resources: 4.2B boe (64% of Five-Year Plan)
- License Model Contract
- Registration Fee: MX\$750,000 (~US\$43,000); Data Room Fee: MX\$39,300,000 (~US\$2.22M)
- Bid Guarantee: US\$3,000,000
- SHCP sets the minimum and maximum allowed values for the bidding variables
- Bid formula:

$$\text{VPO} = \text{additional royalty rate} + \text{weighted value} * \text{additional investment factor}$$



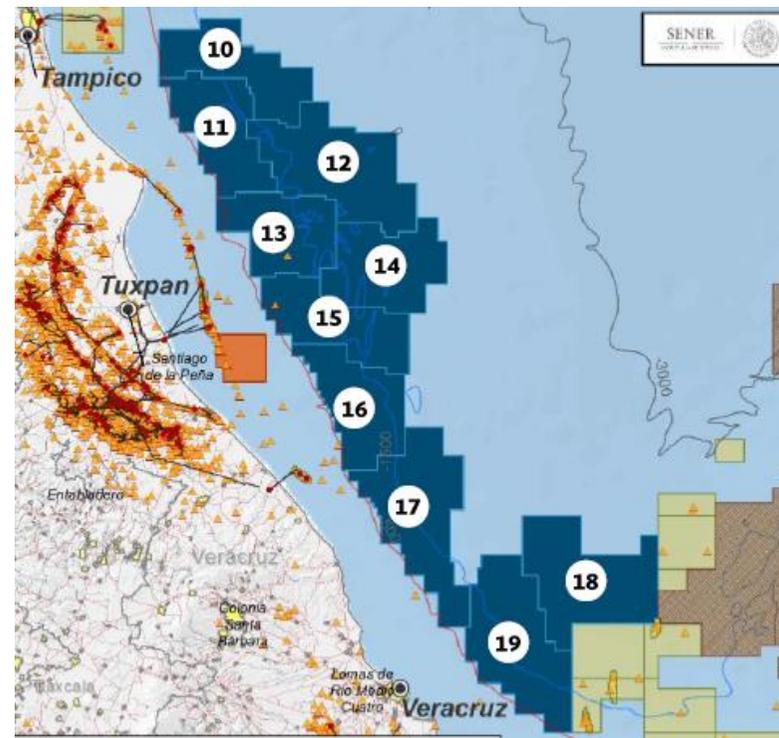
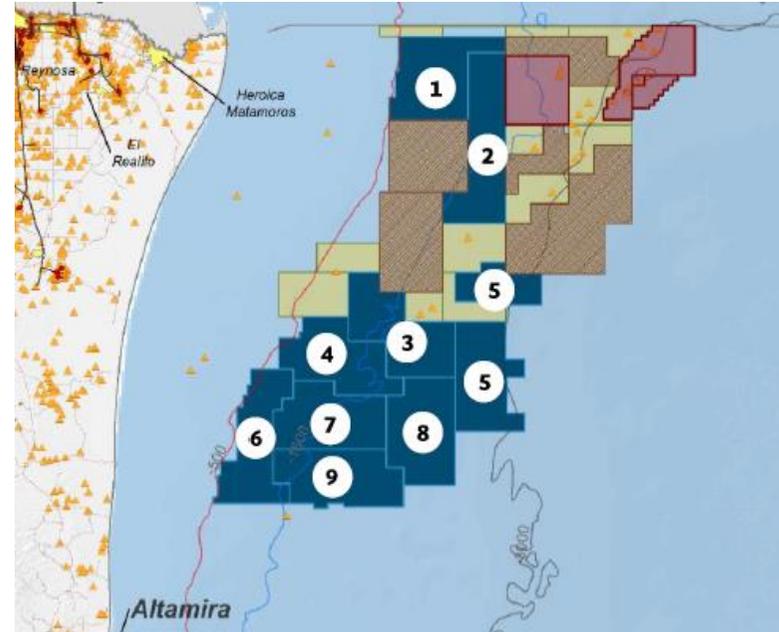
Results So Far: Round 2.4

Perdido Area

- Block 1: No Bids
- Block 2: Shell & Pemex
- Block 3: Shell & Qatar Petroleum
- Block 4: Shell & Qatar Petroleum
- Block 5: Pemex
- Block 6: Shell & Qatar Petroleum
- Block 7: Shell & Qatar Petroleum
- Block 8: No Bids
- Block 9: No Bids

Cordilleras Mexicanas

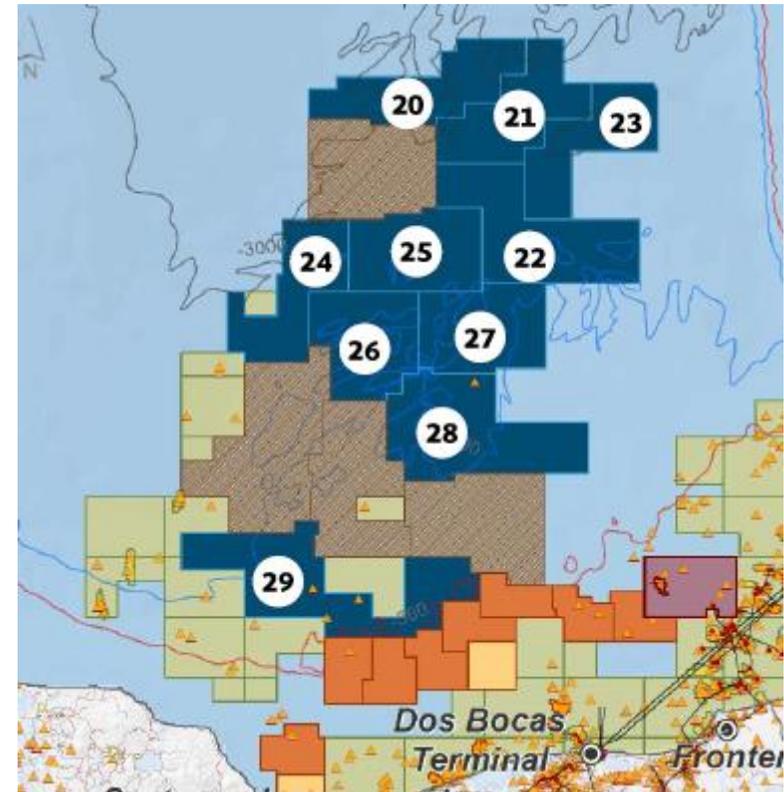
- Block 10: Repsol, PC Carigali & PTTEP
- Block 11: No Bids
- Block 12: PC Carigali, Ophir & PTTEP
- Block 13: No Bids
- Block 14: Repsol & PC Carigali
- Block 15: No Bids
- Block 16: No Bids
- Block 17: No Bids
- Block 18: Pemex
- Block 19: No Bids



Results So Far: Round 2.4

Cuenca Salina

- Block 20: Shell
- Block 21: Shell
- Block 22: Chevron, Pemex e Inpex
- Block 23: Shell
- Block 24: Eni y Qatar Petroleum
- Block 25: PC Carigali
- Block 26: PC Carigali
- Block 27: No Bids
- Block 28: Shell
- Block 29: Respol, PC Carigali, Sierra y PTTEP



Results So Far: Pemex Farmout

Trion Farmout (Deep Water)

- Located offshore GOM close to the US-Mexico border
- 3P reserves of 485 million boe, est. 100k bpd
- BHP Billiton (60% PI)
- \$624 million cash payment, PEMEX Carry + 4% additional

Cardenas Mora Farmout (Onshore)

- Located in Tabasco
- Proved reserves of 92 million boe, est. 10k bpd
- Cheiron Holdings Ltd. (50% PI)
- \$166 million cash payment + 13% royalty

Ogarrio Farmout (Onshore)

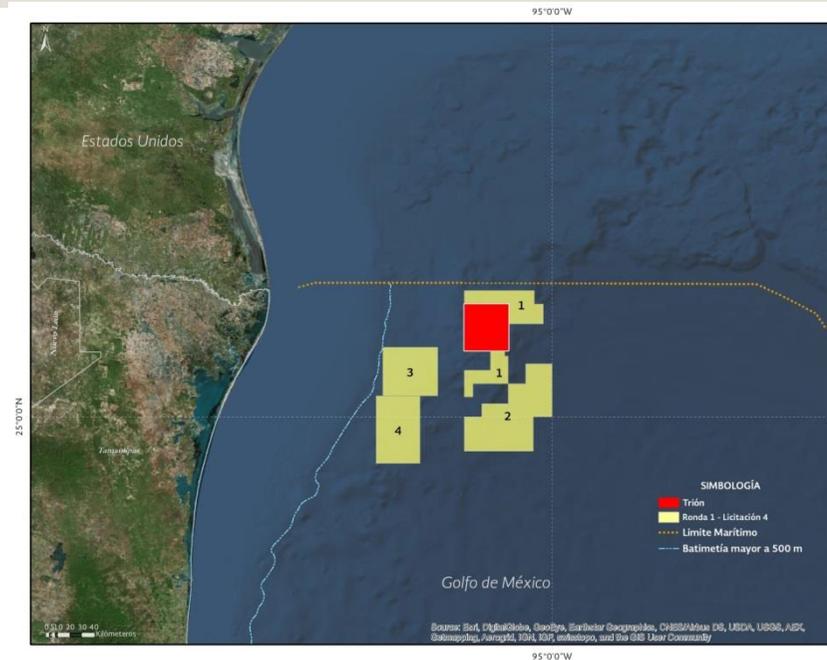
- Located in Tabasco
- 3P reserves of 46 million boe, est. 13,000k bpd
- DEA Deutsche Erdoel AG (50% PI)
- \$214 million cash payment + 13% royalty

Nobilis Maximino

- Located in offshore GOM close to border
- 3P reserves of 502 million boe
- Cancelled by CNH

Ayin Batsil Farmout (Shallow Water)

- Located in south GOM
- 3P reserves of 300 million boe
- Cancelled by CNH
- Potential reason: investment estimate at around \$10 billion; at least seven years to reach commercial production

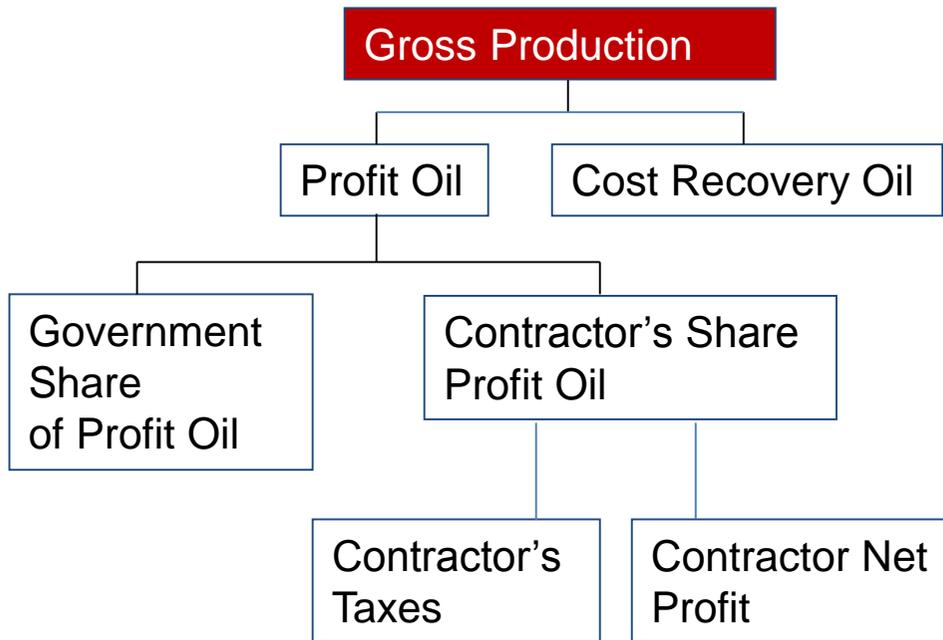


Top Ten Things a U.S. Operator Needs to Know

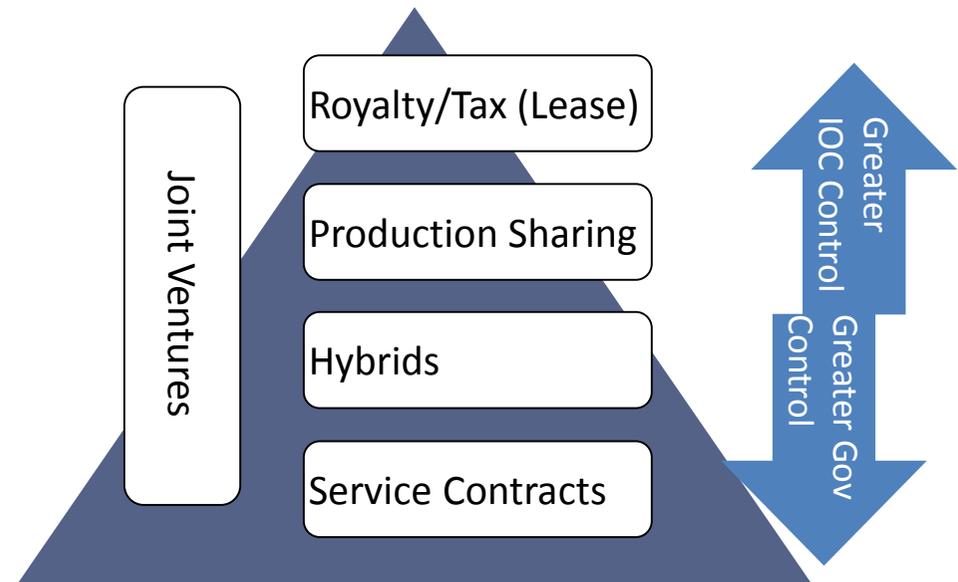
1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

No Leases in Mexico – PSC & License

Production Allocation Diagram



Typical Host Government Contract



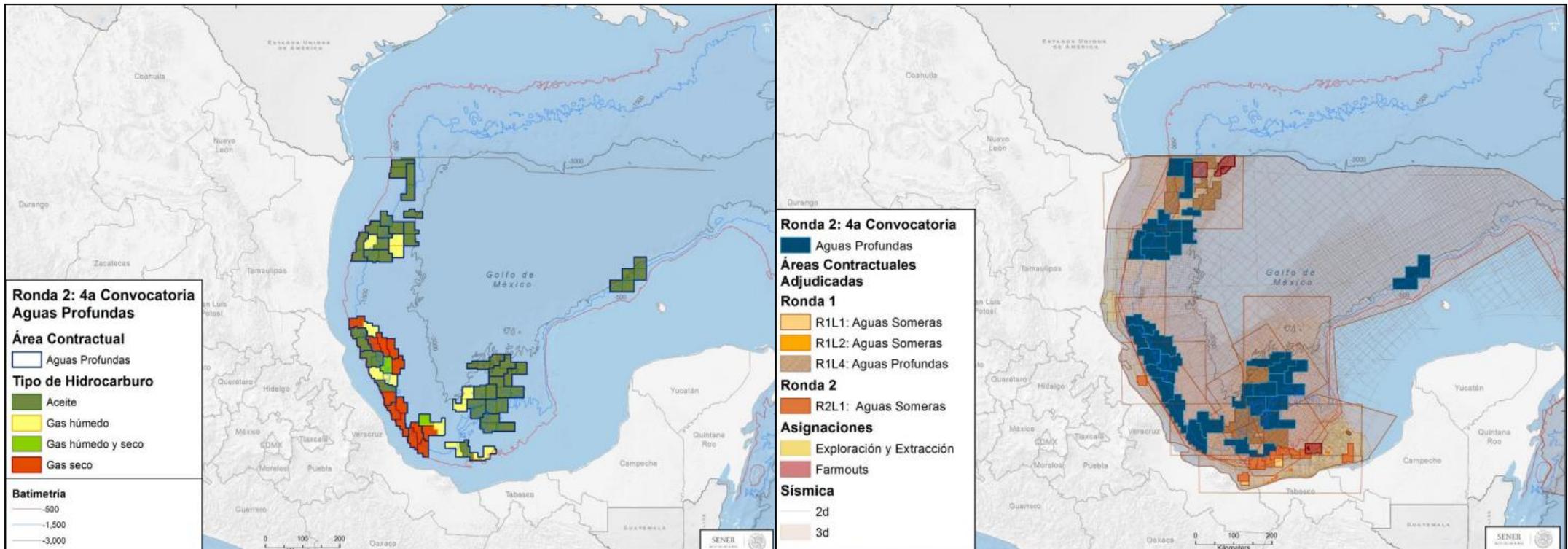
What do you own in Mexico?

		
Governmental Entity	<ul style="list-style-type: none"> • BOEM 	<ul style="list-style-type: none"> • CNH
Granting Instrument	<ul style="list-style-type: none"> • Lease 	<ul style="list-style-type: none"> • Production Sharing Contract – shallow water blocks • License – onshore & deep water
Prequalification	<ul style="list-style-type: none"> • U.S. legal entity • Online through Technical Information Management System (TIMS) • Provide statutory bond and any supplemental bond required by BOEM 	<ul style="list-style-type: none"> • Any company can bid, Mexican company must sign contract • Prequalification <ul style="list-style-type: none"> - Operators (min. 30%) <ul style="list-style-type: none"> - Technical and Financial - Financial Partners <ul style="list-style-type: none"> - Technical and Financial • Performance Guarantee and Corporate Guarantee

Round 2.4 – Deep Water Exploration

- **January 31, 2018**
- 30 Contract Areas located in Perdido Area, Salina Basin, Yucatan Platform and Mexican Ridges
- Total Surface Area: 70,866 km²
- Prospective Resources: 4.2B boe (64% of Five-Year Plan)
- License Model Contract
- Registration Fee: MX\$750,000 (~US\$43,000); Data Room Fee: MX\$39,300,000 (~US\$2.22M)
- Bid Guarantee: US\$3,000,000
- SHCP sets the minimum and maximum allowed values for the bidding variables
- Bid formula:

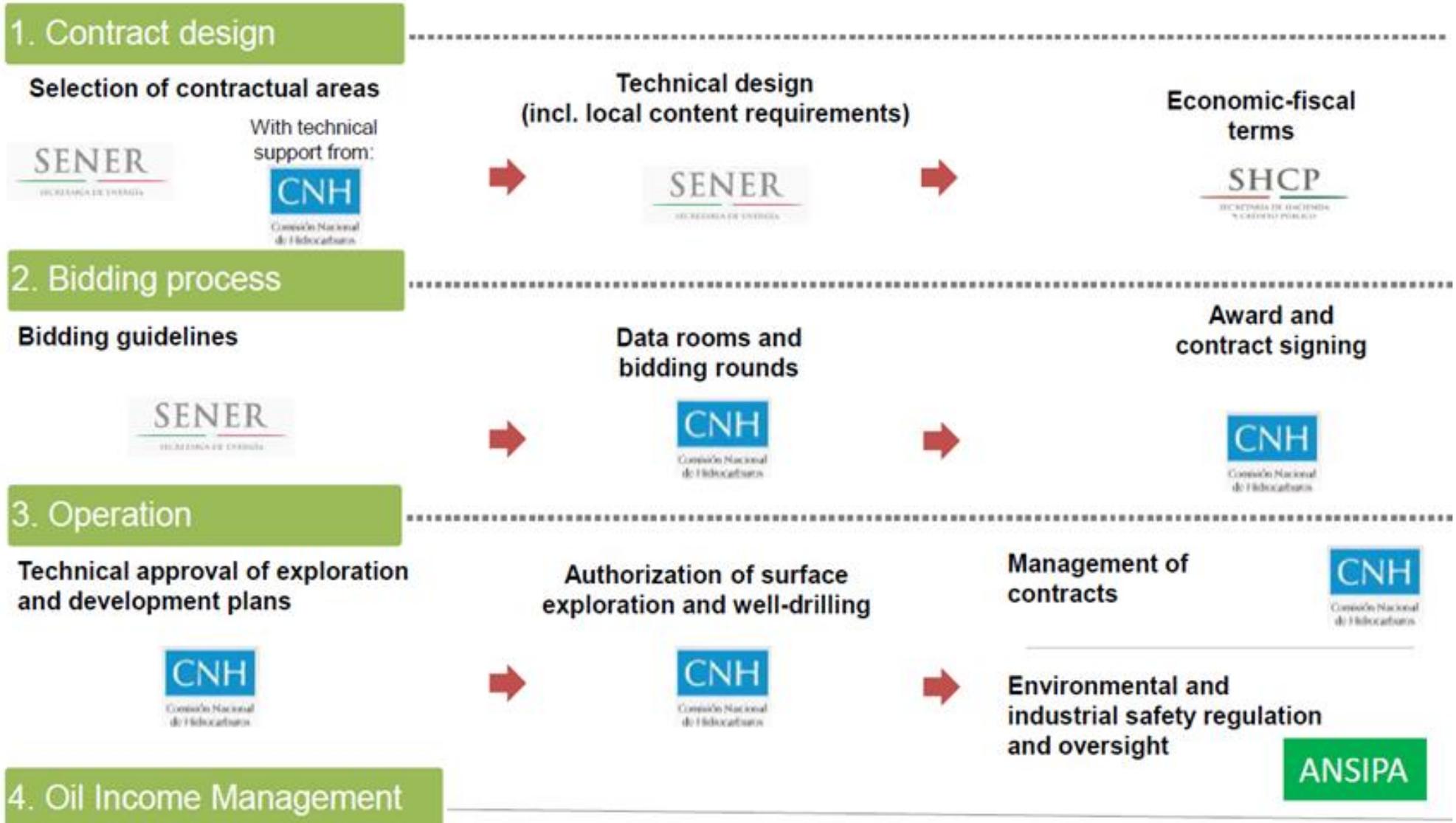
$$\text{VPO} = \text{additional royalty rate} + \text{weighted value} * \text{additional investment factor}$$



Round 2 & 3 Bidding Terms Comparison

Requirements	Round 2.4	Round 3.1
Performance Guarantee	Yes	Yes
Bid Bond	US \$3,000,000 for 60 days from bid submission date for each block	US \$500,000 for 120 days from bid submission date for each block
Fee to Access the Data Room	MX \$39,300,000 (~US \$2.1 million)	MX \$8,000,000 (~US \$428,000)
Prequalification - Experience	Experience (1) as an operator of at least one E&P project in deep water (>500 meters) within 5 years; (2) as an investor in E&P project for a minimum amount of US \$2 billion Safety operation, and (3) in industrial and environmental safety in E&P projects for the last 5 years	Experience (1) as an operator of at least one E&P project within 5 years; (2) as an investor in E&P project for a minimum amount of US \$1 billion; and (3) in industrial and environmental safety in E&P projects for the last 5 years.
Prequalification - Financial	(1) A net equity of at least US \$2 billion or assets totaling US \$10 billion with an investment grade credit rating; and (2) that the designated operator has at least 30 percent of the economic interest in the Consortium	(1) A new equity of at least US \$1 billion, or (2) Asset totaling US \$1 billion with an investment-grade credit rating

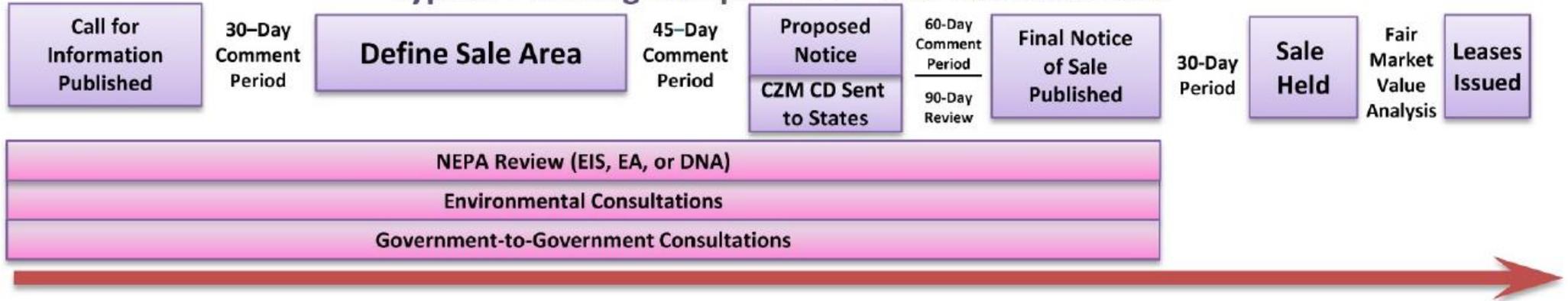
How to Acquire a License/PSC with CNH



The Mexican Petroleum Fund for Stabilization and Development will be in charge of paying amounts due on contracts and managing the State oil revenues.

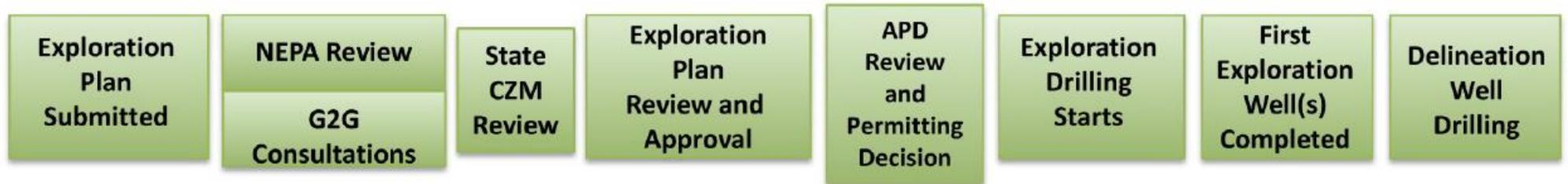
How to Acquire a Lease under BOEM

Typical Planning for Specific Oil and Gas Lease Sale



Post-Lease

Oil and Gas Exploration Plan and Drilling Approval



Oil and Gas Development and Production Plan Approval



Key: APD = Application for Permit to Drill; BOEM = Bureau of Ocean Energy Management; BSEE = Bureau of Safety and Environmental Enforcement; CD = Consistency Determination; CZM = Coastal Zone Management; DNA = Determination of NEPA Adequacy; EA = environmental assessment; EIS = environmental impact statement; G2G = government-to-government; NEPA = National Environmental Policy Act; NOI = Notice of Intent; OCS = Outer Continental Shelf; PEIS = programmatic environmental impact statement; ROD = Record of Decision

Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Environmental and Financial Exposure and Liability

U.S.

Statutory Liabilities:

- Lessee or owner of lease on which there is a well that has not been permanently P&A'd
- Assignee of lease interest
- Co-lessees and predecessors

Bankruptcy Scenario:

- OCS Lease = property or expired lease?
- Debtor (successor in OCS interest) may be permitted to abandon certain OCS properties to shed residual decommissioning liabilities
- Prior lessees/right holders might be subject to successor liability for residual decommissioning liabilities

Mexico

Statutory Liabilities:

- 6-month assessment period for Lessee to conduct environmental baseline after contract awarded
- Contactor can exclude assets
- Contractor only liable for environmental liabilities that arise after the baseline assessment period until the expiration/termination of the contract
- 12-year statute of limitations

Contractual Liabilities:

- No successor liabilities unless expressly assumed (but required in assignment process)
- Government or prior contractor must remediate any environmental matters identified in baseline assessment



Environmental and Financial Exposure and Liability (continued)

U.S.

Required Bonds:

- \$50,000 bond, or \$300,000 area-wide bond before issuing a new lease or approving an assignment
- \$200,000 bond before submission of exploration plan or submission of lease assignment of a lease where such plan is approved
- \$500,000 bond before submission of a proposed development & production plan, or the assignment of a lease where such plan is approved

BOEM Notice 2016-N01

- Evaluation of Lessee/Operator's financial ability to carry out (environmental) obligations
- Potential to require additional security

Mexico

Performance Guarantee:

- Minimum Work Obligations

Insurance:

- ASEA Guidelines for Insurance Requirement
 - Minimum coverage (per-event, annual aggregate)
 - \$500,000 for shallow water wells
 - \$700,000 for deep and ultra-deep
 - Operators' vessels, jack-ups, etc. require P&I coverage from \$100M to \$1B

Corporate Guarantee:

- Usually by a parent entity (*casa matriz*)



Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Transfer of Interests



Transferable	<ul style="list-style-type: none"> Total or Partial Assignment 	<ul style="list-style-type: none"> Total or Partial Assignment
Transferor	<ul style="list-style-type: none"> Submit application to BOEM Submit originals of each instrument that creates or transfers ownership or record or title or certified copies within 90 days of transfer agreement Typically file assignment in adjacent State 	<ul style="list-style-type: none"> Submit request to CNH Notify CNH of any Changes of Control or changes in capital structure Remain jointly and severally liable for obligations through transfer date
Transferee	<ul style="list-style-type: none"> Must be approved by BOEM (30 CFR 556.35) Must assume joint and several liabilities of all obligations Must provide a corporate guarantee from the ultimate parent of the assignee 	<ul style="list-style-type: none"> Must be approved by CNH as Operator or Financing Partner Must assume joint and several liabilities of all obligations since execution
Additional Requirements	<ul style="list-style-type: none"> Operator Designation Oil Spill Financial Responsibility General and/or Supplemental Bonds Restricted Joint Bidder Clearance 	<ul style="list-style-type: none"> Operator Designation Amend underlying contract (PSC/License) Performance and Corporate Guarantees Antitrust Clearance (not perfunctory)

Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

JOA the U.S. vs. Mexico

		
Procurement	No formal process; drilling contracts based on “competitive contracts”	Reasonable Market Price, Accounting Procedures exhibit
Authorization for Expenditure	Functions to serve as the primary method of proposing operations	Work programs and budgets (WP&B), AFEs for information only
Governance	<ul style="list-style-type: none"> Parties retain significant autonomy Parties can vote and potentially block operations 	<ul style="list-style-type: none"> Operating committee controls operations Operator acts at the behest of the operating committee within WP&B
Reinstatement & Back-in	Non-consenting parties back in to interest after cost recovery	No “back-ins” – non-consenting parties may have opportunity to re-instate reinstate interest subject to cost multiplier

JOA in the U.S. – AAPL Form (procurement example)



- No structured procurement process
- Procurement limitations primarily on affiliate and drilling contracts
- AAPL 810 - Drilling contracts must be “Competitive Contracts”
 - Entered into within ___ years (generally 0-3 years) before commencement of ops
 - Contains terms that were “market” for OCS at the time (or now, if no time reference)

2.9 → Competitive-Contract¶

A contract, including a drilling contract, master services agreement or any applicable drilling, service or work order thereto and any amendment thereof: (a) that was entered into within ____ (___) years before the commencement of the pertinent activities or operations and (b) that contains financial terms and rates that, when the respective contract was entered into, were consistent with those generally prevailing on the OCS for activities or operations involving drilling rigs and other equipment of an equivalent type, operating in similar environments and water depths, equipped to the Operator's standard conditions, and capable of conducting the required activities and/or operations as set out in an approved AFE.¶

5.3 → Drilling-Operations¶

The Operator may have drilling operations conducted by qualified and responsible independent contractors who are not an Affiliate of the Operator and are employed under Competitive Contracts. The Operator may employ its own or its Affiliate's equipment, personnel, drilling rig, Workover rig, and snubbing unit in the conduct of those operations, either under Exhibit “C” or under a written agreement among the Participating Parties. If the Operator's or its Affiliate's equipment, personnel, drilling rig, Workover rig, or snubbing unit is employed in conducting operations under this Agreement, the terms, conditions, and rates for that employment shall be consistent with those currently prevailing in Competitive Contracts for the deepwater OCS.¶

JOA in Mexico – AIPN Form (procurement example)



- Structured procurement process (by activity, contract value and contractor)
- Procurement limitations on affiliate contracts and high-value contracts
- Tender process required based on contract value;
 - Process A (Contracts < \$1,000,000):
 - No authorization from non-operators required for non-affiliate contracts
 - Operator must obtain Operating Committee's approval for any affiliate contract >\$250,000
 - Process B (Contracts \$1,000,000 - \$20,000,000):
 - Operator must present at least contract bids from 3 different contractors
 - Contract awarded by Operator; must justify selection if difference vs next bid is >5%
 - Contract award requires Operating Committee's approval for any affiliate contract >\$1,000,000
 - Process C (Contracts > \$20,000,000):
 - Tender process required
 - Operator must present all bids to Operating Committee for approval

Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Dealing with Pemex – Farmout Process

1. Migration from entitlements to contracts

Migration request



Farm-out feasibility assessment



With technical support from:



Technical contract design
Bidding guidelines



Binding opinion about pre-qualification criteria



Definition of the contract's fiscal terms



2. Bidding process

Pre-qualification



Simple, non-binding opinion about the pre-qualification process



Data rooms and bidding rounds



Award and contract signature



3. Operation

Technical approval of the exploration and development plans



Authorization of surface exploration and drillings



Contract technical management



Environmental and industrial safety regulation and oversight

ANSIPA

4. Oil Income Management

The Mexican Petroleum Fund for Stabilization and Development will be in charge of paying amounts due on contracts and managing the State oil revenues.

Results So Far: Pemex Farmout

Trion Farmout (Deep Water)

- Located offshore GOM close to the US-Mexico border
- 3P reserves of 485 million boe
- BHP Billiton won the bidding contest

Cardenas Mora Farmout (Onshore)

- Located in Tabasco
- Proved reserves of 92 million boe
- Cheiron Holdings Ltd. won the bidding contest

Ogarrio Farmout (Onshore)

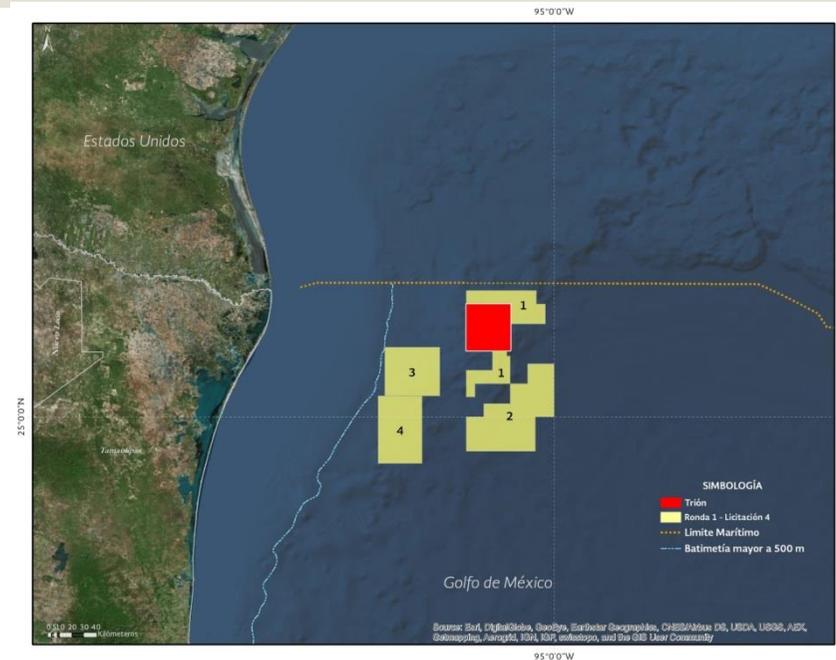
- Located in Tabasco
- 3P reserves of 46 million boe
- DEA Deutsche Erdoel AG won the bidding contest

Nobilis Maximino

- Located in offshore GOM close to the US-Mexico border
- 3P reserves of 502 million boe
- Cancelled by CNH

Ayin Batsil Farmout (Shallow Water)

- Located in south GOM
- 3P reserves of 300 million boe
- Cancelled by CNH
- Potential reason: investment estimate at around \$10 billion; at least seven years to reach commercial production



Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Political Risk

➤ NAFTA Renegotiation

- Dispute Resolution
- Energy Chapter
- Potential fall out if US exits



➤ Presidential Elections in Mexico (July 1, 2018)

Andres Manuel Lopez Obrador

Jose Antonio Meade Kuribrena

Ricardo Anaya Cortes

morena



Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Dispute Resolution

		
Source	Federal Lease	Granting Contract (License and PSC)
Existing Options	<ul style="list-style-type: none"> • Administrative Proceedings • State Courts • Federal Courts 	<ul style="list-style-type: none"> • Mediation • Arbitration • Federal Courts (contract rescission) • Amparo
Applicable Law	<ul style="list-style-type: none"> • US Federal Law 	<ul style="list-style-type: none"> • Mexico Federal Law
Relevant Arbitration Provisions	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • UNCITRAL Arbitration Rules • 3 Arbitrator Panel • Spanish Language • Hague, Netherlands

Administrative Rescission

- Hydrocarbon Law provides that Licenses/PSCs shall be terminable for cause by the government over a set of specific breaches
- Form Licenses/PSCs include certain provisions that address operator's concerns:
 - Administrative investigation
 - Administrative rescission process
 - Contractual rescission process
 - Right to Cure pending conclusion of administrative investigation
 - Indemnity
 - Mediation
 - Third Party Expert
 - Arbitration
 - Federal Courts in Mexico

Artículo 20.- El Ejecutivo Federal, a través de la Comisión Nacional de Hidrocarburos, podrá rescindir administrativamente los Contratos para la Exploración y Extracción y recuperar el Área Contractual únicamente cuando se presente alguna de las siguientes causas graves:

- I. Que, por más de ciento ochenta días naturales de forma continua, el Contratista no inicie o suspenda las actividades previstas en el plan de Exploración o de desarrollo para la Extracción en el Área Contractual, sin causa justificada ni autorización de la Comisión Nacional de Hidrocarburos;
- II. Que el Contratista no cumpla el compromiso mínimo de trabajo, sin causa justificada, conforme a los términos y condiciones del Contrato para la Exploración y Extracción;
- III. Que el Contratista ceda parcial o totalmente la operación o los derechos conferidos en el Contrato de Exploración y Extracción, sin contar con la autorización previa en términos de lo dispuesto en el artículo 15 de esta Ley;
- IV. Que se presente un accidente grave causado por dolo o culpa del Contratista, que ocasione daño a instalaciones, fatalidad y pérdida de producción;
- V. Que el Contratista por más de una ocasión remita de forma dolosa o injustificada, información o reportes falsos o incompletos, o los oculte, a las Secretarías de Energía, de Hacienda y Crédito Público o de Economía, a la Comisión Nacional de Hidrocarburos o a la Agencia, respecto de la producción, costos o cualquier otro aspecto relevante del Contrato;
- VI. Que el Contratista incumpla una resolución definitiva de órganos jurisdiccionales federales, que constituya cosa juzgada, o
- VII. Que el Contratista omita, sin causa justificada, algún pago al Estado o entrega de Hidrocarburos a éste, conforme a los plazos y términos estipulados en el Contrato para la Exploración y Extracción.

El Contrato de Exploración y Extracción establecerá las causales de terminación y rescisión del mismo, sin menoscabo de las causales de rescisión administrativa contempladas en el presente artículo.

CLÁUSULA 23.

RESCISIÓN ADMINISTRATIVA Y RESCISIÓN CONTRACTUAL

23.1 Rescisión Administrativa.

En caso de ocurrir cualquiera de las causas graves de rescisión administrativa previstas en el artículo 20 de la Ley de Hidrocarburos y que se enlistan a continuación, y una vez que concluya el período de investigación previa referido en la Cláusula 23.2, la CNH podrá rescindir administrativamente este Contrato previa instauración del procedimiento de rescisión administrativa previsto en la Cláusula 23.3 y la Normatividad Aplicable:

Top Ten Things a U.S. Operator Needs to Know

1. Who is Who in Mexico?
2. Results so Far
3. No Leases in Mexico – PSC & License
4. Operator Liability
5. Transfer of Interests
6. JOAs - U.S. vs. Mexico
7. Doing Deals with Pemex - Farmout
8. Political Risk
9. Dispute Resolution
10. Unitization

Unitization

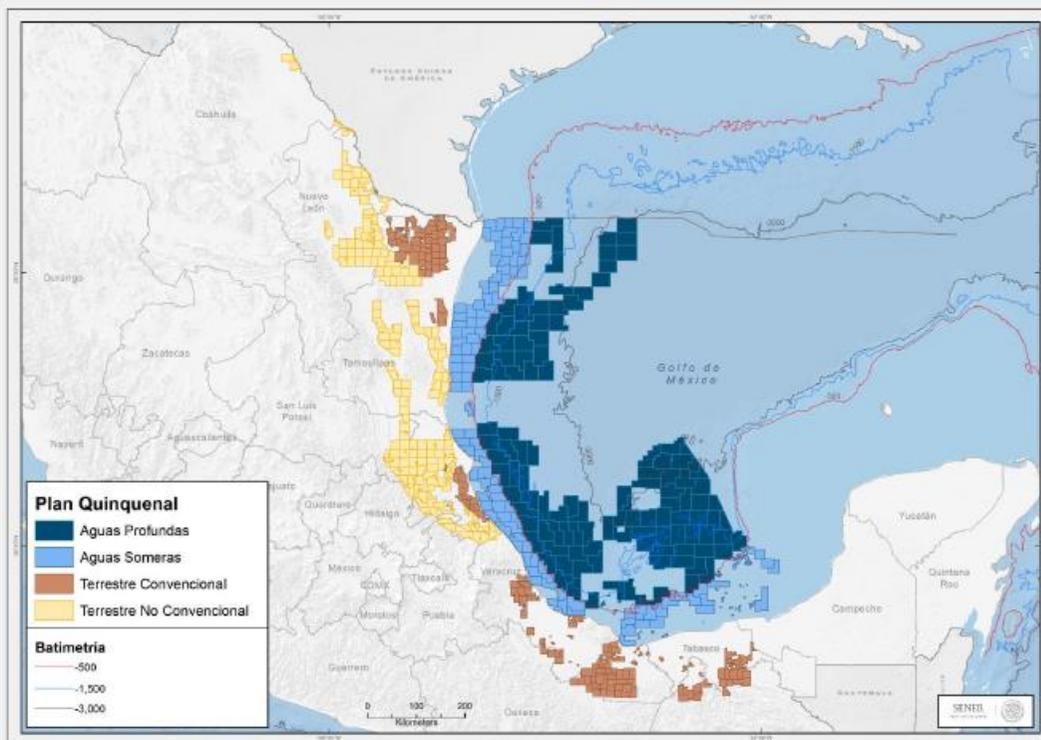
		
Regulations	Unitization activities on OCS is regulated under <i>30 CFR Part 250 Subpart M - Unitization</i>	<ul style="list-style-type: none"> • Hydrocarbon Law • Unitization Guide • Regulations issued by SENER (pending public comment)
Process	<p><u>Voluntary Unitization:</u></p> <ul style="list-style-type: none"> • File requests - sign supporting documents for approval - pay a fee of \$12,619 <p><u>Compulsory Unitization:</u></p> <ul style="list-style-type: none"> • BSEE initiate unitization process by itself or upon request by the current lessee(s), • BSEE serves all affected lessees with plan of unitization and reason for unitization – hearing is held if requested by the affected lessee – the Regional Supervisor issues order accepting or rejecting unitization 	<ul style="list-style-type: none"> • Contractor must provide notice of possible Shared Reservoir • Pre-Unitization Agreement (PUA) • Parties negotiate Unitization Agreement, submit to SENER for approval • SENER accepts or rejects the Unitization Agreement within 100 business days
Dispute Resolution	<ul style="list-style-type: none"> • BSEE hearing to address any dispute 	<ul style="list-style-type: none"> • Third Party Expert (maybe) • SENER • CNH, technical advisor

Top Ten Things a U.S. Operator Needs to Know

Bonus Material:

1. What Does the Future Hold?
2. Seismic and G&G Information

What Does the Future Hold? – Mexico

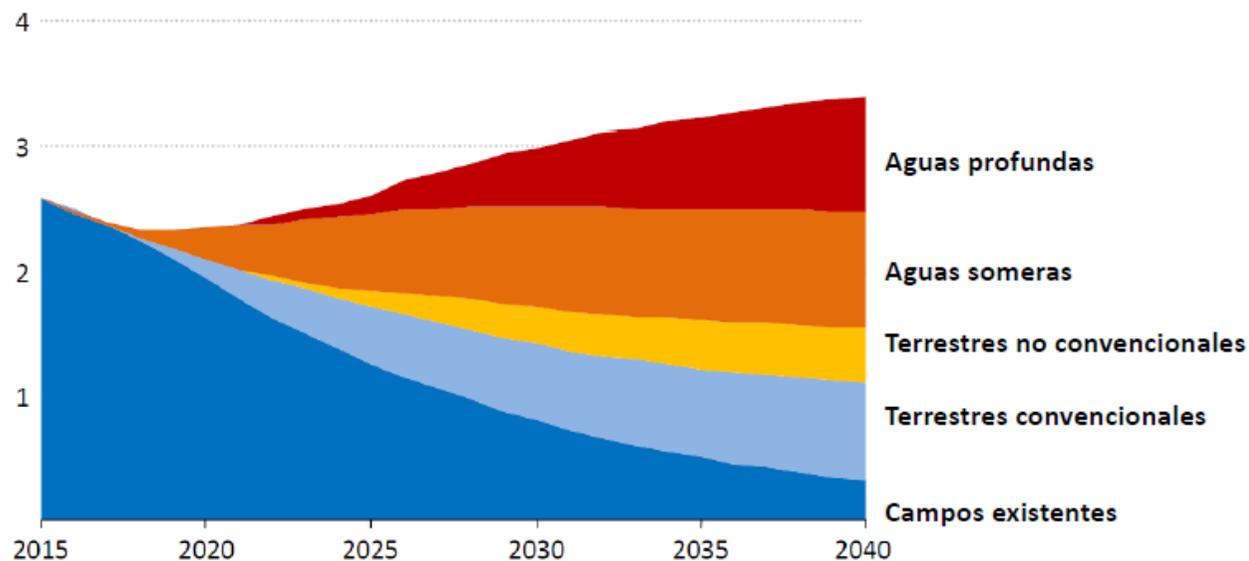


Recursos marinos estimados, total: 25,725 mmbpce



Fuente: CNH y SENER
Recurso prospectivo medio ajustado por riesgo, BDOE 2017

Producción de México en el escenario de Reforma de la AIE 2015-2040 (mmbpd)



What Does the Future Hold? – US

Current 2017-2022 Lease Sale Schedule

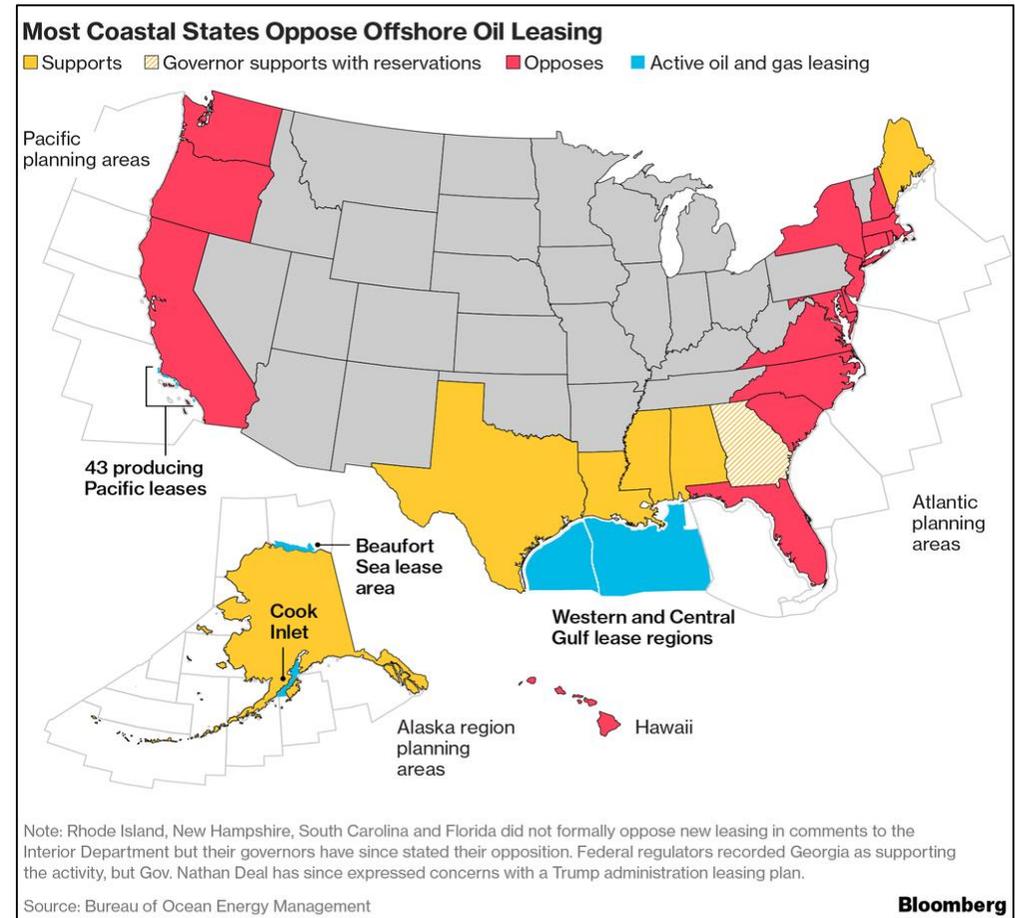
- Sale No. 250: 76,967,935 acres
- Sale No. 251 : Details to be announced

DPP of 2019-2024 Plan

- Released by BOEM on January 4, 2018
- Replacing 2017-2022 Program
- Makes more than 98% of the U.S. OCS available for O&G leasing, proposing 47 leases in all four OCS regions

Potential Obstacles and Setbacks

- Legal
- Practical
- Political



Seismic and G&G Information



Ownership	Private Parties	State (through CNH and CNIH)
Highlights	<ul style="list-style-type: none"> • Seismic and G&G information is property of the party who shoots it • BOEM grants permits to O&G Companies or Specialized Companies to shoot and process seismic /G&G information in GOM • No central repository of information • Open secondary market for seismic and G&G information 	<ul style="list-style-type: none"> • All seismic and G&G information is property of the state regardless • CNH grants licenses to O&G Companies or Specialized Companies to shoot and process seismic /G&G information in all Mexico • CNH may consult with, and include conditions required by, ASEA • All information must be reported and provided to CNIH (repository) • Confidential for a determined period • Restrictions on secondary market for seismic and G&G information • CNH may use the information as it deems fit
Requirements	<ul style="list-style-type: none"> • BOEM may require approved “incidental take” authorizations from the National Marine Fisheries Service or the U.S. Fish and Wildlife Service 	<ul style="list-style-type: none"> • No requirement to disclose proprietary technology and processes • Must register with CNH to conduct activities and commercialize information

Questions?



Steven P. Otilar
sotillar@akingump.com
+1 713.250.2225

Thank you.