

Energy Alert

March 30, 2015

Mexico's Energy Industry

Ronda Uno, First Tender

On March 25, 2015, the Comisión Nacional de Hidrocarburos ("CNH") released revised versions of the Bidding Guidelines (the "BG") and the Model Production Sharing Contract (the "PSC") for the First Tender published on December 11, 2014 (the "First Tender"). The First Tender contains fourteen exploration Contract Areas located in shallow waters off the Gulf of Mexico. Thus far, 49 companies have approached CNH to participate in the First Tender and 29 of those companies have prequalified to participate.

This summary discusses relevant changes in the BG and PSC which address some of the concerns expressed by multiple industry participants. The evolution of these terms will have a direct impact on the economic viability of the projects and should improve Mexico's competitiveness in the global energy market.

Timeline

- 12/11: CNH publishes Tender 1
- 3/25: CNH publishes revised Bidding Guidelines and Model PSC
- 3/31: Last day for interested parties to pay entry fee and request prequalification appointment
- 4/17: Last day participating parties to submit prequalification supporting documentation
- 5/8: Last day for CNH to review prequalification supporting documentation
- 5/15: CNH publishes final list of Prequalified Parties
- 5/29: CNH publishes final Bidding Guidelines
- 6/15: Last day to request authorization to include new non-prequalified Financing Parties to Consortium
- 6/29: Last day to request authorization to change Consortium structure and interests
- 7/6: Last day for CNH to grant authorizations regarding non-prequalified Financing Parties and changes to Consortium structure and interests
- 7/14: Last day to access Data Room
- 7/17: Bid envelopes are opened and Tender winners selected

Bidding Guidelines

1. **Consortium Formation:** A "Licitante Agrupado" ("Consortium") may now incorporate a "Licitante Individual" ("Individual Party") as financing party to the Consortium. An Individual Party will have to renounce to its classification as Licitante Individual in order to join the Consortium, and the Consortium must request authorization to include such Individual Party in its bid before the June 29th deadline.

2. **Minimum Work Program:** The Minimum Work Program was completely redesigned and is now based on work units assigned to specific activities completed. Each work unit has been given a monetary

value tied to price ranges per barrel of oil. Prior to this revised scheme, Contractors were to be rewarded for completing necessary tasks rather than spending money. A detailed explanation of the scheme can be found in the next section.

3. Format CNH-4: Articles 8 and 9 have been deleted. Article 8 was considered unnecessary because joint and several liability for the parent company is already covered by the Corporate Guaranty. Meanwhile, Article 9 imposed Mexican jurisdiction and choice of law on private Consortium parties. These changes effectively eliminate CNH-4's redundancy and make it a reporting format for the Consortium interest and structure.

4. Format CNH-8: The Stand-by Credit Letter requirements were upgraded to align with international best rules and practices under International Standby Practices ISP-98, ICC 590.

Model PSC

1. Contract Term: The PSC Term has been extended from 25 to 30 years. The PSC still has two 5-year extension options, subject to additional terms and conditions to maintain commercial production.

2. Exploration Term: The Exploration Period has been revised from 3 years plus two 1-year extension options to 4 years plus one 2-year extension option, provided that Contractor has completed 90% of the Minimum Work Program and commits to complete any missing units during the extension period.

3. Evaluation Plan and Development Plan: The Exploration Plan due date has been extended from 45 to 60 days after the Effective Date. The Development Plan due date has been extended from 90 to 120 days after Contractor declares a commercial discovery. CNH has 120 days to approve these plans or they will be considered automatically approved.

4. Unitization: After confirming that a formation/play goes beyond the Contract Area, Contractor now has 60 days to notify SENER and CNH, who will create a production maximizing plan to unitize Contract Areas.

5. Corporate Guaranty: Similarly to the Second Tender PSC, the Corporate Guaranty can now be executed by the Ultimate Parent Company or the Controlling Parent Entity of each participating consortium company. If a Controlling Parent Entity executes the Corporate Guaranty (as opposed to the Ultimate Parent Company), it will have to present audited consolidated financial statements for the prior 3 years showing a \$6 billion minimum equity value and maintain this equity value until all contractual commitments have been fully completed.

6. Operator Change: Members of a contracting Consortium will be able to switch Operators after notice and approval of CNH. The new Operator must have prequalified as an Operator during the First Tender process or have prequalified as Operator for a tender with similar characteristics within 5 years prior the proposed change.

7. Minimum Exploration Wells: The number of required wells during the Exploration Period has been reduced to 1 well for all Contract Areas but Areas 5, 6 and 7, which still require a 2 well minimum.

8. Minimum Work Program: The PSC presents a completely new approach to the Minimum Work Program that is reminiscent of the Multiple Service Contract model from 2001. The following table demonstrates how the program assigns a minimum level of investment by linking a fixed amount of units per activity to the depth drilled and to the average price of oil per barrel. Therefore, the Minimum Investment will be directly proportional to the price per barrel for a specific period; while the work units will remain constant, as the price per barrel increases, the minimum investment will also increase. Additionally, any work units completed over the Minimum Work program can now be carried over into the Development Phase. Overall, this scheme allows the Minimum Work Program to adjust to the international oil market and provides operational and financial flexibility to Contractors.

Contract Area	Required Wells	Drilling Units	G&G	Seismic	Work Units	Price per Barrel Range (Brent)	Unit Value	Minimum Investment
1	1	50,000	6,000	1,000	57,000	\$45-\$50	\$796	\$45,372,000
						\$50-\$55	\$852	\$48,564,000
						\$55-\$60	\$905	\$51,585,000
2	1	71,000	6,000	1,000	78,000	\$45-\$50	\$796	\$62,088,000
						\$50-\$55	\$852	\$66,456,000
						\$55-\$60	\$905	\$70,590,000
3	1	65,000	6,000	1,000	72,000	\$45-\$50	\$796	\$57,312,000
						\$50-\$55	\$852	\$61,344,000
						\$55-\$60	\$905	\$65,160,000
4	1	29,000	6,000	1,000	36,000	\$45-\$50	\$796	\$28,656,000
						\$50-\$55	\$852	\$30,672,000
						\$55-\$60	\$905	\$32,580,000
5	2	52,000	12,000	5,000	69,000	\$45-\$50	\$796	\$54,924,000
						\$50-\$55	\$852	\$58,788,000
						\$55-\$60	\$905	\$62,445,000
6	2	74,000	12,000	5,000	91,000	\$45-\$50	\$796	\$72,436,000
						\$50-\$55	\$852	\$77,532,000
						\$55-\$60	\$905	\$82,000,000
7	2	52,000	12,000	5,000	66,000	\$45-\$50	\$796	\$52,536,000
						\$50-\$55	\$852	\$56,232,000
						\$55-\$60	\$905	\$59,730,000

As a part of the Minimum Work Program, Contractor will have to allocate a number of units to specific activities. Setting task milestones allows Contractors to plan ahead and address technology changes, equipment and personnel logistics or fluctuating markets.

9. Evaluation Report: The due date for the Evaluation Report was reduced from 60 to 30 days after the completion of the Evaluation Period.

10. Financial and Operating Stability: One new Contractor obligation is a covenant to maintain the same (or better) financial and operating conditions as Contractor had when it prequalified.

11. Insurance: Contractor may now also insure through its subsidiaries as long as these subsidiaries have investment grade rating.

12. Contract and Administrative Rescission: Section 23 lists detailed instances in which CNH may unilaterally rescind the PSC subject to the new Rescission Procedure. Administrative Rescission covers serious defaults like non-compliance with the Minimum Work Program without reasonable cause or unauthorized assignment of interests. Contract Rescission covers instances like Contractor missing deadlines without reasonable cause beyond certain grace periods, not maintaining the Guaranties in due form or not completing 90% of the Minimum Work Program.

The PSC includes a new Rescission Procedure. CNH must now give 30 days' written notification of the pending Administrative Rescission. Contractor has 30 days to cure or respond to any issues raised by CNH. CNH will have 90 days to determine if Contractor has cured or addressed the issues raised to its satisfaction. Contractor will have the opportunity to cure until CNH issues its final Rescission Decision. Once this decision is official, the PSC will be rescinded and Contractor will have to return the Contract Area to the state.

13. Contract Price: The Contract Price for oil and condensates will be determined on a per barrel basis and natural gas will be determines on a million BTU basis, based on the respective percentage of commercialized volumes of hydrocarbons. The applicable value will be applied to the formulas based on API Grades for oil or natural gas (see Annex 3). The state has the unilateral right to revise the formulas based on market conditions.

14. Recoverable Overhead Costs: The Recoverable Overhead Rate is now 1.5% of the Authorized Budget. These costs include total compensation for related people regardless of their location.

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