Akin Gump
STRAUSS HAUER & FELD LLP

Energy Alert

March 28, 2018

Key Points

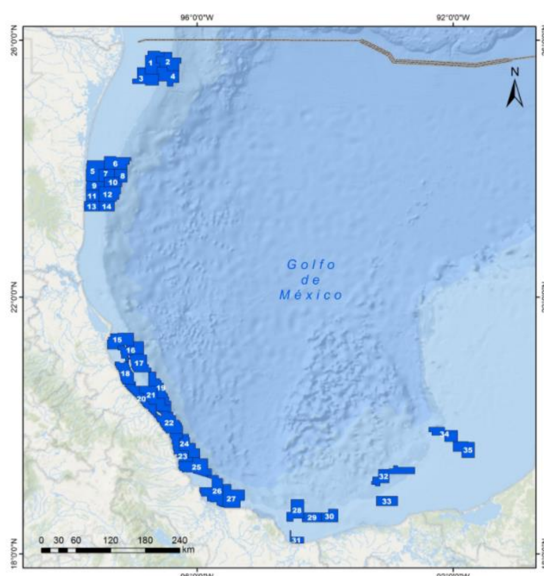
- Round 3.1 exceeded expectations by awarding 16 of 35 contract areas
- All available contract areas in the Cuencas del Surest region were awarded in a highly competitive tender
- The Mexican government has awarded 107 licenses and production sharing contracts since the enactment of the Energy Reform in 2013

Mexico's Energy Industry

Round 3.1: Mexico Adds Another Success in Latest Shallow Water Tender

On March 27, 2018, the Comisión Nacional de Hidrocarburos ("***CNH***") completed the Presentation and Opening of Bid Proposals for the First Tender of Round Three ("***Round 3.1***"), which was first announced on September 29, 2017. Round 3.1 attracted 30 oil and gas companies from around the world including Royal Dutch Shell, ExxonMobil, Premier Oil, Pemex, Lukoil, BP, Deutsche Erdoel, Repsol, ENI and Total, among others.

Round 3.1 included 35 shallow water contract areas located in the Burgos, Tampico-Misantla and Cuencas del Sureste regions (shown in the following map). The main focus of Round 3.1 was to offer exploration and development opportunities for wet and dry gas and light crude oil prospective reserves totaling 1,988 MMboe. The prospective resources offered in Round 3.1 accounted for 70% of the available shallow water resources under the Five Year Plan. The blocks were offered under a production sharing contract, similar to the shallow water form used by the CNH in Round 2.1, which has an exploration period of 4-8 years, an evaluation period of 2-3 years and a development/production period of 19-24 years.



Even though there had been some uncertainty due to the upcoming elections, the results for Round 3.1 exceeded expectations by awarding 16 of 35 contract areas (45% of the available areas) to companies with significant experience in shallow waters or existing assets and operations in Mexico's GOM. Companies showed a moderate appetite for wet and dry gas contract areas in the Burgos and Tampico-Misantla regions where only 8 of the 27 available blocks were awarded. In contrast, companies were very active on the Cuencas del Sureste region where all available contract areas were awarded and in some cases decided under the Tie-Breaker Bonus. Mexico's Energy Ministry estimates that the 16 production sharing contracts will generate over US$8.6 billion in investments. The biggest winners in Round 3.1 were Pemex with 7 contract areas, and Deutsche Erdoel, Total and Premier Oil, each with 3 contract areas. It is noteworthy that since the enactment of the Energy Reform in 2013, the Mexican government has awarded 107 licenses and production sharing contracts to domestic and international companies, who have agreed to drill 138 wells thereunder. The Mexican energy industry continues to attract international companies while promoting joint ventures with domestic players, creating a competitive and active market that only five years ago was a mere goal.

The CNH evaluated the bids based on proposed additional royalty and investment factors. The results of the bidding process are shown in the following chart:

Area	Winner	Type	Surface (km2)	Minimum Work Program Units	Minimum State Participation	Offered State Participation	Investment Factor (x)
Burgos							
1	No Bids	Wet Gas	801.799	2,104	8.50%	-	-
2	No Bids	Wet Gas	816.319	2,141	8.50%	-	-
3	No Bids	Wet Gas	809.316	2,123	8.50%	-	-
4	No Bids	Wet Gas	778.482	2,046	8.50%	-	-
5	Repsol	Wet Gas	813.782	2,134	22.50%	56.27%	-
6	No Bids	Wet Gas	820.079	2,150	22.50%	-	-
7	No Bids	Wet Gas	391.196	1,078	22.50%	-	-
8	No Bids	Wet Gas	390.467	1,076	22.50%	-	-
9	No Bids	Wet Gas	397.127	1,093	22.50%	-	-
10	No Bids	Light Oil	418.704	1,147	22.50%	-	-
11	Premier Oil	Wet Gas	391.395	1,078	22.50%	29.43%	-
12	Repsol	Wet Gas	811.349	2,128	22.50%	48.17%	-
13	Premier Oil	Wet Gas	391.869	1,080	22.50%	34.73%	-
14	No Bids	Wet Gas	391.869	1,080	22.50%	-	-
Tampico-Misantla-Veracruz							
15	Capricorn & Citla Energy	Dry Gas	961.652	2,504	22.50%	27.80%	-
16	Pemex, DEA & CEPSA	Dry Gas	784.799	2,062	22.50%	24.23%	-
17	Pemex, DEA & CEPSA	Light Oil	842.363	2,206	22.50%	35.31%	-
18	Pemex & CEPSA	Light Oil	813.269	2,133	22.50%	40.51%	-

Area	Winner	Type	Surface (km2)	Minimum Work Program Units	Minimum State Participation	Offered State Participation	Investment Factor (x)
19	No Bids	Dry Gas	808.399	2,121	22.50%	-	-
20	No Bids	Dry Gas	816.706	2,142	8.50%	-	-
21	No Bids	Dry Gas	1,103.2	2,858	8.50%	-	-
22	No Bids	Dry Gas	1,137.8	2,945	8.50%	-	-
23	No Bids	Dry Gas	820.34	2,151	8.50%	-	-
24	No Bids	Dry Gas	791.40	2,078	8.50%	-	-
25	No Bids	Dry Gas	1,170.1	3,025	8.50%	-	-
26	No Bids	Dry Gas	1,224.6	3,162	8.50%	-	-
27	No Bids	Dry Gas	1,134.5	2,936	8.50%	-	-
Cuencas del Sureste							
28	ENI & Lukoil[1]	Light Oil	807.76	2,119	22.50%	65.00%	1.5
29	Pemex[2]	Light Oil	470.579	1,276	22.50%	65.00%	1.5
30	DEA, Premier Oil & Sapura[3]	Light Oil	527.891	1,420	22.50%	65.00%	1.5
31	Pan American	Light Oil	262.76	757	22.50%	6.00%	1.0
32	Total & Pemex	Light Oil	1,027.4	2,668	22.50%	40.49%	-
33	Total & Pemex	Light Oil	580.87	1,552	22.50%	50.49%	-
34	Total, BP & Pan American	Wet Gas	734.05	1,935	8.50%	50.49%	1.0
35	Shell & Pemex	Heavy Oil	797.9	2,095	22.50%	34.86%	-

[1] Tie-Breaker Bonus: US$59,800,000; Second Place was the DEA & Premier Oil Consortium.
[2] Tie-Breaker Bonus: US$13,000,000; Second Place was the DEA, Premier Oil & Sapura Consortium.
[3] Tie-Breaker Bonus: US$51,147,000; Second Place was the Eni & Lukoil Consortium.

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