

Mexico's Energy Reform: New Opportunities in a Changing Landscape.

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Opening Remarks

“Over the next four years, we will see accelerated growth for a country (Mexico) with massive oil and gas resources, excellent infrastructure, a transparent investment framework, and a new hunger for foreign partners. In short, it is the **largest energy opportunity in the world today** - and the door has just been opened.”

CEO Steve Hanson, [International Frontier Resources Corp.](http://oilprice.com/Energy/Energy-General/Why-Mexicos-Oil-Reform-Is-A-Huge-Opportunity-For-Investors.html) (<http://oilprice.com/Energy/Energy-General/Why-Mexicos-Oil-Reform-Is-A-Huge-Opportunity-For-Investors.html>)

New Opportunities

- **Petróleos Mexicanos (“PEMEX”) remains an important customer.**
- **Through round zero they were assigned approximately 418 blocks.**
- **PEMEX can explore and exploit them on their own or through Joint Venture partnerships (“JV”).**
- **For the blocks to be explored or exploited by PEMEX they must hire services favouring public bids.**
- **To form JVs, Pemex must migrate to Exploration and Production Contracts, their entitlements with the approval of the Ministry of Energy (New Government has announced it will favor this type of Contracts).**
- **JV partners must be obtained through a public bid organized and regulated by CNH.**
- **JV partners do not need to meet requirements of the Pemex Law to award contracts; however, they must follow the Procurement Guidelines issued by the Ministry of Treasury.**

New Opportunities

- Pemex announced new integrated service contracts for exploration and production of shallow water blocks.
- Goal Increase Production and reduce costs.
- Pemex maintains ownership over the entitlement and remains the operator.
- Contractor must provide all service required to increase production.
- Contractor's will be paid based on tariffs per unit of hydrocarbon produced.
- Contractor must provided Capex and Opex.
- Contractor will be entitled to recover 50% of their cost of exploratory activities and pilot tests.
- Revenues of the block will be segregated by Pemex to pay Contractors.
- Pemex will act as an auditor though a committee.
- Contractor will be liable for abandonment costs.
- Term of the contract 15 years with extensions.

New Opportunities

There will be more customers/operators, some of which you are already dealing with in other parts of the world



New Opportunities

Procurement Guidelines:

Contracting Parameter	Guidelines
Transactions above USD\$5 Million Dollars and below USD\$20 Million Dollars	At least 3 bids
Transactions above USD\$20 Million Dollars	An international public bid whereby all of the participants are equally treated and the winner should have offered the best economic conditions.
Direct Award	Directly assign contracts to a related party or a third party without the need to carry out a bid, as long as agreed price meets Market Rules

* In the event of related parties, a price transfer study is required as per the OECD Rules

Changing Landscape:

1. **Regulated Hydrocarbons Activities**

Surface Inspection and Exploration, and the Extraction and Exploration of Hydrocarbons

The Treatment, refining, sale, commercialization, transportation, and storage of Petroleum

The processing, compression, liquefaction, regasification, and decompression, as well as the Transportation, Storage, Distribution, and Retail Sale to the Public of Natural Gas

The Transportation, Storage, Distribution, and Retail Sale to the Public of Liquefied Petroleum Gas

The Transportation, Storage, Distribution, and Retail Sale to the Public of Petroleum Products

Pipeline Transportation and Storage connected to pipelines of Petrochemicals

Changing Landscape:

2. Corporate and Fiscal Issues

Establishment of a PE in Mexico

This does not apply to the operations of vessels under bareboat or time charter

General Rule: Employees of a foreign company will be subject to Mexican tax if they work in Mexico for over 183 days in a 12 month calendar period

Companies performing activities regulated by the Hydrocarbons Law the term is reduced to 30 days in a 12 month calendar period

Secondment of employees to a Mexican subsidiary or to open a branch of the employment company in Mexico

Organization of a Subsidiary/ Registration of a Branch.

Changing Landscape:

3. Labor/Immigration requirements.

Labor unions

Social security benefits

Profit sharing

Seamen's book

Temporary resident card ("TRC")

Entry visa

Upon the workers or crew arrivals, the entry visa must be exchanged for a TRC which is valid for 1 year and multiple entrances

Changing Landscape:

4. Permits

Importation of vessels or equipment

Navigation permits

Water discharge

Social impact Study

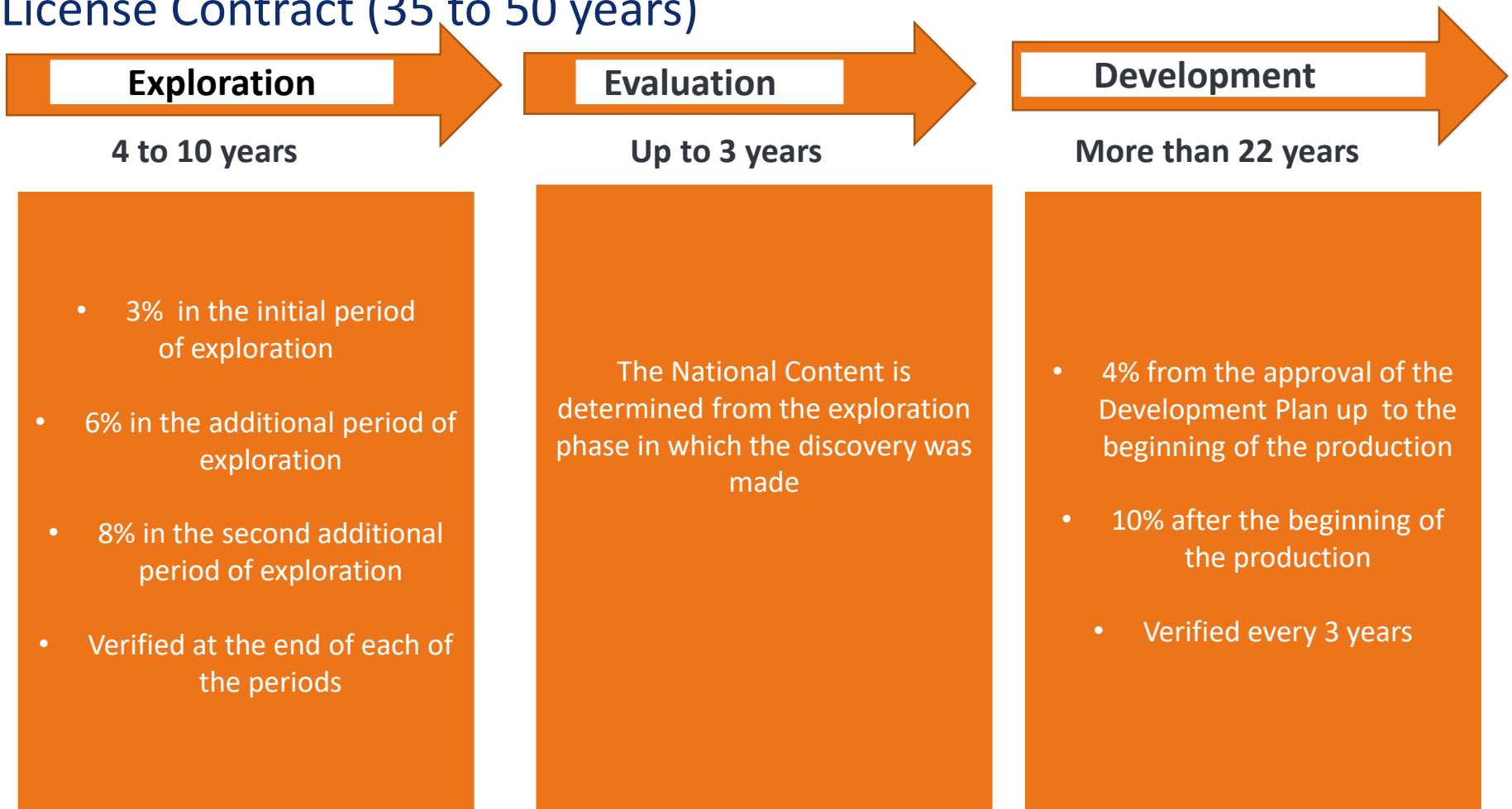
Environmental Impact Study

Permits to Access the Fields

Changing Landscape:

5. National Content for Regulated Companies

License Contract (35 to 50 years)

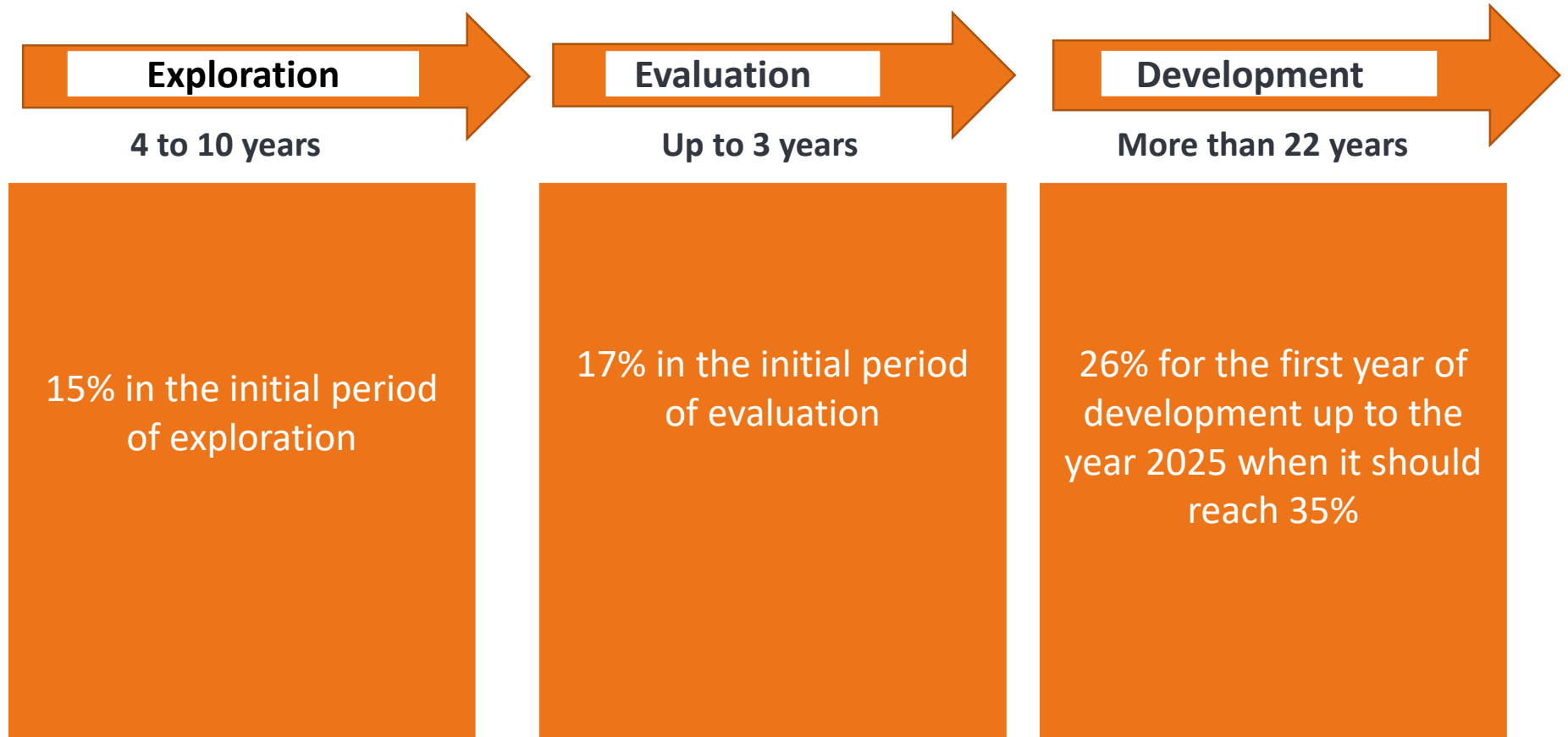


* In the event of non compliance a penalty will be applied

SOURCE: CNH

5. National Content for Regulated Companies Production

Sharing Contract (30 to 40 years)



* In the event of non compliance a penalty will be applied

SOURCE: CNH

Changing Landscape:

6. Environmental Permits



ASEA → National Agency for Industrial Safety and Environmental Protection of the Hydrocarbons Sector

Permits: Environmental/Administration System

The Regulated Companies and its intermediaries can be held liable for any accidents, harm or damages caused during the performance of its activities

Changing Landscape:

7. Environmental Liability



Any entity that causes environmental damages shall be held liable and is obliged to:

- Repair the damage and if not possible
- Pay the corresponding compensation

In addition to the above an economic penalty must be paid (from approx. USD\$4,000 to USD\$2,400,000). Possibility to be reduced to 1/3 .

The statute of limitation is 12 years

Changing Landscape:

8. Insurance Requirements for Regulated Companies



Mandatory Insurance Coverage for Regulated Companies:

- Civil Liability
- Environmental Damage Liability
- Well Control, if applicable

The limits for civil liability and environmental damage are determined either through a Regulatory Minimum insured sum or through a Probable Maximum Loss (PML) study carried out in accordance with ASEA rules

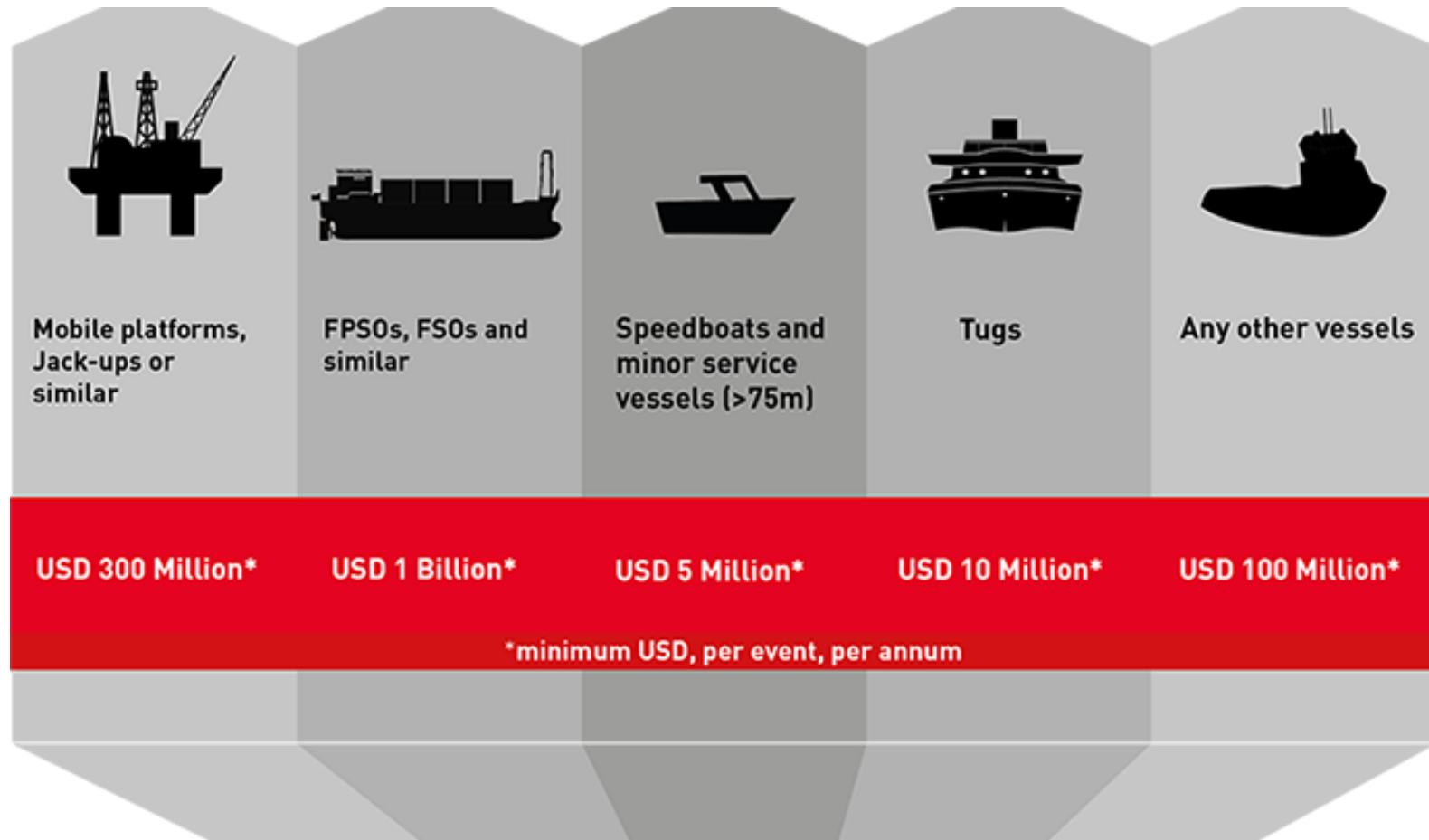
8. Insurance Requirements for Regulated Companies



The Regulated Companies are responsible for all damages caused also by their Contractors and the insurance policy does not limit their liability

★ Contractors must have insurance to cover their corresponding liability in the event of damages.

8. Insurance Requirements for Vessels



Source: <https://www.skuld.com/topics/legal--defence/pi/insurance-requirements-in-the-mexican-oil-and-gas-industry/> written by Enrique Garza

8. Insurance Requirements for Contractors

- TANKERS.

\$5,000,000.00 USD per event for vessels with a gross tonnage of 499 to 1,999 gross tonnage ("GT").

\$ 10,000,000.00 USD per event for vessels with a gross tonnage between 2,000 to 4,999 GT.

\$100,000,000.00 per event for vessels with a gross tonnage between 5,000 to 15,000 GT.

1,000,000,000.00 per event for vessels with a gross tonnage over 15,000 GT.

To be successful in Mexico always consider:

- **Be as Mexican as you can be**
- **Meeting and spending time with your clients and/counterparts is fundamental for building up a strong relationship**
- **Deal with the right people**

Gracias, Thank You



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