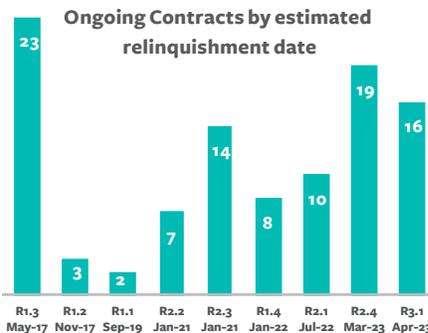




Considerations on relinquishment processes in Oil and Gas Contracts

Exploration and Extraction of Hydrocarbons Contracts (“Contracts”) establish that an operator may relinquish a percentage of its contractual area, or its entirety, at any time (voluntary relinquishment) or may by entering into a certain contractual stage (mandatory relinquishment), such as at the end of the Initial Exploration Period except for Contracts from Rounds 1.2 and 1.3 which main purpose is development activities. However, relinquishment can be postponed if the operator requests additional exploration periods committing to additional drilling. Therefore, most Contracts will soon be entering into contractual stages that carry relinquishment activities.



* Farmouts, and migration contracts are not considered

REASONS FOR VOLUNTARY RELINQUISHMENT:

Lower taxes:

There are two acreage-based monthly contributions: (1) Contractual fee for exploratory phase (“CCFE”): USD\$6,980 for each 100km² during the first 5 years and USD\$16,692 per 100km² after the 6th year; **plus** (2) the tax for exploration and extraction activities (“IAEEH”): USD\$9,105 per 100km² during the exploration phase which increases to USD\$35,420 per 100km² once a development plan is approved.

Lack of interest in operating an area:

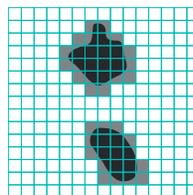
The most obvious reason for relinquishment is when the contractual area becomes unattractive to operate. There are some cases where bidding-round winners offered royalties that exceeded the minimum balance to operate economically. Other, more normally expected cases, are when operators obtain poor results after drilling the first exploration well.

Whenever a relinquishment procedure is triggered, the Final Transition Stage starts for the part of the area that is being surrendered. Though the procedure is the same, there are some considerations that depend on whether it is a partial or total relinquishment. Below we address the most relevant:

PARTIAL RELINQUISHMENT:

SHAPE OF THE AREA

Only Contracts from Round 1.1. establish the obligation of relinquishing areas that are contiguous and in regular polygons. Later model contracts do not include such provision. The sole requirement from National Hydrocarbons Commission is that operators use the Official Grid (INEGI) for defining polygons to be relinquished (http://www.dof.gob.mx/nota_detalle.php?codigo=5356008&fecha=12/08/2014)



STRUCTURES

Exploration and Extraction activities can only be performed in the Contractual Area, which considers the surface and depth including any geological formation contained in the vertical projection from the surface. Thus, when relinquishing blocks, operators shall consider that any structure left outside the Contractual Area could be subject to a unitization process (partial structure left in the remaining area) or that they will not have the right to perform any activity at all (total structure outside the remaining area).

PLANNED OR PROGRAMMED ACTIVITIES

Check that the relinquished areas are not included in an Exploration Plan, Appraisal Program or Development Plan to avoid the imposition of a fee for non-compliance of the approved activities, in terms of article 85, f.II, g) of the Hydrocarbons Law. If needed, request a modification of those documents.

TOTAL RELINQUISHMENT:

LIQUIDATED DAMAGES

In case that the Minimum Work Commitment, its Increase and/or any other additional commitments are not fulfilled, the CNH will determine liquidated damages.

COMPLIANCE WITH OTHER AUTHORITIES

Before authorizing the relinquishment, CNH will ask SENER, the Agency for Safety, Energy and the Environment (ASEA), the Ministry of Finance (SHCP), the Ministry of Economy, and the Mexican Petroleum Fund (FMP) if the operator is fully compliant.

Relinquishment in numbers

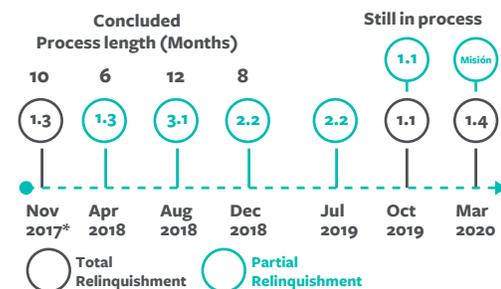
Holding acreage has a considerable cost for the Mexican Oil and Gas Industry. On a yearly basis, the 104 awarded contracts pay USD\$168 million and this number may go up to USD\$554 million once operators enter into the 6th year of exploration and their development plans are approved.

Rounds	Awarded contracts	Area (km ²)	USD millions per year (lower-upper limits)		
			CCFE (FMP)	IAEEH (SAT)	CCFE + IAEEH
Round 1	38	20,000	17-40	22-87	39-127
Round 2	50	56,000	47-112	61-245	108-357
Round 3	16	11,000	9-22	12-48	21-70
Total:	104	87,000	73-174	95-380	168-554

Relinquishment process in a nutshell

- Request for relinquishment.
- CNH’s Governing Body approves the request. Start of the Final Transition Stage, opinion from CNH’s technical and legal departments.
- Notice to the FMP, SENER, SHCP, ASEA, Ministry of Economy to declare any pending activities.
- Appointment of a third-party to receive the Contractual Area.
- Delivery of information: updating of social and environmental baselines, etc.
- Liquidated damages, if any.
- Execution of the termination or amending agreement.
- Settlement (6 months later).

Relinquishment processes status



* Refers to the date when CNH approves starting the process

ANALYSTS



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MARÍA SERNA advises on the design of the regulatory compliance strategies where she oversees that each of our suggestions are both legally viable and enforceable as well as representing the minimum government relationships wear. She has experience in advocating before high-level public servants of the energy regulators in favor of our clients, often integrating diverse stakeholders’ points of view.

We are a unique firm integrated by experts in energy regulation and public administration, conformed by a professional team with vast experience in the evolution of the energy sector during the last 10 years.

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