Extensions for Exploration and Appraisal periods

The pandemic has provoked delays in operations as services and materials providers all along the value chain have not been able to fulfill their commitments on time, and lockdown measures have limited the development of activities. Additionally, regulators have been operating irregularly since March 2020 with interrupted procedures, closure of offices, common failures in the electronic systems to submit information, and suspension of authorization procedures. According to the National Hydrocarbons Commission (CNH), there were 25 force majeure and 13 extension requests between March and July 2020. To grant some relief, CNH published Agreement CNH.E.29.001/2020, where it: (i) recognized a limited force majeure, and (ii) rejected the requests for extensions. In this pager we will focus on the latter: that is, the Operators’ right to request an extension to Exploration and Appraisal Periods, which becomes more relevant at these times, considering not all operational delays due to COVID-19 qualify as Force Majeure.

HOW IT WORKS?

Contracts establish that at least 60 calendar days before the conclusion of the Exploration or Appraisal periods, Operators may request an extension to conclude ongoing activities that, for reasons not attributable to the Operator, are impossible to conclude within the period. Given that it can only be granted for approved activities, no new activities are allowed. In their request, Operators shall propose the required timeframe to conclude the pending activities.

APPROVAL PROCESS

Exploration Period extensions: Since there is no specific term for answering requests for Exploration Periods extensions, CNH may resolve in up to three months (article 17 of the Federal Law of Administrative Procedure). This means that the contractual term for filing with at least 60 days in advance, may not be sufficient for obtaining the approval in time.

Appraisal Period extensions: There is a 15-business day term for resolution, according to article 51 of CNH’s Plan Guidelines.

There is neither a defined process nor evaluation criteria to approve extensions. The following is a compilation of what has been observed in the 14 processes that CNH has resolved up to date.

Based on past approvals, CNH evaluates the extension request based on: (i) Current status of the Contract and Plan/Program; (ii) Cause of the extension; and (iii) Extension characteristics. The evaluation process is carried out by the Unit of Technical Administration for Entitlements and Contracts (UATAC in Spanish), supported by CNH’s legal and technical areas. According to the above, Operators should structure their requests based on the following:

- Activities progress:
  - Executed vs programmed activities.
  - Minimum Work Program progress: its increment and additional commitments (if any).
  - Analysis of permits and authorization procedures for the approved activities.

- Extension request: At least 60 calendar days before the period ends.
- Causes/Reasons of delay:
  - Technical, economic, social, and other reasons out of Operator’s control.
  - Analysis and comparison with periodic reports and/or previous Operator’s notifications of any delay or problem.
  - Analysis of reasons not being attributable to the Operator (supported by the legal area of CNH).

- Activities to be executed during the extension: Shall be activities approved in the Plan/Program (supported with exploration technical area of CNH).
- Schedule: Shall be consistent with the one in the Plan/Program approved.
- Extension time: Justification that the extension corresponds to the programmed activities.

RECOMMENDATIONS

- Considering COVID’s current restrictions, and the fact that several regulators are increasingly defining more non-business days, procedures tend to be inconsistent and may take longer. It is recommended to request the extension more than 60 days before the conclusion of the period.
- CNH has denied requests due to inconsistencies in activities’ timelines. Thus, remember to deliver the updated timeline in the format that was approved in the Plan/Program.
- Include any delays or operational problems in the monthly reports to CNH, to have additional support in case of an extension request.
- Agile communication with CNH is key to clarify and submit additional information requests.

EXTENSIONS VS OTHER CONTRACTUAL FIGURES

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension</td>
<td>No additional commitments</td>
</tr>
<tr>
<td>Additional processes</td>
<td>No Plan/Program modification needed</td>
</tr>
<tr>
<td>Force Majeure</td>
<td>Available for Exploration and Appraisal periods</td>
</tr>
</tbody>
</table>

| Additional Exploration Periods | Defined term of the period, longer than the extension | Additional activities can be included. |
| Force Majeure | No Plan/Program modification needed | Additional commitments (work units) |
| | No additional commitments | Additional compliance guarantee |
| | Additional Plan/Program modification may be needed | Plan/Program |

RECOMMENDATIONS

-考慮COVID的當前限制，以及事實上，許許多多的監管機構正越來越多地定義非工作日，程序往往不一致，並且可能會更長。建議在到期前至少60天提出延期申請。
- CNH已拒絕延長申請，因活動的時間表不一致。因此，請在報告中提供任何延遲或操作問題。
- 與CNH的敏捷溝通是關鍵。
- 透明度和豐富的資料。
- 申明任何相關的服役問題。

EXTENSIONS VS OTHER CONTRACTUAL FIGURES

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension</td>
<td>沒有額外的承諾。</td>
</tr>
<tr>
<td>Additional processes</td>
<td>沒有計劃/程序修改。</td>
</tr>
<tr>
<td>Force Majeure</td>
<td>可用於勘探和評估期間。</td>
</tr>
</tbody>
</table>

| Additional Exploration Periods | 定義期間的長度，長於延長。 | 可以包括額外的活動。 |
| Force Majeure | 沒有計劃/程序修改。 | 需要額外的承諾。 |

RECOMMENDATIONS

- 考慮COVID的當前限制，以及事實上，許許多多的監管機構正越來越多地定義非工作日，程序往往不一致，並且可能會更長。建議在到期前至少60天提出延期申請。
- CNH已拒絕延長申請，因活動的時間表不一致。因此，請在報告中提供任何延遲或操作問題。
- 與CNH的敏捷溝通是關鍵。
- 透明度和豐富的資料。
- 申明任何相關的服役問題。