

July 22, 2016

Round Two – First Public Bid

By William “Hunt” Buckley and Thomas E. Heather

As part of the implementation of the Mexican energy reform, the Mexican government has selected certain fields that will gradually be tendered to foreign and domestic companies for hydrocarbon exploration and production projects. Round One comprises 109 blocks for exploration and 60 blocks for production, and includes new areas of different sizes and types of resources, including: (i) deep-water; (ii) shallow-water; and (iii) on-shore fields. Together, these blocks cover approximately 28,500km². The first international public bid of Round 2 comprises 15 blocks for exploration and productions, and includes new areas of different sizes, as described below.

As previously reported, the National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) (“**CNH**”) called four international public bids: one for 14 exploration and production blocks in shallow waters, another for 9 production blocks in shallow waters, another for 26 onshore production blocks, and another for 10 exploration and production blocks in deep waters. The winners were awarded production sharing contracts in the first two public bids and with license contracts in the last two, respectively.

General Description of the Fourth Public Bid Call:

On July 19, 2016, the CNH formally announced the first international public bid of Round Two to award fifteen **production-sharing contracts** for the **shallow-water** production of hydrocarbons. The bid rules and the model contract were published on July 20, 2016. This is the third bid covering shallow-water blocks and is the third time production-sharing contracts are used in Mexico.

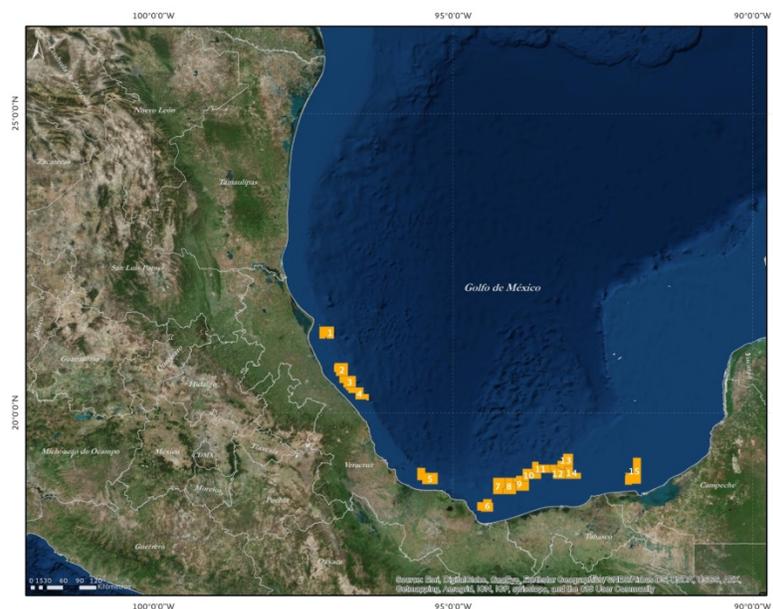
Four of the fifteen blocks are located in shallow waters in the Tampico-Misantla area off the coast of southern Tamaulipas and northern Veracruz, while one is located in the Veracruz – Extensional Belt off the coast of Veracruz and 10 in the Southeastern Mexico Basins. A production-sharing contract will be awarded for each block.

1. **Size of the Blocks.** The total area of the blocks to be auctioned is 8,908 km¹, with prospective resources of approximately 480 million barrels of crude equivalent and an original volume of approximately 220 million barrels of crude equivalent, broken down as follows:

¹ The Production-Sharing Contract must be executed jointly by the Mexican entity and the Individual Bidder or Consortium as joint and several obligor(s). The Individual Bidder or Consortium are jointly liable along with the Mexican entity for purposes of the Production-Sharing Contract.

Type of Block	Block	Location	Area (Km ²)
Shallow Waters	1	Tampico - Misantla	544.4
	2		548.7
	3		546.4
	4		556.8
	5	Veracruz – Extensional Belt	825.5
	6	Southeastern Mexico Basins	559.3
	7		590.8
	8		586
	9		562.3
	10		532.6
	11		532.7
	12		521.1
	13		564.6
	14		466.4
	15	971.6	

2. Location of the Blocks



Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics /ONES/Airbus DS, USDA, USGS, AEX, Getmapping, Aerogrid, IGN, IGP, swisstopo, and the GIS User Community.

Technical Bid Information:

- (a) **Type of Exploration and Production Contract.** Production-Sharing Contracts.
- (b) **Term of the Contract.** 30 years from the date of execution of the contract. The term of the contract may be extended for two additional terms of 5 years each, for a maximum total of 40 years.
- (c) **Governing Law.** Hydrocarbons Law (*Ley de Hidrocarburos*), Regulations to the Hydrocarbons Law (*Reglamento de la Ley de Hidrocarburos*), and the Administrative Rules for the Tender of E&P Contracts (*Disposiciones Administrativas en materia de Licitaciones de Contratos para la Exploración y Extracción de Hidrocarburos*)
- (d) **Location of the Contract Areas.** Shallow-water blocks located in the Tampico – Misantla region off the coast of southern Tamaulipas and northern Veracruz, the Veracruz – Extension Belt, and in the Southeastern Basins off the coasts of Veracruz, Tabasco and Campeche.
- (e) **Language of the Proposal.** Spanish.
- (f) **Bid Bond.** For each block, participants must provide a standby letter of credit for a total amount of US\$500,000.00 for a term of 120 days from the date of submission of the proposals.
- (g) **Requirements of the Bidder to Access the Data Room.** The interested party must be a company with proven experience in E&P activities in at least one deep-water project and must pay a fee of MX\$8,000,000.00 for data room access.
- (h) **Registration Fee.** MX\$750,000.00.
- (i) **Form of Participation.** Companies may participate in the bidding round as individual bidders (“**Individual Bidder**”) or as joint bidders (“**Consortium**”; jointly, a “**Bidder**”). Either as an Individual Bidder or a Consortium, a Mexican entity must be created as a special-purpose vehicle to execute the Production-Sharing Contract. One or more companies may submit a joint bid, acting as a Consortium, pursuant to the following:
 - Any of the companies of the Consortium may pay the fee to access the Data Room and be registered in the Bid;
 - Only joint bids from a Consortium that obtains a prequalification certificate will be accepted, and therefore, any new company not a member of the Consortium in the prequalification stage will not be accepted.
 - A company may not be a party to more than Consortiums;
 - The designated operator must have at least one third of the economic participation in the Consortium;
 - All members of a Consortium must execute, among themselves, a Private Joint Proposal Agreement in accordance with Form CNH-2 included in the Bid Rules; and
- (j) **Prequalification Requirements.** Participants in the Bid must satisfy certain financial and expertise conditions to be prequalified. Some of the requirements are applicable only to the operator and may be satisfied by an affiliate depending on the case. The requirements in general include the following:

1. **Experience.** The operator must evidence:
 - a. experience as an operator in at least three exploration and/or production projects in or capital investments in exploration and/or production projects for a minimum cumulative amount of US\$1 billion between 2011 and 2015;
 - b. Experience as an operator in at least one exploration and/or production project in shallow or deep waters or participation as a partner in at least two exploration/and or production projects in deep or shallow waters in the past five years; and
 - c. that they have experience in industrial and environmental safety in exploration and/or production projects in shallow or deep waters for five years.
 2. **Financial.** The Individual Bidder or designated operator must evidence that:
 - a. it has assets totaling US\$10 billion and an investment-grade credit rating, or (ii) a total equity of US\$1 billion. In the case of a Consortium, the non-operating Consortium members must evidence a total equity of US\$250 million; and
 - b. the designated operator must have at least one third of the economic interest in the Consortium.
- (k) **Limit to Awarding of Blocks.** There is not a limit; a Bidder may submit bids for each block. However, a company may participate in no more than four Bidders, whether as an Individual Bidder or in Consortiums.

(l) **Timeline of Award Process**

- **Date of the Call and Publication of the Bid Rules.** July 20, 2016.
- **Registration Payment.** From January 6, 2016 to May 13, 2016.
- **Registration for Data-Room Access.** From August 1st, 2016 to December 2, 2016.
- **Access to the Data Room.** From August 1st, 2016 to March 21, 2017.
- **Delivery of Prequalification Documents.** From December 19, 2016 to December 23, 2016.
- **Registration Payment and Request Prequalification Meeting.** December 12, 2016.
- **Prequalification Document Review by Bid Committee.** January 1st, 2017 to February 24, 2017.
- **Publication of the List of Prequalified Bidders.** March 1st, 2016.
- **Deadline to Apply for Authorization to Modify Structure of Bidders.** March 3, 2017.
- **First Clarification Stage (Data-Room Access).** From July 20, 2016 to November 18, 2016.
- **Second Clarification Stage (Prequalification).** From July 20, 2016 to December 8, 2016.



- **Third Clarification Stage (Submission of Proposals, Award and Contract).** From July 20, 2016 to March 3, 2017.
- **Final Version of the Bid Guidelines.** March 3, 2017.
- **Final Version of the Model Production-Sharing Contract.** March 3, 2017.
- **Date for the Submission of Bids and Opening Thereof.** March 22, 2017.
- **Issuance of the Award and Request for its Publication.** March 22, 2017.
- **Date of Execution of Contracts.** Within 90 days after the publication of the award of the contract in the Federal Official Gazette.

For more information in connection with this first bidding process of Round Two, please contact any of the following lawyers.

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