

Summary of Bidding Terms for Mexico Deepwater Areas

On December 17, 2015, the Mexican National Hydrocarbons Commission (CNH) published the bidding and contract terms for 10 deepwater and ultra-deepwater oil and gas areas, kicking off the fourth phase of Mexico's Round One, which will continue throughout 2016. The full bidding and contract terms are available at www.ronda1.gob.mx.

The contract form selected for this phase is a license contract, which will be awarded for the deepwater and ultra-deepwater oil and gas areas pursuant to economic criteria contained in the bidders' proposals. The license contracts will have a term of 35 years, extendable for a first additional period of 10 years and a second additional period of 5 years.

Deepwater Contract Areas

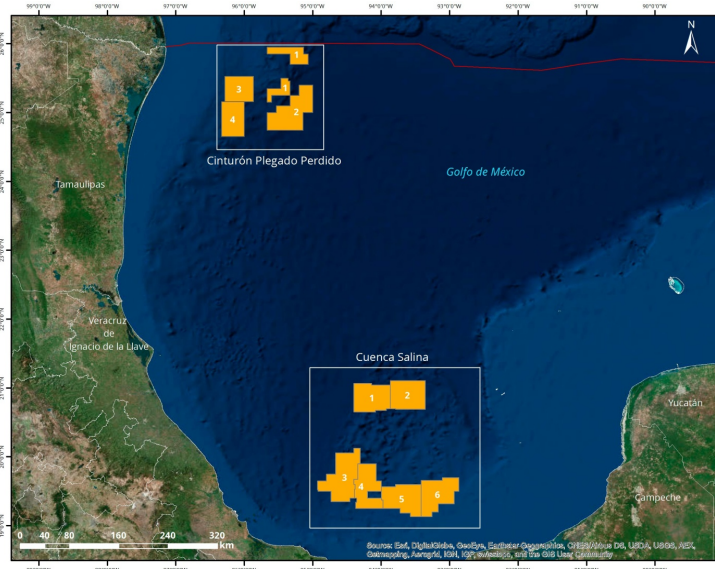
The 10 contract areas offered in the fourth phase of Round One are located in the deep waters and

ultra deepwaters of the Mexican segment of the Gulf of Mexico and within the areas of Cinturón Plegado Perdido and Cuenca Salina shown below. See [Appendix](#) for more detailed information on the contract areas.

Bidding Process and Calendar

The phases of the bidding process are as follows:

- Publication of the bidding invitation and terms
- Access to the information data room
- Registration for the bidding round
- Clarification to the bidding terms and contract
- Prequalification of companies
- Delivery and opening of proposals
- Awarding of contract and decision
- Contract execution



Source: www.ronda1.gob.mx

Below is the general calendar included in the bidding terms:

EVENT DATE

BIDDING INVITATION AND TERMS

Publication of the bidding invitation and terms	Dec. 17, 2015
Publication of updated bidding terms (including contract form)	Jan. 6, 2016

DATA ROOM

Period to request access to the Data Room and pay corresponding fee	Jan. 6, 2016 – Apr. 15, 2016
Data room access	From Jan. 6, 2016, to one day prior to the delivery and opening of proposals

CLARIFICATION TO BIDDING AND CONTRACT TERMS

First phase of clarifications (concerning data room access)	Dec. 17, 2015 – Apr. 1, 2016 Questions received until Mar. 25, 2016
Second phase of clarifications (concerning prequalification and composition of bidders)	Jan. 6, 2016 – June 3, 2016 Questions received until May 27, 2016
Third phase of clarifications (concerning delivery and opening of proposals, contract award, decision and contract)	Jan. 6, 2016 – Oct. 26, 2016 Questions received until Oct. 21, 2016

PREQUALIFICATION

Period for registration payment and to request an appointment for prequalification	Jan. 6, 2016 – May 13, 2016
Receipt of prequalification documents	June 14, 2016 – July 1, 2016
Prequalification (document review by bid evaluation committee)	July 4, 2016 – Aug. 22, 2016
Publication of the list of interested companies that have prequalified to participate in the bidding round	Aug. 24, 2016

STRUCTURE OF BIDDERS

Period to request CNH authorization for the composition of bidders	Aug. 25, 2016 – Sep. 29, 2016 Limit for CNH to resolve: Oct. 06, 2016
Period to request CNH authorization to modify the composition structure of bidders	Oct. 07, 2016 – Oct. 14, 2016 Limit for CNH to resolve: Oct. 21, 2016

PRESENTATION AND DELIVERY OF PROPOSALS

Delivery and opening of proposals and naming of winning bidders	To be determined in the third quarter of 2016; the delivery and opening of proposals will take effect at least 90 days following the determination of the date.
Resolution of the Governing Body for the awarding decision and request to publish the decision in the <i>Federal Official Gazette</i>	Two business days following the delivery and opening of proposals, at the latest

EXECUTION OF CONTRACTS

Deadline for the execution of contracts	Within 90 calendar days following the publication of the bid award in the <i>Federal Official Gazette</i>
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Registration and Data Room Access

To gain access to the data room, companies must first register and pay the following nonrefundable fees:

- For data room access to information relating to the 10 contract areas: MXN38,500,000 (approximately, US\$2,260,000), which will be mandatory for interested parties who intend to qualify as Operators; and
- For registration only: MXN280,000 (approximately, US\$16,500), which will be mandatory for all interested parties.

Interested parties who intend to prequalify as non-Operators and who wish to access the information in the data room must do so either through the Operator with whom they intend to join or by paying the corresponding fee.

Paid data room access includes:

- A hard disk containing the complete data room information;
- Visits to the physical data room (appointment is required); and
- Virtual access to the data room.

Prequalification

Companies must prequalify to submit proposals. Only registered companies will be allowed to participate in the prequalification process. The prequalification process will address and evaluate technical, operational and financial capabilities, as well as legal matters. Both Operators and non-Operators will need to prequalify in order to submit a bid offer. The technical, operational and financial prequalification requirements relating to the deep water bidding process include:

1. Technical and operational experience and qualifications of the Operator that will be verified:
 - a. Demonstrate experience as an Operator during the period 2011-2015 in at least one exploration

and/or extraction in a project with a depth greater than 1,000 meters;

- b. Demonstrate aggregate capital investments in exploration and extraction projects of at least US\$2 billion; and
 - c. Demonstrate experience in industrial safety and environmental protection within the last five years. Must have experience in the implementation and operation of industrial safety management systems, operational security and environmental protection in facilities or exploration and/or extraction projects.
2. Financial requirements of the Operator that will be verified:
 - a. Demonstrate stockholders' equity of at least US\$2 billion; or
 - b. Demonstrate total assets with a value of at least US\$10 billion and an investment-grade credit rating by one of the following rating services: Fitch Ratings, Moody's Investors Service or Standard & Poors.
 3. Financial requirements for non-Operators:
 - a. Demonstrate stockholders' equity of at least US\$250 million.

Forms of Participation

A prequalified Operator may participate both as an individual bidder and as part of one or more joint bidders with another Operator or non-Operator. The request for authorization must clearly state the intended form in which the bidder wishes to participate.

Joint bidders may submit a proposal without the necessity of incorporating a new legal entity, provided that each participating company has obtained CNH authorization and qualification to participate as a joint bidder.

CNH consent is required to modify the composition, corporate structure, interest percentage and/or responsibilities of a joint bidding group. Otherwise, any changes would

constitute cause for disqualification of all companies comprising the group. The CNH must grant approval of the modification if the following conditions are met: (i) the request is made in a timely fashion, (ii) the designated Operator's participating interest remains the same or higher and (iii) no joint bidding member has a higher participating interest than the Operator.

Only one bid offer may be submitted per individual bidder or joint bidder for each contract area through the bidder itself, in the case of individual bidders, or through the designated Operator, in the case of joint bidders.

National Content Requirements

The bidders must take into account the following minimum national content requirements:

1. **During the exploration and evaluation periods:** a minimum percentage of national content of three percent of the value of the items indicated in the methodology established by the Ministry of Economy that has been purchased or contracted for petroleum activities during the Initial exploration period, which shall be increased to six percent for the first additional exploration period and to eight percent for the second additional exploration period.
For the evaluation periods, the same percentage will apply as in the exploration period under which the declaration of discovery subject to evaluation was made.
2. **During the development period:** A minimum percentage of national content of four percent of the value of the items indicated in the methodology established by the Ministry of Economy that has been purchased or contracted for since the approval of the development plan and up until the start of the regular commercial production, which must be increased to ten percent of the value of the referred concepts at the start of the regular commercial production in any development area.

Delivery and Opening of Proposals

Proposals are to be made per contract area. Each proposal must be comprised of two different sealed envelopes, one containing the economic proposal and a cash offer as an additional compensation in the case of a tie, and the other containing the bid bond (garantía de seriedad) in favor of the CNH. This guarantee shall be in the form of a standby letter of credit issued or confirmed by a credit institution doing business in Mexico, with a value of US\$3 million, valid for 100 calendar days from the date of submission of the proposals.

The purpose of the bid bond is to guarantee the proposal and the execution of the contract by the winning bidder or the bidder in second place who is then selected, and the delivery of the corporate guarantee and performance guarantee under the terms of the contract.

The proposal of the winning and second place bidders must remain valid for 100 days following delivery. Bid bonds of non-winning bidders will be returned at the opening of the proposals, except the second-place bidder's bid bond, which shall remain valid until the execution of the corresponding contract.

The bid bond may be drawn by the CNH if the winning or second-place bidder withdraws its proposal before the execution of the contract, if the winning bidder or the second-place bidder does not execute the contract on the corresponding date, if the required corporate guarantee and performance guarantee are not delivered to the CNH contemporaneously with the execution of the contract, if the bidder submits false information, or if any member of a bidding group refuses to sign the contract or intends to modify the terms of its participation presented to the CNH.

All documents are to be submitted in person by the legal representatives of the bidders.

The opening of proposals will take place in a public act attested by a Mexican notary public

that will be streamed on the Internet. The winning and second-place bidders per contract area will be publicly announced in the same act. Minutes of the event will be published thereafter.

Economic Criteria for Determination of Winning Bidder

Before the deadline for publishing the updated version of the bidding terms, the Ministry of Treasury will determine the minimum values

that will be acceptable with respect to each of the variables comprising the economic proposal.

The winning bidder per contract area will be determined based on the weighted value of the offers that will be calculated based on the value of the additional royalty offered to the state, determined as a percentage of the contractual value of the hydrocarbons and the additional investment commitment offered, equivalent to one exploratory well during the initial exploration period:

$$VPO = 4x[Additional\ Royalty + \left(11.5x \frac{Additional\ Royalty}{100} + 3.45\right) x Investment\ Factor]$$

WHERE:

- VPO is the weighted value of the economic proposal.
- Additional Royalty is the value of the Additional Royalty determined as a percentage of the contractual value of the hydrocarbons, expressed in two digits and two decimals.
- Investment Factor is a binary variable relating to the investment commitment during the first initial exploration period that can only take the following values:
 - 1 (one), in case the bidder acquires the additional investment commitment in work units equivalent to one exploratory well during the Initial exploration period, or
 - 0 (zero), in case the bidder does not offer the additional investment commitment during the initial exploration period.

In case of a tie, the winning bidder shall be the bidder who, among the tied bidders, offers the highest cash payment to the state. If the tie persists, the bidder will be chosen by a random (*insaculación*) drawing among the tied bidders.

Execution of Contracts

The CNH may only execute license contracts with Mexican-incorporated commercial entities that meet the following criteria:

- The entity is a tax resident of Mexico;
- The entity's corporate purpose is exclusively the exploration and extraction of hydrocarbons; and
- The entity is not subject to the optional consolidation tax regime (*Régimen Opcional para Grupos de Sociedades*) included in Chapter VI of Title 2 of the Income Tax Law.

Any winning bidder or member of a winning bidding group that is not a Mexican entity must incorporate a Mexican entity for the execution of the contract.

In case the individual bidder, the joint bidder or any of its members incorporates a special-purpose vehicle for the execution of the contract, the contract shall be executed by such new entity, as the contractor, and by such individual bidder or joint bidder member, as a joint and several obligor. In such a case, the individual bidder or all the members of the bidding group must form part of the special-purpose vehicle and shall maintain control of such entity. No

entity that is incorporated for purposes of signing the contract may include a person who is not a participant in the bidder's corporate group.

Simultaneously with the execution of a contract, the contractor must deliver: i) a performance guarantee and ii) a corporate guarantee of each of the participating companies. The corporate guarantee must be granted by the ultimate parent of joint bidder member or, in case the guarantor is not the ultimate parent company, the guarantor must submit to the CNH its duly audited consolidated financial statements that prove minimum stockholders' equity equivalent to the participating interest of the participating company multiplied by US\$14 billion. Minimum average stockholders' equity must be maintained equal to or exceeding the amount so calculated until all obligations of the concerned participating company have been paid and/or respected in their entirety.

Except for the Operator, if the guarantors of the participating companies are unable to meet the requirement of minimum stockholders' equity, they may present to the CNH their duly audited consolidated financial statements demonstrating assets equivalent to five times the requested value of the minimum stockholders' equity. In addition, a document showing an investment-grade credit rating issued during 2015 or 2016 by Fitch Ratings, Moody's Investors Service or Standard & Poors must be submitted.

Simultaneously with the execution of the contract, the winning bidder must also deliver to the CNH the following documentation relative to the Mexican entity that will act as the contractor:

- Incorporation charter,
- Powers of attorney of its legal representative, and
- Other tax and corporate information, as further described in the bidding terms.

If the winning bidder does not execute the contract in a timely fashion for reasons attributable to it, the CNH may award the contract to the second-place bidder.

For inquiries related to this Legal Update, please contact any of the following lawyers:

Dallas Parker

+1 713 238 2700

dparker@mayerbrown.com

Jose Valera

+1 713 238 2692

jvalera@mayerbrown.com

Pablo Ferrante

+1 713 238 2662

pferrante@mayerbrown.com

Francisco Mendez

+1 713 238 2740

fmendez@mayerbrown.com

Gabriel Salinas

+1 713 238 2622

gsalinas@mayerbrown.com

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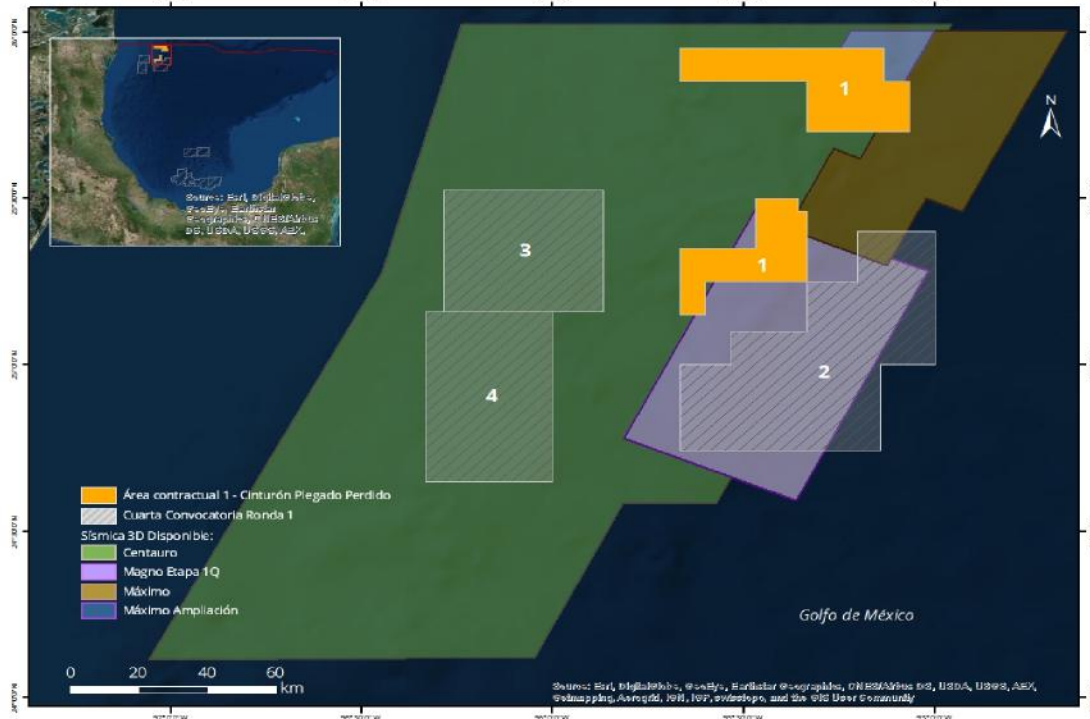
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Appendix

CONTRACT AREAS

Area 1 – Perdido Fold Belt

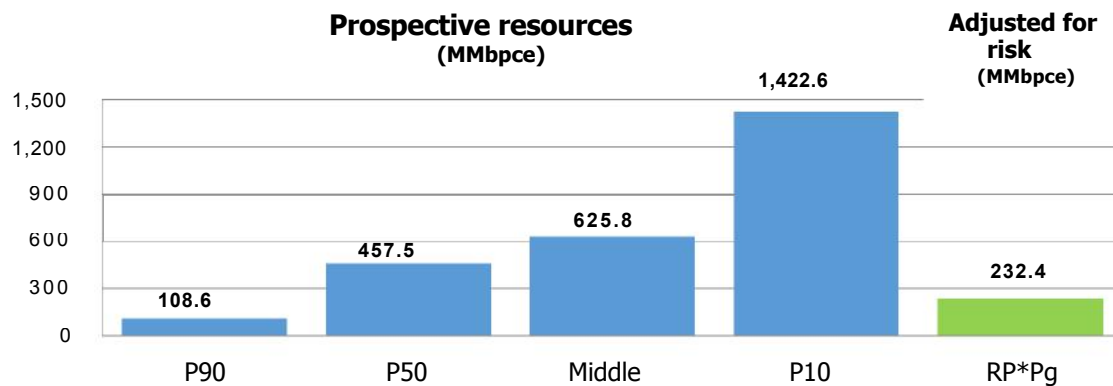


General Information	
Concept	
Geologic province	Perdido Fold Belt
Oil Province	Deep Gulf
Block Area km ²	1,678
Location	Deep Water
Main Hydrocarbon	Super Light Oil
% 3D Seismic Coverage	100

Play Period
Paleogene

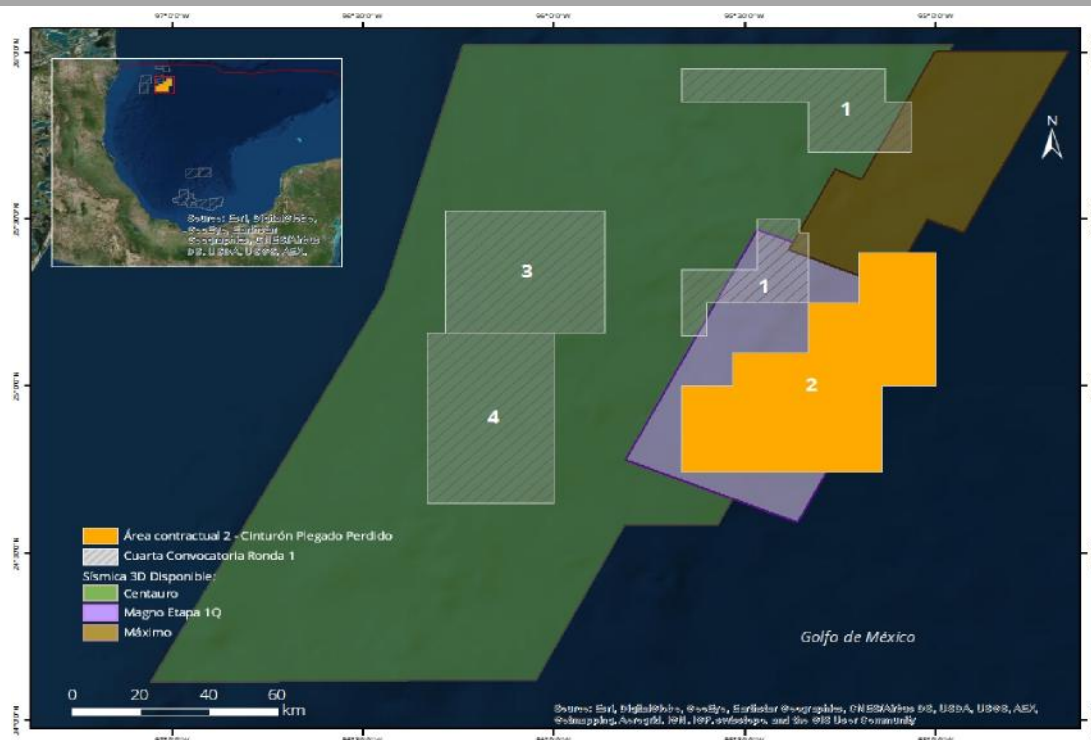
Lithology
Medium grain sand
Fine grain sand

Hydrocarbon Type
Super Light Oil



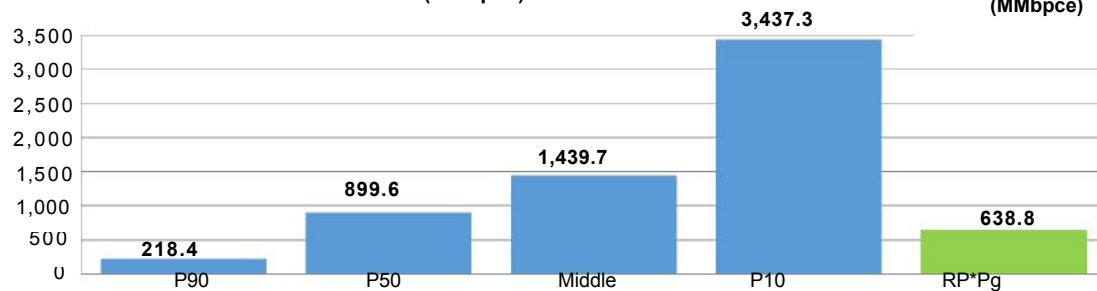
Source: CNH.

Area 2 - Perdido Fold Belt



Prospective resources
(MMbpce)

Adjusted for
risk
(MMbpce)



General Information

Concept	
Geologic province	Perdido Fold Belt
Oil Province	Deep Gulf
Block Area km ²	2,977
Location	Deep Water
Main Hydrocarbon	Super Light Oil
% 3D Seismic Coverage	80

Play Period

Neogene
Paleogene

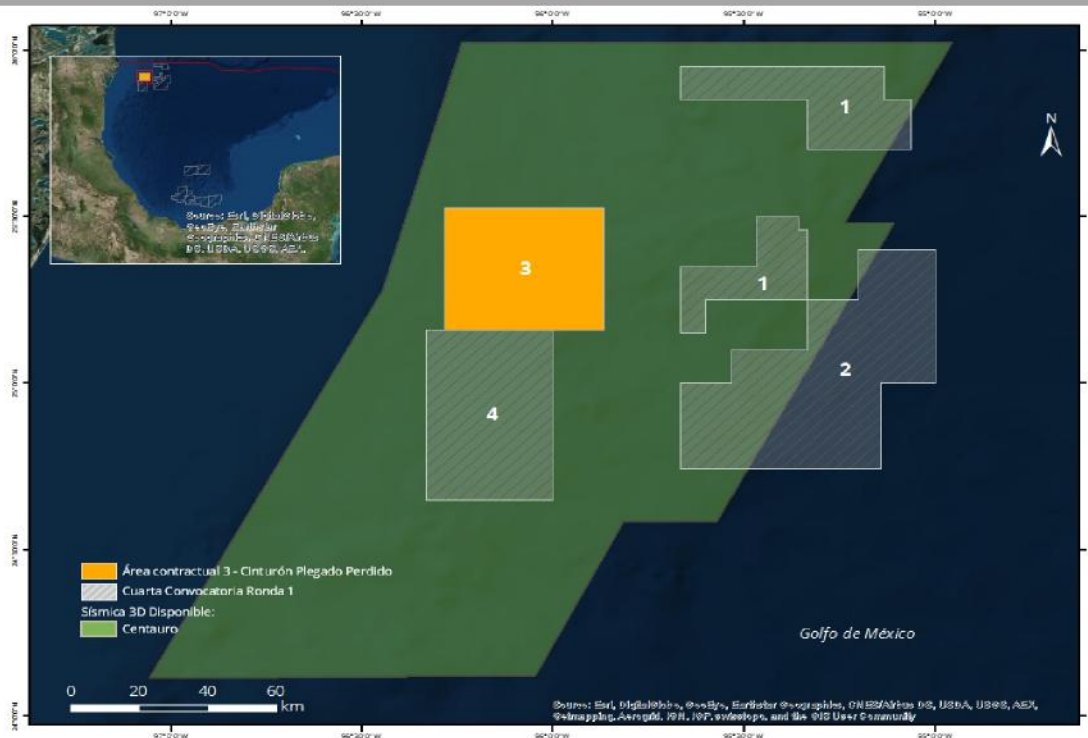
Lithology

Fine grain sand
Medium grain sand

Hydrocarbon Type

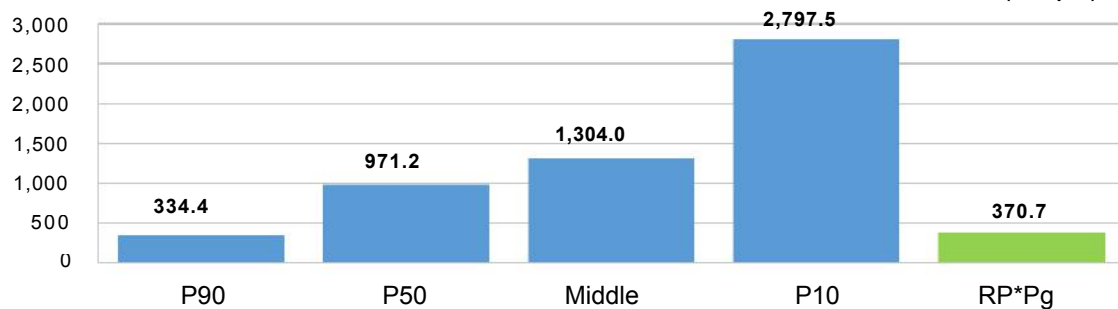
Super Light Oil
Light Oil
Wet Gas

Area 3 - Perdido Fold Belt



Prospective resources
(MMbpce)

Adjusted for
risk
(MMbpce)



General Information

Concept	
Geologic province	Salina del Bravo
Oil Province	Deep Gulf
Block Area km ²	1,687
Location	Deep Water
Main Hydrocarbon	Light Oil
% 3D Seismic Coverage	100

Play Period

Neogene
Paleogene

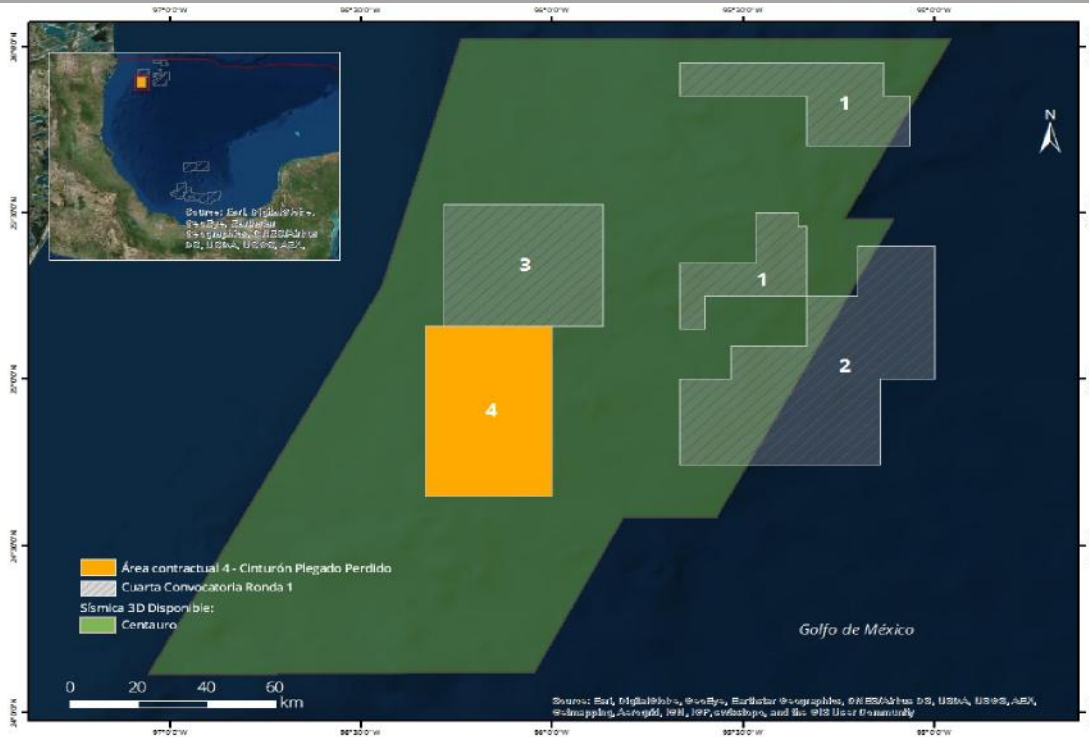
Lithology

Fine grain sand
Medium grain sand

Hydrocarbon Type

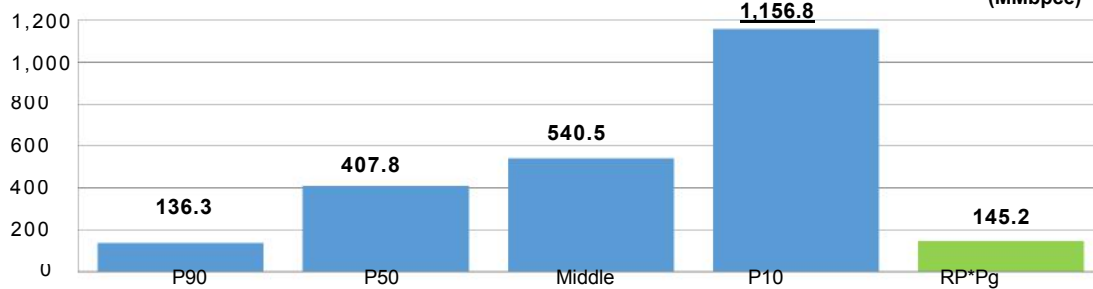
Super Light Oil
Light Oil

Area 4 - Perdido Fold Belt



Prospective resources
(MMbpce)

Adjusted for risk
(MMbpce)



General Information

Concept	
Geologic province	Salina del Bravo
Oil Province	Deep Gulf
Block Area km ²	1,877
Location	Deep Water
Main Hydrocarbon	Super Light Oil
% 3D Seismic Coverage	100

Play Period

Neogene
Paleogene

Lithology

Fine grain sand
Medium grain sand

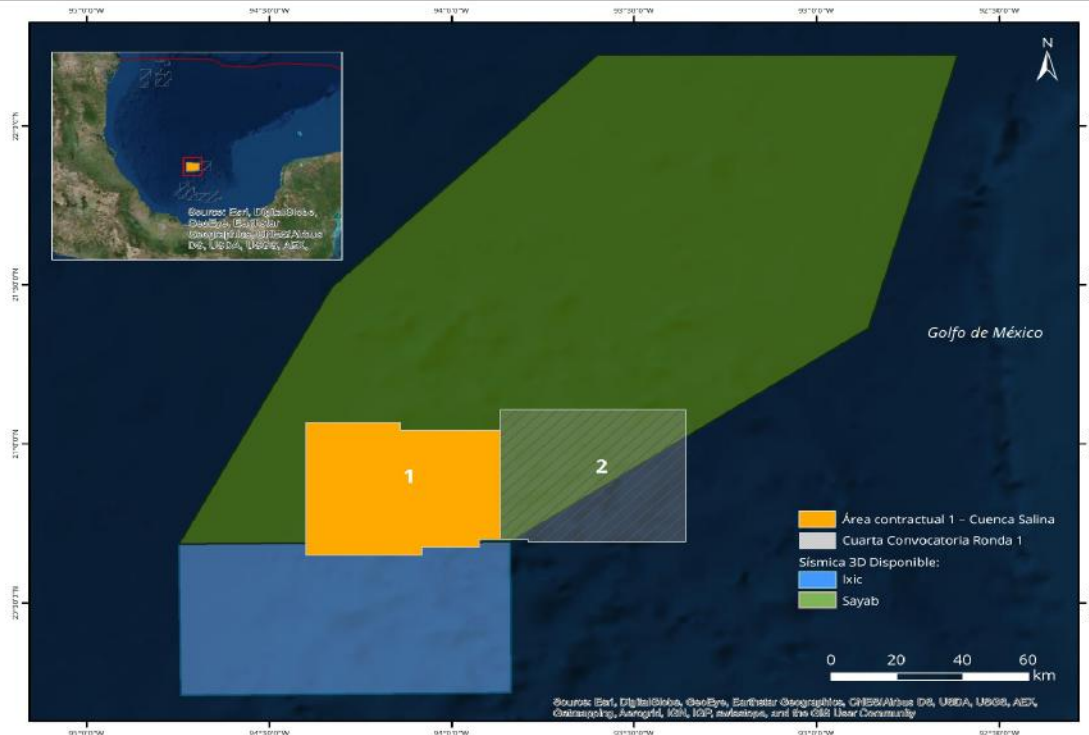
Hydrocarbon Type

Super Light Oil
Light Oil

Source: CNH.

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Area 1 – Salina Basin

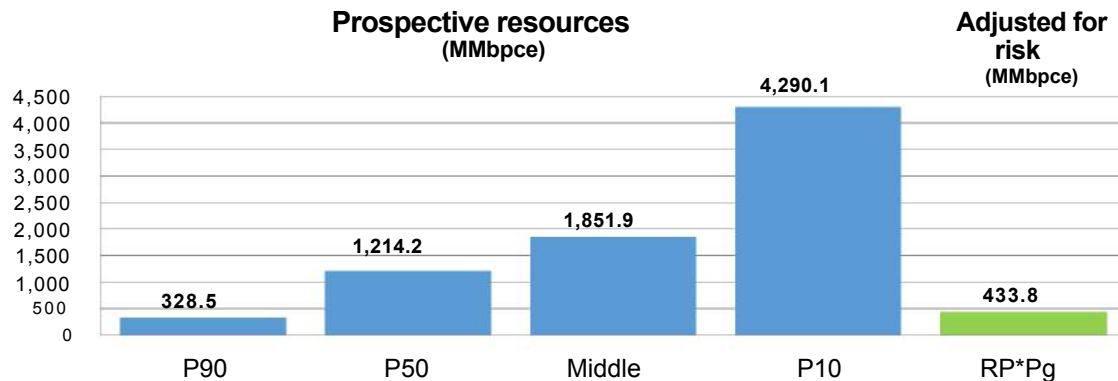


General Information	
Concept	
Geologic province	Salina del Istmo
Oil Province	Deep Gulf
Block Area km ²	2,381
Location	Deep Water
Main Hydrocarbon	Light Oil
% 3D Seismic Coverage	100

Play Period
Neogene
Mesozoic

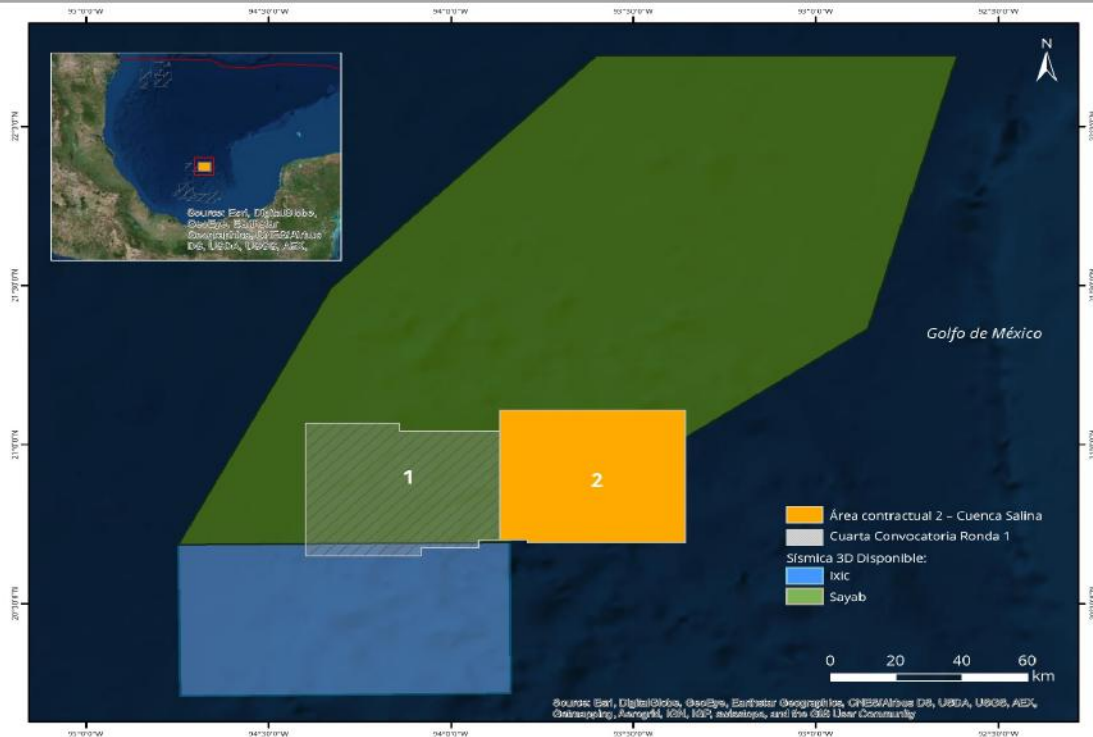
Lithology
Fractured limestone
Medium grain sand
Packstone/Grainstone de Oolitas

Hydrocarbon Type
Super Light Oil
Light Oil



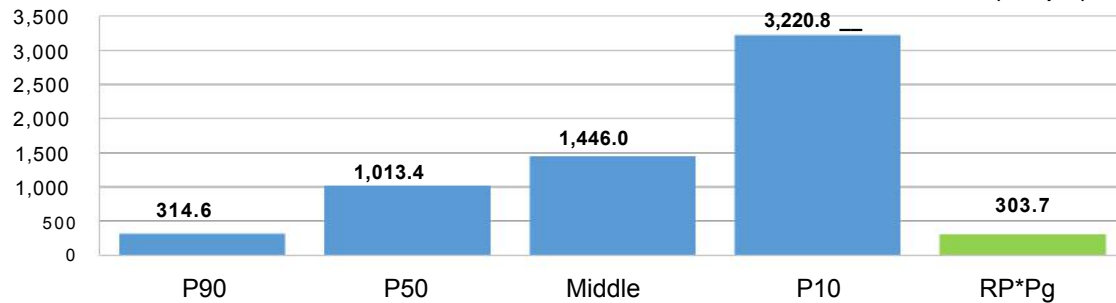
Source: CNH.

Area 2 - Salina Basin



**Prospective resources
(MMbpce)**

**Adjusted for
risk
(MMbpce)**



Source: CNH.

General Information

Concept	
Geologic province	Salina del Istmo
Oil Province	Deep Gulf
Block Area km ²	2,411
Location	Deep Water
Main Hydrocarbon	Light Oil
% 3D Seismic Coverage	100

Play Period

Neogene
Paleogene
Mesozoic

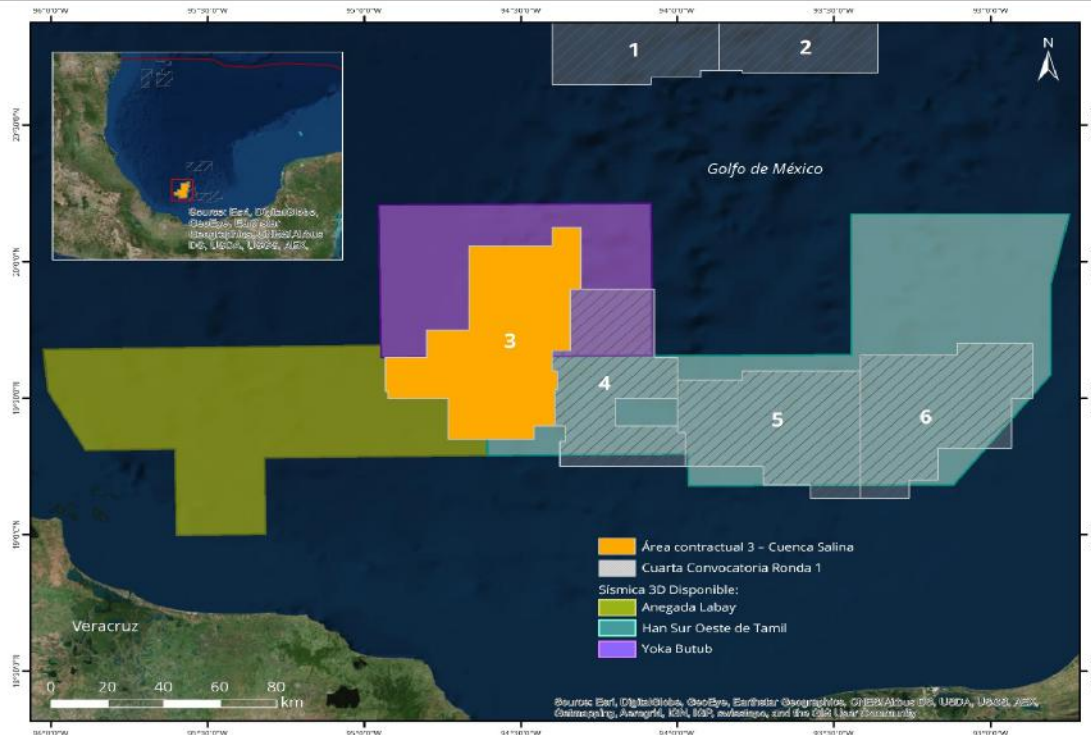
Lithology

Medium grain sand
Gaps
Fine grain sand

Hydrocarbon Type

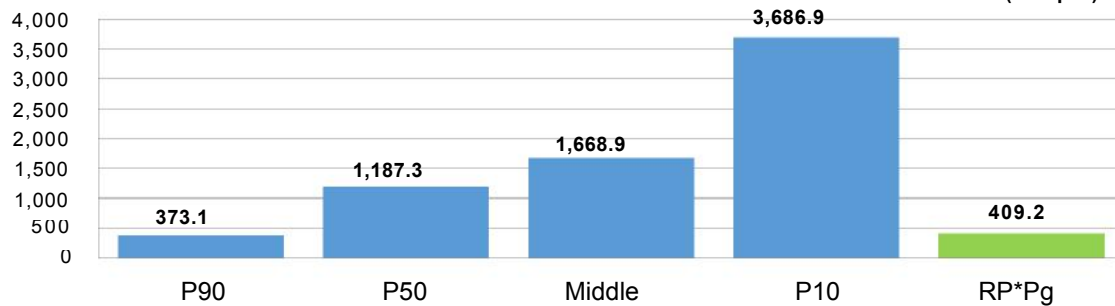
Light Oil
Heavy Oil

Area 3 – Salina Basin



Prospective resources
(MMbpce)

Adjusted for
risk
(MMbpce)



General Information

Concept	
Geologic province	Salina del Istmo
Oil Province	Deep Gulf
Block Area km ²	3,287
Location	Deep Water
Main Hydrocarbon	Light Oil
% 3D Seismic	100

Play Period

Neogene
Paleogene
Late Jurassic

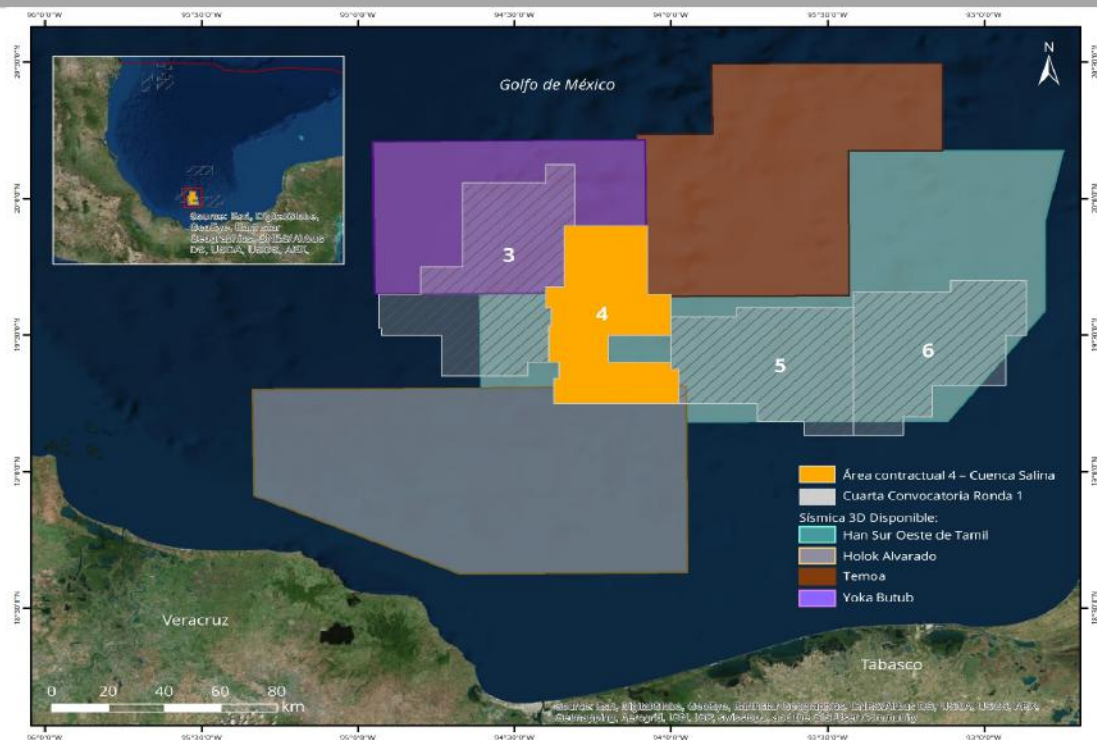
Lithology

Medium grain sand
Fine grain sand
Packstone/Grainstone *de Oolitas*

Hydrocarbon Type

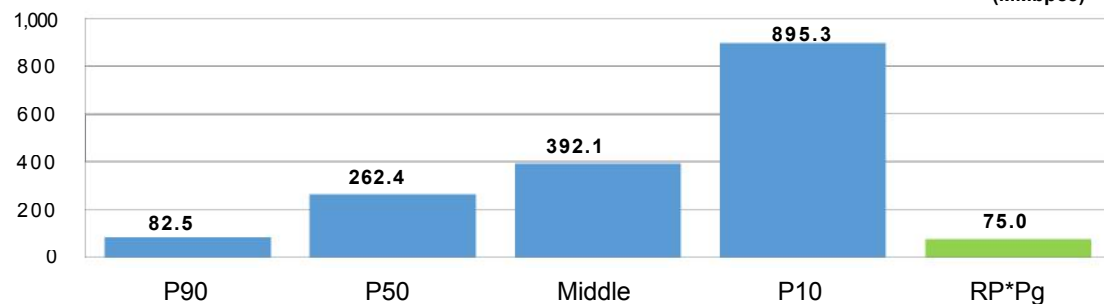
Light Oil
Wet Gas

Area 4 – Salina Basin



Prospective resources
(MMbpce)

Adjusted for
risk
(MMbpce)



General Information

Concepto	
Geologic province	Salina del Istmo
Oil Province	Deep Gulf
Block Area km ²	2,359
Location	Deep Water
Main Hydrocarbon	Heavy Oil
% 3D Seismic Coverage	100

Play Period

Neogene
Paleogene
Fractured Cretaceous

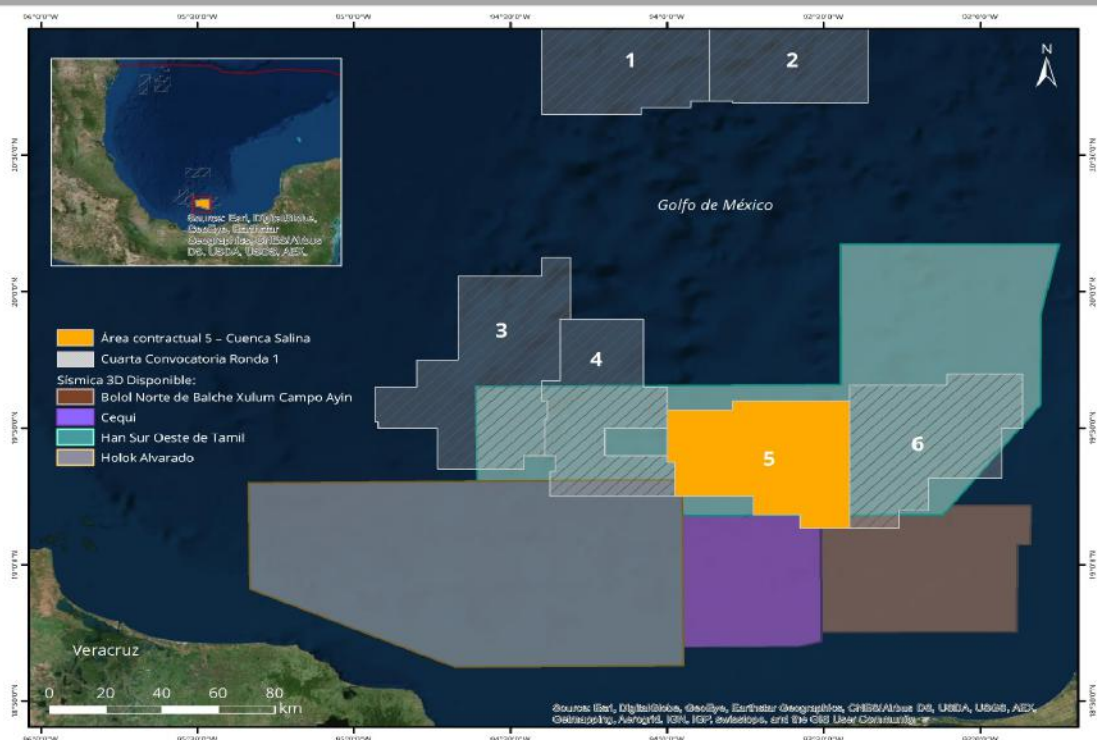
Lithology

Medium grain sand
Fine grain sand
Fractured limestone

Hydrocarbon Type

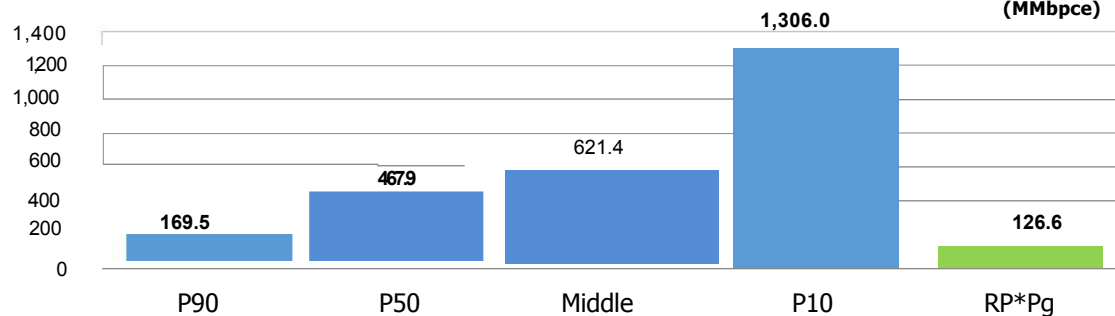
Heavy Oil
Light Oil
Wet Gas

Area 5 – Salina Basin



**Prospective resources
(MMbpce)**

**Adjusted for
risk
(MMbpce)**



General Information

Concept	
Geologic province	Salina del Istmo
Oil Province	Deep Gulf
Block Area km ²	2,573
Location	Deep Water
Main Hydrocarbon	Light Oil
% 3D Seismic Coverage	100

Play Period

Neogene
Fractured Cretaceous

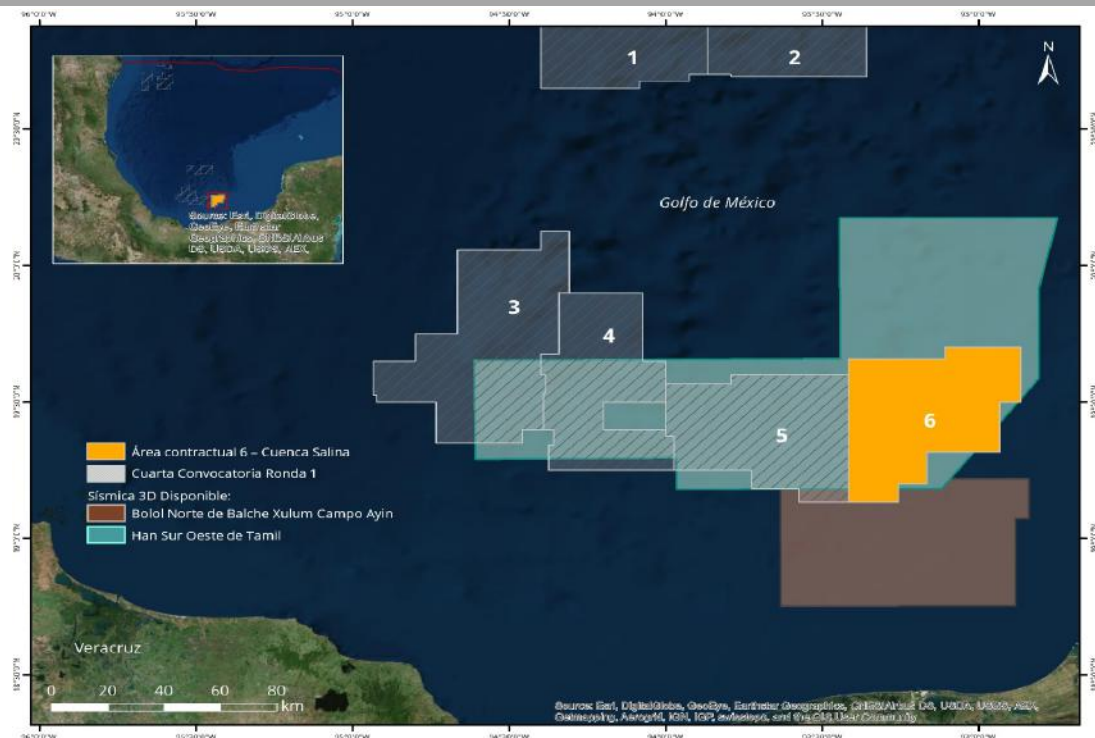
Lithology

Medium grain sand
Fractured limestone

Hydrocarbon Type

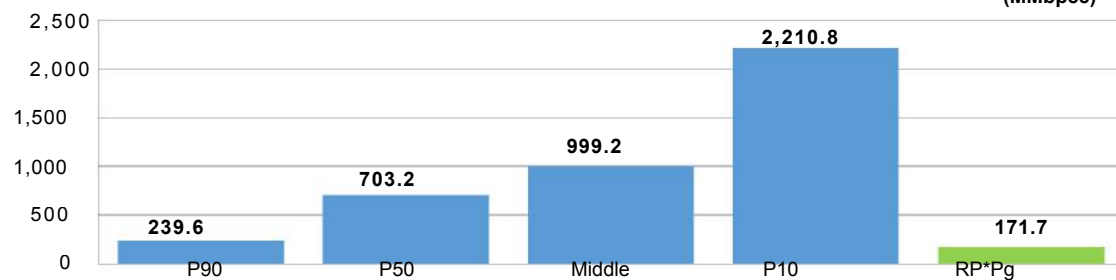
Wet Gas
Light Oil
Extra Heavy Oil

Area 6 – Salina Basin



Prospective resources
(MMbpce)

Adjusted for risk
(MMbpce)



General Information

Concept	
Geologic province	Salina del Istmo
Oil Province	Deep Gulf
Block Area km ²	2,606
Location	Deep Water
Main Hydrocarbon	Extra Heavy Oil
% 3D Seismic Coverage	100

Play Period

Neogene
Fractured Cretaceous
Late Jurassic

Lithology

Medium grain sand
Fractured limestone
Packstone/Grainstone de Oolitas

Hydrocarbon Type

Extra Heavy Oil

Source: CNH.