

Energy Alert

October 4, 2017

Key points

- Mexico's second farmout bid round to find partners for PEMEX oil and gas development yielded mixed results, with 2 onshore licenses awarded and 1 shallow water PSC vacated with no bids
- Egyptian company Cheiron Holdings wins Cardenas Mora block with 13% additional royalty and \$41,500,000 bonus
- German company DEA Deutsche Erdoel wins 4-way tie for Ogarrio block with 13% additional royalty and \$213,870,000 bonus



Mexico's Energy Industry

Round 2 Farmouts: PEMEX finds new partners

On October 4, 2017, the Comisión Nacional de Hidrocarburos (CNH) completed the Presentation and Opening of Bid Proposals for Strategic Associations with Petroleos Mexicanos ("PEMEX") for the Ogarrio, Cardenas Mora and Ayin-Batsil contract areas ("Farmouts"). Today's bid round was the culmination of proposals first announced on May 2, 2017. The Farmouts attracted international and domestic companies, such as DEA Deutsche Erdoel, Petrobal, Sierra Oil and Cheiron.

The Ogarrio and Cardenas Mora blocks are onshore development plays that are currently producing, and they were offered under a license contract model. The Ayin-Batsil block is a shallow-water contract area offshore Tabasco state, which was offered under a production-sharing contract model ("PSC"). The key difference between licenses and PSCs is that PSCs provide for cost recovery before the parties split an agreed share of profit oil. The auction yielded mixed results: no offers for Ayin-Batsil, multiple offers for Cardenas and Ogarrio being decided by a four-way tie breaker. Overall, it should be seen as a positive sign for PEMEX and its ability to generate substantial revenues while finding strong partners to help increase production and revenues. As for Ayin-Batsil, PEMEX will likely go back to the drawing board to develop contractual and commercial terms that will generate adequate returns for international investors.

The CNH evaluated the bids based on the additional royalty and bonus proposed by the parties. The results of the bidding process are shown in the following chart:

License Area	Winner	Surface (km2)	3P Reserves (MMboe)	Royalty Requirement	Additional Royalty	Bonus
Ayin-Batsil	No bids	1,091	297	18.2-25%	-	-
Ogarrio ¹	DEA Deutsche Erdoel	155.99	54	1-13%	13%	\$213,870,000
Cardenas Mora ²	Cheiron Holdings	168.15	93	1-13%	13%	\$41,500,000

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¹ Second Place: California Resources Corporation/Petrobal (13%; \$52 million bonus); Third Place: Tecpetrol/Galem Energy (13%; \$30.1 million bonus); Fourth Place: Ogarrio E&P (13%; \$20.5 million bonus).

² Second Place: Gran Tierra Mexico/Sierra Blanca (5.09%).