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As a result of the synergy between Canadian and Mexican leaders, at Eminent we specialize in the quantification, control and reduction of methane emissions. As pioneers in Mexico in applying OGI technology, we enhance the sustainability of the international oil industry.

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RELINQUISHMENT: THE EARLY TERMINATION IN CONTRACTUAL AREAS

There are 111 Hydrocarbon Exploration and Extraction Contracts (CEE) in Mexico. Contractors participating in these projects can request the relinquishment of the contractual area or block, or a part of it. When this happens before the termination of the term of the CEE, it is known as early relinquishment.

Early relinquishment of contractual areas will become more frequent as oil and gas operations advance, since better geological knowledge allows discarding areas of low oil interest and favoring those with more significant oil and gas potential.

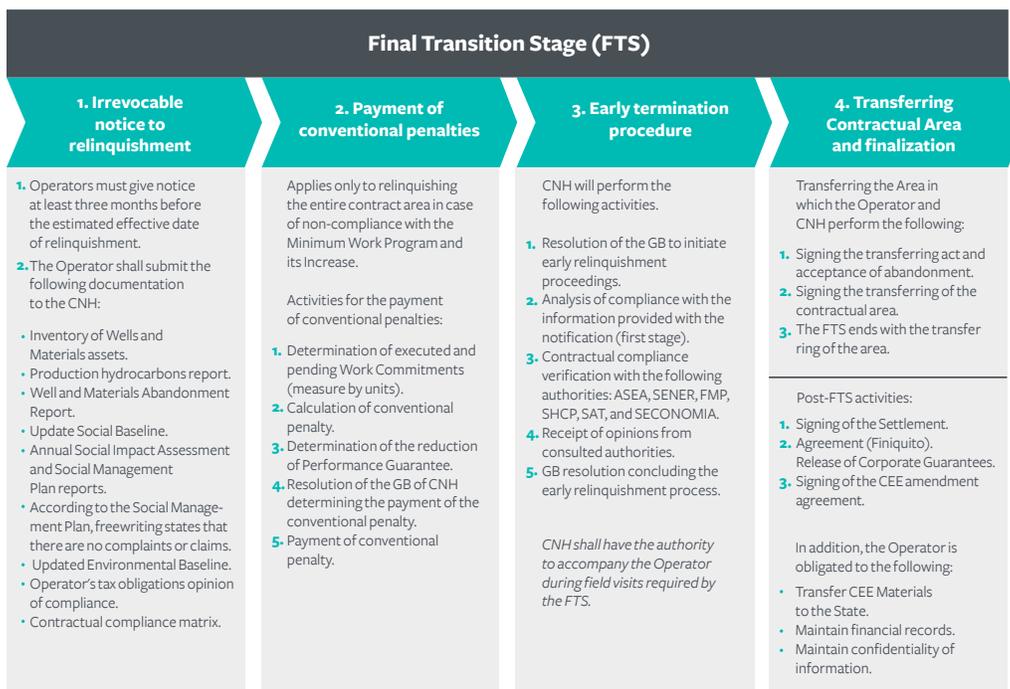
However, no legal nor regulatory framework currently provides certainty to the Contractors regarding the legal and administrative process to relinquish. This one-pager presents information on some contract models and resolutions of the National Hydrocarbons Commission's (CNH) Governing Body (GB).

Analysis of the early relinquishment process

According to CNH data, **five** early relinquishment processes have been concluded, and **six** are active to date. However, the relinquishment process is complicated by the following reasons:

- CNH administers it internally and it is not easy to inquire.
- There are no deadlines or defined requirements for each stage.
- Involves the participation of different authorities: CNH, ASEA, SENER, FMP, SHCP, SAT and SECONOMIA.

Below, we present a compilation of the information included in diverse CNH-GB sessions and resolutions with the main stages and activities of an early relinquishment process for partial and total cases.



As shown in the table, the relinquishment process begins with the notification and delivery of the information required in the final transition stage clause of the CEE. In a second stage, CNH reviews the appropriateness of the payment of conventional penalties for unfulfilled work commitments (such as the uncredited work units of both the minimum work program and its increase). In a third stage, CNH reviews the Operator's general compliance (contractual and regulatory) status and requests confirmation of compliance from other agencies and entities (i.e., SEA, SENER, FMP, SHCP, SAT, and SECONOMIA). Once the Contractor's compliance has been confirmed, the fourth stage considers the formal transferring of the contractual area.

The lack of an administrative guideline to regulate these four stages makes it impossible to predict the time that takes for each one of them. However, our analysis of the GB sessions shows that the five concluded processes took **10-23 months** for executing the four steps and the six-still-active processes are taking **+32 months and counting**.

Recommendations

CNH should develop a comprehensive guideline that details requirements definition, responsible parties, deadlines, formats, and interaction with other authorities in each step of the relinquishment process. This guideline must include different relinquishment causes and scenarios for the Operator to facilitate planning and compliance, and also expedite requirement assessments for Government.

Operators should be up to date with their contractual and regulatory obligations with all agencies and entities involved in verifying compliance. Failure to do so will make it very difficult to remedy past non-compliance.

We recommend review from time-to-time compliance of SENER's social impact assessment and social management plan obligations as well as SECONOMIA's technology transfer and training programs and other obligations that can maintain a non-compliance status without interrupting the execution of operations.

Stage 4 "Transferring the Contractual Area"

For oil contracts from round 1.4 onwards, the FTS has the following terms:

FTS Execution

FTS Duration	180 days
FTS Possible extension	90 days
CNH objections to FTS	90 days

Total term 360 days

For contracts mentioned earlier, the terms of Transferring the Contractual Area depend on the moment in which the abandonment of the area is carried out:

Requirements	Abandonment during FTS	Abandonment before FTS
Signing of the transferring act and acceptance of abandonment	90 days	N A
Signing of the Settlement Agreement	6 months after the end of the contract	
Notification of release of corporate guarantees	Indefinite	90 days after Termination

Time Indefinite 270 days

Although the deadlines described above are established in the current contractual framework, there is no certainty of their compliance since no mechanisms (such as automatic approval) oblige the CNH to resolve the matter within those deadlines.

Benefits from a partial early relinquishment

- Reduced regulatory burden in case of more than one approved plan.
- Lower tax burden since the tax for the hydrocarbon exploration and extraction activity is calculated concerning the km² of the contractual area.
- Lower payment of the contractual fee for the exploratory phase is related to the km² of the contract area.

At Talanza, we are committed to facilitating compliance and proposing solutions that allow for greater understanding and efficiency in developing oil activities in Mexico.

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