

26 June 2018

TO:

**Lic. José Joaquín Coldwell
Secretary of Energy, (SENER)**

ATN:

**Dr. Aldo Flores Quiroga
Sub-Secretary of Hydrocarbons, (SENER)**

RE: Permitting Regulations for Onshore Seismic Acquisition

Dear Srs.,

On behalf of the International Association of Geophysical Contractors (“IAGC”), we would like to take the opportunity to discuss and offer suggestion regarding the requirements that have been made effective with the interpretation given by this Secretary to the Articles 100 – 117 of the Hydrocarbons Law. Accordingly, due to urgent nature of the matter, we respectfully request a formal meeting between the IAGC and Secretaria de Energia (“SENER”) and look forward to your reply so that the IAGC can begin working constructively with the Agencies to find a proper resolution.

IAGC is the international trade association representing the industry that provides geophysical services (geophysical data acquisition, processing and interpretation, geophysical information ownership and licensing, associated services and product providers) to the oil and natural gas industry. IAGC member companies play an integral role in the successful exploration and development of offshore and onshore hydrocarbon resources through the acquisition and processing of geophysical data.

Seismic surveys are the only feasible technology available to accurately image the subsurface before a single well is drilled. For the energy industry, modern seismic imaging reduces risk by increasing the likelihood that exploratory wells will successfully tap hydrocarbons and decreasing the number of wells that need to be drilled in a given area, reducing associated safety and environmental risks and the overall footprint for exploration. Because survey activities are temporary and transitory, it is the least intrusive and most cost-effective means to understanding where recoverable hydrocarbons likely exist offshore and onshore all over the world.

According to the current interpretation of Articles 100 – 117 of the Hydrocarbons Law, it is mandatory for seismic companies (whether through the operator or directly in multi-client seismic projects) to negotiate and sign surface occupation contracts (“*contratos de ocupación superficial*”) with owners of each property where surface exploration activities will occur.

Due to this interpretation, seismic companies are also subjected to article 105 of the Hydrocarbons Law and article 75 of respective Regulation which establish that “an agreement reached at any time between

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the parties must be submitted by the Assignee or Contractor, within thirty calendar days of its signature, to the Ministry of Agrarian, Territorial and Urban Development, the competent Civil District Court or the competent Unified Agrarian Court, in order for said agreement to be validated and so that it may have res judicata effect.”

In addition, it is requested that the payment made to the landowners shall be done through a trust title with a bank which shows to be challenging since most of the people living in remote areas inland do not have a bank account. The referred payments are also subject to taxation and a copy of each contract shall be delivered to CNH with a summary published in the local newspaper of the respective region.

We understand that the aforesaid measures are a mechanism to ensure transparency to the procedure. However, considering the number of surface contracts that may be involved in seismic acquisition programs, these procedures as a whole are threatening the very possibility of carrying out land seismic activities in Mexico. As an example, for a 3-month activity carried out by one of our member companies approximately 2,000 occupation contracts were signed. This operation was only possible because it occurred before the new requirements, which are costly and time-consuming.

It is worth noting that the above-mentioned articles of the Hydrocarbon Law are applicable, under the current interpretation, indistinctively to all activities of the O&G industry that involves surface occupation and use. However, we shall emphasize the difference between seismic data acquisition and drilling activities. The latter, involve the construction of infrastructure and drilling wells, remaining in the area for at least one year and potentially for decades. On the other hand, seismic activities are transitory and temporary, with average duration of a few weeks on a single property and it does not encompass any sort of drilling pads or similar long-term infrastructure.

In parallel, seismic companies are holders of ARES B and therefore also subjected to the “Disposiciones administrativas de carácter general en materia de autorizaciones para el reconocimiento y exploracion superficial.” This regulation establishes in its art.31 that the Authorization Holders are obliged to start operations no later than 120 days after the authorization was granted, with an extension of 60 days depending upon request. Considering the current requirements related to surface contracts, it is impossible for an Ares B holder to comply with this 180-day term.

The IAGC and its members companies understand that a way to bring back the balance to the geophysical industry in the country, ensuring that seismic acquisitions can still occur in 2018 and the coming years, is for the Secretary of Energy to issue a reinterpretation of the articles 100 - 117 of the Hydrocarbons Law to exempt seismic companies from the discussed requirements. As occurred in the past, a contract between the seismic company and the land owner ratified before a Notary Public would be the only requirement for surface access.

IAGC requests that SENER take into consideration the above argument, in order to exclude seismic exploration activities from the aforementioned Guidelines, given the short time of interaction with the

owners. It is important to note that the impact of an Authorized Person signing hundreds or thousands of contracts in its name, in order to carry out a seismic program, would make the project unprofitable, with a very low likelihood of execution.

We remain hopeful that our concerns can be acceptably resolved in the near future and genuinely appreciate your consideration of our comments. We would welcome the opportunity to provide any further information that might be of use to you regarding onshore seismic surveys in Mexico. Please do not hesitate to contact me with any questions.

Sincerely,



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Cc:

- Dr. Juan Carlos Zepeda Molina – President, CNH
- Dra. Alma América Porres Luna – Commissioner, CNH
- Dr. Rolando de Lasse Cañas – General Director of Regulations, CNH
- Dr. Fernando Ruiz Nasta – Director of Regulations, SENER
- Victor Villamizar – Director of Sales, Latin America, Geokinetics
- Elaine Mattos – Multi-Client Project Manager, Schlumberger
- Ignacio Orozco – Country General Manager, Mexico, SAE
- Kareem Lassel – Geomarket Director & Country Manager, Mexico, CGG
- Monica Estevez – Senior Corporate Counsel, TGS
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