



Royal Geological Society London
Finding Petroleum
London
October 2016



Sierra Oil & Gas

Private Equity Backed



Mexico First Oil & Gas Independent Company

- 1 National & International Funding
- 2 World-class team in E&P
- 3 Commitment to social & economic development

Our Resources: Initial USD \$525 million commitment Additional USD \$525 million pre-agreed

Our Sponsors: Leading and Differentiated



Leading provider of private equity to the independent oil & gas sector in the U.S. with over USD \$27.5 billion of capital with more than 220 upstream and midstream oil & gas companies.



Energy and power-focused private investment firm with over \$30 billion of equity capital in more than 110 projects around the world.



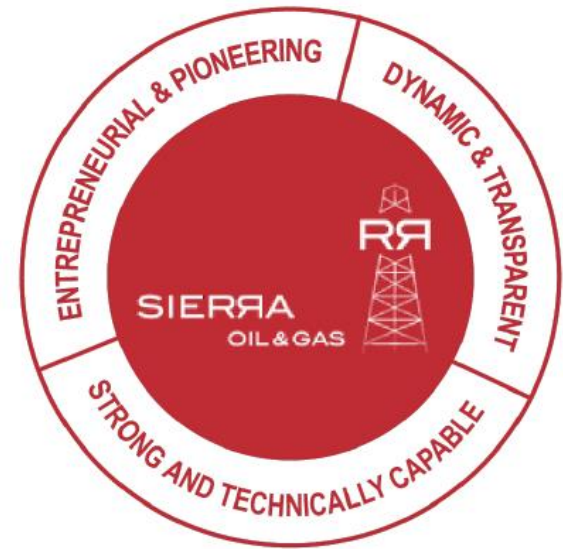
The world's largest investor with \$4.5 trillion in assets under management in 135 investment teams in 30 countries.

Sierra Strategy

Mexico's First Independent Oil & Gas Company



- **“Independent Company” Strategy in Mexico**
- **Upstream**
 - Build a quality growth portfolio with a material resource base at moderate risk (500+ mmbbls)
 - Technical and information advantage
 - Diversity in partnerships
- **Midstream**
 - Access select storage and distribution systems targeting the major Mexican market (3 projects)
 - Opportunistic M&A player

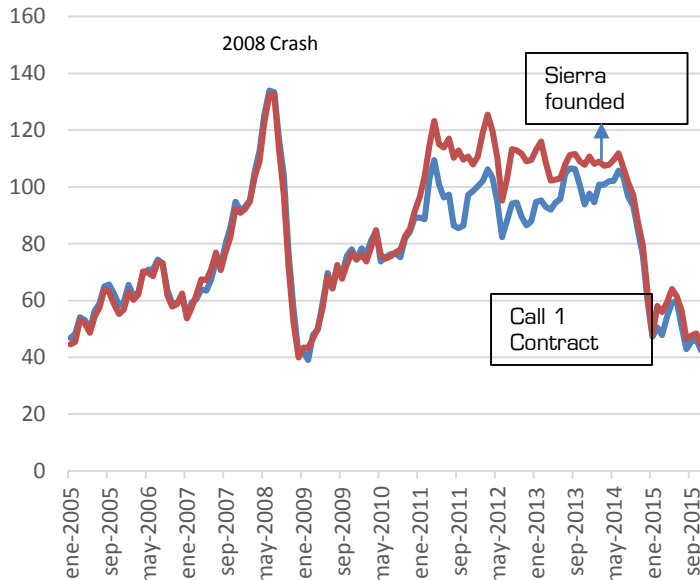


Timing is Everything

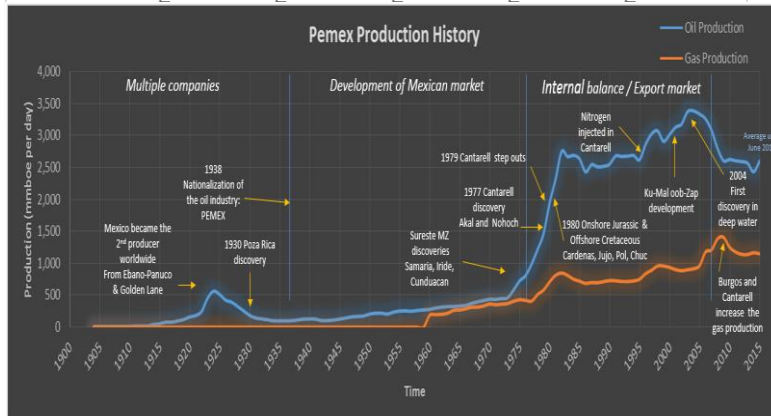
Strengths and Challenges



Brent and WTI Prices (2005-2015)



- **Extensive Mexico Reform**
 - Transparent
 - High quality process
 - High qualification standards limits entry options
 - Early stage creates a set of challenges
 - 12 Regulatory groups
- **Volatile Oil Market and Global oil price issues**
- **Limited number of high quality players.**
- **Capital Constraints – Restructuring and Portfolio Rationalizations.**
 - Likely more stress in Q4 2016
 - Public companies, NOC and smaller players all with different agendas
 - Debt issues for many looming in 2016-2017
- **Pemex as a new competing player has its own issues.**
- **Low cost service environment Reduced 5% to 40%.**
- **Large talent high quality talent pool.**
- **Additional government programs Ex FIBRA can ultimately support effort.**



A Critical Moment in Mexico



- **CNH transparent process well underway.**
- **Over 12 regulatory bodies in place.**
- **Permits and Work Program Approvals occurring.**
- **Improved terms more clarity on Legal aspects.**
- **2 offshore rounds 1 onshore round completed.**
 - Best offshore Worst Onshore acreage.
- **Long awaited Call 4 Deepwater- Perdido Round Dec 5th.**
- **Offshore Second Shallow water Round March 2017.**
- **Recent Momentum on Pemex Fields to be Offered Farmouts-2017.**
- **CIEPS languishing stalled only 1 has gone through.**
- **Operators offshore getting ready to drill 12 Key wells in next 12 months.**
- **Election coming up in July 2018 with takeover in December of 2019.**

Performance of Mexican Regulator

Multiple Perspectives and Many Challenges



- Since December 2014, CNH has announced 6 bidding rounds, that is approx. one every 3.5 months
- Acreage on offer in the bidding rounds has included: shallow water exploration, shallow water undeveloped discoveries, onshore mature fields, deep water exploration and deep water farmout.

Questions:

- Has the government brought interest and investment to Mexico?
- Will Production be increased in short term to offset declines?
- What about access to those material fields?
- Cultural and Corporate additions needed for both Pemex and Regulators?

	Call 1.1	Call 1.2	Call 1.3
~Value of MWP	US\$143m	US\$515m	US\$154m
Signed contracts	2	3	25
Appraisal Wells (2016)	0	3	?
Exploration Wells (2017)	2	0	?
Appraisal Wells (2017)	0	8	?
Exploration Wells (2018)	2	0	?
Development wells (2018)	0	?	?

Mexico E&P Contract Terms Evolution

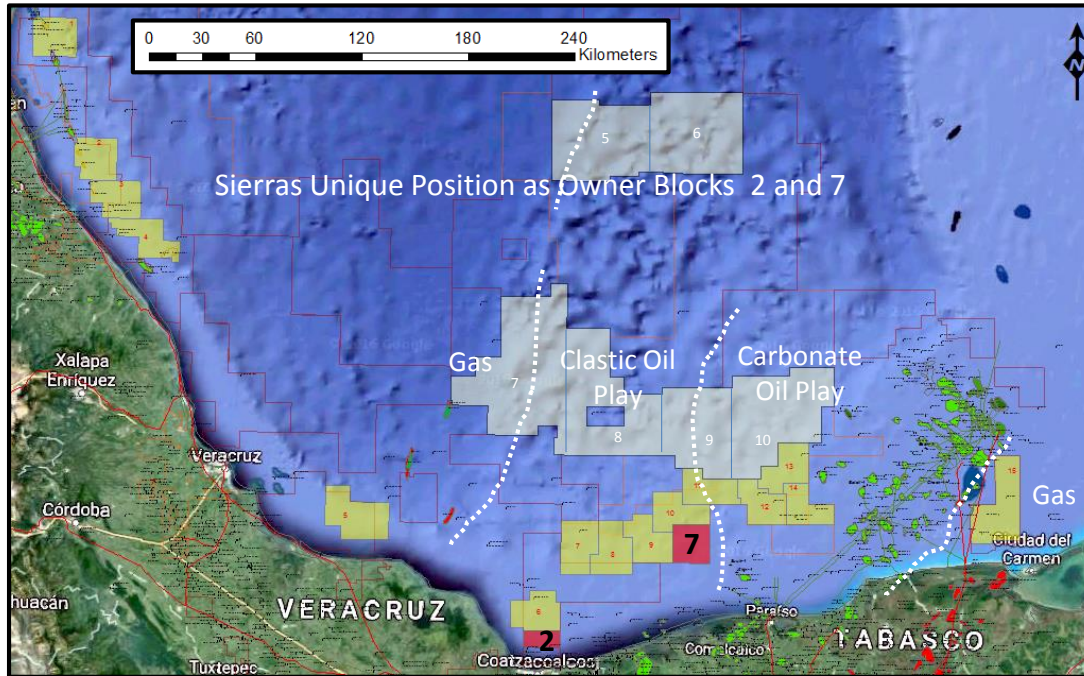
A Story Of Continuous Improvement



	Call 1.1	Call 1.2	Call 1.4	Call 2.1	Comments
Contract type	PSC	PSC	License	PSC	License terms avoid discussion of eligible vs non eligible costs
Term	30 – 40 years	25 – 35 years	35 – 50 years	30 – 40 years	Longest contract term so far is Call 1.4
Block size (average)	302 km2 (14 blocks)	56 km2 (5 blocks)	2,384 km2 (10 blocks)	594 km2 (15 blocks)	Largest blocks so far are Call 1.4
Work Units (ave. per well)	45k	45k	53k	32k	
LoC	100% of WU	50% of WU	75% of WU	75% of WU	Guarantee per work units decreasing vs Call 1.1.
Bidding score*	3.5% gain for a MWP increase of 50%. 5% gain for a MWP increase of 100%.	3.5% gain for a MWP increase of 50%. 5% gain for a MWP increase of 100%.	20% gain for 1 addtl well. 31% gain for 2 addtl wells.	5.7% gain for 1 addtl well 8.5% gain when 2 additional wells	Bidding score formula now gives more weight to Work Program offer
Relinquishment	-50% of area w/o a Dev Plan at end of Y3 (only if requesting an Addtl Expl. Period.) -100% of area without Dev Plan by end of Y4	-100% of area w/o development plan at the end of Y2	No requirement to relinquish area as long as Contractor commits to drill one addtl well when requesting each Addtl Expl. Period (one for each)	- 50% of area at end of Y4 when requesting Addtl Expl Period and having completed 1 well during Initial Expl Period - 0% of area at end of Y4 when requesting Addtl Expl Period and having completed 2 wells during Initial Expl Period	Call 1.4 offers opportunity to keep exploration area for longer
Forms of participation	Individually or in <u>only one</u> consortium	Individually or in <u>only one</u> consortium	Individually or in <u>one or more</u> consortiums	Individually or in <u>one or up to 4</u> consortiums	Increased flexibility to partner up with multiple consortiums (Calls 1.4 and 2.1)

Round 1 Call 1 Blocks 2 & 7

Overview



Commercial Highlights:

Contracts executed on Sept 04th 2015, 30-years total term
4-year initial exploration period to Sept. 2019, with option for 2-years extension.
Minimum Work Obligation (B2 1 well and B7 2 wells), total LCs for US\$143.4m
PSC contract model, with 60% Cost Oil Cap, progressive royalties and R-Factor
Block 2 Contractor Profit Oil: 44.01% Gov. Take 55.99
Block 7 Contractor Profit Oil: 31.01% Gov. Take 68.99

Highlights of Bid Round:

- Bid round date July 15th 2015
- 25 Cos Qualified 7 Companies bid in round
- Sierra obtained only blocks bid (above min) by Peers.
- Block 7 had 5 bids.
- Winning award margin 2 blks less then 2.2 %.

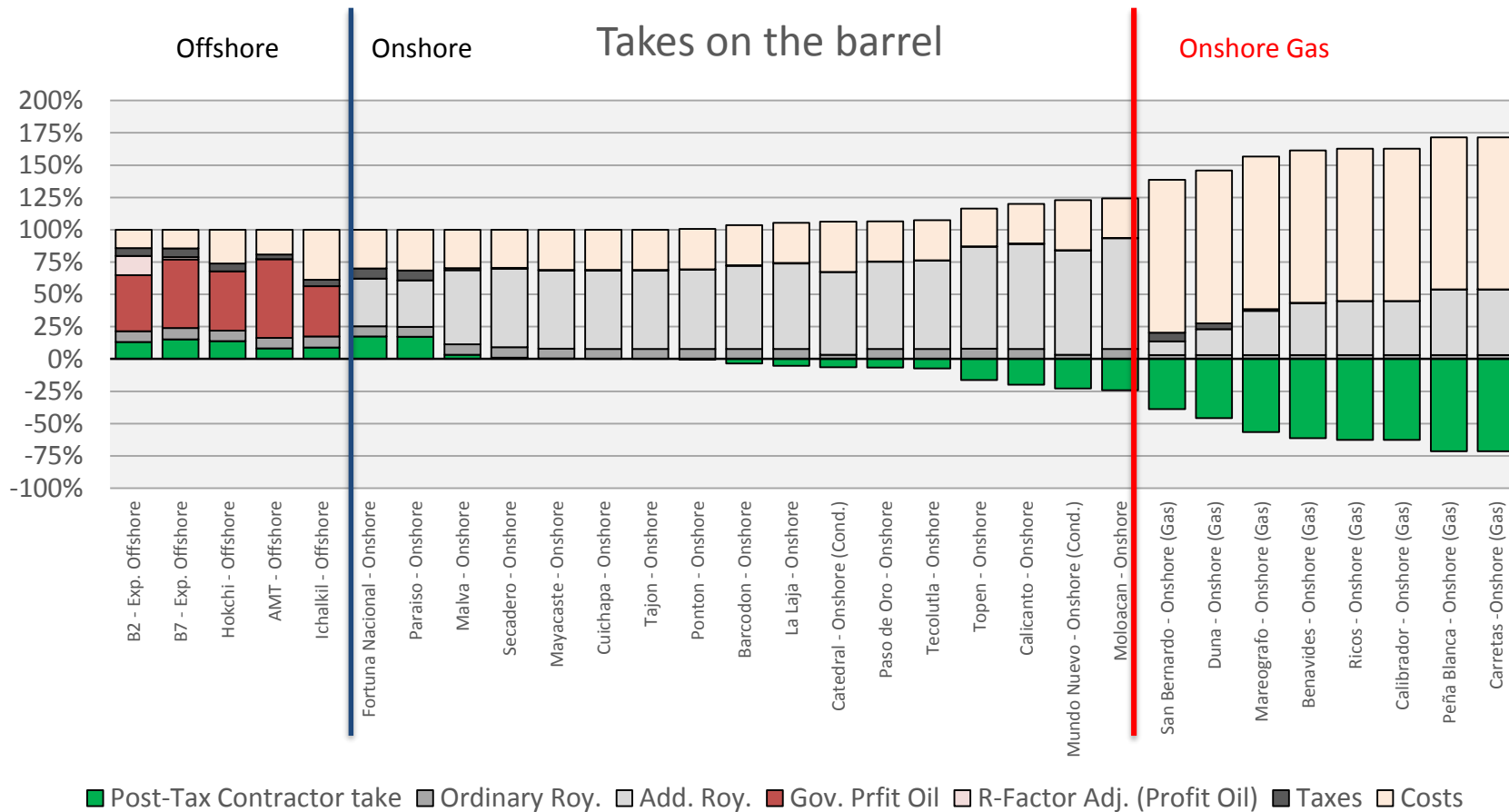
Activities:

- EIA SIA completed.
- Expl. Work Program and Budget approved by CNH.
- JOA in place.
- 3D reprocessing finished
- Data base from CNH better than Bid data. Potential cost reduction in Blk 2.
- 1st Expl. well Mar April 17.
- Drilling costs going down.

Mexico Contract Round 1 Calls 1- 4



Progression of Contract Bids Call 1 to 4



Questions:

Long term viability of smaller Mexican players to fuel activity ?
Availability of Capital in stressed environment?

Competitor Landscape

Examples: Companies showing up in Mexico



1. Anadarko
2. BG
3. BHP
4. BP
5. Bidas Corp
6. Casa Exploration
7. Chevron
8. Citla Energía
9. CNOOC
10. Cobalt
11. (CEPSA)
12. DEA DEUTSCHE
13. Diavaz Offshore,
14. Ecopetrol
15. Eni
16. ExxonMobil.
17. Fieldwood Energy
18. Galp Energía
19. GDF Suez
20. GeoPark
21. Gran Tierra
22. Grupo Carso
23. Hess
24. Hunt
25. INPEX
26. Jorgmec
27. Japan Petroleum Exploration
28. Lewis Energy
29. LUKOIL.

30. MAERSK
31. Marathon
32. Mitsubishi Corporation
33. Mitsui
34. Murphy
35. Noble
36. Newpek
37. Nexen Energy
38. ONGC
39. Ophir Energy
40. Pacific Rubiales
41. Petrobal.
42. Petro-Canada/Suncor
43. Petrobras
44. Pemex
45. Petronas
46. Plains
47. Pluspetrol
48. Premier Oil
49. PTT
50. Renaissance Oil
51. Repsol.
52. Sanchez Oil & Gas
53. Shell
54. Sierra Oil & Gas
55. Sinopec
56. Statoil.
57. Tecpetrol
58. Total

Companies that have won contracts in Mexico



Call 1.1

Winners



Call 1.2

Winners



Call 1.3

Winners

Canamex Dutch

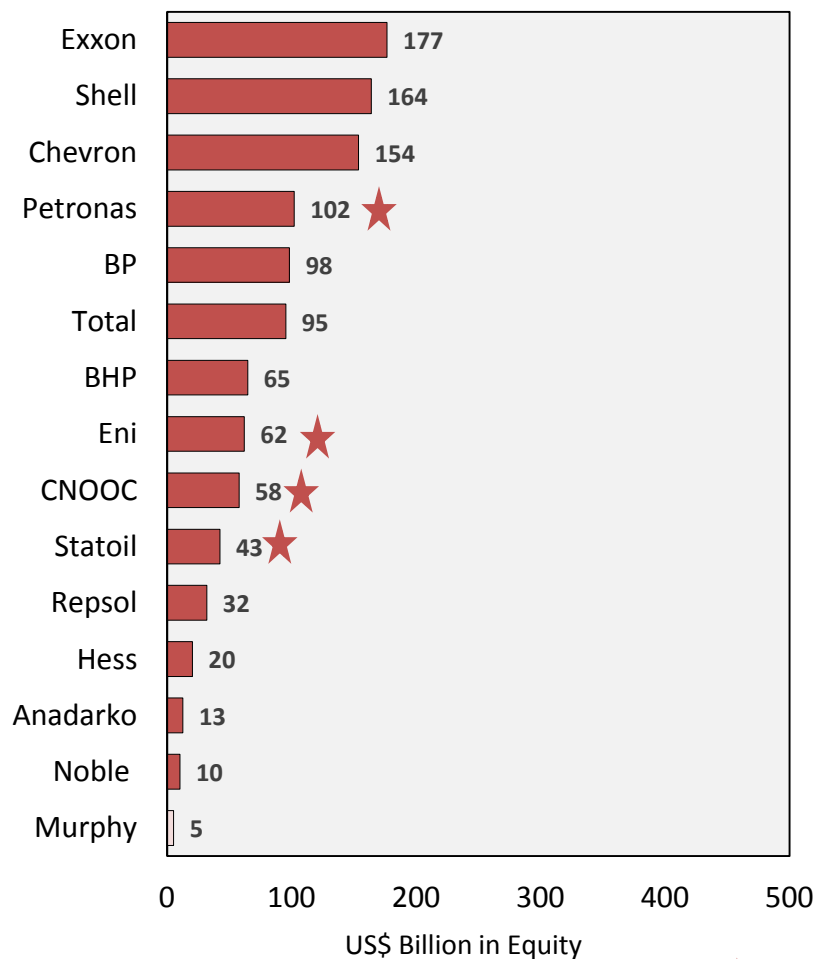


Round 1.4 Competitors and Partners

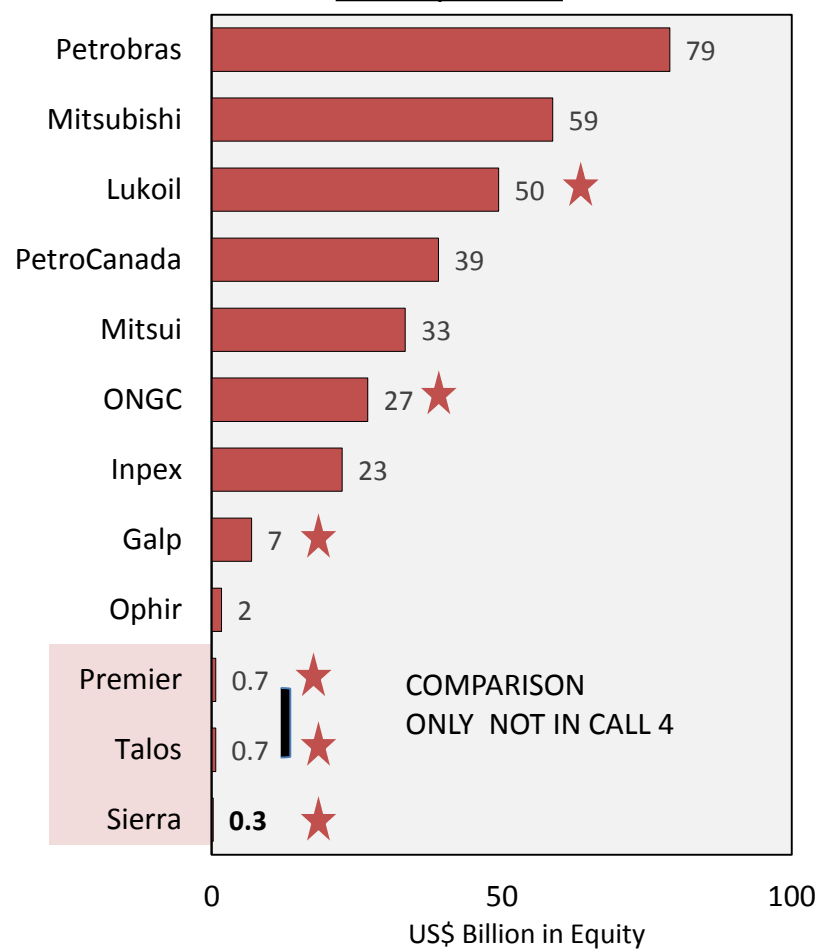
Prequalified companies



Operators



Non-Operators

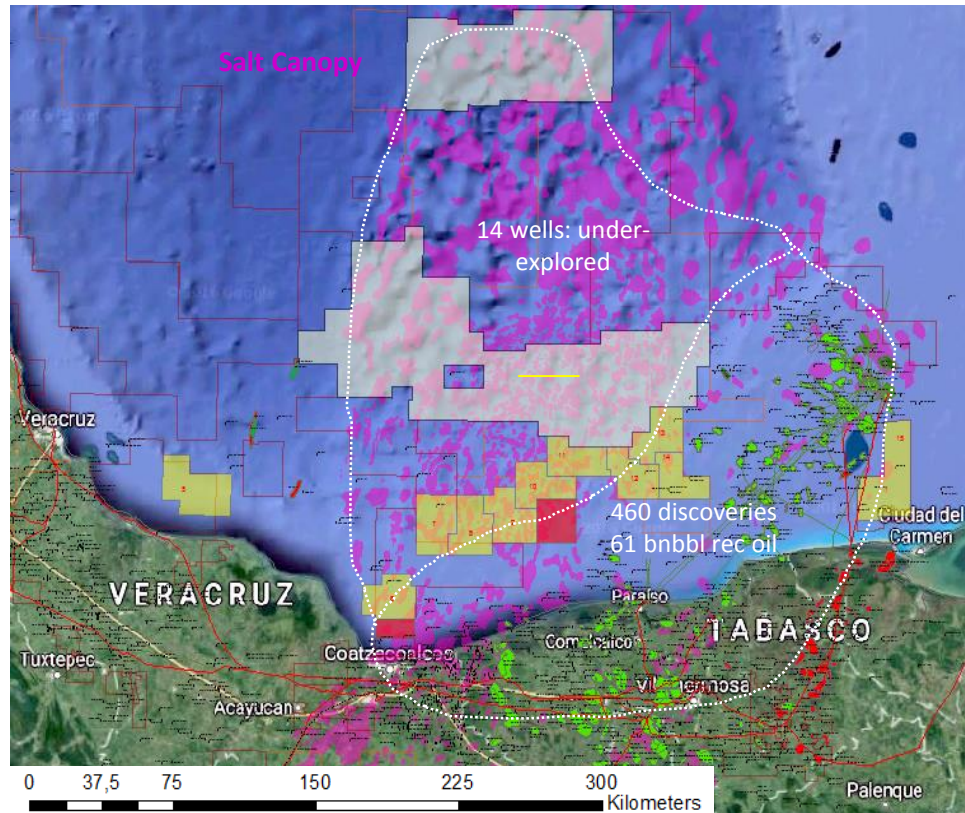


Source: Company Investor Reports

★ Bid in past rounds

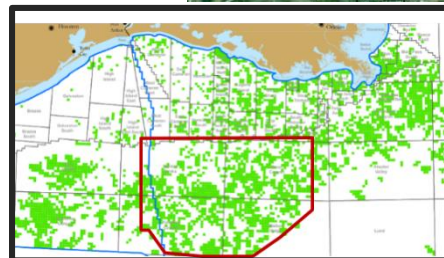
Looking Forward

Sureste – A world class oil province



Over 580 Investment Opportunities in next five (5) Years

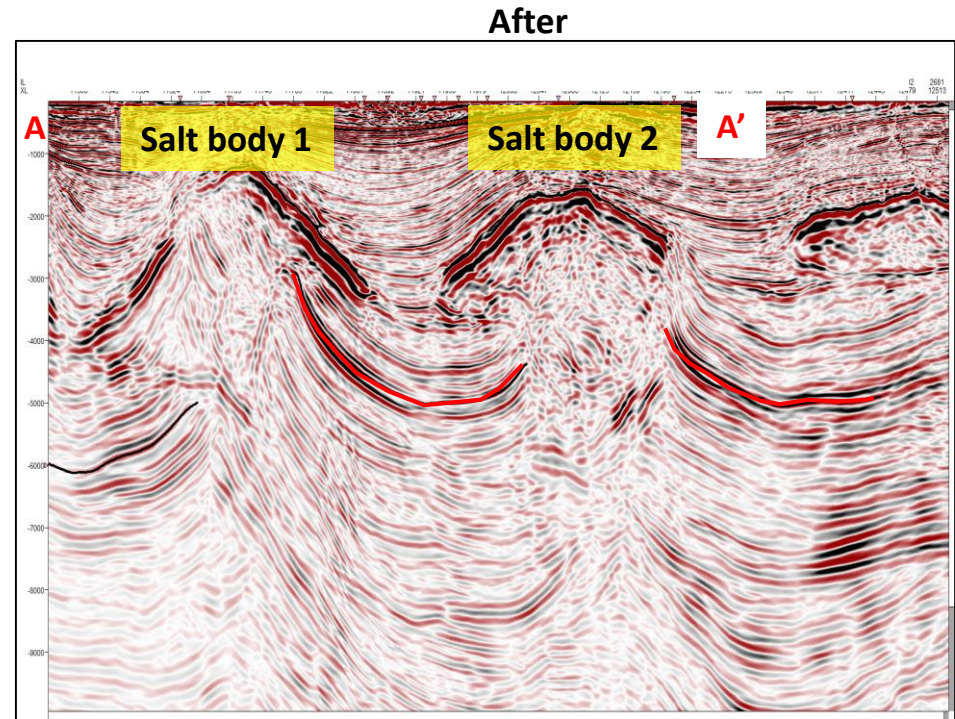
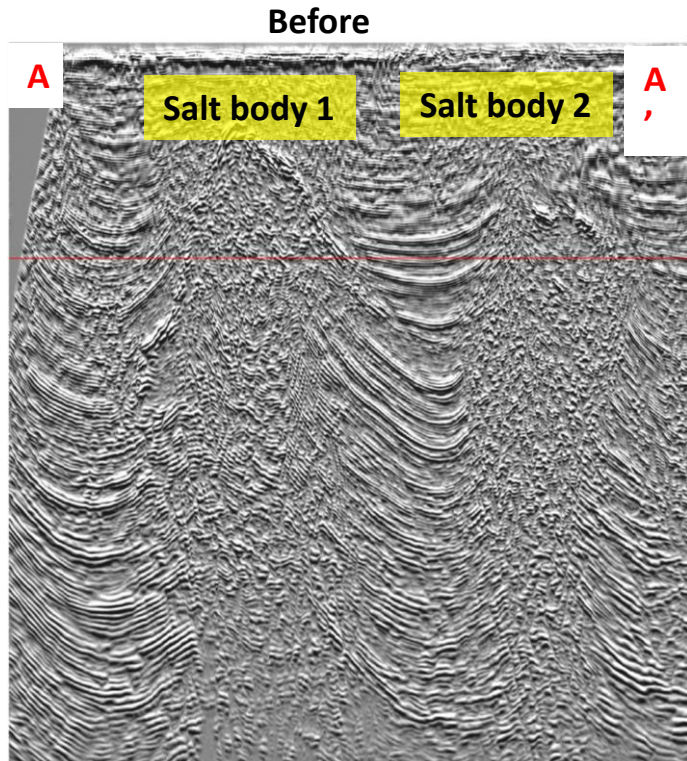
**Proven 1P 13 bnboe - 3P 37 bnboe
112 bnboe Risked YTF
178,550 km2 acreage being offered**



- Sureste is a major proven petroleum province with 460 discoveries in 40 mm km² (1 billion acres), 61 bnbl rec oil
- Another 40 mm km² remains to be explored with only 14 wells drilled to date beyond Hokchi
 - Same rich oil prone source rock, as US GOM (5% TOC, HI 600, 120 m thick av.) continues fully across basin, 50+ mmb / km² expelled
 - Multiple stacked play systems including deep carbonates, shallow clastics only produced onshore Sureste to date (Pemex limited clastic experience)
 - 250+ salt domes mapped across underexplored area on Sierra 3D, each with multiple trap potential
 - Modern high technology 3D seismic to unlock USGOM style province faster & more effectively
 - Only 8% of existing 450 fields have had reservoir simulation studies, average Rec Factor 25% by primary depletion, major IOR water flood and EOR potential exists, to date <5% fields with water flood
- Key Issues being worked
 - Reservoir Quality Understanding
 - Charge Migration prediction from deep Jurassic SR to shallower reservoirs (some DHI support extra salt canopy)
 - Energy to repressurize fields for IOR, EOR

Data and Expertise is Key

Value added for Reprocessing 1980's Government Seismic Data



Sierra has purchased over 60,000 sq. km of 3D data and over 62,000 Line km 2D Information from over 1,000 wells.

Data Costs are about \$40/sq. km relative to GOM at over 1000/ sq. km

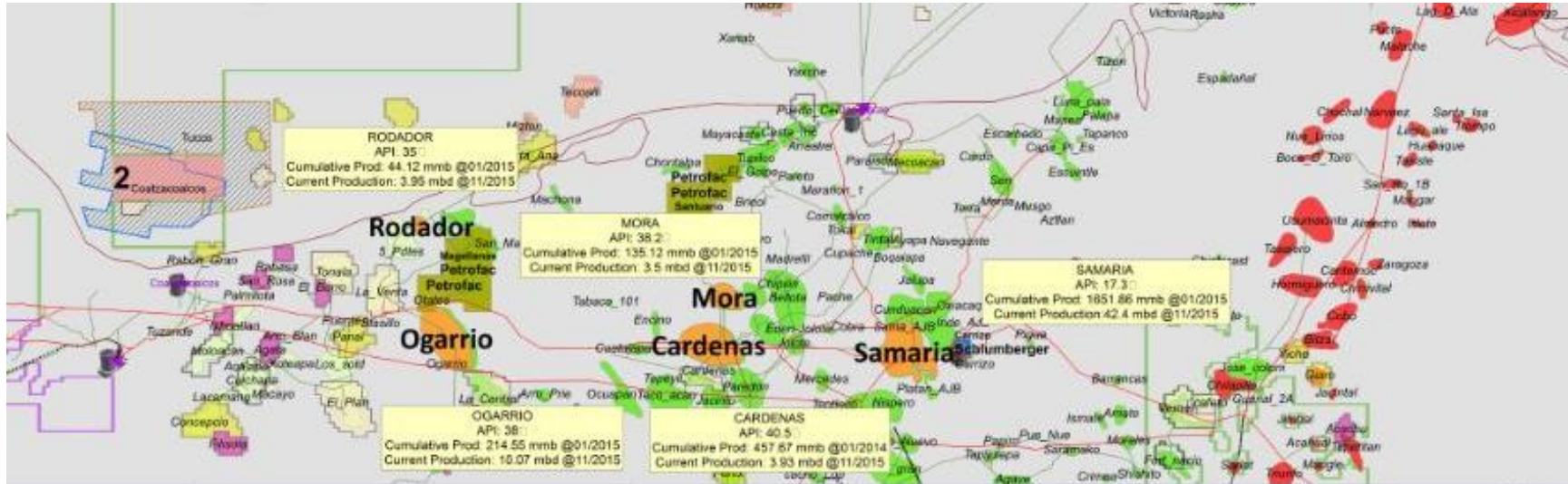
Varied Opportunity Set

PEMEX farmouts

Example: Onshore Fields Opportunities



Material Production and Reserves



Highlights:

- Data set to be available in 2017
- Bid in late 2017 or 1Q 2018
- Production ranging from 16,800 – 26,000 per field
- Fields lack optimization// improve RF can do water flood, CO2 EOR
- Review Capex and development options
- Ranked fields initial analysis completed. Considered Capex options
- Large OOIP
- Light crude (~38°API)
- Exploit fields with technology

Midstream As Value Proposition



- Mexico is one of the world's main importers of gasoline, diesel and LPG, however, there is limited infrastructure to store the volume of refined products required to supply the country.
- The fast growing domestic demand and imports of refined products in Mexico opens attractive opportunities for private investors in the development of the Mexican midstream sector.
- Existing storage and pipeline assets are saturated with less than a 5 day autonomy period in storage terminals and a 90% saturation of refined products pipelines.
- Complex logistical solutions are required in a timely and efficient manner to untie the existing bottlenecks in the storage and transport of refined products throughout the country.
- Sierra is focused in creating synergies between the upstream and midstream business units in the creation of comprehensive project strategies.

- Current infrastructure has just 4 days of product demand cover
- Infrastructure is old, limited and not aligned to new demand centers
- Large share of products currently move via trucks at higher costs



- Source: Team analysis, proprietary. IHS CERA, Imports of Products to Open to Private Sector in 2017

Strategic Challenges



Upstream

- LCs capital commitments for awarded areas and future bid rounds.
- Current industry context has reduced potential partners and specialized players.
- Limited quality of onshore assets and delayed launching of Pemex farmouts.
- Lack of tangible opportunities for small to mid size operatorship, no secondary market yet and no real M&A.

Midstream

- Regulatory bottlenecks.
- Fast process of opportunity emergence and competition requires swift action to capture the best opportunities.
- Delays and lack of visibility of midstream opportunities from Pemex.



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