



**TRINITY**  
MINERAL MANAGEMENT, LTD.

*Co-Sponsored By:*  
**Person, Whitworth, Borchers and Morales, LLP**

## "Profitable Mineral Management"

BREAKFAST SERIES *for*  
Surface and Mineral Owners  
*Admission by Invitation Only*

DATE: **May 6, 2014**

TOPIC: **Energy Reform in Mexico**

LOCATION: **San Antonio Petroleum Club**  
8620 N New Braunfels, Suite 700  
San Antonio, TX 78217-6363  
P 210.824.9014  
F 210.829.5443

TIME: 7:30 AM Breakfast - 8:00 AM Presenters - 8:50 AM Questions & Answers

PRESENTERS: **Trey Scott - Trinity Mineral Management, President**

**Energy Reform in Mexico**

**From Independence in 1821 to Current Reform**

E.O. (Trey) Scott, III, CPL  
7373 Broadway, Ste. 306  
San Antonio, TX 78209  
210.829.4889

With a career spanning over 3 decades, Mr. Scott has worked in oil and gas for a total of 37 years, including summers on a drilling rig both onshore and in the Gulf of Mexico, between college semesters at Texas Tech University.

Mr. Scott is a Certified Professional Landman. In 1979, he went to work for an oil and gas lease broker in Corpus Christi, Texas as a field Landman. His duties consisted of mineral title research, oil and gas lease negotiations and title curative. In 1981, Mr. Scott opened his own office as an independent Landman, overseeing several lease brokers and successfully acquiring hundreds of oil and gas leases. Mr. Scott's experience in the oil and gas industry includes an in-house position with a San Antonio based Exploration & Production Company where his duties included many aspects of oil and gas exploration, development and gas marketing.

After his time on the industry side of oil and gas, Mr. Scott began an association with a local Oil & Gas Mineral Company where he successfully acquired mineral and royalty interest in several hundred producing oil and gas wells across the United States. Mr. Scott is currently involved in all aspects of managing oil and gas royalty portfolios, including the development of databases and software for oil and gas management.

Subsequently, Mr. Scott started adding to his client list several South Texas ranches, where his responsibilities include overseeing and managing all aspects of mineral and royalty ownership including lease compliance and royalty audits, in addition to surface operations from drilling locations, pipelines, surface facilities, remediation and environmental issues.

In September of 2005, at the request of some key clients, Mr. Scott expanded his services by founding Trinity Mineral Management, LTD., where Mr. Scott is currently the Managing Partner.

Mr. Scott is a member of the Texas Land and Mineral Owner Association where he is currently serving as Vice-President, the San Antonio Association of Professional Landmen where he served as President and as Education Chairman, the American Association of Professional Landmen, and the South Texans' Property Rights Association. He also serves on Texas Railroad Commissioner David Porter's Eagle Ford Task Force.

# Energy Reform in Mexico

From independence in 1821 to current reform

May 6, 2014



**TRINITY**  
MINERAL MANAGEMENT, LTD.



**TRINITY**  
MINERAL MANAGEMENT, LTD.



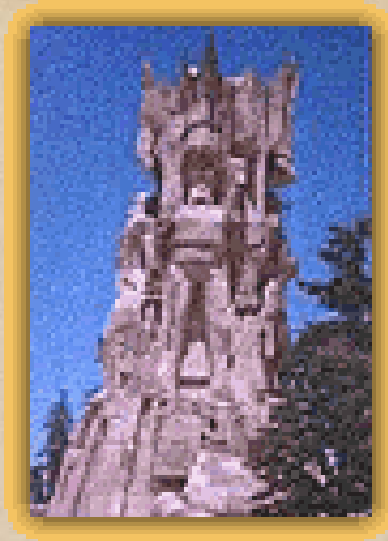
**1519 – 1521**

Spanish explorer Hernan Cortes  
conquers Central Mexico.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

The war mainly benefited the minority *Criollo*  
(Spanish-blooded upper class)

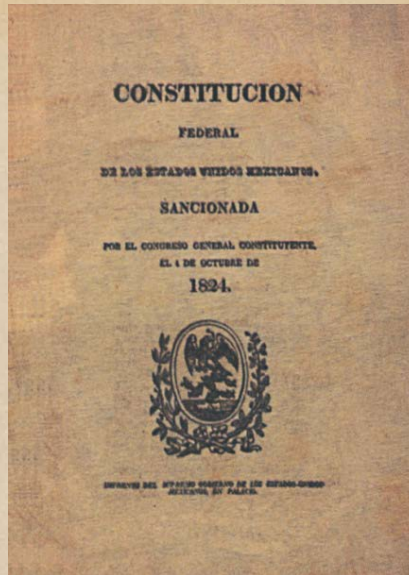


**1821**

200 years after Cortez's conquest  
by Cortez, Mexico wins  
independence from Spain.



**TRINITY**  
MINERAL MANAGEMENT, LTD.



**1824**

Three years after Mexico achieved its independence few imagined that the country would soon become a federal republic establishing its own constitution.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1856**

Price of oil \$25 per barrel



**1859**

George Bissell and Edwin L. Drake discovered oil, at Oil Creek near Titusville, Pennsylvania. (63 feet)

**1860**

January price of oil \$0.58



**TRINITY**  
MINERAL MANAGEMENT, LTD.



**1860's**

Oil and gas exploration began in  
Mexico

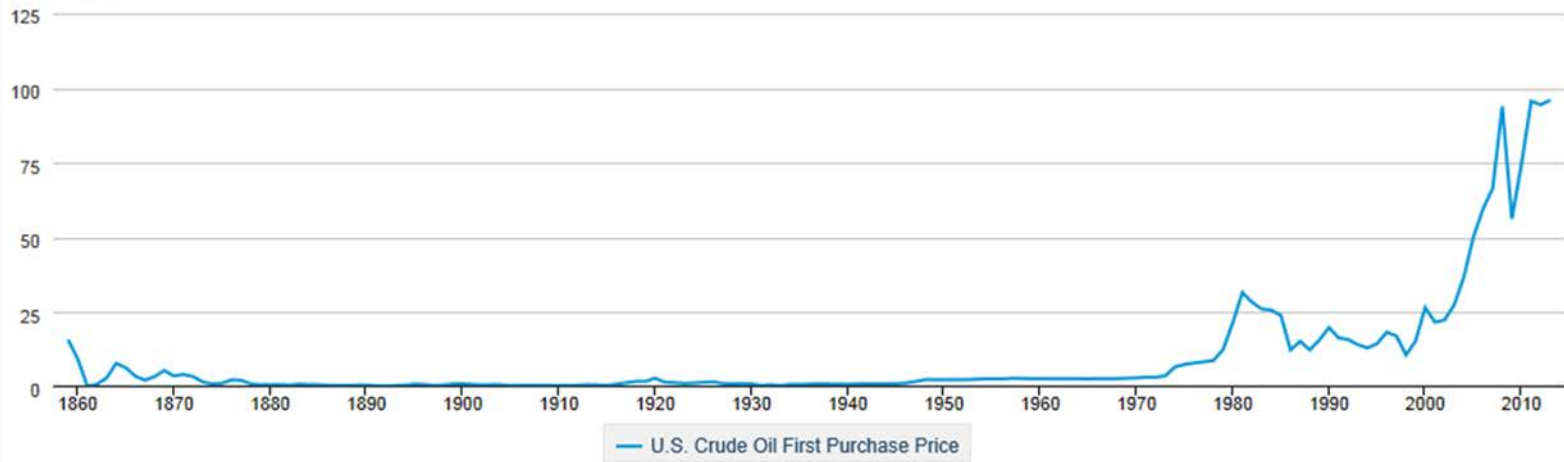


**TRINITY**  
MINERAL MANAGEMENT, LTD.

## U.S. Crude Oil First Purchase Price



Dollars per Barrel



**TRINITY**  
MINERAL MANAGEMENT, LTD.



## 1857

The Constitution of 1857 was a liberal constitution drafted during the presidency of Ignacio Comonfort establishing individual rights.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

- Freedom of speech
- Freedom of conscience
- Freedom of the press
- Freedom of assembly
- Right to bear arms
- Reaffirmed the abolition of slavery
- Eliminated debtor prison
- Eliminated all forms of cruel and unusual punishment, including the death penalty.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

## **1867 – 1871**

Juarez was President of Mexico

## **1871**

Juarez seeks re-election, with no clear winner Congress chose Juarez. Amidst the Diez rebellion, Juarez died of a heart attack.

## **1872**

Lerdo elected President.

## **1876**

Lerdo runs for re-election, Diez rose in rebellion A second time in 1876, Diez occupied Mexico City and held power for the next thirty four years.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1901**

Commercial production was established.

**1910**

Prospectors had identified reserves near the Central Gulf of Mexico coast town of Tuxpán.

Systematically the efforts of foreign countries (mainly American) came to supersede the uncoordinated efforts of speculative prospectors and Mexico became an oil exporting nation in ????



**TRINITY**  
MINERAL MANAGEMENT, LTD.

## Late 1910

Francisco Madero, while in exile, drafted the *Plan de San Luis Potosí*. Embraced by the rebel movement, this plan called for the restoration of the constitution, replace dictator Díaz and establish a democratic republic.

## 1911

Díaz resigned and left the country and Madero was elected president.

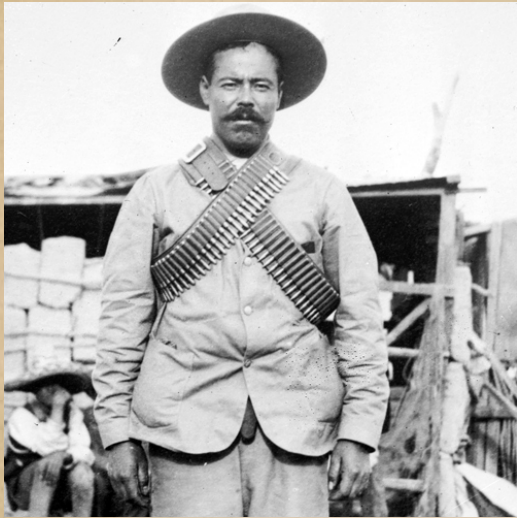
## 1913

Madero was assassinated by Victoriano Huerta, commander of the federal forces. Huerta dissolved the congress and assumed power.



**TRINITY**

MINERAL MANAGEMENT, LTD.



## Francisco Pancho Villa

Success in battles across the northern state of Chihuahua led by Pancho Villa sparked uprising across the country



**TRINITY**  
MINERAL MANAGEMENT, LTD.





Zapata recruited thousands of peasants to fight for land reform and supported the "El Plan de Ayala".

This plan called for a redistribution of land back to the peasants.

## Zapata

From the south of Mexico the Zapatistas motto was "the land is for those who work it" (la tierra es para el que la trabaja)



**TRINITY**  
MINERAL MANAGEMENT, LTD.

# 1914

Huerta faced heavy opposition. The United States sent marines to Vera Cruz and after losing several battles Huerta resigned, and left the country.

Venustiano Carranza, a wealthy landowner and Chief of the northern Coalition gathered revolutionary and military leaders to determine the future of Mexico. Zapata and his followers, supporting land reform, opposed Carranza. Carranza ignored the promises of the constitution of 1917 and was assassinated.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1910**

The Mexican revolution grew out of a belief that a few wealthy landowners could not continue the ways of Spanish Colonial rule; instead the land should belong to those who actually worked it and extracted its wealth through their labor.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1910**

The dictator Porfirio Diez' had been in power for 34 years and had essentially ignored the principles and ideals of the Constitution of 1857. These reforms were contrary to the interests of the Catholic Church

**1911**

May 25 Mexican President Porfirio Díaz resigned and left the country.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1911**

Francisco I. Madero, author of the Plan of San Luis became president of Mexico

**1913**

Madero was assassinated in early by a commander of the federal forces, [Victoriano Huerta](#),



**TRINITY**  
MINERAL MANAGEMENT, LTD.

In late 1910, [Francisco I. Madero](#), in exile for his political activism, drafted the [Plan de San Luis Potosí](#) (Plan of San Luis Potosí), which was widely distributed and embraced by rebel movements across the nation. In this plan, Madero called for an uprising starting on November 20th, 1910, to restore the Constitution of 1857 and replace dictator Díaz with a provisional government.



**1917**

The constitution of 1917 established certain rights for the Mexican people, however, granted the Mexican government the permanent and complete rights to all subsoil resources.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1925**

President Plutarco Elías Calles decreed that foreign oil companies must register their titles and limited their concessions to fifty years.



**TRINITY**  
MINERAL MANAGEMENT, LTD.



**1930**

Production had fallen to just 20%  
of its level in 1921.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1932**

Discovery of the Poza Rica field near Veracruz would become Mexico's main source of petroleum for the next several decades.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**1938**

President Lazaro Cardenas  
expropriated U.S., British and  
Dutch oil companies  
(Nationalization)



**TRINITY**  
MINERAL MANAGEMENT, LTD.

**2013**

President Enrique Peña Nieto announced the Mexican Senate approved the most far-reaching oil reform in 75 years.



**TRINITY**  
MINERAL MANAGEMENT, LTD.

# Mexico's 2013 Oil Reform

- In no way privatization
- Not concessions, not a popular term
- Allows domestic and foreign companies to explore and develop
- Will permit profit-sharing contracts, production sharing contracts and licenses (a euphemism for concessions). Percentage yet to be determined
- Pemex will cease to have the monopoly on exploration, production and refining



**TRINITY**  
MINERAL MANAGEMENT, LTD.

# Points of Reform

- Pemex will need to compete
- New regulatory framework
- Bid Process for contracts
- Transparency in financial reporting
- The states can take advantage of growth



**TRINITY**  
MINERAL MANAGEMENT, LTD.

# Timeline of Reform

- December 20th, 2014
- Round Zero for Pemex (90 days after reform)  
*Pemex submitted it's list fields it wishes to operate*
- Secondary Reforms (120 days after reform)  
*Congress has until May 20<sup>th</sup> to complete secondary legislation  
Approved April 30, 2014, it will take a few weeks to understand*
- Round Zero resolution (270 days after reform)  
*Energy department has until 3<sup>rd</sup> week of September to announce decisions on  
Pemex's round Zero request*
- Environmental regulation (365 days after reform)  
*Congress has until December 2014 to craft new environmental regulations*
- Gas Control Center and Energy Control Center  
(485 days after reform) *Until April 2015 to create these centers*



# Timeline of Reform

- 2015 - Round One
  - Government will announce which fields will be offered for bid
  - Conditions of bidding will be announced



**TRINITY**  
MINERAL MANAGEMENT, LTD.



# Tax Questions

- How will the tax rate change? (Pemex taxed at 100% + -)
- Will there be a corporate income tax?
- How much is the surface rental fees on idle oil and gas acreage?
- Is there a dividend payable to the government?



**TRINITY**  
MINERAL MANAGEMENT, LTD.

# Why Reform?

- Declining production (25% since 2004)
- Pemex estimates exploration cost in excess of \$60B/yr verses \$24B currently
- Increased demand
- 30% of the governments income if from taxes on oil
- Unexplored reserves in Eagleford & Gulf of Mexico



**TRINITY**  
MINERAL MANAGEMENT, LTD.



**TRINITY**  
MINERAL MANAGEMENT, LTD.