

The image features a silhouette of an oil pumpjack against a sunset sky. The pumpjack is the central focus, with its long arm and counterweight clearly visible. The sky is a mix of light and dark tones, suggesting the time is either dawn or dusk. The overall mood is industrial and dramatic.

MHR

MARTINEZ
DE HOZ
& RUEDA

**AN OVERVIEW OF NEUQUÉN'S
DEVELOPMENT IN THE ENERGY FIELD
DURING THE LAST 10 YEARS**

INTRODUCTION

Argentina's potential to become a magnet for investment in the Province of Neuquén ("Province") is universally recognized by experts and media. The Vaca Muerta structure is estimated to hold 16 billion barrels of shale oil and 8.7 trillion cubic meters of shale gas, which would bless Argentina with the world's fourth-largest reserves of shale oil and second-largest reserves of shale gas.

Consistently with its leadership in the energy field in Argentina, on February, 2018, Martínez de Hoz & Rueda ("MHR") launched its office in the City of Neuquén with a long-term and pioneering view. We are the first fully integrated legal firm to open an office in Neuquén, which we view as a natural development of the growth of our practice in unconventional hydrocarbons and energies in general.

The Neuquén Office provides our current and prospective clients the advantage of having a law firm that fully integrates both federal and local legal practice under a "one-stop-shop" scheme, and the benefit of direct relations with local authorities, operations, companies' branches and other local constituencies, to meet the challenges of new contractual, regulatory and environmental issues arising from unconventional operations.

The Neuquén Office is managed by Tomas Lanardonne, a long standing member of MHR's oil and gas practice group, who relocated from Houston after working at King & Spalding LLP and obtaining an LLM in Energy Law & Policy at the University of Dundee (as a British Chevening Scholar).

With the opening of its Neuquén office, MHR strengthens its commitment to provide premier legal services to its clients to help them enhance the opportunities that arise from the potential of "Vaca Muerta".

Through this report, readers will be able to grasp the evolution of Neuquén's energy sector during the past 10 years. Hope you enjoy it.

HYDROCARBONS

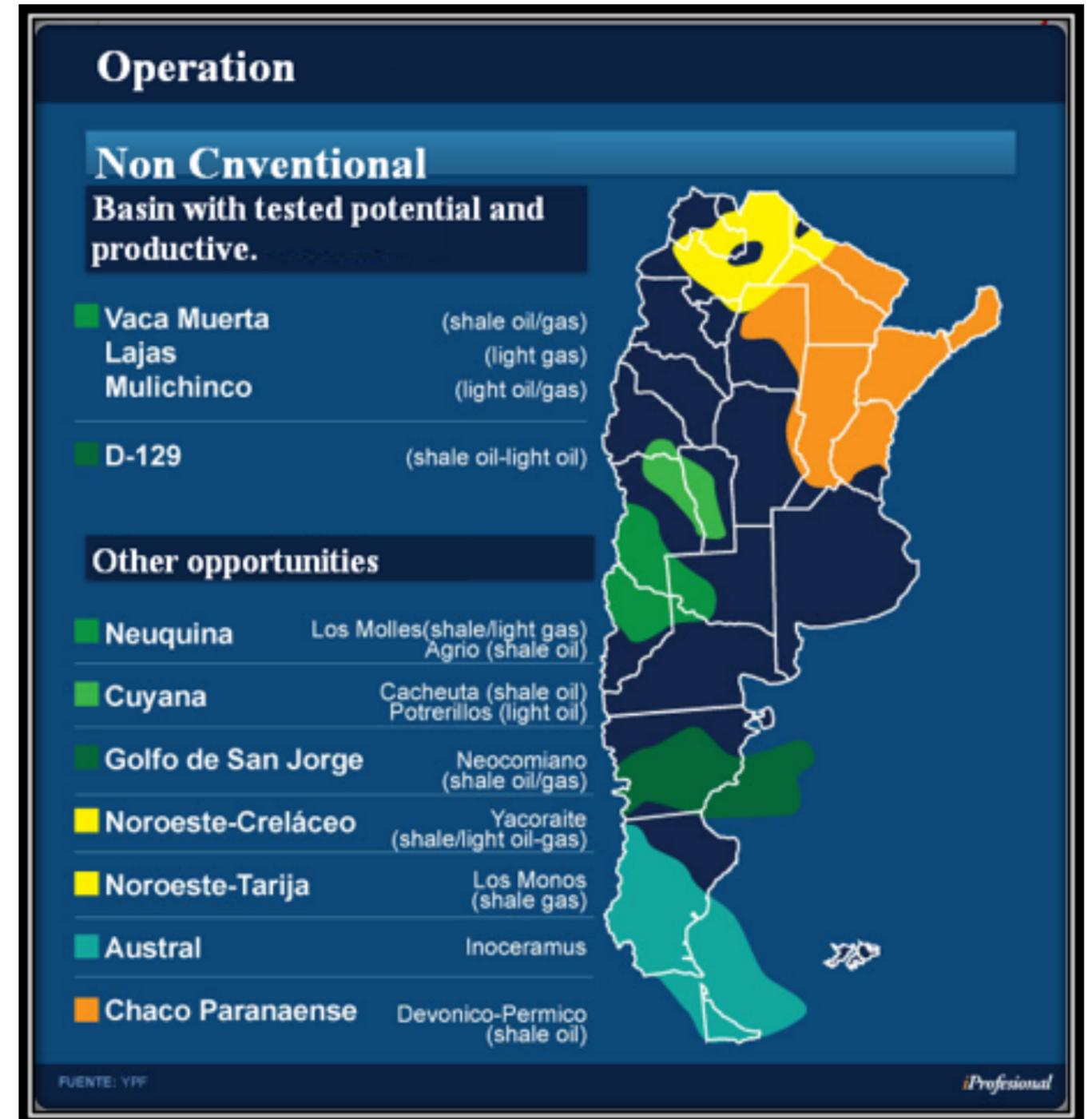
THE RE-PROVINCIALISATION AS A FOSTER FOR OIL AND GAS PRODUCTION – FROM ARGENTINA TO NEUQUÉN

Argentina is a federal country and since the 1994 amendment to the Constitution, oil and gas resources have belonged to the provinces (except offshore deposits extending beyond 12 nautical miles, which belong to the federal state) . Although the federal government has the exclusive authority to regulate the oil and gas general framework, by means of its constitutional mandate to establish the substantive rules governing mining activities (which the Supreme Court interpreted as extending to all kinds of mineral production, including hydrocarbons), thus ensuring the uniformity of legislation, with the enactment of Law No. 26,197 in December, 2006 (the “Re-Provincialisation Law”), the provinces became the enforcement authority of the Federal Hydrocarbons Law No. 17,319 (“Federal Hydrocarbons Law”) within their relevant jurisdictions, and are primarily responsible for issuing and enforcing environmental regulations.

In this context, since the enactment of the Re-Provincialisation Law, the process of Provincialisation of the jurisdiction over oil and gas upstream activities in Argentina was consolidated. Argentine provinces vested with the authority to administer existing and grant new exploration permits and production concessions on hydrocarbon areas located within their respective territories.

This new law has derived in a boost for provincial calls for bids on hydrocarbon areas. Calls for bids had been carried out during the 2007 by traditional oil and gas producing provinces such as Neuquén and Salta, as well as by new provinces in this field such as Córdoba and San Juan.

In some of these cases, bidding procedures were being exclusively stewarded by the respective Province state-owned oil company, in which case the presentation of the respective bid generally implied the consent of the bidder to enter into a joint venture with the Province state-owned oil company. Further, the Province state-owned oil company usually expected to be carried during the exploration phase, but if there were to be a commercial discovery, it required a 10% to 20% share during the development and production phase.



¹ According to the US Energy Information Administration (EIA), Argentina stands second and fourth in terms of shale gas and oil endowment, respectively. See ‘Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States’, www.eia.com/gov/analysis/studies/worldshalegas/, accessed June 2017.

² Law No. 17,319 (the Federal Hydrocarbons Law), Article 1, as amended by the Re-Provincialisation Law, Article 1, second paragraph.

NEUQUÉN'S FIRST REGULATORY MEASURES SINCE THE RE-PROVINCIALISATION LAW

PROCEDURE FOR EXTENDING THE HYDROCARBONS CONCESSIONS

In accordance with the country fostering programs, by means of Provincial Decree No. 822/08, the Province of Neuquén established in 2008 a Procedure for Extending the Hydrocarbons Concessions located in the Province of Neuquén, which were granted during the 1990s by the Federal Executive (the "Extension Procedure"). Those concessionaires interested in extending the terms of their current concessions were required to enroll in the Extension Procedure complying with the requirements established in the Specifications (Pliego) of the Extension Procedure.

The Specifications of the Extension Procedure were made available at the Under-Secretariat of Hydrocarbons and Energy of the Province of Neuquén. The Under-Secretariat also received any inquiry or request for clarification from the concessionaires related with the interpretation of the Specifications. Finally, the concessionaires submitted the documentation and information set forth in the Specifications.

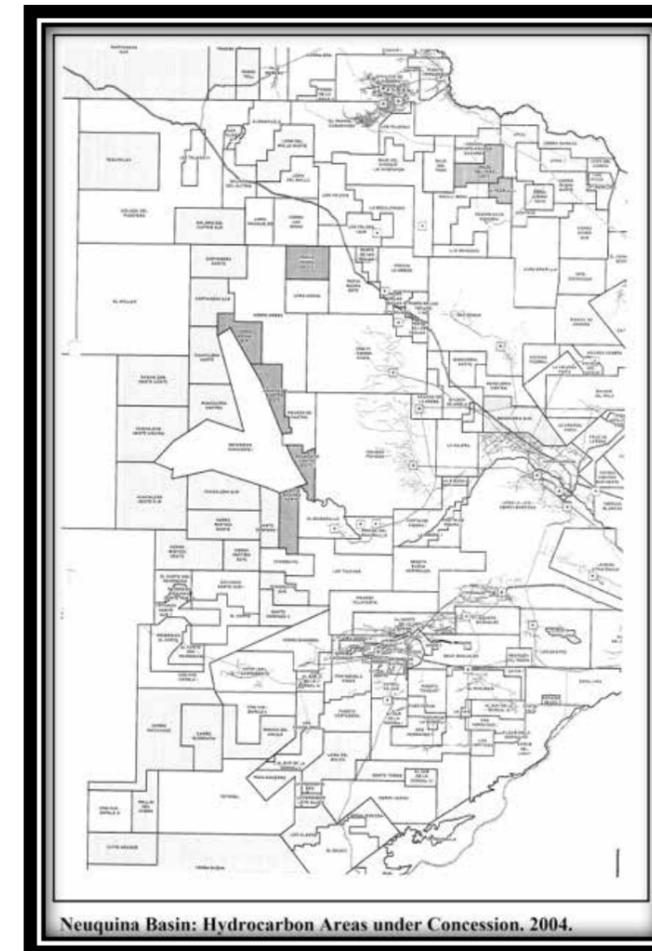
According to the Specifications, the filing by the concessionaires should have included, inter alia:

- A letter addressed to the Under-Secretariat of Hydrocarbons and Energy of the Province of Neuquén requiring registration with the Extension Procedure, expressing their consent to submit to the jurisdiction of the Provincial Supreme Court any dispute arising from such procedure, and establishing a legal domicile in the City of Neuquén for the reception of any correspondence related to said procedure

- Legal title to the concession and any approval of change of ownership of the concession

Report of the concession, including:

- a. Annual production of oil, gas and water;
- b. Data regarding the pressure of each field;
- c. Number of drilled wells, indicating status of each well, in accordance with applicable law;
- d. Proven, probable and possible reserves until the end of the concession and until the end of the life of the field;
- e. Annual forecast of the oil and gas production until the end of the concession, including the extension of the concession; and
- f. Inventory of acreage or zones affected by environmental hazards, visible or not, produced due to the hydrocarbon activity, measuring the same.



Those concessionaires, who purchased the Specifications and comply with the requirements set forth in the Specifications, were going to be entitled to negotiate the extension of the relevant concessions, in accordance with the Federal Hydrocarbons Law and the Re-Provincialisation Law. On the other hand, failure to accept and/or comply with the requirements of the Extension Procedure will entail the forfeiture of the right to obtain an extension of the concession, in which case, the relevant concession was going to be expired in accordance with its original terms.

The Specifications set forth the following minimum conditions for the renegotiation of the concessions:

- Make an up-front payment of a sum of money to be agreed by the parties.
- Pay an extraordinary production fee on a monthly basis during the term of the concession and its extension.
- Commit to pay an increased production fee in case of a reduction in the export taxes or price increases.
- Make a proposal of investment and field development plans, in order to increase the hydrocarbon reserves and production.
- Accept inspection and enforcement programs to be carried out by the Enforcement Authority.
- Comply with the “purchase neuquino” (“compre neuquino”) provincial scheme.
- Relinquish to the Province any exploration acreage not subject to exploration.
- Exercise corporate social responsibility contributing to the provincial development in the matter of education, environment, health, culture, science and investigation, renewable energies, and community development; (ix) settle any disputes related to the payment of surface fees, rights of way, royalties or tax debts, reviewing the status of any pending administrative and/or judicial claims; (x) review the situation of the extraction of rocks (áridos) in public real estate and the payment of the industrial fee for use of public water; (xi) remediate any environmental impact in relation to any environmental liability declared in the Extension Procedure and preserve the environment in accordance with provincial law.
- Pay the stamp tax corresponding to the relevant extension agreement.

Thanks to the Extension Procedure, YPF S.A., Total Austral S.A., Wintershall Energía S.A., Pan American Energy LLC and Apache Energía Argentina S.R.L., among other companies operating in the Province of Neuquén, carried out during the 2008 intense negotiations for a 10-year extension of their hydrocarbons concessions located in said province.

YPF, which is the largest hydrocarbons producer in Neuquén, was the first company to close an extension agreement in September 2008. This extension was later approved by a Provincial Law 2,615 on October 8, 2008, and the agreement served as a model for the negotiation of the remaining concession extension agreements.

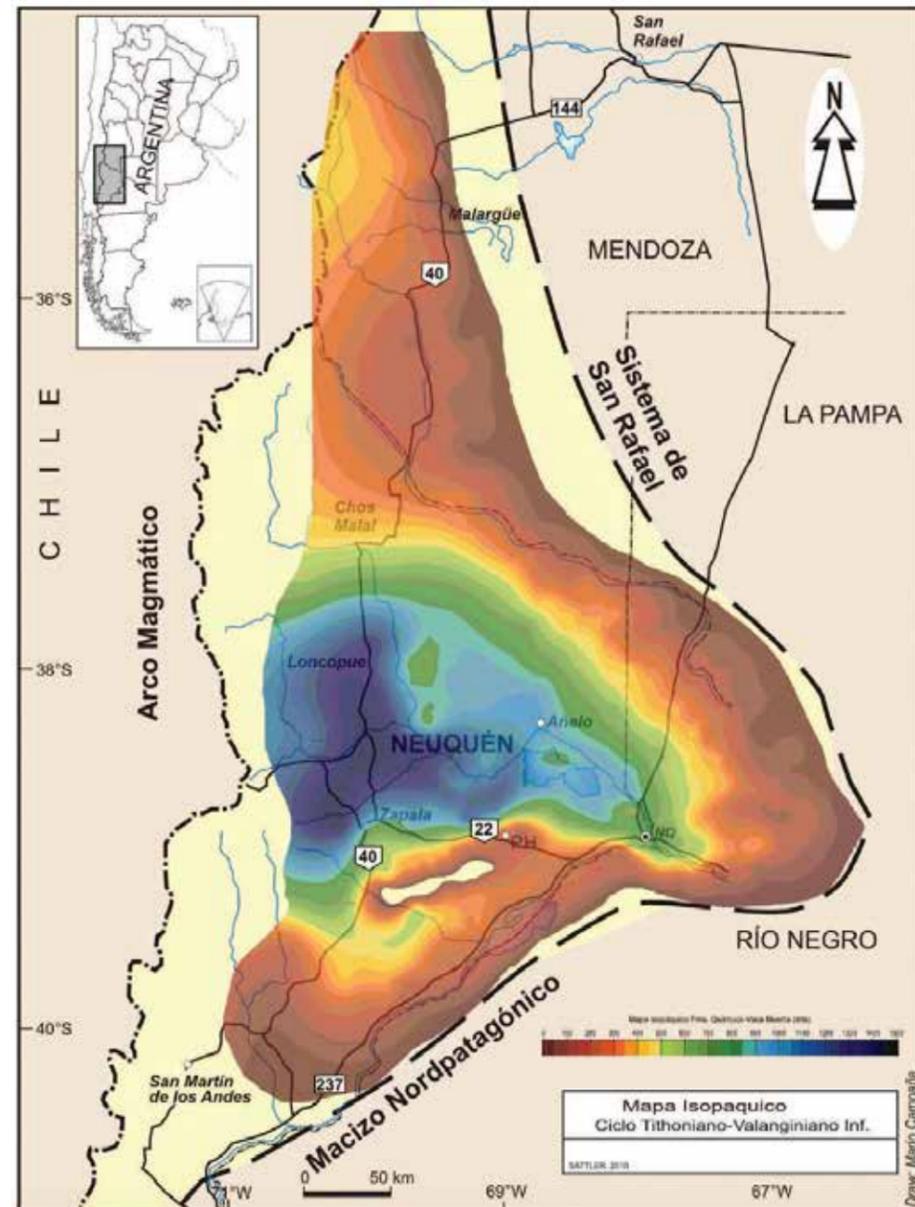
Total Austral, Wintershall and Pan American Energy hold working interests in the Aguada Pichana and San Roque blocks that are also located in Neuquén. These blocks -in which YPF also owns a working interest- account for approximately 16% of Argentina’s total natural gas production.

In compliance with the requirements set forth by Provincial Decree 822/08, as well as with Provincial Law No. 2,615, Total and Wintershall held separate negotiations with Neuquén. In January 2009, Neuquén granted both companies a 10-year extension, which will expire in 2027.

The negotiation included, among other conditions, initial payments, investment commitments and a 3% increase of the existing 12% royalty rate payable to the Province of Neuquén. The terms of the relevant extension agreements were approved by Provincial Decree 235, dated February 27, 2009.

A similar renegotiation was carried out by Apache Energía Argentina in relation to its blocks located in Neuquén which include Aguada Villanueva, Al Norte de la Dorsal, Al Sur de la Dorsal, Anticlinal Campamento, Bajo Baguales, El Santiagueño, La Calera and Meseta de la Buena Esperanza. In Apache’s case, the extension agreement involving said blocks was signed on March 16, 2009.

NEW REGULATION ON ASSIGNMENTS OF EXPLORATION PERMITS AND PRODUCTION CONCESSIONS



Mapa isopáquico del ciclo Tithoniano a Valanginiano Temprano en la Cuenca Neuquina.
De la Publicación "LA FORMACIÓN VACA MUERTA Y EQUIVALENTES (JURÁSICO TARDÍO - CRETÁCICO TEMPRANO) EN LA CUENCA NEUQUINA."
Autores Héctor A. Leanza, Federico. Sattler, Ricardo S. Martínez y Osvaldo Carbone.
Expuesto en el relatorio del XVIII CONGRESO GEOLÓGICO ARGENTINO • NEUQUÉN, 2011

After having organized the already existing hydrocarbon concessions, the Province of Neuquén started to adopt specific measures to reorganize its hydrocarbon regulatory framework, in such a way as to promote investments in the province. On March 9, 2009, the Province of Neuquén issued Resolution No. 54/09 setting forth the requirements for approval of the assignments of exploration permits and exploitation concessions.

Under Section 72 of the Federal Hydrocarbons Law, concessionaries and permit holders are entitled to transfer to third parties their concession and permit titles, with the prior authorization of the Executive Branch. Upon the enactment of the Re-Provincialisation Law, the Argentine provinces became vested with the authority to administer existing and grant new exploration permits and production concessions on hydrocarbon areas located within their respective territories. These powers include approvals pursuant to the referred Section 72 of the Federal Hydrocarbons Law.

Pursuant to the Federal Hydrocarbons Law, applications for assignments shall be approved if the transferee complies with all the conditions and requirements established for permit holders and concessionaries in the Federal Hydrocarbons Law. Such conditions include, inter alia, certain financial and technical qualifications.

The Resolution No. 54/09 generally replicates the former formalities required at the federal level prior to the Re-Provincialisation Law. Pursuant to the Resolution, the transferor and the transferee must submit before the Provincial Undersecretary of Hydrocarbons and Energy a brief requesting the transfer authorization. The Undersecretary of Hydrocarbons and Energy may request:

- Evidence of the registration of the transferee in the Registry of Oil Companies of the Federal Secretary of Energy;
- A draft minutes of the relevant public deed of conveyance stating which of the parties thereto shall assume the liabilities for the environmental damages occurred before the transfer;
- The relevant legal instrument granting the permit or concession to the transferor;
- The name of the permit or concession's operator;
- A copy of the transferee's financial statements of the last three years;
- An offer to post a performance guarantee; and
- A tax clearance certificate regarding royalties, fees, easements and national and provincial taxes.

Pursuant to the Resolution No. 54/09, the transferee must have, at the time of the transfer application, a net worth of no less than AR\$ 2.000.000 (i.e., approx. US\$ 540,000). Once the documentation is analyzed by the Provincial Undersecretary of Hydrocarbons and Energy, the file is sent to the Provincial Executive Power for the issuance of the transfer authorization.

In addition to Resolution No. 54/09 and in a complementary order, the Natural Resources and Public Utilities Agency of the Province of Neuquén enacted Resolution No. 247, dated November 27, 2009, by which hydrocarbon concessionaires shall file a technical descriptive memory (in both digital and paper format) in respect of any kind of infrastructure work to be performed within the relevant field. The execution of the corresponding work shall be subject to the prior authorization of the work by the Undersecretary of Hydrocarbons, Energy and Mining of the Province of Neuquén.

Gas y Petróleo del Neuquén S.A.



When we talk about hydrocarbons in Neuquén, it is impossible to avoid the provincial state-owned oil company, Gas y Petróleo del Neuquén S.A., (“G&P”) set up in 2008 by the Province of Neuquén. G&P has always taken an important proactive role in reference to the hydrocarbon investments in the Province. During the last quarter of 2009 and the first 4 months of 2010, G&P entered into several “Production Sharing Agreements” (“PSA”) with private oil and gas companies in order to explore and/or develop vacant hydrocarbon areas which had been recently transferred by the Provincial Executive to G&P in accordance with Section 98 of the Federal Hydrocarbons Law.

A PSA is a type of oil and gas contract contemplated in Sections 11 and 95 of the Federal Hydrocarbons Law, which is entered into between a state-owned oil company or a government agency and one or more private companies, the contractor/s, and which main features include:

- The state oil company is the exclusive holder of the exploration permit and/or the exploitation concession.
- The contractor is entitled to a share of the production.
- The state oil company is carried by the contractor that must pay all the exploration and exploitation costs, including the state oil company’s share of those costs.
- The state oil company participates in the decision making process, and its consent is required for relevant decisions.

WITH REGARD TO A PSA EXECUTED BY G&P, SOME OF ITS MOST RELEVANT PROVISIONS ESTABLISHED THAT:

- The contractor can recover the costs paid in respect of G&P’s working interest, exclusively by retaining 50% of the portion of the monthly positive cash flow (net of hydrocarbon royalties and other costs) that corresponds to G&P’s share of the production (if any).
- The contractor must pay 100% of the royalties due to the Province of Neuquén, including the royalties corresponding to G&P’s share of the production. Royalties are considered a cost.
- The contractor must market G&P’s production share free of charge.
- The consent of G&P is required for the following decisions:

Modification of the agreement.

Approval of the Working and Investing Program.

Appointment and removal of the Operator.

Exclusion of any of the Parties from the agreement.

Admission of new parties to the agreement.

Authorization of assignments to non-affiliate companies.

Early termination of the agreement.

- The liabilities are shared between the parties to the agreement according to their working interest. Any portion of the liabilities to be shared by G&P shall be paid by the contractor and recovered only through the retention of the 50% of the portion of the monthly positive cash flow that corresponds to G&P.
- The operator is liable for the damages caused by its negligence (not limited to gross negligence) or willful and lost profits are not excluded.
- The contractor assumes a general indemnity obligation towards G&P in respect of third party claims of any legal nature, including labor, social security, environmental and other type of claims.
- G&P may, with the prior authorization of the enforcement authority (i.e., the Secretariat of Hydrocarbons of the Province of Neuquén), apply fines to the contractor upon the breach of any obligation arising under the UTE agreement.

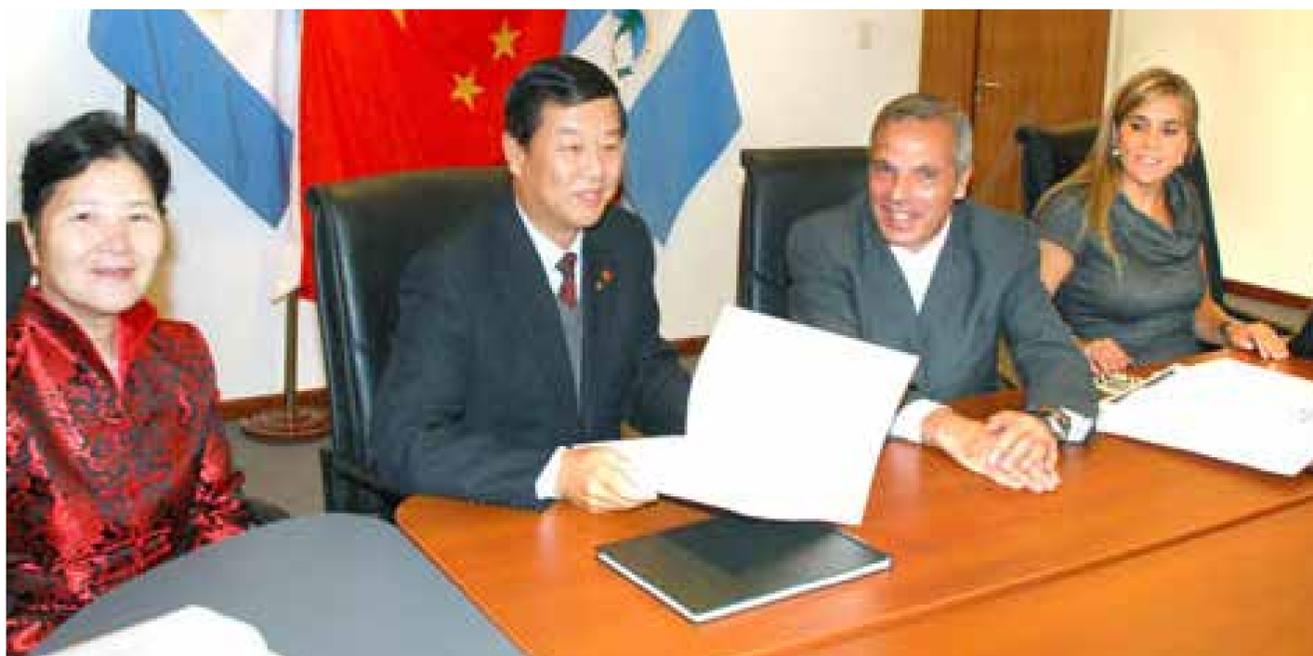
According to official public announcements by the Government of Neuquén, several calls for bids for awarding of new blocks under the described PSA system were expected to commence in mid-2010.

Foreign Investors

With the new policies taken both by the Federal Government and by the Provincial Government, some foreign investors started to get interesting in the Neuquina Basin. In early May, 2009, the ambassador of the Popular Republic of China in Argentina, Mr. Zeng Gang, held meetings with several officials of the Government of the Province of Neuquén to analyze investment projects for the development of different sectors, also including clean energies such as wind generated energy, solar and geothermic energy.

According to Ministry of Territorial Development of Neuquén, Mr. Leandro Bertoya, China is also interested in the development of railways systems that intend to create a connection of the Argentine territory with the Pacific Ocean, which could raise the opportunity of businesses with Asia.

These meetings took place in the framework of increasing interest of Chinese investors in the local energy sector.



PRICES' MULTILATERAL AGREEMENT

On July 17, 2009, the National Government, the governments of the Provinces of Neuquén and Río Negro, and the Union of the Private Oil and Gas Workers entered into an agreement with a number of oil and gas producers operating in said provinces (including YPF, Petrobras, Total, Pluspetrol, PAE and Capex), whereby these companies agreed to avoid layoffs. In exchange, the National Government entered into another agreement with the same producers in order to allow increases in the natural gas prices for sales to power plants and to residential consumers (in the latter case funded by a government subsidy). The rest of the oil and gas producers who were invited to become parties to the aforementioned agreement, signed the document shortly thereafter. As a result of said agreement, the natural gas prices were increased as follows:

NATURAL GAS SOLD TO POWER PLANTS

Gross price - USD/MMBTU:

Month	Neuquén	Tierra del Fuego	San Jorge's Gulf	San Jorge's Gulf	Northwestern Basin
Jul-09	2.08	1.86	1.87	1.83	1.94
Aug-09	2.14	1.92	1.92	1.89	2.00
Sep-09	2.21	1.98	1.98	1.95	2.06
Oct-09	2.47	2.23	2.24	2.20	2.32
Noc-09	2.47	2.23	2.24	2.20	2.31
Dic-09	2.68	2.44	2.24	2.41	2.52

NATURAL GAS SOLD TO RESIDENTIAL CONSUMERS

Period	Price increase - USD/MMBTU
August 2009/October 2009	0.40
November 2009 onwards	0.56

The price to be received by each producer that executed the agreement would result from multiplying the abovementioned prices by the volumes sold to residential consumers according to a sworn statement presented by each producer. The producers were going to be paid within 15 days as from the filing of the relevant information before the Secretariat of Energy.

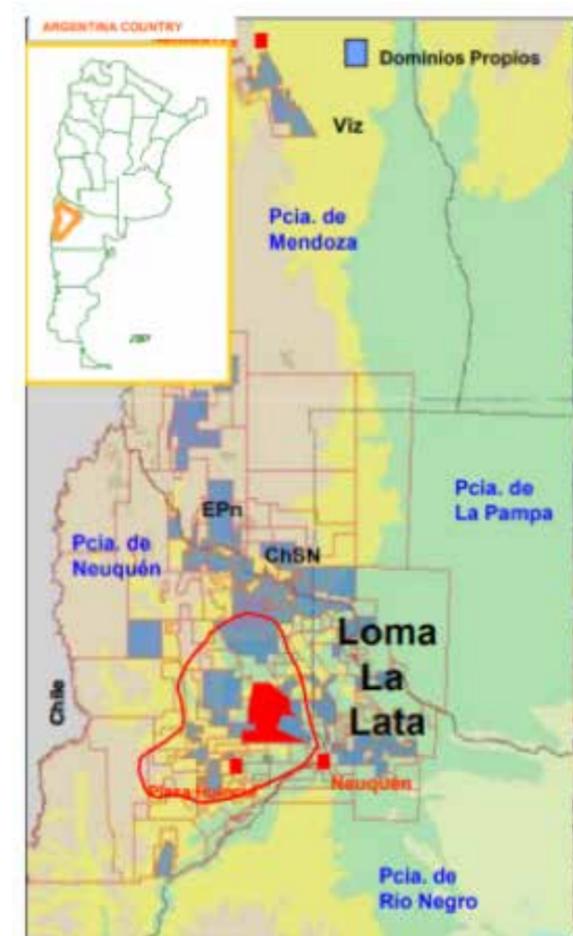
The First Shale Gas Well of Argentina is in Neuquén

In 2010, YPF introduced in Loma de la Lata the first gas well of Argentina arising out of shale reservoirs, a very compact type of clay. This project represented the great efforts made by the different players, the Federal Government, the Province of Neuquén, different companies and investors.

In these reservoirs the gas is trapped in clays of low porosity and very weak permeability, hence the extraction cost is much higher and the use of technology is essential. While the use of this kind of technology is very developed in U.S.A., it is brand new in Argentina.

The logistic for these types of wells -that is already very complex in the conventional wells- is simple stunning. The well was named K-X-1 and it took an investment of about U\$S 10.000.000 for its development.

The Government of Neuquén has pushed for this news to become as public as possible, in order to create conscious in the public opinion of the necessity to recognize to this gas a much higher price than the price of the conventional gas production, due to the special characteristics of this well.



A Wave of Revocations on Hydrocarbons Production in Argentina

Despite the big efforts made by the Province of Neuquén together with many other provinces to improve and extend the hydrocarbon concessions, in April, 2012, Neuquén, Chubut, Mendoza, Salta, Rio Negro and Santa Cruz revoked several hydrocarbon production concessions.

The causes of revocation of concessions were limited and expressly established by Section 80 of the Federal Hydrocarbons Law No. 17,319. The relevant Provincial Executive may not revoke concessions based on other causes.

As provided by law, those causes were:

- Failure to pay annual surface fees during a period of three months after they become due;
- Failure to pay royalties during a period of three months after they become due;
- Substantial and unjustified failure to comply with the specific obligations with respect to productivity, conservation, investments, works or special benefits;
- Repeated infringement of the obligations to submit required information, to facilitate inspections by the competent authority or to employ the techniques applicable for the execution of the works;
- Failure to comply with:

The obligation to inform the Authority about concessionaires' intention to obtain an exploitation concession (after having determined the existence of commercially exploitable hydrocarbons)

Submission of development programs and investment commitments after having informed the Authority of item (a)

In the event that the holder of an exploration permit or an exploitation concession is declared bankrupt

Death of the permit or concession holder or dissolution of such entity; and

Failure to comply with the obligation to transport hydrocarbons of third parties.

Prior to taking any revocation decision, the relevant Provincial Executive must provide the concessionaire with the opportunity to cure any failure. The Federal Hydrocarbons Law (Section 80) does not clarify the extension of such term, though according to fundamental principles of administrative law and applicable case law, the length of any cure period must be reasonable and in accordance with the means that are necessary for curing the relevant failure. Any decision of revocation must be implemented through a grounded executive decree issued by the respective Provincial Executive (Section 83, Federal Hydrocarbons Law).

To seek the reversal of such a decision (Section 89, Federal Hydrocarbons Law), the concessionaires are not required to exhaust administrative remedies and may initiate legal actions against the relevant Province before a court of law. The limitations period is 6 months from the date of notification of the decision.

In that context, the Province of Neuquén revoked YPF's concession over block Don Ruiz. It also revoked Brazilian Petrobras' concession title over block Veta Escondida for alleged lack of exploration. Neuquén's Governor further warned US oil company Apache with respect to blocks Ojo de Agua, Meseta Buena Esperanza and Aguada Villanueva and Tecpetrol in relation to its levels of production. Additionally, the Province further analyzed YPF's performance as concessionaire of block Rincón Del Mangrullo.

Immediately after the revocation injections, on June 28, 2012, the Argentine Supreme Court of Justice granted both Petrobras and Tecpetrol separate preliminary injunctions staying the implementation of the concession revocations decided by the Province of Neuquén on March 31, 2012, in relation to two blocks. ⁽⁴⁾



⁴ Cases "Petrobras Argentina S.A. c/ Neuquén, Provincia del s/ amparo" and "Tecpetrol S.A. c/ Neuquén, Provincia del y otro (Estado Nacional citado como tercero) s/ medida cautelar",

These were the first cases in which the Supreme Court analyzed deeply the forfeiture of a hydrocarbon development concession since the enactment of the Federal Hydrocarbons Law.

The Supreme Court ratified again its direct jurisdiction whenever a province is party to a dispute and when the resolution of the controversy depends on the interpretation and application of the Federal Hydrocarbons Law.

Petrobras and Tecpetrol challenged provincial Decrees No. 562/12 and 563/12, which revoked their respective concessions. Both companies claimed that the Decrees were arbitrary and illegal as they attributed substantial violations of the concessionaires' obligations thereunder that had not been proven. Both companies claimed that the Province has exercised abusively and illegitimately its power under the Article 80, subsection c) of Federal Hydrocarbons Law, because the grounds for the declaration of forfeiture must be established according to "due process" and determined by a "reasoned decision" (Article 83).

The Supreme Court held that the requested injunctions were proportional to the relevance of the alleged illegitimacy, ordered the Province to refrain from implementing the Decrees and also requested the substantiated report required in Article 8 of Law No. 16,986 (Ley de Amparo), to be furnished by the Province.

Indeed, the Supreme Court's case law of the last 8 years has confirmed the federal nature of the Federal Hydrocarbons Law, affirming that:

- When a province is a party to the lawsuit (ratione personae element)
- The resolution of the case necessarily requires the interpretation and/or application of certain provisions of the Federal Hydrocarbons Law (ratione materiae element), the primary jurisdiction of the Federal Supreme Court for these cases is available.

NEUQUÉN FORWARD LOOKING VISION FOR AND BREAKING NEW GROUNDS

Continuing with the hydrocarbons development in the Neuquina Basin, the Province of Neuquén decided to enter the world of non-conventional resources. In this order, through Decree No. 1703 enacted in 2010, the Executive Branch of Neuquén amended article 1 of Decree No. 3124/04 and included shale and tight gas reservoirs into the category of 'high-risk exploration regions'.

In accordance with Decree No. 1703/10 the length of the exploration phase of new shale and tight gas reserves in Neuquén shall be 6 years during the first exploration period, 4 years during the second, and 3 years during the third one, plus a one-year extension.

Decree No. 1703/10 provided new incentives to companies involved in the exploration and production of non-conventional resources. Meanwhile Neuquén Governor Jorge Sapag continued negotiating with the Federal Government additional opportunities for shale and tight gas exploration and production. These conditions were going to include a commitment from the Federal Government to allow the wellhead prices for non-conventional gas projects to run between US\$ 4.50/MMBtu-US\$ 7.50/MMBtu.

The Argentine Government was betting that the development of these unconventional reserves would help cut the country's rising imports of LNG and Bolivian gas to meet domestic demand.

“MÁS ENERGÍA” PROGRAM

In March, 2011, during the meetings held in the context of the “Federal Agreement on Hydrocarbons”, the Governor of Neuquén, Jorge Sapag, presented a 5-year plan for the development of non-conventional oil and gas blocks in the Province for the period 2012-2016.

As part of the Neuquén's “Más Energía” Program ('More Energy' Program), the Province identified the basins for the exploitation of non-conventional crude oil and natural gas, of 4,000 and 3,200 square kilometers, respectively, in the territory of the Province.

An estimated investment of 20 billion dollars was going to be necessary for the drilling of 2,000 wells over the next 5 years, together with an adequate framework for investments, and clear rules created to encourage not only foreign investments but also local investors. Around 100 companies showed interest in the program.

During the initial session of the local legislature on March 1, 2012, the Governor Sapag proposed that the programs for the development of non-conventional hydrocarbons in the Neuquina Basin should receive financial support from the Federal Government through funds of the State Retirement Agency, known as ANSES, and the so-called “Bicentennial Fund”.

During 2013 the Province of Neuquén enacted several Provincial decrees aimed at improving the conditions for the development of unconventional hydrocarbons in the Vaca Muerta formation. It further approved an agreement between YPF and the Ministry of Energy of the Province of Neuquén, which backs the related agreement between YPF and Chevron to explore and exploit unconventional hydrocarbons in YPF's Loma La Lata and Loma Campana blocks.

Decree No. 1162/13, dated on July 18, 2013, whereby the Province of Neuquén adhered to the Investment Promotion Regime for the Exploitation of Hydrocarbons created by National Decree No. 929/13.

Decree NO. 1208/13, dated July 26, 2013, whereby the Province approved the agreement for the extension of the Loma Campana concession until 2048.

Decree No. 422/13, dated April 4, 2013, amended the Provincial Environmental Legal Framework by including the drilling of unconventional wells among the activities that require only an environmental impact report (instead of an environmental impact assessment, a proceeding that entails a public hearing).

The agreement specifically provided that:

- An area of approximately 327.5 sq/km shall be detached from the Loma La Lata North block and merged into the Loma Campana exploitation concession;
- The extension of the concession over the 395.5 sq/km Loma Campana block for an additional 22 years for the development of unconventional hydrocarbons (ending in November 2048);
- YPF's initial investment will be equivalent to US\$ 1.1 billion for a Pilot Project consisting in the drilling of 115 wells. Subject to the outcome of the Pilot Project, an additional amount of US\$ 16.5 billion may be invested.

On July 16, 2013, YPF filed before the Commission for the National Hydrocarbons Investment Plan an Investment Plan to develop unconventional hydrocarbons in the Loma La Lata-Loma Campana blocks.

On March 3, 2013, the Energy Minister of the Province of Neuquén, Guillermo Coco, announced the construction of a pipeline that would carry the production from the Aguada del Chañar field (an area operated by the Province) and the shale gas obtained from unconventional wells in blocks La Amarga Chica and Loma de la Lata Norte, operated by YPF. The project was developed by G&P, ENARSA (partner of the latter in Aguada del Chañar) and YPF.

The pipeline's construction had cost up to US\$ 40 M and it should be concluded by mid-2013 since the Province expected to connect an output of one million cubic meters of gas per day to the national system, by September/October of that year.



G&P's international tenders

On April 29-30, 2014, the Province of Neuquén represented by the G&P organized a public road show to tender oil areas in the Province. The road show took place at the Hilton Houston Post Oak Hotel, Houston, USA.

The oil blocks intended to be included in the Tender were:

- Churqui-Pampa Tril.
- Parva Negra Oeste.
- Santo Tomás.
- Portezuelo Minas (only offered the non-conventional play in the Vaca Muerta formation will be tendered, whereas the conventional play will be kept by G&P).
- Los Álamos-Señal Rocosa
- China Muera-Cañadón de las Horquetas-Loma de Las Piedras.

The event also included individual meetings with interested companies to respond to inquiries related to technical aspects of the areas, selection procedures as well as contractual aspects among other issues.

After the public road show, in August, 2014, the Government of the Province Neuquén confirmed that state-owned oil company G&P was going to call an international tender in relation to two hydrocarbon blocks overlying the Vaca Muerta formation.

The announcement was made in the midst of the debate between the Federal Government and the Federal Organization of Oil Producing Provinces regarding the controversial bill to amend the Federal Hydrocarbons Law proposed by YPF and the Federal Government. The Governor of the Province of Neuquén, a strong opponent to the bill, communicated that the tender terms shall require the investor to carry G&P's interest.

The blocks pretended to be tendered were Parva Negra Oeste and Loma Ancha, two of the ten hydrocarbon blocks that were offered early that year at the road show organized by the Province of Neuquén in Houston. The blocks were open to bids for local and foreign investors. In order to attract more investors, G&P reduced to 5% its previous 10% participating interest in the blocks.

On October 24, 2014, in order to clarify the legal source of hydrocarbon areas reserved in favor of G&P, the Province of Neuquén issued Decree No. 2406/14. By means of the Decree consolidated and confirmed in a unique decree the legal source of each reservation of hydrocarbon areas in favor of the provincial state-owned oil and gas company.

The rationale of Decree No. 2406/14 was to prevent any future misunderstanding with the Federal Government or with oil and gas companies in the light of the new article 91 bis of the Federal Hydrocarbons Law, as amended by the Law No. 27,007.

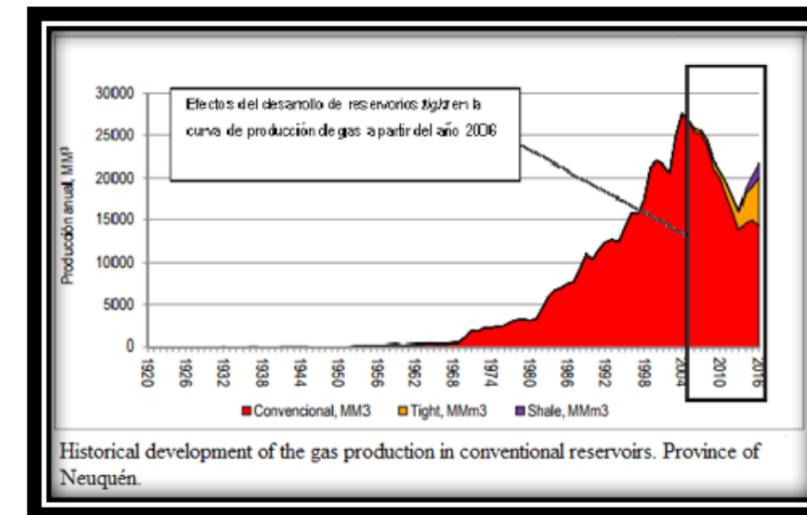
Article 91 bis prohibits the Federal and Provincial Governments to reserve –as from November 8, 2014- new areas in favor of any public entity or company, regardless of its legal structure. Therefore, the prohibition is applicable to G&P, in favor of Neuquén had reserved a significant number of areas prior to the amendment of the Federal Hydrocarbons Law by Law No. 27,007.

With respect to these areas that had already been reserved but not yet allocated under any contract, Law No. 27,007 states that the respective state-owned or controlled entity may enter into any association contract with private operators (e.g., such as joint venture agreements or UTEs), provided that their participating interest during the development phase shall be proportional to their aggregate committed and actually disbursed investments. In other words, the “carry” arrangements used by G&P were going to be permitted during the exploration stage but not during the development and exploitation stage.

On May, 2015, by means of Resolution No. 6/2015, the Federal Tax Administration granted Neuquén’s customs office the status of “Specialized Customs Office” in relation with the import of certain goods used in the hydrocarbon industry (e.g., hoses, centrifuges). This measure speeded up the imports of those goods, which under the prior regime had to be sent to a customs office in Buenos Aires for the nationalization process (i.e., the key step for importing goods into Argentina) even if the goods were imported from Chile (which is closer to Neuquén than Buenos Aires) or if there were direct flights

available for delivering the goods in Neuquén. This measure was promoted by the Patagonic Chamber of Oil Services (Cámara Patagónica de Servicios Petroleros).

As a matter of fact, on March, 2016, by means of Decree No. 191/16 the Province of Neuquén awarded the joint venture formed by G&P, Total Austral, Shell and O&G, an unconventional exploitation concession (the “UEC”) over “La Escalonada” and “Rincón La Ceniza” blocks overlying the Vaca Muerta formation, which, due to their vicinity was going to be jointly developed.



The creation of an UEC was one of key amendments that Law No. 27,007 introduced to the Federal Hydrocarbons Law. This novelty was aimed at improving the investment conditions for projects by, inter alia, extending appraisal and exploitation periods. During 2015, nine UECs were granted to develop tight and shale projects in the Province of Neuquén (La Amarga Chica and Bajada de Añelo, Loma La Lata Norte and Loma Campana, Bandurria Sur, Bandurria Norte, Bandurria Centro, Aguada Federal, Lindero Atravesado and La Invernada and Bajo del Choique).

Decree No. 191/16 awarded the concession for a 35-year term which included a pilot plan to be developed between 2016 and 2018 with an investment of US\$ 344 million. If the results lead to a commercial exploitation of the fields, the parties shall enter into the massive development phase which may include the drilling of 590 wells and an overall investment of US\$ 13 billion. Total, Shell and O&G shall also contribute to corporate social responsibility projects totaling US\$ 8,600,000. Under the nine UECs currently awarded by the Province of Neuquén until that moment, companies have undertaken pilot projects valued in approximately US\$ 4.2 billion until 2020.

“COMPRE NEUQUINO”

Those concessions come up together with some measures tending to promote the acquisition of local supplies in order to achieve a major development of the local economy. In December, 2012, the Neuquén Province enacted Decree No. 2379/12 creating a local content regime in favor of Neuquén’s providers for the acquisition and location of goods and services by the mines’ and/or liquid or gas, hydrocarbons’ permit holders or concessioners, as well as individuals or companies authorized for the prospection, exploration, exploitation, transportation, fractioning, distribution and refinement and supplemental services, and who perform their activities in provincial fields. This program was known as “Compre Neuquino” (‘Buy Neuquino’)

In November, 2016, the program was expanded and required exploration and production (“E&P”) companies and major service companies with activity in Neuquén to give priority to local suppliers with the aim of boosting local supply chain development.

The legal framework of the “Compre Neuquino” is composed of:

- Provincial Law No. 3,032 dated November 3, 2016 which amended Law No. 2,755 dated December 14, 2010 and Law No. 2,802 dated on May 21, 2012
- Supplementary Decree No. 2379 dated December 28, 2012 (“Decree No. 2379”)
- “Proceeding for the Monitoring and Control of Procurement under Law No. 2,755” dated June 1, 2014.

The Enforcement Authority of the “Compre Neuquino” is the Centro PyME-ADENEU, which stands for Center for Small and Medium-sized Enterprises – Agency for the Economic Development of Neuquén (Centro de la Pequeña y Mediana Empresa – Agencia de Desarrollo Económico del Neuquén).

E&P and major service companies must give preference to local suppliers (“Empresas Neuquinas”) when procuring goods and services ⁶, according to the following main rules:

- Such preference must be granted to local suppliers (“Empresas Neuquinas”) when their price is lower, equal or a 7% higher than the price offered by a non-local supplier, in respect of identical or similar good or service. If the local supplier is within the 7% threshold, to finally obtain the relevant contract, it shall adjust its price to the best price offered by the non-local supplier (naturally, if it finds it convenient to its economics).⁷

- Such preference is only applicable to a 60% of the “total contracted amount for each category or activity”. For instance, if US\$ 100,000 were allocated to transportation services, a 60% of such amount would be subject to the “priority” established in the “Compre Neuquino”, while the remaining 40% would be freely allocated to non-local suppliers.

- The Enforcement Authority shall assess the compliance with of the mandatory 60% on the basis of yearly periods beginning in January 1 and ending in December 31 of each year.

- The budget allocated by E&P and large service companies to the excluded goods and services do not count for purposes of assessing the mandatory 60%. For instance, if the budget for E&P is US\$ 50 million and US\$ 45 million are allocated to the excluded goods and services, only the remaining US\$ 5 million allocated to goods and services included in the “Compre Neuquino” will count for assessing the mandatory 60%. Therefore, US\$ 3 million should be allocated to local suppliers.

⁶ The service companies included in the “Purchase Neuquino” are those “contractors directly retained” by E&P companies, thus excluding any subcontractors.

⁷ For instance, if a local supplier offers US\$107,000 and a non-local supplier offers US\$100,000, the relevant E&P or major service company must grant the local supplier a kind of “right of first refusal” to reduce its offer to the same value offered by the non-local supplier (i.e., US\$100,000) without affecting the quality and scope of the offered good or service). If the local supplier rejects to do that (e.g., because it is uneconomical), then the relevant E&P or major service company may take the offer of the non-local supplier. This example was confirmed with the Enforcement Authority.

The “Compre Neuquino” benefits local suppliers (individuals or legal entities) that meet certain requirements to qualify as an “Empresa Neuquina”, including:

- The domicile and main seat of business must be located in the Province of Neuquén for at least three (3) years prior to applying for the “Empresa Neuquina” certificate.

- A fifty one (51%) of the capital stock must be owned by individuals or legal entities domiciled or registered in Neuquén. In the case of joint ventures, a 51% of it must be controlled by a local certified supplier.

- Any local company directly or indirectly controlled by non-Neuquén companies will not qualify as a local supplier (“Empresa Neuquina”).

Furthermore, to enjoy the benefits of the “Compre Neuquino”, local suppliers may submit for the consideration of the E&P companies and major service companies, a certificate issued by the Enforcement Authority that expressly qualifies the local supplier as an “Empresa Neuquina”. Such certificate must be renewed on a yearly basis. Also, E&P companies must convene local suppliers which qualify to supply the required service and are certified under the “Empresa Neuquina” certificate, to the tender and bidding offers.

The Enforcement Authority may request to the E&P companies and major service companies information and documentation, or conduct audits, regarding their compliance with the “Compre Neuquino”.

In addition, E&P companies and major service companies must upload to the website of the Enforcement Authority any call for bids for the award of a contract, work or service.

The Enforcement Authority is also empowered to issue the “Empresa Neuquina” certificate; apply penalties to companies that do not comply with Law No. 3,032; promote the improvement of legislation related to the mining and hydrocarbon sector by proposing new projects of law; publish, implement and control legislation related to this issue; take action in conciliations and arbitrations arising from the implementation of Law No. 3,032; among others.

Any company not complying with a requirement of the Enforcement Authority shall be subject to penalties. Such penalties may vary from warnings to fines ranging from 200 “ius” to 15,000 “ius” , upon conducting an administrative proceeding that guarantees the right of defense of the company.

The legal framework is going through a “learning curve”. Law No. 2,755 was recently amended by Law No. 3,032 with the purpose of (i) flexibilizing the requirements to qualify as a local supplier (“Empresa Neuquina”), and (ii) clarifying certain sections of Law No. 2,755. Currently there are sixty companies certified as “Empresas Neuquinas”. With the new amendment it is estimated that a hundred more will be able to comply shortly with the registration procedure.



“Ius” is a payroll unit established under section 8 of Provincial Law No. 1,594 which varies on an annual basis. In 2016, penalties may range from US\$ 10,472 to US\$ 785,400. In the event that the company does not reach the mandatory 60%, it may submit before the Enforcement Authority a plan detailing the objectives and points of action to be implemented in order to comply with the “Purchase Neuquino”.

VACA MUERTA’S RE-LAUNCH

In order to encourage investments by lowering production costs, on January 11, 2017, the Argentine Government announced an agreement in relation to the operations overlying Vaca Muerta, located in the Province of Neuquén.

This agreement introduced Addenda to collective bargaining agreements (the “CBAs”) applicable to oil and gas activities in the provinces of Neuquén, Rio Negro and La Pampa.

Until January 31, 2017, the oil and gas activities in the aforementioned provinces were governed by CBAs 644/12 applicable to hierarchical employees and 637/11 applicable to subordinated employees. Furthermore, such CBAs applied to conventional as well as unconventional oil and gas operations. As from January 31, 2017, non-conventional oil and gas activities are governed by the Addenda to such CBAs.

The purpose of the Addenda was to reduce costs and introduce flexibility to the application of labor provisions to unconventional oil and gas operations. The main modifications introduced by the Addenda are the following:

- **Fixed-term hiring:** The general rule for the aforementioned operations is that hiring employees will be through fixed-term contracts. The general principle in Argentina is that labor hiring is for an indeterminate period of time.
- **Interruption of projects:** In case of interruption, suspension or cancellation of a contract and/or a project, employees affected to such contracts or projects may be dismissed only with the payment of the mandatory severance applicable to fixed-term contracts (lower amounts than in case of indeterminate period of time contracts).
- **Exemption to income tax:** The amounts which, pursuant to CBAs 644/12 and 637/11, were exempted from income tax, will continue to be exempted. Further, 10% of the salaries of such employees will be exempted from income tax.
- **Dispute Resolution:** Before the initiation of direct actions that involve the interruption of the activities, the parties shall submit the issue to a special committee. It also provides for a mechanism to deal with such disputes. In all cases the union shall guarantee (a) a minimum number of employees to avoid the interruption of production, and (b) the continuation of the activity of equipment which interruption may create a risk or damage to individuals and/or the facilities.

- **Strikes go unpaid:** The employees cannot demand payment of their salaries when they go on strike.
- **Incomplete teams:** Teams should continue operating even if any of its members does not show up until the replacement arrives and for a term of 4 hours.
- **Overtime:** Employees are exempted from the maximum permitted by law (30 hours per month/ 200 hours per year).
- **Necessary staff for rigs:** Smaller staffs than the ones currently established.
- **Working hours:** Employees that are affected to the fracking process shall work up to 12 hours per day. The rest of the personnel may continue working until the completion of the activity performed. Resting hours shall not be deemed as a part of working hours. "Taxi hours" shall not be paid. (The time used for travelling from home to work and vice versa was deemed as working hours.)
- **Drilling:** Drilling can be carried during night hours. The wind speed limit for working is increased and the employer is given discretion to decide or whether to cease or not activities.

On March 6, 2017, the Government of Argentina published Resolution No. 46 that governs the new "Program to Foster Investments in Unconventional Gas Production Projects" (the "New Plan Gas").

FOLLOWING A BRIEF ANALYSIS OF ITS MOST RELEVANT ISSUES:

The New Plan Gas is available to any producer willing to develop one or more unconventional projects (tight gas or shale gas) located within the Neuquina Basin.

The producer must hold rights to the unconventional gas volumes extracted from a concession or concessions located within the Neuquina Basin and register with the Oil Companies Registry governed by Resolution No. 407/07.

The New Plan Gas has no deadline to apply and it will be in effect since January 2018 until December 31, 2021. Producers already registered under Plan Gas II (Resolution No. 60/13) may elect to migrate to the New Plan Gas before 2018.

Producers must submit an application to the Secretariat of Hydrocarbon Resources of the Ministry of Energy and Mining which must include a detailed investment program per each concession in which the project shall be developed. Each investment program must be previously approved by the relevant provincial enforcement authority (e.g., the Undersecretary of Hydrocarbons of the Province of Neuquén).

The New Plan Gas guarantees to the tight or shale gas volumes sold in the domestic market a "Minimum Price" of:

New Plan Gas	Minimum Price
2018	7.50 USD/MM - BTU
2019	7.00 USD/MM - BTU
2020	6.50 USD/MM - BTU
2021	6.00 USD/MM - BTU

With the impetus of the Addenda in May and the New Plan Gas, 2017, G&P launched its fifth public tender named "New Horizons Plan" for several hydrocarbon blocks reserved by the Province of Neuquén for G&P to enter into exploration contracts with other private companies. The minimum investment commitments for each of the tendered blocks were the following:

Block	Working Units ⁹
Aguada de Castro Oeste I y II	2775
Baja del Toro Este	2730
Cerro Arena Sur	5600
La Tropilla I	3000
Las Tacanas Norte	2900
Parva Negra Oeste	2880

The concerned party previously had to sign a confidentiality agreement (annexed to the bidding terms) and pay US\$ 10,000 plus VAT for each block of interest.

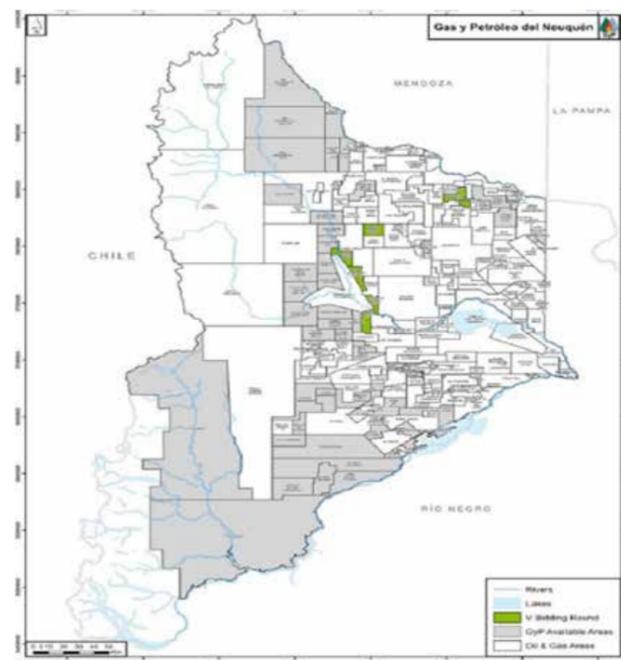
The Schedule for this fifth round was the following:

Submission and opening of tenders - September 14, 2017.

Selection and pre-awarding - from 15 to 28 September, 2017.

Award – October 4, 2017.

Contract signing – until October 24, 2017



The following step the Province of Neuquén made was on July 21, 2017. On that date, the Province of Neuquén adhered to Federal Law No. 27,328 on Public-Private Partnership Contracts (“PPP Contracts”) through the enactment of Law No. 3,074.

Pursuant to the Local Law, PPP Contracts are contracts entered into between entities belonging to the provincial public sector and private or public entities acting as contractors for a large array of purposes, including the design, construction, extension, enhancement, supply, exploitation and/or operation and financing of the development of infrastructure, housing, services or other activities, productive investments, applied investigation, technological innovation and associated services. The PPP scheme

constitutes an alternative to the execution of public contracts currently governed by Provincial Laws No. 687 and 1820 on public works and economic emergency, respectively, and Provincial Law No. 2,141 and Decree No. 2758/95 on public contracting. Public services associated to the project shall be governed by their specific regulatory frameworks.

Below, is a description of the Law’s main provisions, which substantially replicate those of Federal Law No. 27,328:

- When structuring projects under the PPP scheme, the contracting party shall, inter alia:
 - a) specify the public interest pursued and the mechanisms to control the performance of every stage of the project; and b) establish the life of the PPP Contract in accordance with the investments made into the project, its financing and the reasonable revenue derived thereof. In all cases, the life of the PPP Contract shall not exceed 35 years, including its extensions.
- Payments and other obligations assumed by the contracting public entity must be consistent with the provincial fiscal and financial programs.
- PPA contracts must include a set of minimum provisions that include among others:
 - The contractual term and any possible extensions;
 - An equitable distribution of the contractual risk;
 - The parties’ obligation;
 - The contractual monitoring mechanisms, the penalties for breach of contract and the respective procedure for their application and enforcement;
 - The form of remuneration of the project and mechanisms of adjustment;
 - Technical requirements of the project;
 - The contributions to be made by the contracting entity during the life of the project;
 - The contracting entity’s power to unilaterally amend the contract, which shall never exceed 20% of the original value of the contract;
 - The performance guarantee to be posted in favor of the contracting party;
 - The ownership regime of the project assets, and the timing and conditions of reversion to the public sector, if applicable;
 - Events of default and termination of the agreement;
 - Change of control regime;
 - Right to assign or transfer the contract to a third party, either in part or in full, provided that the assignee meets the conditions required to be a contractor and either 20%, at least, of the contractual term has expired or 20%, at least, of the committed investments have been made. The contractor’s right to assign the PPP Contract shall be subject to the acceptance of the lenders and guarantors, the authorization of the contracting agency and the prior intervention of the PPP Unit (as defined below);
 - The right to suspend performance of a party’s obligation in case of default by the other party
 - Dispute resolution mechanism.

- In case of termination of the PPP by the contracting party due to opportunity or convenience reasons, it is required to pay to the contractor the 100% of the applicable compensation prior to taking control of the assets. In all cases, financing applied to the development of the project must be repaid.
- Parties' liability shall be governed by the Law and its supplementing regulations, the respective bidding terms and the PPP Contract. The Civil and Commercial Code and Provincial Public Law shall apply in respect of matters not covered by the Law.
- The contractor shall be selected by public action. In the case of the supply of goods or services under PPP Contracts, the respective bidding terms must require that such goods and services include local components. The rules and preferences provided for under Law No. 2,755 (Compre Neuquino) shall also apply. The Provincial Executive Branch is empowered to grant exceptions to this requirement by a justified decision.
- The selection process under the PPP scheme must be compatible with the private initiative regime.
- With regard to dispute resolution, any dispute arising out or in connection with the PPP Contracts and their respective bidding terms shall be subject to Provincial Law No. 1,284 on administrative proceedings and the Provincial Code on Administrative Procedure.

Finally, the Law provides that the Provincial Executive Branch shall create a Public Private Partnership Unit (the "PPP Unit"), with the aim of (i) centralizing all regulations on PPP Contracts; (ii) providing consulting, operational and technical support to the other public agencies at the stage of design of the project, preparation of the bidding documents and performance of the PPP Contract; and (iii) advising the Provincial Executive Branch in the creation of programs to promote PPP projects; and in the drafting of supplementing regulations, among other functions.

TAXES

MOST RELEVANT TAX LAW REFORMS IN NEUQUÉN

STAMP TAX

With the purpose of increasing the provincial revenues, the authorities of Neuquén sent in November, 2009, a bill to the local legislature to implement a tax reform that, if was passed, would result in significant tax increases for the majority of the economic sectors in such jurisdiction.

The bill contemplated substantial increases in the local gross turnover tax rates as well as changes in the stamp tax rules relating to contracts entered into between absentees (i.e. contracts implemented by means of an exchange of letters that meet certain requirements). In order to avoid future administrative and judicial disputes in connection with these types of contracts, used frequently by oil and gas companies, these contracts will be specifically subject to the 1.4% stamp tax rate that was currently applicable in Neuquén. In addition, under the bill, VAT would be included in the taxable base for stamp tax purposes.

Court rulings in re “Shell Compañía Argentina de Petróleo S.A. c/ Neuquén, Provincia del s/acción de inconstitucionalidad”, “Yacimientos Petrolíferos Fiscales S.A. c/ Tierra del Fuego, Provincia de s/acción declarativa de inconstitucionalidad” and “Transportadora de Gas del Sur Sociedad Anónima (TGS) c/Santa Cruz, Provincia de s/acción declarativa de certeza” had concluded that the stamp tax was inapplicable in relation to contracts entered into between absentees. The bill was from the begging seeking to reverse the outcome of the court’s ruling.

Despite of the differences with Supreme Court’s standards, the Legislature of Neuquén, on December 18, 2009, passed the new Fiscal Code of the Province of Neuquén Law No. 2,680 and the Tax Law No. 2,681. In that context, the Executive

Branch of the Province decided to revise the stamp tax regime applicable to purchase and sale transactions of crude oil and natural gas, in order to increase the use of written instruments signed by both parties of such transactions within the territory of Neuquén. This is because to avoid the application of stamp tax, many contracts are perfect through mechanisms of implied acceptance in which the parties do not sign the same instrument.

Decree No. 1748/10 dated September 16, 2010, which amended Decrees No. 786/98 and 2450/96 sets forth, among other provisions, the new stamp tax rate applicable to sale and purchase contracts executed as from January 1st, 2010.

Taxpayers that seek to benefit from the new rules must file an affidavit requesting for the application of the new regime, and assume an engagement to execute all future contracts included in the intervention and signature of the parties. The following are the modifications to the previous stamp tax regime included in Decree No. 1748/10:

- A total exemption of the stamp tax for services agreement related to hydrocarbon activities in the exploration stage: taxpayers willing to opt for this regime must file a certification issued by the Undersecretary of Hydrocarbons and Energy of the Province to provide evidence on the execution of such services agreement during the exploration phase. The current rate is 14%;



- A partial exemption of 64.286% applicable to sale and purchase agreements of crude oil and natural gas, methane, ethane, propane, butane, gasoline and condensate, sale agreements, costs, expenses and investments related to hydrocarbon activities and transportation agreements related to such activities. The partial exemption represents a 9‰ reduction with respect to the currently applicable stamp tax rate of 14%;
- A partial exemption of 50% in connection with services agreements for hydrocarbon activities performed during the exploitation phase. The partial exemption implies a 7‰ reduction with respect to the currently applicable stamp tax rate.

Those hydrocarbon services reached by the new regime include inter alia geophysical activities (geological studies, gravimetry and seismic); drilling services; fluid control services; fishing tools services; repair and maintenance of drilling equipment services; cementing and workover services; O&M of natural gas compressors services and environmental protection services for hydrocarbon exploration, exploitation and transportation activities. Transportation services include hydrocarbon transportation from the well, pipeline transportation services of crude oil and natural gas; services of supply, assembly and operation of compression facilities; chemical treatment for pipeline, etc.

According to the new stamp tax regime taxpayers shall choose between payment in cash within 90 days as from the execution of the relevant agreement or payment through monthly installments throughout a maximum 24-month period or the term of the relevant agreement, whichever is shorter. Monthly installments of the tax should be subject to the interest rate determined by the Provincial Tax Bureau. The termination of the Agreement by any cause duly informed to the Provincial Tax Bureau should exempt the relevant taxpayer from having to pay any pending installments.

Decree No. 1748/10 also ratified the provisions of Decree No. 2450/96 in connection with those agreements executed between Electricity Generator Companies and Electricity Wholesale Market companies as from January 1, 2010. Decree No. 2450/96 establishes a stamp tax exemption for those agreements and also provides that electricity supply agreements entered into by hydroelectrical or thermoelectrical generation companies located within the Province with a life of more than 24 months are subject to payment of stamp tax through monthly installments.

This special regime did not modify the treatment currently given to agreements executed through offer letters with tacit acceptance with respect to application of stamp tax according to recent Supreme Court's decisions on the matter.

By means of Law No. 2,896, published in the Official Gazette on January 3, 2014, the Province of Neuquén amended, inter alia, Section 263 of its Tax Code, clarifying that the term for paying stamp tax on hydrocarbon exploration and exploitation contracts begins on the earlier of (i) the publication in the Official Gazette of the provincial decree approving the contract, or (ii) the notification of the approval of the contract by any other reliable means.

Despite the strict regulatory framework for stamp tax, on December 12, 2014, Provincial Decree No. 2708/14, exempted all legal acts, contracts and operations implemented by provincial state-owned oil and gas company, G&P, from the Provincial stamp tax as of December 1, 2014.

HYDROCARBONS TRANSPORTATION RATE

On September 10, 2010 the province of Neuquén created a transportation control rate for oil and gas under Commercial Conditions (the "Hydrocarbons Transportation Rate"), by means of Law No. 2,718.

The Hydrocarbons Transportation Rate shall be paid annually by those companies carrying hydrocarbons under commercial condition through transportation facilities, which control and monitoring are subject to provincial jurisdiction.

The taxable base of the Hydrocarbons Transportation Rate is the total amount net of royalties payable by producers in connection with freight of hydrocarbons from treatment plants to the relevant point of transfer to pipelines and/or the final delivery point facilities located within the territory of the Province.

The applicable rate will be determined by the enforcement authority between a range of one point five percent (1.5%) and four percent (4%) of the amount fixed as taxable base. The enforcement authority will be the Natural Resources Secretariat of State of the Province of Neuquén.

TAX LAW NO. 3,035

On January 6, 2017 the new Tax Law No. 3,035 of the Province of Neuquén was published in the Provincial Official Gazette. Section 47 of the Tax Law, establishes the fees to be charged by the Energy, Mining and Hydrocarbon Undersecretariat for hydrocarbon activities in the Province. Prior Tax Law No. 2,982 did not include hydrocarbon activities fees.

THE FEES INCLUDE:

- Request for a non-conventional hydrocarbon concession - AR\$ 250,000 (approximately US\$ 16,500);
- Assignment of a participation interest or rights in concessions or permits- AR\$80,000 (approximately US\$ 5,250);
- Request for exploration permit - AR\$100,000 (approximately US\$ 6,600);
- Request for approval of UTE agreements addendums - AR\$30.000 (approximately US\$ 2,000);
- Exploration well permit – AR\$7800 (approximately US\$ 500).

MOST RELEVANT COURT DECISIONS ON TAX MATTERS

“Apache Energía Argentina v. ENARGAS Dto. 2067/2008”

On February 3, 2012 the Federal Court of Neuquén granted an injunction to Apache suspending the application of Decree No. 2067/08 and the ENARGAS’ Resolutions.

Federal Judge Pandolfi made an exhaustive analysis of the economic impact of the application of ENARGAS’ Resolutions and concluded that their suspension should be ordered until final decision on the merits is reached.

Apache had requested the Federal Court of Neuquén to order the ENARGAS and other agencies to suspend the application of the ENARGAS’ Resolutions on grounds of the likelihood of success of the constitutional challenge and the irreparable damage that they would cause to Apache.

“Apache Energía Argentina S.R.L. v. Provincia del Neuquén”

On December, 28, 2010, the Federal Supreme Court ruled in favor of Apache Energía Argentina in a declaratory judgment action filed against the Province of Neuquén, seeking to obtain a ruling declaring the unconstitutionality and inapplicability of Article 95 of the Provincial Constitution, Provincial Law No. 2,453 (in particular, Article 62), Provincial Decree 3124/04, and the last paragraph of Article 2 of Resolution SE 188/93.

Apache Energía Argentina argued that these rules were unconstitutional because the Province of Neuquén relied on them to include within the computable natural gas production for calculating royalty payments, those volumes of natural gas used by Apache Energía Argentina for exploration and exploitation purposes. According to the company, that gas cannot be considered for royalty payments purposes because it violates Federal Law No. 17,319, Federal Decree No. 1671/69, Resolution SE 188/93, and Articles 17, 19, 31, 75.12, 75.18, 75.19, and 124 of the Federal Constitution.

“Petrobras Argentina S.A. v. Provincia de Neuquén”

On July 7, 2015, the Federal Supreme Court granted an interim measure against the Province of Neuquén preventing the application of a gross revenue tax determination imposed by the Province on Petrobras for production of hydrocarbons extracted in Neuquén but refined and marketed outside the Province.

On October 7, 2013, the Tax Agency of the Province of Neuquén issued Resolution No. 532/DPR/13 imposing on Petrobras the duty to pay gross revenue tax for its hydrocarbons production activities in the territory of Province of Neuquén regardless of whether they were marketed or not in the Province.

Petrobras challenged such Resolution by filing a declaratory judgment action. The company argued that through the Resolution the Province of Neuquén was creating a new taxable event by taxing hydrocarbons that were extracted in Neuquén, but later transported, refined and marketed outside of Province. Petrobras additionally requested an interim measure to prevent the application of the tax on its activities pending the determination of the dispute.

The Federal Supreme Court held that, even though the admissibility of interim measures concerning tax matters are restrictive, in this particular case, it was relevant to determine the Province’s competence and jurisdiction to request the payment of such tax on the Company’s activities. Consequently, it stayed Resolution No. 532/DPR/13 until the merits of the claim are decided.

OTHER ENERGIES

Mining as one of the oldest ways to produce energy, and renewable energies as a newer and cleaner way to produce energy are the center of this section. Renewables have grown rapidly in recent years, accompanied by sharp cost reductions, and Argentina is adjusting its regulations to not be left behind.



HYDROELECTRIC FACILITIES

During June, 2008, the Governor of the Province of Neuquén announced a Public Call for Bids for the construction of the “Chihuido I” dam over the mid-section of the Neuquén River. The project includes a hydroelectric facility of 478 megawatts (MW) which would help to control the flooding of the Neuquén River.

The investment required for the construction of the “Chihuido I” dam has been estimated in US\$ 900 million. The bidding terms established the investor to enter into an agreement with the Grid Administration Company (“CMMESA”) through which the investor is required to sell the electricity to the national grid.

The project includes the construction of a lake of 17,000 hectares (41,975 acres) and the relocation of three towns located in the Province of Neuquén: Quili Malal, Villa del Agri and Agrio Medio.

Through Law No. 2,948, published in 2015, the provincial Legislature approved the Framework Agreement for the Chihuido I Multipurpose Project. The Chihuido I Agreement was signed on December 2, 2013 by the National Government, the Province of Neuquén, Banco de la Nación Argentina, Nación Fideicomisos S.A. and CMMESA.

In accordance with its recitals, the Chihuido I Agreement reinforces the interest of the National Government to develop and foster hydro power plant projects in that area and provides for the development of the actions required to complete the Project, including (a) an undertaking of the National Government to (i) carry out the bidding process for the Project, (ii) guarantee the performance of the power purchase agreement to facilitate the financing of the Project; (iii) promote the procurement of financing for the Project, obtain financing and issue the required guarantees; and (b) a commitment that upon completion of the construction and upon the expiration of the operation and maintenance term to be agreed with the awardee, the facilities and operation of the Project shall be transferred to the Province of Neuquén.

Law No. 2,948 declares of public utility and subject to expropriation the relevant areas involved in the Project and it authorizes the Provincial Executive Branch to expropriate the necessary lands (Article 2). Moreover, it authorizes the Provincial Executive Branch to amend the provincial budget or carry out such budget re-allocations (Article 3) as may be necessary to comply with the provisions of the Chihuido I Agreement.



MINING

On November, 2009 the Legislature of the Province of Neuquén approved Law No. 2,682 which main purpose was to provide incentives to investors of the mining industry in the Province. The bill regulates inter alia open-sky mining projects and several environmental control mechanisms.

Many environmental organizations reacted against this bill, because they considered that the environmental controls created thereby are either too flexible, or impossible to be implemented.

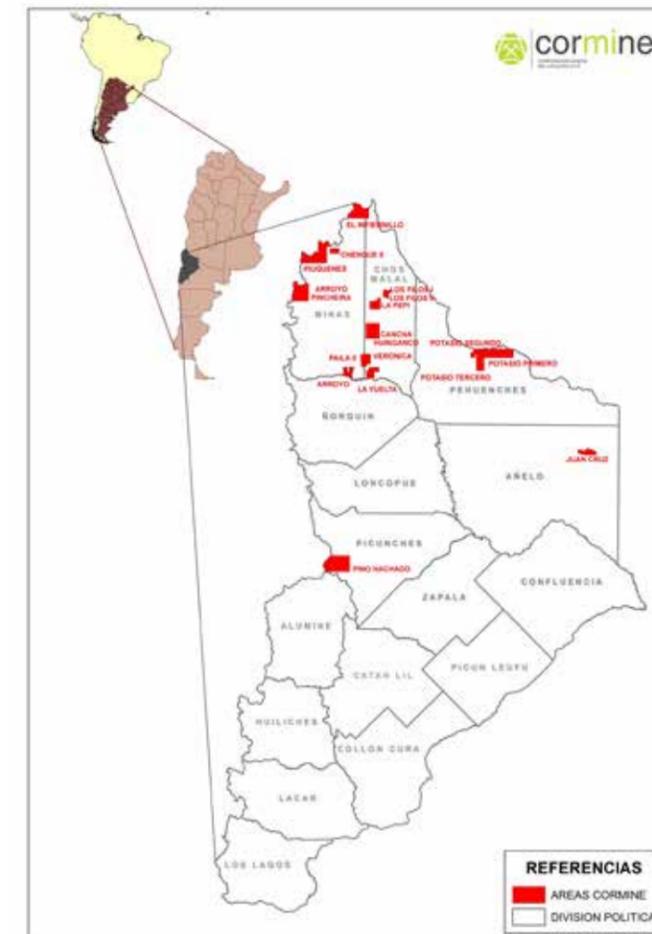
The provincial state-owned mining company “Corporación Minera del Neuquén – CORMINE” owns several mining areas distributed among more than one hundred thousand hectares. In such areas, it has carried out eleven prospect metalliferous discoveries and is planning to increase seismic surveys in the area in order to obtain more precise geological information. Future call for bids in connection with these areas are expected to fall into the provisions of the new mining bill.

In June 2011, a bill seeking for the application of the buy Neuquino regime for procurement and services contracts related to the Chihuido hydro project was analyzed in the Legislature of Neuquén.

The bill aimed to expand the scope of the Provincial Law No. 2,683, which established the priority of local vendors of services and products related to public works and investments, to certain projects to be executed in the Province that involve large investments, including the Chihuido II Project and the construction of a railway system for transportation of potassium from the Rincon de los Sauces area within the provincial territory.

The Chihuido II Project is a hydroelectric and agro-industrial project involving the construction of a hydroelectric generation dam with an average annual generation capacity of 1,052 GWh., and an irrigation system that may benefit the development of an industrial and agricultural area of 7,000 hectares near Plaza Huincul and Cutral-Co.

The bill reflected a request made by the local chamber of construction companies that seek to obtain a participation in the large works to be carried in the Province in the next years, and includes the application of fines in the event of non-compliance with the minimum level of hiring of local vendors.



RENEWABLE ENERGIES

On June 4, 2016, the Province of Neuquén passed Law No. 3,006, which established the regulatory framework for energy distribution within its territory. The Law sets forth the regulatory, contractual, technical and economic conditions for users of medium and low voltage electricity distribution networks, to connect their own renewable energy units to such networks. Hence, electric users that plug their units into the distribution network will be able to inject their renewable energy surplus through their interconnected devices.

With this regulation, the Provincial Government intends to establish differential tariffs in order to promote renewable energy generation through a self-sufficiency system, allowing families, commercial industries and building owners to install solar panels or wind systems for their own energy supply. Users would also be able to recover their investments in solar or eolic equipment, by selling their energy surplus generated at a lower price.

Following Santa Fe, Salta and Mendoza, Neuquén is the fourth Argentine Province to create a regulatory framework for the promotion of renewable energy distribution that, apart from diversifying the power energy generation matrix, avoids energy losses caused by long-distance transmissions.

In order to inject their energy surplus, users must request the connection to the local distributor at the interconnection point, and submit to the specific technical terms and conditions, bearing all costs. Users shall also sign a Power Purchase Agreement with the distributor, after the latter approves their project.

The Ministry of Energy, Public Services and Natural Resources of Neuquén – will establish the price of the electricity generation from renewable sources, and the compensation and payment outline to users. Further, the energy power transfer will create a credit to the user, notwithstanding their obligations as an electric user towards the distributor.

The Law entrusts to local electricity distributors the surveillance of the users' devices in order to comply with the standards provided by the regulation.

Further regulation is expected to establish long-term credit lines for electric users to facilitate the purchase of renewable energy generation equipment, either through the Provincial Government or through public and private banks.

ENVIRONMENT AND INDIGENOUS PEOPLE

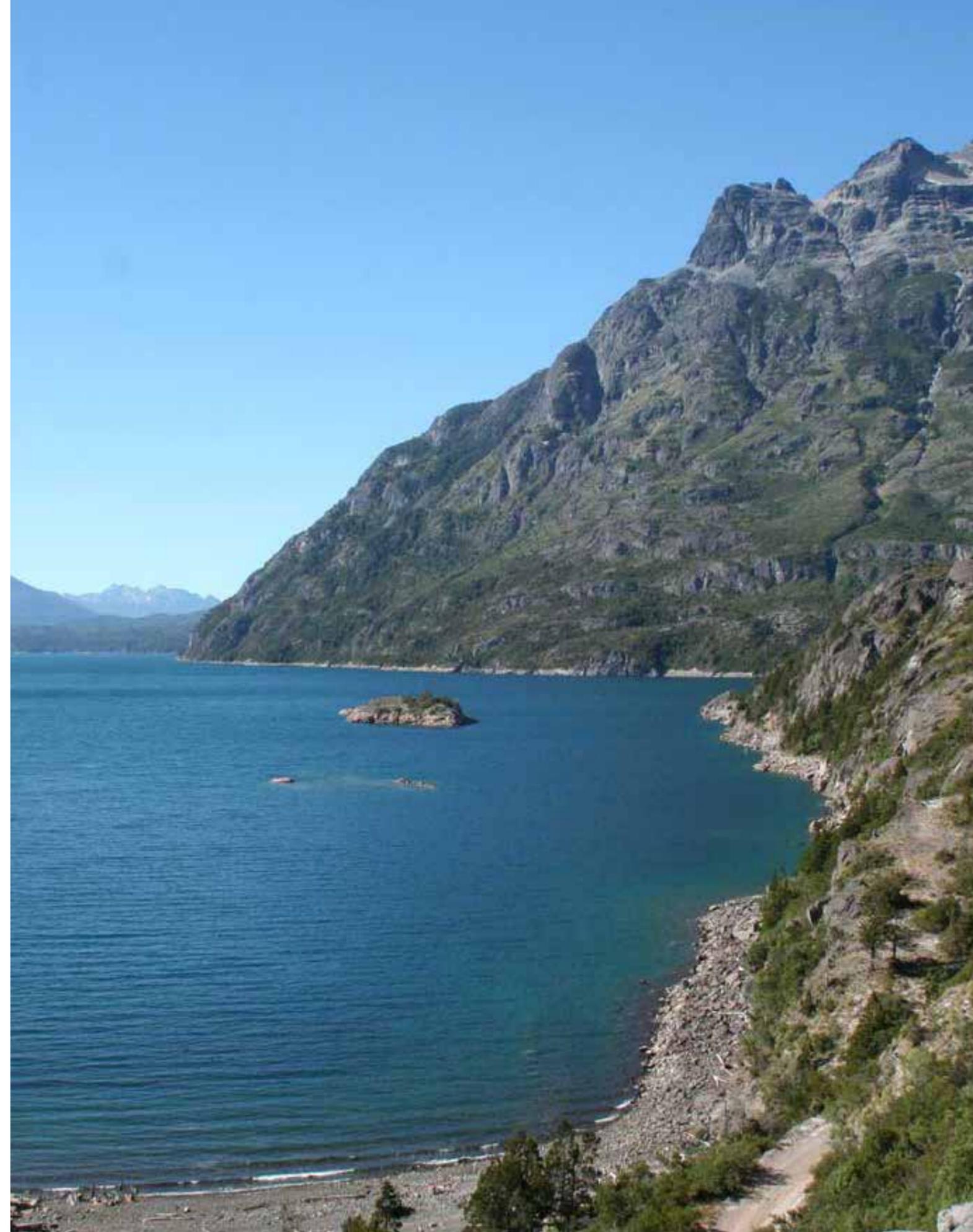
The interest on foresting hydrocarbon investments both in Argentina and in Neuquén, has been taken with responsibility since many environmental measures has been adopted in the past 10 years. In this section, you will be able to read the most relevant news about environmental matters in Neuquén.

MOST RELEVANT ENVIRONMENTAL LAW REFORMS IN NEUQUÉN

ENVIRONMENTAL HYDROCARBONS LAW

On July 31, 2008 Neuquén issued the Environmental Hydrocarbons Law No. 2,600 that requires hydrocarbon companies operating in the Province to request an “Environmental Aptitude Certificate” from the Province’s Undersecretary of Environment. Its Regulatory Decree established that companies must apply for the certificate within 90 days from its effectiveness, by filing:

- The Annual Environmental Monitoring Report required by Resolution No. 25/04 of the Energy Secretariat, and
- An affidavit of the Annual Environmental Management Plan for each block of the concession, which must describe the proposed measures to prevent, repair and minimize any negative environmental impacts caused by the operations.



COMPANIES STARTING ACTIVITIES IN THE PROVINCE MUST FILE WITHIN 180 DAYS:

- The Annual Environmental Management Plan for each block of the concession, and
- A First Environmental Assessment describing the concession area's environmental condition.

The monitoring of the activities aforementioned must be performed by the Province or by the Municipalities that sign an agreement with the Province. Every three months they will issue a record of the environmental control performed, indicating the degree of compliance with the Annual Environmental Management Plan. Any violations of the provincial environmental rules that are identified must be reported to the Enforcement Authority. Once the certificate is granted, it must be renewed annually, upon payment every January of the Environmental Tax created by the law and the filing of the relevant updated reports. The certificate obtained and any other environmental licenses that the companies' hold must be registered at the "Registry of Environmental Control of the Hydrocarbon Activity".

The Environmental Tax is used to finance the monitoring tasks and will be calculated on the basis of a series of items:

- The size of the concession: AR\$ 0.10 per concession hectare
- The number of wells: AR\$ 300 per well in activity; and AR\$ 200 per inactive well
- The annual volume of oil and gas that is extracted: AR\$ 0.30 per cubic meter of oil marketed per year, and AR\$ 0.00005 per cubic meter of natural gas
- The volume of soil remediation performed: AR\$ 1 per cubic meter of treated material will be charged. (US\$= AR\$ 19.40). This year's tax will be calculated pro rata to the remaining portion of the year. The Decree did not regulate Article 7 of the Law regarding the consequences of the failure to obtain the certificate.

The Legislature of Neuquén approved Law No. 2,735 that amends articles 12 and 13 of the aforementioned Law No. 2,600. As said, Law No. 2,600 regulates the obligation to pay an environmental control fee for hydrocarbon activities. This Law establishes the obligation of the authority to determine the amount of this fee.

This delegation of authority by the Legislature was challenged by oil and gas producers before local courts. As a result, the Superior Tribunal of the Province declared unconstitutional Article 13 of Law No. 2,600 and suspended its application through a ruling issued on October, 2010.

To secure the implementation of the environmental control fee and avoid any further objections to Law No. 2,600, the enacted Law No. 2,735 establishes the sums to be paid by hydrocarbons producers for the financing of activities of environmental control and remediation.

PURSUANTTOLAWNO.2,735,THEFOLLOWINGANNUALRATESWEREESTABLISHED:

AR\$ 0.50 per hectare of exploration permit or exploitation concession;

AR\$ 400 per active well;

AR\$ 300 per inactive well;

AR\$ 0.50 per m3 of total annual volumes of crude oil in commercial conditions delivered for sales or transportation;

AR\$ 0.00007 per m3 of total annual volumes of gas in commercial conditions delivered for sales;

AR\$ 1 per m3 of material treated or to be treated in soil remediation works.

REGULATION FOR WORK-OVER, PULLING AND DRILLING OPERATIONS

Dispositions No. 111 and 127 of the Undersecretary of Environment of the Province of Neuquén, published in 2010, established certain requirements for work-over, pulling and drilling operations.

According to the referred dispositions, all hydrocarbon companies performing work over, pulling and drilling operations within Neuquén must use organic oleophilic blankets under the relevant equipment to assure the capture of all kind of discharges or fluid spills.

The operations using the dry location system with water-based muds are excluded from the provisions of the dispositions.



PROCEDURES FOR EXPLOITATION AND EXPLORATION OF UNCONVENTIONAL RESERVOIRS

On August, 2012 the Province of Neuquén issued Decree No 1483/12 which approved applicable rules and procedures for the exploration and exploitation of unconventional reservoirs in order to prevent, mitigate and minimize environmental impacts that may result from unconventional drillings in relation to Shale Gas, Tight Gas, Shale Oil and Tight Oil.

Section 3 of the above mentioned decree states that all unconventional exploration and exploitation projects must obtain a prior environmental license before execution. The permit or concession holders must file an environmental report, which shall contain the requirements detailed below:

- Description and process of the flow back treatment system;
- Sworn statement regarding fluids compounds;
- Prior validation by the Undersecretary of Mining and Hydrocarbons;
- Authorization to use and dispose water;
- Environmental Risk Assessment (if requested by the Authority).

Additionally, the permit or concession holders must submit an affidavit with an estimate of the water volume it plans to use. The decree sets forth that the flow back must be subject to a special treatment to guarantee the hydrocarbon industrial reuse of water, irrigation use or disposal wells sinks.

In addition, Section 14 compelled companies to present to the environmental authority the physical – chemical analyses of the flow back and mandated the submission of six-month plans for unconventional drilling.

On September, 2012 Neuquén Investment Promotion and Development Agency (ADI-NQN S.E.P.) launched a public call for tenders of investors interested in developing proposals for the award of an exploration contract to discover and produce geothermal resources in the areas of “María Victoria” and “Maitena” mines in Domuyo, both of which are property of the Agency.

Scope: The successful bidder awarded the exploration contract will have the right to exercise the option, according to the terms and conditions established in the documentation, to exploit the minerals discovered for a period of up to twenty five (25) years and will sign a concession contract with the Agency to build and operate one or more geothermal plants to generate and subsequently market electricity within the Argentine Wholesale Electricity Market.

Key Aspects: Bidders must include minimum requirements in their offer such as the geological-mining plans, whose period of development shall not be less than two (2) years nor larger than four (4) years counting as from the date the contract is awarded. When drawing up their plans, bidders must take into consideration the technical background, as it refers to the work already carried out by the Province in the mining area, as well as technical standards. Other requirements are the investment commitment including every aspect and the amount to be paid to the Agency for the right of use of the mine properties.

Since 2012, the Province of Neuquén has been rejecting and suspending the re-drilling of existing conventional wells to be used in unconventional operations, a technique that several companies have started to implement in relation to the Vaca Muerta play. The main reason underlying this policy is the environmental risk associated with inappropriate well casing that may result from unconventional drillings in relation to Shale Gas, Tight Gas, Shale Oil and Tight Oil.

Pursuant to the environmental regulation, Decree No. 422/13 (March, 2013) created a list of activities that required approved environmental impact reports. The following oil and gas upstream activities were included: conventional and unconventional development wells; exploratory conventional and unconventional wells located inside a developing area; all kind of facilities (batteries, pipelines, inter-connection pipelines, injection wells, extraction wells); seismic activities carried out within the area; road infrastructure; aqueducts, pools, water storage; storage, trading and transport of fossil fuels; oil storage, petrochemical products storage; and Industries related to oil and gas activities.

ENVIRONMENTAL PENALTIES

On August 9, 2013 the Legislature of the Province of Neuquén enacted Law No. 2,863 and introduced modifications to Law No. 1,875 for the Preservation, Conservation and Protection of the Environment. Law No. 2,863 established an increase of the maximum penalty for environmental contamination. As a result, the penalty had been increased 60 times, from AR\$ 100,000 to AR\$ 6,2 million (approximately US\$ 1,1 million). Law No. 2,863 also established fees rates for inspections carried out by the appointed enforcement authority, the Environmental and Sustainable Development Secretariat.

On August 20, 2013, provincial Legislator José Rioseco presented a bill that created an environmental fee for the contamination caused by any type of gas emissions in both conventional and unconventional hydrocarbons operations. This bill was supported both by the ruling party and the opposition.

Pursuant to Section 3 of the bill, the fee applies to any individual or legal entity that either owns, holds a permit, license or concession in any activity of the hydrocarbon industry, or activities related thereto, such as exploration, production, transportation, refining, distribution, gas separation, thermal power generation, gas fractionating, petrochemical activities, storage and marketing.

Section 4 provides that the fee for environmental pollution shall be calculated on the basis of the volumes of either fuel or non-fuel gas, whatever their composition, originating from fugitive emissions, venting emissions and/or combustion emissions. The applicable rate to these gas volumes is equivalent to 6 times the weighted average price received for gas sales at the pipeline head in the Province of Neuquén.

All types of fuel and non-fuel gas emissions into the atmosphere shall be communicated to the enforcement authority through monthly submission of affidavits. The failure to report them, at any stage of the hydrocarbon activity, shall be considered a serious offense and will be fined according to the penalties set forth in Article 6 of the bill.

According to the preamble of the bill, its purpose is to “promote a legal tool that will allow to eliminate an unreasonable practice and to avoid wasting resources; to discourage ancient practices; to promote the use of advanced and environmentally friendly technologies that are already used in the international market, but above all, and after many years of emissions into the atmosphere, the aim is to induce a culture of environmental care where all the responsible agents. Assume the environmental costs without any exception, as it occurs in many countries throughout the world”.

The purpose of the environmental legislative bill of the Province of Neuquén for unconventional operations, is to set forth the principles for the efficient use of resources and for the prevention and reduction of environmental impacts and potential risks resulting from hydrocarbon exploration and production in unconventional reservoirs of shale gas/oil, tight gas/oil and natural coal gas in the Province of Neuquén.

Through the bill, the Province seeks to stimulate and foster the extraction of its energy resources, and accordingly sets forth requirements to protect the environment. The guidelines for the Director Plan of the Neuquina Development, expressly establish the objective to “foster the production of Gas, exploring areas of tight sands and low porosity fields”.

THE BILL ESTABLISHES SEVERAL ENVIRONMENTAL REQUIREMENTS FOR WELL DRILLING PROJECTS IN UNCONVENTIONAL RESERVOIRS, INCLUDING:

- The filing of an environmental report to qualify for an environmental license granted by the Environment and Sustainable Development Secretariat (Secretaría de Ambiente y Desarrollo Sostenible) ;
- The submission of affidavits for well drilling and completion;
- The submission of project infrastructure environmental planning, for the purposes of minimizing the impacts;
- Compliance with Law No. 899 and its implementing Decrees Nos. 790/99 and 831/93 regarding the use of water;
- Prohibition to use storage pits for hydraulic stimulation, drilling wastes and flowback;
- Prohibition to discharge flowback into surface bodies of water and aboveground storage;
- Utilization of a treatment system that is in accordance with Law No. 899 and its implementing Decree No. 790/99, and Federal Law No. 24,051 and its implementing Decree No. 831/93, when flowback is reused for: hydrocarbon operations, irrigation associated with a productive project or an environmental remediation of the project area (projects must be approved by the enforcement authority), or final disposition in a well sink (pozo sumidero).

The bill also orders the creation of a Registry of Products and Chemical Substances employed in the process of exploration and production of unconventional resources through hydraulic stimulation, that will function in the area of the Environment and Sustainable Development State Secretariat, and establishes that the enforcement authority may order any measure aimed at guaranteeing the protection of natural resources and human life, including, without limitation: establishing restrictions and identifying areas of high environmental vulnerability.

EMERGENCY LAW ON WATER RESOURCES

On June 14, 2017, the Province of Neuquén passed the Emergency Law on Water Resources No. 3,076 by means of which it declared the environmental alert in relation to all water courses and aquifers of the Province of Neuquén for 5 years. Law No. 3,076 aims at identifying, evaluating and resolving all possible threats to the water heritage of the Province.



THE LAW NO. 3,076 APPOINTS THE UNDERSECRETARIAT OF WATER SERVICES AS THE ENFORCEMENT AUTHORITY THAT SHALL BE EMPOWERED TO:

- Require the competent provincial and municipal agencies to control the activities included in Annex I of the Law No. 3,076
- Take all necessary measures to preserve the water quality within the territory of the Province
- Control the level of water courses and aquifers in the Province and declare the environmental alerts according to the parameters established by international environmental indicators.

Furthermore, according to article 19 of this Law, industrial and commercial establishments and public and private entities that produce wastewater that may contaminate the surface water and groundwater of the Province, shall adjust the quality of their discharges to the indicators or emission levels established by the current legal framework. In addition, Section VII of the Law bans pluvial and rainwater discharges to the sewage system.

Law No. 3,706 creates an Emergency Committee on Water Resources that shall elaborate a Comprehensive Strategic Plan of Alert. This Plan shall consist in developing systematic programs for the monitoring of the water quality, in order to verify the compliance with the environmental indicators established by the current legal framework.

Also, Law No. 3,076 creates the Fund for the Strategic Plan that aims at financing the fulfilment of the Plan and works for the preservations and recovery of the environment. The Fund will be financed by annual specific budgetary allocations to be established by the Administrative Branch of the Province, extraordinary allocations and fines collected by the Undersecretariat of Water Services, among other financial sources.

Finally, establishes penalties for the non-compliance of the regulations provided thereby or in the regulatory framework to be issued by the same Undersecretariat.

MOST RELEVANT COURT DECISIONS ON ENVIRONMENTAL AND INDIGENOUS PEOPLE MATTERS

“PETROLERA PIEDRA DEL ÁGUILA S.A. V. MAPUCHE COMMUNITY OF HUENTRU TAEWEL LEUFU”

In 2009, a decision of Court No. 2 for Civil, Commercial, Executive, Labor and Mining affairs of the City of Cutral-Có, Neuquén rejected a summary action brought by Petrolera Piedra del Águila S.A., the holder of a hydrocarbon concession granted by the Provincial Executive (the “Concessionaire”). The amparo action was initiated in 2007 by the Concessionaire to seek for legal protection measures against the illegitimate actions of the members of the indigenous Mapuche Community of Huentru Taewel Leufu (the “Community”) that impeded the access to the blocks Umbral and Los Leones located in the Ramos Mexia area, in the Province of Neuquén.

The concession rights over such blocks were granted to the Concessionaire by the Provincial Government through valid and legitimate administrative acts, but due to blockades and other material actions held by the members of the Community, the Concessionaire was impeded to perform regular exploration and exploitation activities in accordance with the applicable legal framework.

THE AMPARO ACTION:

Petrolera Piedra del Águila S.A. requested the local court to take intervention in the conflict resulting from the illegal blockades to the areas, to secure the rights and obligations arising out from the relevant title and the applicable laws, including the obligation to make investments (Article 31 of the Federal Hydrocarbons Law).

The hydrocarbons blocks in dispute are located within provincial owned lands, and the access to such blocks for the performance of hydrocarbon exploration and production activities was authorized by the Direction of Public Lands of Neuquén.

The legal remedy used by the Concessionaire to seek for protection of its rights was the amparo action, which allows individuals and companies to initiate a summary proceeding in those cases in which no other legal remedies are available nor sufficient for the protection of their rights.



The Community responded to the claim arguing that the concession rights were granted by the Province in violation of their condition of traditional owners of the land, which was recognized by the Federal Constitution (Article 75 subsection 17), and the Constitution of Neuquén (Article 53). They also considered that their rights to be consulted and to take part in the management of the natural resources located within their ancestral territories were ignored by the provincial authorities when granting concession rights over the blocks.

THE GROUNDS OF THE COURT DECISION:

One of the main arguments exposed by the Court on its decision rejecting the action brought by the Concessionaire was that the Community was the traditional owner of the lands they alleged to occupy and that such communal possession of the land must be considered in light of the provisions of the Federal and Provincial Constitutions (Article 75 subsection 17 of the Federal Constitution and Article 53 of the Constitution of Neuquén), which is a different criteria of that used by the Civil Code in terms of individual property rights.

The decision also analyzed the existence of ample rights recognized to indigenous communities included in certain norms of Constitutional status, such as the International Labor Organization (“ILO”) Convention on Indigenous and Tribal Peoples No. 169 (dated 1989, and approved in Argentina through Law No. 24,071).

Such rights include, according to the Court’s interpretation, the right to actively participate in the adoption of measures of any nature that may affect the interests of those indigenous or tribal groups in connection with the territories they have traditionally possessed. On such grounds, the Court established that the Provincial Executive should have provided the Community with all the information necessary for the issuance of an informed consent prior to the authorization of any project that may affect its constitutionally recognized rights to communal property of lands.

Regarding the existence of an indigenous community in this particular case to fit the requirements of the constitutional provisions, the Court considered that the Community was sufficiently recognized as such, as a result of its registration before the National Institute of Indigenous Affairs created by Federal Law No. 23,302. It should be noted that the Province of Neuquén holds its own registry, and it has not expressly granted such status to the Community, in spite of its registration in accordance with the federal law.

CONCLUSIONS:

The Court’s decision rejected the remedy action on the grounds that the material actions that physically impeded the access of the Concessionaire and its employees to the blocks were justified by the existence of constitutionally recognized rights of higher hierarchy in the Court’s criteria.

The Court did not make any consideration whatsoever in connection with the methods used by the Community as means to obtain the recognition of such alleged rights, which left the Concessionaire undefended before the material actions taken by a group that vindicates their demands disregarding the legal remedies available.

Further, the Court expressly mentioned that the Provincial Executive should have considered the existence of such communal property rights prior to the issuance of any administrative act (such as the provincial Decrees granting the hydrocarbon concession) that may affect those rights. By avoiding any consideration on the methods used by the Community on its decision, the Court admitted a de facto voidance of the administrative acts that granted the concession.

“ETCHEVERRY, ALBERTO RUBEN V. PROVINCE OF NEUQUÉN”

On April 24, 2017, the Supreme Court of the Province of Neuquén unanimously rejected an action of unconstitutionality of Provincial Decrees No. 422, 1162 and 1208 in ‘Etcheverry, Alberto Ruben v. Province of Neuquén’.

The claimant alleged the Decree No. 422 to be unconstitutional as it modifies the provincial regulatory framework by requesting oil companies the submission of environmental reports rather than environmental impact assessment reports (which require public hearing). According to the petitioner, the Provincial Government of Neuquén does not have the faculties to avoid such requirement by means of a Decree.

Furthermore, the claimant also required the declaration of unconstitutionality of Decrees No. 1162 and 1208 that created new terms and types for non-conventional concessions, as well as modified the proceeding for the reversal of concession areas and the proceeding for the awards of exploitation concessions. The claimant argued that the Provincial Government does not have the faculties to legislate in matters of environmental law and held that, once an exploitation concession is extinguished, a competitive bidding process is needed in order to award a new concession.

The Local Supreme Court rejected the claim holding that the Provincial Government is competent to issue the Decrees on the following grounds:

- Section 41 of the Argentine Constitution provides for a concurrent legislation system between Federal and Provincial Governments on environmental law matters, by means of which the Federal Government is empowered to provide the standards and guidelines that are the basis on which the Provinces are also entitled to issue further regulation
- As a consequence, Federal Environmental Law No. 25,675 is the basis on which the Province of Neuquén issued Provincial Law No. 1,875 (later modified by Law No. 2,267) and further Regulatory Decree No. 2656 (also modified by the Decree 422 challenged by the claimant)
- According to Section 214 of the Provincial Constitution, the Governor has the power to issue regulatory decrees in order to implement provincial laws, as long as it does not distort their meanings

- Public hearing is not a mandatory requirement since is the Enforcement Authority the one empowered to determine whether or not the particular activity to be carried out requires it according to the circumstances of the case

- Decree No. 2656 empowers the Enforcement Authority to establish special and additional requirements to those provided in such Decree, thus it is also entitled to require the proper celebration of public hearing certain hydrocarbon activities, according to the appropriate circumstances.

- In relation to the substance of the Decrees, the SCN stayed for their constitutionality on the following basis: (i) the new terms, types for non-conventional concessions and proceedings established in the Decrees, do not distort the spirit and meaning of the provincial legal framework; (ii) Decree No. 1162 adheres to the Federal Promotional Regime for the Hydrocarbon Exploitation and achieves several federal agreements, not only with the Argentine Government but also with other oil producers Provinces that must be preserved for the protection of the Federal Hydrocarbon Regime.

“ATTORNEY GENERAL OF THE PROVINCE OF NEUQUÉN V. THE TOWNSHIP OF VISTA ALEGRE”

On February 24, 2017, a provisional decision was rendered in the case of the “Attorney General of the Province of Neuquén v. the Township of Vista Alegre”, whereby the Supreme Court of the Province of Neuquén granted interim relief sought by the Attorney General, thus suspending the effects of Municipal Ordinance No. 783/16 which had been issued by the Township of Vista Alegre.

The ordinance prohibited exploration and production activities of shale oil and gas through fracking techniques within the jurisdiction of the City of Vista Alegre, with the purported purpose of protecting the environment.

The Attorney General requested the Local Supreme Court to declare the Municipal Ordinance unconstitutional, seeking interim relief. In doing so, he indicated that the Province (not the municipalities) had exclusive jurisdiction regarding the ownership and regulation of hydrocarbons, including environmental issues related thereof.

The Local Supreme Court granted the interim measures requested by the Attorney General until a final decision is issued on the merits.

INJUNCTION AGAINST ANTI-FRACKING ORDINANCE

On April 7, 2017, the Neuquén's Prosecutor Officer submitted opinion concerning the Neuquén's Supreme Court jurisdiction to understand in a case regarding the unconstitutionality of the Municipal Ordinance No. 783/16 issued by the City Council of the Township of Vista Alegre. The Attorney General had filed a claim of unconstitutionality in response to the Ordinance No. 783/16 that prohibited the use of fracking or hydraulic fracturing for the extraction of hydrocarbons.

The Prosecutor held that the ordinance is interfering with the Province's exclusive competence with regards to the domain, jurisdiction and regulation of conventional and non-conventional hydrocarbons, established by the articles 24, 95, 96, 97, 98 y 99 of the Provincial Constitution. Furthermore, the prosecutor emphasizes that the Provincial Constitution at no point authorizes any Townships of the Provinces to legislate on any aspect concerning natural resources and in this case, on hydrocarbons.

According to the prosecutor's opinion, the Municipal Ordinance should also had to declare unconstitutional for interfering with the Provincial Competence in environmental matters. The prosecutor understands that the Provincial Constitution does grant the township autonomy to draft its own environmental regulations and act as an environmental police force within its territory; however, the prosecutor clarifies that these roles must be carried out without invading the spheres of Provincial Competences.

The prosecutor concluded that the Respondent issued an Ordinance No. 783/16 that surpasses the realms of its municipal powers and therefore stayed in favor of the Attorney General's requirement in relation to the issuance of an injunction suspending the effects of this Ordinance, until a final decision is taken on the merits. Other than interfering with the Constitution, it considers that the enforcement of the Municipal Ordinance would set precedent that could have a detrimental impact on Provincial management.

On May 12, 2017, the Supreme Court of the Province of Neuquén issued an injunction against Municipal Ordinance No. 783/16 of the Township of Vista Alegre and declared the procedural admissibility of a declaratory action of unconstitutionality.



The Local Supreme Court held that the Ordinance interferes with the Province's exclusive competence in relation to the domain, jurisdiction and regulation of conventional and non-conventional hydrocarbons established in the Provincial Constitution. In addition, the Neuquén's Supreme Court considers that Townships of the Provinces have no authority to legislate on any aspect concerning natural resources and in this case, on hydrocarbons. The Local Supreme Court considered the Ordinance to be unconstitutional on its face for interfering with the Provincial Competence in environmental matters.

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