

**Latina Offshore Holding Limited and
Subsidiaries**

**(Subsidiary of Grupo Creatica, S. A. de
C. V.)**

Consolidated Financial Statements for
the years ended December 31, 2014 and
for the period from September 27, 2013
(date of incorporation) to December 31,
2103, and Independent Auditors' Report
Dated June 16, 2015

Latina Offshore Holding Limited and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

**Independent Auditors' Report and Consolidated
Financial Statements for 2014 and 2013**

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Independent Auditors' Report to the Board of Directors and Stockholders of Latina Offshore Holding Limited

We have audited the accompanying consolidated financial statements of Latina Offshore Holding Limited and subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013 and the consolidated statements of losses, consolidated statements of changes in stockholders' equity and consolidated statements cash flows for the year ended December 31, 2014 and for the period from September 27, 2013 (date of incorporation) to December 31, 2103, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

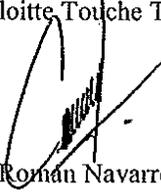
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Latina Offshore Holding Limited and subsidiaries as of December 31, 2014 and 2013, and their financial performance and their cash flows for the year then ended December 31, 2014 and for the period from September 27, 2013 (date of incorporation) to December 31, 2013 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited



C. P. C. César Román Navarrete Esparza
June 16, 2015

Latina Offshore Holding Limited and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Financial Position

As of December 31, 2014 and 2013

(In thousands of US dollars)

Assets	Note	2014	2013
Current assets:			
Cash and restricted cash	6	\$ 36,493	\$ 59,830
Due from related parties	14	21,632	119
Other accounts receivables		350	-
Prepaid expenses, net		<u>1,525</u>	<u>-</u>
Total current assets		60,000	59,949
Non-current assets:			
Machinery and equipment, net	8	<u>531,802</u>	<u>452,234</u>
Total assets		<u>\$ 591,802</u>	<u>\$ 512,183</u>
Equity and Liabilities			
Current liabilities:			
Current portion of long-term debt	9	\$ 23,750	\$ -
Trade accounts payables		1,172	-
Due to related parties	14	261	620
Other accounts payables and accrued liabilities		<u>20,178</u>	<u>12,042</u>
Total current liabilities		45,361	12,662
Non-current liabilities:			
Long-term debt	9	394,834	348,709
Deferred income taxes	10	<u>7,958</u>	<u>-</u>
Total non-current liabilities		<u>402,792</u>	<u>348,709</u>
Total liabilities		<u>448,153</u>	<u>361,371</u>
Stockholders' equity:			
Capital stock	12	150,812	150,812
Loss of the year		<u>(7,163)</u>	<u>-</u>
Total stockholders' equity		<u>143,649</u>	<u>150,812</u>
Total stockholders' equity and liabilities		<u>\$ 591,802</u>	<u>\$ 512,183</u>

See accompanying notes to consolidated financial statements.

Latina Offshore Holding Limited and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Losses

For the year ended December 31, 2014 and for the period from September 27, 2013 (date of incorporation) to December 31, 2103

(In thousands of US dollars)

	Note	2014	2013
Continuing operations:			
Operating leases income	14	\$ 56,710	\$ -
Operating cost	13	3,516	-
Depreciation of assets under operating leases		<u>23,328</u>	<u>-</u>
Gross profit		29,866	-
Administrative expenses	13	5,375	-
Others expenses, net		114	-
Interest expense		25,184	-
Interest income		(791)	-
Exchange gain, net		<u>(107)</u>	<u>-</u>
Profit before tax		91	-
Income tax expense	10	<u>7,254</u>	<u>-</u>
Consolidated net loss		<u>\$ (7,163)</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

Latina Offshore Holding Limited and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Changes in Stockholders' Equity

For the year ended December 31, 2014 and for the period from September 27, 2013 (date of incorporation) to December 31, 2103
(In thousands of US dollars)

	Capital stock	Loss for the year	Total stockholders' equity
Initial stockholders' contribution – September 27, 2013	\$ -	\$ -	\$ -
Issuance of common stock	<u>150,812</u>	<u>-</u>	<u>150,812</u>
Balance, December 31, 2013	150,812	-	150,812
Consolidated net loss	<u>-</u>	<u>(7,163)</u>	<u>(7,163)</u>
Balance, December 31, 2014	<u>\$ 150,812</u>	<u>\$ (7,163)</u>	<u>\$ 143,649</u>

See accompanying notes to consolidated financial statements.

Latina Offshore Holding Limited and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Cash Flows

For the year ended December 31, 2014 and for the period from September 27, 2013 (date of incorporation) to December 31, 2103

(In thousands of US dollars)

	2014	2013
Cash flows from operating activities		
Consolidated net loss	\$ (7,163)	\$ -
Adjustments for:		
Income tax recognized in results	7,254	-
Depreciation	23,328	-
Amortization of prepaid expenses	2,264	-
Interest income	(791)	-
Interest expense	<u>25,184</u>	<u>-</u>
	50,076	-
Movements in working capital:		
(Increase) decrease in:		
Due from related parties	(4,402)	(119)
Other accounts receivables	(350)	-
Prepaid expenses	(3,789)	-
Increase (decrease) in:		
Trade accounts payables	1,172	-
Due to related parties	(359)	620
Other accounts payables and accrued liabilities	<u>4,882</u>	<u>-</u>
Net cash flows generated by operating activities	<u>47,230</u>	<u>501</u>
Cash flows from investing activities:		
Loan to parent company	(27,400)	-
Payments from parent company	11,080	-
Purchase of machinery and equipment	<u>(91,182)</u>	<u>(311,892)</u>
Net cash flows used in investing activities	<u>(107,502)</u>	<u>(311,892)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	75,000	350,000
Bonds issuance cost	(3,430)	(1,291)
Interest paid	(34,635)	-
Issuance of common stock	<u>-</u>	<u>22,512</u>
Net cash flows provided by financing activities	<u>36,935</u>	<u>371,221</u>
Net (decrease) increase in cash and restricted cash	(23,337)	59,830
Cash and restricted cash at the beginning of the year	<u>59,830</u>	<u>-</u>
Cash and restricted cash at end of the year	<u>\$ 36,493</u>	<u>\$ 59,830</u>

See accompanying notes to consolidated financial statements.

Latina Offshore Holding Limited and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2014 and for the period from September 27, 2013 (date of incorporation) to December 31, 2103

(In thousands of US dollars)

1. Activities

Latina Offshore Holding Limited (the “Entity”) was incorporated as a Bermuda exempted company on September 27, 2013 under the laws of Bermuda. The Entity has a registered office at Canon’s Court 22 Victoria Street, Hamilton, Bermuda. For Mexican tax purposes, the Entity’s address is Horacio 1855, 5th floor, Los Morales Polanco, Mexico City, and Zip Code 11510.

The main activities of the Entity and its subsidiaries (the “Entity”) are the leasing of two Jack ups (“Santa Maria” and “La Covadonga”) for oil and gas drilling to Constructora y Perforadora Latina, S. A. de C. V., (“CP Latina”) the direct parent, company incorporated in Mexico.

The Entity’s management team, operating and administrative personnel are employed by Rodelva Servicios Administrativos, S. A. de C. V., (related party). Therefore, the Entity has no employees and is not subject to any labor obligations other than any joint and several obligations that may arise from the labor agreements executed with the related party.

2. Significant event

On February 14 and May 25, 2014 CP Latina started operations with the Jack ups drilling rigs named as “Santa Maria” and “La Covadonga”, respectively. On December 12, 2013 CP Latina signed a lease contract without a purchase option agreement with Pemex Exploración y Producción (“PEMEX”) for drilling of 2,366 and 2,303 days, respectively with a day rate of \$158. The total investment for both Jack ups was \$500,663. This project was financed by an international bond of \$350,000 acquired on October 11, 2013 with an end up date of July 3, 2018.

On March the 5, 2014 CP Latina signed with Pemex a lease contract without a purchase option agreement for a modular rig, for 1,052 days and a day rate of \$78. At the date of financial statements the modular rig construction progress is 78%, the committing to start operating on December 31, 2015. The total cost estimated is \$100,000, of which at December 31, 2014 incurred \$53,711. Payment of the project is being undertaken with funding of an international bond of \$75,000, which was signed on July 31, 2014, maturing principal on July 31, 2016 (see Note 9).

3. Basis of presentation

a. *Application of new and revised International Financing Reporting Standards (“IFRSs”) and interpretations that are mandatorily effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*

The Entity has applied the amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definitions of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Entity is not an investment entity (assessed based on the criteria set out in IFRS 10 as of January 1, 2014), the application of the amendments has had no impact on the Entity's consolidated financial statements.

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

The Entity has applied the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

As the Entity does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognized in the Entity's consolidated financial statements. The Entity has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognized in the Entity's consolidated financial statements.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The Entity has applied the amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Entity's consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 1 clarify the meaning of "effective IFRS" with which first adoptants are allowed to apply a new IFRS even if it is not compulsory, if such IFRS allows its anticipated application.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of an entity of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) The property meets the definition of investment property in terms of IAS 40; and
- (b) The transaction meets the definition of a business combination under IFRS 3.

The application of these amendments did not have a significant impact on the Entity's consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Entity has applied the amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As the Entity does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognized in the Entity's consolidated financial statements.

IFRIC 21 Levies

The Entity has applied IFRIC 21 *Levies* for the first time in the current year. IFRIC 21 addresses the issue as to when to recognize a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC 21 has been applied retrospectively. The application of this interpretation has had no material impact on the disclosures or on the amounts recognized in the Entity's consolidated financial statements.

b. *New and revised IFRSs in issue but not yet effective*

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ³
IFRS 14	Regulatory Deferral Accounts ¹
IFRS 15	Revenue from Contracts with Customers ¹
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ²
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to IAS 27	Separate Financial Statements ²

¹ Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity's management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Entity's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Entity undertakes a detailed review.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 specifies the accounting for deferral account balances arising from regulated activities. The standard is applicable to an entity that recognizes, in its first IFRS financial statements, regulatory deferral account balances in accordance with its previous accounting framework. The standard permits entities to continue to use, in its first and subsequent IFRS financial statements, the policies adopted under its previous accounting framework with respect to regulatory deferral account balances, with limited changes. In addition, the standard requires the separate presentation of regulatory deferral account balances in the statement of financial position and to present the movement of those accounts the statement of profit or loss and other comprehensive income. The standard also requires specific disclosures to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this standard.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the Entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Entity's management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Entity's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Entity performs a detailed review.

Amendments to IAS 16 IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Entity uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The Entity's management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Entity's consolidated financial statements.

4. Significant accounting policies

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by IASB.

b. *Basis of preparation*

The accompanying consolidated financial statements have been prepared into English for use outside of Mexico. These consolidated financial statements are presented on the basis of IFRS. Certain accounting practices applied by the Entity that conform with IFRS may not conform with accounting principles generally accepted in the country of use.

The accompanying consolidated financial statements have been prepared on a historical cost basis; disclosures of fair value have been included where required by IFRS.

i. Historical cost

Historical cost is generally measured as the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurements are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Entity and entities its subsidiaries controlled by it. Control is achieved when the Entity:

- Has power on over the investee
- Is exposed or has rights, to variable returns from its involvement with that entity or,
- It has the ability to use its power to affect those returns.

The entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

The Entity's shareholding percentage in their capital stock at December 31, 2014 and 2013 is shown below:

		% Ownership	
	<u>Activity</u>	<u>2014</u>	<u>2013</u>
Latina Offshore Holding Limited	Holding	100%	100%
Latina Offshore Limited	Holding	100%	100%
Santa Maria Offshore Limited	Lessor	100%	100%
La Covadonga Limited	Lessor	100%	100%
Latina Modular Holding Limited	Holding	100%	-
Latina Modular 01 Limited	Lessor	100%	-

Changes in investments in subsidiaries of the Entity that do not result in a loss of control are recorded as equity transactions. The carrying value of investments and non-controlling interests of the Entity is adjusted to reflect changes in the investments in subsidiaries. Any difference between the amount by which the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and is attributed to the owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. ***Cash and restricted cash***

Consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash. Cash is stated at nominal value and cash equivalents are measured at fair value.

e. ***Machinery and equipment***

Acquisitions are recorded at acquisition cost. Cost includes purchase price, including import duties, any costs directly attributable to bringing the asset to the location and condition necessary or it to be capable of operating in the manner intended by management of the Entity and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Depreciation of machinery and equipment commences when the assets are ready for their intended use.

Machinery that are in the process of construction are recorded at cost less any impairment loss recognized. Cost includes professional fees and, in the case of qualifying assets, the costs of borrowing capitalized in accordance with the accounting policy of the Entity. The depreciation of these assets is initiated when assets are ready for their planned use.

Depreciation is recognized so as to write off the cost less residual values of assets over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of machinery and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The remaining averages useful lives of machinery and equipment are:

	Years
Jack ups	14
Computers	4
Vehicles	4

f. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

- The Entity as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Entity's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

- The Entity as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

g. ***Impairment of tangible assets***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest entity of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

h. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

i. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

j. ***Income taxes***

The expense for income taxes represents the sum of current and deferred tax.

1. **Current tax**

Current income tax ("ISR") is recognized in the results of the year in which is incurred. Until December 31, 2013, current income tax was calculated as the higher of the ISR and the Business Flat Tax ("IETU").

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

As a consequence of the 2014 Tax Reform, as of December 31, 2013 deferred IETU is no longer recognized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

k. *Financial instruments*

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1. *Financial assets*

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1. Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL.

2. Financial assets at FVTPL

Financial assets are classified as of FVTPL when the financial asset is either held for trading or it is designated as of FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the interest income and expenses line items. Fair value is determined in the manner described in Note 11.

3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past an average credit period established by the Entity, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of trade or lease receivables is reduced through the use of an allowance account. When a trade or lease receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

m. ***Financial liabilities and equity instruments***

1. Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognized at the proceeds received, net of direct issue costs.

3. Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities, which include borrowings and trade and other payables, are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

4. Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

n. ***Foreign currencies***

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

o. **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Entity and can be measured reliably, regardless of when the amounts are realized. Revenue is measured at the fair value of the consideration received or receivable, taking into account the terms provided in the contract, excluding taxes or duties. The Entity assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenues are recognized:

Revenue recognition according to the components of the contracts is as follow:

Revenue from operating leases

These revenues are derived from the granting to use of the Rigs, which are recognized as income when earned.

Revenues from operating leases of machinery and equipment are recognized on a straight-line basis over the lease term and are included as revenue given its nature.

Revenue from interest

The interest income is recognized as they are accrued and there is the likelihood that the economic benefits will flow to the Entity and the amount of revenue can be measured reliably.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 4, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- ***Leases*** - An Entity evaluates the classification of the leases for accounting purposes. In performing such assessment, the Entity is required to exercise its professional judgment and make estimates, as follows:
 - a. The lease does not transfer ownership of the machinery and equipment to the lease by the end of the lease term.
 - b. The lease does not contain an option to purchase the machinery and equipment.
 - c. The lease term does not represent a substantial portion of the economic life of the machinery and equipment.
 - d. At the inception of the lease the present value of the minimum lease payments amounts does not represent a substantial portion of fair value of the leased machinery and equipment.
 - e. The leased machinery and equipment can be used by another interested party without major modifications.

- **Contingencies-** By their nature, contingencies are settled when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the use of judgment and significant estimates related to the future outcome of those events.

b. **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates of useful lives and depreciation methods - The Entity reviews its estimates of useful lives and methods of depreciation on machinery and equipment periodically and the effect of any change in estimate is recognized prospectively. Changes in these estimates could have a significant impact on the statements of financial position and comprehensive income of the Entity.

6. Cash

	2014	2013
Cash and banks deposits	\$ 19,712	\$ 44,299
Restricted cash (see Note 9)	<u>16,781</u>	<u>15,531</u>
	<u>\$ 36,493</u>	<u>\$ 59,830</u>

7. Non-cash transactions

During the current year, the Entity entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

- As of December 31, 2014 and 2013 the financing cost of \$11,009 and \$12,042, respectively, were added to the cost of machinery and equipment.
- In October 2013, in accordance with the resolutions of the Ordinary Stockholders' Meeting, variable capital was increased by \$128,300 through the assignment of rights to purchase Santa Maria and La Covadonga Jack ups.

8. Machinery and equipment, net

2014				
Investments	Balance as of December 31, 2013	Additions	Balance as of December 31, 2014	
Jack ups	\$ 452,234	\$ 48,430	\$ 500,664	
Modular Rig	-	53,711	53,711	
Computers	-	414	414	
Vehicles	<u>-</u>	<u>341</u>	<u>341</u>	
	452,234	102,896	555,130	
Depreciation				
Jack ups	-	23,233	23,233	
Computers	-	67	67	
Vehicles	<u>-</u>	<u>28</u>	<u>28</u>	
	<u>-</u>	<u>23,328</u>	<u>23,328</u>	
Total investments, net	<u>\$ 452,234</u>	<u>\$ 79,568</u>	<u>\$ 531,802</u>	

2013 Investments	Balance as of December 31, 2012	Additions	Balance as of December 31, 2013
Jack ups	\$ -	\$ 452,234	\$ 452,234
Depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Investments, net	<u>\$ -</u>	<u>\$ 452,234</u>	<u>\$ 452,234</u>

The Jack ups and the modular rig are pledged as collateral for the bonds, as indicated in Note 9.

9. Long-term debt

	2014	2013
<i>Secured – at amortized cost</i>		
Senior secured callable bond for \$350,000 maturing on July 3, 2018, bearing interest, payable on a semi-annual basis, at a fixed 8.875% rate. Principal will be paid on a semi-annual basis in amount of \$15,000, with exception of the first payment of \$8,750 that was paid on January 3, 2015.	\$ 350,000	\$ 350,000
Senior secured callable bond for \$75,000 maturing on July 31, 2016, bearing interest, payable on a quarter-annual basis, at a fixed 10.00% rate for the first year and fixed 11.00% rate for the second year.	75,000	-
Less:		
Bond issuance cost, net	<u>(6,416)</u>	<u>(1,291)</u>
Total debt	<u>418,584</u>	<u>348,709</u>
Less: current portion	<u>23,750</u>	<u>-</u>
	<u>\$ 394,834</u>	<u>\$ 348,709</u>

Long-term debt matures as follows as of December 31, 2014:

Payable during	Amount
2016	\$ 101,952
2017	30,000
2018	<u>262,882</u>
	<u>\$ 394,834</u>

a. **Call option**

Overview of the bonds issuance \$350,000

The Entity may redeem the bonds (Call Option) anytime starting July 2016 at a price equivalent to the present value of 105% of par value (103% and 101% if call option is exercised in July 2017 and one day before the maturity day), plus the present value of the remaining interest payments and accrued but unpaid interest on redeemed amount.

Overview of the bonds issuance \$75,000

The Entity may redeem the bonds (all or nothing) anytime from and including (Call Option):

- (a) The Issue Date to, but not including, the interest payment date on July 2015 at a price equivalent to the sum of:
 - i 100.00% of par value;
 - ii the present value on the relevant record date of the remaining coupon payments (less any accrued but unpaid interest) through to and including the interest payment date in July 2015; and
 - iii accrued and unpaid interest on the redeemed amount
- (b) The interest payment date in July 2015 to, but not including, on July 31, 2016 at a price equal to 102.00% of par value (plus accrued unpaid interest on redeemed amount).

b. **Relevant covenants**

The Entity shall ensure compliance with several negative and affirmative covenants. The relevant covenants are as follows:

- i Restrictions (50%) on distributions from the Entity to its Parent Company.
- ii Restrictions on the incurrence of new debt and the right to create security over assets, with certain carve-outs.
- iii The Issuer is also subject to a minimum (free and unrestricted) liquidity covenant in the amount of \$10,000 on consolidated basis.
- iv A equity ratio covenant of a minimum of (i) 25% in the period until and including December 31, 2014, (ii) 27.5% in the period from January 1, 2015 until and including December 31, 2015 and (iii) 30% thereafter in the case of Latina Offshore Limited and an equity ratio covenant of a minimum of 15% in the case of the Entity.
- v The Entity shall maintain an amount equivalent to 6 months' interest on the bonds as restricted cash.

The mandatory prepayment and total loss provisions have been amended to reflect that the bonds are secured by both Jack ups. This means that a mandatory prepayment or total loss event only relating to one of the Jack ups (or one of its subsidiaries) will only cause 50% of the Bonds to be repayable.

At the date of the issuance of the financial statement the Entity has complied with the covenants established in the agreement.

10. Income taxes

The Entity is not subject to income taxes in Bermuda.

The Entity is subject to ISR in Mexico. The Entity is subject to ISR and through December 31, 2013, to ISR and IETU. Therefore, the income tax payable was the higher between ISR and IETU through 2013.

ISR -The rate was 30% in 2014 and 2013 and as a result of the new 2014 ISR law ("2014 Tax Law"), the rate will continue at 30% thereafter.

a. **Income tax recognized in loss**

	2014	2013
Deferred tax		
In respect of the current year	\$ <u>7,254</u>	\$ <u>-</u>

The reconciliation of the statutory and effective ISR rate expressed in amounts off loss income before income taxes is:

	<u>2014</u>	
	Amount	Rate
Profit before tax	\$ 91	
Income tax expense	<u>7,254</u>	<u>7,971%</u>
	27	30%
Statutory rate		
Add effects of permanent differences, mainly non – deductible expenses	19	21%
Effects of inflation	5,702	6,266%
Other	<u>1,506</u>	<u>1,654%</u>
Effective rate	<u>\$ 7,254</u>	<u>7,971%</u>

b. **Deferred tax in statement of financial position**

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statements of financial position:

	2014	2013
Deferred ISR assets:		
Effect of tax loss carryforwards	\$ 19,163	\$ -
Provisions	<u>84</u>	<u>-</u>
Deferred ISR assets	19,247	-
Deferred ISR liability:		
Prepaid expenses and issuance cost	(660)	-
Machinery and equipment	<u>(26,545)</u>	<u>-</u>
Deferred ISR liability	<u>(27,205)</u>	<u>-</u>
Total liability	<u>\$ (7,958)</u>	<u>\$ -</u>

c. The benefits of restated tax loss carryforwards for which the deferred ISR asset, have been recognized; can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2014, are:

Year of expiration	Tax loss Carryforwards
2023	\$ 10,286
2024	<u>53,592</u>
	<u>\$ 63,878</u>

11. Financial risk management

a. *Capital management*

The Entity manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The capital structure of the Entity is composed by its net debt and stockholders' equity.

The Entity is subject to an equity ratio covenant of a minimum of 15%.

	Amount
Consolidated equity	\$ 143,649
Total consolidated assets	<u>591,802</u>
Equity ratio	<u>24.27%</u>

b. *Interest rate risk management*

The Entity is exposed to interest rate risk as a result of fluctuations in market rates when compared to the fixed rates under which its debt accrues interest. The risk is not currently considered significant but may be managed in the future by entering into derivative financial instruments to hedge such risk.

c. *Credit risk management*

Credit risk refers to the situation in which the borrower defaults on its contractual obligations, thereby generating a financial loss for the Entity and which is essentially derived from customer accounts receivable and liquid funds. The Entity does not believe it has a significant credit risk as of December 31, 2014 and 2013 a result of its financial position as of such date.

d. *Liquidity risk management*

Corporate treasury has the ultimate responsibility for liquidity management, and has established appropriate policies to control this through monitoring of working capital, managing short, medium and long-term funding requirements, maintaining cash reserves, continuously monitoring cash flows (projected and actual), and reconciling the maturity profiles of financial assets and liabilities.

The Entity is subject to a minimum (free and unrestricted) liquidity covenant in the amount of \$10,000 on consolidated basis.

The following table details the Entity's remaining contractual maturity for its liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows or financial liabilities based on the earliest date on which the Entity can be required to pay. The table includes both interest and principal cash flows.

	December 31, 2014					Carrying amount
	Weighted average effective interest rate %	1-6 months	6 months to 1 year	1 – 5 years	Total	
Non-interest rate bearing	-	\$ 261	\$ -	\$ -	\$ 261	\$ 261
Fixed interest rate instruments	11.41%	<u>29,025</u>	<u>34,866</u>	<u>488,006</u>	<u>551,897</u>	<u>435,365</u>
		<u>\$ 29,286</u>	<u>\$ 34,866</u>	<u>\$ 488,006</u>	<u>\$ 552,158</u>	<u>\$ 435,626</u>

December 31, 2013						
	Weighted average effective interest rate	1-6 months	6 months to 1 year	1 – 5 years	Total	Carrying amount
Non-interest rate bearing	-	\$ 620	\$ -	\$ -	\$ 620	\$ 620
Fixed interest rate instruments	8.64%	<u>11,907</u>	<u>15,618</u>	<u>459,144</u>	<u>486,669</u>	<u>360,750</u>
		<u>\$ 12,527</u>	<u>\$ 15,618</u>	<u>\$ 459,144</u>	<u>\$ 487,289</u>	<u>\$ 361,370</u>

e. **Fair value measurements**

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis, but for which disclosure of their fair value is required are as follows.

	Carrying amount	Fair value at December 31, 2014
Financial assets:		
Receivables from related parties	\$ 21,632	\$ 21,632
Financial liabilities held at amortized cost:		
Bonds	\$ 418,584	\$ 417,285
Payables to related parties	261	261
	Carrying amount	Fair value at December 31, 2013
Financial assets:		
Receivables from related parties	\$ 119	\$ 119
Financial liabilities held at amortized cost:		
Bonds	\$ 348,709	\$ 354,763
Payables to related parties	620	620

Management believes that the carrying value of receivables from and payables to related parties approximate their fair values based on their nature and short-term maturities. The fair value of bonds was determined by Entity's management, which is a level 2 input. The fair value of the bonds was calculated by Entity using discounted cash flow valuation technique at a discount rate of 8.875% that reflects the Entity's current borrowing rate at the end of the reporting period.

12. Stockholders' equity

- a. The historical amount of subscribed and paid-in common stock of the Entity as of December 31, 2014 and 2013, is as follows:

	<u>Number of shares</u>	<u>Amount</u>
Fixed:		
Series A	100	\$ -
Variable:		
Series A	<u>150,812,292</u>	<u>150,812</u>
	<u>150,812,392</u>	<u>\$ 150,812</u>

Common stock consists of ordinary, nominative shares with par value of \$1.

- b. In September 2013, in accordance with the resolutions of the Ordinary Stockholders' Meeting an initial contribution of fixed capital was made in an amount of 100 US dollars.
- c. In October 2013, in accordance with the resolutions of the Ordinary Stockholders' Meeting authorized capital was increased by 11,900 US dollars through a cash contribution.
- d. In October 2013, in accordance with the resolutions of the Ordinary Stockholders' Meeting variable capital was increased by 22,500,392 US dollars through a cash contribution.
- e. In October 2013, in accordance with the resolutions of the Ordinary Stockholders' Meeting, variable capital was increased by 128,300,000 US dollars through the assignment of rights to purchase Santa Maria and La Covadonga jack ups.

13. Cost and expenses by nature

Concept	2014		2013	
	Operating cost	Administrative expenses	Operating cost	Administrative expenses
Insurance	\$ 2,264	\$ -	\$ -	\$ -
Maintenance	1,234	-	-	-
Services	-	4,512	-	-
Others	18	863	-	-
	<u>\$ 3,516</u>	<u>\$ 5,375</u>	<u>\$ -</u>	<u>\$ -</u>

14. Balances and transactions with related parties

Balances receivable and payable with related parties are presented within the consolidated statement of financial position.

- a. Transactions with related parties, carried out in the ordinary course of business were as follows:

	2014	2013
Operating revenues – CP Latina	<u>\$ 56,710</u>	<u>\$ -</u>
Interest income – CP Latina (See (1))	<u>\$ 791</u>	<u>\$ -</u>
Purchases of spare parts and tools – CP Latina	<u>\$ 14,855</u>	<u>\$ -</u>
Administrative services - CP Latina	<u>\$ (4,042)</u>	<u>\$ -</u>

- b. Balances with related parties are as follows:

	2014	2013
Due from related parties -		
Constructora y Perforadora Latina, S. A. de C. V. (1)	\$ 21,632	\$ -
Rodelva Servicios Administrativos, S. A. de C. V.	<u>-</u>	<u>119</u>
	<u>\$ 21,632</u>	<u>\$ 119</u>
Due to related parties -		
Rodelva Servicios Administrativos, S. A. de C. V.	\$ 261	\$ -
Constructora y Perforadora Latina, S. A. de C. V.	<u>-</u>	<u>620</u>
	<u>\$ 261</u>	<u>\$ 620</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

- (1) Includes outstanding balance of a senior note for \$16,320 maturing on October 31, 2018, bearing interest, payable on a quarter-annual basis, at 10.60%.

15. Authorization to issue the financial statements

On June 16, 2015, the issuance of the accompanying consolidated financial statements was authorized by C. P. C. Miguel Ruiz Tapia, Chief Finance Officer; consequently, they do not reflect events that occurred after that date, and are subject to the approval at the Entity's ordinary shareholders' meeting, where they may be modified, based on provisions set forth in the Bermuda Law.

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