

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

Consolidated Financial
Statements for the years
ended December 31, 2016
and 2015, and Independent
Auditors' Report Dated
April 28, 2017

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

Independent Auditors' Report and
Consolidated Financial Statements for 2016
and 2015

Table of contents	Page
Auditors' Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Losses	4
Consolidated Statements of Changes in Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

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

Opinion

We have audited the consolidated financial statements of Latina Offshore Holding Limited and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015 and the consolidated statements of losses, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Entity in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

The accompanying consolidated financial statements have been translated into English for use outside of Mexico. Certain accounting practices applied by the Entity that conform to IFRS may not conform to accounting principles generally accepted in the country of use.

As discussed in Note 3a, the accompanying consolidated financial statements have been prepared assuming that the Entity will continue as a going concern, also as indicated in Note 2a, the Entity renegotiated agreements with PEMEX and continues discussions in relation to the fees and the operation of its jack ups and modular, in addition, restructured its debt and obligations with the bondholders.

Regarding the discussions with PEMEX, it is not possible to anticipate the result of these, nor the effects that may have on its operation, the valuation of its jack ups and modular as well as the obligations with the bondholders, if applicable. In addition to December 31, 2016 and 2015, the Entity presents accumulated losses and shows an imbalance between current assets and liabilities.

The accompanying consolidated financial statements do not include any adjustments related to the valuation and classification of assets and liabilities that might result from this uncertainty. Management's plans in regards to these matters are include in Note 3a.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



C. P. C. César Román Navarrete Esparza

April 28, 2017

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

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015
(In thousands of US dollars)

Assets	Note	2016	2015
Current assets:			
Cash and restricted cash	6	\$ 11,892	\$ 459
Due from related parties	14	7,483	34,217
Other accounts receivable		8,835	6,503
Prepaid expenses, net		<u>600</u>	<u>1,240</u>
Total current assets		28,810	42,419
Non-current assets:			
Due from related parties	14	-	16,320
Jack-ups and equipment, net	7	527,152	544,465
Deferred income taxes	9	<u>1,832</u>	<u>577</u>
Total non-current assets		<u>528,984</u>	<u>561,362</u>
Total assets		<u>\$ 557,794</u>	<u>\$ 603,781</u>
Liabilities and Stockholders' equity			
Current liabilities:			
Current portion of long-term debt	8	\$ -	\$ 64,956
Trade accounts payable		73	1,441
Due to related parties	14	1,330	220
Other accounts payable and accrued liabilities		7,702	11,538
Interest payable		<u>14,592</u>	<u>1,622</u>
Total current liabilities		23,697	79,777
Non-current liabilities:			
Long-term debt	8	351,922	291,097
Deferred income taxes	9	<u>8,933</u>	<u>15,128</u>
Total non-current liabilities		<u>360,855</u>	<u>306,225</u>
Total liabilities		<u>384,552</u>	<u>386,002</u>
Stockholders' equity:			
Capital stock	11	227,727	150,812
Contributions for future capital increases		-	76,915
Deficit		<u>(54,485)</u>	<u>(9,948)</u>
Total stockholders' equity		<u>173,242</u>	<u>217,779</u>
Total stockholders' equity and liabilities		<u>\$ 557,794</u>	<u>\$ 603,781</u>

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Losses

For the years ended December 31, 2016 and 2015
(In thousands of US dollars)

	Note	2016	2015
Continuing operations:			
Operating lease revenues	14	\$ 23,600	\$ 78,110
Operating cost	12	2,363	2,967
Depreciation of assets under operating leases		<u>40,664</u>	<u>35,521</u>
Gross (loss) profit		(19,427)	39,622
Administrative expenses	12	4,664	5,400
Other (income) expenses, net		(36)	110
Interest expense, net	13	31,728	30,415
Exchange (gain) loss, net		<u>(2,707)</u>	<u>61</u>
(Loss) profit before tax		(53,076)	3,636
Income tax (benefit) expense	9	<u>(8,539)</u>	<u>6,421</u>
Consolidated net loss		<u>\$ (44,537)</u>	<u>\$ (2,785)</u>

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016 and 2015
 (In thousands of US dollars)

	Capital stock	Contributions for future capital increases	Deficit	Total stockholders' equity
Balance as of January 1, 2015	\$ 150,812	\$ -	\$ (7,163)	\$ 143,649
Contributions for future capital increases	-	76,915	-	76,915
Consolidated net loss	<u>-</u>	<u>-</u>	<u>(2,785)</u>	<u>(2,785)</u>
Balance as of December 31, 2015	150,812	76,915	(9,948)	217,779
Capital increases	76,915	(76,915)	-	-
Consolidated net loss	<u>-</u>	<u>-</u>	<u>(44,537)</u>	<u>(44,537)</u>
Balance as of December 31, 2016	<u>\$ 227,727</u>	<u>\$ -</u>	<u>\$ (54,485)</u>	<u>\$ 173,242</u>

See accompanying notes to the 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 years ended December 31, 2016 and 2015
(In thousands of US dollars)

	2016	2015
Cash flows from operating activities		
Consolidated net loss	\$ (44,537)	\$ (2,785)
Adjustments for:		
Income tax (benefit) expense	(8,539)	6,421
Depreciation	40,664	35,521
Interest income	(2,225)	(2,530)
Interest expense	30,915	31,457
Exchange (gain) loss	(2,707)	61
Amortization of bond issuance cost	3,038	1,488
	<u>16,609</u>	<u>69,633</u>
Changes in working capital:		
(Increase) decrease in:		
Due from related parties	27,217	(28,966)
Other accounts receivable	(2,332)	3,085
Prepaid expenses	640	285
Increase (decrease) in:		
Trade accounts payable	(1,368)	269
Due to related parties	1,110	(41)
Other accounts payable and accrued liabilities	(3,836)	(136)
Net cash flows provided by operating activities	<u>38,040</u>	<u>44,129</u>
Cash flows from investing activities:		
Purchase of machinery and equipment	(18,828)	(48,184)
Proceeds from disposal of equipment	4	-
Proceeds from related parties	16,320	-
Interest received	2,225	2,530
Net cash flows used in investing activities	<u>(279)</u>	<u>(45,654)</u>
Cash flows from financing activities:		
Payments on long-term debt	(5,000)	(63,750)
Bonds issuance cost	(2,169)	(269)
Interest paid	(19,159)	(47,405)
Contributions for future capital increases	-	76,915
Net cash flows used in financing activities	<u>(26,328)</u>	<u>(34,509)</u>
Net increase (decrease) in cash and restricted cash	11,433	(36,034)
Cash and restricted cash at the beginning of the year	<u>459</u>	<u>36,493</u>
Cash and restricted cash at end of the year	<u>\$ 11,892</u>	<u>\$ 459</u>

See accompanying notes to the consolidated financial statements.

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2016 and 2015
(In thousands of US dollars)

1. Activities

Latina Offshore Holding Limited (the “Entity”) is a Bermuda exempted company established 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, 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”) and a modular rig (“Modular 01”) 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 events

a. *Current situation regarding the lease of the two Jack-ups and modular equipment to PEMEX*

In 2016, CP Latina held talks with PEMEX in which they reviewed certain conditions of contracts and assigning workload to keep them in operation. The Jack-ups Santa Maria and La Covadonga had a workload until April 30, 2016 and resumed operations on August 15, 2016.

As part of the talks, PEMEX and the Entity agreed to make a second modification to the contracts to reduce daily rates (see Notes 2c and 2d) and search for an allocation of workload for the Jack-ups based on high operational efficiency.

Furthermore, CP Latina is currently in talks with PEMEX for a new agreement amending the rates, which would take effect at the end of the existing agreements (see Notes 2c and 2d). The Entity cannot anticipate the outcome of these talks and therefore cannot anticipate the effects that it could have on its operations, the valuation of its Jack-ups and modular rig, the obligations to the holders of the International Bonds and, if applicable, on the figures reported in the consolidated financial statements.

b. *International bonds of \$350,000 and \$75,000*

On October 14, 2016, the Entity entered into an agreement with the bondholders of the International Bonds in the amount of \$350,000 to: i) increase its capital stock in Constructora y Perforadora Latina, S.A. de C.V. for the amount of \$7,540, which was made in November 2016; ii) defer payment of past due capital for the month of September 2016, and payments for January and July 2017 equivalent to \$40,000 to modify its maturity to January 2018; iii) defer three months of interest payment for the amount of \$7,795 corresponding to the half-yearly payment to be settled on January 3, 2017, which will be paid on July 3, 2017; iv) maintain a restricted cash minimum of \$5,000 instead of \$10,000; and v) interest payment, reimbursement of restricted cash and principal amortization are subject to cash generation on a budget approved by international bondholders.

On December 7, 2016, the Entity entered into an agreement with the holders of the International Bonds in the amount of \$50,000 to: i) provide the modular equipment as guarantee of the bond; ii) transfer the rights of collection from the accounts receivable from PEMEX; iii) extend the term of payment of the principal due in July 31, 2016 to January 31, 2018; iv) decrease in the annual interest rate from 10% to 8.875% from December 1, 2016 to April 30, 2017, after that date, the annual interest rate is again 10%; and v) the payment of interest and the amortization of principal is subject to the generation of cash based on a budget approved by the international bondholders.

In August 2015, the Entity concluded a refinancing of the \$75,000 international bond of which the Entity had rendered payments of principal in the amount of \$25,000. The outstanding principal on the refinanced bond is \$50,000, which bears interest at 10% and matures in August 2016.

On December 31, 2015, the Entity made the semi-annual installment of \$15,000 and payment of interest of \$14,477 corresponding to the international bonds with original face amount of \$350,000; the due date for this payment was January 4, 2016.

c. ***Changes in the contracts with PEMEX***

On August 15, 2016, CP Latina signed amendment with PEMEX with the following agreements: (i) temporary suspension of its jack up operations for a period from May 1, 2016 to August 14, 2016, (ii) extension of the ending period of contracts from August 8, 2021 to February 5, 2023 for La Santa Maria jack up, and in the case of the Covadonga jack up from September 14, 2021 to March 14, 2023, (iii) upon reactivation of the jack ups the rental rate will be \$70 for the period from August 15, 2016 until May 14, 2017 for La Santa Maria and for the period from August 15, 2016 to December 31, 2016 for La Covadonga; also agreed to increase the daily rate from \$70 to \$111.3 applicable for the period from May 15, 2017 to August 14, 2017 for La Santa Maria and for the period from January 1, 2017 to August 14, 2017 for La Covadonga, and iv) the payment terms will be reduced from 180 days to 90 days.

On August 4, 2015 CP Latina signed an amendment to the contract to reduce the daily rate of the Jack ups from \$158 to \$125. This rate will be applied from June 1, 2015 to May 31, 2016. As a consequence, on October 26, 2015 CP Latina signed an amendment to the contracts to extend the terms of the maturity for an additional year. This means that the contract expires on August 8, 2021 for Santa Maria and on September 19, 2021 for La Covadonga.

On December 7, 2015, CP Latina signed an amendment to the contract in regards to the condition of the payments and invoices for the Jack ups and the Modular in which the payments will be received 180 days from the dates of the invoices. During December 2015 and January 2016, CP Latina invoiced the lease from July 2015 to December 2015 in accordance with the new terms.

d. ***Modular equipment lease contract PEMEX***

On March 4, 2014, CP Latina entered into a lease agreement with Pemex without an option to purchase for modular equipment "Latina 01", with a term of 1,052 days and daily rental of \$ 78. The total cost of the project was \$ 114,694. The funds for the project were obtained on July 31, 2015 through the issuance of an international bond for \$ 75,000 mentioned above. The modular equipment is 100% complete and installed on the platform assigned by PEMEX, and began operations July 5, 2016.

On November 30, 2016, CP Latina signed amendment with PEMEX with the following agreements: (i) the rental rate will be \$ 52.2 for the period from June 1, 2016 until May 31, 2017, (ii) the ending period of contract was extended until January 12, 2020, (iii) the payment terms will be reduced from 180 days to 90 days.

3. Basis of presentation

a. *Going concern*

The accompanying consolidated financial statements have been prepared assuming that the Entity will continue as a going concern, also, the Entity renegotiated agreements with PEMEX and continues discussions in relation to the rental daily rates and the operation of its Jack-ups and modular, in addition, restructured its debt and obligations with the bondholders. Regarding the discussions with PEMEX, it is not possible to anticipate the result of these, nor the effects that may have on its operation, the valuation of its Jack-ups and modular as well as the obligations with the bondholders, if applicable. In addition to December 31, 2016 and 2015, the Entity presents accumulated losses and shows an imbalance between current assets and liabilities. The accompanying consolidated financial statements do not include any adjustments related to the valuation and classification of assets and liabilities that might result from this uncertainty.

Management's plans in regards to these matters are:

- i. Receive contributions from stockholders of \$200,000. As of December 2016, \$76,915 has been contributed, the remaining amount is expected to be received over the following years,
- ii. maintain operating efficiency of Jack-ups and modular equipment,
- iii. reduce operating costs,
- iv. reduce costs of borrowings and modify or refinance borrowings to change short-term maturities to long-term, and
- v. seek alternative sources of financing and capital.

b. *Application of new and revised International Financing Reporting Standards ("IFRS") 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, 2016.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

The application of these amendments to IAS 1 did not have impacts on the Entity's consolidated financial statements.

Amendments to IAS 16 and 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 for its Jack-ups and equipment. The management of the Entity 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, the application of these amendments to IAS 16 and IAS 38 did not have an impact on the Entity's consolidated financial statements.

c. *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 ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 12	Income taxes ¹
Amendments to IAS 7	Statements of Cash Flows ¹

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

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, 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 2014 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.

IFRS 15 *Revenue from Contracts with Customers*

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. Guidance that is far more prescriptive has been added in IFRS 15 to deal with specific scenarios. Furthermore, IFRS 15 requires extensive disclosures.

IFRS 16 *Leases*

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Amendments to IAS 12 *Income Tax: Recognition of Deferred Tax Assets for Unrealized Losses*, clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

The management of the Entity does not expect significant impacts a result of these amendments.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures.

The amendments in disclosure initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

The management of the Entity does not expect significant impacts a result of these amendments.

4. Significant accounting policies

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with IFRS as issued by IASB.

b. *Basis of preparation*

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 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 the capital stock of its subsidiaries on December 31, 2016 and 2015 is shown below:

	Activity	% Ownership	
		2016	2015
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%	100%
Latina Modular 01 Limited	Lessor	100%	100%

Changes in the Entity's ownership interest 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 IFRS). 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. ***Foreign currencies***

In preparing the financial statements of each individual entity, transactions in currencies other than the Entity's functional currency (US dollar) 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.

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.

The Exchange rates used to convert foreign currency into US dollars were as follows:

	December 31,	
	2016	2015
Mexican pesos per one US dollar	\$ <u>20.6640</u>	\$ <u>17.2065</u>

e. ***Cash and restricted cash***

Consists of 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 valued at fair value.

f. ***Jack-ups 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 conditions necessary for 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 Jack-ups and equipment commences when the assets are ready for their intended use.

Jack-ups and equipment 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 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.

Items of Jack-ups and equipment are 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 any items of jack-ups and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The averages useful lives of Jack-ups and equipment are:

	Years
Jack-ups	12
Modular rig	14
Computers	1
Vehicles	2

g. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease substantially transfer 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.

h. ***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.

i. ***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.

j. ***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.

k. ***Income taxes***

Income tax 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.

2. 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.

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.

3. 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.

1. ***Financial instruments***

Financial assets and financial liabilities are recognized when the 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.

m. ***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 10.

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.

4. 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.

5. 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.

n. *Financial liabilities and equity instruments*

1. Classification as debt or equity

Debt and equity instruments issued by the Entity are classified either as 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 the 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.

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 Jack-ups, which are recognized as income when earned.

Revenues from operating leases of Jack-ups 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** - The 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 Jack-ups and equipment to the lease by the end of the lease term.
- b. The lease does not contain an option to purchase the Jack-ups and equipment.
- c. The lease term does not represent a substantial portion of the economic life of the Jack-ups 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 Jack-ups and equipment.
- e. The leased Jack-ups 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 the Jack-ups 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.

Recovery of tax losses carryforwards - The Entity makes financial and tax projections for the purpose of maximizing efficiency with respect to accounting and tax results. For tax purposes, the Entity realized a significant loss due to the devaluation of the Mexican peso with respect to the US dollar during 2016 and 2015. The Entity expects to amortize tax losses against tax profits generated from subsequent years, with the normal operations of its Jack-ups.

6. **Cash and restricted cash**

	2016	2015
Cash and banks deposits	\$ 6,892	\$ 459
Restricted cash (see Note 8)	<u>5,000</u>	<u>-</u>
	<u>\$ 11,892</u>	<u>\$ 459</u>

7. Jack-ups and equipment, net

Investments	Balance as of December 31, 2015	Additions	Disposals	Balance as of December 31, 2016
Jack-ups	\$ 508,441	\$ 775	\$ -	\$ 509,216
Modular rig	94,102	20,592	-	114,694
Computers	414	-	-	414
Vehicles	357	-	(10)	347
Spare parts	-	1,988	-	1,988
	<u>603,314</u>	<u>23,355</u>	<u>(10)</u>	<u>626,659</u>
Depreciation				
Jack-ups	(58,540)	(36,198)	-	(94,738)
Modular rig	-	(4,253)	-	(4,253)
Computers	(192)	(124)	-	(316)
Vehicles	(117)	(89)	6	(200)
	<u>(58,849)</u>	<u>(40,664)</u>	<u>6</u>	<u>(99,507)</u>
Total investments, net	<u>\$ 544,465</u>	<u>\$ (17,309)</u>	<u>\$ (4)</u>	<u>\$ 527,152</u>
Investments	Balance as of December 31, 2014	Additions	Disposals	Balance as of December 31, 2015
Jack-ups	\$ 500,664	\$ 7,777	\$ -	\$ 508,441
Modular rig	53,711	40,391	-	94,102
Computers	414	-	-	414
Vehicles	<u>341</u>	<u>16</u>	<u>-</u>	<u>357</u>
	555,130	48,184	-	603,314
Depreciation				
Jack-ups	(23,233)	(35,307)	-	(58,54)
Computers	(67)	(125)	-	(192)
Vehicles	(28)	(89)	-	(117)
	<u>(23,328)</u>	<u>(35,521)</u>	<u>-</u>	<u>(58,849)</u>
Total investments, net	<u>\$ 531,802</u>	<u>\$ 12,663</u>	<u>\$ -</u>	<u>\$ 544,465</u>

The Jack-ups and the modular rig are pledged as collateral for the bonds, as indicated in Note 8.

8. Long-term debt

Secured - at amortized cost

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. Final payment by \$251,250 will be made on July 3, 2018.

	2016	2015
	\$ 306,250	\$ 311,250

	2016	2015
Senior secured callable bond for \$75,000 maturing on January 31, 2018, bearing interest, payable on a quarter-annual basis, at a fixed 10.00% rate. In July 2015, the Entity paid an advance of \$25,000. The remaining amount will be paid on January 31, 2018.	50,000	50,000
Less:		
Bond issuance cost, net	<u>(4,328)</u>	<u>(5,197)</u>
Total debt	<u>351,922</u>	<u>356,053</u>
Less: current portion	<u>-</u>	<u>64,956</u>
	<u>\$ 351,922</u>	<u>\$ 291,097</u>

Long-term debt matures as follows as of December 31, 2016:

Payable during	Amount
2018	<u>\$ 351,922</u>

a. As mentioned in Note 2b, the Entity celebrated an agreement with the International Bondholders to modify some conditions established in the contract.

b. ***Call option***

The Entity may redeem the bond of \$350,000 (Call option) at any time to a nominal value.

The Entity may redeem the bond of \$50,000 at any time at a price equal to 102.00% of par value.

c. ***Relevant covenants***

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

- i Restrictions 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 shall at all times from and including the Amendment Date maintain no less than USD 5,000 (the "Retained Amount") in the Minimum Liquidity Account which amount shall, after repayment in full of the Deferred Interest Amount, be increased to USD 10,000 by way of payments through the Excess Cash Flow sweep.
- iv The Entity shall on a consolidated basis at all times maintain an Equity Ratio of (i) 20% until 31 December 2017 and (ii) 22.5% from 1 January 2018 onwards.
- v The Debt Level of the Entity (on a consolidated basis) shall not exceed USD 360 million.

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

9. **Income taxes**

The Entity is not subject to income taxes in Bermuda.

The Entity is subject to ISR in Mexico. The current rate of ISR is 30%.

a. **Income tax recognized in loss**

	2016	2015
Current tax	\$ 2	\$ -
Deferred tax	<u>(8,541)</u>	<u>6,421</u>
	<u>\$ (8,539)</u>	<u>\$ 6,421</u>

The reconciliation of the statutory and effective ISR rate expressed in amounts off (loss) profit before tax is:

	<u>2016</u>	
	Amount	Rate
Loss before tax	\$ (53,076)	
Income tax (benefit)	<u>(8,539)</u>	<u>16%</u>
Statutory rate	(15,923)	30%
Add effects of permanent differences, mainly non – deductible expenses	1	-
Effects of inflation	2,950	(6%)
Other	<u>4,433</u>	<u>(8%)</u>
Effective rate	<u>\$ (8,539)</u>	<u>16%</u>
	<u>2015</u>	
	Amount	Rate
Profit before tax	\$ 3,636	
Income tax expense	<u>6,421</u>	<u>177%</u>
Statutory rate	1,091	30%
Add effects of permanent differences, mainly non – deductible expenses	34	1%
Effects of inflation	1,644	45%
Other	<u>3,652</u>	<u>101%</u>
Effective rate	<u>\$ 6,421</u>	<u>177%</u>

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

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

	2016	2015
Deferred ISR assets:		
Effect of tax loss carryforwards	\$ 42,954	\$ 26,606
Provisions	16	31
Issuance cost	<u>500</u>	<u>1,222</u>
Deferred ISR assets	43,470	27,859
Deferred ISR liabilities:		
Prepaid expenses	(241)	-
Jack-ups and equipment	<u>(50,330)</u>	<u>(42,410)</u>
Deferred ISR liabilities	<u>(50,571)</u>	<u>(42,410)</u>
Net liability	<u>\$ (7,101)</u>	<u>\$ (14,551)</u>

- c. The benefits of restated tax loss carryforwards for which the deferred ISR asset have been recognized, and can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2016, are:

Year of expiration	Tax Loss Carryforwards
2023	\$ 7,742
2024	33,601
2025	34,441
2026	<u>67,396</u>
	<u>\$ 143,180</u>

10. 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 stockholders 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.

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, 2016 and 2015 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 \$5,000 on a 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, 2016					
Weighted average effective interest rate %	1-6 months	6 months to 1 year	1-5 years	Total	Carrying amount
Non-interest rate bearing	-	\$ 1,403	\$ -	\$ -	\$ 1,403
Fixed interest rate instruments	9.55%	<u>-</u>	<u>76,824</u>	<u>330,989</u>	<u>407,813</u>
		<u>\$ 1,403</u>	<u>\$ 76,824</u>	<u>\$ 330,989</u>	<u>\$ 409,216</u>
December 31, 2015					
Weighted average effective interest rate %	1-6 months	6 months to 1 year	1-5 years	Total	Carrying amount
Non-interest rate bearing	-	\$ 1,661	\$ -	\$ -	\$ 1,661
Fixed interest rate instruments	10.17%	<u>81,187</u>	<u>55,627</u>	<u>289,214</u>	<u>426,028</u>
		<u>\$ 82,848</u>	<u>\$ 55,627</u>	<u>\$ 289,214</u>	<u>\$ 427,689</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, 2016
Financial assets:		
Cash and restricted cash	\$ 11,892	\$ 11,892
Receivables from related parties	7,483	7,483
Financial liabilities held at amortized cost:		
Bonds	\$ 351,922	\$ 219,094
Payables to related parties	1,330	1,330
Trade accounts payables	73	73
	Carrying amount	Fair value at December 31, 2015
Financial assets:		
Cash and restricted cash	\$ 459	\$ 459
Receivables from related parties	50,537	50,537
Financial liabilities held at amortized cost:		
Bonds	\$ 356,053	\$ 335,633
Payables to related parties	220	220
Trade accounts payables	1,441	1,441

Management believes that the carrying value of amounts due from and due to related parties approximate their fair values based on their nature and short-term maturities. The fair value of bonds was determined by the Entity's management using a level 2 valuation methodology. The fair value of the bonds was calculated by the Entity using discounted cash flow valuation technique at a discount rate of 9.33% for the \$350,000 and 9.92% for the \$75,000, that reflects the Entity's current borrowing rate at the end of the reporting period.

11. Stockholders' equity

The historical amount of subscribed and paid-in common stock of the Entity as of December 31, 2016 and 2015, are as follows:

	2016		2015	
	Shares	Amount	Shares	Amount
Fixed:				
Series A	100	\$ -	100	\$ -
Variable:				
Series A	<u>227,727,292</u>	<u>227,727</u>	<u>150,812,292</u>	<u>150,812</u>
	<u>227,727,392</u>	<u>\$ 227,727</u>	<u>150,812,392</u>	<u>\$ 150,812</u>

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

On March 16, 2016, the stockholders authorized a capital increase through the capitalization of contributions for future capital increases in the amount of \$76,915, by issuing additional common shares with a par value of \$1 US dollar.

In June 2015, the stockholders granted a loan to the Entity for the purpose of working capital, thereafter in July 2015, the stockholders recapitalized the Entity by converting the repayment of the loan to non-refundable contributions for future capital increases by \$76,915.

12. Cost and expenses by nature

	2016	2015
Insurance	\$ 2,363	\$ 2,420
Maintenance	-	264
Services	4,664	5,400
Others	<u>-</u>	<u>283</u>
	<u>\$ 7,027</u>	<u>\$ 8,367</u>

13. Interest expense, net

	2016	2015
Interest income from related parties	\$ (2,225)	\$ (2,530)
Interest expenses with related parties	342	1,163
Interest expense for senior secured callable bonds	34,021	36,752
Amortization of bond issuance cost	3,038	1,488
Other (income) expenses	<u>(10)</u>	<u>-</u>
	<u>35,167</u>	<u>36,873</u>
Amounts included within qualified assets	<u>(3,438)</u>	<u>(6,458)</u>
	<u>\$ 31,728</u>	<u>\$ 30,415</u>

14. Balances and transactions with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

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

	2016	2015
Operating lease revenues	\$ <u>23,600</u>	\$ <u>78,110</u>
Interest income	\$ <u>2,225</u>	\$ <u>2,530</u>
Purchases of spare parts and tools	\$ <u>(13,919)</u>	\$ <u>(783)</u>
Administrative services	\$ <u>(6,038)</u>	\$ <u>(5,375)</u>
Interest expenses	\$ <u>(342)</u>	\$ <u>(1,163)</u>
Other expenses	\$ <u>(40)</u>	\$ <u>(631)</u>

b. Balances with related parties are as follows:

	2016	2015
Due from related parties -		
Short term:		
Constructora y Perforadora Latina, S. A. de C. V.	\$ <u>7,483</u>	\$ <u>34,217</u>
Long-term:		
Constructora y Perforadora Latina, S. A. de C. V.	\$ <u>-</u>	\$ <u>16,320</u>
Due to related parties -		
Rodelva Servicios Administrativos, S. A. de C. V.	\$ <u>1,330</u>	\$ <u>220</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.

15. Authorization to issue the consolidated financial statements

On April 28, 2017, the issuance of the accompanying consolidated financial statements was authorized by C. P. C. Miguel Ruiz Tapia, Chief Financial Officer; consequently, they do not reflect events that occurred after that date, and are subject to the approval at the Entity's Annual Ordinary Stockholders' Meeting, where they may be modified. The consolidated financial statements for the year ended December 31, 2015 were approved at the Annual Ordinary Stockholders' Meeting held in June 6, 2016.

* * * * *