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

Consolidated Financial Statements for the years ended December 31, 2018 and 2017, and Independent Auditors' Report Dated April 29, 2019

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

Independent Auditors' Report and Consolidated Financial Statements for 2018 and 2017

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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, 2018 and 2017, and the consolidated statements of operations, the consolidated statements of changes in stockholders' equity and the 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS"), 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 *Independent Auditors' 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

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 Petróleos Mexicanos ("PEMEX"), restructured its debt and obligations with the bondholders and continues its efforts to restructure its short-term debt.

In addition, as of December 31, 2018 and 2017, the Entity has incurred accumulated losses and shows an imbalance between current assets and current 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.

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

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

Independent Auditors' 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 auditors' 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 ISA 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 ISA, 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 auditors' 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 auditors' 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 obtain sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We continue to be solely responsible for our audit opinion.

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.

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

C. P. C. César Roman Navarrete Esparza

April 29, 2019

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

Consolidated Statements of Financial Position
As of December 31, 2018 and 2017
(In thousands of US dollars)

Assets	Note	2018	2017
Current assets:			
Cash and restricted cash	6	$ 22,712	$ 5,141
Due from related parties	14	14,338	28,000
Other accounts receivable		7,168	8,003
Prepaid expenses, net		2,375	471
Total current assets		46,593	41,615
Non-current assets:			
Jack-ups and equipment, net	7	468,482	490,922
Deferred income taxes	9	14,170	9,368
Total non-current assets		482,652	500,290
Total assets		$ 529,245	$ 541,905

Liabilities and Stockholders' equity

	Note	2018	2017
Current liabilities:			
Current portion of long-term debt	8	$ 305,687	$ 356,155
Trade accounts payable		2,455	-
Due to related parties	14	141	-
Other accounts payable and accrued liabilities		10,672	9,692
Interest payable		10,767	15,166
Total current liabilities		329,722	381,013
Non-current liabilities:			
Long-term debt	8	49,172	-
Deferred income taxes	9	384	1,949
Total non-current liabilities		49,556	1,949
Total liabilities		379,278	382,962
Stockholders' equity:			
Capital stock	11	227,727	227,727
Deficit		(77,760)	(68,784)
Total stockholders' equity		149,967	158,943
Total liabilities and stockholders' equity		$ 529,245	$ 541,905

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 Operations

For the years ended December 31, 2018 and 2017
(In thousands of US dollars)

	Note	2018	2017
Continuing operations:			
Operating lease revenues	14	$ 57,438	$ 58,313
Operating cost	12	3,553	3,024
Depreciation of assets under operating leases	7	35,180	47,725
Gross profit		18,705	7,564
Other expense (income)		17	(101)
Interest expense, net	13	33,712	36,577
Exchange loss (gain), net		318	(93)
Loss before income taxes		(15,342)	(28,819)
Deferred income tax benefit	9	(6,366)	(14,520)
Consolidated net loss		$ (8,976)	$ (14,299)

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 Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017
(In thousands of US dollars)

	Capital stock	Deficit	Total stockholders' equity
Beginning balance as of January 1, 2017	$ 227,727	$ (54,485)	$ 173,242
Consolidated net loss	-	(14,299)	(14,299)
Balance as of December 31, 2017	227,727	(68,784)	158,943
Consolidated net loss	-	(8,976)	(8,976)
Balance as of December 31, 2018	$ 227,727	$ (77,760)	$ 149,967

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, 2018 and 2017
(In thousands of US dollars)

	2018	2017
Cash flows from operating activities		
Consolidated net loss	$ (8,976)	$ (14,299)
Adjustments for:		
Deferred income tax benefit	(6,367)	(14,520)
Depreciation	35,180	47,725
Interest income	(1,719)	(1,718)
Interest expense	34,500	34,035
Exchange gain	318	(93)
Income on disposal of equipment	-	(71)
Amortization of bond issuance costs	931	4,233
	53,867	55,292
Changes in working capital:		
(Increase) decrease in:		
Due from related parties	14,660	(9,557)
Other accounts receivable	835	832
Prepaid expenses	(1,904)	129
Increase (decrease) in:		
Trade accounts payable	2,455	(73)
Due to related parties	141	(1,330)
Other accounts payable and accrued liabilities	662	2,261
Net cash flows provided by operating activities	70,716	47,554
Cash flows from investing activities:		
Purchase of machinery and equipment	(12,740)	(11,546)
Loans granted to related parties	-	(9,242)
Sale of equipment	-	122
Net cash flows used in investing activities	(12,740)	(20,666)
Cash flows from financing activities:		
Payments of long term-debt	(1,000)	-
Bonds issuance cost	(1,227)	(560)
Interest paid	(38,178)	(33,079)
Net cash flows used in financing activities	(40,405)	(33,639)
Net increase (decrease) in cash and restricted cash	17,571	(6,751)
Cash and restricted cash at the beginning of the year	5,141	11,892
Cash and restricted cash at end of the year	$ 22,712	$ 5,141

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
(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 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"), its direct parent company incorporated in Mexico.

The Entity provides services exclusively to a related party. Accordingly, the accompanying consolidated financial statements are not necessarily indicative of the prevailing conditions or results of operation and cash flows that the Entity would have obtained, if there were no such affiliation.

The Entity's management team, operating and administrative personnel are employed directly by a 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. *Changes in lease terms contracts of the Jack-ups and modular rig*

In May 2018, CP Latina signed amendments in the lease agreements with respect to the early termination clause, obtaining better conditions to extend the contract in the long- term basis. In addition, the following conditions were agreed: i) The Jack-ups and Modular rig will apply a daily rate of $102 and $48.2, respectively, for the period from April 1, 2018 to September 30, 2018 ii) a minimum rate by $100 and $48.2 for the Jack-ups and Modular rig, respectively; and iii) rates will be indexed in October 2018 and January and July of the following years, having as a maximum level the original rates established in the first agreement. As of January 1st, 2019 to June 30, 2019 the daily rate for the Jack-ups will be $106 and the Modular rig $50.1.

Due to the Modular rig was moved from the Xanab C field to the Xanab D, following events were presented: i) Temporary suspension of the contract by 189 days for the period from September 1, 2018 to March 8, 2019; ii) during the period from March 9, 2019 to April 8, 2019 the Modular rig was reinstated iii) reset to daily rate starts on April 9, 2019; and, iv) suspension and mobilization costs incurred were $8,318; Pemex will reimburse $3,764 and the remaining of $ 4,554 are recognized as expensed during 2019 at the income statement; and v) new agreement will be signed to extend the term of the contract to recover the days of the suspension period.

During 2017, CP Latina signed an amendment agreement with a daily rate by $95 for the Jack-ups for the period from August 15, 2017 to December 31, 2017; and from January 1 to March 31, 2018, the daily rate will be $111.3. The Modular rig will have a daily rate by $52.2 for the period from June 1, 2017 to March 31, 2018.

b. ***$306,250 International bond (original amount $350,000) and $49,000 (original amount de $75,000)***

During 2018, the following conditions were agreed:

	$306,250 Bond	**$49,000 Bond**
Maturity date	September 3, 2019	January 31, 2020
Interest payment frequency	On quarterly basis	On quarterly basis
Payments of principal	100% of available quarterly cash flow	$500 plus 2% and 100% of available quarterly cash flow

In regards $49,000 bond, its Parent Entity is formalizing certain agreements as follows: i) interest for July 2018, October 2018, January 2019, and April 2019 for the total amount of $ 4,900 plus 10% will be capitalized as part of the principal on April 30, 2019 ii) the quarterly amortization of principal by $ 500 plus 2% will be paid starting on April 30, 2020 and iii) maturity date will be on January 31, 2021.

CP Latina is under negotiations with the group of bondholders of the bond $306,250 in relation to the conditions of the restructuring, which is expected, they would maintain the same conditions as the current bond and only the expiration date would be extended.

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, through CP Latina, renegotiated agreements with PEMEX, In addition to December 31, 2018 and 2017, 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.

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 IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Entity adopted consequential amendments to IFRS 7 *Financial Instruments*: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) ***Classification and measurement of financial assets***

The date of initial application (i.e. the date on which the Entity has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Entity has applied the requirements of IFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognized as at 1 January 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments 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 amount outstanding, are measured subsequently at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Entity has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

Reviewed and assessed the Entity's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Entity's financial assets as regards their classification and measurement:

- The Entity's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement. The notes have been reclassified as financial assets at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding;

- The Entity's investment in corporate bonds that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognized or reclassified;

- The Entity's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve;

- There is no change in the measurement of the Entity's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL;

- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

There are not changes in classification of the Entity's financial assets upon application of IFRS 9.

None of the other reclassifications of financial assets have had any impact on the Entity's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

(b) ***Impairment of financial assets***

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 the 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortized cost or at FVTOCI,
(2) Lease receivables,
(3) Trade receivables and contract assets, and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. The application of IFRS 9 has had no impact on the consolidated statement of operations of the Entity.

(c) ***Classification and measurement of financial liabilities***

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be 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, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

This change in accounting policy has not affected the Entity's accounting for changes in the fair value of redeemable cumulative preference shares issued by the Entity in the current year that were designated by the Entity on initial recognition as financial liabilities at FVTPL.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Entity's financial liabilities.

Please refer to (e) below and (f) below for further details regarding the change in classification upon the application of IFRS 9.

(d) ***Disclosures in relation to the initial application of IFRS 9***

There were no financial assets or financial liabilities which the Entity had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Entity has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Entity has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The application of IFRS 9 has had no impact on the consolidated cash flows of the Entity.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Entity has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

IFRS 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe what might more commonly be known as ‘accrued revenue’ and ‘deferred revenue’, however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Entity has adopted the terminology used in IFRS 15 to describe such balances. IFRS 15 has not had as a significant impact on the financial position and or financial performance of the entity.

Impact of application of Other amendments to UFRS Standards and Interpretations

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IAS 40 (amendments)Transfers of Investment Property	(i) The Entity has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).
IFRIC 22 Foreign Currency Transactions and Advance Consideration	IFRIC 22 addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

IFRS 16	*Leases*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Annual Improvements to IFRS Standards 2015–2017 Cycle	*Amendments to* IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes and* IAS 23 *Borrowing Costs*
IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
IFRIC 23	*Uncertainty over Income Tax Treatments*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except as noted below:

IFRS 16 Leases

<u>General impact of application of IFRS 16 Leases</u>

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Entity will be 1 January 2019.

The Entity has chosen the full retrospective application of IFRS 16 in accordance with IFRS 16:C5(a). Consequently, the Entity will restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

<u>Impact of the new definition of a lease</u>

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

<u>Impact on Lessee Accounting</u>

Operating leases

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Entity will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Entity's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Entity's consolidated financial statements.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Entity will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease asset receivables recognized. This change in accounting will change the timing of recognition of the related revenue (recognized in finance income).

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity’s consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The *Annual Improvements* include amendments to four Standards.

IAS 12 *Income Taxes*

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity’s consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Entity’s consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as an entity; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

    - If yes, the entity should determine its accounting tax position consistently with the tax

- treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an 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 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, 2018 and 2017 is shown below:

	Activity	**% Ownership 2018 and 2017**
Latina Offshore Limited	Holding	100%
Santa Maria Offshore Limited	Lessor	100%
La Covadonga Limited	Lessor	100%
Latina Modular Holding Limited	Holding	100%
Latina Modular 01 Limited	Lessor	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. ***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.

e. ***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. <u>Effective interest method</u>

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. <u>Financial assets at FVTPL</u>

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. <u>Loans and receivables</u>

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. <u>Impairment of financial assets</u>

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. <u>Derecognition of financial assets</u>

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.

f. ***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. A minimum level of cash shall be maintained as restricted cash under debt agreement (see note 8)

g. ***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	14
Modular rig	12

During 2018 the Entity reviewed the useful lives of the Jack- ups and the Modular rig equipment, having a decrease in the depreciation expense in the amount of $ 13,983.

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. ***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.

<u>The Entity as lessor</u>

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.

j. ***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.

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

	December 31, 2018	December 31, 2017	April 29, 2019
Mexican pesos per one US dollar	$ 19.6829	$ 19.7354	$ 19.0942

k. ***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.

l. ***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.

m. ***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.

n. ***Financial liabilities and equity instruments***

1. <u>Classification as debt or equity</u>

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. <u>Equity instruments</u>

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. <u>Financial liabilities</u>

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. <u>Derecognition of financial liabilities</u>

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 contracts, 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 follows:

Revenue from operating leases

These revenues are derived from the granting to use of the Jack-ups and modular rig, which are recognized as income when earned.

Revenues from operating leases of Jack-ups and modular rig 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 modular rig to the lease by the end of the lease term.
  b. The lease does not contain an option to purchase the Jack-ups and modular rig.
  c. The lease term does not represent a substantial portion of the economic life of the Jack-ups and modular rig.
  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 modular rig.
  e. The leased Jack-ups and modular rig 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 modular rig 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 2018 and 2017. The Entity expects to amortize tax losses against tax profits generated from subsequent years, with the normal operations of its Jack-ups and modular rig.

6. Cash and restricted cash

	2018	2017
Cash and banks deposits	$ 12,712	$ 141
Restricted cash (see Note 8)	10,000	5,000
	$ 22,712	$ 5,141

7. Jack-ups and equipment, net

	Balance as of December 31, 2017	Additions	Disposals	Balance as of December 31, 2018
Investment				
Jack-ups	$ 512,801	$ 5,361	$ (16)	$ 518,146
Modular rig	116,963	2,656	-	119,619
Computers	414	-	-	414
Vehicles	140	-	(140)	-
Spare parts	7,680	4,723	-	12,403
	637,998	12,740	(156)	650,582
Depreciation				
Jack-ups	(131,459)	(26,619)	16	(158,062)
Modular rig	(15,086)	(8,538)	-	(23,624)
Computers	(414)	-	-	(414)
Vehicles	(117)	(23)	140	-
	(147,076)	(35,180)	156	(182,100)
Total investment, net	$ 490,922	$ (22,440)	$ -	$ 468,482

	Balance as of December 31, 2016	Additions	Disposals	Balance as of December 31, 2017
Investment				
Jack-ups	$ 509,216	$ 3,585	$ -	$ 512,801
Modular rig	114,694	2,269	-	116,963
Computers	414	-	-	414
Vehicles	347	-	(207)	140
Spare parts	1,988	5,692	-	7,680
	626,659	11,546	(207)	637,998
Depreciation				
Jack-ups	(94,738)	(36,721)	-	(131,459)
Modular rig	(4,253)	(10,833)	-	(15,086)
Computers	(316)	(98)	-	(414)
Vehicles	(200)	(73)	156	(117)
	(99,507)	(47,725)	156	(147,076)
Total investment, net	$ 527,152	$ (36,179)	$ (51)	$ 490,922

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

8. Long-term debt

		2018		2017
Secured - at amortized cost				
Senior secured callable bond for $306,250 ($350,000 original amount) maturing on September 3, 2019, bearing interest, payable on quarterly basis, at a fixed 8.875% rate. Principal will be paid on based on the total excess of cash flow at the end of each period.	$	306,250	$	306,250
Senior secured callable bond for $49,000 ($75,000 original amount) maturing on January 31, 2020, bearing interest, payable on a quarterly basis, at a fixed 10.00% rate. During 2018, the Entity paid of principal by $1,000.		49,000		50,000
		355,250		356,250
Less:				
Bond issuance cost, net		(391)		(95)
Total debt		354,859		356,155
Less: current portion		305,687		356,155
	$	49,172	$	-

As mentioned in Note 2b, the Entity celebrated an agreement with the International Bondholders to modify some conditions established in the contract (see Note 15).

a. ***Call option***

The Entity may redeem the bond of $350,000 ($306,250 outstanding balance as of December 31, 2018) (Call option) at any time to a nominal value.

The Entity may redeem the bond of $75,000 ($49,000 outstanding balance as of December 31, 2018) at any time at a price equal to 102% of par value.

b. ***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 Shall at all times from and including the Amendment Date maintain no less than $10,000 (the "Retained Amount") in the Minimum Liquidity Account.
iv Latina Offshore Limited shall on a consolidated basis at all times maintain an Equity Ratio of 22.5%
v The Debt Level of the Entity (on a consolidated basis) shall not exceed $360,000.

At the date of the issuance of these consolidated financial statements the Entity has complied with the covenants established in the renegotiated agreements.

9. Income taxes

The Entity is not subject to income taxes in Bermuda. The Entity is subject to ISR in Mexico at the current rate of 30%.

a. ***Income tax recognized in loss***

	2018	2017
Current tax	$ 1	$ -
Deferred income tax benefit	(6,367)	(14,520)
	$ (6,366)	$ (14,520)

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

	2018	2017
Statutory rate	30%	30%
Non-deductible expenses	(1%)	(6%)
Effects of inflation	(15%)	(18%)
Other	27%	44%
Effective rate	41%	50%

b. ***Deferred tax in the consolidated statements of financial position***

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

	2018	2017
Deferred ISR assets:		
Effect of tax loss carryforwards	$ 25,950	$ 32,597
Provisions	25	25
Other assets	1,863	1,362
Deferred ISR assets	27,838	33,984
Deferred ISR liabilities:		
Prepaid expenses	-	-
Jack-ups and equipment	(14,052)	(26,565)
Deferred ISR liabilities	(14,052)	(26,565)
Net asset	$ 13,786	$ 7,419

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, 2018, are:

Year of expiration	Tax Loss Carryforwards
2024	$ 422
2025	9,154
2026	65,220
2027	3,315
2028	8,390
	$ 86,501

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.

The Entity is subject to an equity ratio covenant of a minimum of 22.5%.

	Amount
Consolidated equity	$ 149,967
Total consolidated assets	529,245
Equity ratio	28.33%

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, 2018 and 2017 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, 2018					
	Weighted average effective interest rate %	**1-6 months**	**6 months to 1 year**	**1-5 years**	**Total**	**Carrying amount**
Fixed interest rate instruments	8.875%	$ -	$ 305,687	$ 49,172	$ 354,859	$ 354,859
Trade accounts payable		-	2,455	-	2,455	2,455
Due to related parties		-	141	-	141	141
Total		$ -	$ 308,283	$ 49,172	$ 357,455	$ 357,455

	December 31, 2017					
	Weighted average effective interest rate %	**1-6 months**	**6 months to 1 year**	**1-5 years**	**Total**	**Carrying amount**
Fixed interest rate instruments	8.875%	$ 90,000	$ 246,155	$ -	$ 356,155	$ 356,175
Trade accounts payable		-	-	-	-	-
Due to related parties		-	-	-	-	-
Total		$ 90,000	$ 246,155	$ -	$ 356,155	$ 356,175

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, 2018
Financial assets:		
Cash and restricted cash	$ 22,712	$ 22,712
Due from related parties	14,338	14,338
Financial liabilities:		
Trade accounts payable	$ 2,455	$ 2,455
Financial liabilities held at amortized cost:		
Debt	$ 354,859	$ 278,056

	Carrying amount	Fair value at December 31, 2017
Financial assets:		
Cash and restricted cash	$ 5,141	$ 5,141
Due from related parties	28,000	28,000
Financial liabilities held at amortized cost:		
Debt	$ 356,155	$ 356,175

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 ($306,250 outstanding balance as of December 31, 2018) and 9.92% for the $75,000 ($49,000 outstanding balance as of December 31, 2018), 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, is as follows:

	2018 and 2017	
	Shares	**Amount**
Fixed:		
Series A	100	$ -
Variable:		
Series A	227,727,292	227,727
	227,727,392	$ 227,727

Common stock consists of ordinary, nominative shares with par value of one dollar.

12. Cost and expenses by nature

		2018		2017
Insurance	$	2,824	$	3,024
Services		606		-
Others		123		-
	$	3,553	$	3,024

13. Interest expense, net

		2018		2017
Interest income from related parties	$	(1,571)	$	(1,718)
Interest expenses with related parties		724		382
Interest expense for senior secured callable bonds		33,776		33,653
Amortization of bond issuance cost		931		4,233
Other (income) expenses		(148)		27
	$	33,712	$	36,577

14. Balances and transactions with related parties

Balances and transactions between the Entity and its subsidiaries, 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:

		2018		2017
Operating lease revenues	$	57,438	$	58,313
Interest income	$	1,571	$	1,718
Purchases of spare parts and tools	$	(12,740)	$	(11,423)
Interest expenses	$	(724)	$	(382)
Other expenses	$	(75)	$	(58)

b. Balances with related parties are as follows:

		2018		2017
Due from related parties -				
CP Latina	$	14,338	$	28,000
Due to related parties -				
Servicios Corporativos Latina, S.A. de C V.	$	141	$	-

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 29, 2019, 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, 2017 were approved at the Annual Ordinary Stockholders' Meeting held in April 28, 2018.

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