Constructora y Perforadora Latina, S. A. de C. V. and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018, and Independent Auditors' Report Dated September 29, 2020

Constructora y Perforadora Latina, S.A. de C.V. and Subsidiaries
(Subsidiary of Grupo Creatica, S.A. de C.V.)

Independent Auditors' Report and Consolidated Financial Statements for 2019 and 2018

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Independent Auditors' Report to the Board of Directors and Stockholders of Constructora y Perforadora Latina, S. A. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Constructora y Perforadora Latina, S. A. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the consolidated statements of loss and Comprehensive loss, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), as 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 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 mentioned in Note 3b, the accompanying consolidated financial statements have been prepared under the assumption that the Entity will continue as a going concern. Also, as it is indicated in Note 2, the Entity renegotiated agreements with PEMEX; restructured its International Bonds debt.

On the other hand, most of its short-term financial debt has a guarantee from its shareholders as detailed in Note 15. To date, it is not possible to anticipate whether the Entity will have sufficient cash flows to meet to its short and long-term obligations and to continue its operations. Neither is possible to anticipate the effects that this could have on the operation and, if applicable, on the figures of the consolidated financial statements.

In addition to December 31, 2019 and 2018, the Entity presents accumulated losses derived from the financial burden and shows an imbalance between current assets and liabilities. The accompanying consolidated financial statements do not include the adjustments related to the valuation and classification of assets and classification and amount of liabilities that might be necessary if the Entity could not continue to operate. Management's plans for the Entity to continue as a going concern are also indicated in Note 3b.

As mentioned in Note 23, the appearance of the Coronavirus COVID-19 in China in January 2020 and its recent global expansion to a large number of countries, has led to the viral outbreak being classified as a pandemic by the World Organization for Health since last March 11. The economic impacts and the consequences in the markets will depend, to a great extent, on the evolution and spread of the pandemic in the coming months, as well as on the capacity of reaction and adaptation of all the economic agents impacted.

Our opinion has not been modified in relation to these matters.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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 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 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.

We also provided the Entity's corporate governance officers with a declaration to the effect that we have fulfilled applicable ethical requirements regarding our independence and have reported all the relations and other issues that could be reasonably be expected to affect our independence and, when applicable, the respective safeguards.

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

C.P.C. César Román Navarrete Esparza

Mexico City, Mexico
September,29 2020

Constructora y Perforadora Latina, S. A. de C. V. and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Financial Position

As of December 31, 2019 and 2018
(In thousands of US dollars)

Assets	Note	2019	2018
Current assets:			
Cash and restricted cash	6	$ 29,542	$ 23,884
Trade accounts receivable	7	55,486	40,049
Due from related parties	19	444	-
Recoverable taxes and other accounts receivable		29,776	11,039
Inventories - net	8	22,331	12,132
Drilling start-up cost and others		28,549	2,479
Total current assets		166,128	89,583
Jack-ups and equipment, net	11	442,489	472,533
Right of use assets	9	31,314	-
Deferred income tax	20	33,365	20,031
Investment in wells and infrastructure, net	12	19,022	29,138
Other assets, net		87	134
Total		$ 692,405	$ 611,419

Liabilities and Stockholders' equity	Note	2019	2018
Current liabilities:			
Current portion of long-term debt	15	$ 64,992	$ 313,187
Trade accounts payable		27,294	22,522
Lease liabilities	10	21,779	-
Advance customer		16,023	-
Taxes and accrued expenses	17	38,748	14,993
Due to related parties	19	25,542	9,936
Accrued interest		7,254	10,795
Total current liabilities		201,632	371,433
Non-current liabilities:			
Long-term debt	15	295,691	49,172
Leases liabilities	10	9,577	-
Employee retirement benefits	16	-	1,424
Deferred income taxes	20	781	689
Total non-current liabilities		306,049	51,285
Total liabilities		507,681	422,718
Stockholders' equity:			
Contributed capital:			
Capital stock	18	317,508	306,096
Earned capital:			
Legal reserve		398	398
Deficit		(136,303)	(121,745)
Other comprehensive income		-	258
Controlling interest		181,603	185,007
Non-controlling interest		3,121	3,694
Total stockholders' equity		184,724	188,701
Total		$ 692,405	$ 611,419

The accompanying notes are part of the consolidated financial statements.

Constructora y Perforadora Latina, S. A. de C. V. and Subsidiaries
(Subsidiary of Grupo Creatica, S.A. de C.V.)

Consolidated Statements of Profit or Loss and Comprehensive Loss

For the years ended December 31 2019 and 2018
(In thousands of US dollars)

	Note	2019	2018
Revenue:			
Operating lease revenues		$ 97,774	$ 92,003
Leasing of jack-ups	19	-	2,296
Drilling services and maintenance of wells		12,153	18,729
		109,927	113,028
Lease cost	21	29,094	27,348
Cost of services and maintenance of wells	21	3,234	8,497
Depreciation and amortization		55,587	49,360
Impairment of investment in wells		-	11,923
Gross profit		22,012	15,900
Administrative expenses	21	13,312	9,647
Other expenses, net		3,507	2,444
Financing costs	22	36,283	38,043
Interest income		(1,439)	(1,369)
Exchange loss - Net		396	293
Consolidated loss before income taxes		(30,047)	(33,158)
Income tax benefit	20	(13,530)	(16,720)
Consolidated net loss		(16,517)	(16,438)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation	16	-	64
Consolidated comprehensive loss for the year		$ (16,517)	$ (16,374)
Consolidated net loss attributable to:			
Controlling participation		$ (15,891)	$ (14,498)
Non-controlling participation		(626)	(1,940)
		$ (16,517)	$ (16,438)

The accompanying notes are part of the consolidated financial statements.

Constructora y Perforadora Latina, S. A. de C. V. and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2019 and 2018
(In thousands of US dollars)

	Contributed capital	Earned capital					
	Capital stock	Legal reserve	Deficit	Other comprehensive income	Total controlling participation	Non-controlling participation	Total Stockholders' equity
Beginning balance at 2018	$ 276,336	$ 398	$ (99,185)	$ 153	$ 177,702	$ -	$ 177,702
Capital increase	46,854	-	-	-	46,854	-	46,854
Split-off effect	(17,094)	-	-	-	(17,094)	-	(17,094)
Effect on the purchase of shares of subsidiary entity	-	-	(8,062)	41	(8,021)	5,634	(2,387)
Consolidated comprehensive loss for the year	-	-	(14,498)	64	(14,434)	(1,940)	(16,374)
Balance as of December 31, 2018	306,096	398	(121,475)	258	185,007	3,694	188,701
Capital increase	11,412	-	-	-	11,412	-	11,412
Effect on the purchase of shares of subsidiary entity	-	-	1,333	(258)	1,075	53	1,128
Consolidated comprehensive loss for the year	-	-	(15,891)	-	(15,891)	(626)	(16,517)
Balance as of December 31, 2019	$ 317,508	$ 398	$ (136,303)	$ -	$ 181,603	$ 3,121	$ 184,724

The accompanying notes are part of the consolidated financial statements.

Constructora y Perforadora Latina, S. A. de C. V. and Subsidiaries
(Subsidiary of Grupo Creatica, S. A. de C. V.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018
(In thousands of US dollars)

	2019	2018
Cash flows from operating activities:		
Consolidated net loss of the year	$ (16,517)	$ (16,438)
Adjustments for:		
Income tax benefit	(13,530)	(16,720)
Depreciation and amortization	55,471	49,360
Loss on sale of equipment	370	-
Impairment of assets	-	12,648
Loss from share in associate entity investment	-	-
Labor cost of current service	(1,424)	378
Amortization of bond issuance costs	(2,592)	(296)
Adjustment to cash flows due to exchange rate fluctuations	855	79
Interest expense	37,155	37,113
Interest income	(1,439)	(1,369)
	58,349	64,755
Changes in working capital:		
(Increase) decrease in		
Trade accounts receivable	(15,437)	2,585
Related parties	(444)	8,005
Current taxes and other accounts receivable	(18,737)	3,790
Inventories	(10,199)	1,487
Prepaid expenses	(26,070)	48
Increase (decrease) in:		
Trade accounts payable	4,772	(1,643)
Taxes and accrued expenses	24,043	(4,165)
Advance costumers	16,023	
Due to related parties	16,734	(21,174)
Net cash flows provided by operating activities	49,034	53,688
Cash flows from investing activities:		
Acquisition of equipment for jack ups and wells	(15,681)	(31,468)
Interest received	1,439	1,369
Investment in associate entity	-	(19,133)
Other assets	47	2,244
Net cash flows used in investing activities	(14,195)	(46,988)
Cash flows from financing activities		
Capital increase	11,412	46,854
Leases liabilities	42	
Debt obtained	8,840	7,500
Repayment of debt	(8,779)	(9,000)
Interest paid	(40,696)	(41,506)
Net cash flows generated by (used in) financing activities	(29,181)	3,848
Net increase in cash and restricted cash	5,658	10,548
Cash and restricted cash at the beginning of the year	23,884	13,336
Cash and restricted cash at end of the year	$ 29,542	$ 23,884

The accompanying notes are part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018
(In thousands of US dollars)

1. Activities

Constructora y Perforadora Latina S.A. de C.V. and Subsidiaries (the "Entity" or Latina) is subsidiary of Grupo Creatica, S. A. de C.V., it is an anonymous limited company with variable capital incorporated in Mexico on March 14, 1991. The Entity's address is Horacio 1855, 5th floor, Los Morales Polanco, Miguel Hidalgo, Mexico City, Zip Code 11510. It is mainly engaged in the leasing of oil rigs and a modular offshore drilling (offshore) and to provide drilling services and maintenance of geothermal wells (onshore) to Comision Federal de Electricidad (CFE).

2. Significant events

a. ***Changes to the leasing contracts with Pemex of the two platforms and modular rig***

During 2019, the rates derived from the amending agreements signed in 2018 were indexed in both leases. La Santa María and La Covadonga to apply a daily rate of $106.029 for the period from January 1 to June 30, 2019, and a daily rate of $119.452 from July 1 to December 31, 2019, and from January 1 to June 30, 2020 the daily rate will be $127.500. The Modular applied a daily rate of $50.104 for the period from January 1 to June 30, 2019, and a daily rate of $56.447 from July 1 to December 31, 2019, and from January 1 to June 30, 2020, the daily rate will be $60.250.

In May 2018, the Entity signed amending agreements regarding to the early termination clause; improving termination conditions in the long-term basis. Derived from the modified agreements, the following arrangements were applied: (i) The platforms will apply a daily rate of $102 and the modular rig $48.2 for the period from April 1, 2018 to September 30, 2018 (ii) The floor rate of the platforms it is $100 and the modular $48.2 and, (iii) The rates would be indexed in January and July of the following years, with the original rates established in the contracts as cap.

The modular was mobilized from the Xanab C field to Xanab D, derived from that, the following events occurred: (i) Temporary suspension of the contract; from September 1°, 2018 to March 8, 2019, (ii) the modular reinstallation period was from March 9, 2019 to April 8, 2019, (iii) the restart of operations at a daily rate was as of April 9, 2019, (iv) the total suspension and mobilization costs amounted to approximately $8,318, of which Pemex will reimburse $3,764, the difference of $4,554 is recognized in the results of 2019, and (v) an agreement was signed to extend the term of the contract for the days of suspension, having as expiration date March 16, 2021.

b. ***International bonds of $298,017 (original amount of $350,000) and $54,390 (original amount of $75,000)***

During 2019, the following conditions were formalized:

	Bond $306,250	**Bond $54,390**
Maturing	October 15, 2022	October 30, 2020
Interest payment frequency	Quarterly	Quarterly
Amortization of capital	100% of available quarterly flow	Fixed amortization of $500 plus 2% and 100% available flow from January 15, 2020

Regarding to the $54,390 Bond, the interest for the quarters of July 2018, October 2018, January 2019 and April 2019 in the amount of $4,900 plus 10% were capitalized as part of the principal, going from $49,000 to $54,390 at 31 December 2019.

During 2018, the following conditions were formalized:

	Bond $306,250	**Bond $49,000**
Maturing	September 3, 2019	January 31, 2020
Interest payment frequency	From semiannual to quarterly	Quarterly
Amortization of capital	100% of available quarterly flow	Fixed amortization of $500 plus 2% and 100% available flow

c. ***Services contract for the commissioning of the production units with the interventions support to wells in the Gulf of Mexico***

On May 30, 2019, a service contract was signed with PEMEX consisting in the production units commissioning with the support of interventions to wells in the Gulf of Mexico. The contract ends on June 30, 2021 for the amount of $254,889, an amount that can be increased according to the number of wells to be drilled. As of the date of the consolidated financial statements, the main agreements and progress of the contract are:

- 14 wells to drill in the fields of Cahua (2 wells), Telt (4 wells), Kobán (4 wells) and Itta (4 wells).
- Drilling on 3 fronts is required, for which 3 offshore drilling platforms were leased, 2 of them with an 18-month rental obligation plus 6 optional months; and one for 9 months (2 wells), with the option of renting it for additional wells.
- 6 drilling orders have been agreed, of which 6 advances of 20% have been invoiced in the amount of $33.5, the amount of $ 21.8 has been collected, and $ 11.7 remains uncollected, there are two canceled drilling orders, Cheek 45 for $ 5.1 and Cheek 22 $ 5.1, the latter is pending recovery.
- On December 30, 2019, the drilling of the Cahua 2 well began, which was completed on February 24, 2020, the completion operations were carried out in July and concluded on the 28th of the same month. On March 4, 2020, the drilling of the Cahua 3 well began, and concluded on May 7, 2020. The completion of the Cahua 3 is in process, beginning on August 3. The Koban 5 well started on May 19, 2020 and the Tetl 1001 well on June 10, 2020.
- The drilling of the Tetl 1001 well and the Kobán 5 well are expected to begin operations during the month of May 2020. In both fields, the installation of the substructure and superstructure of PEMEX is pending.
- As of December 31, 2019, project start-up costs and expenses have been incurred for the amount of $27,783, which correspond mainly to adjustments, transportation expenses and equipment rents, personnel and logistics expenses. Expenses will be amortized in proportion to the income earned from the project.

d. ***Pitepec field - hydrocarbons production***

On June 10, 2014, the Entity signed a contract for hydrocarbons production inside of a contractual area of Pitepec's field with PEMEX for 35 years; this field has a surface area of 230 square kms, located in the south-center portion of Tampico-Misantla watershed, 76 kms, northwest of Poza Rica, Veracruz. The Entity received the field on January 1, 2015, with 17 wells; seven of them are producers and 10 wells are closed with potential for exploitation. The Entity committed to invest $57,750 for a period of 24 months (completed on February 28, 2018).

From March 2018 to April 30, 2019, the minimum work obligation was $9,900, which was fulfilled, from May to December 2019, the obligation is for $7,387, which will be carried out during the first half of 2020 and the obligation of year 2020 is for $1,119. As of the date of the consolidated financial statements, the field has 35 wells with a daily production of 730 barrels.

3. Basis of presentation

a. ***Explanation for translation into English***

The accompanying consolidated financial statements have been translated from Spanish into English for its use outside of Mexico. These consolidated financial statements are presented on the basis of International Financial Reporting Standards (IFRS). Certain accounting practices applied by the Entity that comply with IFRS may not comply with the accounting principles generally accepted in the country of use.

b. ***Going concern***

The consolidated financial statements have been prepared assuming that the Entity will continue as a going concern. Also, as indicated in Note 2, the Entity negotiated agreements with PEMEX and restructured its debt of International Bonds. On the other hand, most of its short-term financial debt has a guarantee from its shareholders as detailed in Note 15. To date, it is not possible to anticipate whether the Entity will have sufficient cash flows to meet its short and long-term obligations and to continue its operations. Neither the effects that it might have on the operation and, where appropriate, on the figures of the consolidated financial statements.

In addition, as of December 31, 2019 and 2018, the Entity has an accumulated deficit due to the financial burden and an imbalanced working capital. The consolidated financial statements do not include the adjustments related to the valuation and classification of assets and classification and amount of liabilities that might be necessary if the Entity could not continue to operate.

The plans of the of the Entity’s Management, to continue as a going concern, are as follows:

i. Improve the cost and profile of its debt, including the refinancing of short-term to long-term, and seek alternative sources of financing.

ii. Develop new projects, achieving high levels of operational efficiency and therefore adequate profitability.

c. ***Amendments to International Financing Reporting Standards (IFRS or IAS) and interpretations that are mandatorily effective for the current year***

In the current year, the Entity has applied a number of amendments to IFRS and new Interpretations issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2019.

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

Impact of initial application of IFRS 16, Leases

The Entity implemented IFRS 16 (issued by the IASB in January 2016), which establishes new or modified requirements regarding lease accounting. It introduces significant changes to the lessee's accounting, eliminating the distinction between an operating and financial lease and requiring the recognition of an asset for right-of-use assets and a lease liability at the commencement date of all leases, except those that are considered short term or low value assets. In contrast to the lessee's accounting, the requirements for the lessor remain significantly unchanged. The details for the new requirements are described in Note 4. The initial impacts of the adoption of IFRS 16 in the Entity's consolidated financial statements are described as follows:

The initial application date of IFRS 16 for the Entity was January 1, 2019.

The Entity has applied IFRS 16 using the modified retrospective approach, with restatement of the comparative information.

a) *Effect of the new lease definition*

The Entity has opted to apply the practical expedient available for the transition to IFRS 16 to avoid reassessing whether a contract is or contains a lease. Consequently, the lease definition contained in IAS 17 and IFRIC 4 will continue to be applied to contracts executed or amended prior to January 1, 2019.

The modification of the lease definition primarily refers to the concept of control. IFRS 16 determines whether a contract contains a lease based on whether the customer is entitled to control the use of an identified asset for a given period of time in exchange for a payment. This contrasts with the “risks and rewards” approach of IAS 17 and IFRIC 4.

The Entity applies the lease definition and related guidelines detailed in IFRS 16 to all the contracts executed or amended on or as of January 1, 2019 (regardless of whether it acts as the lessor or lessee in the contract). For the initial adoption of IFRS 16, the Entity utilized an implementation project, which indicated that the new lease definition established by IFRS 16 does not significantly modify the scope of contracts that fulfill the lease definition for the Entity.

b) *Impact on lessee accounting*

(i) *Prior operating leases*

IFRS 16 modifies the manner in which the Entity accounts for leases previously classified as operating leases under IAS 17, which were maintained off the consolidated statement of changes in financial position.

When applying IFRS 16 to all its leases (except for those discussed below), the Entity:

(a) Recognizes right-of-use assets at their book value as though the Standard had been applied as of the starting date, but by discounting the incremental rate of loans contracted by the lessee at the initial application date. It also recognizes lease liabilities in the consolidated statement of changes in financial position, initially measured at the present value of future lease payments.
(b) Recognizes the depreciation of the right-of-use assets and the interest accrued by lease liabilities in the consolidated statement of income.
(c) Separates the total amount of cash paid for principal (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g., rent-free periods) are recognized in the initial measurement as part of the right-of-use assets and lease liabilities when, under IAS 17, lease incentives were recognized as a reduction of expenses, generally by utilizing the straight-line method.

Under IFRS 16, right-of-use assets are tested for impairment according to IAS 36.

In the case of short-term leases (for periods of 12 months or less) and those involving low-value assets (such as computers, small items of office furniture and telephones), the Entity has opted to recognize a lease expense according to the straight-line method, as permitted by IFRS 16. This expense is presented under the “leases” heading in the consolidated statement of income.

(ii) *Prior finance leases*

The main differences between IFRS 16 and IAS 17 with regard to contracts classified as capital leases is the measurement of the residual value of the guarantees provided by the lessor to the lessee. IFRS 16 requires that the Entity only recognize the amount expected to be paid under a residual value guarantee as part of its lease liabilities, as opposed to the maximum guarantee amount required by IAS 17. This change did not generate any material effects for the Entity's consolidated financial statements.

c) *The effect on lessor accounting*

IFRS 16 does not contain any substantial changes regarding the manner in which a lessor accounts for a lease. Under IFRS 16, a lessor continues to classify leases as capital leases or operating leases; these two types of leases are accounted for in different ways.

IFRS 16 amended and extended the necessary disclosures, particularly those referring to the way in which the lessor manages the risks resulting from its residual interest in leased assets.

Under IFRS 16, an intermediary lessor must account for the main lease and sublease as two separate contracts. The intermediary lessor must classify the sublease as a capital lease or operating lease according to the right-of-use asset resulting from the main lease (and not in relation to the underlying asset as was the case under IAS 17.

This change had no impact on the Entity's consolidated financial statements.

d) *Initial financial effect derived from the adoption of IFRS 16*

The tables presented below show the adjustment amounts of each item of the consolidated financial statements affected by the application of IFRS 16 during the current and prior periods.

Impact on consolidated income statement	**2019**
Impact on results for the year:	
Increase in depreciation of the right-of-use assets	$ 1,874
Increase in financial expenses	169
Decrease in other expenses	(1,999)
Increase in profit for the year	$ 44
Impact on assets, liabilities and capital as of January 1, 2019	
Right-of-use asset	$ -
Net impact on total assets	$ -
Lease liabilities	$ -
Net impact on total liabilities	$ -
Impact on assets, liabilities and capital as of December 31, 2019	
Right-of use asset	$ 31,314
Net impact on total assets	$ 31,314
Lease liabilities	$ 31,356
Net impact on total liabilities	$ 31,356

The Entity as lessee:

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right of use asset of $31,314, together with short and long-term leased liabilities of $21,779 and $9,577, respectively. The effect on results reduced other expenses by $1,999, increased the depreciation (amortization) of lease right-of-use asset by $1,874 and increased the interest on lease liabilities by $169. Furthermore, given that the amount of $31,314 related to these agreements involves lease contracts with a duration of less than one year and low-value assets, their cost continues to be recognized in results as incurred.

The application of IFRS 16 affected the Entity's consolidated statement of cash flows. Under IFRS 16, lessees must present:

- Short-term lease payments, payments made for leases involving low-value assets and variable lease payments are not included in the lease liability measurement, as part of operating activities;

- The cash paid for interest accrued by the lease liability, whether based on operating activities or financing activities, as permitted by IAS 7 (the Entity has decided to include paid interest as part of financing activities); and

- Payments made in cash for principal portion of the lease liability, as part of financing activities.

Under IAS 17, all operating lease rental payments were presented as part of the cash flows of operating activities. Consequently, the net effect generated by operating activities increased by $1,999 in 2019, whereby lease payments and the net cash utilized in financing activities increased by the same amount.

The adoption of IFRS 16 did not generate effects for net cash flows.

Effect of the application of other amendments to the standards and interpretations of IFRS

During the current year, the Entity applied a series of amendments to the Standards and Interpretations of IFRS issued by the International Accounting Standards Board (IASB), which are effective for the annual period starting on or as of January 1, 2019. Their adoption did not have any material effects on the disclosures or amounts recorded in these consolidated financial statements.

Amendments to IFRS 9, *Prepayment Features with Negative Compensation*	The Entity adopted the amendments to IFRS 9 for the first time in the current period. The amendments to IFRS 9 clarify that, in order to assess whether the prepayment fulfills the condition of "solely payments of principal and interest" (SPPI), the party exercising the option may pay or receive a reasonable compensation for the prepayment, regardless of the reason for it being made. In other words, financial assets involving prepayment features with negative compensation do not necessarily fail the SPPI test.
Amendments to IAS 28, *Investments in Associates and Joint Ventures*	The Entity adopted the amendments to IAS 28 for the first time in the current period. The amendment clarifies that IFRS 9, including its impairment requirements, is applicable to other financial instruments involving an associate or joint venture to which the equity method is not applicable.

This includes long-term investments, which substantially form part of the net investments in an associate or joint venture. The Entity applies IFRS 9 to these long-term investments, to which it previously applied IAS 28. When applying IFRS 9, the Entity does not consider any of the adjustments made to the book values of long-term investments, as required by IAS 28 (e.g., adjustments to the book values of long-term investments derived from the assignment of the investee's losses or the assessment of impairment according to IAS 28).

Annual improvements to IFRS 2015-2017 Cycle

The Group has adopted the amendments included in the Annual Improvements to IFRS of the 2015-2017 Cycle for the first time in the current period. The annual Improvements include amendments to four standards.

Amendments to IAS 12, *Income Taxes*, IAS 23, *Borrowing Costs*, IFRS 3, *Business Combinations, and* IFRS 11, *Joint Arrangements*

IAS 12, *Income taxes*

The amendments clarify that the income tax incurred by dividends must be recognized in the statement of income, in other comprehensive income or capital based on the manner in which the transactions that generated distributable profits were originally recognized. This is the case regardless of whether different tax rates are applied to distributed and undistributed profits.

IAS 23, *Borrowing costs*

The amendments clarify that, if a specific loan remains outstanding after the related asset is ready for its foreseen use or sale, the loan forms part of the borrowed funds when calculating the capitalization rate of general loans.

IFRS 3, *Business combinations*

The amendments clarify that, when control is obtained over a business that is a joint venture, the requirements established for a business combination in stages are also applicable, including the reassessment of previously held interest (PHI) in the joint venture at fair value. The previously held interest subject to remeasurement includes the unrecognized assets, liabilities and surplus value of the joint venture.

IFRS 11, *Joint Arrangements*

The amendments clarify that when a party to a joint venture that did not have joint control obtains joint control, the previously held interest in the joint venture must not be reassessed.

Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*

The amendments clarify that the cost of past service (or the settlement gain or loss) is calculated by measuring the defined benefit liability or asset, by utilizing current assumptions and comparing the offered benefits and plan assets before and after the plan amendment (curtailment or settlement), while excluding the asset ceiling effect (which arises when the defined benefit plan has a surplus position). IAS 19 now clarifies that the modification of the asset ceiling effect that may result from plan amendment (curtailment or settlement) is determined in a second step and regularly recognized in other comprehensive income.

	Paragraphs related to the measurement of the current service cost and net interest accrued by the defined benefit liability (asset). Updated remeasurement assumptions must be used to determine the current service cost and net interest following the plan amendment (curtailment or settlement) and for the remaining reporting period. In the case of net interest, the amendments clarify that, during the period following the plan amendment (curtailment or settlement), net interest is calculated by multiplying the defined benefit liability (asset) revalued according to IAS 19:99 based on the discount rate utilized in the new remeasurement (while considering the effect of benefit contributions and payments on the net defined-benefit liability (asset).
IFRIC 23, *Uncertainty over Income Tax Treatments*	IFRIC 23 establishes how to determine the tax accounting position when uncertainty exists as regards income tax treatments. The interpretation requires: • The determination of whether uncertain tax positions are assessed individually or collectively; and • Evaluating whether it is likely that the tax authority will accept an uncertain tax treatment utilized or proposed for use by an entity in its income tax returns: o If this is the case, the tax accounting position must be consistently determined in accordance with the tax treatment utilized in income tax returns. o If this is not the case, the effect of uncertainty on the determination of the tax accounting position must be reflected by utilizing the most likely amount or expected value method.

e) New and revised IFRS Standards in issue but not yet effective

The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

IFRS 10 and IAS 28 (amendments)	*Sale or contribution of assets between an investor, its associate or joint venture*
Amendments to IFRS 3	*Definition of a business*
Amendments to IAS 1 and IAS 8	*Definition of materiality*
Conceptual Framework	*Conceptual Framework of IFRS*

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

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 cover situations in which the sale or contribution of assets takes place between an investor and its associate or joint venture. The amendments specifically establish that the gains or losses resulting from the loss of control over a subsidiary that does not contain a business in a transaction performed with an associate or joint venture, which is accounted for by means of the equity method, are recognized in the gain or loss of the holding company only to the extent of unrelated investors' interest in that associate or joint venture. Likewise, the gains and losses resulting from the remeasurement of investments retained in any former subsidiary (which has become an associate or joint venture that is accounted for by utilizing the equity method) at fair value, are recognized in the gain or loss of the former holding company, only to the extent of unrelated investors' interest in that new associate or joint venture.

The effective date of the amendments has not yet been set by the IASB, although early application is permitted. The Entity's management considers that the application of these amendments may affect the Entity's consolidated financial statements in future periods if these transactions arise.

Amendments to IFRS 3, Definition of a Business

The amendments clarify that, while businesses usually have outputs, they are not required in order for an integrated set of activities and assets to qualify as a business. For consideration as a business, a set of acquired activities and assets must include at least one input and a substantive process that contribute significantly to the capacity to generate outputs.

Additional guidelines are provided to determine whether a substantive process has been acquired.

The amendments introduce an optional test for identifying the concentration of fair value, which permits the simplified assessment of whether a set of acquired activities and assets is not business if all the fair value of the acquired gross assets is substantially concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions when the acquisition date is on or after the first reporting period starting on or as of January 1, 2020, although early adoption is permitted.

Amendments to IAS 1 and IAS 8, Definition of Materiality

The amendments are intended to simplify the definition of materiality contained in IAS 1, thereby making it easier to understand, but are not intended to modify the underlying concept of materiality in IFRS Standards. The concept of 'darken' material information with immaterial information has been included in the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could be reasonably expected to influence.'

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality contained in IAS 1. Furthermore, the IASB amended other standards and the Conceptual Framework containing a definition of 'materiality' through a reference to the term materiality to guarantee consistency.

The amendment will be applied prospectively for reporting periods starting on or as of January 1, 2020, although early application is permitted.

Conceptual Framework of IFRS Standards

Together with the revised Conceptual Framework, which took effect on its date of publication, March 29, 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments for IFRS 2, 3, 6, 14, IAS 1, 8, 34, 37, 38, IFRIC 12, 19, 20, 22 and SIC 32.

However, not all the amendments update pronouncements regarding the Conceptual Framework so as to refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate the version they refer to (to the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010 or the revised Framework of 2018), or to indicate which definitions in the Standard have not been updated with new definitions developed in the revised Conceptual Framework.

The modifications, which are actually updates, are effective for annual periods beginning on or after January 1, 2020, with early adoption permitted.

4. Significant accounting policies

a. *Statement of compliance*

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

b. *Basis of preparation*

The Entity's consolidated financial statements have been prepared on a historical cost basis.

i. *Historical cost*

Historical cost is generally based on 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.

In addition, for financial reporting purposes, 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 its subsidiaries. Control is achieved when the Entity:

- Has the power over the investee,
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to affect such returns through its power over the entity in which it invests

The Entity reassesses whether it controls an entity if the facts and circumstances indicate that there are changes to one or more of the three control elements that were listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity’s voting rights in an investee are sufficient to give it power, including:

- The percentage of the Entity's holding voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Profits and losses of subsidiaries acquired or sold during the year are included in the consolidated statements of income and other comprehensive income from the date of acquisition or until the date of sale, as the case may be.

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 direct or indirect shareholding of the Entity in the capital stock of the subsidiaries as of December 31, is shown below:

Offshore	**Activity**	**% of participation 2019 y 2018**
Latina Offshore Holding Limited	Holding	100%
Latina Offshore Limited	Holding	100%
Santa Maria Offshore Limited	Leasing of Jack up	100%
La Covadonga Limited	Leasing of Jack up	100%
Latina Modular Holding Limited	Holding	100%
Latina Modular 01 Limited	Leasing of Modular	100%
Onshore Petroleum		
Perfolatina, S.A. de C.V. (1)	Oil exploration and production	80%
Equipamiento Latina, S.A. de C.V.	Oil exploration and production	100%
Perforaciones Marítimas Latina, S.A. de C.V.	Drilling of shallow water wells	100%

(1) In the Ordinary General Stockholders' Meetings held on July 1, 2018 the purchase of shares representing 38.72% of the share capital of Perfolatina, S.A. de C.V. (affiliated entity) was approved to Constructora y Perforadora Latina, S.A. de C.V.

On November 16, 2018, the Entity made a capital contribution equivalent to 41.68% of the stockholder´s equity of Perfolatina, S.A. of C.V. (affiliated entity) that was owned by Grupo Creatica for an amount of $ 15,124, which generated an effect of $ 1,085, that was recorded in the consolidated statement of changes in stockholders' equity as they are transactions between entities under common control.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

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

d. ***Foreign currency transactions***

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 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 are reclassified from stockholders' equity to profit or loss when selling in whole or in part, the net investment.

For presentation of the Entity's consolidated financial statements, assets and liabilities in foreign currency are expressed in US dollars, using the exchange rate prevailing at the end of the period. The items of income and expenses are converted into the exchange rates at the date on which the transactions are made. The differences in the exchange rate that arise, the case in which it is recognized in other comprehensive income and the accumulated in stockholders' equity (attributed to non-controlled interests when appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Entity's entire interest in a foreign operation, or a removal involving the 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	
	2019	**2018**
Mexican pesos per one US dollar	18.8452	19.6829

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

Consist mainly of bank deposits in checking accounts. Cash is stated at nominal value and restricted cash are valued at fair value. As mentioned in Notes 6 and 15 the Entity has restricted cash from offshore business.

f. ***Inventory***

Inventories are stated at the lower of cost and net realizable value (estimated selling price for inventories less all estimated to make the sale). Inventories are valued with the average cost method and are integrated by materials and supplies drilling, wells maintenance and consumable parts. The value reduction of inventories is composed for reserves that represent the inventories impairment.

g. ***Jack ups, Modular and equipment***

Jack-ups and equipment that are in the process of construction are recorded at cost less any impairment loss recognized.

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.

Depreciation is recognized as written 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.

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

The averages useful lives in years of jack-ups and equipment are:

	2019
Jack ups and equipment	10 years
Modular right	8 years

During 2018, the Entity reviewed the useful lives of the components of its oil platforms and modular equipment, having as effect a decrease of the depreciation of the year in the amount of $ 13,983. This change in the recorded estimate was recognized on a prospective basis.

h. ***Investment in wells and infrastructure***

They correspond mainly to investments in drilled wells, infrastructure investments, to eligible and ineligible expenses of the Pitepec field (see Note 12), are recognized at acquisition cost less accumulated amortization and accumulated impairment loss. Amortization is recognized based on the straight-line method over its estimated useful life of each well. The estimated useful life and amortization method are reviewed at the end of each year, and the effect of any change in the recorded estimate is recognized on a prospective basis.

i. ***Leasing***

The Entity as lessor

The Entity enters into lease contracts as lessor with respect to the two platforms and the modular described in Note 2.

The leases in which the Entity acts as a lessor are classified as capital leases or operating leases. When contractual terms substantially transfer all the risks and rewards of ownership to the lessee, the contract is classified as a capital lease. All other contracts are classified as operating contracts.

When the Entity acts as an intermediary lessor, it accounts for the main lease and sublease as two separate contracts. The sublease is classified as a capital lease or operating lease with regard to the right-of-use asset derived from the main lease.

Rental revenue derived from operating leases is recognized according to the straight-line method during the relevant lease period. The direct initial costs incurred for the negotiation and arrangement of the operating lease are added to the book value of the leased asset and are recognized in conformity with the straight-line method throughout the lease period.

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.

When a contract includes lease and non-lease components, the Entity applies IFRS 16 to assign the respective payment to each contractual component.

The entity as a lessee

The Entity assesses whether a contract initially contains a lease. The Entity recognizes a right-of-use asset and the respective lease liability for all the lease contracts in which impacts it acts as lessee, albeit with the exception of short-term leases (executed for periods of 12 months or less) and those involving low-value assets (like electronic tablets, personal computers and small items of office furniture and telephones). For these leases, the Entity records rental payments as an operating expense according to the straight-line method throughout the lease period, unless another method is more representative of the time pattern in which economic gains result from the consumption of the leased assets.

The lease liability is initially measured at the present value of the rental payments that are not settled at the starting date, discounted according to the implied contractual rate. If this rate cannot be easily determined, the Entity utilizes incremental rates.

The rental payments included in the lease liability measurement are composed by:

- Fixed rental payments (including substantially fixed payments), less any received lease incentive;
- Variable rental payments that depend on an index or rate, which are initially measured by utilizing the index or rate in effect at the starting date;
- The amount expected to be paid by the lessee under residual value guarantees;
- The purchase option exercise price, if it is reasonably certain that the lessee will exercise these options; and
- Penalty payments resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate item in the consolidated statement in financial position.

The lease liability is subsequently measured based on the book value increase to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect the rental payments made.

The Entity revalues the lease liability (and makes the respective adjustments to the related right-of-use asset) as long as:

- The lease period is modified or an event or significant change takes place with regard to the circumstances of the lease, thereby resulting in a change to the assessment of the purchase option exercise, in which case, the lease liability is measured by discounting restated rental payments and utilizing a restated discount rate.
- Rental payments are modified as a result of changes to indexes or rates, or a change in the payment expected under a guaranteed residual value, in which case, the lease liability is revalued by discounting restated rental payments by using the same discount rate (unless the change in rental payments is due to a change of variable interest rate, in which case a restated discount rate is used).
- A lease contract is amended and the lease amendment is not accounted for as a separate lease, in which case the lease liability is revalued according to the amended lease period by discounting restated rental payments using a discount rate restated at the date on which the amendment took effect.

The Entity did not make any of these adjustments in the presented periods.

Right-of-use assets are composed by the initial measurement of the respective lease liability, the rental payments made on or prior to the starting date, less any received lease incentive and any initial direct costs. The subsequent valuation is the cost less accumulated depreciation and impairment losses.

If the Entity assumes an obligation derived from the cost of dismantling and removing a leased asset, to restore the place where it is located or restore the underlying asset to the condition required by lease terms and conditions, a provision measured according to IAS 37 must be recognized. To the extent that costs are related to a right-of-use asset, they are included in the related right-of-use asset unless they are incurred to generate inventories.

Right-of-use assets are depreciated during the shorter of the lease period and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset indicates that the Entity plans to exercise the purchase option, the right-of-use asset is depreciated according to its useful life. Depreciation begins at the lease starting date.

Right-of-use assets are presented as a separate item in the consolidated statement of financial position.

The Entity applies IAS 36 to determine whether a right-of-use asset is impaired and to account for any identified impairment loss, as described in the ‘Property, plant and equipment’ policy.

Variable leases that do not depend on index or rate are not included in the measurement of the lease liability and right-of-use asset. The related payments are recognized as an expense of the period in which the event or condition leading to the payments arises and are included under the “Other expenses” heading in the consolidated statement of income.

As a practical expedient, IFRS 16 offers the option of not separating non-lease components and instead recording any lease and its associated non-lease components as a single agreement. The Entity has not utilized this practical expedient. For contracts containing lease components and one or more additional lease or non-lease components, the Entity assigns the contractual payment to each lease component according to the relative stand-alone selling price method for all non-lease components.

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.

The income obtained from the investment of specific temporary funds of assets used in qualifying assets is deducted from the costs of loans eligible to be capitalized.

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

k. ***Impairment of tangible and intangible assets***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible 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 group 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.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

As of December 31, 2018, the impairment loss of $14,813 has been recognized in the wells and infrastructure of the Pitepec field from which it is not expected to be able to extract the product.

l. ***Financial assets***

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.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, 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 in other comprehensive income if certain criteria are met (see (iii) below); and y

- 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 (see (iv) below).

(i) *Amortized cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income".

(ii) *Debt instruments classified as at FVTOCI*

The corporate bonds held by the Entity are classified as at FVTOCI. Fair value is determined in the manner described in (i). The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to (profit or loss)

(iii) *Equity instruments designated as at FVTOCI*

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is 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 evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

(iv) *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses'
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses'. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve

- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the ‘other gains and losses’ and
- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Difficult significant financial difficulty of the issuer or the borrower;
(b) The breach of contract, such as a default or past due event (see (ii) above);
(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write off policy*

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Entity derecognizes a financial asset only 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 entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

m. ***Financial Liabilities and equity***

i. *Classification as debt or equity*

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

ii. *Equity instruments*

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

iii. *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at fair value with changes through profit or loss' or 'other financial liabilities'.

Financial liability at fair value through profit or loss is a financial liability that is classified as held for trading or is designated as at fair value through results

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- The 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of an Entity of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized 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. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently 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 amortized cost of a financial liability

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- The amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

Foreign Exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

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

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses

n. ***Employee benefits***

Retirement benefits costs from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest), is recognized immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income are not reclassified. Past service cost is recognized in profit or loss in the period of a plan amendment or curtailment occurs, or when the Entity recognizes related restructuring costs or termination benefits, if earlier net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income, and
- Remeasurement

The Entity presents the first two components of defined benefit costs in profit or loss according the line. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing ("PTU")

As result of the PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses line item in the consolidated statement of profit or loss and comprehensive loss.

o. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

i. *Current tax*

Current income tax ("ISR") is recognized in the results of the year in which is incurred.

ii. *Deferred income tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in an operation that does not affect the tax or accounting result.

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.

iii. *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.

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

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

i. *Onerous contracts*

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

ii. *Restructuring*

A restructuring provision is recognized when the Entity has developed a detailed formal plan for restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Entity.

q. ***Revenue recognition***

Revenues are recognized when the control of goods and services has been transmitted, at a point in time or through time. Revenue is calculated at the fair value of the consideration received or receivable, taking into account the estimated amount of discounts or penalties.

i. *By leasing of platforms*

They are recognized on a monthly basis according to the daily rates established in the contracts.

ii. *By hydrocarbon production*

Revenues from service contracts for the production of hydrocarbons are recognized based on the volume of hydrocarbons delivered to PEMEX.

iii. *By interests*

Interest income is recognized when it is probable that economic benefits will flow to the Entity and the amount of income can be reliably valued. Interest income is recorded on a periodic basis, with reference to the unpaid balance and the applicable effective interest rate.

r. *Drilling contracts*

When the result of a contract can be reliably estimated, the revenues and costs associated with it are recognized with reference to the degree of progress for the termination of the contract activity at the end of the period, valued based on the proportion represented by the contract costs incurred in the work performed at that date with respect to the total estimated costs of the contract, except in the case that said proportion is not representative of the degree of progress for the termination of the contract. Variations in contract work, claims and incentive payments are included insofar as their amount can be reliably valued and their collection is considered probable.

When the result of a contract cannot be estimated reliably, revenues are recognized to the extent that it is probable that the costs incurred will be recoverable. Contract costs are recognized as expenses for the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work were performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

s. ***Statement of cash flows***

The indirect method is used for presenting cash flows from operating activities, such that the net loss is adjusted for changes in operating items not resulting in cash receipts or disbursements, and for items corresponding to cash flows from investing and financing activities. Interest received is presented as an investing activity and interest paid is presented as a financing activity.

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***

i. *Revenue recognition*

In geothermal drilling and well maintenance contracts, revenue is recognized in straight-line basis as the performance obligations are fulfilled through the time, which is the calculated as the time elapsed with respect the total contract period. Contract costs are estimated in a working progress basis; which means the portion of cost incurred, regards total estimated costs, during the time elapsed with respect the total contract period.

ii. *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:

- The lease does not transfer ownership of the Jack-ups and modular rig to the lease by the end of the lease term.
- The lease does not contain a purchase option for the Jack-ups and modular rig.
- The lease term does not represent a substantial portion of the economic life of the Jack-ups and modular rig.
- 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.
- The leased Jack-ups, modular rig and equipment can be used by another interested party without major modifications.

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.

i. *Estimates of useful lives of Jack ups and equipment*

The Entity reviews the estimated useful lives of Jack-ups and equipment at the end of each reporting period. Based on detailed analysis, the Entity's management modifies the useful lives of certain Jack-ups, modular rig and equipment components. The degree of uncertainty about the estimated useful lives is related to changes in the market and the usage of assets for production volumes and technological developments.

To test asset impairment, the Entity estimates the value in use assigned to its Jack-ups, modular rig and equipment and to the cash-generating units, in the case of certain assets. The calculations of value in use require an entity to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value. The Entity prepares cash inflow projections using market condition estimates, price determination and production and sales volumes.

ii. *Recovery of drilling wells investment and oil extraction (onshore)*

The Entity is in the initial development phase of the Pitepec field, which requires certain studies and analyses to determine or quantify the amount of investment and the level of oil reserves to be exploited and the period of recovery. The uncertainty regarding the investments made to date is known with greater technical data reserves and feasibility of its exploitation.

iii. *Calculation of loss allowance*

When measuring ECL the Entity uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

iv. *Recovery of tax losses*

The Entity prepares financial and tax projections with the purpose to forecast tax and accounting results more efficiently. Taxes are incurred in Mexican pesos, and during 2016 and 2015 the Entity had tax loss due to the devaluation of Mexican peso versus the U.S. dollar. The Entity expects to amortize the tax losses versus tax income in subsequent years with the normal operation of Jack-ups and modular rig.

v. *Fair value measurements and valuation processes*

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Entity engages third party qualified appraiser to perform the valuation.

vi. *Contingencies*

The Entity is subject to contingent transactions or events on which it uses professional judgment in the development of estimates of probability of occurrence, the factors considered in these estimates are the legal situation at the date of the estimate and the opinion of the legal advisors.

6. Cash and restricted cash

	2019	2018
Cash and Bank balances	$ 19,295	$ 13,884
Restricted cash (See Note 15)	10,247	10,000
	$ 29,542	$ 23,884

7. Accounts receivable

	2019	2018
PEMEX	$ 55,404	$ 40,011
Others	82	38
	$ 55,486	$ 40,049

The Entity has as main costumer PEMEX; therefore, a significant concentration of credit exists. The average collection period for PEMEX is 110 days. No interest charge is made and no bad debt reserve is recognized due to the category, history of collections with PEMEX and the nature of the contracts.

8. Inventories

	2019	2018
Spare parts	$ 7,055	$ 7,113
Material and supplies	5,894	4,527
Goods in transit	1,964	225
Advances to suppliers	7,418	267
	$ 22,331	$ 12,132

9. Entity as a lessee

The Entity leases various assets, including two platforms. The average lease term is 1.5 years for 2019.

The analysis for the maturity of the lease is present in note 10.

Right-of-use assets	Jack-ups
Cost	
As of December 31, 2019	$ 33,188
Accumulated depreciation	
As of December 31, 2019	$ (1,874)
Value in books	
As of December 31, 2019	$ 31,314

Amounts recognized in the consolidated statement of income		2019
Depreciation expense of the asset for use rights	$	1,874
Finance expense caused by lease liabilities	$	169

Total cash outflows for leases amount to $1,999 for 2019.

10. Lease liabilities

		2019
Maturity analysis:		
Year 1	$	22,865
Year 2		9,692
Year 3		19
		32,576
Less: unearned interest		(1,218)
	$	31,358
Analyzed as:		
Long term	$	9,577
Short term		21,779
	$	31,356

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury.

11. Jack ups and equipment, net

	Balance as of December 31, 2018	Additions	Disposals and split off effect	Balance as of December 31, 2019
Investment:				
Jack ups	$ 518,146	$ 3,136	$ 5,130	$ 526,412
Modular rig	119,619	1,459	2,886	123,964
Drilling equipment	5,428	14	-	5,442
Furniture and fixtures	38	67	(38)	67
Peripheral equipment	303	-	-	303
Transportation equipment	466	-	(448)	18
Computer equipment	423	-	(11)	412
Spare parts	12,402	9,868	(8,016)	14,254
Total investment	656,825	14,544	(497)	670,872
Depreciation:				
Jack ups	$ (158,062)	(32,280)	$ 19	$ (190,323)
Modular rig	(23,624)	(11,781)	8	(35,397)
Drilling equipment	(1,812)	(151)	-	(1,963)
Furniture and fixtures	(14)	-	14	-
Peripheral equipment	(186)	(5)	(77)	(268)
Transportation equipment	(180)	(1)	163	(18)
Computer equipment	(414)	-	-	(414)
Total depreciation accumulated	(184,292)	(44,218)	127	(228,383)
Investment net	$ 472,533	$ (29,674)	$ (370)	$ 442,489

	Balance as of December 31, 2017	Additions	Disposals and split off effect	Balance as of December 31, 2018
Investment:				
Jack ups	$ 512,801	$ 5,361	$ (16)	$ 518,146
Modular rig	116,963	2,656	-	119,619
Drilling equipment	34,246	2,351	(31,169)	5,428
Furniture and fixtures	37	1	-	38
Peripheral equipment	-	303	-	303
Transportation equipment	299	326	(159)	466
Computer equipment	414	12	(3)	423
Spare parts	7,680	4,722	-	12,402
Total investment	672,440	15,732	(31,347)	656,825
Depreciation:				
Jack ups	(131,459)	(26,619)	16	(158,062)
Modular rig	(15,086)	(8,538)	-	(23,624)
Drilling equipment	(12,604)	(2,581)	13,373	(1,812)
Furniture and fixtures	(10)	(4)	-	(14)
Peripheral equipment	-	(186)	-	(186)
Transportation equipment	(120)	(200)	140	(180)
Computer equipment	(414)	-	-	(414)
Total depreciation accumulated	(159,693)	(38,128)	13,529	(184,292)
Investment net	$ 512,747	$ (22,396)	$ (17,818)	$ 472,533

The Jack ups and the modular are granted in guarantee of the debt indicated in Note 15.

12. Investment in wells and infrastructure - Net

	2019	2018
Investment in wells and infrastructure of the Pitepec field (1)	$ 49,559	$ 48,422
Ineligibles expenses (2)	5,292	5,292
Eligible expenses (3)	4,250	4,250
	59,101	57,964
Wells amortization	(25,266)	(14,013)
Impairment of wells	(14,813)	(14,813)
	$ 19,022	$ 29,138

(1) ***Investment in wells and infrastructure of the Pitepec field***- Represents the investment for the exploitation of the Pitepec oil field, as well as the investment made in each of the Wells.

(2) ***Ineligible expenses***- Expenses incurred by the Entity necessary for carrying out the Pitepec project, which will be amortized once the contract is migrated and revenues to address these disbursements during the life of the project are obtained.

(3) ***Eligible expenses***- Are the expenses incurred by the Entity for the production of hydrocarbons which PEMEX paid by selling the barrels produced.

13. Financial instruments

The Entity manages a diversified business portfolio with participation in several industrial sectors at the national level, so it has exposure to financial risks that include market risk (exchange rate and interest rate), credit risk and risk of liquidity. The Board of Directors establishes and monitors policies and procedures to measure and manage these risks, which are described below.

a. *Capital risk management*

The Entity manages its capital to ensure that it will continue as a going concern while maximizing the return to stockholders through the optimization of debt and equity balances. The Entity's general strategy has not been modified compared to the previous year.

The Entity's equity structure consists of net debt (loans as detailed in Note 15 which are offset by cash balances, restricted cash) and Entity's equity (comprising of issued capital stock, reserves and accumulated deficit as it disclosed in Note 18, respectively).

As of December 31, 2019 and 2018, the Entity has restricted cash of $10,247, as mentioned in Note 15.

Debt ratio - The debt ratio at December 31, 2019 and 2018, is as follows:

	2019	2018
Bank loans and long-term debt	$ 360,683	$ 362,359
Cash and cash restricted	29,542	23,884
Net debt	$ 331,141	$ 338,475
Stockholders' equity	$ 184,724	$ 188,701
Net debt ratio to stockholders' equity	1.8 times	1.8 times

b. *Categories of financial instruments*

	2019	2018
Financial assets:		
Cash and restricted cash	$ 29,542	$ 23,884
Loans and receivable		
Trade accounts receivable	55,486	40,049
Accounts receivables from related parties	444	-
	$ 85,472	$ 63,933
Financial liabilities:		
Financial liabilities held at amortized cost		
Bank loans and long-term debt	$ 360,683	$ 362,359
Other liabilities		
Accounts payable to suppliers	27,294	22,522
Lease liabilities	31,356	-
Due to related parties	25,542	9,936
	$ 444,875	$ 394,817

c. *Objectives of financial risk management*

The Corporate Treasury function of Latina offers services to businesses, coordinates access to national and international financial markets, supervises and manages financial risks related to its operations through internal risk reports, which analyze exposures by degree and the magnitude of the risks. These risks include market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk.

d. ***Foreign currency risk management***

The Entity carries out transactions denominated in foreign currency. Consequently, it is exposed to fluctuations in exchange rates, which are managed within the parameters of the approved policies.

The carrying values of monetary assets and monetary liabilities denominated in foreign currency at the end of the year are as follows (amounts in thousands):

	Assets		Liabilities	
	2019	2018	2019	2018
Thousands of Mexican pesos	25,580	6,450	140,376	221,144

Sensitivity analysis for foreign currency - The Entity is mainly exposed to Mexican pesos. The following table details the Entity's sensitivity to an increase and decrease of 10% in US dollars against the relevant foreign currencies 10% represents the sensitivity rate used when foreign exchange risk is reported internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts their conversion at the end of the period with a fluctuation of 10% change in exchange rates. The sensitivity analysis includes external loans as well as loans to foreign operations. A positive figure, respectively, (as shown in the table below) indicates an increase in the results stemming from a 10% weakening of the Mexican peso against the reference currency, then there would be a comparable impact on the results and the following financial statements would be negative.

If the exchange rate of the Mexican peso to the US dollar had depreciated by 10% and all other variables remain constant, the gain would have been:

	2019	2018
Results	554	992

e. ***Interest rate risk management***

The Entity is mainly exposed to interest rate risks because it has entered into debt at variable rates. The risk is managed by the Entity through the use of interest rate swap contracts. Hedging activities are regularly monitored so that they are aligned with interest rates and their related risk, ensuring the implementation of the most profitable hedging strategies.

The Entity’s exposures to interest-rate risk are mainly related to changes in the TIIE and the LIBOR rates with respect to the Entity’s financial liabilities. The Entity prepares sensitivity analyses based on its exposure to interest rates on its variable-rate debt with financial institutions that is not hedged. The analyses are prepared assuming that the ending period balance at year end was the outstanding balance during the entire year. The Entity internally reports to the Board of Directors about its interest rate risks.

Sensitivity analysis for interest rates - The following sensitivity analyses have been determined based on exposure to interest rates both for financial derivatives and non-derivatives at the end of the reporting period. For variable rate liabilities, an analysis is prepared on the basis that the amount of the liability in effect at the end of the reporting period has been the liability in effect for the entire year. When reporting internally to key executive personnel on the interest rate risk, an increase or decrease of 50 basis points is used, which represents management's evaluation of the possible reasonable change in interest rates.

If the interest rates were 50 basis points above/below and all the other variables remained constant:

Consolidated income for the year ended December 31, 2019 would decrease $ 1,821 (2018: decrease $1,923). This is mainly attributable to the Entity's exposure to the interest rates on its variable rate loans in pesos.

The sensitivity to the Entity's interest rates has decreased during the current year, mainly due to the reduction in the variable rate of debt instruments.

f. ***Credit risk management***

Credit risk refers to the risk that one of the parties will default on its contractual obligations, resulting in a financial loss for the Entity. The Entity has adopted a policy of only becoming involved with solvent parties and obtaining sufficient guarantees, when appropriate, as a way of mitigating the risk of the financial loss derived from defaults. The Entity's exposure and the credit ratings of its counterparties were supervised continually and the accrued value of the concluded transactions is distributed between the approved counterparties. Credit exposure is minimal because historically there have been no losses with PEMEX.

g. ***Liquidity risk management***

The Entity’s management is ultimately responsible for liquidity management, which has established appropriate policies for the control of such risk through the monitoring of working capital, allowing management of the Entity’s short-, medium-, and long-term funding requirements. The Entity maintains cash reserves and available credit lines, continuously monitoring projected and actual cash flows, reconciling the profiles of maturity of financial assets and financial liabilities.

The following table details the remaining contractual maturities of the Entity’s financial liabilities, based on contractual reimbursement periods. The table has been designed based on un-discounted projected cash flows of financial liabilities based on the date on which the Entity makes payments. The table includes both projected cash flows related to interest and capital on financial debt in the consolidated statements of financial position. Where the contractual interest payments are based on variable rates, the amounts are derived from interest rate curves at the end of the period. The contractual maturity is based on earliest date in which the Entity is required to make payment.

	Rate Effective average	One year	At December 31, 2019 1 and 3 years	Total
Bank loans and long-term debt	9.93%	$ 64,992	$ 295,691	$ 360,683
Accounts payable to suppliers		27,294	-	27,294
Lease liabilities		21,779	9,577	31,356
Due to related parties		25,542	-	25,542
Total		$ 139,607	$ 305,268	$ 444,875

	Rate Effective average	One year	At December 31, 2018 1 and 3 years	Total
Bank loans and long-term debt	8.8%	$ 313,187	$ 49,172	$ 362,359
Accounts payable to suppliers		22,522	-	22,522
Due to related parties		9,936	-	9,936
Total		$ 345,645	$ 49,172	$ 394,817

The amounts included for debt with financial institutions includes both fixed and variable interest rate instruments. The financial liabilities at variable rates are subject to change, if the changes in variable rates differ from the estimates of rates determined at the end of the reporting period is presented at fair value.

14. Fair value of financial instruments

The fair value of financial instruments presented below has been determined by the Entity using information available in the markets or other valuation techniques but require judgment with respect to their development and interpretation, in addition to use assumptions that are based on market conditions existing at each consolidated statements of financial position date. Consequently, the estimated amounts presented below are not necessarily indicative of the amounts that the Entity could obtain in a current market exchange. The use of different assumptions and/or estimation methods could have a material effect on the estimated amounts of fair value.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Entity considers that the carrying amount of cash and restricted cash, accounts receivables and accounts payable from third parties and to related parties and the current portion of bank loans approximate their fair values because they have short-term maturities. The Entity's long-term debts are recorded at amortized cost and incurs interest at fixed and variable rates that are related to market indicators.

The carrying amounts of financial instruments by category and their related fair values at December 31 are as follows:

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:				
Cash and restricted cash	$ 29,542	$ 29,542	$ 23,884	$ 23,884
Loans and receivables:				
Trade accounts receivable	$ 55,486	$ 55,486	$ 40,049	$ 40,049
Accounts receivable from related parties	444	444	-	-
Accounts payable to suppliers	(27,294)	(27,294)	(22,522)	(22,522)
Accounts payable to related parties	(25,542)	(25,542)	(9,936)	(9,936)
Lease liabilities	(31,356)	(31,356)	-	-
Financial liabilities measured at amortized cost (Level 2):				
Bank loans and current portion of long-term debt	(360,683)	(362,331)	(362,359)	(285,556)
Total	$ (359,403)	$ (361,051)	$ (354,768)	$ (277,965)

During the period there were no transfers between Level 1 and 2.

15. Bank loans and long-term debt

		2019		2018
Senior secured bonds guaranteed with the Oil Platforms and the Modular				
International Bond Issue for $350,000 that pays quarterly interest at the fixed annual rate of 8.875%, maturing on October 15, 2022. The principal is amortized quarterly based on the totality of the surplus cash.	$	298,017	$	306,250
Bonds guaranteed with the Oil Platforms and the Modular:				
International Bond Issue for $75,000 that pays quarterly interest at the fixed rate of 10% and principal repayments of $500 as of January 15, 2020.		54,390		49,000
Bank loans				
Simple credit of $10,168 with Banco HSBC México, S.A. which accrues interest at the Libor rate plus 450 basis points. The principal is amortized upon maturity on January 31, 2020.		10,168		-
Simple credit for $500 with Banco HSBC México, S.A. which accrues interest at the Libor rate plus 400 basis points. The principal was paid on January 23, 2019.		-		500
Simple credit for $ 7,000 with Banco HSBC México, S.A. which accrues interest at the Libor rate plus 425 basis points. The principal is amortized upon maturity on January 4, 2019.		-		7,000
Bank loans in Mexican pesos				
Simple credit for $ 282 with Banco HSBC México, S.A. that accrues interest at the TIIE rate plus 450 basis points. The principal is amortized upon maturity on January 31, 2020.		282		-
		362,857		362,750
Debt issuance at amortized cost		(2,174)		(391)
		360,683		362,359
Less: short-term portion		64,992		313,187
Long-term debt	$	295,691	$	49,172

a. The maturity of the long-term debt as of December 31, 2019, is as follows:

2020	$	295,691

b. As mentioned in Note 2b, the Entity signed an agreement with the International Bondholders for $298,017 and $54,390 to modify some conditions stablished in the contract.

The International Bonds are secured by the Jack-ups and modular rig, respectively.

The Entity may redeem the bonds of $298,017 (option to purchase at any time without a premium payment) and in the case of the bonds of $54,390, the Entity may pay a premium of 2%.

The bank loans with national institutions are pledged with shares owned by the Entity's stockholders of a public entity, coverage is 1.5 times the value of the debt.

The relevant covenants for the offshore business are as follows (bank loans issued in international markets):

- Not to pay more than 50% of dividends over income from offshore business
- Not to incur new debt over assets
- Restricted cash for $10 million (See Note 6)
- Maintain a minimum total equity to liabilities ratio of 22.5% for Latina Offshore Limited and not exceed $360,000 bank debt for Latina Offshore Holding Limited.

At the date of issuance of the consolidated financial statements, management of the Entity has satisfactorily complied with the agreements.

16. Employee benefits

Defined benefit plan long term

The Entity has a defined benefit plan that includes the seniority bonus and retirement

This plan exposes the Entity to actuarial risks such as interest rate, longevity and salary.

Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2018 by independent actuaries, members of the Mexican College of Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018 %
Discount rate	9.50
Expected rate of salary increase	4.50
Increase in the minimum legal wage	3.50

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

		2018
Cost of service:		
Current service cost	$	417
Financial cost		78
Cost items for defined benefits in results	$	495

As of December 31, 2018, the amount recognized in the other comprehensive result of these defined benefit plans are $64

The present value of the liability generated by the defined benefit obligation included in the statements of financial position as of December 31, 2018 are $1,424.

Movements in the present value of the defined benefit obligation in the past year was follows:

		2018
Initial balance of the obligation for defined benefits	$	1,082
Labor cost		417
Financial cost		78
Benefits paid		(47)
Actuarial gains and losses for the period		(106)
Closing balance for defined benefit obligation	$	1,424

On January 1, 2019, the Entity entered into an employer replacement agreement with Servicios Corporativos Latina, S.A. de C.V. (subsidiary), consequently, the benefits were transferred to the corresponding employees.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 100 basis points higher, the defined benefit obligation would decrease by $5.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statement of financial position.

17. Taxes and accrued expenses

		2019		2018
Trade accounts payable	$	9,098	$	4,854
Interest payable		29,650		10,139
	$	38,748	$	14,993

18. Capital stock

a. As of December 31, 2019 and 2018, the share capital is integrated as follows:

	2019			2018		
	Shares		Amount	Shares		Amount
Fixed portion- Nominative Serie "A" Share	200	$	21	200	$	21
Variable portion- Nominative Serie "A1" Share	72,194,858		317,487	69,107,568		306,075
	72,195,058	$	317,508	69,107,768	$	306,096

Capital stock is represented by nominative shares without nominal value.

b. In Ordinary Shareholders' General Meetings held in 2019, the stockholders´ equity variable portion was increased by the amount of $ 11,412 through the issuance of 3,087,290 ordinary, nominative shares, series "B", without par value; which were paid in cash, as follows:

Fecha	**Acciones**		**Total**
December 13, 2019	2,840,317	$	10,500
December, 30 2019	246,973		912
Total	3,087,290	$	11,412

c. In Ordinary Shareholders' General Meetings held in 2018, the stockholders´ equity variable portion was increased by the amount of $ 46,854 through the issuance of 17,780,470 ordinary, nominative shares, series "B", without par value; which were paid in cash, as follows:

Fecha	**Acciones**		**Total**
October 1, 2018	10,813,048	$	40,000
October 31, 2018	1,394,321		4,900
November 30, 2018	573,101		1,954
Total	12,780,470	$	46,854

d. At the Ordinary Shareholder's General Meeting held on November 12, 2018, the stockholders approved to split off certain assets of the Entity in the amount of $17,094, through the transfer of 3,207,584 registered, ordinary shares, series "B", without par value.

e. Net income is subject to the legal provision that requires that 5% of this amount be transferred to the legal reserve, until it equals 20% of its capital stock. The legal reserve is not susceptible to be distributed to the shareholders during the existence of each entity, except with the dissolution of the Entity. As of December 31, 2019 and 2018, the legal reserve amounts to $398.

f. The distribution of stockholders' equity, except for the updated amounts of the contributed capital and retained earnings, will cause the ISR charged to the Entity at the rate in effect at the time of distribution. The tax paid for such distribution may be credited against the ISR of the year in which the dividend tax is paid and in the following two immediate years, against the tax for the year and the provisional payments of the same.

Dividends paid from profits generated as of January 1, 2015 to individuals that resident in Mexico and to residents abroad, may be subject to an additional ISR of up to 10%, which must be retained by the Entity

g. The balances of the fiscal accounts of stockholders' equity as of December 31 are:

		2019		**2018**
Contribution capital account	$	379,582	$	343,833
Net fiscal profit account at the close of 2018		1,179		1,129
Net taxable profit account as of 2019		1,212		980
Total	$	381,973	$	345,942

19. Operation and balances with related parties

a. Transactions with related parties carried out in the normal course of their operations were as follows

	2019	2018
Income from reimbursements	$ 291	$ 99
Income from sale of fixed assets	$ 380	$ -
Purchases of spare parts and tools	$ 198	$ -
Lease income	$ -	$ 2,296
Income from drilling services	$ -	$ 249
Expenses for drilling services	$ (1,939)	$ -
Expenses for administrative services	$ (29,410)	$ (6,694)
Reimbursement expenses	$ (6)	$ (166)
Interest expenses	$ (1,316)	$ (1,422)
Other expenses	$ -	$ (45)

b. The balances with related parties are:

	2019	2018
Due from-		
CPL Servicios de Perforación S.A. de C.V.	$ 379	$ -
Servicios Corporativos Latina, S. A. de C. V.	65	-
	$ 444	$ -
Due to-		
Grupo Creatica, S. A. de C. V.	$ 23,752	$ 8,335
Servicios Corporativos Latina, S. A. de C. V.	1,783	186
Coperla Servicios S.A. de C.V.	7	-
Adro Servicios Aéreos S.A. de C.V.	-	21
	$ 25,542	$ 9,936

20. Income Taxes

The Entity is subject to ISR. The rate of current income is 30%:

a. The taxes to the utility are integrated as follows:

	2019	2018
Current income tax	$ 194	$ 16
Deferred income tax	(13,724)	(16,736)
	$ (13,530)	$ (16,720)

b. La reconciliation of the legal rate and the effective rate expressed as a percentage of the (loss) profit before income taxes, is as follows:

	2019 %	2018 %
Legal rate	(30)	(30)
Add (less) effect of permanent differences:		
Effects of inflation	10	12
Non - deductible	1	1
Translation effect	(22)	(26)
Tax losses carryforward - effects of inflation	(4)	(7)
Effective tax rate	45	(50)

c. The main items that originate the balance of the (asset) liability for deferred ISR as of December 31 are:

		2019		2018
Jack-ups and equipment	$	(11,659)	$	10,075
Provisions		(1,868)		(1,298)
Other assets		287		(305)
Effect of tax losses carry forwards		(24,682)		(27,814)
Valuation reserve for recovery of tax losses		5,538		-
Net deferred ISR liability	$	(32,584)	$	(19,342)
Deferred tax assets	$	(33,365)	$	20,031
Deferred tax liability	$	781	$	689

d. The benefits of the current tax losses pending amortization for which the deferred ISR asset has already been recognized can be recovered by complying with certain requirements. The years of maturity and their amounts updated as of December 31, 2019, are:

Year of expiration		Tax loss Carryforwards
2024	$	477
2025		8,915
2026		39,164
2027		3,677
2028		7,230
2029		22,812
	$	82,275

21. Cost and expenses by nature

		2019		2018
Expenses of employee benefits	$	20,954	$	18,703
Services of drilling and equipment		1,551		10,492
Materials		6,552		5,386
Corporate expenses		7,052		484
Logistics		832		626
Insurance and securities		3,116		3,437
Legal and other fees		2,225		2,294
Travel expenses		720		253
Other expenses		2,638		3,817
Total	$	45,640	$	45,492

22. Financial costs

		2019		2018
Interest from bank loans	$	2,024	$	500
Interests from international bonds		33,815		33,900
Interest from subsidiary loans		1,316		2,713
Amortization of the cost of bond issuance		(872)		930
	$	36,283	$	38,043

23. Subsequent events

The appearance of the Coronavirus COVID-19 in China in January 2020 and its recent global expansion to a large number of countries, has led to the viral outbreak being classified as a pandemic by the World Health Organization since March 11, 2020. The economic impacts and consequences in the markets will depend to a large extent on the evolution and spread of the pandemic in the coming months, as well as on the reaction and adaptation capacity of all the economic agents impacted.

The Entity operates in an industry defined as essential and therefore has not interrupted its activities nor does it foresee that this will occur, therefore, there is no financial impact as of the date of issuance of the consolidated financial statements. In any case, the Entity is attentive to any impact that may occur in its projects and activities.

Likewise, the Entity, as well as the industry, has a very high level of maturity with respect to occupational safety and health and therefore has implemented the highest levels of control to mitigate the effects of COVID-19, i) modifying the rotation of the offshore personnel, ii) periodically sanitizing facilities, iii) establishing medical examinations for offshore personnel before boarding and during their offshore stay; and iv) formalizing a response plan if they have any indication that the personnel may be infected with COVID-19.

24. Authorization to issue the consolidated financial statements

On September 29, 2020, the issuance of the accompanying consolidated financial statements as of December 31, 2019 were authorized by C.P.C. Miguel Ruiz Tapia, Chief Financial Officer; consequently, they do not reflect events occurred after that date, and are subject to the approval of the Board of Directors at the General Ordinary Stockholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law. The consolidated financial statements for the year ended December 31, 2018, were approved at the Ordinary General Shareholders' Meeting held on June 6, 2019.

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