

**Constructora y Perforadora
Latina, S. A. de C. V. and
Subsidiaries
(Subsidiary of Latina Desarrollos
Energéticos, S. A. de C. V.)**

Consolidated Financial Statements
for the Years Ended December 31,
2020 and 2019, and Independent
Auditors' Report Dated June 25,
2021



Constructora y Perforadora Latina, S.A. de C.V. and Subsidiaries

(Subsidiary of Latina Desarrollos Energéticos, S.A. de C.V.)

Independent Auditors' Report and Consolidated Financial Statements for 2020 and 2019

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Independent Auditors' Report to the Board of Directors and Stockholders of Latina Desarrollos Energéticos, S. A. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Latina Desarrollos Energéticos, S. A. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the consolidated statements of 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, 2020 and 2019, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 3b in the consolidated financial statements, which indicates that as of December 31, 2020 and 2019, the Entity has an accumulated deficit of \$167,749 and \$136,303, respectively, and as of that dates, the Entity's current liabilities exceeded its total assets by \$28,016 and \$35,504, respectively. As stated in the note, these events or conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

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.

Also as it is indicated in Note 2c, the Entity restructured its International Bonds debt, and the most of its short-term financial debt has a guarantee from its shareholders as detailed in Note 15; however, derived from the fact that the Entity presents accumulated losses derived from the financial burden, it shows an imbalance between current assets and current liabilities, and due to the volatility of the industry, 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. Management's plans for the Entity to continue as a going concern are also indicated in Note 3b.

Our opinion is not modified in respect of this matter.



Emphasis of Matters

As mentioned in Note 1, the Entity provides services exclusively to PEMEX. Consequently, the accompanying consolidated financial statements are not necessarily indicative of the current conditions or results of operations and cash flows that the Entity would have obtained in the absence of such affiliation.

As described in Note 2b to the consolidated financial statements, the Entity's management reveals the effects caused by the COVID-19 pandemic on its operations and finances; as well as, it discloses the measures that management has taken to mitigate them and describes the effects it has had on the Entity's operation and on its consolidated financial situation due to said contingency on the date of issuance of the consolidated financial statements. Our opinion has not been modified in relation to this emphasis paragraph.

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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 remain 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. Arturo Ceballos López

Mexico City, Mexico
June 25, 2021



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

Consolidated Statements of Financial Position

As of December 31, 2020 and 2019
(In thousands of US dollars)

Assets	Note	2020	2019
Current assets:			
Cash and restricted cash	6	\$ 26,143	\$ 29,542
Trade accounts receivable	7	62,370	55,486
Due from related parties	18	9,194	444
Recoverable taxes and other accounts receivable		73,822	29,776
Inventories - net	8	38,451	22,331
Drilling start-up cost and others		<u>23,952</u>	<u>28,549</u>
Total current assets		233,932	166,128
Jack-ups and equipment, net	11	420,934	442,489
Right of use assets	9	11,120	31,314
Deferred income tax	19	46,776	33,365
Investment in wells and infrastructure, net	12	19,040	19,022
Other assets, net		<u>734</u>	<u>87</u>
Total		<u>\$ 732,536</u>	<u>\$ 692,405</u>
Liabilities and Stockholders' equity			
Current liabilities:			
Current portion of long-term debt	15	\$ 65,420	\$ 64,992
Trade accounts payable		98,028	27,294
Lease liabilities	10	9,417	21,779
Advance customer		7,525	16,023
Taxes and accrued expenses	16	65,329	38,748
Due to related parties	18	9,236	25,542
Accrued interest		<u>6,993</u>	<u>7,254</u>
Total current liabilities		261,948	201,632
Non-current liabilities:			
Long-term debt	15	293,968	295,691
Leases liabilities	10	30	9,577
Deferred income taxes	19	<u>468</u>	<u>781</u>
Total non-current liabilities		294,466	306,049
Total liabilities		556,414	507,681
Stockholders' equity:			
Contributed capital:			
Capital stock	17	341,245	317,508
Earned capital:			
Legal reserve		398	398
Accumulated deficit		<u>(167,749)</u>	<u>(136,303)</u>
Controlling interest		173,894	181,603
Non-controlling interest		<u>2,228</u>	<u>3,121</u>
Total stockholders' equity		176,122	184,724
Total		<u>\$ 732,536</u>	<u>\$ 692,405</u>

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Comprehensive Loss

For the years ended December 31 2020 and 2019

(In thousands of US dollars)

	Note	2020	2019
Revenue:			
Operating lease revenues		\$ 86,858	\$ 97,774
Drilling services and maintenance of wells		<u>163,763</u>	<u>12,153</u>
		250,621	109,927
Lease cost	20	40,736	29,094
Cost of services and maintenance of wells	20	110,759	3,234
Depreciation and amortization		<u>71,148</u>	<u>55,587</u>
Gross profit		27,978	22,012
Administrative expenses	20	29,931	13,312
Other (income) expenses, net		(731)	3,507
Financing costs	21	43,259	36,283
Interest income		(3,619)	(1,439)
Exchange loss - Net		<u>4,868</u>	<u>396</u>
Consolidated loss before income taxes		(45,730)	(30,047)
Income tax benefit	19	<u>(13,391)</u>	<u>(13,530)</u>
Consolidated net loss and comprehensive loss for the year		<u>(32,339)</u>	<u>(16,517)</u>
Consolidated net loss attributable to:			
Controlling participation		\$ (31,446)	\$ (15,891)
Non-controlling participation		<u>(893)</u>	<u>(626)</u>
		<u>\$ (32,339)</u>	<u>\$ (16,517)</u>

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020 and 2019

(In thousands of US dollars)

	Contributed capital	Earned capital					Total Stockholders' equity
	Capital stock	Legal reserve	Deficit	Other comprehensive income	Total controlling participation	Non-controlling participation	
Beginning balance at 2019	\$ 306,096	\$ 398	\$ (121,745)	\$ 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
Capital increase	23,737	-	-	-	23,737	-	23,737
Consolidated comprehensive loss for the year	-	-	(31,446)	-	(31,446)	(893)	(32,339)
Balance as of December 31, 2020	<u>\$ 341,245</u>	<u>\$ 398</u>	<u>\$ (167,749)</u>	<u>\$ -</u>	<u>\$ 173,894</u>	<u>\$ 2,228</u>	<u>\$ 176,122</u>

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(In thousands of US dollars)

	2020	2019
Cash flows from operating activities:		
Consolidated net loss of the year	\$ (32,339)	\$ (16,517)
Adjustments for:		
Income tax benefit	(13,391)	(13,530)
Depreciation and amortization	71,148	55,471
Loss on sale of equipment	4,343	370
Labor cost of current service	-	(1,424)
Amortization of bond issuance costs	1,083	(2,592)
Adjustment to cash flows due to exchange rate fluctuations	2,216	855
Interest expense	43,259	36,283
Interest income	(3,619)	(1,439)
	<u>72,700</u>	<u>57,477</u>
Changes in working capital:		
(Increase) decrease in		
Trade accounts receivable	(6,884)	(15,437)
Related parties	(8,750)	(444)
Current taxes and other accounts receivable	(44,046)	(18,737)
Inventories	(16,120)	(10,199)
Prepaid expenses	4,264	(26,070)
Increase (decrease) in:		
Trade accounts payable	70,734	4,772
Taxes and accrued expenses	26,319	24,043
Advance costumers	(8,498)	16,023
Due to related parties	(16,303)	16,734
Net cash flows provided by operating activities	<u>73,416</u>	<u>49,034</u>
Cash flows from investing activities:		
Acquisition of equipment for jack ups and wells	(31,900)	(15,681)
Interest received	3,619	1,439
Other assets	(689)	47
Net cash flows used in investing activities	<u>(28,970)</u>	<u>(14,195)</u>
Cash flows from financing activities		
Capital increase	23,737	11,412
Leases liabilities	(23,729)	42
Debt obtained	15,561	8,840
Repayment of debt	(19,115)	(8,779)
Interest paid	(44,299)	(39,824)
Net cash flows used in financing activities	<u>(47,845)</u>	<u>(28,309)</u>
Net (decrease) increase in cash and restricted cash	(3,399)	5,658
Cash and restricted cash at the beginning of the year	<u>29,542</u>	<u>23,884</u>
Cash and restricted cash at end of the year	<u>\$ 26,143</u>	<u>\$ 29,542</u>

The accompanying notes are part of the consolidated financial statements.



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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019
(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 Latina Desarrollos Energéticos, 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).

The Entity provides services exclusively to PEMEX. Consequently, the accompanying consolidated financial statements are not necessarily indicative of the current conditions or results of operations and cash flows that the Entity would have obtained in the absence of such affiliation.

2. Significant events

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

During 2020, the rates derived from the amending agreements signed previously in the leases of Santa Maria Offshore Limited (La Santa Maria) and the La Covadonga Limited (La Covadonga) applied a daily rate of \$127.5 for the period from January 1 to June 30, 2020.

The modular rig apply a daily rate of \$60.25 during the period from January 1 to June 30, 2020.

b. *COVID-19*

During the first months of 2020, the infectious disease COVID-19 caused by the coronavirus appeared, which was declared by the World Health Organization (WHO) as a Global Pandemic on March 11, 2020, its recent global expansion has motivated a series of containment measures in the geography where the Entity operates and certain sanitary measures have been taken by the Mexican authorities to stop the spread of this virus. The management has carried out an analysis of the probable impact that they could have on its financial information derived from the temporary suspension of the platform, reduction in rates, breaches of contractual agreements, exchange fluctuations or changes in interest rates, mainly, and concluding the following about the evaluation carried out:

Liquidity risk

The general situation of the markets may cause a general increase in liquidity tensions in the economy, as well as a contraction of the credit market. The Entity's income comes exclusively from PEMEX, which has increased compared to 2019 due to the start of operations of the new Cluster. The flows from PEMEX have been affected by the agreements that were carried out during 2020, in the rig and modular businesses, which are mentioned later, the effects on the Entity's liquidity have been properly managed by the management. Due to the fact that the duration of the pandemic is still uncertain, the administration cannot measure the impacts with certainty; however, the Entity does not expect any material impact due to the current operations.



Operation risk

La Santa Maria had a temporary suspension from August 5, 2020 to January 6, 2021; therefore, the Entity stopped recognizing income from this rig during this period. As of January 7, 2021, this Jack-up resumed operation, as of the date of the report the operation has been regularized and the Entity does not expect similar events in the future.

Also, during 2020 and as a result of the pandemic, the Entity and Pemex signed amending agreements in the leases where it was agreed that:

- La Santa Maria and La Covadonga will apply a daily fee of \$95, for the period from July 1, 2020 to December 31, 2021.
- Beginning January 1, 2022, La Santa Maria and La Covadonga will return to the indexing mechanism established in the amending agreements signed in 2018.
- La Santa Maria and La Covadonga extended their contract's expiration date for one year, ending in the first quarter of 2024.
- The modular rig will apply a daily fee of \$45 for the period from July 1 to December 31, 2021.
- The modular rig extended the contract expiration date from March 17, 2020 to December 31, 2022.
- Beginning January 1, 2022 the modular rig will return to the indexing mechanism established in the amending agreements signed in 2018.
- The credit period to PEMEX was increased from 90 days to 180 days from July 1, 2020 to December 31, 2020.

In addition, the Entity, as well as the industry, has a very high maturity level with respect to occupational safety and health and has therefore implemented the highest control standards to mitigate the effects of COVID-19, i) modifying the turnover of offshore staff, (ii) regularly sanitizing facilities, (iii) establishing medical examinations to personnel working offshore before climbing and during their offshore stay, and (iv) formalizing a response plan if there is any indication that staff may be infected with COVID-19.

c. ***International bonds of \$298,017 (original amount of \$350,000) and \$53,390 (original amount of \$75,000)***

During 2020, the following conditions were formalized:

	Bond \$287,349	Bond \$53,390
Maturing	October 15, 2022	March 16, 2021
		Disperses for the payment of the fixed amount of \$500 plus 2% plus 100% flow from July 15, 2020 and until January 15, 2021.
Amortization of capital	Disperses for July 2020 capital payment	

Regarding to the \$53,390 bond, bondholders approved on March 12, 2021, an extension of the maturity date from March 16, 2021 to December 31, 2022 subject to the extension of the modular lease up to that date.

During 2019, the following conditions were formalized:

	Bond \$298,017	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 December 31, 2019.

d. ***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:

- For drilling activities, 3 offshore drilling rigs were leased, 2 of them with a rental obligation of 18 months plus 6 optional months and one for 9 months (3 wells), with the option of renting it for additional wells, which concluded activities in September 2020.
- The contract requires drilling on 3 fronts, the operation began on December 30, 2019 with the drilling of a well in the Cahua field (Cahua 2 well) with a work front, concluding activities in February 2020. In March 2020, operations began with the Cahua 3 well, concluding activities in August 2020.
- In May 2020, the other two fronts began drilling activities in the Koban field (Koban 5 well, which continues to 2021) and Tetl (Tetl 1001 well, which was completed in September 2020) and Tetl 3 well, which to date is still in process.
- Five additional wells are expected to be drilled in the Tetl (2 wells) and Koban (3 wells) fields in the next months of 2021.
- As of December 31, 2020 and 2019, project start-up costs and expenses have been incurred for the amount of \$47,718 and \$27,783, respectively, which correspond mainly to adjustments, transportation expenses and equipment rents, personnel and logistics expenses and the amortization as of December 31, 2020 amounts to \$ 30,256, as of December 31, 2019 there was no amortization.
- As of December 31, 2020, an income of \$157,135 has been recognized of which \$139,048 has been invoiced to Pemex.
- PEMEX has notified its intention to increase the value of the contract by an amount of \$150,000 and extend its expiration until March 31, 2022.

e. ***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, 2019).

The investment obligation from May to December 2019 for \$ 7,387 together with the 2020 obligation for \$1,119 was made during 2020. As of the date of the consolidated financial statements, the field has 40 wells with a daily production of 938 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. As mentioned in the consolidated financial statements, as of December 31, 2020 and 2019, the Entity has an accumulated deficit of \$167,749 and \$136,303, respectively and as of that dates, the Entity's current liabilities exceeded its total assets by \$28,016 and \$35,504, respectively.

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, 2020 and 2019, 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, 2020.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments not had effects for the Entity.



Impact of the initial application of other new and amended IFRS Standards that are effective for the current year.

In the current year, the Entity has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to references to the conceptual framework in IFRS standards

The Entity has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Amendments to IFRS 3, Definition of a business

The Entity has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

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

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

Amendments to IAS 1 and IAS 8, Definition of materiality

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of materiality in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.



The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

d. ***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:

Amendments to IAS 1	Classifications as current liabilities or non- current liabilities.
Amendments to IFRS 3	References to the conceptual framework.
Amendments to IAS 16	Property, Plant and Equipment - before being used.

The management does 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.

4. Significant accounting policies

a. ***Statement of compliance***

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

When necessary, adjustments are made to the financial statements of the subsidiaries to align their accounting policies in accordance with the Entity's accounting policies.

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

The 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 2020 and 2019
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, 2019 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.



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,	
	2020	2019
Mexican pesos per one US dollar	<u>19.9487</u>	<u>18.8452</u>

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. ***Inventories***

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, modular rig and equipment are recorded at acquisition cost, less the accumulated depreciation and any impairment loss.

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:

	2020
Jack ups and equipment	10 years
Modular right	8 years

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 15 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.

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
- 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" line item.

(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.

Regardless 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. ***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.

o. ***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.

p. ***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. *Revenue from leases*

Revenues are recognized on a monthly basis using the daily rate as established in the lease agreement.

ii. *Rendering of services and drilling of shallow water wells*

The revenues from public works contracts at unit prices and determined time are recognized based on the stage of completion.

iii. *By hydrocarbon production*

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

iv. *By interests*

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

q. ***Drilling contracts***

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.



When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in 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.

r. ***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***

Revenues from drilling contracts and wells maintenance are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

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

	2020	2019
Cash and Bank balances	\$ 15,869	\$ 19,295
Restricted cash (See Note 15)	<u>10,274</u>	<u>10,247</u>
	<u>\$ 26,143</u>	<u>\$ 29,542</u>

7. Accounts receivable

	2020	2019
PEMEX	\$ 60,858	\$ 55,404
Others	<u>1,512</u>	<u>82</u>
	<u>\$ 62,370</u>	<u>\$ 55,486</u>

The Entity has as main costumer PEMEX; therefore, a significant concentration of credit exists. The average collection period for PEMEX is 140 days for 2020 and is 110 days for 2019. 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

	2020	2019
Spare parts	\$ 20,224	\$ 7,055
Material and supplies	15,340	5,894
Goods in transit	400	1,964
Advances to suppliers	<u>2,487</u>	<u>7,418</u>
	<u>\$ 38,451</u>	<u>\$ 22,331</u>

9. Entity as a lessee

The Entity leases various assets, including two platforms. The average lease term is 5 months for 2021.

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

Right-of-use assets (Jack-ups)	2020	2019
Cost		
As of December 31	<u>\$ 35,048</u>	<u>\$ 33,188</u>
Accumulated depreciation		
As of December 31	<u>(23,928)</u>	<u>(1,874)</u>
Value in books		
As of December 31	<u>\$ 11,120</u>	<u>\$ 31,314</u>



Amounts recognized in the consolidated statement of income	2020	2019
Depreciation expense of the asset for use rights	\$ 22,054	\$ 1,874
Finance expense caused by lease liabilities	\$ 1,295	\$ 169

Total cash outflows for leases amount to \$23,729 for 2020 and \$2,003 for 2019.

10. Lease liabilities

	2020	2019
Maturity analysis:		
Year 1	\$ 9,560	\$ 22,865
Year 2	32	9,692
Year 3	-	19
	<u>9,592</u>	<u>32,576</u>
Less: unearned interest	<u>(145)</u>	<u>(1,218)</u>
	<u>\$ 9,447</u>	<u>\$ 31,358</u>
Analyzed as:		
Long term	\$ 30	\$ 9,577
Short term	<u>9,417</u>	<u>21,779</u>
	<u>\$ 9,447</u>	<u>\$ 31,356</u>

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, 2019	Additions	Disposals and split off effect	Balance as of December 31, 2020
Investment:				
Jack ups	\$ 526,412	\$ 12,473	\$ 3,436	\$ 542,321
Modular rig	123,964	4,387	(82)	128,269
Drilling equipment	5,442	1,328	6,279	13,049
Furniture and fixtures	67	11	-	78
Peripheral equipment	303	-	(10)	293
Transportation equipment	18	-	-	18
Computer equipment	412	2	-	414
Spare parts	<u>14,254</u>	<u>5,358</u>	<u>(13,976)</u>	<u>5,636</u>
Total investment	<u>670,872</u>	<u>23,559</u>	<u>(4,353)</u>	<u>690,078</u>
Depreciation:				
Jack ups	(190,323)	(29,548)	(1,514)	(221,385)
Modular rig	(35,397)	(10,357)	-	(45,754)
Drilling equipment	(1,963)	(851)	1,512	(1,302)
Furniture and fixtures	-	(9)	-	(9)
Peripheral equipment	(268)	(6)	12	(262)
Transportation equipment	(18)	-	-	(18)
Computer equipment	<u>(414)</u>	<u>-</u>	<u>-</u>	<u>(414)</u>
Total depreciation accumulated	<u>(228,383)</u>	<u>(40,771)</u>	<u>10</u>	<u>(269,144)</u>
Investment net	<u>\$ 442,489</u>	<u>\$ (17,212)</u>	<u>\$ (4,343)</u>	<u>\$ 420,934</u>



	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	<u>\$ 472,533</u>	<u>\$ (29,674)</u>	<u>\$ (370)</u>	<u>\$ 442,489</u>

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

12. Investment in wells and infrastructure - Net

	2020	2019
Investment in wells and infrastructure of the Pitepec field (a)	\$ 57,900	\$ 49,559
Ineligibles expenses (b)	5,292	5,292
Eligible expenses (c)	<u>4,250</u>	<u>4,250</u>
	67,442	59,101
Wells amortization	(33,589)	(25,266)
Impairment of wells	<u>(14,813)</u>	<u>(14,813)</u>
	<u>\$ 19,040</u>	<u>\$ 19,022</u>

- 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.
- 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.
- 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 in the local market place; therefore, it is exposed to financial risks including market risks (exchange rate and interest rate), credit risks and liquidity risks. The Board of Directors establishes and monitors policies and procedures to measure and manage those 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 17, respectively).

As of December 31, 2020 and 2019, the Entity has restricted cash of \$10,724 and \$10,247, as mentioned in Note 15.

Debt ratio - The debt ratio at December 31, 2020 and 2019, is as follows:

	2020	2019
Bank loans and long-term debt	\$ 359,388	\$ 360,683
Cash and cash restricted	<u>26,143</u>	<u>29,542</u>
Net debt	<u>\$ 333,245</u>	<u>\$ 331,141</u>
Stockholders' equity	<u>\$ 176,122</u>	<u>\$ 184,724</u>
Net debt ratio to stockholders' equity	1.9 times	1.8 times

b. *Categories of financial instruments*

	2020	2019
Financial assets:		
Cash and restricted cash	\$ 26,143	\$ 29,542
<i>Loans and receivable</i>		
Trade accounts receivable	62,370	55,486
Accounts receivables from related parties	<u>9,194</u>	<u>444</u>
	<u>\$ 97,707</u>	<u>\$ 85,472</u>
Financial liabilities:		
<i>Financial liabilities held at amortized cost</i>		
Bank loans and long-term debt	\$ 359,388	\$ 360,683
<i>Other liabilities</i>		
Accounts payable to suppliers	98,028	27,294
Lease liabilities	9,447	31,356
Due to related parties	<u>9,236</u>	<u>25,542</u>
	<u>\$ 476,099</u>	<u>\$ 444,875</u>

c. *Objectives of financial risk management*

The Entity's Corporate Treasury function provides services to its business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to its operations through internal risk reports, which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rates 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	
	2020	2019	2020	2019
Thousands of Mexican pesos	<u>32,205</u>	<u>25,580</u>	<u>600,802</u>	<u>140,376</u>

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:

	2020	2019
Results	<u>2,591</u>	<u>554</u>

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, 2020 would decrease \$59 (2019: decrease \$1,821). 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, 2020 1 and 3 years	Total
Bank loans and long-term debt	7.99%	\$ 65,420	\$ 293,968	\$ 359,388
Accounts payable to suppliers		98,028	-	98,028
Lease liabilities		9,417	30	9,447
Due to related parties		<u>9,236</u>	<u>-</u>	<u>9,236</u>
Total		<u>\$ 182,101</u>	<u>\$ 293,998</u>	<u>\$ 476,099</u>
	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		<u>25,542</u>	<u>-</u>	<u>25,542</u>
Total		<u>\$ 139,607</u>	<u>\$ 305,268</u>	<u>\$ 444,875</u>

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:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and restricted cash	\$ 26,143	\$ 26,143	\$ 29,542	\$ 29,542
Loans and receivables:				
Trade accounts receivable	\$ 62,370	\$ 62,370	\$ 55,486	\$ 55,486
Accounts receivable from related parties	9,194	9,194	444	444
Accounts payable to suppliers	(98,028)	(98,028)	(27,294)	(27,294)
Accounts payable to related parties	(9,236)	(9,236)	(25,542)	(25,542)
Lease liabilities	(9,447)	(9,447)	(31,356)	(31,356)
Financial liabilities measured at amortized cost (Level 2):				
Bank loans and current portion of long-term debt	(359,388)	(359,388)	(360,683)	(360,683)
Total	<u>\$ (378,392)</u>	<u>\$ (378,392)</u>	<u>\$ (359,403)</u>	<u>\$ (359,043)</u>

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



15. Bank loans and long-term debt

	2020	2019
<i>Senior secured bonds guaranteed with the Oil Platforms and the Modular</i>		
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.	\$ 287,349	\$ 298,017
<i>Bonds guaranteed with the Oil Platforms and the Modular:</i>		
International Bond Issue for \$75,000 that pays quarterly interest at the fixed rate of 10% and maturing on December 31, 2022. The principal is amortized quarterly based on the totality of the surplus cash.	53,390	54,390
<i>Bank loans</i>		
Credit Celebrated with UNIFIN Financiera, S.A.B. de C.V. and has a maturity of 15 months beginning on May 25, 2020.	2,814	-
<i>Bank loans in Mexican pesos:</i>		
Simple credit of \$98.5 million Mexicans pesos UNIFIN Financiera S.A.B.de C.V., with a maturity of 24 months beginning on September 25, 2020.	4,454	-
Simple credit of \$15 million Mexicans pesos UNIFIN Financiera S.A.B.de C.V., with a maturity of 24 months beginning on October 25 2020.	700	-
Simple credit of \$245.7 million Mexicans pesos UNIFIN Financiera S.A.B.de C.V., with a maturity of 24 months beginning on May 1, 2020.	9,813	-
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 \$ 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
Simple credit for \$ 3,000 with Banco HSBC México, S.A. that accrues interest at the TIIE rate plus 450 basis points. The principal is amortized upon maturity on April 30, 2021	3,000	-
	361,520	362,857
Debt issuance at amortized cost	(2,132)	(2,174)
	359,388	360,683
Less: short-term portion	65,420	64,992
Long-term debt	\$ 293,968	\$ 295,691



- a. The maturity of the long-term debt as of December 31, 2020, is as follows:

2022	\$ <u>293,968</u>
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- b. As mentioned in Note 2c, the Entity signed an agreement with the International Bondholders for \$298,017 and \$54,390 to modify some conditions established 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. Taxes and accrued expenses

	2020	2019
Trade accounts payable	\$ 15,938	\$ 9,098
Interest payable	<u>49,391</u>	<u>29,650</u>
	<u>\$ 65,329</u>	<u>\$ 38,748</u>

17. Capital stock

- a. As of December 31, 2020 and 2019, the share capital is integrated as follows:

	2020		2019	
	Shares	Amount	Shares	Amount
Fixed portion- Nominative Series "A" Share	200	\$ 21	200	\$ 21
Variable portion- Nominative Series "A1" Share	<u>78,773,312</u>	<u>341,224</u>	<u>72,194,858</u>	<u>317,487</u>
	<u>78,773,512</u>	<u>\$ 341,245</u>	<u>72,195,058</u>	<u>\$ 317,508</u>

Capital stock is represented by nominative shares without nominal value.



- b. In Ordinary Shareholders' General Meetings held in 2020, the stockholders' equity variable portion was increased by the amount of \$ 23,737 through the issuance of 6,578,454 ordinary, nominative shares, series "B", without par value; which were paid in cash, as follows:

Date	Shares	Amount
January 13, 2020	5,393,437	\$ 19,916
June 9, 2020	<u>1,185,017</u>	<u>3,821</u>
Total	<u>6,578,454</u>	<u>\$ 23,737</u>

- c. 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:

Date	Shares	Amount
December 13, 2019	2,840,317	\$ 10,500
December 30, 2019	<u>246,973</u>	<u>912</u>
Total	<u>3,087,290</u>	<u>\$ 11,412</u>

- d. 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, 2020 and 2019, the legal reserve amounts to \$398.
- e. 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

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

	2020	2019
Contribution capital account	\$ 393,347	\$ 379,582
Net fiscal profit account at the close of 2019	2,191	1,179
Net taxable profit account as of 2020	<u>2,260</u>	<u>1,212</u>
Total	<u>\$ 397,798</u>	<u>\$ 381,973</u>

18. Operations and balances with related parties

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

	2020	2019
Income from reimbursements	<u>\$ 67</u>	<u>\$ 291</u>



	2020	2019
Income from sale of fixed assets	\$ -	\$ 380
Purchases of spare parts and tools	\$ -	\$ 198
Lease income	\$ 637	\$ -
Income from drilling services	\$ 50	\$ -
Expenses for drilling services	\$ (1,008)	\$ (1,939)
Expenses for administrative services	\$ (41,378)	\$ (29,410)
Reimbursement expenses	\$ (6)	\$ (6)
Interest expenses	\$ (73)	\$ (1,316)
Lease expenses	\$ (872)	\$ -
fixed asset purchase expenses	\$ (2,250)	\$ -

- b. The balances with related parties are:

	2020	2019
Due from-		
Servicios Corporativos Latina, S.A. de C.V.	\$ -	\$ 65
CPL Servicios de Perforación, S.A. de C.V..	-	379
Latina Desarrollo Energéticos, S. A. de C. V. (i)	9,194	-
	<u>\$ 9,194</u>	<u>\$ 444</u>
Due to-		
Latina Desarrollo Energéticos, S. A. de C. V. (i)	\$ -	\$ 23,752
Servicios Corporativos Latina, S. A. de C. V.(ii)	5,971	1,783
Coperla Servicios S.A. de C.V.	5	7
CPL Servicios de Perforación S.A. de C.V.	3,260	-
	<u>\$ 9,236</u>	<u>\$ 25,542</u>

19. Income taxes

The Entity is subject to Income tax (ISR for its acronym in Spanish). Under the ISR Law the rate for 2020 and 2019 was 30%, and will continue to 30% for later years:

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

	2020	2019
Current income tax	\$ -	\$ 194
Deferred income tax	(13,391)	(13,724)
	<u>\$ (13,391)</u>	<u>\$ (13,530)</u>

- 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:

	2020 %	2019 %
Legal rate	(30)	(30)
Add (less) effect of permanent differences:		
Effects of inflation	3	10
Non - deductible	-	1
Translation effect	-	(22)
Tax losses carryforward - effects of inflation	(2)	(4)
Effective tax rate	<u>29</u>	<u>45</u>



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

	2020	2019
Jack-ups and equipment	\$ (18,312)	\$ (11,659)
Provisions	(2,810)	(1,868)
Other assets	6,763	287
Effect of tax losses carry forwards	(31,949)	(24,682)
Valuation reserve for recovery of tax losses	<u>-</u>	<u>5,538</u>
Net deferred ISR liability	<u>\$ (46,308)</u>	<u>\$ (32,584)</u>
Deferred tax assets	<u>\$ (46,776)</u>	<u>\$ (33,365)</u>
Deferred tax liability	<u>\$ 468</u>	<u>\$ 781</u>

- 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, 2020, are:

Year of expiration	Tax loss Carryforwards
2024	\$ 464
2025	8,686
2026	33,122
2027	3,006
2028	6,681
2029	15,885
2030	<u>38,653</u>
	<u>\$ 106,497</u>

20. Cost and expenses by nature

	2020	2019
Expenses of employee benefits	\$ 50,809	\$ 1,551
Services of drilling and equipment	34,901	20,954
Materials	215	6,552
Corporate expenses	2,255	7,052
Logistics	20,273	832
Insurance and securities	5,841	3,116
Legal and other fees	1,436	2,225
Travel expenses	-	720
Lease platform	14,044	-
Lease drilling spare parts	8,814	-
Maintenance expenses and spare parts to the platform	9,112	-
Pre-operating amortization	30,256	-
Other expenses	<u>3,470</u>	<u>2,638</u>
Total	<u>\$ 181,426</u>	<u>\$ 45,640</u>



21. Financial costs

	2020	2019
Interest from bank loans	\$ 8,976	\$ 2,024
Interests from international bonds	31,279	33,815
Interest from subsidiary loans	1,921	1,316
Amortization of the cost of bond issuance	<u>1,083</u>	<u>(872)</u>
	<u>\$ 43,259</u>	<u>\$ 36,283</u>

22. Subsequent events

- a) On April 13 and 20, 2021, it was approved by the Chamber of Deputies and the Senate, respectively; the law initiative presented by the Federal Executive to the Congress of the Union that contains various amendments to the Federal Labor Law ("LFT"), Social Security Law ("LSS"), Law of the Institute of the National Housing Fund for Workers ("INFONAVIT"), Fiscal Code of the Federation ("CFF"), Income Tax Law ("LISR") and the Value Added Tax Law ("LIVA"), with the aim of regulating the regime of subcontracting of labor personnel ("outsourcing") in our country. The reform is expected to be approved and published by the Federal Executive in the Official Journal of the Federation and enter into force the day after its publication.

Taking into account this reform and considering the information available at the date of issuance of these consolidated financial statements, management cannot definitively determine the accounting impact that this reform will have on its operation and its consolidated financial statements for 2021.

- b) As of the date of issuance of the consolidated financial statements, the extension of the Modular contract has been formalized until December 2022 and additionally, the Santa Maria and Covadonga contacts have been formalized until March 2024.

23. Authorization to issue the consolidated financial statements

On June 25, 2021, the issuance of the accompanying consolidated financial statements as of December 31, 2020 were authorized by C.P.C. Miguel Ruiz Tapia, General Director; 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, 2019, were approved at the Ordinary General Shareholders' Meeting held on June 6, 2020.

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