

Latina Modular 01 Limited
(Subsidiary of Latina Desarrollos
Energeticos, S. A. de C. V.)

Financial Statements for the Years
Ended December 31, 2021 and
2020, and Independent Auditors'
Report Dated April 29, 2022



Latina Modular 01 Limited
(Subsidiary of Latina Desarrollos Energéticos, S. A. de C. V.)

**Independent Auditors' Report and Financial
Statements for 2021 and 2020**

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Independent Auditors' Report to the Board of Directors and Stockholders of Latina Modular 01 Limited

Opinion

We have audited the accompanying financial statements of Latina Modular 01 Limited (the "Entity"), which comprise the statements of the financial position as of December 31, 2021 and 2020, and the related statements of losses, statements of changes in stockholders' equity and statements of cash flows for the years then ended, as well as the note to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as of December 31, 2021 and 2020, its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

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 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 the going concern

We draw your attention to Note 3a of the accompanying financial statements that describe that on October 11, 2014, Latina Offshore Holding Limited, the Parent company, issued an International Bond. As of December 31, 2021 the outstanding balance is \$53,027 and it is due on December 31, 2022, the Parent company is holding discussions with the Bond holders to renegotiate the terms of the debt. If the terms are not successfully renegotiated and the International Bond is not paid, the Modular rig owned by the Entity, which is pledged as collateral could be collected by the bond holders. Due to these events or conditions, at the date of the financial statements, this matter indicates the existence of a material uncertainty about the Entity's ability to continue as a going concern.

Our opinion has not been modified in relation to this matter

Emphasis of Matters

As mentioned in note 1, the Entity provides services exclusively to a related party. Accordingly, the accompanying financial statements are not necessarily indicative of the prevailing conditions or results of operation and cash flows that the Entity would have obtained, if there were no such affiliation.

Our opinion has not been modified in relation to this matter



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 due to 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 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

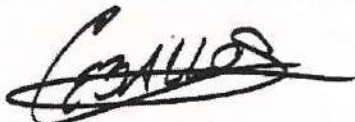


We obtain sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We continue to be solely responsible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

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

We also provide those charged with governance of the Entity with a statement that we have complied with the applicable ethical requirements regarding independence and have communicated to them about all relationships and other matters that can reasonably be expected to affect our independence, and where appropriate, the corresponding safeguards.

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



C. P. C. Arturo Cejallos López

April 29, 2022



Latina Modular 01 Limited
(Subsidiary of Latina Desarrollos Energéticos, S. A. de C. V.)

Statements of Financial Position

As of December 31, 2021 and 2020
(In thousands of US dollars)

Assets	Note	2021	2020
Current assets:			
Cash		\$ 7	\$ 3
Due from related parties	10	5,006	-
Other accounts receivable		258	1,773
Prepaid expenses, net		<u>21</u>	<u>20</u>
Total current assets		5,292	1,796
Non-current assets:			
Modular rig and equipment, net	5	73,992	83,509
Deferred income taxes	6	<u>5,346</u>	<u>2,863</u>
Total non-current assets		<u>79,338</u>	<u>86,372</u>
Total assets		<u>\$ 84,630</u>	<u>\$ 88,168</u>
Liabilities and Stockholders' equity			
Current liabilities:			
Due to related parties	10	\$ 832	\$ 2,686
Trade accounts payable		21	20
Other accounts payable and accrued liabilities		<u>418</u>	<u>983</u>
Total current liabilities		1,271	3,689
Stockholders' equity:			
Capital stock	8	88,768	88,768
Accumulated deficit		<u>(5,409)</u>	<u>(4,289)</u>
Total stockholders' equity		<u>83,359</u>	<u>84,479</u>
Total liabilities and stockholders' equity		<u>\$ 84,630</u>	<u>\$ 88,168</u>

See accompanying notes to financial statements.



Latina Modular 01 Limited
 (Subsidiary of Latina Desarrollos Energéticos, S. A. de C. V.)

Statements of Losses

For the years ended December 31, 2021 and 2020
 (In thousands of US dollars)

	Note	2021	2020
Revenue from operating lease	10	\$ 6,426	\$ 9,318
Operating cost	9	29	37
Depreciation of assets under operating leases	5	<u>10,155</u>	<u>10,357</u>
Gross loss		(3,758)	(1,076)
Interest income, net	10	155	142
Exchange loss, net		<u>-</u>	<u>(5)</u>
Loss before income taxes		(3,603)	(929)
Deferred income tax (benefit) expense	6	<u>(2,483)</u>	<u>456</u>
Loss for the year		<u>\$ (1,120)</u>	<u>\$ (1,385)</u>

See accompanying notes to financial statements.



Latina Modular 01 Limited
 (Subsidiary of Latina Desarrollos Energéticos, S. A. de C. V.)

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2021 and 2020
 (In thousands of US dollars)

	Capital stock	Contributions for future capital increases	Accumulated deficit	Total stockholders' equity
Beginning balance as of January 1, 2020	\$ 88,500	\$ 268	\$ (2,904)	\$ 85,864
Capital increases	268	(268)	-	-
Loss for the year	<u>-</u>	<u>-</u>	<u>(1,385)</u>	<u>(1,385)</u>
Balance as of December 31, 2020	88,768	-	(4,289)	84,479
Loss for the year	<u>-</u>	<u>-</u>	<u>(1,120)</u>	<u>(1,120)</u>
Balance as of December 31, 2021	<u>\$ 88,768</u>	<u>\$ -</u>	<u>\$ (5,409)</u>	<u>\$ 83,359</u>

See accompanying notes to financial statements.



Latina Modular 01 Limited
 (Subsidiary of Latina Desarrollos Energéticos, S. A. de C. V.)

Statements of Cash Flows

For the years ended December 31, 2021 and 2020
 (In thousands of US dollars)

	2021	2020
Cash flows from operating activities		
Loss for the year	\$ (1,120)	\$ (1,385)
Adjustments for:		
Deferred income (benefit) tax	(2,483)	456
Depreciation	10,155	10,357
Exchange gain	-	(5)
Interest income	(155)	(142)
	<u>6,397</u>	<u>9,281</u>
Changes in working capital:		
(Increase) decrease in:		
Due from related parties	(5,006)	-
Other accounts receivables	1,517	950
Prepaid expenses	(1)	-
(Decrease) increase in:		
Trade accounts payable	1	20
Due to related parties	(1,854)	(9,538)
Other accounts payable and accrued liabilities	(567)	(86)
Net cash flows generated by operating activities	<u>487</u>	<u>627</u>
Cash flows from investing activities:		
Interest gain collected	155	142
Purchase of equipment	(638)	(768)
Net cash flows used in investing activities	<u>(483)</u>	<u>(626)</u>
Net increase in cash	4	1
Cash at the beginning of the year	<u>3</u>	<u>2</u>
Cash at the end of the year	<u>\$ 7</u>	<u>\$ 3</u>

See accompanying notes to financial statements.



Latina Modular 01 Limited
(Subsidiary of Latina Desarrollos Energéticos, S. A. de C. V.)

Notes to the Financial Statements

For the years ended December 31, 2021 and 2020
(In thousands of US dollars)

1. Activity

Latina Modular 01 Limited (the “Entity”) was incorporated as a Bermuda exempted company on July 28, 2015 under the laws of Bermuda. The Entity has an office at Canon’s Court 22 Victoria Street, Hamilton, Bermuda. For Mexican tax purposes, the Entity’s address is Horacio 1855, 5th floor, Los Morales Polanco, Mexico City, Zip Code 11510.

The main activity of the Entity is the leasing of a Modular rig (“Modular 01”) to Constructora y Perforadora Latina, S. A. de C. V., (“CP Latina”) the indirect parent, company incorporated in Mexico.

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

The Entity’s operating and administrative personnel are employed directly by a related party. Therefore, the Entity has no employees and is not subject to any labor obligations other than any joint and several obligations that may arise from the labor agreements executed with the related party.

COVID-19 Pandemic - 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.

Operations 2021 and 2020

a) **Changes to the leases with CP Latina of Modular 01**

The Modular rig applied a daily fee of \$18 for the period July 1 to December 31, 2021.

The operation of the Modular rig was temporarily suspended as of December 24, 2021. The Entity is actively seeking a new assignment with Pemex, as of the date of issuance of this report no specific additional workload has been assigned.

• **Operational impacts.**

- During 2021 and 2020 and because of the pandemic, the Entity and CP Latina signed amending agreements in the leases where it was agreed that:
 - o The Modular rig extended the expiration date of the contract from March 16, 2021 to December 31, 2022 and a fee of \$18 will apply, for the period from July 1, 2020 to December 31, 2021.



- Beginning January 1, 2023, the Modular rig will return to the indexing mechanism established in the amending agreements signed in 2018.
- As of June 1, 2021, the Modular rig applies the payment term for accounts receivable at 90 days after the invoices are issued instead of 180 days.

2. Adoption of new and revised International Financial Reporting Standards

a. *New and amended IFRS standards that are effective for the current year*

In the prior year, the Entity adopted the Phase 1 amendments 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 are amended as a result of the interest rate benchmark reform.

In the current year, the Entity adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Entity to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as ‘risk free rates’ or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Entity has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognized in the appropriate components of equity as at 1 January 2021.

Both the Phase 1 and Phase 2 amendments are relevant to the Entity because it applies hedge accounting to its interest rate benchmark exposures, and in the current period modifications in response to the reform have been made to some (but not all) of the Entity derivative and non-derivative financial instruments that mature post 2021 (the date by which the reform is expected to be implemented). Details of the derivative and non-derivative financial instruments affected by the interest rate benchmark reform together with a summary of the actions taken by the Entity to manage the risks relating to the reform and the accounting impact, including the impact on hedge accounting relationships.

The amendments are relevant for the following types of hedging relationships and financial instruments of the Entity, all of which extend beyond 2021:

- Fair value hedges where LIBOR-linked derivatives are designated as a fair value hedge of fixed rate debt in respect of the GBP LIBOR risk component
- Cash flow hedges where IBOR-linked derivatives are designated as a cash flow hedge of IBOR-linked bank borrowings
- Bills of exchange and lease liabilities which reference LIBORs and are subject to the interest rate benchmark reform
- The application of the amendments affects of the Entity accounting in the following ways:
- The Entity has issued CU-denominated fixed rate debt that is subject to a fair value hedge using CU fixed to CU LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, CU LIBOR, may no longer be separately identifiable and there is uncertainty about the replacement of the floating interest rates included in the interest rate swaps. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship will be discontinued.

As of December 31, 2021, the modifications of both phases are not relevant for the Entity.



***Impact of the initial application of COVID-19-Related Rent Concessions beyond June 30 2021—
Amendment to IFRS 16***

In the prior year, the Entity early adopted COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before June 30, 2021.

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June, 2022.

In the current financial year, the Entity has applied the amendment to IFRS 16 (as issued by the Board in May, 2021) in advance of its effective date. IFRS 16:46A the practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022)
- There is no substantive change to other terms and conditions of the lease

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

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

Amendments to IAS 1	<i>Classifications as current liabilities or non-current liabilities</i>
Amendments to IFRS 3	<i>References to the conceptual framework</i>
Amendments to IAS 16,	<i>Property, Plant and Equipment - before being used</i>
Amendments to IAS 37	<i>Onerous contracts - costs of fulfilling a contract</i>

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

Amendments to IAS 1, Classification of current liabilities and non-current

Amendments to IAS 1 affect only the presentation of liabilities as current and non-current in the statement of financial position and not for the amount or time in which any assets, liabilities, income or expenses, or information disclosed about those items are recognized.

The amendments clarify that the classification of liabilities as current and non-current is based on the rights of existence at the end of the reporting period, specifies that the classification is not affected by expectations as to whether the entity will exercise the right to defer the cancellation of the liability, explain that there are rights if there are conventions to be fulfilled at the end of the reporting period, and to introduce a definition of the 'agreement' to make it clear that the agreement relates to the transfer of counterparty cash, capital instruments, other assets or services.



The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

Amendments to IFRS 3, References to the conceptual framework

Amendments to IFRS 3 so that it can refer to the Conceptual Framework 2018 instead of Framework 1989. They also added a requirement that, for obligations within the scope of IAS 37, a buyer applies IAS 37 to determine whether the date of acquisition is a present obligation or exists as a result from a past event. For levies within the scope of IFRIC 21, *Assessments*, the buyer applies IFRIC 21 to determine whether the obligation results in a liability to pay the lien that occurred on the date of acquisition.

Finally, the modifications add an explicit statement that the buyer will not recognize a contingent asset acquired from a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 - Property, Plant and Equipment - Before use.

Amendments prohibit the deduction of the cost of a property asset, plant or equipment any income from selling the asset after it is ready to use, for example, revenue while the asset is taken to the location and the necessary conditioning is made to make it operable in the manner that is intended according to management. Therefore, an entity must recognize that revenue from sales and costs in results. The entity measures the costs of these items in accordance with IAS 2, *Inventories*.

The modifications clarify the meaning of 'test whether an asset is working properly'. IAS 16 now specifies this as an assessment in which the physical and technical performance of the asset is able to be used in the production or supply of goods or services, for rent or others, or administrative purposes.

If not presented separately in the comprehensive income statement, the financial statements shall disclose the amounts of income and costs in results related to items that are not an exit for the entity's ordinary activities, on the starting line(s) in the comprehensive income statement where the revenue and costs are included.

The modifications are applied retrospectively, but only to the items of ownership, plant and equipment that are brought to the location and conditions necessary to be able to be operated as the administration has planned in or after the beginning of the period in which the financial statements of the entity in which it applies the modifications are presented for the first time.

The entity shall recognize the cumulative effect of the initial application of the changes as an adjustment to the balance sheet on retained profits (or any capital component, which is appropriate) at the beginning of the first period that is presented.

The amendments are effective for annual periods starting on January 1, 2022 with the option of early application.

Amendments to IAS 37 – Onerous Contracts – Cost for Fulfilling a Contract

The amendments specify that the 'costs for fulfilling' a contract includes the 'costs directly related to the contract'. Costs that relate directly to a contract consist of incremental costs and costs for fulfilling a contract (example: labor or materials) and the allocation of other costs that relate directly to fulfill a contract (such as assigning depreciation to property, plant, and equipment items to fulfill the contract).



The amendments apply to contracts in which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the changes. Comparisons should not be reformulated. Instead, the entity must recognize the cumulative effect of the initial application of the changes as an adjustment to the balance statement of financial position on the retained profits or some other capital component, as appropriate, for the initial application date.

Modifications are effective for annual periods starting on or after January 1, 2022, with an early application option.

c. ***Annual Improvements to IFRS Standards 2018–2020***

The Annual Improvements include amendments to four Standards.

IFRS 1, First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1: D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1: D16(a).

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

IFRS 9, Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date, the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

IFRS 16, Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

3. Significant accounting policies

a. ***Going concern***

We draw your attention to Note 5 of the accompanying financial statements that describe that on October 11, 2014, Latina Offshore Holding Limited, the Parent company, issued an International Bond. As of December 31, 2021 the outstanding balance is \$53,027 and it is due on December 31, 2022, the Parent company is holding discussions with the Bond holders to renegotiate the terms of the debt. If the terms are not successfully renegotiated and the International Bond is not paid, the Modular rig owned by the Entity, which is pledged as collateral could be collected by the bond holders. Due to these events or conditions, at the date of the financial statements, this matter indicates the existence of a material uncertainty about the Entity's ability to continue as a going concern.



b. ***Statement of compliance***

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

c. ***Basis of preparation***

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

i. ***Historical cost***

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

ii. ***Fair value***

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

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

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

d. ***Financial instruments***

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

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

e. ***Financial assets***

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



1. *Effective interest method*

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

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

2. *Financial assets at FVTPL*

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the interest income and expenses line items. Fair value is determined in the manner described in Note 7.

3. *Loans and receivables*

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

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

Financial assets with credit impairment

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

- (a) Significant financial difficulty on the part of the issuer or debtor;
 - (b) Failure to breach a contract, such as a breach or overdue event (see (ii) above);
 - (c) The debtor's lenders, for economic or contractual reasons related to the debtor's financial difficulty, grant the debtor a concession that the lenders would not otherwise consider;
 - (d) The debtor is increasingly likely to go bankrupt or some other financial reorganization;
- Or
- (e) The extinction of a functional market for the financial asset because of its financial difficulties.



4. *Derecognition of financial assets*

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

f. *Cash*

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

g. *Modular rig and equipment*

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

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

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

An item of Modular rig 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 Modular rig is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The average useful life of Modular rig is:

	Years
Helmet	22
Substructure	22
Lifting system (legs and motors)	22
Equipment and accessories	17
Accessories	17
Preventers	17
Housing unit	14
Fire safety net equipment	5
Helideck	5

h. *Impairment of tangible assets*

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



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

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

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

i. **Leasing**

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

The Entity as lessor

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

j. **Foreign currencies**

In preparing the financial statements, 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.

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

	December 31,	
	2021	2020
Mexican pesos per one US dollar	\$ <u>20.5835</u>	\$ <u>19.9487</u>

k. **Income taxes**

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

1. *Current tax*

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

2. *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.



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

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

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

3. *Current and deferred tax for the year*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity.

l. *Provisions*

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

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

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

m. *Financial liabilities and equity instruments*

1. *Classification as debt or equity*

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

2. *Equity instruments*

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

3. *Financial liabilities*

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

Other financial liabilities, which include borrowings and trade and other payables, are subsequently measured at amortized cost using the effective interest method.



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

4. *Impairment of financial assets*

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

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

Objective evidence of impairment could include:

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

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

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

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

n. *Statement of cash flows*

The cash flows are used applying the indirect method. Interest received is classified as investing cash flows, while interest paid is classified as financing cash flows.

4. **Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Entity's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.



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

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

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

- ***Leases*** - The Entity evaluates the classification of the leases for accounting purposes.

In performing such assessment, the Entity is required to exercise its professional judgment and make estimates, as follows:

- a) The lease does not transfer ownership of the Jack up and equipment to the leasee by the end of the lease term.
- b) The lease does not contain an option to purchase the Jack up and equipment.
- c) The lease term does not represent a substantial portion of the economic life of the Jack up and equipment.
- d) At the inception of the lease the present value of the minimum lease payments amounts does not represent a substantial portion of fair value of the leased Jack up and equipment.
- e) The leased Jack up and equipment can be used by another interested party without major modifications.

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

b. ***Key sources of estimation uncertainty***

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

Impairment of long-term live assets - At each reporting date, the Entity reviews the carrying amounts of its jack-up 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 to determine the extent of the impairment loss (if any).

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.

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



Recovery of tax losses carryforwards - The Entity makes financial and tax projections for the purpose of maximizing efficiency with respect to accounting and tax results. For tax purposes, the Entity realized a significant loss due to the devaluation of the Mexican peso with respect to the US dollar during 2021 and 2020. The Entity expects to amortize tax losses against tax profits generated from subsequent years, with the normal operations of it Modular rig and equipment.

5. Modular rig and equipment

	Balance as of December 31, 2020	Additions	Disposals	Balance as of December 31, 2021
Investments:				
Modular rig	\$ 129,263	\$ 638	\$ -	\$ 129,901
Depreciation:				
Modular rig	<u>(45,754)</u>	<u>(10,155)</u>	<u>-</u>	<u>(55,909)</u>
Total investments, net	<u>\$ 83,509</u>	<u>\$ (9,517)</u>	<u>\$ -</u>	<u>\$ 73,992</u>
	Balance as of January 1, 2020	Additions	Disposals	Balance as of December 31, 2020
Investments:				
Modular rig	\$ 128,495	\$ 768	\$ -	\$ 129,263
Depreciation:				
Modular rig	<u>(35,405)</u>	<u>(10,357)</u>	<u>8</u>	<u>(45,754)</u>
Total investments, net	<u>\$ 93,090</u>	<u>\$ (9,589)</u>	<u>\$ 8</u>	<u>\$ 83,509</u>

Latina Offshore Holding Limited issued an International Bond, as of December 31, 2021 the balance is in the amount of \$53,027. The Modular rig owned by the Entity is pledged as collateral under the Bond.

6. Income taxes

The Entity is not subject to income taxes in Bermuda. The Entity is subject to income tax (ISR, for its name in Spanish) in Mexico. The current rate of ISR is 30%.

a. *Income tax recognized in loss*

	2021	2020
Deferred tax		
Income tax (benefit) expense	<u>\$ (2,483)</u>	<u>\$ 456</u>

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

The following is the analysis of deferred tax assets presented in the statements of financial position:

	2021	2020
Deferred ISR assets:		
Modular rig and equipment	\$ 3,335	\$ -
Effect of tax loss carryforwards	1,753	3,269
Others assets	264	-
Provisions and others	<u>1</u>	<u>-</u>
Deferred ISR assets	<u>\$ 5,353</u>	<u>\$ 3,269</u>



	2021	2020
Deferred ISR liabilities:		
Prepaid expenses	(7)	-
Modular rig and equipment	-	(406)
Deferred ISR liabilities	<u>(7)</u>	<u>(406)</u>
Total deferred tax, asset	<u>\$ 5,346</u>	<u>\$ 2,863</u>

- c. The benefits of restated tax loss carryforwards for which the deferred ISR asset, have been recognized and can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2021, are:

Year of expiration	Tax loss Carryforwards
2025	\$
2026	3,720
2028	962
2030	<u>1,161</u>
	<u>\$ 5,843</u>

7. Financial risk management

a. *Capital management*

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

b. *Interest rate risk management*

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

c. *Credit risk management*

Credit risk refers to the situation in which the borrower defaults on its contractual obligations, thereby generating a financial loss for the Entity and which is essentially derived from customer accounts receivable and liquid funds. The Entity does not believe it has a significant credit risk as of December 31, 2021 and 2020 a result of its financial position as of such date.

d. *Liquidity risk management*

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

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



	December 31, 2021		
	1-6 months	Total	Carrying amount
Fixed interest rate instrument	\$ 850	\$ 850	\$ 832

	December 31, 2020		
	1-6 months	Total	Carrying amount
Fixed interest rate instrument	\$ 2,744	\$ 2,744	\$ 2,686

e. **Fair value measurements**

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 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).

Entity considers that the carrying amount of cash and restricted cash, accounts receivable 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 debt is 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, 2021 and 2020 are as follows:

	Carrying amount	Fair value at December 31, 2021
Financial assets:		
Cash (Level 1)	\$ 7	\$ 7
At amortized cost		
Due to related parties (Level 2)	\$ 5,006	\$ 5,006
Financial liabilities at amortized cost		
Due to related parties (Level 2)	\$ 832	\$ 832
Trade accounts payable (Level 2)	\$ 21	\$ 21



	Carrying amount	Fair value at December 31, 2020
Financial assets:		
Cash (Level 1)	\$ 3	\$ 3
Financial liabilities at amortized cost		
Due to related parties (Level 2)	\$ 2,686	\$ 2,686
Trade accounts payable (Level 2)	\$ 20	\$ 20

Management believes that the carrying value of payables to related parties approximate their fair values based on their nature and short-term maturities. Entity's management determined the fair value of payable to related parties, which is a level 2 input.

8. Stockholders' equity

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

	Number of shares 2021 and 2020	Amount 2021 and 2020
Fixed:		
Series A	100	\$ -
Variable:		
Series A	<u>88,768,000</u>	<u>88,768</u>
	<u>88,768,100</u>	<u>\$ 88,768</u>

- b. Common stock consists of ordinary, nominative shares with par value of 1 US dollar.
- c. Pursuant to a resolution of the Ordinary General Shareholders' Meetings held during 2019, it was agreed to make contributions for future capital increases, for an amount of \$ 268, which were contributed in cash. On September 3, 2020 the Shareholders' authorized the capital increase by issuing additional common shares with a par value of \$1 US dollar.

9. Operating cost by nature

	2021	2020
Services	\$ <u>29</u>	\$ <u>37</u>

10. Balances and transactions with related parties

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

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

	2021	2020
Operating lease revenues	<u>\$ 6,426</u>	<u>\$ 9,318</u>
Purchases of spare parts and tools	<u>\$ (638)</u>	<u>\$ (768)</u>
Interest income, net	<u>\$ 155</u>	<u>\$ 142</u>



b. Balances with related parties are as follows:

	2021	2020
Due from related parties - CP Latina	\$ <u>5,006</u>	\$ <u>-</u>
Due to related parties - Short term:		
CP Latina	\$ -	\$ 729
Latina Modular Holding Limited	<u>832</u>	<u>1,957</u>
	<u>\$ 832</u>	<u>\$ 2,686</u>

The balance whit CP Latina include a loan with an annual interest rate of 8%.

11. Authorization to issue the financial statements

On April 29, 2022, the issuance of the accompanying financial statements was authorized by C. P. C. Miguel Ruiz Tapia, Chief Executive Officer; consequently, they do not reflect events that occurred after that date, and are subject to the approval at the Entity's Annual Ordinary Stockholders' Meeting, where they may be modified. The financial statements for the year ended December 31, 2020 were approved at the Annual Ordinary Stockholders' Meeting held in April 30, 2021.

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