



March 29, 2019, Mexico City, United States of México

**SIGNIFICANT ACCOUNTING AND INFORMATION POLICIES AND STANDARDS OF  
VISTA OIL & GAS S.A.B., DE C.V. REPORT**

**To the Shareholders of Vista Oil & Gas, S.A.B.  
de C.V.**

Dear Ladies and Gentlemen:

In my capacity as Chairman of the Board of Directors of Vista Oil & Gas, S.A.B. de C.V. (the "Company") and in accordance with the provision of Section 172, paragraph b) of the General Law of Commercial Companies, I submit to you, the report on the main policies and accounting and information criteria followed by the Company for the preparation of its financial information:

**BASIS OF PREPARATION AND PRESENTATION**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and on a historical cost basis, except for certain financial instruments which have been measured at a fair value. This consolidated financial statements have been approved for their issuance by the Board of Directors on March 29, 2019.

**NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY THE IASB, WHICH ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE COMPANY**

- IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain



events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted, but not before an entity applies IFRS 15. A lessee may choose to apply the full retrospective approach or a modified retrospective approach. Moreover, the transitory provisions of the standard allow certain exemptions for the initial application of IFRS 16.

IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16: The Company plans to use the modified retrospective approach to adopt to IFRS 16. The Company will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Company performed a detailed impact assessment of IFRS 16 and concluded that, as of January 1, 2019, the lease liability and the corresponding "right of use" asset would amount, to approximately US Dollars 14,500,000.

- IFRIC 23 "Uncertainty over Income Tax Treatment": issued in June 2017 clarifies how to apply IAS 12 when there is uncertainty over income tax treatments to determine income tax. According to the interpretation, an entity shall reflect the effect of the uncertain tax treatment by using the method that better predicts the resolution of the uncertainty, either through the most likely amount method or the expected value method. Additionally, an entity shall assume that the taxation authority will examine the amounts and has full knowledge of all related information in assessing an uncertain tax treatment in the determination of income tax. The interpretation shall apply for annual reporting periods beginning on or after January 1, 2019, early application is permitted. The Company is analyzing the impact of the application of IFRIC 23, however, it estimates that it will not have any material impact on the Company's results of operations or financial position.
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" IFRS 9 "Financial instruments": The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9. The Company is analyzing the impact of its application; however, it estimates that it will not have any impact on the Company's results of operations or financial position as it does not have any



prepayment features.

- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture": The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however is recognized only to the extent of unrelated investors' interest in the associate or joint ventures. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective and in assessing the impact on its consolidated financial statements.
- Amendments to IAS 19: "Plan Amendment, Curtailment or Settlement": The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - (i) Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
  - (ii) Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first year that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company. The Company is analyzing the impact of its application; however, it estimates that it will not have any impact on the Company's results of operations or financial position.

- Improvements to IFRSs - 2015-2017 Cycle: These improvements include:
  - (i) IFRS 3 "Business Combinations": The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint



operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

- (ii) IFRS 11 "Joint Arrangements": A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- (iii) IAS 12 "Income Taxes": The amendments clarify that the income tax effects of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

- (iv) IAS 23 "Borrowing Costs": The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete and become part of the general borrowings when calculating the capitalization rate of them.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Company's accounting policy is in line with these amendments, the Company does not expect any effect on its financial statements.

## **BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.



**Subsidiaries:** Subsidiaries are all entities over which the Company has control, and this happens if and only if it has:

- Power over the entity (for example, present rights that give it the ability to direct the relevant activities of the entity receiving the investment);
- Exposure or rights to variable returns from their involvement with the entity; and
- The ability to use its power over the entity to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company 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 Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power including:

- The size of the Company holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstance that indicate that the Company 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.

The relevant activities are those that significantly affect the performance of the subsidiary. The ability to approve the operating and capital budget of a subsidiary, as well as the power to appoint the key personnel of the administration, are decisions that demonstrate that the Company has present rights to direct the relevant activities of a subsidiary.

Subsidiaries are consolidated from the date when the Company acquires control over them until the date when such control ceases. Specifically, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The acquisition method of accounting is used to account for business combinations by the Company.

Intercompany transactions and balances on transactions between Group companies are eliminated. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if these results in the non-controlling interests having a deficit balance.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Sstatement of profit or loss and other comprehensive income,



Consolidated Statement of Changes in Equity and Consolidated Statement of Financial Position respectively.

The equity interest in the subsidiaries held by the Company at the end of the period are set forth below:

Name of subsidiary	Percentage of ownership interest and voting power held by the Company %		Place of incorporation and operation	Main activity
	31/12/2018	31/12/2017		
Vista Holding I S.A. de C.V.	100%	100%	México	Holding
Vista Holding II S.A. de C.V.	100%	100%	México	Holding
Vista Holding III S.A. de C.V.	100%	-%	México	Holding
Vista Complemento S.A. de C.V.	100%	-%	México	Holding
Vista Oil & Gas Argentina S.A.	100%	-%	Argentina	Upstream
APCO Oil & Gas S.A.U.	100%	-%	Argentina	Upstream
APCO Argentina S.A.	100%	-%	Argentina	Holding
Aleph Midstream S.A.	100%	-%	Argentina	Services
Aluvional Infraestructura S.A.	100%	-%	Argentina	Services

The participation of VISTA in the votes of the subsidiaries companies is the same participation as in the share capital.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions.

**Joint arrangements:** Under IFRS 11 "Joint Arrangements", investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Company has joint operations and other arrangements but does not have any joint ventures.

**Joint Operations:** A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement and have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Company undertakes its activities in the framework of joint operations, it must recognize:



- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Interest in joint operations and other agreements have been calculated based upon the latest available financial statements or financial information as of the end of each period, taking into consideration significant subsequent events and transactions as well as management information available. When necessary, adjustments are made to the financial statements or financial information to bring their accounting policies into line with the Company's accounting policies.

When the Company transacts with a joint operation in which an entity of the Company is a joint operator (such as a sale or contribution of assets), the Company is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Company's consolidated financial statements only to the extent of other parties' interests in the joint operation. When an entity of the Company transacts with a joint operation in which an entity of the Company is a joint operator (such as a purchase of assets), the Company does not recognize its share of the gains and losses until it resells those assets to a third party.

**Business Combination:** The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisitions comprises:

- i. The fair value of the transferred assets;
- ii. The liabilities incurred to the former owners of the acquired business;
- iii. The equity interests issued by the Group;
- iv. The fair value of any asset or liability resulting from a contingent consideration arrangement; and
- v. The fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. The value of the goodwill represents the excess of:

- i. The consideration transferred;
- ii. The amount of any non-controlling interest in the acquired entity; and
- iii. the acquisition-date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill.

If the fair value of the net identifiable assets of the business acquired exceeds those



amounts, before recognizing a gain, the Company reassesses if it has correctly identified all the assets acquired and all liabilities assumed, reviewing the procedures used to measure the amounts that will be recognized at the acquisition date. If the evaluation still results in an excess of the fair value of the net assets acquired with respect to the total consideration transferred, the gain on bargain purchase is recognized directly in the statements of profit or loss and other comprehensive income.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Any contingent consideration will be recognized at their fair value at the acquisition date. Contingent consideration is classified either as equity or as a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognized in the statements of profit or loss and other comprehensive income. The contingent consideration that is classified as equity is not re-measured, while the subsequent settlement is accounted for within stockholders' equity.

When the Company acquires a business, it evaluates the financial assets acquired and the liabilities assumed with respect to their proper classification and designation in accordance with the contractual terms, economic circumstances and conditions pertinent to the date of acquisition.

Those reserves and resources acquired that can be measured reliably are recognized separately at their fair value at the time of acquisition. Other possible reserves, resources and rights, whose fair values cannot be measured reliably, are not recognized separately, but are considered as part of goodwill.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in the statements of profit or loss and other comprehensive income.

The Company has up to 12 months to finalize the accounting for a business combination. Where the accounting for a business combination is not complete by the end of the year in which the business combination occurred, the Company reports provisional amounts.

**Changes in ownership Interests:** Changes in the Company's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company'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 Company.

When the Company ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In





In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated statements of profit or loss and other comprehensive income.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(1) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Management Committee.

The Executive Management Committee, is the highest decision-making authority, responsible for allocating resources and setting the performance of the entity's operating segments and has been identified as the body executing the Company's strategic decisions and identified as the Chief Operating Decision Maker ("CODM").

### **(2) Property, plant and equipment**

Property, plant and equipment is measured following the cost model where by, after initial recognition of the asset, the asset is recognized at cost less depreciation and less any subsequent accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The cost of work in progress whose construction will extend over time includes, if applicable, borrowing costs. Any income obtained from the sale of commercially valuable production during the construction period of the asset is recognized reducing the cost of the work in progress.

Works in progress are valued according to their degree of progress. Works in progress are recorded at cost, less any loss due to impairment, if applicable.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

Depreciation methods and useful lives: 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 asset carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater



than its estimated recoverable amount.

The Company depreciates drilling costs applicable to productive wells and to developmental dry holes, productive wells, machinery in the oil and gas production areas according to the units of production method, by applying the ratio of oil and gas produced to estimated proved developed oil and gas reserves, except in the case of assets whose useful life is less than the life of the reserve, in which case, the straight-line method is applied. The acquisition cost of property with proved reserves, including oil and gas properties, is depreciated by applying the ratio of oil and gas produced to estimated total proved oil and gas reserves. Acquisition costs related to properties with unproved reserves and unconventional resources are valued at cost with recoverability periodically assessed based on geological and engineering estimates of reserves and resources that are expected to be proved over the life of each concession and are not depreciated.

The capitalized costs related to the acquisition of property and the extension of concessions with proved reserves have been depreciated by field on a unit-of-production basis by applying the ratio of produced oil and gas to the estimated proved oil and gas reserves.

Production facilities (including any significant identifiable component) are depreciated under the unit of production method considering proved develop reserves.

The Company's remaining items of property, plant and equipment (including any significant identifiable component) are depreciated by the straight-line method based on estimated useful lives, as detailed below:

Land is not depreciated.

Buildings	50 years
Vehicles	5 years
Machinery and instalations	10 years
Computer equipment	3 years
Furnitures	10 years

Assets for oil and gas exploration: The Company uses the successful efforts method of accounting for its oil and gas exploration and production activities.

This method involves the capitalization of: (i) the cost of acquiring properties in oil and gas exploration and production areas; (ii) the cost of drilling and equipping exploratory wells that result in the discovery of commercially recoverable reserves; (iii) the cost of drilling and equipping development wells, and (iv) the estimated asset retirement obligations.

The exploration and evaluation activity involve the search for hydrocarbon resources, the determination of its technical feasibility and the evaluation of the commercial viability of an identified resource.

According to the successful efforts method of accounting, exploration costs, such as Geological and Geophysical ("G&G") costs, excluding exploratory well costs and seismic 3D on exploitation concessions, are expensed during the period in which they are incurred.

Once the legal right to explore has been acquired, the costs directly associated with an



exploration well are capitalized as intangible exploration and evaluation assets until the well is completed and the results evaluated. These costs include compensation to directly attributable employees, materials and fuel used, drilling costs, as well as payments made to contractors.

Drilling costs of exploratory wells are capitalized until it is determined that proved reserves exists and they justify the commercial development. If reserves are not found, such drilling costs are expensed as an unproductive well. Occasionally, an exploratory well may determine the existence of oil and gas reserves but they cannot be classified as proved when drilling is complete, subject to an additional appraisal activity (for example, the drilling of additional wells) but it is probable that they can be developed commercially. In those cases, such costs continue to be capitalized insofar as the well has allowed determining the existence of sufficient reserves to warrant its completion as a production well and the Company is making sufficient progress in evaluating the economic and operating feasibility of the project.

All these capitalized costs are subject to a technical, commercial and administrative review, as well as a review of impairment indicators at least once a year, which serves to confirm the continuous intention to develop or otherwise extract value from the discovery. When this is no longer the case, costs are expensed.

When proven oil and gas reserves are identified and the administration approves the start-up, the corresponding capitalized expense is evaluated first in terms of its impairment and (if required) any loss due to impairment is recognized; then the remaining balance is transferred to oil and gas properties. With the exception of licensing costs, no amortization is charged during the phase of exploration and evaluation.

The initial estimated asset retirement obligations in hydrocarbons areas, discounted at a risk adjusted rate, are capitalized in the cost of the assets and depreciated using the units of production method. Additionally, a liability at the estimated value of the discounted amounts payable is recognized. Changes in the measurement of asset retirement obligations that result from changes in the estimated timing, amount of the outflow of resources required to settle the obligation, or the discount rate, are added to, or deducted from, the cost of the related asset. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss.

For exchanges/swaps or parts of exchange/swaps that involve only exploration and evaluation assets, the carrying value is accounted for at the fair value of the asset given up and no gain or loss is recognised.

*Rights and Concessions:* The rights and concessions are recorded as part of property, plant and equipment and depleted based on production units over the total of the developed and undeveloped proved reserves of the corresponding area. The calculation of the rate of production units for the depreciation / amortization of field development costs take into account expenditures incurred to date, together with the authorized future development expenditures.

### **(3) Intangible Assets**

*Goodwill:* Goodwill is the result of the acquisition of subsidiaries. Goodwill represents the



excess of the acquisition cost over the fair value of the equity interest in the acquired entity held by the Company on the net identifiable assets acquired at the date of acquisition. After initial recognition, Goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the acquirer's cash-generating units ("CGU") or Group of CGUs that are expected to benefit from the synergies of the combination. Each unit or Group of units that goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

When the goodwill is part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when the gain or loss is determined. Goodwill disposed in these circumstances is measured based on the relative values of the disposed cash-generating unit.

#### **(4) Impairment of non-financial assets**

Other non-financial assets with definite useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, which are largely independent of the cash inflows from other assets or Groups of assets CGUs. Non-financial assets that have been impaired are reviewed for possible reversal of the impairment at the end of each reporting period.

#### **(5) Foreign currency translation**

Functional and presentation currency: The functional currency for the Company and each of its current subsidiaries is the currency of the primary economic environment in which each entity operates. The functional currency of each of the entities is the U.S. Dollar, which is the Group's presentation currency. Determination of functional currency may involve certain judgements to identify the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions, which determined the primary economic environment.

Transactions and balances Foreign currency transactions are translated into the functional currency using the exchange rates as of at the date of the transaction. Foreign exchange gain and loss resulting from the settlement of any transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss and other comprehensive income, unless they have been capitalized. The exchange rates used at the end of each reporting period are the selling rate for monetary assets and monetary liabilities, and transactional selling exchange rate for foreign currency transactions

#### **(6) Financial Instruments. Other financial assets**

Financial assets at amortized cost: Financial assets are classified and measured at



amortized cost only if the following criteria have been met:

- i. the objective of the Company's business model is to hold the asset to collect the contractual cash flows;
- ii. the contractual terms, on specified dates, have cash flows that are solely payments of principal and interest on the outstanding principal.

**Financial assets at fair value:** If any of the above mentioned criteria has not been met, the financial asset is classified and measured at fair value through profit or loss ("FVTPL"). All investments in equity instruments are measured at fair value. For equity investments that are not held for trading, the Company can irrevocably choose at the moment of the initial recognition to present changes in fair value through other comprehensive income. As of December 31, 2018 and 2017, the Company does not have any equity instrument.

**Recognition and measurement:** At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognized in profit or loss. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the financial asset is derecognized or impaired and through the amortization process using the effective interest rate method.

The Company reclassifies financial assets if and only if its business model to manage financial assets is changed.

**Trade and other receivables:** Trade receivables and other receivables are recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less allowance for expected credit losses, if applicable.

Receivables arising from services rendered and/or hydrocarbons delivered but unbilled at the closing date of each reporting period are recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Where applicable, allowances for tax credits expected losses have been recognized based on estimates on their un-collectability within their statutory limitation period.

**Impairment of financial assets:** The Company recognizes an allowance for Expected Credit Losses ("ECL") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables, the Company applies a simplified approach in calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on ECLs at each reporting date. The Company analyzes each of its clients considering its historical credit loss experience, adjusted for forward-looking factors specific to the debtor and the economic environment.



The Company always measures the loss allowance for trade receivables at an amount equal to ECL. The expected credit losses on trade receivables are estimated on a case by case basis by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Company considers a financial asset in default when contractual payments are more than 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ECLs, when applicable, are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

Offsetting of financial instruments: Financial assets and financial liabilities are presented gross in the consolidated statement of financial position unless both of the following criteria are met: the Company currently has a legally enforceable right to set off the recognized amounts; and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously. A right of set off is the Company's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty.

The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

## **(7) Financial Instruments. Financial liabilities and equity instruments**

Classification as debt or equity: Debt and equity instruments issued by a Group 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. A contractual arrangement to issue a variable number of shares is classified as a financial liability and measured at fair value with changes in fair value recognized in the consolidated statement of profit or loss and other comprehensive income.

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 and is recognized at the proceeds received, net of direct issue costs.

Compound instruments: The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the



Company's own equity instruments is an equity instrument.

At the date of these consolidated financial statements, the fair value of the liability component, if any, is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to other equity account. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

#### **Reimbursable Series A Shares**

After the initial recognition, the funds received from the Series A shares, net of offer expenses, are measured subsequently at their amortized cost using the effective interest rate method. Profits and losses are recognized in the consolidated statements of profit or loss and other comprehensive income when the liabilities are written off.

The amortized cost is calculated taking into account any discount or premium in the acquisition, as well as the commissions or costs that are an integral part of the effective interest rate method. Amortization based on the effective interest rate method is included within financial costs.

*Financial liabilities:* All financial liabilities are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method or at FVTPL. Borrowings are recognized initially at fair value, net of transaction costs incurred.

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for trading, or 3) designated as at FVTPL, 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 amortized cost of a financial liability.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

De-recognition of financial liabilities: The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

When an existing financial liability is replaced with another from the same lender in substantially different terms, or the terms of an existing liability are significantly modified, such exchange or modification is treated as a de-recognition of the original liability and recognition of a new liability. The difference in the respective book values is recognized in profit or loss.

#### **(8) Revenue from contracts with customers and other income recognition**

Revenue from contracts with customers: Revenue from contracts with customers arising from sale of crude oil, natural gas and Liquefied Petroleum Gas ("NGL") is recognized at a point in time when control of the goods are transferred to the customer generally on delivery of the inventory. Revenue from contract with customers are recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The normal credit term is 30 to 45 days upon delivery. The Company has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Revenues from oil and natural gas production in which the Company has a joint interest with other producers are recognized when sales are made to customers and production costs will be accrued or deferred to reflect differences between volumes taken and sold to customers and the Company's ownership interest in total production volumes resulting from the Company's contractual interest in the consortium. All the revenues of the Company are recognized at a point in time.

#### Contract balances:

- Contract assets: A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. As of December 31, 2017, the Company does not have any contract assets.
- Trade and other receivables: A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).
- Contract liabilities: A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the





Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract. As of December 31, 2018 and 2017, the Company does not have any contract liabilities.

- Other income: Other operating income corresponds to sales of services to third parties. The Company recognizes revenue from services rendered over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company.
- Interest income: Interest income is recognized using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

#### **(9) Inventories**

Inventories are comprised of crude oil stock, raw materials and materials and spare parts, as describe below.

Inventories are stated at the lower of cost or net realizable value. The cost of inventories includes expenditures incurred in the production and other necessary costs to bring them to their existing location and condition. Cost is determined using the first in-first out method.

The net realizable value is the estimated selling price in the ordinary course of business less the estimated direct costs to make the sale.

The assessment of the recoverable value of these assets is made at each reporting date, and the resulting loss is recognized in the consolidated statement of profit or loss and other comprehensive income when the inventories are overstated.

The portion of materials and spare parts for maintenance or improvements on existing assets is disclosed under the heading "Property, plant and equipment".

#### **(10) Cash and cash equivalents**

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

If any, bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position and there are not disclosed under Cash and cash equivalents in the consolidated statement of cash flows since they are not part of the Company's cash management.



#### **(11) Funds in escrow account**

The amounts held in the Escrow Account represent proceeds from the Initial Public Offering of US Dollars 650,017,000 which were converted into U.S. dollars and invested in a U.K. based escrow account (the "Escrow Account") with Citibank N.A. London Branch acting as escrow agent. Such resources are deposited in an interest-bearing account and are classified as restricted assets because such amounts can only be used by the Company in connection with the consummation of an Initial Business Combination.

As of December 31, 2017, the Escrow Account had a fair value of US Dollars 652,566,000 from which US Dollars 2,550,000 were a result of interest income and are held in the Escrow Account. Interest from the fund of the Escrow Account may be released to the Company to (i) pay tax obligations, (ii) fund working capital in an amount not to exceed 750 annually for a maximum of 24 months, and (iii) in the event of a failure to enter into an Initial Business Combination within 24 months from the closing of this Offering, pay up to US Dollars 100,000 in dissolution expenses.

On April 4, 2018 the Company consummated its initial business combination and consequently a portion of the accumulated amounts in the Escrow Account at such date for an amount of US Dollars 653,781,000 was used to reimburse Series A shareholders that exercised their redemption rights for an amount of US Dollars 204,590,000. The remaining earnings were capitalized net of its deferred issuance expenses of US Dollars 19,500,000 and some emission expenses that were paid at the IPO for an amount of US Dollars 6,700,000 for a net amount of US Dollars 422,991,000.

#### **(12) Shareholders' equity**

Equity's movements have been accounted for in accordance with the decisions of shareholders' meetings and legal or regulatory standards.

Share capital: Share capital represents the share capital issued, composed of the contributions that were committed by the shareholders and is represented by shares that comprise outstanding shares at nominal value. Common shares are classified as equity.

Legal reserve: In accordance with the Mexican Commercial Companies Act, at least 5% of the net profit for the year must be allocated by the Company to increase the legal reserve until it reaches 20% of the share capital. Since the Company had no profits for the year ended on December 31, 2017, as of December 31, 2018, the Company has not created this reserve.

Accumulated losses: Retained earnings comprise accumulated profits or losses without a specific appropriation. Retained earnings can be distributed by the decision of the Shareholders' meeting as dividends, as long as they are not subject to legal restrictions.

These retained earnings / (accumulated losses) comprise prior years' earnings that were not distributed or losses, the amounts transferred from other comprehensive income and prior years' adjustments.

For the Company, similarly, to the effects of capital reductions, these distributions will be subject to the determination of income taxes according to the applicable income tax rate,



except for the re-measured contributed capital stock or if these distributions come from the net fiscal profit account ("CUFIN").

For the Argentine subsidiaries, in accordance with Law No. 25,063, dividends distributed in cash or in kind, in excess of the accumulated tax profits at the close of the fiscal year immediately prior to the date of payment or distribution, were subject to a 35% withholding tax as a sole and definitive payment.

The sanction of Law No. 27,430, published on December 29, 2017, removed this withholding tax on dividends for new profits generated from fiscal years beginning on or after January 1, 2018. That law replaces it with a withholding of 7% for fiscal years 2018 and 2019 and 13% for subsequent fiscal years, on dividends distributed by corporations in favor of their shareholders, when they are individuals or undivided inheritances with residency in Argentina or beneficiary residing abroad of Argentina.

Other comprehensive income: It includes gains and losses from the actuarial gains and losses for defined benefit plans and the related income tax effect.

Dividend distribution: Dividend distribution to Company shareholders is recognized as a liability in the financial statements in the year in which the dividends are approved by the Shareholders' Meeting. The distribution of dividends is made based on the Company's stand-alone financial statements.

### **(13) Employee benefits**

Short-term obligations: Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as "Salaries and other contributions" in the consolidated statement of financial position.

The costs related to compensated absences, such as vacation and holiday bonus and the cost of the bonus, are recognized as they are accrued.

In Mexico, employee profit sharing is paid to the Company's eligible employees. Employee profit in Mexico is calculated using the same taxable income for income tax, except for the following:

- o Neither tax losses from prior years nor the employee profit sharing paid during year are deductible.
- o Payments exempt from taxes for the employees are fully deductible in the employee profit sharing computation.

Defined benefit plan: Labor costs liabilities are accrued in the periods in which the employees provide the services that trigger the consideration.

The cost of defined contribution plans is periodically recognized in accordance with the contributions made by the Company.

Additionally, the Company has a defined benefit plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, depending on one or



more factors, such as age, years of service and compensation. In accordance with conditions established in each plan, the benefit may consist in a single payment, or in making complementary payments to those made by the pension system.

The defined benefit liability recognized in the consolidated statement of financial position, at the end of the reporting period, is the present value of the defined benefit obligation net of the fair value of the plan assets, when applicable. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using future actuarial assumptions about demographic and financial variables that affect the determination of the amount of such benefits.

Actuarial gains and losses from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income (loss) in the period in which they arise and past service costs are recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

#### **(14) Borrowing costs**

General and specific borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

For the periods ended on December 31, 2018 and 2017 the Company did not capitalize any borrowing cost as it does not have qualifying assets.

#### **(15) Provisions and contingent liabilities**

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the present obligation, taking into account the best available information as of the date of the financial statements based on assumptions and methods considered appropriate and taking into account the opinion of each Company's legal advisors. As additional information becomes available to the Company, estimates are revised and adjusted periodically. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as financial costs.



When the Company expects a part or all of the provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually accurate.

Contingent liabilities are: i) possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity; or ii) present obligations that arise from past events but it is not probable that an outflow of resources will be required to its settlement; or whose amount cannot be measured with sufficient reliability.

Contingent liabilities are not recognized. The Company discloses in notes to the consolidated financial statements a brief description of the nature of material contingent liabilities.

Contingent liabilities, whose possibility of any outflow in settlement is remote, are not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

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.

*Provision for asset retirement obligation:* The Company recognizes a provision for asset retirement obligation when there is a current legal or implicit obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

In general, the obligation arises when the asset is installed or the land/environment is disturbed in the location of the well. When the liability is initially recognized, the present value of the estimated costs is capitalized increasing the carrying value of the related assets for the extraction of oil and gas to the extent that they have been incurred due to the development / construction of the well.

Additional provisions that arise due to greater development / construction in the property for oil and gas extraction are recognized as additions or charges to the corresponding assets and when the decommissioning liability is originated.

Changes in estimated times or the cost of asset retirement obligation are treated prospectively by recording an adjustment to the provision and a corresponding adjustment to the properties for oil and gas extraction. Any reduction in the liability for asset retirement obligation and, therefore, any deduction of the asset to which it relates may not exceed the carrying amount of that asset. If it does, any surplus with respect to the carrying amount is immediately transferred to profit or loss.

If the change in the estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying amount of the asset, the Company considers whether or not there is an indication of impairment of the asset in an integral manner and, be so, it undergoes impairment testing. For mature wells, if the estimate of the revised value of assets for oil and gas extraction, net of asset retirement obligation provisions, exceeds the value



recoverable, that part of the increase is charged directly to expenses.

Over time, the discounted liability increases with the change in present value, based on the discount rate that reflects the current market assessments and the specific risks of the liability. The unwinding of the discount is recognized in the consolidated statement of profit or loss and other comprehensive income as a financial cost.

The Company recognizes deferred tax assets with respect to the temporary difference between the asset retirement obligation provisions and the corresponding deferred tax liability with respect to the temporary difference in a asset retirement obligation asset.

Provision for environmental remediation: Provisions for environmental costs are recognized when it is probable that a cleanup will be carried out and the estimated costs can be estimated reliably. Generally, the timing of recognition of these provisions concur with the commitment of a formal action plan or, if it is before, at the time of the divestment or the closure of the inactive sites.

The amount recognized is the best estimate of the required expense to settle the obligation. If the effect of the value of money over time is material, the recognized value is the present value of the estimated future expense.

#### **(16) Income tax and minimum presumed income tax**

Current and deferred income tax: The tax expenses for the year include current and deferred tax. Tax is recognized in the consolidated statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities. Where tax treatments are uncertain, if it is considered probable that a taxation authority will accept the Company's proposed tax treatment, income taxes are recognized consistent with the Company's income tax filings. If it is not considered probable, the uncertainty is reflected using either the most likely amount or an expected value, depending on which method better predicts the resolution of the uncertainty.

Deferred income tax is recognized, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized if they come from the initial recognition of goodwill.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available and can be used against temporary differences. 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.

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 a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax is provided on temporary differences from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax assets and liabilities have not been discounted and are stated at their nominal values.

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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Income tax rates prevailing as of December 31, 2018 in Argentina and Mexico is 30% and as of December 31, 2017 of 30% in Mexico as the Company did not have operations in Argentina in that year

Minimum presumed income tax: The Company's subsidiaries in Argentina calculate tax on minimum presumed income tax applying the current 1% tax rate to taxable assets estimated at the end of each reporting period.

This tax is complementary to income tax in Argentina. The company and the subsidiaries in Argentina's tax liability is the higher between the liability of income tax and the liability determined as explained above for this tax.

However, if the minimum presumed income tax exceeds income tax during one fiscal year, such excess may be offset against any income tax excess over the minimum presumed income tax that may be generated in the following ten years.

On July 22, 2016, Law No. 27,260 was published, which eliminates the minimum presumed income tax for the years beginning on January 1, 2019 and later.

As of the end of each reporting period, the Company's Management analyzes the receivable's recoverability, and allowances are created as long as it is estimated that the amounts paid for this tax will not be recoverable within the statutory limitation period taking



into consideration the Company's current business plans. The Company's Management evaluates the evolution of this recoverability in future fiscal years.

For the year and period ended on December 31, 2018 and 2017, the income tax determined was in excess of the presumed income tax determined for those periods, as such no presumed income tax was recognized as of those dates. The Company does not have any presumed income tax asset as other receivables related to previous years.

#### **(17) Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **(18) Share-based payments**

Employees (including senior executives) of the Company may receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Company does not have any share-based payments that are settled in cash.





Equity-settled transactions: The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognized in employee benefits expense, together with a corresponding increase in equity (Stock Option), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The possible dilutive effect of outstanding options is reflected, as applicable; in the computation of diluted earnings per share.

The Company approved a Long Term Incentive Plan ("LTIP") consisting of a plan to provide for VISTA and its subsidiaries to attract and retain talented persons as officers, directors, employees and consultants. The LTIP include the following mechanisms for rewarding and retaining key personal 1) Stock Option Plan, 2) Restricted Stock Units and 3) Performance Restricted Stock and therefore accounted under IFRS 2 "Shared based payments" as detailed above.

- a- Stock Option ("SOP") (equity-settled): The stock option plan ("SOP") gives the participant the right to buy a quantity of shares over certain period of time. The cost of the equity-settled share purchase plan is measured at grant date, taking into account the terms and conditions on which the share options were granted. The equity-settled compensation cost is recognized in the consolidated statement of



profit or loss and other comprehensive income under the caption of salaries and benefits, over the requisite service period.

- b- **Restricted Stock (equity-settled):** Certain key employees of the Company receive additional benefits for free or a minimum value once the conditions are achieved through a share purchase plan denominated in Restricted Stock ("RSs, which has been classified as an equity-settled share-based payment. The cost of the equity-settled share purchase plan is measured at grant date, taking into account the terms and conditions on which the share options were granted. The equity-settled compensation cost is recognized in the consolidated statement of profit or loss and other comprehensive income under the caption of salaries and benefits over the requisite service period.
  
- c- **Performance Restricted Stock (equity settled):** The Company grants Performance Restricted Stock ("PRs") to key employees, which entitle them to receive PRs after having attained certain performance goals over a service period. PRS is classified as an equity-settled share-based payment. The cost of the equity-settled share purchase plan is measured at grant date, taking into account the terms and conditions on which the share options were granted. The equity-settled compensation cost is recognized in the consolidated statement of profit or loss and other comprehensive income under the caption of salaries and benefits, over the requisite service period. As of December 31, 2018 the Company has not granted any PRs.

This report has been unanimously approved by the members of the Board of Directors of the Company.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Miguel Matias Galuccio", is written over a horizontal line.

**Miguel Matias Galuccio**  
Chairman of the Board of  
Administration of Vista Oil & Gas,  
S.A.B. de C.V.