oro negro x

›redefiniendo lo posible

redefining what is possible‹

3Q2015

Forward-Looking Statements

This report contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. It is not possible for our management to predict all risk factors, nor can we assess the potential impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those expressed or implied in any forward-looking statement. These factors include, but are not limited to, (i) the downturn in oil markets and increased competition among offshore drillers, (ii) availability of capital and credit market volatility, (iii) local and global economic conditions, (iv) our anticipated growth strategies, (v) political, economic and financial pressures that impact our sole customer, PEMEX, and (vi) our future business development, results of operations and financial condition. Moreover, our business model is highly leveraged, we have only one customer, PEMEX, and we operate in a highly competitive market, so new risk factors may emerge from time to time. In some cases, forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “target”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to” or other similar expressions.

The forward-looking statements made in this report relate only to events or information as of the date on which the statements are made in this report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this report with the understanding that our actual future results may be materially different from what we expect.

Quarterly Overview

(Units in US$)

Company Highlights

Integradora de Servicios Petroleros Oro Negro S.A.P.I. de C.V. (referred to as "Oro Negro" or the "Company" herein) reports revenues of US$50.9M during the third quarter of 2015, below the US$66.0M registered during the second quarter of 2015. Revenues declined given a contract renegotiation with PEMEX for Primus, Laurus, Fortius, and Decus. The new terms of the modified contracts reflect a day rate of US$130k for a 12-month period starting June 1, 2015.

Rig 3's contract ended on July 11th. Oro Negro currently anticipates that PEMEX will award a new contract for Rig 3, for a minimum of 6 months, during the first quarter of the next year.

The Company achieved high uptime levels in the third quarter of 2015, registering an average uptime of 99.8% during the third quarter of 2015. Primus and Laurus ended the third quarter with an uptime of 100.0%, offering the best performance of Oro Negro's fleet, followed by Fortius and Decus, which had average uptimes of 99.8% and 99.5% respectively.

Despite recent operational successes, like every business in our industry, Oro Negro is facing significant challenges. Our challenges are a direct result of the challenges our only customer, PEMEX, also faces. We continue to partner with PEMEX to address the collective issues we face, but these challenges directly and negatively impacted our liquidity, which remains extremely limited. As a result, the Company must continue to make difficult choices on the timing for paying its obligations, while simultaneously ensuring that our rigs are operating safely and consistent with the expectations of PEMEX.

The Company did not make a scheduled interest payment on September 30, 2015 on the US$175.0M bridge bond issued in December 2014. Oro Negro is engaged in ongoing discussions with the holders of such bonds regarding a potential restructuring of Oro Negro's obligations.

Operational Results

Oro Negro has positioned itself as a leader in the oil field services sector providing offshore drilling services in Mexico. As of September 30, 2015, our fleet consists of five premium jack-ups and one modular rig, building enough scale to generate substantial operating synergies and position our company as a relevant operator of high specification equipment in Mexico, with four of our rigs already under contract with PEMEX.

Our fifth jack-up rig, the Impetus, is currently warm stacked in Mexican waters. We expect to secure a contract with Pemex to start operations with the Impetus during the first quarter of 2016.

Oro Negro is committed to maintain the highest safety and environmental responsibility standards. We operate a Quality Management System (QMS) with its principles founded in our ZERO HARM policies; which are based upon ZERO HARM to people, environment, and equipment. No major incidents were reported during the third quarter of 2015.

Average uptime rate

	Rig 3	Primus	Laurus	Fortius	Decus	Total[1]
3Q15	95.8%[2]	100.0%	100.0%[3]	99.8%	99.5%	99.8%
2Q15	100.0%	99.6%	100.0%	99.4%	95.0%	98.6%
1Q15	94.8%	99.4%	100.0%	100.0%	99.6%	99.4%
2014	97.6%	97.8%	99.4%	95.7%	88.6%	96.3%

Jack-up Contracts

We accrued a large contract backlog and believe we can demonstrate cash flow visibility for the anticipated term of our current and pending contracts with PEMEX. The following table sets forth the amount of revenue backlog for our drilling units under contract as of September 30, 2015:

Contracts general details

	Start Date	End Date	Duration (days)	Day Rate ($'000)	Backlog[4] (US$'000)
Primus	Jun-13	Apr-16	1,030	159	$24,570
Laurus	Nov-13	Apr-17	1,233	159	77,472
Fortius	Feb-14	Jan-18	1,442	161	124,437
Decus	Jun-14	Feb-18	1,342	161	127,981
				TOTAL	**US$354,460**

Contract backlog is calculated by multiplying the day rate of our drilling contracts by the number of contract days remaining, assuming a full uptime rate. The calculation does not include any revenues related to other fees such as mobilization, demobilization, contract preparation, customer reimbursables, and bonuses.

As a part of the day rate renegotiation with Pemex, the company expects to sign an amendment to extend the term of the contracts of the rigs under operation by one additional year.

Oro Negro's rigs are currently located in the bay of Campeche, based in Mexican waters in the Gulf of Mexico, performing both exploratory and development drilling activities for PEMEX.

[1] Weighted average uptime rate, calculated according to revenues.
[2] As of July 11th, 2015.
[3] Assumes hours under dispute are fully recovered.
[4] Reflects a day rate of US$130k for a 12-month period starting June 1, 2016.

Management, Discussion and Analysis

(As of September 30th, 2015)

Balance sheet

As of September 30, 2015, total assets amounted to US$1,462.0M. Current assets totaled US$136.2M, mainly comprised by trade and other receivables (US$83.2M), and cash and equivalents (US$49.0M). Total long-term assets added up to US$1,325.8M.

Trade and other receivables are comprised of accounts receivables from PEMEX (US$60.1M), recoverable taxes (US$20.4M), pre-paid expenses to suppliers (US$1.5M) and other receivables (US$1.2M).

Cash and cash equivalents balance totaled US$49.0M at the end of the period of which US$11.3M were identified as available cash, US$1.6M were reserved for debt service, US$27.9M were classified as restricted cash to comply with the liquidity reserve of our outstanding debt, and US$8.2M were provisioned for major maintenances and for the surveys that each jack-up undergoes every 5 years.

Fixed assets amounted to US$1,291.7M. These are composed by property and equipment (rigs already delivered), and advanced payments made for the rigs under construction, additional adaptations to the rigs, and pre-operational expenses.

Total liabilities added up to US$929.2M, of which US$221.1M are considered current liabilities, mainly composed of current portion of long-term debt US$189.3M, trade and other payables US$20.6M, current portion of deferred revenue US$2.4M, and other short term liabilities US$6.2M, and US$708.1M are long-term liabilities.

Total debt at the end of the period was US$900.0M, which is composed by the US$725.0M bond issued in January, 2014, and the US$175.0M bridge bond issued in December 2014.

Given that under IFRS borrowings are recognized at fair value in the balance sheet, net of transaction costs, and transaction costs are amortized throughout the financing term, the balance sheet will reflect the total debt principal until the maturity date.

(Third quarter of 2015)

Income statement

Revenues for the third quarter of 2015, ended on September 30, 2015, amounted to US$50.1M compared to US$66.0M obtained during the second quarter of 2015.

Revenues are generated from the operation of our drilling rigs, including four premium jack-ups and one modular rig. The company achieved a 99.8% uptime during the third quarter of 2015. Revenues decreased due to a change in the day rate payable by PEMEX for Primus, Laurus, Fortius, and Decus and due to the expiration of Rig 3's contract on July 11th.

Operating costs for the third quarter of 2015 added up to US$30.9M, a 15.3% decrease compared to US$36.5M during the second quarter of 2015. The decrease in operating costs was mainly driven by cost reductions achieved during the quarter.

Personnel costs are the most relevant operating cost, representing ~65% of total rig direct operating costs during the third quarter of 2015.

Gross profit for the third quarter totaled US$10.0M, decreasing approximately US$9.5M or 32.2% compared to the second quarter of 2015.

Administrative expenses for the third quarter amounted to US$6.0M compared to US$7.4M from the previous quarter. Financial and legal advisors' fees incurred added up to US$3.4M and US3.5M during the third and second quarter respectively.

Operating profit for the quarter was US$14.5M compared to US$22.6M in the preceding quarter.

The financing costs for the third quarter of 2015, which are related to the US$725.0M bond issued in January 2014, and the US$175.0M bridge bond issued in December 2014 as well as the issuance costs of the US$175.0M bridge bond and additional financing fees, amounted to US$25.8M.

Oro Negro incurred a net loss of US$1.0M compared to the US$2.7M incurred in the second quarter of 2015.

Cash flow statement

As of September 30, 2015, cash and cash equivalents were US$49.0M, a decrease of US$70.8M compared to the previous quarter, mainly explained by PEMEX's payment delays.

Cash flow provided by operating activities during the quarter amounted to (US$11.5M). The net working capital during the three months ended September 30, 2015, amounted to (US$36.2M).

Cash flow from investing activities during the period totaled (US$6.4M) as a result of additional equipment acquired for our rigs.

Cash flow from financing activities for the three months ended September 30, 2015 amounted to (US$52.9M) as a result of interest payments and debt amortization of the US$725.0M bond.

Change in cash and cash equivalents during the third quarter of 2015 was (US$70.7M). As a result, our cash balance decreased from US$119.7M in September 30, 2015, to US$49.0M in September 30, 2015.

Integradora de Servicios Petroleros Oro Negro S.A.P.I. de C.V.

Unaudited Consolidated Balance Sheet

(Amounts in US$'000)

	September 30, 2015	December 31, 2014
Cash and cash equivalents	$48,955	$232,926
Trade and other receivables, net	83,246	96,377
Current portion of deferred costs	-	6,407
Prepaid expenses	3,980	2,710
Total current assets	**$136,181**	**$338,420**
Property and equipment, net	1,159,104	951,401
Advanced payments for acquisition of jackups	132,554	177,913
Intangible assets and goodwill	481	678
Deferred income tax	33,634	33,634
Total long-term assets	**$1,325,773**	**$1,163,626**
Total assets	**$1,461,954**	**$1,502,046**
Current portion of long-term debt	189,284	216,643
Current portion of deferred revenue	2,424	10,659
Trade and other payables	20,594	28,343
Related parties	2,610	2,610
Other liabilities	6,203	3,593
Total current liabilities	**$221,115**	**$261,848**
Long-term debt	692,835	691,232
Deferred revenue	13,059	13,059
Deferred income tax liability	2,158	2,158
Employee benefits	5	5
Total non-current liabilities	**$708,057**	**$706,454**
Total liabilities	**$929,172**	**$968,302**
Share capital	590,004	590,004
Share premium	6,000	6,000
Accumulated deficit	(62,259)	(77,232)
Profit for the period	(962)	14,973
Actuarial losses	(1)	(1)
Total stockholders' equity	**$532,782**	**$533,744**
Total liabilities and stockholders' equity	**$1,461,954**	**$1,502,046**

Integradora de Servicios Petroleros Oro Negro S.A.P.I. de C.V.

Unaudited Consolidated Income Statement

(Amounts in US$'000)

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenue	$50,876	$59,591	$182,370	$148,821
Operating costs	(30,893)	(32,420)	(99,445)	(86,838)
Gross profit	**$19,983**	**$27,171**	**$82,925**	**$61,983**
Administrative expenses	(6,002)	(7,871)	(17,589)	(16,289)
Other income - Net	488	1,098	1,558	1,222
Operating profit	**$14,469**	**$20,398**	**$66,894**	**$46,916**
Finance income, including foreign exchange gains	1	(29)	34	104
Finance costs, including foreign exchange loss	(25,785)	(14,836)	(67,890)	(62,616)
Finance result, net	(25,784)	(14,865)	(67,856)	(62,512)
Income before income tax	**($11,315)**	**$5,533**	**($962)**	**($15,596)**
Income tax	-	-	-	-
Net income	**($11,315)**	**$5,533**	**($962)**	**($15,596)**

Integradora de Servicios Petroleros Oro Negro S.A.P.I. de C.V.

Unaudited Consolidated Cash Flow Statement

(Amounts in US$'000)

	For the three months ended		For the nine months ended	
	September 30, 2015	**September 30, 2014**	**September 30, 2015**	**September 30, 2014**
Operating activities:				
Income before income tax	($11,315)	$5,533	($962)	($15,596)
Depreciation and amortization	10,725	8,973	30,161	23,229
Certification	478	2,536	2,514	2,536
Deferred costs amortization	1,832	2,329	6,407	6,804
Deferred revenue amortization	(2,837)	(3,092)	(8,235)	(7,174)
Revenue amortization	-	8,500	-	17,000
Financing cost - Net	25,785	15,730	67,890	62,375
Cash flow from operating activities	$24,668	$40,509	$97,775	$89,174
Trade receivables and other assets	(33,294)	(14,452)	11,068	(26,333)
Trade payables and other liabilities	(2,853)	881	(9,179)	6,378
Net cash provided by/(used in) operating activities	**($11,479)**	**$26,938**	**$99,664**	**$69,219**
Investing activities:				
Acquisition of property and equipment	(6,375)	(3,950)	(192,308)	(234,060)
Acquisition of intangible assets	-	-	-	(33)
Net cash provided by/(used in) in investing activities	**($6,375)**	**($3,950)**	**($192,308)**	**($234,093)**
Financing activities:				
Proceeds from odrinary shares issuance	-	-	-	60,000
Increase in share premium	-	-	-	750
Commissions paid	-	-	-	(11,645)
Loans paid	(24,000)	-	(24,000)	(515,000)
Debt restructuring charges	-	-	-	(9,018)
Interest paid	(28,937)	(28,519)	(67,327)	(40,167)
Proceeds from borrowings	-	-	-	725,000
Net cash flows provided by/(used in) financing activities	**($52,937)**	**($28,519)**	**($91,327)**	**$209,920**
Increase in cash and cash equivalents	(70,791)	(5,531)	(183,971)	45,046
Cash and cash equivalents at the beginning of the period	119,746	83,164	232,926	32,587
Cash and cash equivalents at the end of the period	48,955	77,633	48,955	77,633