oro negro

›redefiniendo lo posible

redefining what is possible‹

1Q 2017

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," "Company," "we" or "us" herein) reports revenues of US$33.0M during the first quarter of 2017, higher than the US$3.8M negative revenues reported during the fourth quarter of 2016. This increase in revenues was generated because in the preceding quarter there was a US$41.9 revenue reversal registered in November and now the accrual is being made normally at a dayrate of US$116.3 for the 3 operating rigs.

Like every business in our industry, Oro Negro is facing significant challenges as a result of the downturn in oil markets. Additionally, we are dependent on the performance of our only customer, PEMEX, which has been adversely affected by these industry-wide challenges.

However, even with the difficult situation the industry is passing through, the outlook has begun to stabilize and PEMEX was able to meet its obligations with the Company. Between December 2016 and January 2017 the Company collected US$105.9M from the works performed from March 1, 2016 to November 30, 2016. As a part of the negotiations with PEMEX, the Company reached an agreement to reduce the payment terms from 180 to 90 days for the works performed after November 2016. Additionally, the Company invoiced US$33.2M for the works performed from December 2016 to February 2017 that will be collected under the 90 days' payment terms.

With the above mentioned collections, the Company caught up on accrued interest payments in regards to First Priority 7.5% Senior Secured Bond Issue 2014/2019 (the "2019 bonds"). A total of US$34.4M was paid in January which correspond to the interest amounts due on July 24, 2016 and October 24, 2016. Also, the Company was able to make the payment of accrued interest due on January 24, 2016 which amounted to US$17.1M.

Despite recent financial difficulties, the Company continued to successfully execute its operational strategy during the first quarter of 2017. Oro Negro's fleet achieved another quarter with high uptime levels, recording an average uptime of 100.0% during the first quarter. Fortius, Decus and Impetus ended the first quarter with an uptime of 100.0%, offering the best performance of Oro Negro's fleet. While the Laurus and Primus contracts have not been cancelled, their contracts were suspended for one year[1].

Operational Results

As of March 31, 2017, our fleet consists of five premium jack-ups, providing enough scale to generate substantial operating synergies with five of our rigs under contract with PEMEX, although the Primus and the Laurus are in a one year suspension period.

Oro Negro is committed to maintain the highest safety and environmental responsibility standards. We operate a Quality Management System (QMS) with principles founded in our ZERO HARM policies which are based upon ensuring zero harm to people, environment, and equipment. No major incidents were reported during the first quarter of 2017.

[1] Primus and Laurus entered a one-year suspension period, starting in September and May 2016, respectively.

Average uptime rate

	Primus	Laurus	Fortius	Decus	Impetus	Total[2]
1Q16	98.8%	100.0%	100.0%	100.0%	*N.A.*	99.7%
4Q16	*N.A.*[3]	*N.A.*[3]	100.0%	98.8%	100.0%	99.6%
1Q17	*N.A.*[3]	*N.A.*[3]	100.0%	100.0%	100.0%	100.0%

Jack-up Contracts

We have been able to build a large contract backlog and provide a stable cash flow visibility for the upcoming years. The following table sets forth the amount of revenue backlog for our drilling units under contract as of March 31, 2017:

Contracts general details

	Start Date	End Date	Duration (days)	Day Rate ($'000)	Backlog[4] (US$'000)
Primus	Jun-13	Apr-19	2,125	-	$90,788
Laurus	Nov-13	Apr-20	2,328	-	170,128
Fortius	Feb-14	Jan-21	2,538	116.3	214,135
Decus	Jun-14	Feb-21	2,438	116.3	217,679
Impetus	May-16	May-22	2,184	116.3	235,950
				TOTAL	**US$950,314**

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 reimbursable, and bonuses.

It is worth noting that as a part of the day rate renegotiation with Pemex, which reflects a day rate of US$116.3k for Fortius, Decus and Impetus for a 12-month period starting June 2016, the Company signed an amendment to the contracts of the rigs under operation providing two additional years of contract extension per jack-up[5].

[2] Weighted average uptime rate, calculated according to revenues.
[3] Primus and Laurus entered a one-year suspension period, starting in September and May 2016, respectively.
[4] Reflects contractual dayrate adjustments to original contract levels in June 1, 2017.
[5] Except for the Impetus, which received a one-year extension.

Management, Discussion and Analysis

(As of March 31th, 2017)

Balance sheet

As of March 31, 2017, total assets amounted to US$1,263.1M. Current assets totaled US$171.2M, mainly comprised of trade and other receivables (US$86.6M), inventories (US$16.1M) and cash and equivalents (US$61.0M). Total long-term assets equaled US$1,091.9M.

Trade and other receivables are comprised of accounts receivables from PEMEX (US$64.9M), recoverable taxes (US$18.5M), and other receivables (US$3.2M).

Cash and cash equivalents balance totaled US$61.0M at the end of the period.

Fixed assets amounted to US$1,091.9M. These are composed of 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$969.9M, of which US$83.2M are considered current liabilities, mainly composed of current portion of long-term debt (US$45.1M), trade and other payables (US$20.7M), other short term liabilities (US$12.1M), current portion of deferred revenue (US$5.2M), and long-term liabilities (US$885.9M).

Total debt at the end of the period was US$916.1M, reflecting the aggregate principal amount outstanding on the 2019 bonds.

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.

(First quarter of 2017)

Income statement

Revenues for the first quarter of 2017, ending on March 31, 2017, amounted to US$33.0M compared to the negative revenues of US$3.8M, caused by the US$41.9M revenue reversal registered in November, obtained during the fourth quarter of 2016.

Revenues are generated from the operation of our drilling rigs, including five premium jack-ups. The Company achieved a 100.0% uptime during the first quarter of 2017.

Operating costs for the first quarter of 2017 totaled US$21.0M compared to US$11.4M in the fourth quarter of 2016. This variance is mainly explained by a policy change in regards to the way that inventory is managed on the balance sheet. Up until September 30, 2016 the inventory was expensed directly to the income statement. Beginning third quarter 2016, Management decided to carry inventory on the balance sheet and expense it as used. This policy change caused a partial reversal of accrued cost of sales.

Personnel costs are the most significant operating cost, representing approximately 60% of the total rig direct operating costs for the operating rigs during the first quarter of 2017.

Gross profit for the first quarter totaled US$11.9M, increasing approximately US$27.2M compared to the fourth quarter of 2017.

Administrative expenses for the fourth quarter amounted to US$3.6M compared to US$14.1M from the previous quarter. The variance is explained by the restructuring fees that were paid during the fourth quarter of 2016. Financial and legal advisors' fees incurred totaled US$1.4M and US$11.8M during the first and fourth quarters, respectively.

Operating revenue for the quarter was US$8.6M compared to (US$27.0M) in the preceding quarter.

Financing costs for the first quarter of 2017, which are related to the 2019 bonds as well as the financing fees, amounted to US$18.9M.

Oro Negro had net income of (US$10.2M), compared to (US$34.9M) in the fourth quarter of 2016.

Cash flow statement

As of March 31, 2017, cash and cash equivalents were US$61.0M, which represents an increase of US$31.5M compared to the previous quarter.

Cash flow provided by operating activities during the quarter amounted to US$18.0M. Change in net working capital during the three months ended March 31, 2017 amounted to US$67.3M.

Cash flow from investing activities during the period totaled (US$852K) as a result of additional equipment acquired for our rigs.

Cash flow from financing activities for the three months ended March 31, 2017 amounted to (US$52.2M) as a result of interests and withholding tax payments on the 2019 bonds.

Change in cash and cash equivalents during the first quarter of 2017 was US$32.2M. As a result, our cash balance increased from US$28.7M as of December 31, 2016, to US61.0M as of March 31, 2017.

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

Unaudited Consolidated Balance Sheet

(Amounts in US$'000)

	March 31, 2017	March 31, 2016
Cash and cash equivalents	$61,051	$63,587
Trade and other receivables, net	86,632	116,564
Current portion of deferred costs	-	-
Prepaid expenses	7,388	1,954
Inventories	16,164	-
Total current assets	**$171,235**	**$182,105**
Property and equipment, net	924,430	1,144,073
Advanced payments for acquisition of jackups	135,379	137,232
Intangible assets and goodwill	185	397
Deferred income tax	31,965	41,545
Total long-term assets	**$1,091,959**	**$1,323,247**
Total assets	**$1,263,194**	**$1,505,352**
Current portion of long-term debt	45,112	279,098
Current portion of deferred revenue	5,211	5,178
Trade and other payables	20,779	36,818
Related parties	-	3,000
Other liabilities	12,133	8,663
Total current liabilities	**$83,235**	**$332,757**
Long-term debt	879,705	645,966
Deferred revenue	6,162	5,463
Deferred income tax liability	11	6,028
Employee benefits	30	8
Total non-current liabilities	**$885,908**	**$657,465**
Total liabilities	**$969,143**	**$990,222**
Share capital	590,004	590,004
Share premium	6,000	6,000
Accumulated deficit	(291,724)	(73,639)
Profit/(Loss) for the period	(10,228)	(7,234)
Actuarial losses	(1)	(1)
Total stockholders' equity	**$294,051**	**$515,130**
Total liabilities and stockholders' equity	**$1,263,194**	**$1,505,352**

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	
	March 31, 2017	**March 31, 2016**
Revenue	$33,068	$50,651
Operating costs	(21,093)	(28,926)
Gross profit	**$11,975**	**$21,725**
Administrative expenses	(3,618)	(6,241)
Impairment loss	-	-
Other income - Net	330	(63)
Operating profit	**$8,687**	**$15,421**
Finance income, including foreign exchange gains	65	6
Finance costs, including foreign exchange loss	(18,980)	(22,661)
Finance result, net	(18,915)	(22,655)
Income before income tax	**($10,228)**	**($7,234)**
Income tax	-	-
Net income	**($10,228)**	**($7,234)**

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	
	March 31, 2017	**March 31, 2016**
Operating activities:		
Income before income tax	($10,228)	($7,234)
Depreciation and amortization	10,225	10,700
Impairment	-	-
Certification	980	1,023
Deferred costs amortization	-	-
Deferred revenue amortization	(1,940)	(2,417)
Revenue amortization	-	-
Financing cost - Net	18,980	22,661
Cash flow from operating activities	$18,017	$24,733
Trade receivables and other assets	62,256	(5,058)
Trade payables and other liabilities	5,136	13,533
Income tax paid	-	-
Net cash provided by/(used in) operating activities	**$85,409**	**$33,208**
Investing activities:		
Acquisition of property and equipment	(852)	(8,890)
Acquisition of intangible assets	-	-
Net cash provided by/(used in) in investing activities	**($852)**	**($8,890)**
Financing activities:		
Proceeds from ordinary shares issuance	-	-
Increase in share premium	-	-
Commissions paid	-	-
Loans paid	-	-
Debt restructuring charges	-	-
Interest paid	(52,293)	(1,664)
Proceeds from borrowings	-	-
Net cash flows provided by/(used in) financing activities	**($52,293)**	**($1,664)**
Increase in cash and cash equivalents	32,264	22,654
Cash and cash equivalents at the beginning of the period	28,787	40,933
Cash and cash equivalents at the end of the period	61,051	63,587