oro negro

›redefiniendo lo posible

redefining what is possible‹

4Q 2016

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 negative revenues of US$3.8M during the fourth quarter of 2016, lower than the US$75.7M revenues reported during the third quarter of 2016. Negative revenues for this period were generated by a US$41.9 revenue reversal registered in November. In November amendments to the drilling contracts were negotiated and signed with Pemex reducing the dayrate from US$130k to $116.3k. This dayrate was retroactive in some rigs as early as June 2016 which caused this effect. Excluding the reversal revenues generated during the fourth quarter amount US$37.0M.

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.

With the above mentioned collections, the Company caught up on outstanding principal payments and accrued interest in regards to First Priority 7.5% Senior Secured Bond Issue 2014/2019 (the "2019 bonds"). A total of US$23.M was paid in November 2016 which corresponds to principal and US$34.4M were paid in January which correspond to the interests 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 fourth quarter. Oro Negro's fleet achieved another quarter with high uptime levels, recording an average uptime of 99.6% during the fourth quarter of 2016. Fortius and Impetus ended the fourth quarter with an uptime of 100.0%, offering the best performance of Oro Negro's fleet, followed by Decus with an average uptime of 98.8%. While the Laurus and Primus contracts have not been cancelled, their contracts were suspended for one year[1].

Operational Results

As of December 31, 2016, our fleet consists of five premium jack-ups and one modular rig, providing enough scale to generate substantial operating synergies, with five of our rigs under contract with PEMEX.

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

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

zero harm to people, environment, and equipment. No major incidents were reported during the fourth quarter of 2016.

Average uptime rate

	Primus	Laurus	Fortius	Decus	Impetus	Total[2]
4Q15	100.0%	98.8%	99.7%	99.6%	*N.A.*	99.6%
3Q16	99.3%[3]	*N.A.* [3]	100.0%	97.5%	99.8%	99.2%
4Q16	*N.A.*[4]	*N.A.* [3]	100.0%	98.8%	100.0%	99.6%

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 December 31, 2016:

Contracts general details

	Start Date	End Date	Duration (days)	Day Rate ($'000)	Backlog[5] (US$'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	231,812
Decus	Jun-14	Feb-21	2,438	116.3	235,357
Impetus	May-16	May-22	2,184	116.3	253,627
				TOTAL	**US$981,712**

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[6].

[2] Weighted average uptime rate, calculated according to revenues.
[3] Takes into account July, August and 11 days of September.
[4] Primus and Laurus entered a one-year suspension period, starting in September and May 2016, respectively.
[5] Reflects contractual dayrate adjustments to original contract levels in June 1, 2017.
[6] Except for the Impetus, which received a one-year extension.

Management, Discussion and Analysis

(As of December 31th, 2016)

Balance sheet

As of December 31, 2016, total assets amounted to US$1,506.9M. Current assets totaled US$202.6M, mainly comprised of trade and other receivables (US$154.4M), and cash and equivalents (US$29.5M). Total long-term assets equaled US$1,304.2M.

Trade and other receivables are comprised of accounts receivables from PEMEX (US$138.2M), recoverable taxes (US$14.3M), and other receivables (US$3.9M).

Cash and cash equivalents balance totaled US$29.5M at the end of the period.

Fixed assets amounted to US$1,304.2M. 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$1,007.3M, of which US$111.6M are considered current liabilities, mainly composed of current portion of long-term debt (US$78.5M), trade and other payables (US$13.7M), other short term liabilities (US$12.1M), current portion of deferred revenue (US$7.1M), and long-term liabilities (US$895.6M).

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.

(Fourth quarter of 2016)

Income statement

Revenues for the fourth quarter of 2016, ending on December 31, 2016, were negative and amounted to US$3.8M compared to US$75.7M obtained during the third quarter of 2016. Negative revenues for this period were generated by a US$41.9 revenue reversal registered in November. In November amendments to the drilling contracts were negotiated and signed with Pemex reducing the dayrate from US$130k to $116.3k. This dayrate was retroactive in some rigs as early as June 2016 which caused this effect.

The US$37.0M revenues, excluding the reversal, for this quarter were generated from the operation of our drilling rigs, including five premium jack-ups. The company achieved a 99.6% uptime during the fourth quarter of 2016.

Operating costs for the fourth quarter of 2016 totaled US$11.4M compared to US$27.8M in the third quarter. 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 58% of the total rig direct operating costs for the operating rigs during the fourth quarter of 2016. These costs decreased approximately 7% compared to the third quarter of 2016. The main reason for this decrease is that during the third quarter, the company decided to hire employees directly rather than use an outsourcing company. The savings were reflected during the fourth quarter.

Gross profit for the fourth quarter totaled (US$15.3M), decreasing approximately US$63.1M compared to the third quarter of 2016. The negative change was caused by the revenue reversal mentioned above.

Administrative expenses for the fourth quarter amounted to US$14.1M compared to US$2.1M from the previous quarter. Financial and legal advisors' fees incurred totaled US$11.8M and US$597K during the fourth and third quarters, respectively.

Operating revenue for the quarter was (US$27.0M) compared to US$39.7M in the preceding quarter.

Financing costs for the fourth quarter of 2016, which are related to the 2019 bonds as well as the financing fees, amounted to US$21.5M.

Oro Negro had net income of (US$34.9M), compared to US$20.7M in the third quarter of 2016.

Cash flow statement

As of December 31, 2016, cash and cash equivalents were US$29.5M, which represents a decrease of US$25.5M compared to the previous quarter.

Cash flow provided by operating activities during the quarter amounted to (US$17.6M). Change in net working capital during the three months ended December 31, 2016 amounted to US$11.6M.

Cash flow from investing activities during the period totaled US$6.1M as a result of reversing capex that is now registered as inventories in the balance sheet.

Cash flow from financing activities for the three months ended December 31, 2016 amounted to (US$25.6M) as a result of amortization, interests and withholding tax payments on the 2019 bonds.

Change in cash and cash equivalents during the fourth quarter of 2016 was (US$25.5M). As a result, our cash balance decreased from US$55.0M as of September 30, 2016, to US29.5M as of December 31, 2016.

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

Unaudited Consolidated Balance Sheet

(Amounts in US$'000)

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$29,550	$40,933
Trade and other receivables, net	154,489	111,047
Current portion of deferred costs	-	-
Prepaid expenses	3,342	2,413
Inventories	15,267	-
Total current assets	**$202,648**	**$154,393**
Property and equipment, net	1,109,138	1,150,347
Advanced payments for acquisition of jackups	135,379	132,712
Intangible assets and goodwill	228	472
Deferred income tax	59,549	41,545
Total long-term assets	**$1,304,294**	**$1,325,076**
Total assets	**$1,506,942**	**$1,479,469**
Current portion of long-term debt	78,592	258,570
Current portion of deferred revenue	7,151	7,595
Trade and other payables	13,701	22,876
Related parties	-	3,000
Other liabilities	12,189	8,172
Total current liabilities	**$111,633**	**$300,213**
Long-term debt	879,860	645,393
Deferred revenue	6,162	5,463
Deferred income tax liability	9,617	6,028
Employee benefits	30	8
Total non-current liabilities	**$895,669**	**$656,892**
Total liabilities	**$1,007,302**	**$957,105**
Share capital	590,004	590,004
Share premium	6,000	6,000
Accumulated deficit	(73,639)	(62,259)
Profit/(Loss) for the period	(22,724)	(11,380)
Actuarial losses	(1)	(1)
Total stockholders' equity	**$499,640**	**$522,364**
Total liabilities and stockholders' equity	**$1,506,942**	**$1,479,469**

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 twelve months ended	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Revenue	($3,877)	$48,536	$175,153	$230,906
Operating costs	(11,444)	(29,105)	(97,038)	(128,550)
Gross profit	**($15,321)**	**$19,431**	**$78,115**	**$102,356**
Administrative expenses	(14,118)	(8,379)	(30,665)	(25,968)
Impairment loss	-	-	(6,181)	-
Other income - Net	2,439	(450)	5,955	1,108
Operating profit	**($27,000)**	**$10,602**	**$47,224**	**$77,496**
Finance income, including foreign exchange gains	43	19	56	53
Finance costs, including foreign exchange loss	(21,535)	(21,189)	(83,826)	(89,079)
Finance result, net	(21,492)	(21,170)	(83,770)	(89,026)
Income before income tax	**($48,492)**	**($10,568)**	**($36,546)**	**($11,530)**
Income tax	13,557	150	13,557	150
Net income	**($34,935)**	**($10,418)**	**($22,989)**	**($11,380)**

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 twelve months ended	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Operating activities:				
Income before income tax	($48,492)	($10,568)	($36,546)	($11,530)
Depreciation and amortization	10,206	10,610	42,129	40,771
Impairment	-	-	6,181	-
Certification	1,520	1,780	4,788	4,294
Deferred costs amortization	-	-	-	6,407
Deferred revenue amortization	(2,360)	(2,425)	(8,245)	(10,660)
Revenue amortization	-	-	8,500	-
Financing cost - Net	21,479	21,143	83,770	89,033
Cash flow from operating activities	($17,647)	$20,540	$100,577	$118,315
Trade receivables and other assets	32,996	(26,875)	(59,638)	(15,807)
Trade payables and other liabilities	(21,317)	(869)	(14,418)	(10,048)
Income tax paid	-	1,433	-	1,433
Net cash provided by/(used in) operating activities	**($5,968)**	**($5,771)**	**$26,521**	**$93,893**
Investing activities:				
Acquisition of property and equipment	6,111	(2,001)	(9,524)	(194,309)
Acquisition of intangible assets	-	-	-	-
Net cash provided by/(used in) in investing activities	**$6,111**	**($2,001)**	**($9,524)**	**($194,309)**
Financing activities:				
Proceeds from ordinary shares issuance	-	-	-	-
Increase in share premium	-	-	-	-
Commissions paid	-	-	-	-
Loans paid	(23,000)	-	(23,000)	(24,000)
Debt restructuring charges	-	-	-	-
Interest paid	(2,685)	(250)	(68,480)	(67,577)
Proceeds from borrowings	-	-	63,100	-
Net cash flows provided by/(used in) financing activities	**($25,685)**	**($250)**	**($28,380)**	**($91,577)**
Increase in cash and cash equivalents	(25,542)	(8,022)	(11,383)	(191,993)
Cash and cash equivalents at the beginning of the period	55,092	48,955	40,933	232,926
Cash and cash equivalents at the end of the period	29,550	40,933	29,550	40,933