oro negro

›redefiniendo lo posible

redefining what is possible‹

2Q 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, (vi) our future business development, results of operations and financial condition, (vii) our ability to enter into future contracts and the terms of such contracts, (viii) our ability to repay debt when due and on the agreed terms, (ix) possible cancellation or suspension of drilling contracts, (x) the availability of qualified personnel, (xi) labor relations, operating hazards and risks, (x) terrorism and political and other uncertainties inherent in foreign operations (including risks of war, civil disturbances, seizure or damage to equipment, and exchange and currency fluctuations), and (xii) the impact of governmental and industry laws and regulations and environmental matters. 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 iand are subject to change without prior notice. 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$46.5M during the second quarter of 2017, lower than the US$52.2M revenues reported during the second quarter of 2016. This difference in revenues is mainly explained by the lower accrued dayrate and the temporary suspension of two rigs during 2017.

Pemex has requested a series of amendments to the drilling contracts for the Primus, Laurus, Fortius, Decus and Impetus rigs. After extensive discussions, Pemex has presented the following terms:

- The Primus rig would remain suspended until the end of 2018. Thereafter, it would resume operations at a reduced rate of US$116.3K per day for six months, after which the dayrate would be adjusted according to a formula based on the "Global Jack-Up Average Index" issued by Clarkson Research and subject to a floor equal to the reduced rate and a cap equal to the original contracted rate.
- The Laurus rig would remain suspended until November 2017. Thereafter it would resume operations at a reduced rate of US$116.3K per day for six months, after which the dayrate would be adjusted according to the formula described above.
- The Fortius, Decus and Impetus rigs will continue operations at a reduced rate of US$116.3K (effective June 1, 2017). Beginning December 1, 2017, the dayrate would be adjusted according to the formula described above.
- The tenor of all five contracts would remain unchanged.

The Company is still analyzing the impact of the proposed terms and hasn't yet signed the amendments to the contracts. Therefore, the revenues[1] presented in the income statement reflect the last amendments to the drilling contracts with Pemex.

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 April and June 2017, the Company collected US$32.1M from the services performed from December 1, 2016 to February 28, 2017. 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 work performed after November 2016. Additionally, the Company invoiced US$13.2M for the work performed that will be collected under the 90-day payment terms.

With the above-mentioned collections, the Company made the corresponding interest payments in regards to the First Priority 7.5% Senior Secured Bond Issue 2014/2019 (the "2019 bonds"); a total of US$17.1M was paid in April.

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[1] Contractual dayrates stated in the last amendments dated November 2016: Primus suspended until September 2017; Laurus US$158.9K as of May 1st 2017; Fortius and Decus US$161.1K as of June 1st 2017; Impetus US$130K as of June 1st 2017.

Despite recent financial difficulties, the Company continued to successfully execute its operational strategy during the second quarter of 2017. Oro Negro's fleet achieved another quarter with high uptime levels, recording an average uptime of 99.9% during the second quarter. Decus and Impetus ended the first quarter with an uptime of 100.0%, offering the best performance of Oro Negro's fleet, followed by Fortius with 99.7%. The Laurus and Primus contracts have not been cancelled but were temporarily suspended.

Operational Results

As of June 30, 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 temporary suspension period.

Oro Negro is committed to maintaining 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 second quarter of 2017.

Average uptime rate

	Primus	Laurus	Fortius	Decus	Impetus	Total[2]
2Q16	100.0%	100.0%	99.2%	96.8%	96.3%	98.4%
1Q17	*N.A.*[2]	*N.A.*[3]	100.0%	100.0%	100.0%	100.0%
2Q17	*N.A.*[2]	100.0%	100.0%	99.7%	100.0%	99.9%

[2] Weighted average uptime rate, calculated according to revenues accrued.

[3] Primus and Laurus entered a temporary suspension period, starting in September and May 2016, respectively.

Management, Discussion and Analysis

(As of June 30th, 2017)

Balance sheet

As of June 30, 2017, total assets amounted to US$1,259.7M. Current assets totaled US$181.6M, mainly comprised of trade and other receivables (US$95.8M), inventories (US$17.1M) and cash and equivalents (US$63.8M). Total long-term assets equaled US$1,078.0M.

Trade and other receivables are comprised of accounts receivables from PEMEX (US$76.3M), recoverable taxes (US$17.2M), and other receivables (US$2.3M). Compared to June 2016, the amount of trade and other receivables has been reduced 47.0% due to normalization in the payments received from Pemex; during the second round of negotiations with Pemex, the Company wasn't able to invoice for 11 months.

Cash and cash equivalents balance totaled US$63.8M at the end of the period. The difference between this amount and the US$18.8M of June 2016 is explained by the invoices that have been collected from Pemex during the year.

Fixed assets amounted to US$1,078.0M. 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$961.7M, of which US$75.2M are considered current liabilities, mainly composed of current portion of long-term debt (US$45.1M), trade and other payables (US12.3M), other short term liabilities (US$14.3M), current portion of deferred revenue (US$3.4M), and long-term liabilities (US$886.5M).

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.

(Second quarter of 2017)

Income statement

Revenues for the second quarter of 2017, ending on June 30, 2017, amounted to US$46.5M compared to revenues of US$52.5M obtained during the second quarter of 2016. The change is explained by the difference in the lower accrued dayrate and the temporary suspension of two rigs during 2017.

Revenues are generated from the operation of our drilling rigs, including five premium jack-ups. The Company achieved a 99.9% uptime during the second quarter of 2017.

Operating costs for the second quarter of 2017 totaled US$22.1M compared to US$28.7M in the second quarter of 2016. This variance is mainly explained by cost reduction programs, the temporally suspension of two rigs and 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 second quarter of 2017. This is comparable to last year.

Gross profit for the second quarter totaled US$24.3M, in line with the US$23.8 obtained during the second quarter of 2016. Although revenues decreased 13.0%, this was compensated by a decrease of 29.8% in operating expenses.

Administrative expenses for the second quarter amounted to US$2.3M compared to US$8.1M from the same quarter of the previous year. The variance is explained by the restructuring fees that were paid during the second quarter of 2016. Financial and legal advisors' fees incurred totaled US$524K and US$6.2M during the same quarters of 2017 and 2016, respectively.

Operating profit for the quarter was US$22.4M compared to US$19.0M in the same quarter of the preceding year.

Financing costs for the second quarter of 2017, which are related to the 2019 bonds as well as the financing fees, amounted to US$18.6M.

Oro Negro had net income of US$3.8M, compared to (US$1.5M) in the second quarter of 2016.

Cash flow statement

As of June 30, 2017, cash and cash equivalents were US$63.8M, which represents an increase of US$44.9M compared to the same quarter of the previous year.

Cash flow provided by operating activities during the quarter amounted to US$18.1M. Change in net working capital during the three months ended March 31, 2017 amounted to (US$13.4M).

Cash flow from investing activities during the period totaled US$2.6M as a result of reversing capex of the rigs that are under construction.

Cash flow from financing activities for the three months ended March 31, 2017 amounted to (US$18.0M) as a result of interests and withholding tax payments on the 2019 bonds.

Change in cash and cash equivalents during 2017 was US$35.0M. As a result, our cash balance increased from US$28.7M as of December 31, 2016, to US63.8M as of June 30, 2017.

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

Unaudited Consolidated Balance Sheet

(Amounts in US$'000)

	June 30, 2017	June 30, 2016
Cash and cash equivalents	$63,805	$18,896
Trade and other receivables, net	95,804	180,868
Current portion of deferred costs	-	-
Prepaid expenses	4,906	5,033
Inventories	17,105	-
Total current assets	**$181,620**	**$204,797**
Property and equipment, net	914,563	1,137,518
Advanced payments for acquisition of jackups	131,427	138,068
Intangible assets and goodwill	140	341
Deferred income tax	31,965	41,545
Total long-term assets	**$1,078,095**	**$1,317,472**
Total assets	**$1,259,715**	**$1,522,269**
Current portion of long-term debt	45,112	75,637
Current portion of deferred revenue	3,457	4,440
Trade and other payables	12,349	31,026
Related parties	-	-
Other liabilities	14,324	9,480
Total current liabilities	**$75,242**	**$120,583**
Long-term debt	880,325	869,138
Deferred revenue	6,162	12,954
Deferred income tax liability	11	6,028
Employee benefits	30	8
Total non-current liabilities	**$886,528**	**$888,128**
Total liabilities	**$961,770**	**$1,008,711**
Share capital	590,004	590,004
Share premium	6,000	6,000
Accumulated deficit	(291,724)	(73,639)
Profit/(Loss) for the period	(6,334)	(8,806)
Actuarial losses	(1)	(1)
Total stockholders' equity	**$297,945**	**$513,558**
Total liabilities and stockholders' equity	**$1,259,715**	**$1,522,269**

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 six months ended	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Revenue	$46,541	$52,597	$79,609	$103,248
Operating costs	(22,158)	(28,778)	(43,251)	(57,704)
Gross profit	**$24,383**	**$23,819**	**$36,358**	**$45,544**
Administrative expenses	(2,359)	(8,159)	(5,977)	(14,400)
Impairment loss	-	-	-	-
Other income - Net	475	3,367	805	3,304
Operating profit	**$22,499**	**$19,027**	**$31,186**	**$34,448**
Finance income, including foreign exchange gains	17	-	82	6
Finance costs, including foreign exchange loss	(18,622)	(20,599)	(37,602)	(43,260)
Finance result, net	(18,605)	(20,599)	(37,520)	(43,254)
Income before income tax	**$3,894**	**($1,572)**	**($6,334)**	**($8,806)**
Income tax	-	-	-	-
Net income	**$3,894**	**($1,572)**	**($6,334)**	**($8,806)**

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 six months ended	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Operating activities:				
Income before income tax	$3,894	($1,572)	($6,334)	($8,806)
Depreciation and amortization	10,224	10,718	20,449	21,418
Impairment	-	-	-	-
Certification	646	1,104	1,626	2,127
Deferred costs amortization	-	-	-	-
Deferred revenue amortization	(1,754)	(1,747)	(3,694)	(4,164)
Revenue amortization	-	8,500	-	8,500
Financing cost - Net	18,622	20,599	37,602	43,260
Cash flow from operating activities	$31,632	$37,602	$49,649	$62,335
Trade receivables and other assets	(6,631)	(67,383)	55,625	(72,441)
Trade payables and other liabilities	(6,854)	(9,830)	(1,718)	3,703
Income tax paid	-	-	-	-
Net cash provided by/(used in) operating activities	**$18,147**	**($39,611)**	**$103,556**	**($6,403)**
Investing activities:				
Acquisition of property and equipment	2,677	(4,925)	1,825	(13,814)
Acquisition of intangible assets	-	-	-	
Net cash provided by/(used in) in investing activities	**$2,677**	**($4,925)**	**$1,825**	**($13,814)**
Financing activities:				
Proceeds from ordinary shares issuance	-	-	-	-
Increase in share premium	-	-	-	-
Commissions paid	-	-	-	-
Loans paid	-	(63,256)	-	(64,920)
Debt restructuring charges	-	-	-	-
Interest paid	(18,070)	-	(70,363)	-
Proceeds from borrowings	-	63,100	-	63,100
Net cash flows provided by/(used in) financing activities	**($18,070)**	**($156)**	**($70,363)**	**($1,820)**
Increase in cash and cash equivalents	2,754	(44,692)	35,018	(22,037)
Cash and cash equivalents at the beginning of the period	61,051	63,587	28,787	40,933
Cash and cash equivalents at the end of the period	63,805	18,896	63,805	18,896