

Q1 2021 Earnings Call

Company Participants

- Francisco Francilmar Fernandes, Chief Operations Officer
- Milton Salgado Rangel Neto, Chief Financial Officer
- Roberto Bernardes Monteiro, Chief Executive Officer and IRO

Other Participants

- Analyst
- Andre Almeida
- Christian Audi
- Jesus Cardoso
- Pedro Soares

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Petro Rio's Conference Call to discuss First Quarter 2021 Results. Thank you for waiting. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session for analysts and investors, when further instructions to participate will be provided. (Operator Instructions) This event is also being broadcast simultaneously over the Internet via webcast and may be accessed through Petro Rio's Investor Relations website at ir.petroriosa.com.br by clicking on the banner First Q '21 earnings release.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call relative to the company's business perspective, projections and operating and financial goals are based on the beliefs and assumptions of Petro Rio's management and on information currently available to the company. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions as they are related to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Petro Rio and could cause results to differ materially from those expressed in such forward-looking statements.

I would now like to turn the conference over to Mr.Roberto Monteiro, CEO; Mr.Milton Rangel, CFO; and Mr.Francilmar Fernandes, COO. Mr.Monteiro, please go ahead.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

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Good day. Thank you very much for joining us today. I would like to once again start this call thanking the Petro Rio team. We are living in difficult and challenging moments, but we have been performing really well amidst all of the difficulties that we are all facing on a day-to-day basis. So I would like to start thanking my team for their perseverance and discipline.

Now moving to slide three where we have the highlights of the period. The first highlight that I think it is important to underscore is our EBITDA. In the first quarter, our EBITDA totaled to BRL428 million, 12 times higher than the first quarter of 2020. Of course, in 2020, we've already felt the early COVID effects. The pandemic started in March 2020, so we have a little bit of an effect there. As part of this EBITDA, we have to take into account two important things this year. First, a higher production, most likely a record mark in the company's history and a Brent oil price that is also higher. We took an average and it was higher than BRL60 per barrel. It has been a while since we have seen this happen.

And second point about this first quarter that is important to highlight was our follow on offer. We raised BRL317 million, approximately BRL2 billion in January. We had a capital increase, we had a book that was more than three times oversubscribed, meaning, we had three times more orders than the size of the book. So it was very successful.

And here, I would like once again to thank both our new shareholders and the shareholders already in our base at the time. We always had a lot of support from all of them. This follow-on prepared the company for growth, either organic growth via investments in the fields that we already have or preparing for inorganic growth through acquisition of new fields. We also had the approval by ANP, the regulatory agency up to 30% stake of Frade field that we had acquired from Petrobras in 2019. And this was finally approved in February of 2021.

We also acquired the working interest belonging to Total in the Wahoo Field, 28.6%. As we mentioned in the past, that we were interested in acquiring that, so we finalized that deal. And we also had a stratification of reserves and resources adding 92 million barrels of 1C resources and reserves for the company. This was very interesting, because we already included Wahoo Field, we've already included the 64.3% working interest of Wahoo. So this gives us a pretty good idea of 1C reserves, which in the future can become 1P after the declaration of commerciality and so on and so forth.

Now moving to slide four, please. Here I'm going to address some items in perhaps more detail. And then I'll turn the floor to Francilmar. Well, the first point on slide four was a reduction of our lifting cost. We have here \$14.3, reducing the lifting cost a bit quarter-over-quarter. It's still a little below what we would like. The main reason why it fell a little below our expectation was some downtime at Polvo, given a problem we had in the boiler of the FPSO operated by BW. This cost us a little bit. Although, the number is a little lower than in Q4, '20 at \$14.3. So with very good lift in cost we could have done even better.

The next item here is increased production. The main reason explaining this increase in production was the approval of the 30% stake belonging to Petrobras. We increased from

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an average production of 29,900 to 31,300. As we mentioned in the first quarter, we have the stoppage of the Polvo FPSO, a downtime of ten days on account of the boiler. And we had a stoppage of one pump in the TBMT field, Tubarao Martelo. And here it's important to differentiate the issues. Of course, the FPSO performance is something that we have to address and this will be addressed, it is being addressed as we will keep this FPSO until July of this year.

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Now, the pump, ESP, that's the day-to-day of an oil company. We will continue to have pumps that fail. This is our day to day. Of course, it did catches a little by surprise, because this TBMT ESP requires a rig called Kingmaker that we acquired in the end of last year, but it is in the process of overhaul. So now we have just finished the overhaul process of this rig and we will replace the electric submersible pump, ESP. But these pumps are routine for the company as these things will continue to happen. It's not a surprise, but the FPSO, yes, there was a little surprising and we are taking measures in addressing that topic.

Well, our cash position increased to BRL3.317 billion, almost BRL600 million in cash. So when I said that the company is prepared for what's coming in the future, that's what I meant. We have a lot of firepower, almost BRL600 million in cash. And this is reflected on our EBITDA -- our net-debt over EBITDA ratio that was 1.2 times in the fourth quarter of 2020, which was already a good number, and it is now down to minus 0.95 times. In other words, we used to be a net debt company, and are now a net cash company. We used to have more debt than cash, and now we have more cash than debt. This is what this indicator means.

And even if we were to eliminate the effects of the follow-on offer, we would still have seen an improvement in the company's leverage, so the company performed well, operationally speaking. In addition, the company also had the follow-on on top of this good performance that made the company completely prepared and ready for the next challenges and for the next steps we will take to drive organic and inorganic growth.

With that, I will turn the floor to Francilmar to discuss our operations, and then Milton will speak about the financials and I will be back at the end to talk about the next steps. Thank you very much. Francilmar?

Francisco Francilmar Fernandes {BIO 21185801 <GO>}

Thank you, Roberto. Hello everyone. Starting on slide five, we have the performance of our assets. The most relevant highlight in this quarter given all the numbers that we know well in this table and at everyone monitors. The relevant point is in February, on February 5th we completed the deal of the remaining 30% stake of Frade Field. Now we own a 100% of the field. And that has had a positive impact on the company's total production. So that's the Frade line item.

The other fields, Polvo and TBMT posted a certain reduction in production and I will explain later on what caused that. It wasn't a one-time off event. And here's the lifting cost, this is indeed a main indicator of the company's operations. And here we see return

to a better level than presented in the prior quarter when there was an upward push. And I will detail this on the next slide.

Please go to slide six. We see on the top left hand corner the traditional graph showing the evolution of the company's lifting cost. In Q4 20, we had an increase in this number, but we worked to bring it back to more comfortable numbers, better numbers for the company. But again, we had some complications particularly linked to Polvo Field where we had a problem with the FPSO at Polvo, which is chartered and it's reaching the end of its contract life. I will detail this further on when I talk about the operating performance of Polvo.

We also had a problem with one well at TBMT field, where an ESP pump failed. I'll speak more about that when I speak about that specific asset. So we have one less well operational at TBMT. On the positive side, we had some impacts that helped our production and that kind of offset these issues. We integrated the final 30% volume that remained of Frade when the deal was finally recognized in February. And we had all of the measures that we adopted along the year. Even holding back on some maintenance service, we are now able to do everything that we postponed before. And we are still controlling costs.

Also, we had a little help from the foreign exchange with the BRL depreciating vis-a-vis the US dollar, and that helped a little. We are fully aware that the main indicator for the company in economic terms is the lifting costs, so a good deal of our effort is focused on that. We believe we are going to have one more difficult quarter while we finalize the tie-back of Polvo and TBMT, still operating with the Polvo FPSO. And then we should expect a considerable improvement.

On slide seven we will speak in more detail about Frade. Operationally speaking, the field had a good quarter, unfortunately impacted by the performance of one well MUP3, where we had hydrate formation. That actually started in the previous quarter, a problem that had not been solved. As we can see, operating -- we can see operating efficiency considering our full production capacity versus actual production. So that had a negative impact on the operating efficiency of the field as a whole. But the FPSO is performing well and all of the metrics of the field look good. In the end of April, we started a scheduled maintenance that was actually scheduled for last year, but we postponed it on account of the pandemic. It started now on April 28th, and it should last for eight days.

Now moving to slide eight. Let's speak a little about Polvo. Polvo Field had another complicated quarter given the low performance of the FPSO, Polvo, which is chartered for the field. And it's getting to the end of its contract. We expect the transition from FPSO, Polvo to FPSO, Bravo at TBMT by July. So in this final phase we're running into some complications, low performance of some of the equipment, we had practically 10 days of downtime in the energy generation system, which is boiler based on that FPSO. And that impacted the process as well. That really hindered production and performance at Polvo.

On the other hand, we are sparing no efforts to continue with a good operation in this remaining period of the FPSO. Operating with safety, good numbers and hopefully as

much as possible in good operating conditions until the end of the contract. Also in this quarter, we were able to finally complete all the remaining geological and financial analysis to start drilling another well in the Eocene reservoir. This began in Q1 '21 and drilling of this well is unfolding well. We expect to finish it and put it into production in the coming weeks. And we will keep the market informed about this.

Moving to slide 10. Tubarao Martelo Field, TBMT. Here to be highlighted is a problem we had in well 44, a problem linked to flow assurance, but our team was able to control it relatively fast and the well is back to operating in normal conditions. In the beginning of March, the ESP pump failed in well eight, the pump is responsible for pumping out the production of the well. It failed in the beginning of March, the well has been shut down since then and we are waiting for the work over to replace this electric submersible pump, ESP.

And here, two observations are in order. The first is that, TBMT Field as well as Polvo, both produced heavy oil and requires submersible pumps, ESP, to ensure production at the field. When these pumps fail or stop, we have to be ready to replace them immediately. We do this as a routine at Polvo and are now starting to do it at TBMT. The second observation is that, we made the right decision last year when we acquired a specific rig to carry out work over's at TBMT, precisely to handle this type of situation. So we are working to prepare this rig, we're actually finalizing it. This pump failure got us a little before we expected, but the rig is practically ready to start operating and to do the work over by the end of May or June. I believe that by July or August that well will be online again.

FPSO Bravo showed good efficiency. It has very good equipment that makes us very hopeful and strengthens our investment thesis, because all of the complications and low efficiency that we have at FPSO Polvo will be offset by this FPSO at Tubarao Martelo.

Moving now to slide 11. And let me give you a general update on the Polvo, TBMT tie-back. The project is advancing full steam and the physical progress is over 60%. The financial part is also according to plan. So far, everything is on plan on budget, despite all the difficulties imposed by the pandemic and also our crews were able to deal with all that. As for manufacturing of lines and delivery of equipment, it is on going according to plan to be finalized by July.

Well number 10 at TBMT should come into play more or less in parallel. As soon as we finish the work over to replace the pump at well eight, the teams will come in with a rig to complete well number 10 to finish by September. On the right, we see an illustration of one of the coils that has part of the production of flexible line.

Let's go to slide 12, where I give you an update on the Wahoo block. We acquired the 28.6% stake that belonged to Total, with that Petro Rio owns 64.3% of the block. What matters is that, we were already the operator of the part acquired from BP, 35.7%. With that, we started preliminary engineering work to fine-tune the knowledge and see what kind of solutions we can use to improve financial costs and how we can bring forward the startup of operations. In other words, to improve all conditions. We will prepare the

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development plan, DP, in the coming months and we believe that by the end of the second half we should be coming to an agreement with the rest of the consortium and submitting the development plan to the agency for approval (inaudible) news.

On slide 13, we see the company's stratification of reserves and resources. In this quarter, we updated the numbers already, including Wahoo Block and showing a significant increase in all scenarios. I'd like to draw your attention to this part on the right, where we see an increase in reserve levels. We practically doubled 1P and 1P plus 1C from 2020 to 2021. And here we can see two representative figures. One, 87 million additional from Wahoo related to PetroRio's share of 64.3%, also representing the figure of the field and the potential to help us grow the company. And another important number is the evolution of 1P reserves of the assets that we already have in production, TBMT, Polvo and Frade, from a 113 to 118. And this already considering what was produced along 2020. This reflects an increase of over 10 million barrels and more than 10% of what we have in one year with production at full steam. And the other reserves 2P plus 2C and 3P plus 3C have had considerable increases.

Another important point for us to consider is the extinction of Frade Fields lifespan. Once we form another cluster, Frade plus Wahoo, we extend production that was expected to end in 2034 to 2054, proving once again that the company choose the right strategy to extend the lifespan of fields and increase recovery factors.

With that, I end my presentation, and I turn the floor to Milton. Thank you.

Milton Salgado Rangel Neto

Thank you, Francimar. Good afternoon, everyone. To continue our presentation on slide 14, we present the company's financial performance in the quarter. Considering the columns excluding the impact of IFRS-16, our revenue totaled BRL655 million, resulting from the sale of approximately 1 million barrels of Frade and about 900,000 barrels considering Polvo and TBMT, plus the revenue from Manati of about BRL27 million.

Considering cost of goods sold royalties, G&A and other operating revenues and expenses, our EBITDA was BRL407 million in the quarter, 62% EBITDA margin. Another highlight is our financial result, BRL320 million negative. Very much influenced by foreign exchange variation to be explained in the next slide. With that, we reported a loss in Q1 '20 of almost BRL40 million [ph]. And if we consider the effects of IFRS-16, this loss reached BRL65 million.

The last highlight on this slide is our adjusted EBITDA. A strong EBITDA of BRL427 million. I'd like to remind you that this adjusted EBITDA excludes non-recurring items and non-operational items. In other words, it better reflects the company's ability to generate cash. And we also reached an EBITDA margin of 65% in the quarter, a higher margin compared with all quarters in 2020. Given with the recovery in oil prices as well as synergies captured by the company and cost reduction initiatives. So, we were able to deliver a very high profitability margins. As regards IFRS-16 results, adjusted EBITDA was close to BRL470 million in the quarter with a 72% EBITDA margin.

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To continue, moving on to slide 15, let's speak about the financial results of the company in more detail. We have two columns here, one excluding and one including IFRS-16 results. And the main point that I would like to highlight has to do with this line item, a loss of BRL211 million in our financial result regarding foreign exchange variation on intercompany loans. So, what's happening here? We have some Brazilian companies in our PetroRio Group that were taking on intercompany loans from foreign companies in our Group, particularly in Luxembourg. So these Brazilian companies borrowed money in dollars, and then real depreciated in the quarter with a dollar-real ratio of around 1 to 5.80 depending on the moment along the quarter.

And with that, we recognized that this loss linked to the exchange variation impacting these loans. Due to accounting rules, we are not able to deduct these losses from the gains that Luxembourg companies had with the same loans. And this happens because Luxembourg companies already reporting dollars and this foreign exchange gain given that they are creditors. It's adjusted directly via shareholders equity. So the result shows this distortion what stands out is the loss of the borrowing Brazilian companies. However, the counterpart is not observed in the result, because it is booked directly in the shareholder equity through the CTA [ph]. So this is just a little bit of information to explain why we have this kind of pollution in our financial result.

In addition, we highlight that exchange variation does not have a direct impact on the financial health of PetroRio, because the majority of the cash is invested mainly in foreign currency, mainly dollars and our revenues, the companies EBITDA is very much exposed to foreign currency given that we sell oil and oil is priced in dollars. So a good part of our variation, a good part of our cash generation is also dollarized.

Now, moving to slide 16. Let's speak a little about funding. The first graph on the left shows the evolution of the cost of the company's working capital or indebtedness cost. Given the very successful follow-on and improved liquidity of the company, as well as improved loan profile, overall for the company we have been getting loan facilities for working capital at more and more attractive costs. We are happened working with world class banks, both Brazilian and foreign banks and we have been replacing more expensive debt that we carried in our balance sheet by cheaper loans.

So -- and while another very important piece of information related to this is that, we have been able to replace expensive debt by cheaper debt. But despite of lower cost, we have been able to increase the duration of loans for working capital. We used to have loans payable in six or nine months, but now all of these new loan facilities have a duration of one year. So not only were we able to improve the cost profile, but also the duration profile of our debt simultaneously.

On the right, we see the amortization scheduled. As I explained, we had a very successful follow on, raising more than BRL2 billion. This provided important reinforcement for our cash, giving the company very comfortable liquidity to serve the obligations that we have, both in the short-term, less than 12 months and to serve our commitments in the second or third year. And generally speaking, a better situation for the company. I'd like to remind you that we've been very successful in rolling over a good part of our debt, which gives us even more peace of mind regarding our financial position.

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Lastly, please go to slide 17 for more details regarding the company's leverage. An indicator that we like to follow up close is net debt over adjusted EBITDA ratio. I'd like to remind you that adjusted EBITDA excludes non-recurring and non-operational effects. Thus it better depicts the company's cash generation. As regards the recent past, the first quarter of the year, because of the follow on we are now a net cash company. So this ratio is now negative. It is now at minus 0.9 time approximately with a net cash of more than BRL1 billion.

Another important point that I would like to highlight is that, even if we were to exclude the effect of the follow-on on Petro Rio's cash, this ratio would have been 0.6 time of leverage. Now, in Q1 when we compare this with 1.2 times in December 2020 also without the follow-on effect, because the follow-on happened in February, this shows that the company has a strong ability to generate operating cash. Regardless of the follow-on, we would have been able to post a significant reduction in the companies leverage quarter-on-quarter.

And now, I turn the floor back to Roberto, who will talk about the next steps and then we will have the Q&A. Thank you very much.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you, Milton. Well, I will go over the next steps before we open up the floor to questions. The first, as expected, is our focus on safety and health, so that we can continue to perform as we have done in recent quarters even in the middle of this whole confusion, the COVID pandemic, etc.

Now, getting into more details about our operating projects. We now have some very important projects going on. The first, as Francilmar mentioned, is the tieback project between Polvo and TBMT, which we expect for the first half of July of this year. The project is unfolding well, and it is a very important project for the company, because in addition to increasing a lot efficiency of both fields, it also reduces both our lifting cost and CO2 emissions. So it is a project that optimizes everything. It is a very interesting project that is about to finish. Then we have here two wells, one at Polvo as we decided to drill the Eocene reservoir at Polvo and we expect to have it operational soon. And then we have the TBMT well to be drilled in Q3 of 2021. So two wells that should start production in the coming months. In addition to that, we have to prepare to begin the drilling campaign at Frade. Our goal would be to start drilling at Frade Field this year.

Now, let's speak about things that are not set operational in nature that have more to do with regulatory and M&As. The approval of Wahoo by ANP. It is very important to have that so that we can declare commerciality of the field and start preparing for the tie-back project between Wahoo and Frade. And lastly, a strong focus on in organic growth through acquisitions, M&A opportunities, as this has been our DNA in recent quarters and years. So these are the next steps that we have ahead of us.

And with that, I'd like to open the floor to questions. Here with me, we have Francilmar, COO; Milton CFO; and Emiliano, our Legal, Administrative and Regulatory Office. Thank

you very much. And let's have the questions now, please.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session for analysts and investors. (Operator Instructions) Our first question comes from Christian Audi with Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Hello, Roberto, Milton and Francilmar. To start, congratulations on the results. Very positive results across the board, production of volume costs and the financials. So, congratulations. I had three questions, one of them is more strategic. The first question, Roberto and Francilmar, I think you gave us a lot of details. The problems that occurred at Frade, Polvo and TBMT. I just want to understand, could you give us a big picture of what was expected and what was the surprise? What worries you're more considering these issues. Francilmar gave us a lot of details. But I just want to understand what's left in terms of issues that was not resolved when we consider MUP3 at Frade, the Polvo problems the boiler and then well 44 at TBMT. My second question is looking forward Brent discounts. What do you expect -- what do you expect in terms of Brent price discounts perhaps for the next quarter. And finally, Roberto, on the strategic side, could you tell us about the Albacora process? Have you felt any change given all of these changes that are happening at Petrobras regarding the Albacora process, and what would be the next steps? And also, on the strategic side with Wahoo, after the success with BP and Total, what about BP's interest in acquiring your stake at Wahoo?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you, Christian. Thank you for the questions. I will answer all three, and Francilmar is here with me. So, if Francilmar wants to add to the first question, no problem. Regarding operating problems, we can call them that. Let's start with Frade, we had MUP3 that had a hydrate formation last year. We were able to open the field for 15 days or a little more than that, if I'm not mistaken, that was in February. But then the well started presenting problems. Again, so we decided to shut it down again, to try to resume production sometime in the coming days or months. This well is now producing or we try to have the well producing through another path, but it didn't work as we wanted. These wells have redundancy. So, we try to use the redundancy, but it didn't work out as we expected. So now, we still are trying to open the well using its original path and that's why it's taking a little longer.

So, regarding Frade, this is one point and it's out of the ordinary. Regarding Polvo, what is out of the ordinary is the BW FPSO. It is underperforming, because of the boiler problem, we had a 10-day downtime, because of that boiler and considerably, we've been struggling to have BW perform as expected, both in terms of production and in terms of maintenance of the FPSO. We don't see a problem regarding that from the safety

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standpoint. But we -- it's a kind of a dispute we want to bring the FPSO at the level of excellence that we are used to having, that's what we are pursuing. So that's something that we have to address. How do we address it with the tie-back regarding Tubarao Martelo, we have one well that is down. Well number 8, Tubarao Martelo 8. This well had been producing from the very beginning of the field and the pump failed to produce for seven years. And then it finally, failed and now, we need to carry out a work over. However, the worker over requires that rig that we acquired last year and that rig is going through an overhaul and that caught us a little by surprise. But MUP3 and well number 8 at TBMT, these are routine for us. These are operational and expected things. We'd like to report it, because we want to be transparent with the market, but this is our day to day.

What is it kind of a now wire, is the performance of the FPSO at Polvo. Polvo is performing sometimes under a 90%, in some months and that is too low and I would say that this is a point to be treated FPSO with Polvo, because we know we are going to have the FPSO for another 60 days. And then we'll start using the FPSO at TBMT, which is showing excellent performance, since we acquired the FPSO, regarding Brent oil price.

Today, we're operating Frade at a discount of \$1.5 to \$2 for Frade, and for Polvo and TBMT. We are running up levels of \$3.5 or \$3 discount around that range. We might have one offload of 500,000 barrels before July and it should be -- should have a greater discount, because that oil had only a little bit more water than maximum acceptable is 1% and this one has a 3% to 4% water content. So the discount will be a little higher. I've been using this oil, we've been using this oil for bland and for the off take. So, we always sell the oil with 1% water content, but not with the transfer of the FPSO. So, we might have to sell it all at once and there will be a greater discount, but still a one-digit discount.

Nothing out of the ordinary, but a little higher. So, this is what we expect in terms of brand oil discount. So, things are unfolding well. They are normalized and we are almost back to IMO 20 in pre-COVID times. So, I think that we are at good discount levels. Regarding Albacora, so far we haven't seen and we haven't identified any change going with Petrobras. We know the bid will happen in July to date is expected to happen in the first half of July. Now, we don't know whether this is going to be pushed forward or not, that's not under our control. But I would say that it is expected to happen in July, perhaps in the first 15 days of July. We haven't noticed any change in Petrobras attitude regarding this process.

Though still -- we don't have anything to report. And regarding BV, we submitted a proposal to them, a binding proposal for the acquisition of the field, and they are now in their decision-making processes, things are a little slower. Sometimes it's a little frustrating, but truth is our proposal for strategic reasons had a longer -- our purpose, I had a longer-term, so they have more time to make an internal decision. It's not really, IBV's decision. It's the decision of the partners of IBVs and Indian companies. So, this is where we stand, I can't really predict what they're thinking. But yes, they do have a proposal from us and if they are interested, they'll sell.

Q - Christian Audi {BIO 1825501 <GO>}

Excellent. Very clear. Thank you very much for all the details and congratulations one more time.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you, Christian for the questions.

Operator

Our next question comes from Pedro Soares with BTG Pactual.

Q - Pedro Soares {BIO 20879952 <GO>}

Hello Roberto, Francilmar. I have three questions from my end. The first regarding the new drilling in the Eocene. If you can comment on the decision-making process, of course, it includes a number of things? But I would also like to know regarding prize evolution, whether it makes you comfortable to proceed with this new drilling, perhaps you can give us an expectation of the oil production from that well, and the CapEx involved. That would be quite helpful if you can give us some color whether it makes sense with all of them macro conditions. If it makes sense to perhaps expect more such drillings along this year. The second question is regarding off takes. You explained in the release, while you had a reduction in the first quarter and the second quarter looking for the -- should we expect a more gradual evolution perhaps not increasing too much in the second quarter? Or perhaps to increase in the second quarter to enjoy more favorable prices, perhaps if you give us, if you could give us some color on that?

And the third, as a follow-up question regarding the lifting cost and everything that impacted TBMT and Polvo. I believe that TBMT will still feel some of these effects for a while. What can we expect regarding the company's lifting cost in Q2 or until you complete the poll for Tubarao Martelo tied back. Should we expect the listing cost to remain at this level or perhaps with the Frade additional production? It could be closer to the third quarter of last year. And now, could you give us some color on what you expect? Thank you.

Operator

Please hold. You may proceed, sir. Please hold. The executives may proceed. Ladies and gentlemen, please stand by. Ladies and gentlemen, please stand by.

The executives may proceed now.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

All right, thank you. Pedro, I'm sorry. Can you hear me?

Q - Pedro Soares {BIO 20879952 <GO>}

Yes, we can hear you.

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A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Pedro, I apologize. Buddy, you were asking about the offtakes and how many offtakes we would have in the second quarter? Yes. It's about the evolution of offtakes would make sense to imagine something more gradual towards the end of the year or if you expect higher volumes. And finally, related to the first question regarding TBMT, Polvo issues, imagining that TBMT will still have some problems for a while until the rig arrives on site to carry out the workovers. Does it make sense for us to expect lifting costs close to what we've seen in the last two quarters or perhaps with the 30% stake of Frade that might be an upside and perhaps a stronger reduction in lifting cost even before the workovers carried out, and the tie-back is completed. All right. As regards the decision-making of Polvo and Frade. Hello.

Q - Pedro Soares {BIO 20879952 <GO>}

I can hear you.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Okay. Sorry, the phone was ringing. Well, of course, it takes into account, the price the fact that the Brent oil prices at a more constructive level worldwide now. But we have to remember that this well costs \$13 million, \$14 million, even less than \$13 million even today. We were considering something around \$10 million to \$11 million, and it is a well that can add production, 2,000 barrels to 3,000 more barrels a day. So, when you do the math, the well is repaid very quickly. The return on the investment is very fast. And that is why we will take this into account, Francilmar and his team in the last few months, have been evaluating the reservoir. They did a geological reservoir of our -- reservoir engineering team worked on that to decide on this infill drilling. We're drilling on the Eocene reservoir.

So, it's almost an infill drilling, but it's a new region of the same reservoir that hasn't been drained yet. And all of that gave us a lot of comfort regarding that well. Now looking forward, our goal is to have that well operational and then we'll handle the workover of Tubarao Martelo well number 8, the one that had a fail in the ESP. Then, we'll have to Tubarao Martelo well number 10 operational again, that one that has been operating for a while. And then we should start with Frade, we're still in doubt whether we should drill another such well before Frade's campaign, but we haven't decided on that yet. The reservoir people will look into that in more detail, but it is possible that will drill another similar well, before Frade. But we want to see how this well that we're drilling will behave. Regarding the offtakes, we imagine that for the second quarter between 3 million to 4 million barrels sold, that's what we expect and it's going to be more than the first quarter. So that's the second part of your question. The company is effectively producing more. So, we are going to have more offtakes.

In this first quarter, in particular, we had 2 million, also because we wanted to replenish our inventories, because last year, our inventory went down. As it happens in all months of December, the fourth quarter is always very strong. So, we'll resume the offtakes in selling between BRL3 million to BRL4 million. As regards the lifting cost, we expect a reduction starting in the second half of the year. Of course, now, we have our lifting cost of Tubarao Martelo, TBMT. We have a scheduled downtime of the FPSO at Frade. We have to certify

some vessels cleaning that we need to carry out. So, the FPSO is going to be shut down for approximately eight days. It's happening as we speak. So, this quarter will still have that stoppage, although we probably will have some production from the well, that is being drilled. So, as of the third quarter, we should see a reduction, because of the tieback \$50 million a year that will leave our old packs. So, we should see a reduction in our lifting cost.

Q - Pedro Soares {BIO 20879952 <GO>}

Very clear. Roberto, Thank you. Thank you for the answers. Thank you, Roberto.

Operator

Our next question comes from Andre Almeida with Itau.

Q - Andre Almeida {BIO 6708290 <GO>}

Hello, Roberto and team. Thank you for taking my questions. I have two questions. One has to do with the Polvo tieback. It is expected to be finished by July, can you tell us about the process? How it is evolving, if it is going as planned and what are you learning with this tieback project that can be applied to the Frade tieback? You gave us some information on that, but I'd like to understand what the process is like and if it's according to plan and what you expect looking forward?

My second question is regarding M&A. You have the follow-on, you have a lot more firepower today. But when we look at Albacora, the news are indicating more losses than expected originally. So, could you give us an idea of what you would expect in terms of the M&A market, their new entrance? And perhaps, market players being a little more aggressive. What can you expect?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you, Andre. First I will speak a little about the TBMT tieback then I'll speak about M&As. Andre this first big project is indeed being all -- it's bringing us a lot of lessons learned. We are trying as much as possible to optimize resources. We have to remember that when we talk about tie-back, people talk about 24 months to execute. And since the beginning, we tested the market and we wanted to do it in a lot less -- 12 to 14 months and the results so far overall has been very good. We've delivered to the plan and had some positive surprises. The suppliers are performing well and that will help us with flexibility with our suppliers for the Wahoo tieback. We are at an advanced conversation stage with some suppliers and that will give us even more comfortable for the Wahoo project. So, things are unfolding really, really well. I would even say that the project has been easier than we imagined for some. I will never let me say that, but the project is being executed according to plan on schedule. So, the process is well under control.

As regards to M&As, we had a follow on, we are financially sound for sure. And what I think is what we didn't do the follow on are only for Albacora, we had to follow on, because we have a market of mature fields out there that is a very relevant market. Albacora is not our only target, it's not our only everything or nothing. What we have seen

generally speaking is that there are many companies that are capitalized. However, they are still very much focused on Petrobras processes. Our goal is to have bilateral projects that perhaps don't include necessarily Petrobras.

From that standpoint, the market for us remains intact, I have a lot of investment possibilities and we are working on them, Wahoo, for example. In the past, I used to say, I want to buy a 100% of Wahoo and this is what we are pursuing and this is a totally bilateral process, it's capital intensive, not only for the acquisition, but for the investments that come next. And there are some other investments, I cannot give you a lot of detail on that, but we are very positive. It's a positive moment for the company and for all of us.

Q - Andre Almeida {BIO 6708290 <GO>}

And Roberto, you mentioned buying outside the scope of Petrobras. What about your partnership agenda? You don't have a lot of partners and you want to remain as operator. So, what do you think in terms of partnerships for new assets with existing players in Brazil or new entrants in the market?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

We don't have any problems regarding partnership. So, we actually like partnerships. What I think is important is that the partnership be with people with players and partners, who think like Petrório.

In the case of Albacora, we have a partnership forged with a Spanish group. This is public information. So, we signed a partnership with them, in which we would have 50% stake and be the operators and the partner would have the remaining 50%. So, we like this kind of idea of partnerships. We are open to partnerships. But in some situations, as is the case of Wahoo and Frade, it made more sense for PetroRio to acquire a 100% of the assets to hand over the turnaround, and the same applies to Tubarao Martelo. But in the future, we might have partners in these fields, and even in large processes like Albacora, no problem with that. We don't refuse partnerships at all, but we need partners that think alike.

Q - Andre Almeida {BIO 6708290 <GO>}

Perfect. Very clear. Thank you Francimar and Roberto.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you for the questions.

Operator

Our next question comes from Jesus Cardoso with Credit Suisse.

Q - Jesus Cardoso

Hello, Roberto, Milton, Francimar. Thank you for taking my questions. I have follow-up questions on topics that were addressed before perhaps, the answers will be shorter

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because of that. First, we always discuss cash position, net debt. The company still has commitments if you want to acquire the remaining stake of Wahoo or to handle drilling campaigns. So, my question is, how do you see today, the firepower -- the power in your balance sheet? You mentioned \$1 billion -- perhaps \$1.5 billion dollars, how much would PetroRio have brand new acquisitions to have all the M&A strategy. Another topic has to do with the timing of projects. Which one of these projects share resources, particularly rigs. I just want to have a sense of what needs to be done in parallel, what can be done in parallel? What needs to be done sequentially? Perhaps, you can use the same rig for Frade and for the tieback between Polvo and Tubarao Martelo. That would be my second question.

And the third follow-up question is regarding TBMT tieback, the risk of delays. Any chance that the delay will extend beyond the end of the contract with BW FPSO and if that happens, what is the alternative? And also, if you have other players that were initially focused on offshore and are now turning to onshore. Are you thinking of going the other direction in the inverse direction? Or do you prefer doing brace even bigger projects in ultra deep waters similar to major oil company projects with larger projects?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Well, from the standpoint of cash, firepower, M&As; today, we have a couple of structure of \$370 million, \$360 million, but this is a short-term debt. So, let's imagine that we get this debt and turn it into long-term debt, which is a discussion we are having as we speak, whether it makes sense to issue a bond of \$400 million to \$500 million, because that would be a more structured five-year term debt. With that, we would have money available, because it's hard when you have 12 months alone, it's cheap loan. But you can't fully countdown that, because the banks may enter those loan facilities. So, let's imagine we showed bonds and we have the kind of money, then I believe the company would have firepower to invest \$1 billion.

We are now already very well prepared and if we want to make adjustments to our capital structure and if we want to push our debt more to the long-term, that's a possibility we are considering then we talk about a firepower greater than \$1 billion or a little more than that and that will take us to a whole new league for big fields to be acquired, important fields to be acquired. And I'd like to remind you in the case of Albacora, our goal is to have a partner. We are not resistant to have partners and as for synergies, it's very different when you talk about shallow waters and deepwaters. Shallow waters in the case of TBMT and Polvo. For shallow waters, we have a rig, but that rig only handles a workovers in TBMT and the fixed rig handles workovers at Polvo. And it is the same team that operates both rigs.

So here, we cannot have up at the same time, we cannot complete a well at TBMT and another one that Polvo the same time. We can't do it at the same time. At least, that's not there thinking right now, we would need to increase our crews and give more muscle to our crews. We still believe it's better to do it sequentially for now. And in deepwaters, that's a whole new game. That's more in line with Frade and Wahoo, the same (inaudible) that will handle the drilling campaign. The Frade will have all the drilling campaign at Wahoo, the sequence will drill first at Frade and then Wahoo.

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We could do both in parallel, Frade, the deepwater cluster together with a shallow water cluster, that would not be a problem. We're not doing it right now, because of the focus, it is our first time handling such a big project, so in because of over to Tubarao Martelo tieback bank and the workovers. We need to handle that first and then Frade later, we didn't want to do them both. It would be easier to do something in parallel in shallow waters and in deepwaters, but it was not a registration. And we will continue to work in shallow waters until the end of the third quarter and then the end of the third quarter most likely, in the fourth quarter, we will start the campaign at Frade in deepwaters, and then we'll start drilling at Frade and then move on to Wahoo and so on and so forth. You asked about delays. Delays in the tie-back project. Yes. Today, what do we have to do? All of the materials have been commissioned, they're all being built. We even included a photo of the assembly line being built. The studies are ready.

So, what I can tell you is that today, it is very hard that there will be delay in delivery of materials and equipment, things have been done. COVID around the world is going away. There are things we manufactured in the UK, in Portugal, COVID seems to be a little more under control. We are not seeing any plants stopping, because of COVID. So, it seems that everything is pointing to on-time deliveries. We will receive our flexible lines in the end of May and is one of the photos in the release that coil with a flexible line around it. That's one of the most important items, umbilical lines.

So we'll get that in the end of May. We have to -- we have to query them in customs and install them. We have put forth. So, the support vessel and it is confronted and it is recovering lines that we have there in that deal with Polvo, we kept some lines and some lines have to be recovered at the Tubarao Martelo and they're removing these lines with this vessel. So, the vessel is in house. So, we just need to receive the whole equipment and install the older flexible lines. So, the possibility of delay is unlikely.

Having said that, our contingency plan would be to see to negotiate tariff with BW. If it comes to the conclusion and then we need to spend more time with the FPSO, we'll negotiate a tariff with BW, that is compatible with the situation. I don't expect it to be \$100,000 a day as we pay today. But yes, there's this possibility. I mean said, again, I stress a delay is very unlikely as regards moving to onshore, just no, we don't have that in our radar, that is not in our radar room. I believe that onshore can be profitable, can be interesting, but it is a different type of company, it's a different mindset. Francilmar and I have had that kind of conversation over and over. It's a different type of operation. This is a singing, an acting operation, while offshore is moreover planning reservoir engineering operation. These are two very different things and we believe that we still have a lot of room to grow in offshore. At the moment, it doesn't make sense to look at onshore. At the moment, we see some companies rehearsing to move from onshore to offshore, that's something they should look into very thoroughly and carefully, because we are talking about two different beasts here. We are not thinking about going onshore. Petrobras is divesting in that area. We know a little bit about it, but we didn't get excited about that, because we believe that it is a totally different type of operation. It requires a totally different skill and as regards ultra deepwaters. We're already operating deepwaters. We operate in mature fields. So, we might have a mature field in deepwaters or in shallow waters, as time goes by, mature and fields will be an ultra deepwaters.

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Now today, ultra deepwaters are immature fields and that's why they are not part of our scope of action, but our goal is to operate in mature fields. When we find mature fields in ultra deepwaters, we'll look into those. Now, giving up return to do more business, I don't see that happening at PetroRio. It's not our idea. Idea is to maintain return on investment. And that's why we focus on mature fields. We don't tackle exploration and nothing different than the operation of mature fields. So, this is what we know what to do is a one trade party. That's what we do. We operate mature fields and we'll continue to do that with the level of return that we have today. This is our mindset.

Q - Jesus Cardoso

Thank you. Very clear. Very well explained and I think that the risk of delays is mitigated. Thank you very much.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you, Jesus. It's been a pleasure.

Operator

Our next question comes from the webcast by Phillippe [ph].

Q - Analyst

Good afternoon. Thank you for the call. At the beginning of the presentation, Roberto mentioned that the lifting cost that fell below the company's expectation. However, a simple calculation of OpEx suggests an annualized cost of around a \$160 million versus an expectation of a \$180 million, \$190 million expectation. In addition to foreign exchange, what other factors explains this performance?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Hello, Phillippe. Thank you for the question. Good point here. Today, our running rate and if you multiply it by 12 or by four quarters, we would get close to a 160. But we've been guiding the market, guiding people to something close to a 170 million. This 10 million difference from 160 to 170, well 180, 190 that would include contingencies, but the number we are pursuing as a 170 million in this delta, 10 million delta relates to shutdowns. So, we're going to have a shutdown that Frade, as I mentioned some time ago and it is happening now. And the shutdown costs \$5 million. So, it is on top of the 160 million and we're going to have another shutdown at TBMT, because of the tieback. It will not cost 5 million, but there will be another shutdown. So, it will be between \$160 million and \$170 million naturally. Of course, there is the Foreign Exchange in fact that helped us a little, but this is what we're thinking pursuing running costs of a 170. Actually, we won't end the year at 170, because in the middle of the year, we'll eliminate the Polvo FPSO. So we'll have to make adjustments, but the running rate would be around \$170 million. And after that, we would have to exclude the second half of the year of the chartering of FPSO Polvo. So, the cost for the whole year should be a \$170 million minus this \$25 million around that. And for next year, something between 110 and 120, that would be the OpEx running rate for next year. Customer is laughing. He is sitting next to me, but that's the number that we have in mind.

Operator

The next question comes from the webcast by (inaudible).

Q - Analyst

Are you considering to the possibility to issue a new bond?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Hello. This is Roberto. Yes. We are considering to issue another new bond, but one bond never issued any bonds, we have 370 million in debt, considered in the very short term and yes, we have considered the possibility of issuing a five-year bond. This is the follow-on. We've been thinking about this. We've been analyzing this. We talked with many banks. I guess it started in February -- from February to present. We had spoken with more than 30 players, getting their feedback, understanding the rates, the costs, the fees, and we are looking at the possibility of issuing a bond and we're considering it. There's a possibility of an education of the market regarding PetroRio, and it's all maturing more and more we expect to be able to do this in the coming months.

Operator

This concludes today's question-and-answer session. I would like to invite the executives to proceed for their closing statements.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Well, I would like to thank all of you for joining us. I want to apologize for the technical glitch we had in the middle of the call, but technical glitches do happen. Thank you very much for joining us and I hope to see you in the next quarter. Thank you very much.

Operator

That concludes PetroRio's conference call for today. Thank you very much for your participation and have a good day.

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