

Q3 2021 Earnings Call

Company Participants

- Milton Salgado Rangel Neto, Chief Financial Officer
- Roberto Bernardes Monteiro, Chief Executive Officer and IRO
- Unidentified Speaker

Other Participants

- Bruno Montanari
- Christian Audi
- Gabriel Barra
- Pedro Soares
- Regis Cardoso
- Vicente Falanga

Presentation

Operator

(Foreign Language) For those who want to follow us in English, a free translation of the presentation is available on the PetroRio IR website. We also have an interpreter for simultaneous translation of the presentation is simultaneously translated into English. The presentation and comments on the results will be presented by -- CEO Roberto Bernardes Monteiro, CFO Milton Rangel; and COO Francimar Fernandes. They will present the company's results and will then be available during the Q&A. (Operator Instructions). The bottom of your Zoom screen. This event is being recorded, and will be available on PetroRio's Investor Relations website.

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

Now, we will start the presentation with Roberto. Please go ahead.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

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Good day, everyone. Welcome to Petro Rio conference call to discuss our results. I would like to start this meeting with a big thank you to Petro hill team. The whole Petro hill team. Because in the third quarter, we were able to achieve a very important goal, which was a vague connection between over field and Tubarao Martelo field, for famous tieback between the two fields.

In addition to the operating result, which has been giving us very positive numbers as we will see later on the call. This achievement is very important because it shows their DNA, which is the think out of the box and to realize our dreams. So thank you very much. I know this has required a huge effort, by the whole team. Team not only the operating team but also the administrative team or bit through staff one way or another got involved in this business. And with that they helped the company --

(Technical Difficulty)

because the tie-back was completed in mid-July.

So the month of July is rather contaminated with general costs related to that. So as of September, we started to refine the operation and derive better numbers. On the bottom graph, we can see the comparison between the Brent and the Lifting cost. Once again, the Brent price is not something we managed. So this is just for reference, but obviously impacting the profitability of the company. But we have to focus a 100% on the lifting cost.

And this cost could have been a lot better if it weren't impacted by some production downtime. Some were scheduled other stoppages were in this stuff is just were not scheduled and that impacted the total cost of the company and as a consequence, the lifting cost. But we are confident that the next quarter's will be a lot better.

Moving on to slide seven. Let me give you more detail on the performance of Friday field. In Q3, we can see on the graph on the right that it showed a substantial improvement of art due to the recovery after the scheduled stoppage in Q2. This unit had remained, in production without downtime, since 2018 if I'm not mistaken, and we had to have an important shut down in order to do some work and scheduled maintenance.

We were able to return our operating efficiency to close to 99%, which is something that we always pursue at Friday, given the can good conditions of the vessel operating there, in our team. So all of that helped to the asset, first the good production despite pressure of natural decline on the reservoir. That's something that we can only recover when we started having the new injection wells working recovering energy, and that will help, and when the production wells start producing, which is scheduled to happen next year.

It is worth mentioning that in this quarter and Mitchell [ph] we started injecting into to the old water injection wells set the field after we obtained authorization from the relevant authorities. But this injection is basically to help reduce the decline rate. So, every day there is more pressure goes down a little, and as a consequence production is reduced.

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We are able to inject very little, but it does help some. So the field have been producing for over two over 2 years with excellent efficiency and safety numbers, and we are doing quite well that Friday. Moving on, to give you more detail regarding a big project that we have going on for the company right now, which is the revitalization program of Frade Field.

We continue to move ahead full steam, we have to re-contracted, we have all drilling services already contracted. The rig was contracted under a flexible contract. So we can use it both for the first phase at Frade Field and Wahoo, with its four wells, and we have an option to go back and carry out the second phase that Frade, which will depend a lot on the results, and on the project portfolio of the company looking forward.

Here in this image on the left, that you are used to seeing. This is a schematic view showing way, we will be drilling the wells. So phase number one will be basically ODP4 in a vertan reservoir. It is expected to flow first to oil and injection well which are our priority on both flanks of the field in these specific reservoirs.

The redevelopment plan has already been approved by ANP. So now we are focusing on the details of the project, such as well design, how we are going to drill? Subsea interventions with these wells and operation and all the other operating details that are required to be in place.

Now, let's move to Slide number 9, where we will elaborate on Polvo and TBMT Cluster. We had a lot more activities in this Cluster in Q3. Here I think it's worthwhile explaining conceptually that here at Petro Rio, we consider operating efficiency everything. The ratio between production plant and actual production considering scheduled, downtime, wells, subsystems and the performance of the vessel the FPSO. Some countries focus only on the FPSO, but we look at everything.

And another important thing is that in this asset, we have 20 wells producing through ESPs, which are electrical submersible pumps, and these pumps have a given service life of around 1000 to 200 days, and then they fail, we have 20 wells and eventually, one ESB might fail, and we have to have a system in place and we do to work or to repair these bumps and have them back in production as quickly as possible.

In this quarter, we suffered some pressure first for these scheduled stoppage ata Polvo Alpha as we've seen the macro graph, where we consolidated in this quarter and operating efficiency of 82% to down below. We broke it down. So just to give you more detail. And you can see that over alpha has a lower efficiency, because it spent practically 13, 14 days stopped during a month and that had a big negative impact.

In addition, we had problems in the povel wells, because it has more wealth and production is slower, we felt a little less. We had two wells that stopped in Q3. We carried out of work over in one of them, it started producing again. And at TBMT where we have only a few wheels. We were operating with five wells, now with a straight of wells number 10 it is operating with six wells, everyone that stops has a big impact on production. So to give you some more color. At TBMT, we've had well number eight offline since March.

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We had that fishing problem, which means when a metal part falls in the well, we have to kind of fish it out. We have to remove those objects to install the ESPN to restart production. This hasn't been possible yet with stop the pump to like of material, there it was relocated to well 10 completed, well 10, and when the completion and connection were complete well 10 started production, now in mid-October.

With by the way excellent throughput. I would say even better than we expected. And their big impact to well 8, to complete the fishing work, and solve a bump and resume production, which I expect to happen in the coming weeks. In parallel to have -- we had a problem in well 2 that went offline, at to be empty. After an investigation with discovered, that the problem was in the subsea system more specifically in the UTAU umbilical termination assembly, installed on the seabed. We are looking to repair that. And I believe that in the coming weeks, we'll be able to solve the problem and resume production ever well.

Other than that, Polvo had some shutdowns, particularly in well number 12, but these are a regular work over is with a rake, we currently have 2 trillion rigs, one that stays at Polvo-Alpha platform on which handles Rickover's and pump exchanges at Polvo, and looking to maker which is ready to replace pumps at TBMt. So, this is normal, it's part of the life of this asset.

We believe that as to repairing all this will be in a better position, which will translate into a better operating efficiency in the coming quarters. Here, I believe I should make special reference to the performance of FPSO Bravo, we can see it on the bottom graph on the left and we see that unlike the old FPSO Polvo, FPSO Bravo performs really well with an operating efficiency of over 97% full-time.

So undoubtedly, after we solve these issues in the wells, we will see considerable improvement. On Slide 10, we want to give you more detail on the tie-back that was completed in July. We executed the project to connect Polvo Alpha platform with FPSO Bravo, installing the production line, the umbilical that entails the whole energy piece, and we were able to do it on schedule. We had plenty to do it in one year with all the pressure. We ended up finishing the project in 11 months, on budget and on schedule. So this was already foreseen in the contract and now with the tie-back in the this cluster 95% of production is ours and 5% remains with Domo.

This photo on the right is for you to appreciate the size of the flexible lines and spools which are huge and we handled that kind of work at the field. Well, let's work helped us a lot, collect a lot of data and lessons learned. That will be the foundation to be used in the future tie-back connecting Wahoo and Frade. Our in-house team has captured that experience and I believe that this will be very helpful.

Now let's talk about Wahoo block where we continue to hold a 64.3% working interest of the field with the previous two space acquired. We have strategy the negotiation phase with our partner in the block to discuss the development plan DP, which is basically ready. We have submitted our version, it's negotiated to be finally submitted to the agency, so

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we can move ahead with the next steps declaration of commerciality submit the development plan for approval and so on.

From the technical standpoint, which happens in parallel, we continue in deep discussion regarding well, the wells project is quite advanced we have already contracted for rig and drilling services. On the other hand, the subsea system and which is the tie-back itself is also at a final stage of negotiation with some companies having submitted proposals regarding the type of technology and how to execute.

We are at the final stage to define our partner for this project. So all this moving ahead as expected. And I hope that in this quarter we were able to discuss all these points, so we can proceed with the commissioning of the equipment to formally submit the project to ANP for approval of the development plan.

I now conclude my participation, and turn the floor to Milton.

Milton Salgado Rangel Neto {BIO 22228864 <GO>}

Thank you, Francimar. Good afternoon, everyone. To continue our presentation, we are now on Slide 12. We'll speak a little about our financial performance in Q3, and in the nine months of 2021. Looking at the first Group of columns that exclude the effects of IFRS 16, and this is one way we like to analyze our results. We see revenue of approximately \$940 million BRL on the back of 2.5 million barrels sold. And when we compare that with Q3 2020, we observe an improved scenario as well as a better oil price that were quite relevant. We had an average sale price before a discounts in this quarter of around \$74 per barrel, while the same average prior to discounts in Q3 '20 was \$43 per barrel.

So it recovery, which reflects a significant improvement in revenue, more engines, and so on and so forth. As we will see. At the dirt totaled, a little over BRL560 million with an EBITDA margin of 60%, to be highlighted on this table is our financial revenue, we actually have a relevant financial expense, and this is related to a non realized foreign exchange of variations. That doesn't mean that we effectively lost BRL433 million.

But this is market-to-market and since BRL3 Brazilian can be real depreciated visit Visa dollar and we have liability is in dollars. This marked to market is done in this way in this quarter, but still we reported net income totaling around BRL125 million and adjusted EBITDA of almost BRL550 million in Q3 with an adjusted EBITDA margin of 58%. We like to analyze adjusted EBITDA because excludes non-recurring and non-operational effects.

So here's a snapshot of our Q3. Here today to we see total revenue of around BRL2.6 billion a very substantial number. I'd like to remind you if I had in the nine months of 2020. We sold a little over BRL1 billion. So the company is in a totally different level now with increased production with new projects and new acquisition and a higher Brent price as we mentioned. Year-to-date EBITDA margin of around 59% and an adjusted EBITDA of BRL1.6 billion with a 62% margin a very strong result, quite a good recovery compared with 2020.

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Moving on to the next slide, Slide number 13. I'll explain a little about the companies funding. Starting with a graph, on the left side of the slide, we show the average duration of the company's financial liabilities, the company's debt. In this quarter, we had basically two types of debt. One is the bond, which is our main debt, \$600 million and we have another debt for working capital that we are amortizing now in Q4 but for this analysis, Q3 takes into account a debt duration and average debt duration of the company of 4.33 years.

So, this shows, if you have been following Petro Rio for long enough, a great improvement and extinction of the companies that profile giving us a lot more room, a lot more liquidity for our projects in the coming years with peace of mind in to pave the way for the company's growth without financial liabilities knocking on our door in the short term.

So we continue on our strategy to fully repay our other debts other than the bond because currently they are no longer necessary and we do not want to doesn't make sense to keep paying interest on capital that we don't currently need, and we can see on the graph on the right of the company's quite comfortable situation, we have cash totaling BRL4.5 billion, and total debt obligations of around BRL3.5 billion. In other words, a net cash a little over BRL1 billion, putting us in a very comfortable position in terms of liquid and solvency.

Now, moving to Slide 14, to explain specifically the variation of the Company's net cash in a quarter-on-quarter comparison. We see that the Company posted an adjust EBITDA of around \$105 million. We use the good part of the cash generated for for the acquisition of Wahoo. So we made payments to Total and BP, referring to working interests acquired from in the past.

We also had our CapEx spending on account of the tie-back completion, we also have some drilling activities at Polvo, as well as some activity at Frade, in addition to the completion of TBMT-10, which required a little CapEx plus we paid some taxes. I mean that is expected when the company generates profit, that's business as usual. And financial expenses referring primarily to interest paid by the company in the quarter and the payment of hedge premiums.

We had contracted hedging some months ago and payment is deferred. So part of the payment was made in Q3 with that we ended Q3 '21 with net cash of almost \$200 million inline with the prior quarter showing that cash generation is helping Petroleo make a number of investments and such.

Now moving on to Slide 15. This slide is about leverage. On this chart we see that Petro Rio is currently in a very comfortable situation. Since Q1 2021 when we had our follow on a primary public offering of shares we raise the lot of cash and with that we reduce the leverage of the company substantially. I would just like to highlight here some information that is public knowledge.

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We have a bond covenant that allows a maximum leverage of 2.5x. The fact that we are at minus 0.5 times, gives us some firepower, that is very interesting for new investments, new acquisitions, and so on and so forth. So, the company continues to generate a lot of cash, and reducing more and more our leverage if the company is ready to make new investments in a sound manner from the financial standpoint. And I think that this is noteworthy for those of you who follow us.

Well then, I end my part of the presentation here, and turn the floor back to Roberto, who will speak about our next steps. So, thank you very much.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Milton, thank you very much. And I will proceed towards the end of the presentation addressing the next steps. I believe they are well known to all of you. Miss speak about this all the time. But, it is always good to make it very clear to all of you, where the company is heading. I believe, the first next step is as always and we have been talking about this every quarter, a constant focus on health and safety. Obviously, safety. There's no operation. There is no Petro he without safety. There is no operation, if we are not safe.

But we are still living with the COVID pandemic. So we will keep our guard up, we expect this reduction in number of COVID cases and deaths has come to stay. However, we will keep our guard up as we have turned in all recent quarters, from the operating standpoint, which I most relevant things to be executed in Q4. Number one priority is to finish the work over of to wealth into Tubar?o Martelo. Well number two and well number eight in this quarter. I believe we are almost there at TBMT-2 and TBMT-9, I believe it is expected possibly by December. In addition, we have the preparation to start a very drilling campaign at Friday next year.

We will be drilling three wells at Friday when production well and two water injection wells. Obviously, the whole preparation starts way ahead. We are currently in this preparation phase for Friday field. We are also in the preparation phase for Wahoo field. We are in the phase of declaring commercial a team. We expect to have the fields declaration of commercial ready by year-end in our consortium, we'll have a step-by-step approach for this to happen. So we are going through the different steps, and we expect to have declaration of commerciality by year-end as we have stated over and over. So that we can start executing the Wahoo development project soon after Frajin.

And finally, a great focus on mergers, and acquisitions and inorganic growth. As you all know, we participated in the Albacora, in Albacora East Process, we are of course very excited about these fields and the possibilities they bring. We now have to wait for the final outcome, but I would say this is a very hot topic in terms of inorganic growth for the company. So, thank you very much.

And I would like to open the open the floor to questions.

Questions And Answers

Operator

Question And Answer

A - Unidentified Speaker

Good afternoon, everyone. We will now open the Q&A session. Some people raise their hand to ask question. So we'll start with a question by Pedro Soares with BTG. You can go ahead, Pedro.

Q - Pedro Soares {BIO 20879952 <GO>}

Hello, everyone. Can you hear me now?

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

Yes.

Q - Pedro Soares {BIO 20879952 <GO>}

Great. Hello, Roberto, Milton, Francilmar, everyone. I have two questions. The first has to do with the lifting cost. You mentioned that you should continue to capture improvements with the completion of the tieback that happened in mid-July. From now on, the company should be able to serve a better wave of potential lifting cost reductions because this will start being reflected after Q3. But as you mentioned, TBMT has suffered with some operational issues, the two wells that we talked about and that kind of got in the way.

I would like to hear from you perhaps you can give us more granularity, in terms of what kind of lifting cost reduction per barrel we could expect for Q4? And in an alternative scenario, if these two wells have been normalized, how could we quantify the potential reduction in the lifting cost today with the tieback? That's my first question.

My second question has to do with hedging. In the second quarter, you talked about some put options that you had purchased for the next month. It offered a cushion for up to 50% of October sales. And in this quarter, you didn't mention that. We know you use this approach basically as a protection mechanism. But perhaps you could tell us if you changed the strategy for November, December, if you have purchased put options?

And one last question, if I could ask about Wahoo. Any development regarding the positioning of IBV, if they will participate in the development of the plan? If I'm not mistaken, this was expected by year-end. So if you could elaborate on that, I would be grateful. Thank you.

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

Thank you, Pedro. I will start and Milton and Francilmar will help me. Let me start with IBV. We have a joint operational agreement and JOA with them and this contract entails a procedure that needs to be followed. And we are, of course, following the procedure. So we have the initial submission to IBV in terms of how we see the field, expected production at the field and so on and so forth. So we're still following the procedure.

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There is some time for your analysis and there is another 60-day timeframe for them to get back to us and also, everything related to contracting will depend on how the contract will translate into action. What I can tell you is that we continue to be very optimistic and excited about the field and we are following the contract, that JOA exactly what it says, how things should be done and so on and so forth.

Our expectation is that they will be analyzing the field, and then they will make a decision. If they want to follow us, if they don't want to follow us, but our expectation is to eventually declare commerciality, possibly in the next few months.

So, there was no great progress in that regard. But our work with IBV continues to happen in the regular way according to the Joint Operational Agreement. There's nothing very different than what we have said in prior quarterly calls. As regards the lifting cost that we still haven't captured 100% of the possible synergies and for two reasons. First, we finalized the tieback in July. So, July is a month that was contaminated by expenses. We still have to make some adjustments in the FPSO regarding gas burning. So we can migrate as much as possible fuel to gas. So it's all being done. But all in agreement with what we are thinking, but this is still being executed, I mean, this final refining.

And there was the production also. We posted 31,600 barrels in the quarter, the highest in the history of Petro Rio, it fell below our expectations. But when we get well number 8, well number 2 now with the addition of well number 10, all of that will help the lifting cost. It is \$12.3 month per barrel. Our guidance was that the lifting cost would be between \$10 and \$12. And I think that in Q4, we should be able to halve our lifting cost between \$10 and \$12 per barrel. If everything goes well, if production materializes as expected, and if we can finalize that fine-tuning, perhaps it will be closer to \$10 than \$12. But it would really depend on how things will unfold. There might be some monthly variations, but the lifting cost is currently at \$12.3 per barrel and have a downward trend. Whether we are going to be able to reduce dramatically to close to \$10 at end of the quarter, that remains to be seen. I believe these things are gradual but continuous. What I can tell you is that we are very excited in that we have more benefits to collect related to the lifting cost. Anything you would like to add?

A - Unidentified Speaker

No.

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

As for the hedging strategy, Pedro, it's easy to say we had -- we purchased hedging last Friday. The dollar was at 85, actually was 86 in mid last week; the next day, it dropped to 84 if I'm not mistaken, then it went back to 85, so we hedged. The company is now hedged for the next six months, the same policy as usual, six months of hedging, the first half 100%, the second half, 50% of the volume. We did buy put options since volatility is high, the prices were still high, high strikes, high volatility, which is not to hedge too close to the future curve, we did it slightly below the future curve. We are hedged in amounts that range from 76 now to 72 more towards April of next year with a strike of 72 in April of 2022.

So this is what we did. We remained firm in that policy. We talked with the Board of Directors and we thought that it was wise to hedge the company although volatility was outside normal parameters. We normally hedge the company when volatility drops. But we thought, but there was a premium, there was a prize that made sense, so we did that to ensure a minimum cash flow for the company looking forward and we bought put options as we always do.

Q - Pedro Soares {BIO 20879952 <GO>}

Excellent, Roberto. Thank you very much. All very clear.

A - Unidentified Speaker

Next question by Bruno Montanari with Morgan Stanley. Go ahead, Bruno.

Q - Bruno Montanari {BIO 15389931 <GO>}

Hello. Thank you for taking my questions. I'd like to know if you can elaborate on the next steps for the Albacora process? Is it in line with what we could expect? And is there anything that you can do faster to enjoy the positive oil price cycle, perhaps accelerated project or do something differently to perhaps capture and build on these higher oil prices? Thank you.

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

Thank you, Bruno. As regards Albacora, what I can tell you is this is public knowledge, is that we bid for both assets. We very much like those two assets. Between the two, perhaps Albacora Leste would be preferable, but we like them both.

What we heard and you know this is hearsay, we cannot be sure is that Petrobras was about to make a decision and we don't know what the decision is to their management. And this was our expectation that in the beginning of November, their management would decide who would be, what they call, preferred bidder. The preferred bidder is the company that is going to negotiate the contract with Petrobras, and then later on I imagine some months, four to six months from now, something between three and six months of negotiations. Petrobras can sign the contract directly with the preferred bidder or depending on the contract negotiation, they can call, what they call a final bid. So Petrobras would call the two runner-ups to submit a final bid based on that specific contract that was already negotiated. But just like you, we are waiting. We are waiting for news from Petrobras.

There was a second question there, wasn't there? Oh, if we could expedite project? Well, Bruno, (inaudible). We are doing all the development we can at the operational speed that we can handle. We are developing Frade field. We have contracted the rig, et cetera, for Frade. We have to go through all of these steps for Wahoo, to effectively develop the field. So you see after our follow-on and after we issued our bond, we removed the restrictions that we had in terms of adjusting our cash flow to investments. Since then, we have been doing everything that we can as fast as possible from the operating standpoint. What I can tell you is that we would not have the operational capacity to do anything faster. Not because of our people, because people can be hired, we can

increase the teams. But because of the projects, because of the maturity of the projects, today, we cannot contract another drilling rig and drill more wells at Frade.

Let's imagine that, it wouldn't be a good idea because Frade has to happen gradually. So that we can get data from the wells drilled, their output so that we can adjust the course if necessary. If we did -- if we drilled more wells, I think it would be risky.

Q - Bruno Montanari {BIO 15389931 <GO>}

Very clear. Thank you. If I can ask -- if I may ask a follow-up question.

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

Yes.

A - Unidentified Speaker

I'm not sure Bruno is still with us.

Let's move ahead.

If Bruno returns, we'll give him the floor again, but for now, let's have a question by Vicente Falanga with Bradesco BBl. Go ahead, Vicente.

Q - Vicente Falanga {BIO 16406266 <GO>}

Hello. Can you hear me?

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

Yes.

Q - Vicente Falanga {BIO 16406266 <GO>}

Hello, Roberto, Francimar, Milton Salgado, the whole Petro Rio team. I have two questions. Recently, Petrobras put the Katua asset for sale, very near Wahoo. And I would like to understand your opinion about this asset. Is it that Petrobras gave up the development of that fuel despite recent discoveries? And I'd like to know if Petro Rio would be interested of that asset, if you would see an opportunity for another tieback. And my second question is out of curiosity. From the technical standpoint, what is it that causes this "water contamination" when new do a tieback, which is what happened in Polvo in a recurring fashion? Thank you.

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

Vicente, let's talk about Katua. And then I'm not sure you understood your question about water contamination, but let me start talking about Katua and then I'll ask you for a clarification regarding your second question. Katua, apparently Katua is a marginal asset for Petrobras if you look from the standpoint of standalone development. It is a very similar situation to Wahoo. When (inaudible) sold Wahoo and they left, they exited the

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block, they did so because they saw Wahoo as something with a marginal return for standalone development. To us, it makes sense because we have Frade. So it's not marginal for us. And for our potential partner and because they would process the oil at Frade, they would benefit from the situation. So it is a unique situation because we have the Frade FPSO that can process the oil.

In the case of Katua, it would be something similar. The information we got is that Petrobras did an extended well test at Katua. They came to the conclusion that the field was marginal to them and that they had started a process to relinquish the field to ANP. So we proactively talked to Petrobras. And they decided to bring the asset back to the portfolio for sale.

In my opinion, Katua is an asset that will only work well if it is connected to some other field. Frade is not the only nearby field. There is another one, Parque das Baleias which belongs to Petrobras, but Petrobras was never interested in doing that and having a tieback. So Katua might be a viable asset for Petro Rio, but not so viable for other players, but we haven't got information. What we have today is Petrobras prepared a public teaser for Katua.

We told Petrobras that we're interested. So we were included in the process and now we're waiting for Petrobras because they gave some time for people to sign up for the project. And now we're waiting for the end of this period so that we can have access to the data room. We haven't got access to the data room. The truth is, I can't even tell you how big Katua is, our team doesn't know. We have very limited information, right, about Katua. We expect it to be a good deal, but it's very incipient.

And as for the water contamination, Vicente, could you please explain, because we haven't got water contamination. Water is treated and then discarded. So I am not sure we understood your question. Please clarify.

A - Unidentified Speaker

I had understood, Roberto. Then with part of the oil sold to Polvo or sold from Polvo, it happened with a big discount because it was a non-recurring event, but apparently had a high content of water. And I had understood it was because of the tieback. It's just out of curiosity, I just want to understand what is the cause of that, but it was not because of the tieback, Vicente. What happened there was, would you want explain?

Actually, there was the treatment system performance issue. It ended up collecting oil with more water and (inaudible) the quality of the oil that we have, it has 1% water content. And for some reason for the service provider, there was more water. So when we saw the oil, there was a discount due to a higher content of water. But it has nothing to do with the tieback. It has to do with a poor performance of BW pre-tieback and actually this is a claim of ours against BW, and this claim is basically focused on the performance of BW in the last -- the recent months of the contract. They performed very poorly knowing that they were -- that we were about to cancel the contract due to poor performance. I don't know whether they're being negligent or it's just a random thing. But the truth is that BW performed -- underperformed and Petro Rio has a claim against BW to have some

compensation for that. So, but our net result is net of these losses. So whatever comes is extra, but we are disputing BW regarding that.

Q - Vicente Falanga {BIO 16406266 <GO>}

And from what I understood post tieback, this has been resolved. This was a one-time off event.

A - Unidentified Speaker

Yes, it was one load. When you have a tieback, you have to empty the FPSO that is leaving, you have to sell all of the oil. One thing we could have done, if we hadn't completed the tieback, we would start blending the oil. We would have a tank with oil with more than 1% water and other tanks in the FPSO with oil with less than 1% of water content. And when we sell, we can blend the types of oil so as to maintain water content, restricted to 1%. This is relatively a usual procedure easy to do. We didn't have that possibility because we had to empty the FPSO.

Q - Vicente Falanga {BIO 16406266 <GO>}

Very clear. Thank you very much.

A - Unidentified Speaker

Our next question comes from Christian Audi with Santander. Christian, go ahead.

Q - Christian Audi {BIO 1825501 <GO>}

Hello. Can you hear me?

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

How are you doing, Christian?

Q - Christian Audi {BIO 1825501 <GO>}

Hello, good. Hope you guys are well. It's a pleasure to see you. Thank you for the conference. I have two questions. One for you, Roberto, and one for Milton. These (inaudible) problems due to operational issues from what I understood and please correct me if I'm wrong, they have been resolved, have been solved. So moving to Q4, the outlook seems to be a lot more positive because the oil price is high and production is increasing. Is this a fair statement? Are these small issues by and large solved?

And my question to Milton. It has to do with what you said, Milton. You are in an excellent financial position and you have flexibility to get to an (inaudible) over adjusted EBITDA of 2.5x. That's some firepower. How much does that translate in terms of this firepower? How much does this firepower translate into millions or billions?

A - Unidentified Speaker

FINAL

Thank you for the questions, Christian. I would say that the one-off events related to BW and off takes have been solved, pretty sure. We do have some things we are still working with that are production-related. We are living a very important moment to increase production. We have well number 10, and we have to bring wells 2 and 8 back in production. So these are one-off events that haven't been 100% solved. The one-off events in terms of costs have been solved. I didn't see any great cost offender in the horizon. But those on the site of production are still being tackled. This is what I can tell you regarding these one-offs.

Q - Christian Audi {BIO 1825501 <GO>}

And regarding the timing, could you repeat the timing? When do you expect well number 8 and well number 10?

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

I think in terms of -- the well number 10 is already operational. Yes, you're right. In terms of the timeframe, we have well number 2, in the next two to three weeks, it should be solved. So we're talking about mid towards the end of December. Well number 8 is a more complex operation, so we can complete for fishing operation. So it could be expected for the beginning of December. I believe that by the end of December, we are going to have full production.

Regarding the firepower, I am going to monopolize the mic here, Christian. We have 2.5 times net debt over EBITDA, but this calculation has to be made considering the pro forma EBITDA of the acquired field. So it's now such a simple calculation (inaudible) ex-amount of money. I have the EBITDA that I have collected. No, you have to consider the EBITDA of the -- the pro forma EBITDA of the field that you are acquiring. We believe that today we have a firepower of more than \$1.5 billion easily. I would say more towards \$2 billion than \$1.5 billion, that would be our firepower

But again even with this firepower we would not get to \$2.5 billion, we would get to 0.7, 0.8. You see, we don't want to have the company leveraged although we have the debt covenant that we can get to up 2.5 times. We believe that at 2.5 times the company is kind of in a cast not able to enjoy new opportunities. So our mindset is to have that fire power of about \$1.5 to \$2 billion. If we reach 2.7 net debt over adjusted EBITDA, 0.7, so that gives the company a lot of flexibility. If we need more capital, our mindset is always to have -- to resort to debt and equity to maintain that ratio close to 0.6, 0.7, around those lines.

Q - Christian Audi {BIO 1825501 <GO>}

Perfect. And very clear, Roberto. Thank you very much.

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

Thank you. Thank you for the questions.

A - Unidentified Speaker

Our next question is by Regis Cardoso with Credit Suisse. Regis, go ahead.

Q - Regis Cardoso {BIO 20098524 <GO>}

Hello, Roberto, and everyone. Can you hear me?

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

Yes, we can hear you. How are you doing Regis?

Q - Regis Cardoso {BIO 20098524 <GO>}

Good. Good day, everyone. My first question is, could you please describe the process to present the Wahoo development plan? Could you give us a walkthrough? First you have to submit internally to the consortium. And then with consortium approval, that's when you can formally submit to ANP. Is that how it goes? Or can these two processes run in parallel? I just want to understand the rules of the game. That is my first question.

And my second question has to do with TBMT-10 production. Initial production was around 3,800 [ph] barrels and I would like to know if this is the regular level or is there anything happening in the first months that we should wait and see what's going to happen?

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

As regards, the rule of the game for Wahoo development plan, we divided information while we shared pertinent information with the consortium. We prepared and made a technical presentation to the consortium. And then we had what we call an OPCOM presentation to the consortium and there was an initial vote regarding, if they would take part in the development plan. We didn't get to a final decision as we were expecting and now considering all the time points in the game, the companies have 60 days that started some time ago to come to a decision in terms of which consortium members will participate in the proposal for development. So we have this meeting, important meeting called OPCOM. After OPCOM, we have 60 days for the consortium members to position themselves. After 60 days, the consortium members connect independently from one another.

And I think the 60 days will be over sometime in December. Only after that time, will the consortium or the consortium members will be participating in the initiative, present the declaration of commerciality and the development plan to ANP.

And regarding the second question, regarding the initial production of TBMT10 and what to expect regarding the remaining workovers at TBMT, actually we started with more than 3.8. 3.8 is what we were just about five days ago.

To give you an overview, this 3.8 have stabilized and we expect this to be lowered a little bit until we get to very stable condition. Then, we'll stay like that for some months and depending on the condition of the reservoir something to be defined and monitored later on, we'll start seeing some decline. I don't know exactly for how long we will have that confirmed production. Net production 3.8 should land at the level of around 3,000. On

the first day we produced more than 4,300 [ph], but we don't disclose this kind of number because it can be misleading. In the first days, production drops. So we monitor the pressure differential every day, and then we finally communicated 3.8. So 3.8 is a relatively normalized number as Francilmar mentioned.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay, very clear. Thank you very much.

A - Unidentified Speaker

Next question from Gabriel Barra with Citibank. Gabriel, you can go ahead.

Q - Gabriel Barra {BIO 22244309 <GO>}

Can you hear me?

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

Yes.

Q - Gabriel Barra {BIO 22244309 <GO>}

Hello, everyone. I have two follow-up questions. One has to do with Albacora, thinking about the capital structure because you said, you don't want to get to the threshold of 2.5x net debt over EBITDA. One question I have is when you look at the indebtedness, the firepower that you have in the case of RBL, could this be a possibility for Albacora? I just want to understand the cost of capital so we can do some calculations regarding the return. It would be interesting to understand first capital structure and then RBL and how we can impact the calculation and how the covenant addresses that.

Second question about IBV and Wahoo negotiation. You spoke a little about the process and how it works, but I would like to understand the outcomes. How that works in practice. For example, if they don't accept the proposal for development and the fee, could you elaborate on the possible way out? And how it works if they don't accept or if they do accept the plan? What is Petro Rio's position in Wahoo field? These are my questions. Thank you.

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

Thank you. I will start with IBV. You see, it is evident that we need to have a handling fee. The truth is the oil needs to be processed somewhere and the oil has to pay for its processing. You cannot process at Frade and not pay anything for that. So the Wahoo consortium has to pay something for oil processing somewhere in our case. Specifically, you would be in Frade.

And you have the handling fee that takes into account two things. The OpEx, that will happen at Frade related to Wahoo, please remember? We are going to have more production at Wahoo than in Frade. So the FPSO almost becomes an FPSO of Wahoo, also helping Frade.

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So we have the OpEx and we have the cost of capital that has to be renewed and narrated -- have to renew and narrate the whole investment made, the FPSO and so on and so forth. These two things were encompassed in the handling fee.

The outcome of the businesses is we would like to have IBV as our partners participating in the development of the field. Of course, with a handling fee, that makes sense. We presented a counter proposal to them. I'm not going to mention number is here, but we have submitted a proposal to them. We would like to have IBV participating with their own stake of course, but they simply can decide not to for funding reasons, for strategic reasons or whatever. If they choose not to participate, the other consortium member, the operator has the right to develop that opportunity on their own, which is what we call sole risk operation. The operator can develop the field on their own, they invest a whole CapEx for the field, and of course, they collect all of the results of that specific development.

If later on, we want to develop Wahoo North or Wahoo South, another piece of Wahoo, we go back to the consortium and we say IBV, I have now this opportunity, do you want to come along? They might decide to or they might decide not to. That's how it works. But those time limits have to be respected.

There is a regulation as part of the Joint Operational Agreement and we are following it by the book. That's what we're doing. The outcomes can be two. They can decide to participate with a handling fee if that makes sense or they simply might decide that they do not want to participate and then better we will have to decide whether we want to develop the field on our own. Of course, we like the field. If we have this opportunity, we would be very inclined to do it. We acquired the field because we like the field. But of course, we have to wait a little, to wait for IBV's reaction.

There was another question what was the debt. All of the debt is spread of the business. It's all put in the same basket. Regarding RBL, our funding strategy is more related to debt issuance and access the market, then the RBL and bank loans. All of CVM regulated the RBL [ph] in Brazil, but still there's a part of the guarantees which is quite hard to provide the banks with from what we saw in the past regarding RBL for banks require that you sign a trading contract with some other player and we don't like that at all.

With that, RBL kind of loses momentum and when it is a company, when we are company that has access to the market and we do. So our strategy will be to go-to-market. We might get some bank loans, but our ultimate strategy is always to access the market.

Q - Gabriel Barra {BIO 22244309 <GO>}

Very clear. Thank you very much.

A - Unidentified Speaker

We have one more live question by Bruno Montanari who rejoined the call. Bruno, go ahead.

Q - Bruno Montanari {BIO 15389931 <GO>}

Can you hear me now?

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

Yes.

Q - Bruno Montanari {BIO 15389931 <GO>}

Sorry, I had a technical problem. My third question was, in your conversations with your suppliers and service providers, is there any inflation that you see in the chain given the higher oil price?

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

Well, we see then, this is very incipient. It's not only related with the oil price, it has to do with the size of the operation, but we have a big delay. In Brazil, we don't have a lot of development projects. But as things increase, then there will be the supply and demand role, but there is no direct connection with inflation. But we are starting to see some price increase and we are trying to control for that. We see this happening more on the side of CapEx than on the side of OpEx. Of course, in our Wahoo presentation, we were already considering a certain level of contingencies. So we know how much we have thought about in terms of costs with and without contingencies, but we can feel some in the CapEx. CapEx and vessels, the vessels -- support vessels are in high demand, and that has to do with CapEx, because the vessel is contracted and sometimes we have to do spot contracting of vessels for the campaigns. So we do see a little bit of inflation, nothing that could raise a flag. But yes, we do see a little bit.

Q - Bruno Montanari {BIO 15389931 <GO>}

Okay. Understood. Thank you.

A - Unidentified Speaker

Live questions are over. And so in the interest of time, I will take only one written question by Rodrigo Ceekade [ph]. And he asks about the potential CapEx for Polvo and Tubarao Martelo to drill more wells and how this would go about.

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

Well, Rodrigo, now with well number 2, we've had a problem there. Well, luckily, it didn't require a work over that would require that we removed the pump. It was a simpler work over, but we needed the rig. We are solving the problem with PSLV. But with that, the team is very much mobilized at well number 2 and well number 8. So this year, we are not going to be making any investments regarding new drilling activities at Polvo or TBMT. Right now, we're thinking to start the Frade campaign next year. We will drill the first well of Frade. We'll see how the company behaves. How demanding the drilling of the well will be. I believe it's going to be less demanding than what we are doing at Polvo and Tubarao Martelo, because the rig is not ours, so will outsource a good deal of the work. But we'll have to wait and see how this goes about and more towards mid-2022, we can make

some decisions, have some prospects, have a prospect in the Eocene that stretches into Tubarao Martelo field. We have at least two prospects in the Eocene and one in the carbonate area of Tubarao Martelo, but this is very incipient at this point. Unfortunately, we cannot do anything in that regard.

Bruno had asked about the possibility of bringing forward some projects. That would be one possibility. If we had more capacity, operating capacity, I mean, we have things in our agenda, and we have to deal with those before we move to others.

A - Unidentified Speaker

All right. So we are going to be closing the Q&A session. I would like to ask Roberto to make his final statements.

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

Thank you, Sam. Well, I guess I made my final statements in the end of the presentation. I can only thank the resilience, the persistence and dedication of Petro Rio's team. I think Q3 showed our DNA, our thinking out-of-the-box of executing our out-of-the-box thinking and I would like to thank all of you for your support because you are close to the company, you join us in our conference calls, you bring ideas, you raise the important points, you ask good questions. So thank you very much and I'll see you next quarter.

A - Unidentified Speaker

Petro Rio's conference call has ended. I would like to thank all of you for participating.

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