

## Q4 2013 Earnings Call

### Company Participants

- Milton Romero Franke, CEO
- Ricardo Bottas Gold, CFO

### Other Participants

- Andre Segueira, Analyst
- Gustavo Gattass, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to the audio conference call for the Fourth Quarter 2013 results for HRT. Thank you for standing by. Later, we will conduct a question. (Operator Instructions). This event is also being broadcast simultaneously over the internet and may be accessed at your HRT Investor Relations, website at [www.hrt.com.br/ir](http://www.hrt.com.br/ir), by clicking on the banner Webcast Fourth Quarter '13.

As a reminder, this conference will be held in Portuguese with simultaneous interpreting into English. It is being recorded and the respective presentation will be available for download shortly to HRT's Investor Relation's website. Looking statements regarding HRT's business perspectives, projections, institutional and operating goals that may be made during this conference call, are based on the beliefs and assumptions of HRT's management and on information currently available to the Company.

They involve risks, uncertainties and assumptions as they relate 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 HRT. And could cause results to differ materially from those expressed in such forward; Before proceeding, let me mention that forward.

This conference call is attended by Mr. Milton Franke, Mr. Ricardo Bottas, Mr. Eduardo Jacome, Mr. Jose Carlos Pedrosa, Mr. Nile Azambuja. I would now like to turn the conference over to Mr. Milton Franke, CEO of HRT. Please go ahead, sir.

#### Milton Romero Franke {BIO 17311636 <GO>}

Ladies and gentlemen, good morning. And thanks for joining HRT's Fourth Quarter 2013 earnings conference call. It is with great pleasure that, on behalf of HRT, I am here with

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HRT officers to present the Fourth Quarter results and highlight the main achievements of the Company in the beginning of 2014. We will also present to you consolidated numbers for the full year 2013.

Please move to the next slide. This slide presents (you with) legal advice. It is our disclaimer, as mentioned by the operator. The objective is to remind you that certain projections that are included in this presentation are expressly qualified in its entirety by this legal advice.

On slide three, we summarize the Fourth Quarter and sequent period highlights considering the beginning of 2013. We had, in particular, five important events in this period.

Number one, the acquisition of Polvo Oil and Gas production fields in the Campo basis. The transfer and assignment was approved by ANP in the beginning of January. Secondly, still referring to Polvo, with this acquisition, HRT is today a production operator with around 20,000 cubic meters per day of natural gas, a gas which is used as energy in our operations in the field, as well as around (10,000) barrels of oil per day, 100% (sales), considering those companies in the joint venture. We would like to mention that the first oil shipments of the quarter added up 630,000 barrels net to HRT.

Thirdly, HRT was able to pay the financing loan signed with Credit Suisse. Fourthly, On March 19, 2013, HRT's shareholders attending the general shareholders meeting elected the seven members of our new board, therefore, reducing board members from 11 to seven, as well as the members of the Fiscal Council of the Company, to conclude their term of office that ends in the end of April.

I would also like to mention that last week, HRT's Board of Directors approved (key) new officers to join us. Mr. Jose Carlos de Araujo Pedrosa, who will be our New Business Officer and Eduardo Jacome, who will be our Organizational Management and IR Officer.

Please go to the next slide. On this slide, which is the strategic positioning for Solimoes, particularly regarding gas monetization in partnership (for) exploration. In the Solimoes basin, during this period, we tried to structure this (data base) in the basin so as to not only speed up our internal worth. But also to allow interested third parties to evaluate HRT's natural gas discovery, as well as the potential of the basin in the farm.

During this period, HRT presented to ANP six points for evaluation of the natural gas discovery, the PAD. It is also important to highlight that this was an extremely important task that required assessments by the joint venture regarding how to proceed with this discovery on a case.

We continue to have discussions with Petrobras and other companies with respect to the monetization of the natural gas discovery. Down process of its interests in the basin of Solimoes.; Finally, HRT is proceeding with the farm. Please go to the next slide. We are now on slide five. Now, as a production operator, (such as) drilling and opening exploratory wells in the Solimoes and three exploratory wells in deep waters in Namibia.

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We are now an off; We talked about the Polvo project. This asset started a whole new phase for HRT.

In 2013, oil production in the (audio difficulty) achieved 4.2 million barrels, or an average of 11,700 barrels per day, 100% sales considered. In 2014, HRT was able offload two oil shipments, as previously mentioned. The first was 233,000 barrels at the end of January. And the second was 395,000 barrels in the beginning of March, net to HRT, i.e., 60%.

This year, containers (audio difficulty) oil production under the lead of HRT since the beginning of January of this year. Please go to the next slide now. 6.05 million barrels of oil. Considering these proven reserves, HRT plans to drill one production development well by the end of 2014.

Still with respect to Polvo, in this slide we submit some numbers of what we expect in the future of the field, as described in DeGolyer and McNaughton report dated 31 December 2013. (Although one sees) developed reserves in this field at 8 million barrels, while undeveloped reserves, which require new wells to be drilled, as additional 7 million barrels. In addition, there are mapped probable reserves (to be) 9.3 million barrels. And possible reserves (to be) at 6 million barrels of oil.

Please go to the next slide. Namibia. 1, was a sub; It is a known fact that HRT's first exploratory well in Namibia, in the Walvis Basin, Wingat HRT's (first) (audio difficulty) in HRT America was the result of this phase and the Wingat discovery. And which (audio difficulty) other prospects that could indicate the presence of thicker reservoir rock. This activity is still underway. But we already have the first new prospects identified.

Finally, I would like to mention that HRT continues to receive (lead) analyses from samples collected in the three wells drilled. We are seeing interested companies that plan to join HRT in the exploration of the Namibian asset. With this, I would like to give the floor our CFO, Mr. Ricardo Bottas.

## **Ricardo Bottas Gold**

Thank you, Milton. Good morning, everyone. On slide eight, we show the main set of results quarter. Operating expenses in the last quarter of 2013, were 51% lower than the Third Quarter of 2013. And 72% lower when compared to the same quarter of the previous year.

At the end of 2013, our head count totaled 197 employees. Therefore, 49% leaner than 2012. And this total number still includes the team in charge of our operation in Solimoes. And it is expected to be transferred to Rosneft from 60 to 70 people. And also 32 people who are in our IPEX lab. Off of impairment provision of dry holes, which are in the lower chart on the left, which total R\$2.3 billion in 2013. In Solimoes, there were write; This analysis and operating expenses does not include expenses with write

; offs of subscription (bonus) of blocks 219 and 220 that were relinquished. And also with provisions of blocks 148 and 149, totaling expenses of R\$286 million to Solimoes, including

write; Additionally, there were write

; off of drilling cost amounting to R\$507 million. And also impairment provision for prospects drilled in 2013, Wingat, Murombe and Moosehead. And provisions for (oil/gas) prospects only. A corresponding bonus for condensate and oil prospect have been maintained.; In Namibia, write

; ; All these analyses have been performed based on reports updated in January 2014. And issued by D&M Certified Agency based on December 2013.

; ; It's important to mentioned that expenses with impairment provisions related to subscription bonus in Namibia did not have a cash effect. And the value of this asset stems from the integration of Company (UNX), subsequently known as HRT Canada, in April 2011.

; ; The performance of our financial results was directly related to the total cash balance.

; a reduction of 38% compared to fiscal year 2012. And exploratory expenses have increased by 35% with drilling due to drilling efforts in 2013 of three actual wells in Namibia and one well in early the same year in Solimoes. In 2012, only five on; On slide nine, we show the cash flow in 2013, highlighting that corporate expenses not earmarked to projects, taxes and financial expenses went down 77%. There was a reduction with seismic data

; ; Of total inflow of R\$394 million in 2013, R\$174 million are cash calls with our partner from Portugal, (audio difficulty) Assets, GALP Energy. R\$138 million are cash calls with our Russian partner in Solimoes, Rosneft. And R\$68 million from our divestment plan, mainly due to the sale of Air Amazonia to Erickson Air Crane and the sale of aircraft which were not included with the transaction with Erickson.

; ; At the end of 2013, HRT's total cash position remained constant, including those that were kept as collaterals, amounting to R\$428 million.

; ; On slide 10, we are showing the performance of the Company's total cash, breaking down the total amount between net funds and collaterals. By the end of 2013, HRT still had R\$273 million (blocked), out of which R\$51 million earmarked to the loan with Credit Suisse at the end of the fiscal year, which was fully used to anticipate the partial settlement. And they were used to pay part of the amortization that should happen only in February 2014. The remaining R\$22 million related to collateral for BP's transaction in the acquisition of Polvo field.

; ; We did not expect to close the fiscal year with these amounts blocked. However, ANP's approval only occurred on December 18, 2013. We were officially notified and transaction with BP was only settled on January 8. So there are no records at the end of the fiscal year, return for liquidity at HRT. Nor a cash position related to the assets acquired.

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; ; Consequently, the liquidity of R\$155 million at the end of 2013, just with the conclusion of Polvo transaction and release of remaining collaterals, increased the Company's liquidity at R\$64 million, bringing it up to R\$219 million, vis a vis R\$200 million that we had posted at division for the end of the fiscal year. Basically, on slide 10, on the right, we show the main items stemming from the completion of Polvo transaction, which increase the Company's liquidity. Now, I give the floor back to Dr. Franke for the next slide.

## **Milton Romero Franke** {BIO 17311636 <GO>}

Slide number 11 shows, in a very simplified manner, HRT's organization chart. At the top, we have our shareholders. On the left, we have the Fiscal Board. We have a Fiscal Council with three members

; Helio Costa, Vinicius Carrasco, Elia Shikongo, Haroldo Lima, Pedro Grossi, Ronaldo Carvalho, William Steers.

In the middle, the Board of Directors with seven members the Audit Committee; On the right, we also show the three committees required by our bylaws the Executive Board with Milton Franke, CEO. Ricardo Bottas, CFO. Eduardo Jacome, Organizational Management and IR Officer. Jose Carlos Pedrosa, Business Development Officer. And Nilo Azambujo, CTO.; At the bottom, we have those in charge of the decisions made at the Board. So the purpose of the slide is to highlight the importance of the Company to have management and inspection bodies fully (staffed) and engaged to develop HRT in the future.

Next slide. This is our last slide with the final remarks of this presentation. Just a couple of words on the new direction of HRT. It is an operational company with cash generation on Polvo Field, focusing on oil and gas production. And also with a reduction in exploratory risk exposure, diversified portfolio and several (areas), reduced business risk, operatorship transfer of Solimoes Project to Rosneft. Reduce administrative expenses and reduce production costs. We have an ongoing project on Polvo Field. The focus is still on cash control.

We also have an independent Board of Directors, fully dedicated to the Company's development. A new Fiscal Council and a new organizational structure focused on HRT's consolidation and growth. I would like to thank you all again. And now, we'll be at your service for the Q&A session. Thank you very much.

## **Questions And Answers**

### **Operator**

(Operator Instructions). Our first question comes from (Andres Segueira), Credit Suisse.

### **Q - Andre Segueira**

Good morning, Milton and Ricardo. I have some questions.

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The first is, could you tell us what efforts that you still plan to do to farm-down. And talk about IPEX? And how many aircraft and rigs you still have? I know you still have some.

My second question regarding the Polvo cash flow for 2014, do you expect it to be similar to that of 2013?

And my third question regarding the Rosneft transaction. Of the R\$96 million, how much of that is related to the amount of cash call that the sales had outstanding and that they still owed to HRT?

And my final question; you mentioned a dispute with Geoquasar. Could you give us a little more detail on that? Is it significant? How much does the Company believe it will have to pay; and perhaps not? Thank you.

### **A - Milton Romero Franke {BIO 17311636 <GO>}**

Andres, thank you for your questions. They are all very important. I will give you some initial details. And my answers will be complemented by Ricardo and Eduardo, who are here with me.

The assets that we still have in our farm-down project; what we have to start with Solimoes Blocks. And the (audio difficulty), we continue to look for partners that can work together with us the future investment.

We still, I believe, four big helicopters in Solimoes. And one mid-size helicopter. And we are expecting to sell those. One of them is, actually, leased now to a local company.

We still have two of our three (in-the-air) aircraft; well, actually, it is one (audio difficulty) aircraft and one small amphibian plane. And I believe this is all at the moment.

And we are (saying) our efforts regarding IPEX and we are waiting for local conditions to improve. And perhaps waiting for a different decision by HRT (asset totals). Since is a field with a declining occurs, the cash flow of 2014 will be different than that of 2013.

But I'll let Ricardo give you more detail on that because on the side of operating costs, we also have a substantial difference. I believe we'll have a marked decline in operating costs this year in Polvo.

And finally, regarding the Rosneft transaction, the cash call represented R\$95 million of the R\$96 million total in the dispute with Geoquasar. Geoquasar is the company that worked with us from the very beginning of our activities in Solimoes in the acquisition of seismic data. And we have a number of contracts with them. The last contract, we decided to materially end and terminate this contract. And this is an arbitration process filed by Geoquasar. And I won't give you more detail because this is going through arbitration.

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But again, Geoquasar is the Brazilian seismic acquisition data company that has worked with HRT for many years. And they filed for arbitration against the decision to terminate the contract early.

## A - Ricardo Bottas Gold

Thank you for your questions, Andre. To complement regarding the investment plans; I believe Milton has talked about the assets and the efforts with IPEX from six assets of IPEX. We put a lot of effort in the third and Fourth Quarters of 2013. But we decided now to revisit IPEX.

We are now in efforts to reassess IPEX (because we understand) that it only makes sense; it's a (petrol induction) that works for HRT because this is a top tier, (first rung) laboratory. And we have to make the interested (parties) to realize the value of this asset, considering all other of its characteristics. So we are revisiting IPEX now. But it is being evaluated.

As for the cash flow, I cannot give you any guidance; I mean, no (actual) guidance. And Milton mentioned that there is an actual production decline. And that's why HRT has the strategy to assess, as possible, the value of the (D1), the undeveloped reserves. This should bring production up again, which is positive; the price guidance that was disclosed in our release.

As to the to the other (audio difficulty) those first two shipments we offloaded, we had a 10% discount, (as I explained). On the other hand, we expect improved results compared to 2013 because there will be a cost reduction that we expect (when is natural) just by replacing the old operator by HRT. The old operator carried higher corporate and structured costs than we do. In (audio difficulty) we are now; (than the) to our old (backs) to see where we can bring additional cost reductions regarding our overhead in the field. Because, as we said before, this is an upside because the (net effects) reduction, particularly fixed costs, can extend the (audio difficulty) of the field.

So (I guess) (audio difficulty) as far as the guidance goes. That is what we can mention for now regarding our drivers for cash flow expectations for Polvo.

As for Rosneft, Milton mentioned the cash call. The (audio difficulty) cash call amounted to \$54 million based October of 2013. But it is important to understand that this transaction with Rosneft was a deal amounting to \$96 million to address all of these issues from simultaneously. So you have to assess Rosneft's assets. We believe that this breakdown by asset (is now so) relevant in this field.

And as for Geoquasar, just to add to what Milton said, (indeed) they filed for arbitration. But we are confident that on our side as clients we fulfilled all of our obligations. All of the amounts payable in the contract had been delivered; recognized in our financial statement. And so this arbitration wasn't field by us. But we will respond to defend our position and our interests.

## Q - Andre Segueira

Thank you very much.

## Operator

Our next question comes from Gustavo Gattass, BTG Pactual.

## Q - Gustavo Gattass {BIO 1702868 <GO>}

Good morning. I have two questions.

One of them, I would like to discuss Polvo and focus on the reserves. I would like to hear from you of the proven undeveloped reserves, are you going to develop those with just this first one? Or will you need more wells for the other reserves?

In addition, could you tell us about what D&M mentioned as a growth driver for probable reserves? In other words, what will make this company capture those probable reserves?

And on the other side of the equation, I'd like to have a statement from you regarding cash generation in the Company, in an aggregated fashion when we look at the (first) quarter? (You are signaling) an operation that would be costing about R\$34 million, R\$67 million for Polvo if it considered in (four) when I know there is a decline. But (audio difficulty) cover this amount of (audio difficulty). So just to hear from you if it is generating cash or is it burning cash still but at a reduced pace? Thank you.

## A - Milton Romero Franke {BIO 17311636 <GO>}

Gustavo, thank you for these questions. I will ask Ricardo answer the second; your last remark regarding how we see cash from Polvo.

## A - Ricardo Bottas Gold

Okay. Gustavo, this is Ricardo. Good morning. Thank you for your question as to cash generation.

We will prepare a communication to the market for the First Quarter. As I have mentioned in our (IPEX) meeting last year, Polvo does not intend to be financing field, considering the cash that we get from Polvo will pay for our exploratory expenses in Namibia. However, we are in the face of opposition because we still have Solimoes hibernating. We are probably going to resume Solimoes activities only after we've finished assigning the operation to Rosneft and approval by ANP.

And in Namibia, we have completed the most important (outlay of investment), which was exploratory containment. Now we are basically working with our own (funds), particularly from our (audio difficulty), to reassess our Namibia data.



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So what I can tell you is that (this business of data) we are having in the First Quarter and with reduced corporate costs, we're very close to a break-even point. But I'd like to remind you, we do not intend to use the cash generation from Polvo to financial Namibia operations.

In addition to that, as for our guidance, the guidance is a (little too early) to disclose right now, is the guidance that we have disclosed already regarding production and, (afterwards), with the price guidance. We are not informing any OPEX guidance now because we are in the process of reassessing the whole situation. And we have planned to inform our D&M report. And it's going to be so OPEX guidance in that report. It will be a selling point. But we expect that with the results for the First Quarter of 2014, we will be able to explain the cost OPEX (a little further). And with that, we'll be able to give you a guidance for the full year.

### **A - Milton Romero Franke** {BIO 17311636 <GO>}

Gustavo, as was proven on developed reserve; that was one of your questions; we do not intend to have (dozens) of those. We are considering the two wells for the proven undeveloped reserves. For this year, we intend to drill the first of these two wells. But this is a gigantic (volume). However, it's so substantial; around 7 million barrels. But it will not entail a high number of wells.

As for probable and possible reserves, these areas have been previous mapped. But with a higher than the (1D) reserves. We are currently in the process of (reassessing) and the mapping done by BP. But we are not ready to reveal details regarding how much of the volume is in carbonates and how much is in each one of the sandstones. And we would need to have that to give you a more precise answer.

### **Q - Gustavo Gattass** {BIO 1702868 <GO>}

Thank you very much. And Milton, just a follow-up question, please. You have an integrated drilling platform. Could you just give us an idea of the cost involved in the wells to be drilled? (I imagine) it would be lower than the regular cost.

### **A - Milton Romero Franke** {BIO 17311636 <GO>}

Gustavo, it's good of you to bring up this point. We believe that this platform; this fixed platform that we have is an asset for that field. It is quite helpful if we get the completion of the wells are (dry) completions; dry completions, in general, make operations easier with entries in this well.

We are close to finding an intervention to restore the production of one given well. And I believe that our performance has been quite exceptional in terms of time and number of days necessary for this kind of operation to be conducted. This platform, obviously, has a (top drive work) and this is the rig that drills the wells; (all of the wells) in the field.

And we have an (FE) of all of the costs involved. We have to update and review and service all of the rig equipment so that we won't need to have any stoppage during the drilling process.

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The wells that we intend to drill can be drilled with this rig. Our initial estimate is that each well will cost around \$35 million; total cost; 100%, to be divided by the joint venture partners; a cost to be shared by the joint venture partners.

And we think that with the studies that we are conducting and we have reprocessed all of the seismic data for the field. And our intention is to review the process and, perhaps, drill additional wells. But we haven't made this decision yet.

So given the fact that we have the rig that has been amortized and included in the cost of the field, obviously, we have wells that can be drilled at a lower cost than if we needed another platform, another rig to drill.

But this is the kind of information we can disclose for now.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Thank you.

## Operator

(Operator Instructions). This concludes the question-and-answer session. I would like to give the floor back to Mr. Milton Franke for the closing remarks. Please go ahead, sir.

**A - Milton Romero Franke** {BIO 17311636 <GO>}

Dear friends, thank you for joining us at this earnings call for 2013 to answer your questions. But we are happy because, probably, our presentations were; even though they summarized, they have a lot of data.

So we wish you a lot of happiness in the future. Have a great day.

## Operator

This concludes HRT conference call. Thank you, all for being with us. Have a great day.

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