

# 2Q19 Conference Call

August 15, 2019

# PetroRio



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BM&FBOVESPA **IBRA**

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# DISCLAIMER

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This presentation contains forward-looking statements. All statements other than statements of historical fact contained in this presentation are forward-looking statements, including, without limitation, statements regarding our drilling and seismic plans, operating costs, acquisition of equipment, expectations of finding oil, the quality of oil we expect to produce and our other plans and objectives. Readers can identify many of these statements by looking for words such as “expects”, “believe”, “hope” and “will” and similar words or the negative thereof. Although Management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. By their nature, forward-looking statements require us to make assumptions and, accordingly, forward-looking statements are subject to inherent risks and uncertainties. We caution readers of this presentation not to place undue reliance on our forward-looking statements because a number of factors may cause actual future circumstances, results, conditions, actions or events to differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements and the assumptions underlying the forward-looking statements.

The following risk factors could affect our operations: the contingent resource and prospective resource evaluation reports involving a significant degree of uncertainty and being based on projections that may not prove to be accurate; inherent risks to the exploration and production of oil and natural gas; limited operating history as an oil and natural gas exploration and production company; drilling and other operational hazards; breakdown or failure of equipment or processes; contractor or operator errors; non-performance by third-party contractors; labour disputes, disruptions or declines in productivity; increases in materials or labour costs; inability to attract sufficient labour; requirements for significant capital investment and maintenance expenses which PetroRio may not be able to finance; cost overruns and delays; exposure to fluctuations in currency and commodity prices; political and economic conditions in Brazil; complex laws that can affect the cost, manner or feasibility of doing business; environmental, safety and health regulation which may become stricter in the future and lead to an increase in liabilities and capital expenditures, including indemnity and penalties for environmental damage; early termination, non-renewal and other similar provisions in concession contracts; and competition. We caution that this list of factors is not exhaustive and that, when relying on forward-looking statements to make decisions, investors and others should also carefully consider other uncertainties and potential events. The forward-looking statements herein are made based on the assumption that our plans and operations will not be affected by such risks, but that, if our plans and operations are affected by such risks, the forward-looking statements may become inaccurate.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this presentation are made as of the date of this presentation. Except as required by applicable securities laws, we do not undertake to update such forward-looking statements.

# OPERATIONAL HIGHLIGHTS

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-  Successful integration of Frade's operations
-  Quarterly production at 20,272 bbl/d. Operated production at 27,510 bbl/d
-  Company lifting cost reduced to US\$ 24/bbl, 29% lower than 2Q18 (US\$ 34/bbl)
-  Polvo operational efficiency at 97.6% and Frade's at 99.1%
-  Ongoing synergies between Frade and Polvo, with most of the impact coming in 3Q19
-  Polvo 2019 Drilling Campaign set to begin Sep-2019; Frade Drilling Campaign expected to begin 2H20



# ASSET PERFORMANCE



	2Q18	3Q18	4Q18	1Q19	2Q19	2Q19 x 2Q18	2Q19 x 1Q19
Avg. Brent	\$ 74.97	\$ 75.84	\$ 68.60	\$ 63.83	\$ 68.47	-8.7%	7.3%
Avg. Sales Price	\$ 76.49	\$ 75.60	\$ 63.23	\$ 64.40	\$ 68.61	-10.3%	6.5%
Avg. Exchange Rate	3.61	3.95	3.81	3.77	3.92	8.7%	4.0%
Final Exchange Rate	3.86	4.00	3.87	3.90	3.85	-0.1%	-1.2%

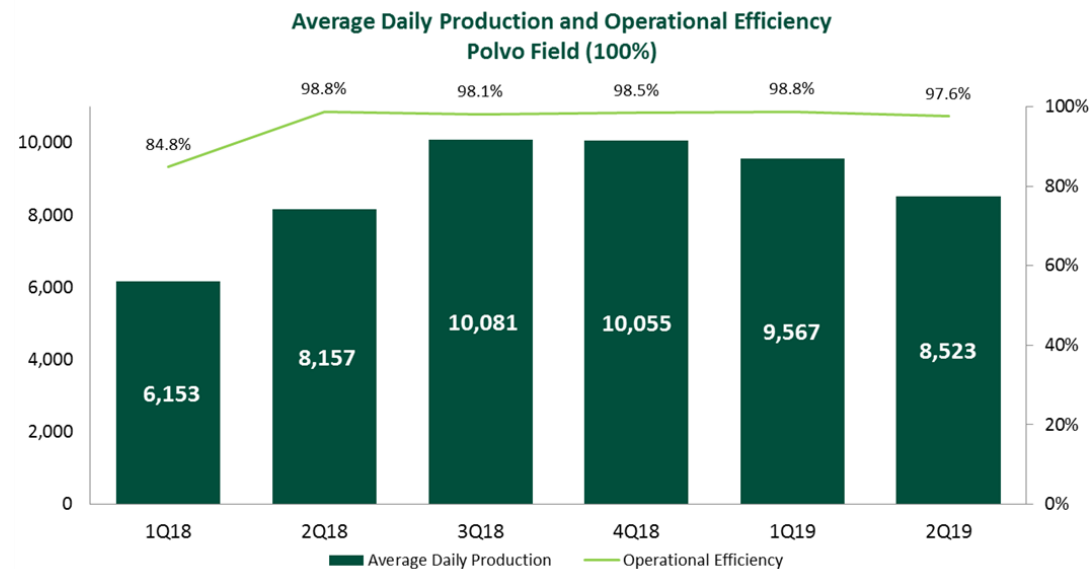
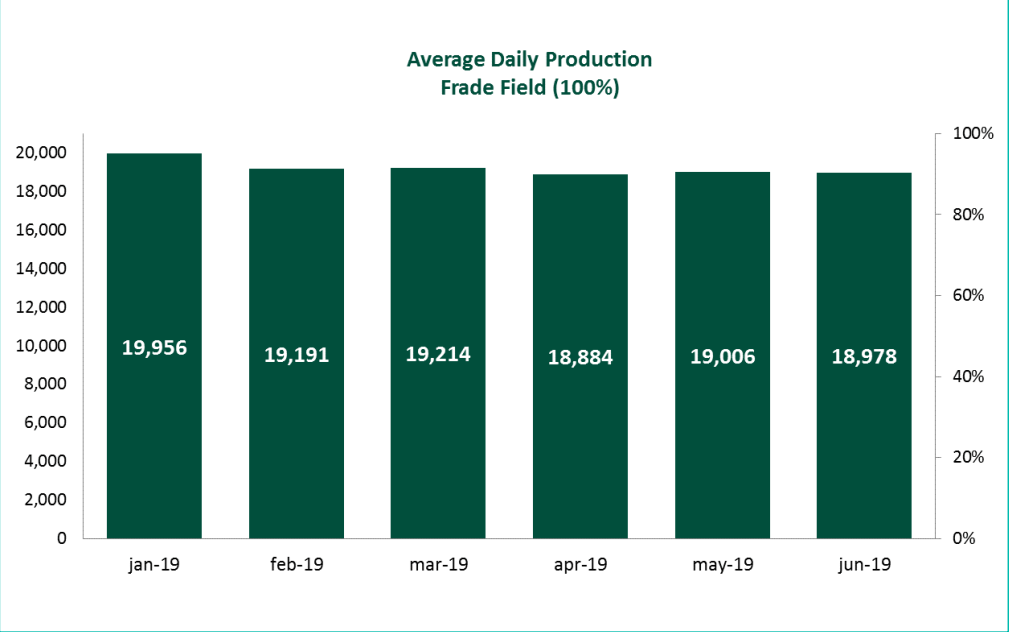
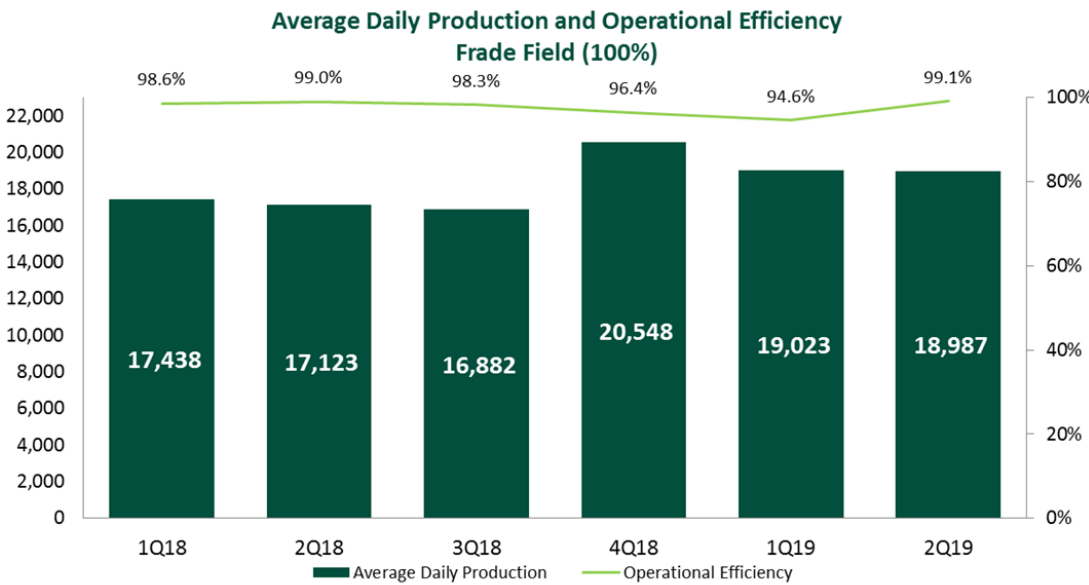
Oftakes (bbl)							
Frade Field (52%)	-	1,015,845	1,015,941	975,471	975,322	n/a	0.0%
Polvo Field (100%)	791,718	693,126	1,107,774	544,610	1,025,350	29.5%	88.3%

Production (boepd)							
Frade Field (52%)	8,762	8,545	10,400	9,843	9,824	12.1%	-0.2%
Polvo Field (100%)	8,157	10,081	10,055	9,567	8,523	4.5%	-10.9%
Manati Field (10%)	3,060	3,291	3,025	2,033	1,925	-37.1%	-5.3%
Total PetroRio	11,217	13,372	13,080	12,191	20,272	80.7%	66.3%

Lifting Cost (US\$/bbl)							
PetroRio	34.0	26.6	30.6	30.8	24.0	-29.3%	-22.2%

Company's Estimated Reserves (Mboe)				
Reserves	Frade (52%)	Polvo (100%)	Manati (10%)	Total
Proved (1P)	30	14	3	47
Proved+Probable (2P)	46	21	3	70
Proved+Probable+Possible (3P)	62	30	3	96

# OPERATIONAL EFFICIENCY OF OPERATED FIELDS



## Measures taken to contain natural decline in 2019



### Short-term (3 months)

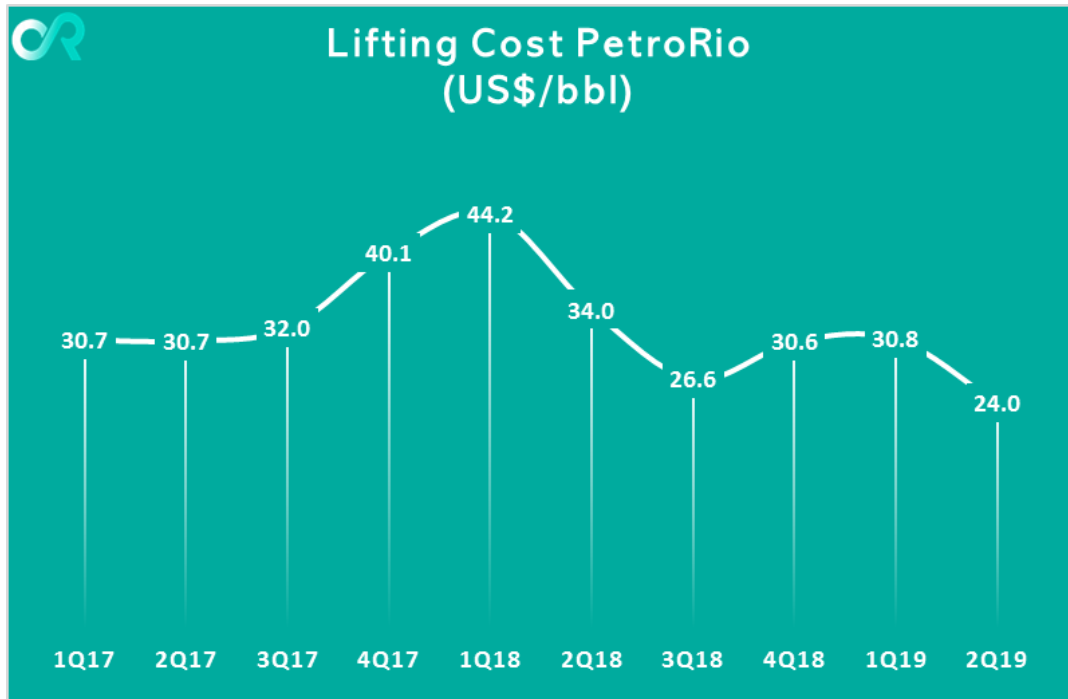
- 1) Gas injection
- 2) Well re-opening:
  - Hydrates
  - Fine solids



### Medium-term (6 months)

- 3) Water Shutoff
- 4) Well stimulation

# LIFTING COST OVER TIME



- ✓ 2Q19 improvement is mainly due to higher production from the incorporation of Frade
- ✓ Transition costs completely through as of August 2019.
- ✓ Synergies partially captured in 2Q19:  
**O&M and air logistics**
- ✓ Synergies to be captured from 3Q19 on:  
**Land and sea logistics**
- ✓ Total lifting cost to reach US\$ 20/bbl until December 2019



# FRADE DRILLING CAMPAIGN - 2020/2021









## FRADE REVITALIZATION

- Global drilling project – 4 producers and 3 injectors
- Drilling scheduled in two phases:
  - 1<sup>st</sup> phase – 1 producer and 2 injectors
  - 2<sup>nd</sup> phase – 3 producers and 1 injector
- 1<sup>st</sup> phase of investment, (proportional to 100% of the Field): US\$ 190-200 million



# FINANCIAL HIGHLIGHTS

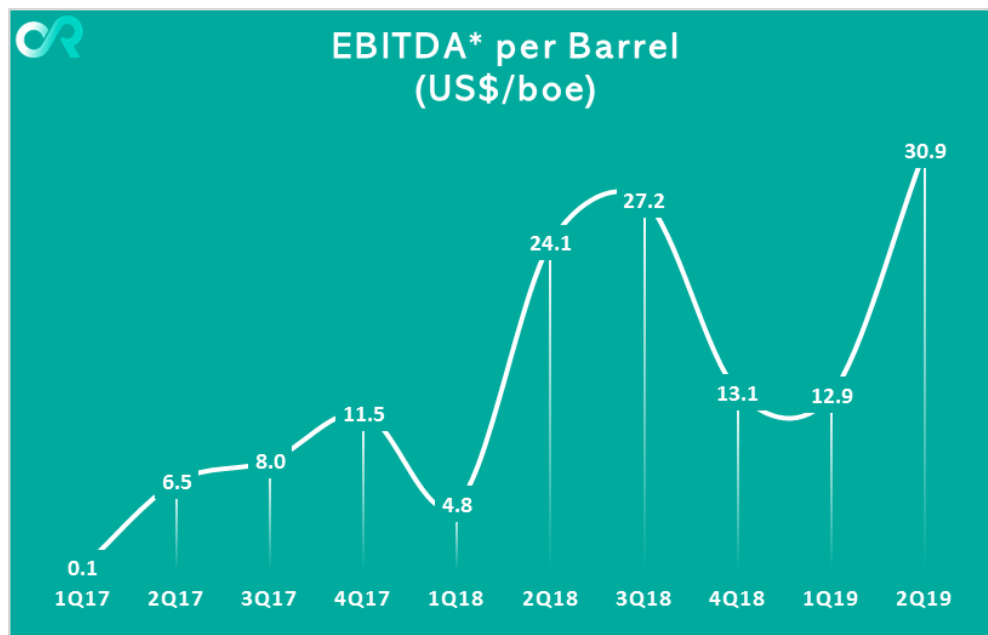
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-  Highest ever Net Revenue of R\$ 547.9 MM, a 129% increase vs 2Q18
-  R\$ 262.3 MM adjusted EBITDA\* (ex-IFRS 16), 184% vs 2Q18 and 643% higher than 1Q19
-  EBITDA per barrel at US\$ 30.9/bbl, the highest in the Company's history
-  Net Income of R\$ 163 MM (R\$ 156 MM ex-IFRS), 132% higher than in 2Q18
-  R\$ 287 MM in free cash flow, the highest ever recorded by the Company
-  Significant decrease in net debt and fast deleveraging for the next quarters

\*Adjusted EBITDA (ex-IFRS 16) excludes "Other revenues/expenses" and the effects of IFRS 16, that removes FPSO costs from "Cost of Goods Sold" and adds other componentes to D&A, also impacting interest expenses and exchange rate variations in "Financial Expenses".



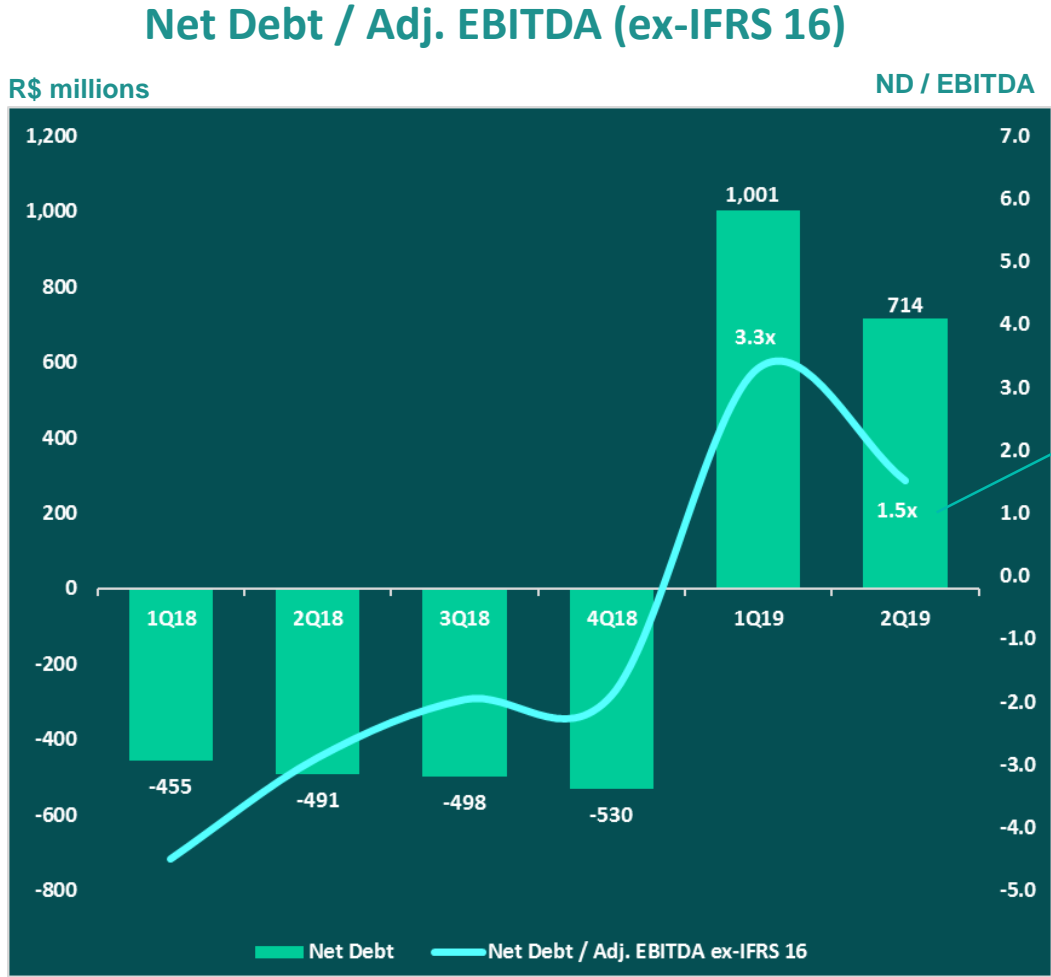
# EBITDA PER BARREL OVER TIME



- ✓ 2Q19 vs 2Q18 improvement, despite lower Brent prices
- ✓ Synergies between Polvo and Frade not yet fully incorporated in 2Q19 numbers
- ✓ US\$ 30,9/barrel is similar to players with over 2MM bbl/day in production

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# DELEVERAGING

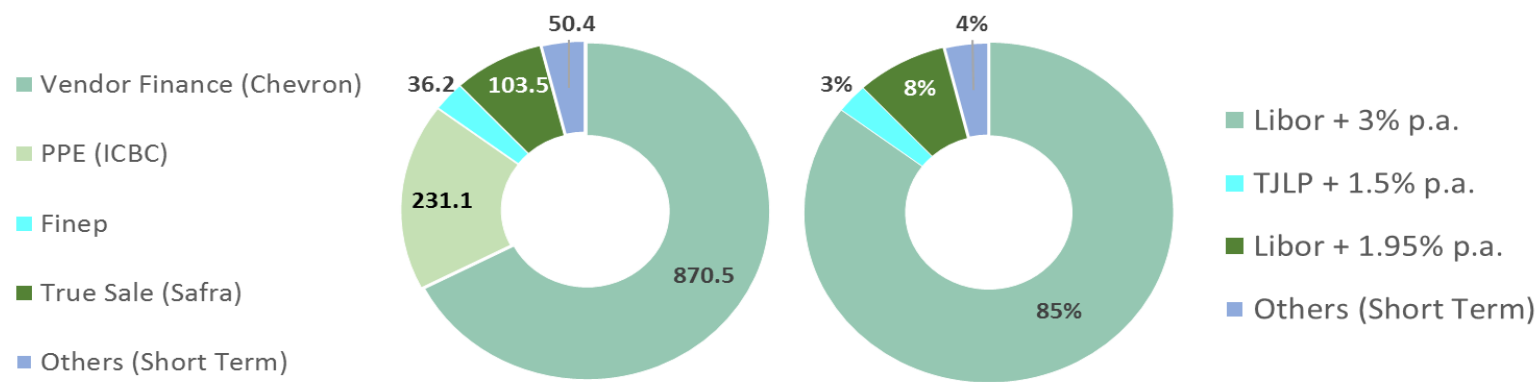


1.5x leverage takes into account all of the debt incurred with the Frade acquisition, but only includes 2Q19 of Frade's numbers.



# FUNDING

## Loans and Funding (R\$ thousand)



**Vendor Finance (Chevron)**

US\$ 224 million  
2 year term  
Libor + 3% p.a.  
Paying for the asset using its own cash flow with vendor finance

**PPE (ICBC)**

US\$ 60 million  
4 year term  
Libor + 3% p.a.  
Guarantees Polvo production sales to PetroChina

**Finep**

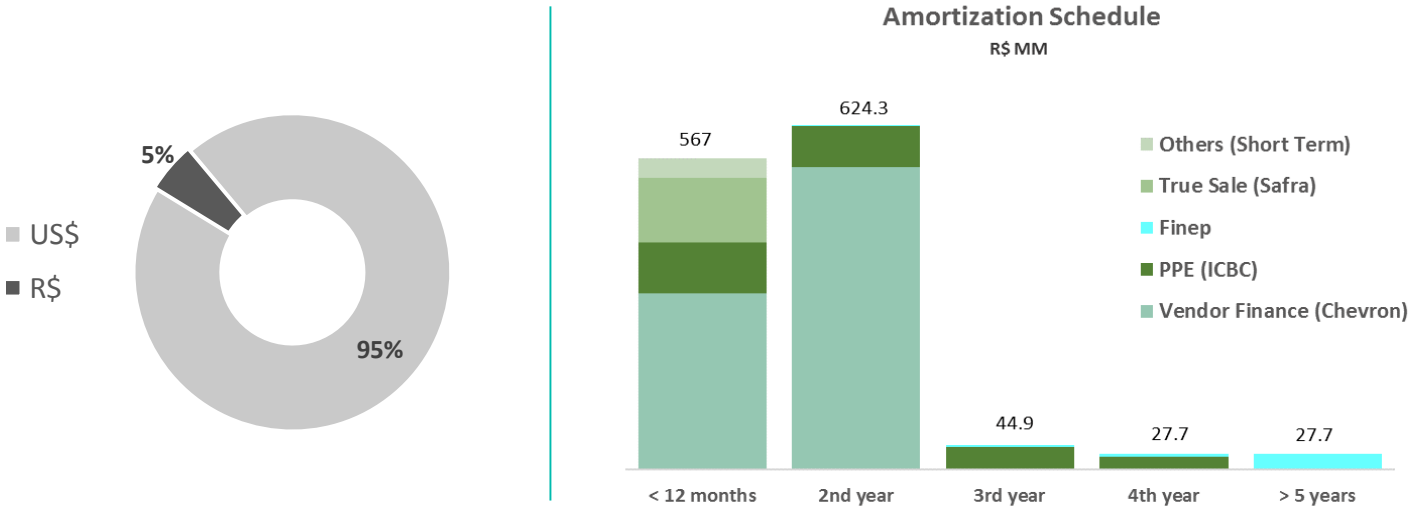
R\$ 90 million  
2.5 year grace period  
10 year term  
TJLP + 1.5% p.a.

**True Sale (Safra)**

US\$ 27 million  
2 month term  
Libor + 1.95% p.a.  
Receivables pre-payment

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# Q&A

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