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Seacrest Petroleo Bermuda Ltd. (SEAPT.NO)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

José Cotello
Chief Executive Officer & Director, Seacrest Petroleo Bermuda Ltd.

Welcome to the presentation of Seacrest Petroleo's Third Quarter 2024 Results. We are an independent oil and gas production company with a uniquely integrated portfolio of producing fields and export infrastructure in Brazil, where we have commenced it the largest offshore grading program of 300 infill wells. Please review our disclaimer.

Today's presentation will be held by myself, José Cotello, Chief Executive Officer and Thomas Kandel, Chief Financial Officer. These are the contents of today's presentation. We are going to start off going through our operational highlights for the third quarter. We've proved our ability to execute on our drilling program this quarter. We drilled 10 new wells on the Chicago and on budget with a single rig, and production from these wells was in line with our expectations. And in support of this, we have reached significant milestones in our financial strategy. We raised $8 million via a convertible offering and continue to work towards refinancing our debt.

Following quarter-end in October, we announced the signing of a binding term sheet for a [ph] farmed down (00:01:59) of a minority interest in our assets for up to $270 million and the term sheet for $40 million pre-payment facility with Trafigura. Third quarter production was 6,843 barrel of oil equivalent per day, down 14% sequentially. Petroleum revenues declined versus the previous quarter, despite higher offtakes in part due to the [ph] revenues we (00:02:30) realized under our prepayment agreements. These were based on FOB pricing which includes a discount to reflect shipping costs that have historically been accounted for in operating expenses. Production costs fell overall, but rose on a per barrel basis because of lower production. Production fell primarily because of an ANP requirement to construct modifications on truck loading sites which result in a temporary reduction of our production. We were the first independent oil company required to construct these loading systems. The approval process for these sites to return to operation also took the regulator longer than expected. However, we continued normal offtake operations with a 122,000 barrel overlift in Q3 compared to a 23,000 barrel underlift in the prior quarter.

We will now discuss our drilling program and operations. Our infill drilling program the largest onshore Brazil performed well during the quarter. After mobilizing a new rig in June, we drilled 10 new wells to target that on time and on budget. Trading time average about four days better than plan assumptions and much better than the performance at our first batch of wells. We've drilled an average of one new well per week, including transport and mobilization time. So we have demonstrated our ability to execute on the drilling program. We have tendered for fit-for-purpose rigs with shorter DTM and plan to ramp up activity building on our demonstrated success following the completion of our financing planning. This would allow us to accelerate drilling and production growth. We received six offers, have shortlisted two of them and we will decide on the winner this week. The rigs we are considering are currently active so we will not have to deal with reactivation [ph] for our gold stack (00:04:50).

In October, we encounter a steam leak at one of our infill wells that has not yet started its production. We addressed the matter immediately and in close cooperation with relevant regulators, there were no injuries to personnel. Spilled fluid was mostly water and clean-up is substantially complete. The compacted area around the well was cleaned in less than three days with no ground penetration and the motion of steam and oil that result from stopping the leak spread only around the top leaves of surrounding trees. And these were [ph] treatment (00:05:35) according to regulator recommendation. According to regulators we have been following up with weekly visits. There was no impact on any water resources.

Seacrest continues to work towards the repair and certification of the North pipeline. However, we are now in discussions to take over completion of the pipeline work and have received codes for the relevant materials and services totaling $2.5 million. We will be implementing a clamping solution, which is more fit-for-purpose and simpler and their work will be performed by an international engineering contractor with a leading track record. The proposed timeline for the work involved entails about 90 days of completion and with manufacture of the clients already underway. This would imply completion in the first quarter of 2025. As you know, VLSFO is historically priced at a premium to brand and sale of on-spec we removed $4 per barrel marketing fee for non-spec oil and eliminate the off-spec product discount.

I'll now turn over to Thomas, who will discuss our financial strategy. Thomas, good morning.

Thomas Kandel

Acting Chief Financial Officer & Investment Director, Seacrest Petroleo Bermuda Ltd.

Thank you, José. We have made major progress in our plan to be fully financed. Since, we last reported, we have completely – completed the first tranche of our convertible bond offering bringing in $8 million of new capital. We followed this up with the announcement that we signed term sheets for [indiscernible] (00:07:27) for up to $217 million of equity capital from MBD Partners, with long-term investors in the company with oil and gas expertize and a $40 million pre-payment facility from Trafigura. In order to facilitate this transaction, the company has entered into a forbearance agreement with its bank lenders. We also continue to work towards refinancing our debt as previously announced to refinancing our debt as previously announced. The high quality of our assets supported by recent positive drilling results has helped us explore these and those are options to strengthen the company's capital structure. And we continue to pursue other means of improving the company's liquidity profile, such as a deferment of payments to Petrobras and other sources of equity.

Realized oil prices went down 18.6% quarter-on-quarter. This was driven by too main factors. The decrease in Brent crude prices, but also a newly implemented of the contract reflecting FOB pricing, thereby discounting shipping costs from revenue which were previously an incremental operating cost. There was also a negative effect of $1.05 million in realized hedge losses. In addition, offtake volumes were up 8.5% sequentially during the quarter, partially offsetting the impact of realization on revenues.

Earnings for the quarter were down across the key indicators of total operating income, EBITDA, operating profit and profit before taxes. The driver of the lower earning was low revenues, coupled with increased cost of sales. The cost of sales increased as a result of the 122,000 barrel overlift in the quarter which was released – which released a $7.8 million of prior capitalized inventory costs on to the income statement. The opposite effect was apparent in Q2, where we capitalized $5.8 million of inventory onto our balance sheet.

The lower revenue accounted for $5.5 million delta Q-on-Q, and the inventory charge accounted for $13.6 million of delta Q-on-Q. So some of these effects resulted in a $19.1 million delta quarter-on-quarter on EBITDA, operating profit and profit before taxes. The production cost per barrel of oil equivalent increased by 8% quarter-on-quarter, driven by a 13% drop in production volumes offset by a 5% drop in production cost. The cash flow from operation trended positive quarter-on-quarter to an extension of the working capital cycle. The CapEx for the quarter increased as a result of drilling related activities.

In the third quarter, the company recorded a realized hedge loss of $1.05 million in revenue. The forward curve remained flat quarter-on-quarter at $71 per barrel on average, but with the fair value exposure decreased as a result of hedge settlement. The company has also entered into a relatively small production transaction for the next three years, as per the credit agreements obligation. CapEx for the quarter ended on $17.1 million, including $5.4 million of lease payments reflecting the drilling activity during the period. Our cash position went down for the quarter due to the investment in CapEx and foreign exchange losses.

I'll now pass it back to José to close out the presentation.

José Cotello

Chief Executive Officer & Director, Seacrest Petroleo Bermuda Ltd.

Thank you, Thomas. As a summary, we have released the PetroReconcavo drilling rig but we have tender for a fit-for-purpose drilling rigs with charter DTMs that will allow us for faster drilling activity once our financial plan has been completed. We are limiting cash expenses during this period to maintain operations. In the meantime, this means that our production levels will remain flat for longer than previously expected. However, given the excellent drilling performance demonstrated during the third quarter and encouraging production rates we are seeing from the new wells, we have more reason than ever to be confident in our ability to resume production growth once we have completed our financial plan.

We are also continuing to work on our reservoir modeling, which will allow us to perform more workover activities. During the quarter, we'll successfully improve our ability to drill on time and on budget. And we also took big financial steps to support our long-term growth strategy. We are continuing to make good progress in a clear plan to be fully financed and are setting the stage for a resumption and incineration in drilling activity. We are looking forward to delivering [indiscernible] (00:12:56) and profitable growth. And thank you for your continued support.