Quarterly information - ITR

Petro Rio S.A.

March 31, 2016
Independent Auditors' Report on the Review of the Quarterly Information

Petro Rio S.A.

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Independent auditors' report on the review of the quarterly information

To the Shareholders, Board Members and Directors of
Petro Rio S.A.
Rio de Janeiro - RJ

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Petro Rio S.A. ("Company" previously HRT Participações em Petróleo S.A.) identified as individual and consolidates, respectively, included in the Interim Financial Information (ITRs), for the quarter as of March 31, 2016, which comprises the balance sheet at March 31, 2016, and the respectively income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended, including the explanatory notes.

The Company´s Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with Accounting Pronouncements CPC 21 (R1) - Interim Financial Reporting and in accordance with IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Brazilian and International standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITRs referred to above are not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of Interim Financial Information (ITRs), and presented in accordance with the standards issued by CVM.

Other matters

Statements of Value Added (DVA)

We have also reviewed the condensed individual and consolidated statements of value added for the three-month period ended March 31, 2016, prepared under the responsibility of the Company's management, the presentation of which in the interim financial information is required by the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Financial Information (ITR), and as supplementary information for IFRS, under which there is no requirement to present a statement of value added. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they were not presented, in all material respects, in relation to the overall interim condensed individual and interim financial information.

Conclusion on the interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITRs referred to above are not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of Interim Financial Information (ITRs), and presented in accordance with the standards issued by CVM.

Other matters

Statements of Value Added (DVA)

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Rio de Janeiro, March 21, 2016

BKR - Lopes, Machado Auditores
CRC-RJ-2026-0

Independent Member of BKR International

Mário Vieira Lopes
Contador - RJ - 060611/O

Petro Rio S.A.

Balance sheets (financial position)
March 31, 2016 and December 31, 2015
(In thousands of reais)

	Note	Parent company		Consolidated	
		03/31/2016	12/31/2015	03/31/2016	12/31/2015
Assets					
Current assets					
Cash and cash equivalents	3	**349**	3,099	**165,487**	283,951
Securities	4	**28,319**	32,155	**329,861**	213,090
Derivative financial instruments	27	**-**	-	**142**	-
Accounts receivable	5	**-**	-	**123,308**	244,499
Oil inventories	22	**-**	-	**65,364**	25,279
Recoverable taxes	6	**1,936**	2,227	**29,363**	26,801
Advances to suppliers	7	**537**	3	**30,708**	28,291
Deposits and pledges	18	**-**	-	**2,021**	-
Prepaid expenses		**616**	206	**6,559**	722
Other receivables		**3**	3	**3,338**	3,545
		31,760	37,693	**756,151**	826,178
Non-current assets available for sale	8	**-**	-	**66,391**	73,644
		31,760	**37,693**	**822,542**	899,822
Non-current assets					
Long-term assets					
Advances to suppliers	7	**-**	-	**12,596**	12,596
Deposits and pledges		**4,448**	4,426	**11,832**	11,594
Recoverable taxes	6	**7,744**	7,808	**20,019**	20,084
Deferred taxes		**-**	-	**1,381**	1,226
Related parties	20	**396**	367	**-**	-
Investments	9	**836,142**	908,650	**-**	-
Property, plant and equipment	10	**423**	447	**58,834**	69,949
Intangible assets	11	**21**	29	**171,789**	161,766
		849,174	921,727	**276,451**	277,215
Total assets		**880,934**	959,420	**1,098,993**	1,177,037

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Balance sheets (financial position)
March 31, 2016 and December 31, 2015
(In thousands of reais)

		Parent company		Consolidated	
	Note	03/31/2016	12/31/2015	03/31/2016	12/31/2015
Liabilities and shareholders' equity					
Current liabilities					
Suppliers	12	**797**	315	**72,292**	52,469
Labor obligations		**234**	278	**7,547**	7,373
Taxes and social contributions	13	**4,559**	4,501	**13,690**	13,082
Debentures	14	**1,604**	664	**1,604**	664
Advances from partners	18	**-**	-	**7,313**	7,658
Other liabilities		**-**	-	**3,732**	4,177
		7,194	5,758	**106,178**	85,423
Non-current liabilities					
Suppliers	12	**-**	-	**12,710**	12,710
Debentures	14	**31,454**	31,461	**31,454**	31,461
Provision for abandonment (ARO)	17	**-**	-	**50,232**	68,033
Provision for contingencies	29	**947**	947	**58,524**	60,879
Deferred taxes and social contributions	16	**-**	-	**4,602**	4,087
Investment deficit	9	**6,346**	7,149	**-**	-
Other liabilities		**-**	-	**300**	339
		38,747	39,557	**157,822**	177,509
Minority interest		**-**	-	**-**	-
Shareholders' equity	19				
Realized capital stock		**3,265,192**	3,265,185	**3,265,192**	3,265,185
Capital reserves		**101,720**	101,720	**101,720**	101,720
Accumulated translation adjustment		**362,228**	387,451	**362,228**	387,451
Equity valuation adjustments	4	**11,490**	-	**11,490**	-
Accumulated losses		**(2,840,250)**	(2,950,672)	**(2,840,250)**	(2,950,672)
Income (loss) for the period		**(65,387)**	110,421	**(65,387)**	110,421
		834,993	914,105	**834,993**	914,105
Total liabilities and shareholders' equity		**880,934**	959,420	**1,098,993**	1,177,037

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of income
Three-month period ended March 31, 2016 and 2015
(In thousands of reais, except earnings/losses per share)

	Note	Parent company		Consolidated	
		03/31/2016	03/31/2015	03/31/2016	03/31/2015
Net income	21	**-**	**-**	**41,509**	4,853
Costs of products/services	22	**-**	-	**(66,577)**	(4,037)
Gross Income		**-**	**-**	**(25,068)**	816
Operating income (expenses)					
Geology and geophysics expenses		**-**	-	**(178)**	(76)
Personnel expenses		**(1,595)**	(1,310)	**(5,903)**	(6,698)
General and administrative expenses		**(800)**	(1,210)	**(2,262)**	(6,445)
Expenses with Outsourced Services		**(1,073)**	(1,707)	**(6,550)**	(5,812)
Taxes and rates		**(207)**	(30)	**(352)**	(601)
Depreciation and amortization expenses		**(31)**	(41)	**(327)**	(814)
Equity in income of subsidiaries	9	**(58,316)**	(48,483)	**-**	-
Other operating income (expenses), net	23	**45**	1	**(2,168)**	(18,568)
Operating income (loss) before financial income (loss)		**(61,977)**	(52,780)	**(42,808)**	(38,198)
Financial income	24	**1,702**	1,961	**89,896**	59,949
Financial expenses	24	**(5,112)**	(2,720)	**(112,115)**	(75,753)
Income before income and social contribution taxes		**(65,387)**	(53,539)	**(65,027)**	(54,002)
Current income and social contribution taxes		**-**	-	**-**	(882)
Deferred income and social contribution taxes	16	**-**	-	**(360)**	1,345
Consolidated Income (loss) for the period		**(65,387)**	(53,539)	**(65,387)**	(53,539)
Income (loss) attributed to the Parent company's partners		**(65,387)**	(53,539)	**(65,387)**	(53,539)
Income (loss) attributed to non-controlling partners		**-**	**-**	**-**	**-**
Earnings (loss) per share - basic and diluted					
Basic		***(0,992)***	*(1,800)*	***(0,992)***	*(1,800)*
Diluted		***(0,992)***	*(1,800)*	***(0,992)***	*(1,800)*

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of comprehensive income
Three-month period ended March 31, 2016 and 2015
(In thousands of reais)

	Consolidated	
	03/31/2016	**03/31/2015**
Retained earnings (loss)	**(65,387)**	(53,539)
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**(25,223)**	59,374
Equity valuation adjustments	**11,490**	-
Other comprehensive income for the year, net of taxes	**(13,733)**	59,374
Total comprehensive income for the year net of taxes	**(79,120)**	5,835
Attributable to parent company's shareholders	**(79,120)**	5,835

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of changes in shareholders' equity
Three-month period ended March 31, 2016 and 2015
(In thousands of reais)

	Capital	Capital reserve	Equity valuation adjustment	Accumulated translation adjustment	Accumulated loss	Total
Balances at January 1, 2015	**3,821,206**	**416,914**	-	**361,162**	**(3,977,549)**	**621,733**
Paid-up capital	-	-	-	-	-	-
Translation adjustment on investment abroad	-	-	-	59,374	-	59,374
Gain (loss) with financial instruments	-	-	-	-	-	-
Loss for the period	-	-	-	-	(53,539)	(53,539)
Balances at March 31, 2015	**3,821,206**	**416,914**	**-**	**420,536**	**(4,031,088)**	**627,568**
Balances at January 1, 2016	**3,265,185**	**101,720**	**-**	**387,451**	**(2,840,250)**	**914,105**
Capital increase in cash	7	-	-	-	-	7
Translation adjustment on investment abroad	-	-	-	(25,223)	-	(25,223)
Gain (loss) with financial instruments	-	-	11,490	-	-	11,490
Loss for the period	-	-	-	-	(65,387)	(65,387)
Balances at March 31, 2016	**3,265,192**	**101,720**	**11,490**	**362,228**	**(2,905,637)**	**834,993**

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of cash flows
Three-month period ended March 31, 2016 and 2015
(In thousands of reais)

	Parent company		Consolidated	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Cash flows from operating activities				
Income (loss) for the period (before taxes)	**(65,387)**	**(53,539)**	**(65,027)**	**(54,002)**
Depreciation and amortization	31	41	11,581	4,851
Financial income	(1,371)	(1,961)	(87,188)	(59,949)
Financial expenses	4,984	2,720	107,147	75,753
Equity in income of subsidiaries	58,316	48,483	-	-
Loss/Write-off of non-current assets	-	-	2	561
Provision for contingencies/losses	-	-	4,137	19,186
	(3,427)	**(4,256)**	**(29,348)**	**(13,600)**
(Increase) decrease in assets				
Accounts receivable	-	-	102,821	71
Recoverable taxes	577	(269)	(2,668)	116
Prepaid expenses	(410)	(120)	(5,851)	(4,156)
Advances to suppliers	(534)	(4)	(4,378)	(192)
Inventory	-	-	(35,722)	(61,433)
Related parties	(64)	-	-	-
Other receivables	-	(4)	(101)	(8,173)
Increase (decrease) in liabilities				
Suppliers	484	(921)	21,074	5,466
Labor obligations	(45)	(98)	183	(208)
Taxes and social contributions	33	409	54	2,136
Related parties	-	858	-	-
Advances from partners in oil and gas operations	-	-	-	10,944
Other liabilities	-	-	(81)	34,810
Net cash (invested in) from operating activities	**(3,386)**	**(4,405)**	**45,983**	**(34,219)**
Cash flows from investment activities				
(Investment in) redemption of securities	1,001	52,700	(139,108)	53,538
Deposits and pledges	(22)	-	(2,260)	(70)
Non-current assets held for sale	-	-	-	17,491
(Purchase) sale of fixed assets	-	-	769	392
(Purchase) sale of intangible assets	1	-	(22,706)	(78,579)
Paid-up capital in subsidiary	(344)	(36,571)	-	-
Net cash (invested in) from investment activities	**636**	**16,129**	**(163,305)**	**(7,228)**
Cash flows from financing activities				
Debentures	-	-	-	-
Derivative transactions	-	-	(384)	-
Net cash (invested in) from financing activities	**-**	**-**	**(384)**	**-**
Translation adjustment	-	-	(758)	-
Net increase (decrease) in cash and cash equivalents	**(2,750)**	**11,724**	**(118,464)**	**(41,447)**
Cash and cash equivalents at the beginning of the year	3,099	49	283,951	350,634
Cash and cash equivalents at the end of the year	349	11,773	165,487	309,187
Net increase in cash and cash equivalents	**(2,750)**	**11,724**	**(118,464)**	**(41,447)**

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of value added (supplementary information for IFRS purposes)
Three-month period ended March 31, 2016 and 2015
(In thousands of reais)

	Parent company		Consolidated	
	03/31/2016	**03/31/2015**	**03/31/2016**	**03/31/2015**
Income				
Sale of services	**-**	-	**41,509**	4,853
Other income	**-**	-	**-**	-
	-	**-**	**41,509**	4,853
Inputs and services				
Third party's services and other	**(1,073)**	(1,707)	**(6,550)**	(5,812)
Geology and geophysics expenses	**-**	-	**(178)**	(76)
Costs of services	**-**	-	**(50,376)**	-
Gross added value	**(1,073)**	(1,707)	**(15,595)**	(1,035)
Retentions				
Depreciation and amortization	**(31)**	(41)	**(11,581)**	(4,851)
Net added value	**(1,104)**	(1,748)	**(27,176)**	(5,886)
Transferred value added				
Net financial income (loss)	**(3,409)**	(759)	**(22,219)**	(15,804)
Equity in income of subsidiaries	**(58,316)**	(48,483)	**-**	-
Deferred taxes	**-**	-	**(360)**	1,345
Rents, royalties and other	**(755)**	(1,208)	**(9,376)**	(25,013)
Added value payable	**(63,584)**	(52,198)	**(59,131)**	(45,358)
Distribution of added value				
Personnel	**1,596**	1,310	**5,903**	6,698
Taxes	**207**	31	**353**	1,483
Interest attributable to Group's shareholders	**(65,387)**	(53,539)	**(65,387)**	(53,539)
Distributed added value	**(63,584)**	(52,198)	**(59,131)**	(45,358)

See the accompanying notes to the quarterly information.

1. Operations

Petro Rio S.A. (PetroRio), was established on July 17, 2009. Headquartered in the city of Rio de Janeiro, Rio de Janeiro - RJ, Brazil, and is engaged in: (1) holding interests in other companies as partner or shareholder in Brazil or abroad, regardless of their type of business, and (2) (i) providing consulting services and research projects for environmental, oil, natural gas and mining, providing professional consulting services to companies in the areas of collection, chemical analyses (organic and inorganic) and interpreting data from geological, geochemical, geophysical surveys, and remote sensing for these data as well as consultant services for foreign trade; (ii) exploration, development and production of oil and natural gas; (iii) importing, exporting, refining, marketing and distributing oil, natural gas, fuels and petroleum products, and (iv) generating, marketing and distributing electricity. Its activities are the production of oil and natural gas, operating in Campos Basin.

For the purpose of this report, Petro Rio S.A. (PetroRio) and its subsidiaries are denominated, individually or jointly, as the Company.

In 2014, subsidiary Petro Rio O&G Exploração e Produção de Petróleo Ltda. (“PetroRioOG”) completed the commercial transaction for acquisition of 60% of concession contract with BP Energy do Brasil Ltda. (“BP”), and became the operator of Polvo Field, whose partner was Maersk Energia Ltda. (“Maersk”).

In addition, in 2014, the Company entered into a purchase and sale agreement with Maersk Energia Ltda. ("Maersk") to acquire 40% stake in Polvo field. On December 2, 2015, National Agency of Petroleum, Natural Gas and Biofuels (ANP) approved this transaction. With the conclusion of the Operation, PetroRio now holds 100% of Polvo Field.

As the only concessionaire of Polvo Field, the Company started in 2016 to execute the plan for extension of useful life of this Field through development of undeveloped proven reserves (1P) and probable reserves (2P) (Note 11).

The Polvo field is located in the southern portion of the Campos Basin (offshore) some 100 km east of the city of Cabo Frio in the state of Rio de Janeiro. Average daily output during the first quarter of 2016 was of roughly 7 thousand barrels (9 thousand barrels for the first quarter of 2015), with API 20.3°. The license covers an area of approximately 134 km2 with several prospects for future exploration.

Besides, the Company holds a 10% interest in two exploration blocks in onshore basins, located in the Recôncavo Basin (BA) and Espírito Santo (ES). The remaining 90% belong to Cowan, the consortium’s operator.

2. Preparation basis and presentation of quarterly information

2.1. Statement of conformity

The individual and consolidated quarterly information for the first quarters ended March 31, 2016 was prepared and are presented in accordance with accounting practices adopted in Brazil, which includes the provisions of Brazilian Corporation Law, Procedures, Guidance and Interpretations issued by Accounting Pronouncements Committee - CPC and approved by the Brazilian Securities Commission - CVM and by the Federal Accounting Council - CFC, which are in conformity with international accounting standards issued by *International Accounting Standards Board - IASB.*

The statements of value added are presented as supplementary information for IFRS - International Financial Reporting Standards purposes.

2.2. Basis of preparation

The individual and consolidated quarterly information was prepared based on the historical cost, except for derivative those measured at fair value, when indicated.

2.3. Functional currency and presentation currency

This individual and consolidated quarterly information is presented in Real, functional currency of the Company. The Company defined that its functional currency is the Brazilian Real and the functional currency of its overseas subsidiaries is the United States dollar, on account of its prior business plan and particularly as a result of its incurred costs of operation. All financial information presented in Reais has been rounded to the nearest value, except otherwise indicated.

2.4. New and reviewed standards and interpretations already issued and still not adopted

Standards, amendments and interpretations of existing standards not yet in force and effect and not adopted by the Company, have already been issued, but are not effective yet:

Pronouncement or interpretation	Description	Application to the business years/periods to be initiated on or after
IFRS 9	Financial instruments – measurement and classification;	January 1, 2018
IFRS 11	Accounting for the acquisition of interests in jointly-controlled operations;	January 1, 2016
IFRS 15	Income from contracts with clients	January 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 16 / IAS 38	Clarification on acceptable methods of depreciation and amortization	January 1, 2016

The Company understands that adopting these pronouncements will not relevantly impact its financial statements.

2.5. Effects of applying CPC 23 - Changes in estimates.

In December 2015, the Company, through a contracted international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo Field reserves, specifically of proven developed reserves motivated by a significant variation between the presented production curve and estimated production curve estimated by the Company in the beginning of 2015, based on a report, of the same certifying agency. Reevaluation indicated extension of field useful life up to the end of 2020 (previously indicated up to 2017). This extension represented a proportional reduction of Polvo assets amortization in 2015, including Fixed Platform “Polvo A”.

2.6. Accounting policies adopted

In response to CVM Official Circular Letter 003/2011, dated April 28, 2011, we declared that accounting policies adopted in the preparation of such quarterly information is presented in the most current annual financial statements (year ended December 31, 2015) which, in the absence of material changes during this period, are not included in their full form in this quarterly information, except for the following item, whose operation was not classified in financial statements of 2015:

2.6.1. Derivative financial instruments

The Company uses derivative financial instruments to provide protection against its exposure to changes in oil price risks (Note 27). The derivative financial instruments designated in hedging operations are initially recognized at fair value on the date on which the derivative contract is signed, and are subsequently restated also at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive; and as financial liabilities when the value is negative.

Any gain or losses resulting from changes in the fair value of derivatives during the fiscal year are stated directly in shareholders’ equity, in other comprehensive income, and are subsequently restated as income on realizing financial instruments.

2.7. Completion of quarterly information

The Company’s management authorized the conclusion of this quarterly information on May 12, 2016.

3. Cash and cash equivalents

	Parent company		Consolidated	
	03/31/2016	**12/31/2015**	**03/31/2016**	**12/31/2015**
Cash	**-**	-	**1**	1
Banks	**349**	3,099	**165,486**	283,950
	349	3,099	**165,487**	283,951
National	**6**	14	**3,296**	374
Abroad	**343**	3,085	**162,191**	283,577

The balance of cash and cash equivalents consists primarily of (i) remunerated accounts abroad, mostly in U.S. dollars and (ii) investment fund in U.S. dollars backed by American Treasury securities (Treasury Liquidity Fund), managed by JP Morgan, with immediate liquidity and insignificant risk of loss in value. The resources substantially originates from oil exports made by PetroRioOG subsidiary.

4. Securities

			Parent company		Consolidated	
Bank	**Currency**	**Remuneration**	**03/31/2016**	**12/31/2015**	**03/31/2016**	**12/31/2015**
Itaú BBA	BRL	75% CDI	**-**	117	**1,055**	9,424
JP Morgan	USD	0.32% p.a.	**28,319**	32,038	**28,319**	32,038
Santander	USD	1.8% p.a.	**-**	-	**-**	71,126
Bradesco	USD	0.95% p.a.	**-**	-	**-**	80,708
Votorantim	BRL	100.1% CDI	**-**	-	**7,652**	-
Total investments for trading			**28,319**	32,155	**37,026**	193,296

			Parent company		Consolidated	
Bank/ Issuer	**Currency**	**Remuneration**	**03/31/2016**	**12/31/2015**	**03/31/2016**	**12/31/2015**
Credit Suisse	USD	5.8% p.a.	**-**	-	**256,635**	-
Total available for sale			**-**	-	**256,635**	**-**

			Parent company		Consolidated	
Bank/ Issuer	**Currency**	**Remuneration**	**03/31/2016**	**12/31/2015**	**03/31/2016**	**12/31/2015**
Winterbotham	USD	6% p.a.	**-**	-	**36,200**	19,794
Total held to maturity			**-**	**-**	**36,200**	19,794
TOTAL			**28,319**	**32,155**	**329,861**	**213,090**

Marketable securities with Credit Suisse are liquid fixed income papers (preferably day-to-day) intended to create income from the cash position, with exposure to large-scale first-class institutions and complying with prudential concentration limits. These securities are

marked to market and on March 31, 2016 there was an 11,490 gain recorded in other comprehensive income, in shareholders' equity.

Financial investments carried out in JP Morgan are assigned in US dollars in Global Short Duration Bond Fund, focused on government and non-government securities rated as AAA.

Other investments were carried out in Time Deposits (TD), investment in fixed-term deposit in foreign currency with fixed remuneration pegged to US dollar variation. In addition, the Company made investments in repurchase and resale commitments backed by debentures, in domestic currency, linked to remuneration of interbank deposit certificate (CDI) (14.13% as of March 31, 2016) and holds a promissory note against United Capital International Inc. (Winterbotham), with 6% annual earnings, also pegged to changes in the US dollar.

5. Accounts receivable

	Consolidated	
	03/31/2016	**12/31/2015**
Glencore	**13,465**	15,875
Rosneft	**71,178**	78,096
Maersk	**13,491**	13,491
Shell	**24,912**	117,144
Petrobras	**-**	19,524
Other	**262**	369
Total	**123,308**	244,499
Total local currency	**200**	269
Total foreign currency	**123,108**	244,230

Glencore - The Company recorded accounts receivable from Glencore referring to partial reimbursement of interest of the letter of credit contracted on January 2015 and canceled in January 2016, in the amount of R$ 3.8 million (R$ 13,465), according to contract provision.

Rosneft – In May 2015, the Company entered into definitive contracts related to "FOA" (*Farm-Out Agreement*) for assignment of transactions and of 100% of interest in Concession Agreements for gas and oil blocks located in Sedimentary Basin of Solimões with total value of US$58 million receivable and US$18 million refundable referring to advance for acquisition of drilling rigs that were not included in new contracts. In July 2015 the Company was advised by ANP of approval of this Assignment of Rights. Of total net value, the Company still has to receive US$20 million (R$ 71,178) in May 2016, according to contract provision.

Maersk – In December 2015, ANP approved acquisition of 40% of remaining interest in Polvo Field, which previously belonged to Maersk. As a result of negotiations for commercial agreement, PetroRio has R$13,491 receivable as reimbursement of taxes levied on transaction, as detailed on Note 11.

Shell – In January and July 2015, the Company announced a purchase and sale agreements to acquire 80% and 20% interest of the rights and obligations of the concession contracts of Bijupirá and Salema ("BJSA") fields with Shell Brasil Petróleo Ltda. ("Shell") and Petróleo Brasileiro S.A. – Petrobras, respectively. In February 2016, Shell rescinded contract for the purchase and sale for acquisition of 80% of BJSA and FPSO Fluminense concession, as permitted by contract. In that same month, PetroRio rescinded contract with Petrobras for acquisition of 20% in BJSA concession.

Of the amounts paid to Shell and Petrobrás, there is still US$ 7 million (R$ 24,912) to be refunded by Shell of the total paid out as an advance. Petrobras has already repaid in full all advanced amount.

6. Recoverable taxes

	Parent company		Consolidated	
	03/31/2016	**12/31/2015**	**03/31/2016**	**12/31/2015**
Income and social contribution taxes	**9,600**	9,798	**12,952**	13,128
PIS and COFINS	**4**	4	**17,949**	14,688
ICMS (Value-added tax on sales and services) recoverable	**-**	-	**15,713**	15,713
VAT	**-**	-	**2,481**	2,975
Other	**76**	233	**287**	381
Total	**9,680**	10,035	**49,382**	46,885
Current assets	**1,936**	2,227	**29,363**	26,801
Non-current assets	**7,744**	7,808	**20,019**	20,084

7. Advances to suppliers

	Parent company		Consolidated	
	03/31/2016	**12/31/2015**	**03/31/2016**	**12/31/2015**
Queiroz Galvão Óleo & Gás (i)	**-**	-	**-**	37,682
Geoquasar Energy (ii)	**-**	-	**12,596**	12,596
BW (Prosafe) guarantee (iii)	**-**	-	**23,899**	25,861
Petrobras	**-**	-	**5,472**	-
Other	**537**	3	**1,337**	85
Subtotal	**537**	3	**43,304**	**76,224**
Provision for non-realization of assets (i)	**-**	-	**-**	**(35,337)**
Total	**537**	3	**43,304**	**40,887**
Total current assets	**537**	3	**30,708**	**28,291**
Total non-current assets	**-**	-	**12,596**	**12,596**

(i) The amount paid in advance to Queiroz Galvão refers to clause 24.2 of the agreements of Rigs QG-VIII and QG-IX, which started to be discounted from the monthly billing of said rigs as from October 2012. On February 2, 2016, the Company entered into an agreement with Queiroz Galvão to end dispute between the parties and determine that PetroRio will be refunded for R$2,345, fully settling the balance in question. On March 10, 2016, the amount of R$ 1,238 was paid to the Company, net of amount destined to court and attorney costs, provisioned on December 31, 2015.

(ii) The advances to Geoquasar refer basically to operating costs assumed by PetroRioOG and contractual payments in advance.

(iii) The advances to BW (Prosafe) - US$ 5,671 (R$ 20,183) and R$ 3,717 refer to contractual commitments and are held as a financial collateral from lease agreements and operation of FPSO Polvo (Note 15).

(iv) The sums advanced by Petrobras refer to fuel oil acquisition agreements to operate the fixed platform, FPSO and supply boats. These sums were advanced based on discounts on the final acquisition prices.

8. Non-current assets available for sale

The Company started 2016 with three aircrafts and four helitransportable drilling rigs, classified as non-current assets held for sale. Among these assets, an aircraft was sold for R$ 800 and a purchase and sale proposal was undersigned for another aircraft, totaling US$ 1275 thousand (R$ 4537). On March 31, 2016 2 aircrafts and 4 drilling rigs remained.

The table below shows the non-current assets held for sale:

	Balance at 12/31/2015	Transfers	Write-offs	Commission	Impairment	Translation adjustment	**Balance at 03/31/2016**
Aircrafts	**12,417**	**-**	(800)	-	-	(1,029)	**10,588**
Rigs	**61,227**	**-**	-	-	-	(5,424)	**55,804**
	73,644	-	(800)	-	-	(6,453)	**66,391**

	Balance at 12/31/2014	Transfers	Write-offs	Commission	Impairment	Translation adjustment	**Balance at 12/31/2015**
Aircrafts	**26,828**	**-**	(18,052)	-	(2,074)	5,715	**12,417**
Rigs	**95,623**	**-**	-	(1,239)	(77,423)	44,266	**61,227**
Solimões	**135,707**	25,349	(161,056)	-	-	-	**-**
	258,158	25,349	(179,108)	(1,239)	(79,497)	49,981	**73,644**

Assets held for sale are recorded at fair value. The sale of assets held for sale is considered highly likely and the Company maintains an active search for buyers. In addition, Management has been making the necessary efforts to successfully sell such assets by amounts equal or higher than those recorded. Changes in economic conditions or in transactions currently under discussion may result in the recognition of further losses to those already recognized.

9. Investments

At March 31, 2016 and December 31, 2015, the Company presented the following main interest held in subsidiaries:

- **Petro Rio O&G Exploração e Produção de Petróleo Ltda. ("PetroRioOG")**

  The subsidiary was created on July 20, 2009, with headquarters in Rio de Janeiro, and engages in: (i) exploration, development and production of oil and natural gas; (ii) import, export, refining, sale and distribution of oil, natural gas, fuel and oil by-products; (iii) generation, sale and distribution of electric power; and (iv) equity interest holding in other companies.

  PetroRioOG has the concession of Polvo Field, located in the South portion of Campos Field, in Rio de Janeiro State. Since March 2011, PetroRio already operated as Operator B, in shallow waters and, beginning as of October 2015, PetroRioOG was qualified as Operator A by ANP, which permits conduction of activities in land areas, and shallow, deep and ultra-deep waters.

  On October 7, 2015, PetroRio paid-up capital of PetroRioOG, in the amount of R$197,269, with shares of PTRIntl; now, PetroRioOG holds 74.7% of interest in PTRIntl capital.

- **Petro Rio Internacional S.A. ("PTRIntl")**

  The subsidiary with head office in Rio de Janeiro, former Labrea Petróleo S.A. and HRT Africa Petróleo S.A. had the new corporate name approved on November 10, 2015 and its corporate purpose is: (i) exploration, development and production of oil and natural gas; (ii) import, export, refining, sale and distribution of oil, natural gas, fuel and oil by-products; (iii) generation, sale and distribution of electric power; and (iv) equity interest holding in other companies.

  All Group's companies located outside of Brazil, except for HRT America, are consolidated under a single corporate structure having PTRIntl as head office in Brazil.

  Currently, main companies controlled by PTRIntl are HRT Lux Energy S.à.r.l. e a HRT Netherlands BV, companies that have large assets in operation or held for sale. The acquisition of HRT Lux Energy S.à.r.l. (prior BP Energy América LLC) was part of the acquisition of Polvo field and owner of a 3,000 HP drilling rig, which is the equipment needed for operations in this field.

  Also under this corporate structure are subsidiaries located in Luxembourg and the Republic of Namibia, also in the branch of PTRIntl, also in Namibia.

On March 9, 2016, PetroRio announced that, as a result of current scenario of oil and gas industry and after a long period of dialogues with Namibia' government, it decided not to renew its oil exploration licenses in that country. Accordingly, the Company will not make new investments in Namibia. A provision was recorded for previous investments in field exploration (Impairment) in prior years.

Additionally, PTRIntl has interest in a block in the Recôncavo Basin and one Block in Espírito Santo Basin (ES), where is non-operator (Note 11).

- **HRT America Inc ("HRTA")**

  On March 4, 2011, HRT America Inc. was established (HRTA) was incorporated according to the Delaware laws and head office in Houston, in the United States. The subsidiary was incorporated primarily to provide geological and geophysical services to the affiliates, mainly to PTRIntl and its subsidiaries.

Portfolio of concessions

On March 31, 2016 the Company's subsidiaries were participants in the following concessions in Brazilian basins

Country	Basin	Block	Operator	% HRT	Status
Brazil	Fields	BM-C-8	PetroRioOG	100%	Operator
Brazil	Espírito Santo	ES-T-400	PTRIntl	10%	Non-operator
Brazil	Recôncavo	REC-T-158	PTRIntl	10%	Non-operator

a) Breakdown of investments

	Parent company	
	03/31/2016	12/31/2015
PetroRioOG	**768,679**	829,796
HRTA	**(6,346)**	(7,149)
PTRIntl	**67,463**	78,854
	829,796	901,501
Total permanent assets	**836,142**	908,650
Total Unsecured Liability	**(6,346)**	(7,149)

b) Changes in investment

	PetroRioOG	PTRIntl	HRTA	Total
Balance at January 01, 2015	**350,693**	**269,341**	**379**	**620,413**
Capital increase	233,840	(197,268)	1,000	**37,572**
Equity in income of subsidiaries	152,368	(26,801)	(8,269)	**117,298**
Conversion adjustments	92,895	33,582	(259)	**126,218**
Balance at December 31, 2015	**829,796**	**78,854**	**(7,149)**	**901,501**
Capital increase/decrease	-	-	344	**344**
Equity in income of subsidiaries	(52,630)	(5,525)	(161)	**(58,316)**
Equity evaluation adjustments	11,490	-	-	**11,490**
Conversion adjustments	(19,977)	(5,866)	620	**(25,223)**
			-	
Balance at March 31, 2016	**768,679**	**67,463**	**(6,346)**	**829,796**

c) Relevant information on investees as of March 31, 2016

	PetroRioOG	PTRIntl	HRTA
Direct interest	100.0%	25.5%	100.0%
Indirect interest	0.0%	74.5%	0.0%
Shareholders' equity	768,679	264,789	(6,346)
Income (loss) for the period	(52,630)	(6,476)	(161)
Total assets	1,156,382	273,677	457

10. Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 03/31/2016	Balance at 12/31/2015
In operation						
Polvo A platform and drilling rig	*UOP	101,439	(65,032)	20,890	57,297	68,215
Furniture and fixtures	10	808	(452)	-	356	407
Communication equipment	20	239	(187)	-	52	64
Vehicles	20	345	(345)	-	-	13
IT equipment	20	4,460	(4,438)	-	22	145
Leasehold improvements	4	1,301	(209)	1	1,093	1,091
Facilities	10	16	(2)	-	14	14
Total		108,608	(70,665)	20,891	58,834	69,949

*UOP – Units of Production (Unit-of-production depreciation method)

b) Changes in balance

	Balance at 01/01/2016	Additions	Write-offs	Depreciation	Translation adjustment	Balance at 03/31/2016
In operation						
Polvo A platform and drilling rig	**68,215**	**-**	**-**	**(5,347)**	**(5,571)**	**57,297**
Machinery and equipment	**-**	**-**	**-**	**-**	**-**	**-**
Furniture and fixtures	**407**	**-**	**-**	**(51)**	**-**	**356**
Communication equipment	**64**	**-**	**-**	**(12)**	**-**	**52**
Vehicles	**13**	**-**	**-**	**(13)**	**-**	**-**
IT equipment	**145**	**16**	**-**	**(139)**	**-**	**22**
Leasehold improvements	**1,091**	**15**	**-**	**(13)**	**-**	**1,093**
Facilities	**14**	**-**	**-**	**-**	**-**	**14**
Total	**69,949**	**31**	**-**	**(5,575)**	**(5,571)**	**58,834**

	Balance at 01/01/2015	Additions	Write-offs	Depreciation	Translation adjustment	Balance at 12/31/2015
In operation						
Polvo A platform and drilling rig*	63,493	-	-	(17,701)	22,423	68,215
Machinery and equipment	1,004	133	(971)	(186)	20	-
Furniture and fixtures	1,351	185	(1,108)	(252)	231	407
Communication equipment	86	22	-	(44)	-	64
Vehicles	228	-	(158)	(79)	22	13
IT equipment	2,053	7	(1,030)	(1,152)	267	145
Leasehold improvements	1,875	142	(1,025)	(305)	404	1,091
Facilities	2,832	-	(3,374)	(7)	563	14
In progress						
Material for use and consumption (wells)	3	-	(3)	-	-	-
Total	72,925	489	(7,669)	(19,726)	23,930	69,949

(*) Reduction in relation to prior period as a result of new evaluation on reserves, as explained in note 2.5.

11. Intangible assets (consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated	
		03/31/2016	12/31/2015
Oil & Gas assets			
Subscription bonus - Recôncavo - ES	(*)	**151**	151
Subscription bonus - Polvo	(*)	**335,530**	335,530
Exploration / development expenses	(*)	**22,876**	170
Software and others	20	**8,790**	8,790
		367,347	344,641
Accumulated amortization		**(195,558)**	(182,875)
Total		**171,789**	161,766

(*) Subscription bonuses and exploration expenses are amortized by the unit of production method, considering the production of each concession and the volume of reserves. If economically feasible hydrocarbon reserves are not identified, these costs will be posted to P&L.

b) Changes in balance

	Balance at 01/01/2016	Additions	Write-offs	Amortization	Foreign exchange	Translation adjustment	Balance at 03/31/2016
Subscription bonus - Reconcavo - ES	151	-	-	-	-	-	**151**
Subscription bonus - Polvo	161,298	-	-	(12,583)	-	-	**148,715**
Exploration / redevelopment expenses	170	22,706	-	-	-	-	**22,876**
Software and others	147	-		(100)	-		**47**
	161,766	**22,706**	**-**	**(12,683)**	**-**	**-**	**171,789**

	Balance at 01/01/2015	Additions	Write-offs	Amortization	Foreign exchange	Translation adjustment	Balance at 12/31/2015
Subscription bonus - Reconcavo - ES	151	-	-	-	-	-	151
Subscription bonus - Polvo	170,140	175,864	(137,877)	(46,829)	-	-	161,298
Advance acquisition 40% – Polvo (Maersk)	4,430	-	(7,709)	-	3,279	-	-
Exploration expenses	170	-	-	-	-	-	170
Software and others	2,060	36	(1,274)	(1,170)	-	495	147
	176,951	175,900	(146,860)	(47,999)	3,279	495	161,766

The subscription bonus for each block is presented below:

Blocks	**12/31/2015**	**Amortization**	**03/31/2016**
Onshore			
ES-BT-400	100	-	**100**
REC-T-158	51	-	**51**
Total exploratory onshore bonus (non-operator)	151	-	**151**
Offshore			
BM-C-8 - Polvo	161,298	(12,583)	148,715
Total production offshore bonus (operator)	161,298	(12,583)	**148,715**

On conclusion of the 40% Campo de Polvo acquisition in January 2016, PetroRio put in place the first stage of the Polvo revamping plan, intended to extend its useful life by increasing production based on undeveloped proved reserves (1P) and probable reserves (2P), involving three existing wells, two of which operating.

The investment stated during the first quarter of 2016 was of R$ 22,706. Studies indicate a likely 1.7-million barrel increase in proved reserves. Estimated output by Polvo in 2016 should be roughly 5% greater than last year's average.

Acquisition of interest

On December 2, 2015, the Company completed commercial transaction with Maersk referring to transfer of 40% of interest in Polvo Field, thus assuming 100% of interest in the Field where it already was the operator.

Conclusion of final transaction price was determined on February 25, 2016, confirming amounts surveyed in December 2015.

	Consolidated
Original transaction amount – base April 1, 2014	**46,682**
(-) Price adjustments – base December 2, 2015	(2,815)
Final transaction consideration – base December 2, 2015	**43,867**
(-) The anticipated value as of July 10, 2014 (restated up to December 2, 2015)	(7,709)
Residual consideration - base date December 02, 2015	**36,158**

After completion of negotiations, forgiveness of owed residual consideration was defined and payment of determined amounts is no longer necessary. In addition, Maersk committed itself with transferring US$3.5 million (R$13,491) as reimbursement of taxes on revenue generated by this forgiveness. This agreement also contemplated supply of a financial guarantee by Maersk, backed by Bank Crédit Agricole Corporate and Investment (France) Sweden Branch, in the amount of US$34,245 thousand (R$133,719 as of December 2, 2015), guaranteeing deposit of said amount, on behalf of PetroRio, in abandonment fund to be created by PetroRio as soon as requested or at most up to December 31, 2020.

Also in relation to acquisition, Maersk forgave debt of HRT Lux Energy S.à.r.l., owner of fixed platform Polvo A, in the amount of US$13.6 million (R$52,647 as of December 2, 2015).

In addition to increase in field value, with assumption of 100% of interest, the Company increased the provision for Field abandonment by US$34,245 thousand (R$131,997 as of December 2, 2015) in liabilities, as a contra-entry to intangible assets, increasing recorded accounting value by the same amount (Note 17).

Increase of Polvo Field useful life

In December 2015, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo Field, specifically of proven developed reserves motivated by variation between performed and presented production curve in the beginning of 2015. Reevaluation indicated extension of field useful life up to the end of 2020 (before the field useful life was estimated up to 2017). This extension represents a proportional reduction of Polvo assets amortization, including Fixed Platform “Polvo A”.

12. Suppliers

	Parent company		Consolidated	
	03/31/2016	**12/31/2015**	**03/31/2016**	**12/31/2015**
Domestic suppliers	**772**	266	**50,405**	41,556
Suppliers no exterior	**25**	48	**34,597**	23,623
	797	314	**85,002**	65,179
Total current liabilities	**797**	314	**72,292**	52,469
Total non-current liabilities	**-**	-	**12,710**	12,710

13. Taxes and social contributions payable

	Parent company		Consolidated	
	03/31/2016	**12/31/2015**	**03/31/2016**	**12/31/2015**
PIS and Cofins on service imports	**8**	-	**2,265**	1,768
Sales taxes	**-**	-	**169**	93
IRRF on services	**118**	88	**676**	1,050
Social contribution on services	**-**	9	**-**	439
INSS	**4,399**	4,401	**6,144**	5,729
Tax on Equity	**-**	-	**3,187**	3,494
FGTS	**2**	3	**160**	229
Other	**32**	-	**1,089**	280
Total	**4,559**	4,501	**13,690**	13,082

14. Debentures

The meeting of the Company's Board of Directors' held on October 27, 2014 approved the 1st issue of convertible debentures in a single series, subordinated and unsecured, of private placement, amounting to R$ 90 million.

On December 9, 2014, the placement was completed, with the subscription of a total of 4,359,624 debentures, totaling R$87,192.

The debentures have a term of five (5) years, maturing in October 24, 2019, and bear interest corresponding to the accumulated variation of 90% of the average daily rates of the DI rate.

The debentures may be converted into shares at the sole discretion of the debentureholders, since October 24, 2015 until the date of maturity of the debentures (exclusive). The number of shares to be delivered to the debentureholders on the date of conversion of the debentures will be the result of dividing the par value of the debentures by the lesser of: (i) the weighted average, based on the daily volume, of the closing price of the shares in the last ten (10) trading sessions on BM&FBOVESPA, preceding October 27, 2014, applying a 25% discount; or (ii) the weighted average, based on the daily volume, of the closing price of shares in the last 10 trading sessions on the BM&FBOVESPA, prior to receipt of the conversion request by applying a discount of 25%, thus giving a conversion

price. The Management has assessed this conversion option on March 31, 2016, and in accordance with financial models has concluded that there is no attributable value at the present time.

In accordance with the debentures issuance deed, early maturity clause nº 4.12, the debentures shall be reported as early overdue in the occurrence of any following hypothesis:

- Bankruptcy, judicial or extrajudicial recovery request of the issuing company;
- Protest of debt-claims for amounts greater than R$ 100,000;
- Mergers, consolidations and split-ups without prior consent of debentureholders, in accordance with Corporation Law.

The full remuneration will be paid semiannually, with the first payment was made six (6) months after the date of issuance of debentures.

	01/01/2016	Addition	Write-off	Conversion of shares	03/31/2016
Principal	31,461	-	-	(7)	**31,454**
Financial charges	664	940	-	-	**1,604**
Total	**32,125**	**940**	**-**	**(7)**	**33,058**
Current	664	940	-	-	1,604
Non-current	31,461	-	-	(7)	31,454

Up to March 31, 2016, debentureholders opted to convert 2,786,895 debentures (R$ 55,738 reversed to realized capital stock), representing around 64% of total issued debentures.

15. Operational lease (lessee)

Prosafe Production B.V. (currently owned by BW Offshore - "BWO")

The subsidiary PetroRioOG (lessee) has a lease agreement of a FPSO vessel with Prosafe (lessor) entered into on December 10, 2013, with one-year term, and may be renewed annually up to May 1, 2022. The sum appropriated during the three-month period ended on March 31, 2016 was of R$ 23,983 (US$ 6146 thousand) and during the three-month period ended on March 31, 2015 was of R$ 11,345 (US$ 3952 thousand).

16. Current and deferred income tax and social contribution

	Tax loss and negative social contribution basis		Tax credits not recognized	
Companies	**03/31/2016**	**12/31/2015**	**03/31/2016**	**12/31/2015**
PetroRio	**81,329**	77,830	**27,652**	26,462
PetroRioOG	**1,278,172**	1,250,544	**434,578**	425,185
PTRIntl	**10,204**	10,201	**3,469**	3,468
Total	**1,369,705**	1,338,575	**465,700**	455,116

The Company has tax loss carry forwards and negative social contribution tax generated in Brazil, which may be offset against future taxable profit, limited to 30% every year. Management opted not to account for said tax credits, which will be recognized as the future taxable income is being generated.

The provision for deferred income and social contribution tax liabilities are as follows:

	Consolidated	
	03/31/2016	**12/31/2015**
Temporary differences on fair value recognized assets on in business combinations (decreased in the same proportion of the asset amortization)	**4,602**	4,087
Deferred income tax and social contribution in liabilities	-	-
Total	**4,602**	4,087

17. Provision for abandonment (ARO)

Changes in the provision for abandonment of wells in the Polvo field are shown below:

	Provision for abandonment
December 31, 2014	**138,039**
Addition	131,997
Decrease	(137,368)
Currency adjustment	62,515
Price-level restatement	6,569
December 31, 2015	**201,752**
Currency adjustment	(16,215)
Price-level restatement	(3,431)
March 31, 2016	**172,106**
(-) Accounts receivable guarantee Maersk, net of exchange fluctuation	(121,874)
Net balance of liabilities	**50,232**

The estimated abandonment costs were provisioned for the period ended March 31, 2016. This provision corresponds to PetroRio interest of 100% (as from December 2, 2015), and reflects the estimated present value discounted at the rate of 3.30% per annum and monetary restated at the rate of average 1.82% per annum. In addition, amounts are adjusted by the variation of the U.S. dollar. These costs will be incurred in the abandonment of the Polvo field, including, but not limited to the plugging of wells, and the removal of production lines and equipment.

On December 2, 2015, with acquisition of 40% of additional interest in Polvo Field, previously held by Maersk, the Company increased this provision by US$34,245 thousand (R$ 121,875). This increase directly impacted intangible assets, increasing recorded accounting value by the same amount. According to acquisition contract, Maersk presented a letter of credit committing itself to deposit the same value of increase in

provision (US$34,245 thousand) in an abandonment fund owned by PetroRio, thus reducing total amount owed by the Company.
On December 3, 2015, PetroRio presented a new Development Plan ("PD") of Polvo Field, with new estimated value for its abandonment: US$ 51,668 thousand (R$ 201,752 on December 31, 2015), ratified by Agência Nacional de Petróleo. This reduction reflected directly in intangible assets, reducing it by the same amount of recorded value.

18. Advances from partners in oil and gas operations

	Consolidated	
Operated blocks	**03/31/2016**	**12/31/2015**
GALP - Namíbia – Petroleum Exploration Licences	**7,008**	7,530
Total operated blocks	**7,008**	7,530
Non-operated blocks (Cowan - ES)	**305**	128
Total advances to/from partners	**7,313**	7,658
Total current liabilities	**7,313**	7,658

19. Shareholders' equity

19.1. Capital

On March 31, 2016 the Company's underwritten and paid in capital totaling R$ 3,401,886 is composed of 65,945,675 common registered shares with no par value. The Company has Global Depositary Shares ("GDSs") traded in the TSX Venture Exchange (TSX-V) in Toronto, Canada, at a rate of two GSDs for each common share.

At a meeting held on March 21, 2016, PetroRio's Board of Directors approved a call for a Common and Special Shareholders' Meeting, held on April 29, 2016 and that resolved and approved, among other topics: (i) a reverse split of shares and Global Depositary Shares (GDSs) issued by the Company, (ii) putting in place a repurchase program of shares issued by the Company, as detailed in Note 30.1.

The Company's authorized capital is R$10 billion.

Furthermore, the Company recorded R$ 136,694 referring to share issuance costs in a capital reducing account and which comprise the balance shown of R$ 3,265,192.

Shareholder	Number of common shares	% of interest
AVENTTI STRATEGIC PARTNERS LLP	17,771,955	26.9%
ONE HILL CAPITAL LLC	15,137,489	23.0%
SOCIETE MONDIALE DES ENERGIES FIA	8,500,633	12.9%
DEUTSCHE BANK TRUST COMPANY AMERICAS	4,069,273	6.2%
OTHER SHAREHOLDERS	20,466,325	31.0%
Total	**65,945,675**	**100.0%**

The Company's capital was subject to changes during the three-month period ended on March 31, 2016, due to R$ 7 increase through the conversion of debentures into shares, pursuant to Note 14.

19.2. Share-based compensation plan

The Board of Director, within the scope of its duties and in accordance with the stock option plan, approved the grant of preferred stock option to the strategic employees. Stock options fair value was estimated on concession date, using the Black-Scholes precification model. The dates of Board of Directors' meetings and the assumptions used in the pricing model are listed below:

	SOP V	SOP IV	SOP III	SOP II	SOP I
	01/04/14	11/11/2013	01/02/2013	05/09/2012	14/05/10
Total stock options granted	22,497	175,000	541,458	662,295	492,600
Stock option strike price	R$ 8.00	R$ 7.90	R$ 20.60	R$ 22.20	R$ 0.20
Fair value on concession date	R$ 2.51	R$ 4.00	R$ 38.10	R$ 39.51	R$ 57.60
Estimated volatility of share price	76.79%	0.78%	74.22%	127.49%	37.47%
Risk-free rate of return	9.50%	9.50%	8.22%	8.74%	9.12%
Option validity (in years)	3	5	Immediate	3	5

The strike price range and the average maturity of outstanding options, as well the strike price range for the exercisable options for the period ended March 31, 2016, are summarized below:

	Options in circulation			Options exercised/ canceled	
Plan	Options outstanding on 03/31/2016	Average maturity in years	Exercise price	Options exercised up to 03/31/2016	Options canceled up to 03/31/2016
SOP V	22,497	3	R$ 8.00	-	-
SOP IV	175,000	5	R$ 7.90	-	39,167
SOP III	541,458	Immediate	R$ 20.60	98,087	93,931
SOP II	662,295	3	R$ 22.20	147,852	479,993
SOP I	492,600	5	R$ 0.20	437,160	55,400

For the period ended March 31, 2016, the Company has a balance recorded in shareholders' equity - income from stock-based compensation - the amount of R$ 77,665, R$ 28,376 of the 2010 plan grant, R$27,839 of grant the 2012 plan, R$ 20,660 of the 2013 plan grant (SOP III), R$ 734 of the 2013 plan grants (SOP IV) and R$ 56 of the 2014 plan was granted, the counterpart being in the respective statements of income as personnel cost.

19.3. Earnings per share

Pursuant to CPC 41 (IAS 33), the Company presents some information on earnings per share for the periods ended March 31, 2016 and 2015. Basic earnings per share are calculated by dividing net income for the year attributed to the Parent company's common and preferred shareholders by the weighted average number of common and preferred shares available in the period.

Diluted earnings per share are calculated by dividing income/loss attributable to Parent company's common shareholders by the weighted average number of common shares available for the period, plus the weighted average number of common shares that would be issued on conversion of all potential diluted common shares into common shares.

The tables below show data of income and shares used in calculating basic and diluted earnings per share during the periods:

Basic and diluted earnings per share	03/31/2016	03/31/2015
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group's shareholders	**(65,387)**	(53,539)
Denominator (in thousands of shares)		
Weighted average number of common shares adjusted by dilution effect	**65,946**	29,748
Basic earnings and diluted per share	**(0,992)**	(1,800)

20. Related party transactions

	Parent company	
	03/31/2016	**12/31/2015**
Reimbursement of administrative expenses PetroRio x PetroRioOG	**27**	8
Service agreement PetroRio x HRT Lux Energy S.à.r.l. (a)	**368**	359
Total non-current assets	**396**	367

(a) Balance of R$368 refers to contract entered into by PetroRio and HRT Lux Energy S.à.r.l., which establishes that HRT Lux Energy S.à.r.l. must reimburse PetroRio of all expenses incurred for management of its assets (platform), such as salaries, rent of physical space and equipment, telephone, Internet and software.

Management remuneration

Compensation for Company Managers for the period ended on March 31, 2016 was of R$ 740 (US$ 556 on March 31, 2015).

Debentures

The Company for the year ending December 31, 2014, issued convertible debentures in a single series, subordinated and unsecured, of private placement, as detailed on Note 14. All debentures issued were subscribed by Company's shareholders.

21. Net income

The Company currently exports 100% of its production from the Polvo Field. There are no deduction from Gross Revenue, such as taxes on sales and cancellation, which means that Gross Revenue equals Net Revenue presented in the Statements of income.

22. Costs of products sold and services rendered

	Consolidated	
	03/31/2016	**03/31/2015**
FPSO	(17,255)	-
Logistics	(7,961)	-
Consumables	(10,403)	-
Operation and maintenance	(7,128)	-
Personnel	(1,873)	-
SMS	(3,594)	-
Other costs	(2,162)	-
Royalties	(4,947)	-
Depreciation and amortization	(11,254)	(4,037)
Total	**(66,577)**	**(4,037)**

There were no oil sales during the first quarter of 2015. The R$ 4037 depreciation refers to the fixed platform that belongs to Lux Energy, which owing to consolidated bookkeeping remains stated in income (loss).

As for inventories, on March 31, 2016 oil inventories totaled 523 thousand barrels (information unrevised by the independent auditors), equal to a sum of R$ 65,364 net of the impairment provision totaling R$ 21,337 stated in "Other operating income (expenses) net." On March 31, 2015 oil inventories totaling R$ 82,347 referred to 560 thousand barrels.

23. Other operating income (expenses), net

	Parent company		Consolidated	
	03/31/2016	03/31/2015	03/31/2016	03/31/2015
Income from aircraft rental	-	-	-	1,459
Returning unused insurance premium	-	-	2,157	-
Marking-to market of inventories	-	-	(2,054)	(19,065)
Provision for labor contingencies	-	-	(2,083)	(121)
Income (loss) from the sale of property, plant and equipment/scrap	-	-	213	(288)
Income from the sale of aircrafts	-	-	(56)	(546)
Rendering of accounts for administrative management - Cowan	-	-	(336)	-
Service Fee Lux Energy	44	-	-	-
Other expenses	1	1	(9)	(8)
Total	**45**	**1**	**(2,168)**	**(18,569)**

24. Financial income (loss)

	Parent company	
	03/31/2016	03/31/2015
Financial income	**1,702**	**1,961**
Income from interest earning bank deposits	**201**	1,600
Income from foreign exchange rate	**1,278**	134
Other financial income	**223**	228
Financial expenses	**(5,112)**	**(2,720)**
Expense on foreign exchange rate	**(4,119)**	(346)
Interest on loans/debentures	**(940)**	(2,347)
Other financial expenses	**(53)**	(27)

	Consolidated	
	03/31/2016	03/31/2015
Financial income	**89,896**	59,949
Income from interest earning bank deposits	**6,582**	1,776
Income from foreign exchange rate	**82,729**	57,567
Other financial income	**585**	606
Financial expenses	**(112,115)**	**(75,753)**
Loss on financial investments	**(4,426)**	-
Expense on foreign exchange rate	**(103,583)**	(67,477)
Interest on loans/debentures	**(940)**	(2,175)
Commission on bank guarantees	**(1,148)**	-
Other financial expenses	**(2,019)**	(6,101)

25. Guarantees and commitments

Namíbia

In March 2016, PetroRio announced that, as a result of current scenario of oil and gas industry and after a long period of dialogues with Namibia' government, it decided not to renew its oil exploration licenses in that country. Accordingly, the Company will not make new investments in Namibia. The entire required exploration program was complied with.

Letter of Credit - BJSA Acquisition

In the execution of contracts for the acquisition of 80% of the BJSA fields, in January 2015, the Company paid 20% of the total amount with own funds, by way of an advance, and to ensure the remaining 80%, the Company obtained from Glencore Ltd a letter of credit for US$ 120 million. This credit letter financial cost recorded as financial expenses in the quarter ended March 31, 2016 was R$ 1,639.

As informed in note 1, in February 2016, Shell terminated the contract for acquisition of 80% of BJSA concession. Hence, PetroRio canceled the Glencore letter of credit.

26. Segment information

PetroRio is active in one sole operating segment, i.e. oil and gas exploration and production (E&P) in Brazil and overseas.

Geographical information

	03/31/2016	12/31/2015
Current assets		
Brazil	855,420	1,272,299
Abroad	(32,878)	(372,477)
Non-current assets		
Brazil	1,185,743	1,339,519
Abroad	(909,291)	(1,062,304)

	03/31/2016	03/31/2015
Income		
Brazil	41,508	-
Abroad	-	4,853

27. Objectives and policies for financial risk management

The main financial liabilities of PetroRio refer to trade accounts payable to suppliers for goods and services to be used in its hydrocarbon exploration and production operations, debentures convertible into shares, and the financial security agreements. On the other hand, cash and cash equivalents are recorded in assets, as described in Notes 3 and 4.

The Company is exposed to market (interest and exchange rates), credit and liquidity risks. The Management manages these risks by means of appropriate policies and procedures. It is the Company's policy not to participate in negotiation of derivatives for speculative purposes.

The Board of Directors reviews and establishes policies for the management of each of these risks, which are summarized as follows.

Market risk

Market risk is the possibility of losses arising from the effect of the fluctuation of market values of financial instruments and commodities.

Interest rate risk

Available funds are invested in securities issued by first-tier financial institutions at variable rates, mostly with daily liquidity, in compliance with prudential concentration limits. Company has interest-bearing debentures convertible into shares corresponding to the accumulated variation of 90% of CDI –Over Extra Group.

Interest rate sensitivity

The table below shows the sensitivity to a possible change in interest rates, income and Company's equity before taxation, where all other variables are kept constant.

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Impact on the securities	Decrease in CDI	(14)	(501)	(988)
Impact on debentures	Increase in CDI	-	(217)	(429)

For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the period ending December 31, 2016 were taken into account under the probable scenario (CDI 14.03%), a 25% reduction in the projected CDI was taken into account under scenario I and a 50% reduction was taken into account under scenario II, both in relation to the probable scenario. A sensitivity analysis of securities invested in international fund with an annual average rate of return of 0.32% was carried out showing not significant impacts.

Exchange risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities and net investments in foreign subsidiaries. The table below shows the sensitivity to a variation that may occur in the exchange rate and the impact on the Company's income and equity, before taxation.

Operation	Risk	Probable scenario	Scenario (II) 25%	Scenario (III) 50%
Impact on financial investments	Decrease in US dollar (USD)	19,458	(92,860)	(185,720)
Provision for abandonment (ARO)	Increase in US Dollar (USD)	(9,016)	(43,027)	(86,053)

For calculation of the amounts included in the above scenarios the average exchange rate projection disclosed by BM&FBOVESPA for the period ending December 31, 2016 (US$ 1/R$ 3.745). Under scenario I, this projection was increased by 25% and under scenario II, the curve was increased by 50%, both against the probable scenario.

Credit risk

The Company is exposed to credit risk in its operating activities and bank and/or financial institution deposits, foreign exchange transactions and other financial instruments. In order to mitigate such risks, the Group adopts a conservative management by investing short-term funds with day-to-day liquidity and post –fixed rates in first-class banks, bearing in mind ratings by the key risk agencies and respecting prudential concentration limits.

Related to credit risk of its sales operations, the Company analyzes the financial condition of its client, in conjunction with the provider of marketing services (trader), which also operates as an intermediary in transactions for the sale of oil. During the period ended on March 31, 2016 net sales were entirely concentrated in one sole client that represents an irrelevant credit risk, considering that its background does not show any delays or defaults.

Liquidity risk

Prudent management of risk implies maintaining cash consistent with the disbursement needs to cover its obligations, in accordance with the Company's business plan.

Consolidated

Year ended March 31, 2016	up to 12 months	1–5 years	Total
Liabilities			
Suppliers	(72,292)	(12,710)	**(85,002)**
Labor obligations	(7,547)	-	**(7,547)**
Taxes and social contributions	(13,690)	-	**(13,690)**
Advance from partners	(7,313)	-	**(7,313)**
Debentures	(1,603)	(31,454)	**(33,057)**
Provision for abandonment	-	(50,232)	**(50,232)**
Provision for contingencies	-	(58,524)	**(58,524)**
Deferred taxes and social contributions	-	(4,602)	**(4,602)**
Other liabilities	(3,734)	(300)	**(4,034)**
	(106,179)	**(157,822)**	**(263,999)**

Year ended December 31, 2015	up to 12 months	1–5 years	Total
Liabilities			
Suppliers	(52,469)	(12,710)	**(65,179)**
Labor obligations	(7,373)	-	**(7,373)**
Taxes and social contributions	(13,082)	-	**(13,082)**
Advance from partners	(7,658)	-	**(7,658)**
Debentures	(664)	(31,461)	**(32,125)**
Provision for abandonment	-	(68,033)	**(68,033)**
Provision for contingencies	-	(60,879)	**(60,879)**
Deferred taxes and social contributions	-	(4,087)	**(4,087)**
Other liabilities	(4,177)	(340)	**(4,517)**
	(85,423)	**(177,510)**	**(262,933)**

Parent company

Year ended March 31, 2016	up to 12 months	1–5 years	Total
Liabilities			
Suppliers and other	(797)	-	**(797)**
Labor obligations	(234)	-	**(234)**
Taxes and social contributions	(4,559)	-	**(4,559)**
Debentures	(1,604)	(31,454)	**(33,058)**
Provision for contingencies	-	947	**947**
	(7,194)	**(30,507)**	**(37,701)**

Year ended December 31, 2015	up to 12 months	1–5 years	Total
Liabilities			
Suppliers and other	(315)	-	**(315)**
Labor obligations	(278)	-	**(278)**
Taxes and social contributions	(4,501)	-	**(4,501)**
Debentures	(664)	(31,461)	**(32,125)**
	(5,758)	**(31,461)**	**(37,219)**

Derivative financial instruments - hedge

On March 31, 2016, the Company acquired call and put options in the futures market. The contracts aim to provide a hedge against oil price volatility risks for the sale of 400 thousand barrels of oil, conducted in April 2016.

						Price	
Contract	**Operation**	**Type**	**Maturity**	**Strike**	**Quantity**	**Operation**	**03/31/2016**
Brent Jun 2016	Purchase	Put Option	04/26/2016	37.00	400,000	0.98	0.64
Brent Jun 2016	Sale	Purchase Option	04/26/2016	42.50	400,000	1.60	0.87
Brent Jun 2016	Purchase	Purchase Option	04/26/2016	45.00	400,000	0.89	0.33

On March 31, 2016, with the oil (Brent) market price for June 2016 future contracts at US$ 40.33, there would be no exercise of the options held, with no hedge income to be stated for the period.

The premium paid for the call options on the transaction date, net of the premium received from the put option, was of US$ 108 thousand (R$ 411). On March 31, 2016 the options were marked at fair value (market price) at US$ 40 thousand (R$ 142), with a loss of US$ 68 thousand (R$ 242) stated in financial expenses in the period's income statement.

Fair value of financial assets and liabilities

The "fair value" concept provides for the valuation of assets and liabilities based on market prices in the case of liquid assets, or based on mathematical pricing models otherwise. The level in the fair value hierarchy gives priority to unadjusted quoted prices in an active market. These financial instruments are grouped in levels from 1 to 3, based on the grade that their fair value is quoted:

a) Level 1: fair value measurement uses prices quoted (not corrected) in active markets, based on equal assets and liabilities.

b) Level 2: fair value measurement is derived from other inputs quoted included in Level 1, which are quoted through an asset or liability directly (i.e. as the prices) or indirectly (i.e. derivative of prices).

c) Level 3: fair value measurement is derived from valuation techniques that include and asset or liability that are not included in an active market.

	03/31/2016			
	Parent company		**Consolidated**	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Loans and receivables				
Accounts receivable (i)	**-**	**-**	**123,308**	**123,308**
Related parties	**396**	**396**	**-**	**-**
Fair value through profit or loss				
Cash and cash equivalents (ii)	**349**	**349**	**165,487**	**165,487**
Securities (ii)	**28,319**	**28,319**	**37,025**	**37,025**
Available for sale				
Securities (iii)	**-**	**-**	**256,635**	**256,635**
Derivative financial instrument	**-**	**-**	**142**	**142**
Financial liabilities				
Amortized cost:				
Suppliers (i)	**797**	**797**	**85,002**	**85,002**
Debentures (ii)	**33,058**	**31,905**	**33,058**	**31,905**

	12/31/2015			
	Parent company		Consolidated	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans and receivables				
Accounts receivable (i)	-	-	244,499	244,499
Related parties	367	367	-	-
Fair value through profit or loss				
Cash and cash equivalents (ii)	3,099	3,099	283,951	283,951
Securities (ii)	32,155	32,155	193,296	193,296
Financial liabilities				
Amortized cost:				
Suppliers (i)	314	314	65,179	65,179
Debentures (ii)	32,125	30,412	32,125	30,412

Market values ("fair value") estimated by management were determined by level 2 for those financial instruments:

(i) The amounts related to the balance of accounts receivable and suppliers does not have significant differences in the fair value due to receivable/payment turnover not exceed 60 days.

(ii) The fair value measurements are obtained by directly observable variables (as well as prices) or indirectly (derived from prices).

28. Insurance **(Not reviewed by the independent auditors)**

The Company has a policy of taking out insurance plan for the items subject to risks.

The Company adopts insurance policies for assets under risk and, along with companies under the same group, is covered against major risks such as Energy Package, which includes: Material Damages to Offshore Assets, Operator Extra expenses (OEE), the chief covered exposures being: Well Control, Extra Expense/Reboring and Infiltration and Pollution, Cleaning and Contamination) and Offshore Civil Liability, in addition to coverage for transporting equipment/supplies related to Polvo field operations and D&O insurance for its Managers (the chief coverage of which is payment of losses due to third parties by the Company arising from a complaint).

The insurance policies in force at March 31, 2016 cover the insured amount of R$ 3,357,983. In addition, the Company also contracts insurance for Operator' Extra Expenses, whose main exposures covered are as follows:

Insurance/Modality	Amount insured
Physical damages (Oil inventories)	**149,474**
Fixed Platform	**925,314**
Offshore property (Pipeline)	**71,178**
OEE production (Well control)	**533,835**
OEE development (Well control)	**355,890**
Offshore Civil Liability	**889,725**
Civil Liability Offshore - Pipelines	**355,890**
Aircrafts (Physical damages)	**9,100**
Aircrafts (Civil liability)	**35,589**
Cargo (Polvo)	**3,500**
D&O	**20,000**
General liability	**5,000**
Patrimonial	**2,495**
DPEM Polvo A	**14**
Travel Insurance Travel Guard	**979**
Total insured	**3,357,983**

29. Contingencies

Management of the Company and its subsidiaries, based on the opinion of its legal advisors regarding the possibility of success in several lawsuits, believes that the provisions recorded in the balance sheet on March 31, 2016 and 2015 in the amounts of R$ 58,524 and R$ 60,879, respectively, are sufficient to cover losses considered probable and reasonably estimated.

Provisions recorded

Tuscany Perfurações Brasil Ltda. and Tuscany Rig Leasing S.A. filed a request for arbitration against PetroRioOG, in the amount of US$39,645 thousand. The sentence was handed down on February 5, 2015, condemning the Company to pay the amounts of R$1,484 and US$12,130 thousand (corresponding to R$ 43,169 – foreign exchange rate as of March 31, 2016). An applicable appeal was filed on March 9, 2015 and September 02, 2015. The Company was notified by the Court of Arbitration, which upheld the decision. As of October 7, 2015, the Company filed an annulment suit, aiming at dissolving the arbitral award, based on violation of full defense and the arbitration clause that forbade decision by equity and obtained an injunction in the second degree, removing the effects of an arbitration decision.

Furthermore, there is a probable risk owing to nine labor claims that add up to R$ 11,131, two civil claims totaling R$ 2491 and one tax claim of R$ 249.

Other lawsuits

The subsidiary PetroRioOG is a defendant in Civil Public Action filed by the Ministry of Labor, as a result of non-payment of severance pay by Geoquasar, outsourced company that provided services to PetroRioOG, whose value is R$ 7,834. Final decision was issued convicting Geoquasar and PetroRioOG for pain and suffering in the amount of R$500, and PetroRioOG filed an appeal from the decision. Appeal reduced conviction to R$200 with joint liability of PetroRioOG, which filed an appeal again. According to the Legal Adviser of the case, it is possible the chance of loss.

According to the Group’s legal counsel, the risk of loss due to other lawsuits (R$ 56,019) is “possible” or “remote”. Based on this evaluation, Management decided not to form a provision for contingencies for these lawsuits, with likelihood of possible and remote loss, in accordance with accounting practices adopted in Brazil and IFRS.

30. Subsequent events

30.1. Approval of the reverse share split and share repurchase program

The Common and Special Shareholders' Meeting, held on April 29, 2016 approved the reverse split of PetroRio's common share at a rate of 5 (five) common shares for 1 (one) common share, also including a reverse split of Global Depositary Shares ("GDSs") issued by the Company at a rate of 5 (five) GDSs for 1 (one) GDS, and preserving in effect the rate of 2 (two) GDSs for each common share.

On this same occasion a proposal was approved putting in place a repurchase program for as many as 16,500,000 common shares issued by the Company (3,300,000 common shares after the reverse split of common shares, also approved) within 18 months, without reducing capital and to be held in treasury, canceled and/or for subsequent disposal.

Both are subject to compliance with regulatory requirements applicable in Brazil and in Canada.

30.2. Realizing Hedge financial instruments

In April 2016, the call and put options retained by the Company as coverage against oil price volatility risks were realized in advance, which gave rise to a loss only in the premium paid for the options.

This transaction gave rise to a US$ 920 thousand loss (R$ 3,274), of which sum US$ 68 thousand (R$ 242) was stated in March 2016 as a provision for a mark-to-market loss.

30.3. Debentures convertible into shares

In May 2016, the Company's Board of Directors ratified issuance of 8,064 common shares as a result of conversion of 1,210 debentures and resulting homologation of increase in the Company's capital, which went from 65,945,675 common shares to 65,953,739 common shares. Company's capital net value went from R$3,401,886 to R$3,401,910 and total balance of non-converted debentures par value was reduced from R$31,454 to R$31,430.