Petro Rio S.A.

The individual and consolidated financial statements for the year ended December 31, 2016 and Independent auditors' report

MANAGEMENT REPORT

MESSAGE FROM MANAGEMENT

Rio de Janeiro, March 27, 2017

Dear Shareholders,

The following is submitted to you the relative Management's Annual Report to year 2016, with the record of the main administrative and operational events that occurred in the Company in that year, and the corresponding Financial Statements accompanied by the Independent Auditors' Report and the Fiscal Council.

The year of 2016 was very challenging for the oil and gas industry: the Brent oil has reached US$27.10/bbl in January 2016, the lowest value in a decade, and the average price was 20% lower than 2015. Even in such an adverse scenario, PetroRio managed to have remarkable results in 2016, as it recovered most of its results in the second half of 2016, closing the year with an EBITDA of R$329 million and Net Profit of R$242 million. PetroRio's cash position in USD increased from US$127.2 million in 2015 to US$159.3 million in 2016. In 2016, the company put its business model in practice, which is based on growth through acquisitions, operational efficiency, and focus on reservoir engineering and cost reduction, which resulted in several accomplishments throughout the year, among which we highlight: (i) acquisition of Brasoil, which diversifies our assets portfolio and increases our cash generation (ii) conclusion of the redevelopment program – we increased our daily productivity by approximately 20% and our developed proven reserves by 9.1%, and we extended the Polvo Field's useful life by 2 years (iii) more significant reduction in our operating costs, which reached the all-time low of US$28/bbl in 2Q16 and 3Q16 and closed the year at US$30.7/bbl (iv) award of best oil and gas exploration and production company of Latin America in 2016 given by the World Finance magazine.

This Company turnaround is associated with the creation of a new culture and the best talents found in the market. In 2015 and 2016, PetroRio's Management adopted a management system based on clear goals and a variable pay program. We engaged the Falconi consulting firm to help us implement this management model. All these achievements, combined with the highest levels of security and operational efficiency, were essential to the success of our business model throughout 2016.

As to the macroeconomic scenario, the average oil price was US$45.1/bbl by the end of 2016 versus US$53.6/bbl in 2015, with a significant recovery only in October, as a result of rumors of an agreement reached by OPEC to reduce the offer. The agreement was executed by the end of November, and expectations of a reduction in the global oil offer raised the commodity price to nearly US$55/bbl, the highest price of the last six quarters.

The fourth quarter of 2016 was marked by a period of increase in the Brent oil price after OPEC's agreement. It went from US$46/bbl in November to US$ 56/bbl in the end of the year. Prices were very volatile until OPEC's agreement was officially announced on November 30, 2016. The agreement, the first one since 2008, consists in reducing production from 33.6 million barrels per day to 32.5 million. Now the market has been closely following the agreement compliance and the increase in the American shale oil production with the prices rise.

In view of this scenario of volatility and downturn in oil prices year over year, our response was to continually reduce costs, with the lowest historic operating cost for the Polvo Field, 16% lower than the cost incurred in 2015. Even though the production volume was lower, our cost

per barrel was 14% lower (nearly US$30,7/bbl.) if compared to the previous year. These results are a consequence of the dedication of all PetroRio's employees, as they were primarily focused on optimizing processes and adding value to the shareholders.

As to the field operations, we ended the year with an operational efficiency level higher than 93%, which is remarkable for the O&G industry. We are very proud of it and intend exceed it in 2017. In addition, in 2016 we had only 14 days of production stoppage over 20 in the previous year, and we went 1,670 days without any accidents resulting in sick leave in the Polvo A platform.

Such excellent results legitimate the award PetroRio received of best E&P company of Latin America in 2016, and attest how prepared we are to work on new projects, with the same technical discipline and competence we had in Polvo.

As to the recompletion campaign conducted in the field throughout the year, we find it was concluded successfully, with the following results: (a) 20% increment in the production curve, (b) access to new unexplored areas, (c) expansion of the recovery factor, and (d) better geological understanding of the field to analyze the current prospects, which we find are highly promising.

As to the position of our reserves, the certification report issued by DeGolyer and MacNaughton (12/31/2016) shows very positive results. The volume of proven developed reserves grew 9.1% if compared to the previous certification. The abandonment date was delayed to 2022 instead of 2020, as acknowledged before.

Another considerable accomplishment in 2016 was the beginning of acquisition of 100% of Brasoil, which was concluded in March 2017. Brasoil is a holding company that owns 10% of the Manati field, as well as 100% interest in two blocks of the Foz do Amazonas Basin (FZA-M-254 and FZA-M-539). PetroRio believes the execution of this sales agreement is consistent with its acquisition business model that adds value to its shareholders.

It is important to point out that, despite this acquisition, the Company is eager to make new investments to add assets to its portfolio and add value to our investors. New opportunities are always in our radar and we are ready to make new investments, always having financial prudence and discipline as the basis of our business.

Therefore, we ended the year in line with the pillars of our growth strategy: low operating cost, excellent operational efficiency, redevelopment of mature fields, and acquisition of assets in production. Our business model was carefully followed throughout this year and it will not be any different in 2017.

We are optimistic about the coming year. We have a favorable free-of-debt Balance Sheet – a relevant cash position of US$159.3 million and a talented and bold team. We constantly monitor opportunities in Brazil and abroad, to advance our frontiers and apply the successful model implemented in Polvo to other operations.

Thus, PetroRio is determined to grow even more in 2017 and consolidate its position as the largest independent oil production company in Brazil.

ACQUISITION OF BRASOIL

The acquisition of Brasoil puts PetroRio in a new position. Brasoil is a holding company founded in 2006 by Canadian executives and investors of institutional profile; the highlight of its assets portfolio is a 10% interest in Manati, a gas field in the Camamy-Almada Basin, 65 km from Salvador (35% Petrobras - operator, 45% Queiroz Galvão EP and 10% Geopark). In addition to Manati, Brasoil owns 100% interest in the exploration blocks FZA-M-254 and FZA-M-539, both in the Foz do Amazonas Basin.

Manati is the 3rd largest non-associated natural gas field of Brazil[1]. The field produces gas in a fixed platform; through a 125-km gas pipeline, the production goes to the gas processing plant Vandemir Ferreira, in the city of São Francisco do Conde, state of Bahia. Then, the gas goes to the Petrobras system where it is distributed to fertilizer factories, thermal powers plants and refineries. Fifteen kilometers from the field, in the same block (BCAM-40), there is another commercial discovery not yet developed, the Camarão Norte field, which was declared commercial in 2009.

The production of Manati is sold to Petrobras in its entirety, under a take-or-pay contract that covers the entire field reserve, at a price fixed in Brazilian real and adjusted annually by the General Price Index - Market (IGP-M). In 2016, the field produced 4.9 MMm³/d on average, 14% less than in 2015, due to the reduced demand for gas in the region. However, the production capacity of the field remains 6 MMm³/d.

As to exploration blocks, at first PetroRio does not intend to make considerable investments, but it will honor its remaining exploration commitments, which are estimated at R$8 million with regard to the 3D seismic exploration of the FZA-M-539 block. In this block, Petrobras made a commercial discovery in 1976: the Pirapema field, with 20 billion m³ of gas-in-place (100% Manati = 33 billion m³ of original gas-in-place). PetroRio will study all technological resources to make this project viable.

These two exploration blocks have high strategic value for PetroRio. They are in the Equatorial Margin, an exploration border region, facing many other blocks of companies such as Petrobras, Total, Ecopetrol and BP. One of these companies has announced it will allocate resources to drill the area in 2017. The perspective that big players will develop assets in this basin makes these two blocks even more appealing.

The Equatorial Margin, where these blocks are located, is still an unexplored region with few drilled wells so far. There are analogous areas in the African shore, in Guiana and Suriname, which corroborate the existence of formidable petroleum systems in this region. In May 2015, Exxon Mobil announced the first discovery in Guiana, the Liza field, located in the Equatorial Margin, which reinforced how promising the geology in this surface is. According to Exxon, the discovery has a potential recoverable reserve of more than one billion barrels of oil equivalent.

PetroRio and its Managers understand that the acquisition of Brasoil represents considerable progress in the company's diversification and stability. As to the Manati field, the revenues in Brazilian real indexed by the IGP-M make receipts of cash more predictable and stable, and protect PetroRio against variations in the oil price or the US dollar. Having another revenue-generating asset reduces our operational risk, contributes to spreading G&A, and may give us a leverage as to the possibility of raising capital. In addition, there are operational and tax synergies being analyzed by our team.

1. ANP Production – December 2016

GROWTH PLANS

The current scenario of low oil price associated with companies leveraged by divestiture programs to adjust their portfolios, creates opportunities to acquire interesting assets, where PetroRio may add value and have the success it did in the Polvo field. PetroRio is an organization focused on Mergers & Acquisitions, and it is capable of operating in scenarios of low prices and narrow margins. As a result, we will be ready for any opportunities that may come in the current crisis in the O&G industry and any divestitures of major and small companies.

Throughout 2016, we actively participated in Petrobras' divestiture programs and in other opportunities abroad, especially in the Gulf of Mexico, which are under way.

The Polvo field's Revitalization Plan is still being studied and we are examining the prospects, considering the possibility of drilling, even though we remain cautious as to the degree of uncertainty. In the Polvo field, we identified two prospects and we are evaluating the economic feasibility in relation to the oil price. In addition, we also evaluated the employment of the Enhance Oil Recovery (EOR) method to maximize the field's recovery factor.

We expect 2017 to be a year of excellent opportunities to companies such as ourselves. PetroRio's Management and its employees are ready for new projects in order to achieve results that contribute to the Company's sustainable development.

SAFETY, ENVIRONMENT AND HEALTH

PetroRio always seeks to straighten its commitment to the safety of its employees, third parties and partners, and to exercise greater caution about the environment. As a result of these efforts, in 2016 we went 1,670 days in the Polvo A fixed platform and 1,054 days in the FPSO without any accidents resulting in sick leave.

As to the environment, this year PetroRio had no environmental incidents. We have three more projects that associate this concern with compliance with the federal environmental law. They are: Project to Monitor Impacts of Platforms and Vessels on the Avifauna (PMAVE), Project to Monitor Fluids and Gravel (PMFC), and Fauna Protection Plan.

To improve PetroRio's environmental performance, in compliance with the Individual Emergency Plan (PEI) of the Polvo field, the company started to use a complete system to contain and clean up oil from the sea, known as Side Collector. This technology, which is new in Brazil, had its efficiency tested and demonstrated if compared to traditional systems of oil containment and cleanup, especially with regard to the time to place containment booms and efficiency in cleaning up the oil. This system, which is approved by the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA), proves PetroRio's effort to implement cutting-edge systems with great operational efficiency.

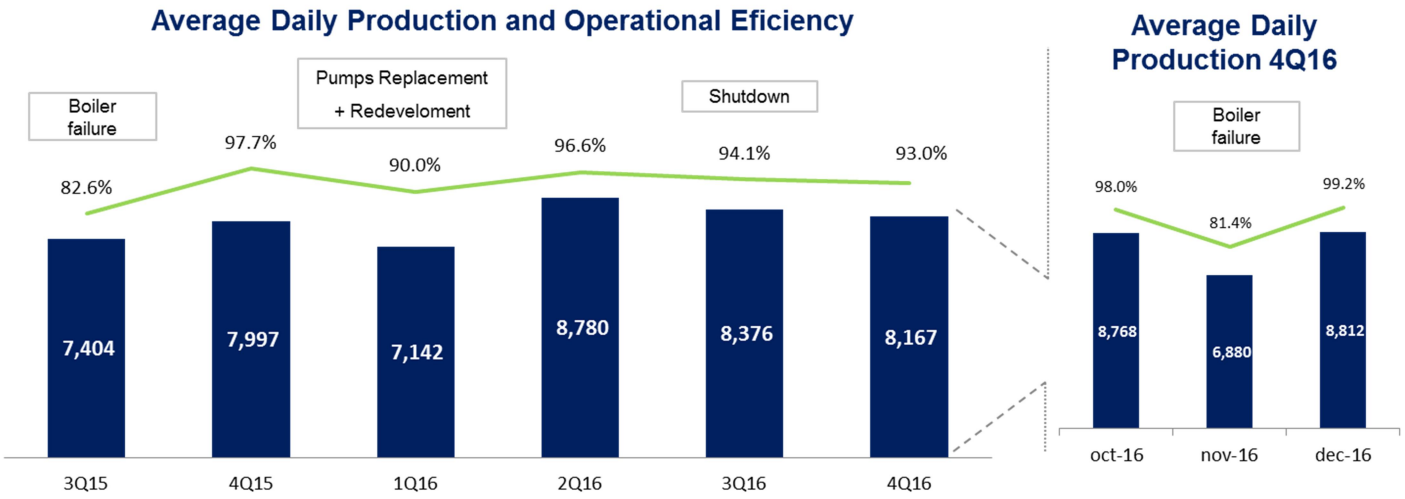
After submitting the documents required, PetroRio is waiting for its Operating License to Drill to be renewed by the competent environmental agency (IBAMA); then, the company will increase its operational performance in compliance with the environmental legislation, having in mind the safety and health of its employees.

OPERATING PERFORMANCE

In 2016, the Polvo field produced 2.97 million barrels, 8,145 barrels per day on average. The operational efficiency was 93.4%, mainly impacted by the 1Q16 performance, when investments were made in the producing wells. In addition, in November we had technical issues in the power generation and fire protection system of the FPSO vessel. These adversities caused a reduction in operational efficiency in the last quarter; the field shut down for 130 hours, which affected the production in approximately 50,000 barrels.

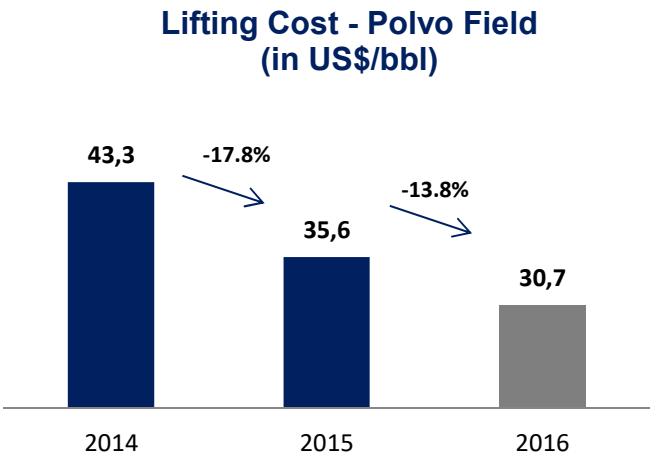
Despite the field's natural decline curve, the production of 2016 was only 2.7% lower than the previous year (82.5kbbl) on account of the rigorous reservoir management and investments made throughout the first half of the year.

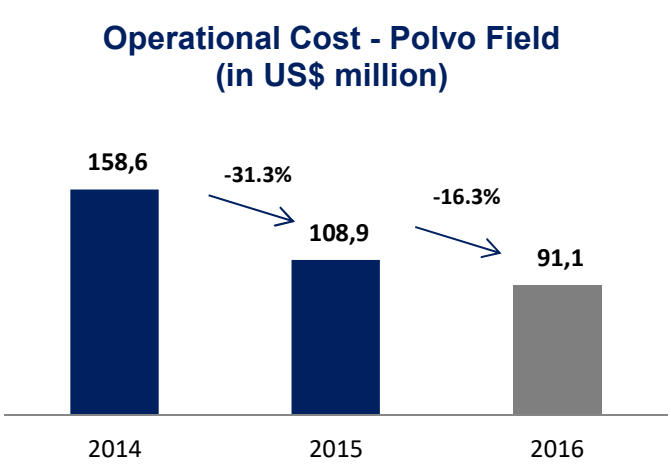
The chart below shows our average production over the last quarters and the respective operational efficiency percentages. For 4Q16, we simulated what our efficiency would be without considering the technical issues occurred in November.



Operational costs fell 16% over 2015 and 43% over 2014. Even with the lower production in 2016 in comparison to the last years, we managed to have a cost of US$ 30.7/bbl per barrel in 2016, over US$ 35.6/bbl and US$ 43.3/bbl in the previous periods.

These values represent the lowest historic operational cost for the Polvo field. This difference is a result of several measures adopted in 2016, such as change of suppliers, renegotiation of contracts, and a new commercial strategy to purchase diesel oil.





ECONOMIC AND FINANCIAL PERFORMANCE

- EBITDA of R$328.6 million, EBITDA margin of 82.6%.
- 2.98 million barrels of oil sold in 2016, at an average selling price of US$47.55/bbl. In 2015, 1.79 million barrels were sold at an average selling price of US$49.85/bbl.
- Net revenue of R$397.8 million.
- Net income of R$241.6 million compared to profit of R$110.4 million in the previous year.
- Cash position of R$571 million over R$497 million in the previous year.

thousands of R$

Pro forma income statement	**2015**	**2016**
Sales Volume (bbl)	1,798,700	2,979,925
Gross Sale Price (US$/bbl)	49.85	47.55
Total Revenue	253,071	397,871
Cost of Product Sold	(205,557)	(303,817)
Royalties	(26,259)	(35,449)
Operating Income	**21,255**	**58,605**
G&A, G&G and Project Expenses	(81,159)	(74,661)
Other revenues and expenses	209,954	344,709
EBITDA	**150,050**	**328,653**
EBITDA Margin	59.3%	82.6%
Depreciation/Amortization	(65,836)	(69,569)
Financial result	(42,115)	54,085
Exchange Variation	62,795	(60,218)
Income tax and social contribution	5,527	(11,329)
Net income (loss)	**110,421**	**241,622**

In 2016, we had seven offtakes, a total of 2.98 million barrels sold. Net revenue was R$397.8 million, 57% higher than 2015 on account of the higher sales volume after acquisition by Maersk of 40% interest in Polvo.

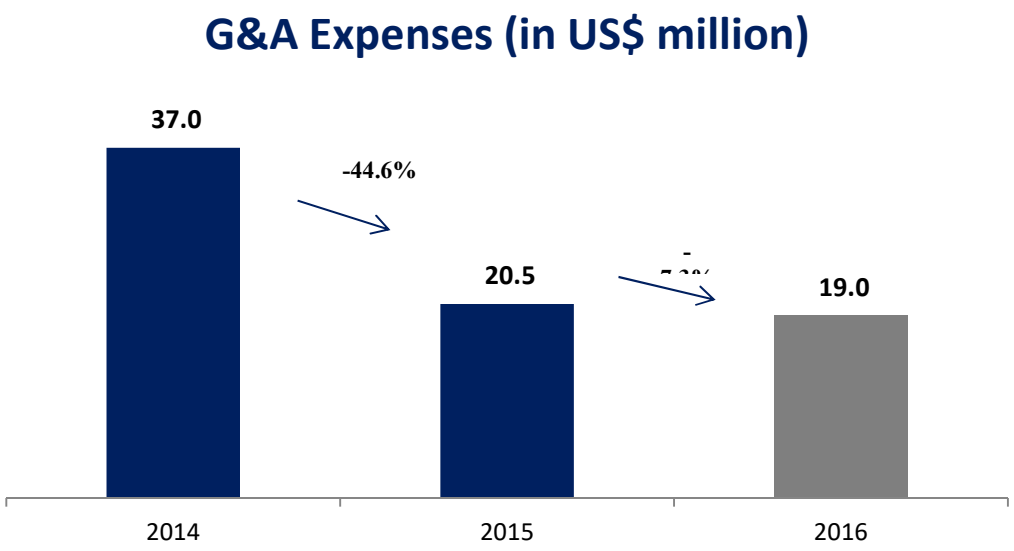
The cost of product sold per barrel was 10% lower due to the strong focus on reducing costs throughout the year. General and administrative expenses of projects, geology and geophysics closed the year at US$16.9 million, an 18% reduction over 2015 and 54% over 2014.

PetroRio's EBITDA was R$328.6 million, significantly higher than 2015, as we recognized R$309.2 million referring to cumulative translation adjustment (CTA) as the Namibia branch was shut down, which previously was classified in other comprehensive incomes as Net Assets. In addition, R$47.8 million was recorded as PIS and COFINS credit.

In the Financial Results, the Financial Income accounted for R$77 million, R$ 24 million from investments referring to a fixed income portfolio and R$53 million referring to variable-income investments. Financial Expenses totaled R$18 million referring to debenture interest,

commissions and taxes on investments. The Net Financial Result of the year was R$6.1 million negative, especially due to the impact of the negative net change in the exchange rate of R$64.7 million on assets and liabilities, and to the fact most of our cash is expressed in USD.

In 2016, PetroRio's net profit was the highest to date (R$241.6 million).



LIQUIDITY

During the three last accounting periods PetroRio has proven its capacity to increase cash balance and meet its commitments in the short and long term.

However, our business is not directly related to any seasonality there are three important variables that might impact our way to run the company: (i) oil market conditions; (ii) operational performance of our producing assets; (iii) PetroRio's ability to manage the company and accomplish its business plan. If any of these factors change abruptly PetroRio's capacity to generate cash might be affected.

Regarding the working capital commitments PetroRio has a very detailed payment schedule to manage its short and long term cash flow. Additionaly, PetroRio can easily access credit lines that provide enough working capital to run its activities and commitments.

CAPITAL RESOURCES

In 2014, PetroRio issued 4.5 million debentures, with a face value of R$ 20.00. The purpose of the issuance was to provide funds to the acquisition of the Polvo field and to finance the Company's restructuring process. In December 31, 2016 the outstanding amount related to these debentures was R$ 31,430,680.

PetroRio has a credit line over bonds available as a working capital line. Not all the credit line is being used.

None of the companies in PetroRio group requires additional funding for the maintenance of their activities. New funding opportunities are being analyzed seeking to finance future acquisitions in operational assets, in order to increase the growth of PetroRio group.

FINANCIAL INSTRUMENTS

PetroRio negotiates Oil-backed derivatives for hedging purposes, seeking to protect the company against fluctuations in the market price of the underlying security in the international markets.

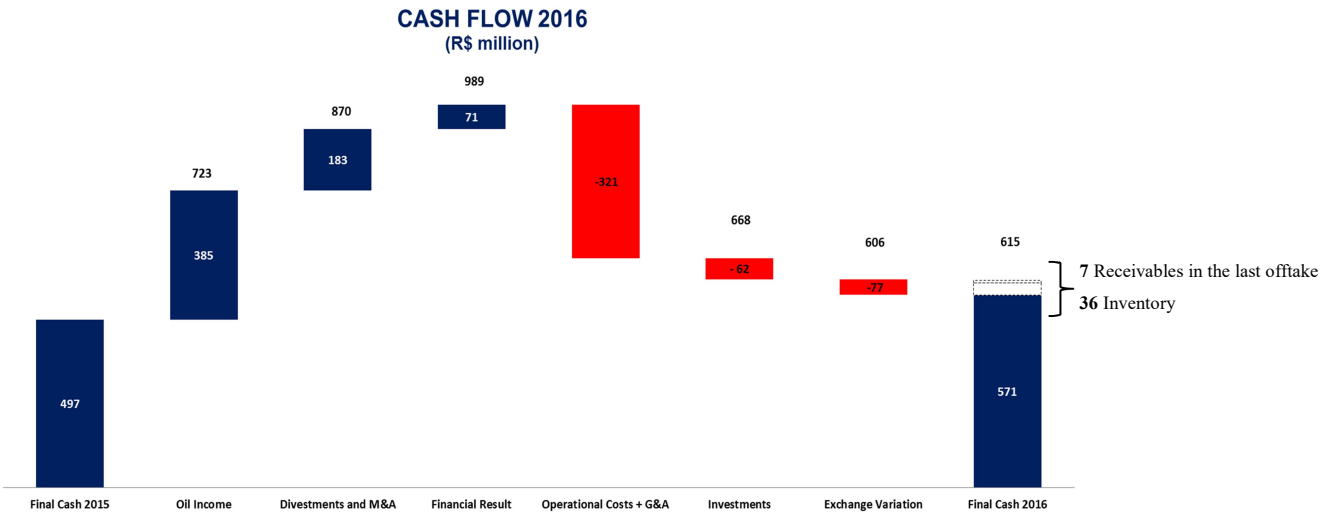
Oil-Backed derivatives are also used for speculative trading, with the purpose of seeking financial gains. However only 5% of the Company's cash flow is allocated in this category, there is a risk of losses in the amount invested.

TOTAL CASH, CASH EQUIVALENTS AND INVESTMENTS

On December 31, 2016, the Company's cash position, including investments in negotiable instruments and securities, was R$571 million.

The cash variation in the year is justified by the following factors:

- Inflow of R$385 million related to oil sales.
- Production costs, operating expenses and payment of royalties totaling R$456 million.
- Divestments/M&A of R$183 million with (a) inflow of R$113 million related to the reimbursement for advance payments in the transactions regarding the Bijupirá and Salema fields, (b) R$15.4 million (US$5 million) from Rosneft related to the farm-out in Solimões, (c) R$3.5 million (US$1 million) related to the reimbursement for the non-utilization of the letter of credit acquired with Glencore, (d) R$3.8 million (US$1.3 million) related to the sale of an aircraft, (d) R$11.2 million (US$3.5 million) from Maersk related to price adjustment in the Polvo transaction, and (f) payment of R$36 million by Rosneft for the second installment of the Solimões block.
- Disbursements related to investments of R$62 million.
- Negative impact of R$46 million resulting from change in the exchange rate.
- Financial result before change in the exchange rate was R$71 million.



Petro Rio S.A.

Financial statements

December 31, 2016

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Independent auditors' report on the financial statements

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

Opinion

We have audited the individual and consolidated financial statements of Petro Rio S.A. ("the Company"), identified as Parent Company and Consolidated, respectively, which comprise the individual and consolidated balance sheet as of December 31, 2016, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of Petro Rio S.A. as of December 31, 2016, and of its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board - IASB.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements of Ethics Standards Boards for Accountants and Professional Standard issued by Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Individual and consolidated financial statements

According Notes 04 and 28, as per December 31, 2016, the Company has investments in shares, mostly concentrated in a single company that is undergoing judicial recovery. Consequently, when this investment takes place, the value may be different from that recorded, as a result, of the market values fluctuation of these financial instruments. Our opinion is not qualified because of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1) Fair value of financial instruments – Individual and consolidated financial statements

As mentioned in note 4 and 28, the Company has relevant balances of securities for sale and trading recorded at market value. For financial instruments that are not actively traded and for which market prices and parameters are not available, determination of market value is subject to a significant judgment to estimate those amounts. The use of specific valuation techniques and assumptions may result in significantly different market value estimates. Due to the relevance, complexity and judgment involved in the evaluation and measurement of financial instruments, which may impact the amount of this provision in the consolidated financial statements and the amount of the investment recorded under the equity accounting method in the financial statements of the parent company, we consider this subject as a significant matter for the audit.

Audit procedures performed

Our procedures included, among others, the assessment of Company´s valuation procedures and assumptions to determine the market value of its assets, as well as verify the existence of these assets through independent confirmation with the respective financial institutions in which the financial instruments are applied.

2) Impairment - Consolidated financial statements

As of December 31, 2016 consolidated financial statements presents property plant and equipment (PP&E) and intangible of R$ 44 million and R$ 183 million, respectively (As per Notes 10 and 11 to the financial statements).

Company evaluated impairment indicators for the respectively ("GCU´s") in which assets were allocated. For the calculation of the recoverable value, and assessment of the register of impairment, Company used the discount cash flow that presents significant judgments concerning factors related to the level of future production, commodities price, production cost and economic assumptions such as discount rates, inflation rates and exchange rates of the countries with which the Company operates.

Due to the materiality of PP&E, intangible assets, and to the level of uncertainty for determining the related impairment, which may impact the value of those assets in the consolidated financial statements and the value of the investment recorded under the equity accounting method in the parent company's financial statements, we considered this subject as a significant matter for the audit.

Audit procedures performed

Our auditing procedures included, among other, the assessment of the documents that formalized the transaction, such as contracts, minutes and the opinion of external experts hired, we obtained the evidence that established the date of loss of control and the fair value of the net assets transferred. We analyze the methodology used to measure the fair value of the interest previously held, of the assets acquired and liabilities assumed. We evaluate the reasonableness of the assumptions used and calculations made. We also evaluated the sensitivity analysis and the adequacy of the related disclosures.

3) Liquidation of affiliate in Namibia - Individual and consolidated financial statements

As mentioned in Explanatory Notes 01, 09 and 24, during 2016 the Company settled the subsidiary of PRIntl in Namibia, and recorded a credit equivalent to R$ 309,187 in the income statement of the year the ended, as a result of the cumulative translation adjustment reclassification. The integral write-off of interest in an entity abroad requires, among other procedures, the Company to determine the date of the effective loss of control, the fair value of the assets acquired and the liabilities assumed, when applicable. Such procedures usually involve a high degree of judgment and the need to develop fair value estimates based on calculations and assumptions subject to a high degree of uncertainty. Due to the high degree of judgment related, and the impact that any changes in the assumptions might have on the individual and consolidated financial statements, we considered this subject as a significant matter for the audit.

Audit procedures performed

Our auditing procedures included, among other, the assessment of the documents that formalized the transaction, such as contracts, minutes and the opinion of external experts hired, evidence support that established the date of loss of control and the fair value of the net assets transferred. We analyze the methodology used to measure the fair value of the interest previously held, of the assets acquired and liabilities assumed and we evaluate the reasonableness of the assumptions used and calculations made. We evaluated the sensitivity analysis and the adequacy of the disclosures presented by the Company.

Other Information

Statement of Added Value

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2016, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, was submitted for the auditing procedures jointly with audit of the Company's financial statements. For the purposes of forming our opinion, we evaluate whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria as defined in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, this statement of value added have been properly prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and is consistent with the individual and consolidated financial statements taken as a whole.

Previously financials statements

The information and balances, individual and consolidated, related to the the year ended December 31, 2015, presented for comparison purposes, were audited by us. We issued our audit report dated March 21, 2015, without modifications, but with an emphasis paragraph related to the existence of significant uncertainty regarding the realization of certain assets held for sale as of December 31, 2015.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for the other information, which comprises the Management report. Our opinion on the individual and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Management Report, we are required to report that fact. We have nothing to report regarding this matter.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) , and for such internal control as management determines is necessary to enable the preparation of individual and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditors' responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual and consolidated financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the (consolidated) financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter, or, when in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, March 27, 2017

BKR - Lopes, Machado Auditores
CRC-RJ-2026-O/5

Independent Member of BKR International

Mário Vieira Lopes
Contador - CRC-RJ 60.611/O

Petro Rio S.A.

Balance sheet on
December 31, 2016 and 2015
(In thousands of reais)

		Parent company		Consolidated	
	Note	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Assets					
Current assets					
Cash and cash equivalents	3	**836**	3,099	**24,793**	283,951
Securities	4	**132,855**	32,155	**546,507**	213,090
Accounts receivable	5	**-**	-	**30,680**	244,499
Oil inventories	23	**-**	-	**33,192**	25,279
Recoverable taxes	6	**1,649**	2,227	**69,331**	26,801
Advances to suppliers	7	**21**	3	**23,400**	28,291
Prepaid expenses		**147**	206	**2,696**	722
Other receivables		**12**	3	**726**	3,545
		135,520	37,693	**731,325**	826,178
Non-current assets available for sale	8	**-**	-	**50,255**	73,644
		135,520	37,693	**781,580**	899,822
Non-current assets					
Advances to suppliers	7	**-**	-	**12,596**	12,596
Deposits and pledges		**4,715**	4,426	**12,993**	11,594
Recoverable taxes	6	**6,596**	7,808	**42,601**	20,084
Deferred taxes		**2,975**	-	**5,782**	1,226
Related parties	20	**531**	367	**-**	-
Investments	9	**742,657**	908,650	**-**	-
Property, plant and equipment	10	**82**	447	**44,234**	69,949
Intangible assets	11	**-**	29	**182,583**	161,766
		757,556	921,727	**300,789**	277,215
Total assets		**893,076**	959,420	**1,082,369**	1,177,037

See the accompanying notes to the financial statements.

Petro Rio S.A.

Balance sheet on
December 31, 2016 and 2015
(In thousands of reais)

		Parent company		Consolidated	
	Note	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Liabilities and shareholders' equity					
Current liabilities					
Suppliers	12	**814**	314	**50,176**	52,469
Labor obligations		**74**	279	**10,151**	7,373
Taxes and social contributions	13	**6,790**	4,501	**13,494**	13,082
Debentures	14	**688**	664	**688**	664
Derivative financial instruments	27	**-**	-	**162**	-
Advances from partners	18	**-**	-	**4,170**	7,658
Other liabilities		**-**	-	**779**	4,177
		8,366	5,758	**79,620**	85,423
Non-current liabilities					
Suppliers	12	**-**	-	**12,828**	12,710
Debentures	14	**31,431**	31,461	**31,431**	31,461
Provision for abandonment (ARO)	17	**-**	-	**48,670**	68,033
Provision for contingencies	30	**845**	947	**56,393**	60,879
Deferred taxes and social contributions	16	**9,916**	-	**19,275**	4,087
Related parties	21	**7,434**	-	**-**	-
Investment deficit	9	**932**	7,149	**-**	-
Other liabilities		**-**	-	**-**	339
		50,558	39,557	**168,597**	177,509
Shareholders' equity	20				
Realized capital		**3,265,216**	3,265,185	**3,265,216**	3,265,185
Capital reserves		**100,875**	101,720	**100,875**	101,720
Accumulated translation adjustment		**61,704**	387,451	**61,704**	387,451
Equity valuation adjustment		**4,985**	-	**4,985**	-
Accumulated losses		**(2,840,250)**	(2,950,672)	**(2,840,250)**	(2,950,672)
Income (loss) for the period		**241,622**	110,421	**241,622**	110,421
		834,152	914,105	**834,152**	914,105
Total liabilities and shareholders' equity		**893,076**	**959,420**	**1,082,369**	**1,177,037**

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of income
Years ended December 31, 2016 and 2015
(In thousands of reais, except earnings/losses per share)

	Note	Parent company		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net revenues	22	**-**	**-**	**397,871**	253,071
Costs of products/services	23	**-**	-	**(408,468)**	(294,457)
Gross Income		**-**	**-**	**(10,597)**	(41,386)
Operating income (expenses)					
Geology and geophysics expenses		-	-	**(797)**	(1,450)
Personnel expenses		**(7,652)**	(5,515)	**(27,762)**	(27,872)
General and administrative expenses		**(2,780)**	(3,821)	**(11,407)**	(12,165)
Expenses with Outsourced Services		**(5,671)**	(3,670)	**(33,307)**	(34,046)
Taxes and rates		**(611)**	(352)	**(1,388)**	(5,626)
Depreciation and amortization expenses		**(72)**	(158)	**(368)**	(3,195)
Equity in income of subsidiaries	9	**262,554**	117,298	**-**	-
Income from transactions with permanent assets	8	**-**	-	**(6,712)**	192,157
Other operating income (expenses), net	24	**(38,297)**	4,060	**351,422**	17,797
Operating income (loss) before financial income (loss)		**207,471**	107,842	**259,084**	84,214
Financial income	25	**61,655**	15,344	**313,817**	332,553
Financial expenses	25	**(19,164)**	(12,765)	**(319,950)**	(311,873)
Income before income and social contribution taxes		**249,962**	110,421	**252,951**	104,894
Current income and social contribution taxes		**(1,399)**	-	**(4,639)**	124
Deferred income and social contribution taxes	16	**(6,941)**	-	**(6,690)**	5,403
Income (loss) from continuing operations		**241,622**	110,421	**241,622**	110,421
Income from discontinued operation		-	-	-	-
Consolidated Income (loss) for the period		**241,622**	110,421	**241,622**	110,421
Income (loss) attributed to the Parent company's partners		**241,622**	110,421	**241,622**	110,421
Income (loss) attributed to non-controlling partners		**-**	**-**	**-**	-
Earnings (loss) per share - basic and diluted					
Basic		***18,377***	*1,675*	***18,377***	*1,675*
Diluted		***18,377***	*1,675*	***18,377***	*1,675*

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of comprehensive income
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Consolidated	
	12/31/2016	**12/31/2015**
Retained earnings (loss)	**241,622**	110,421
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**(325,747)**	126,218
Equity valuation adjustment	**4,985**	-
Other comprehensive income for the year, net of taxes	**(320,762)**	126,218
Total comprehensive income for the year net of taxes	**(79,140)**	236,639
Attributable to parent company's shareholders	**(79,140)**	236,639
Attributable to non-controlling shareholders	**-**	-

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of changes in shareholders' equity
Years ended December 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 - restated	**3,821,206**	**518,631**	**-**	**261,233**	**(3,979,337)**	**621,733**
Paid-up capital	55,731	-	-	-	-	55,731
Translation adjustment on investment abroad	-	-	-	126,218	-	126,218
Share-based compensation	-	3	-	-	-	3
Offset of loss	(611,752)	(416,914)	-	-	1,028,666	-
Income for the year	-	-	-	-	110,421	110,421
Balances at December 31, 2015	**3,265,185**	**101,720**	**-**	**387,451**	**(2,840,250)**	**914,106**
Balances at January 1, 2016	**3,265,185**	**101,720**	**-**	**387,451**	**(2,840,250)**	**914,106**
Paid-up capital	31	-	-	-	-	31
Translation adjustment on investment abroad	-	-	-	(325,747)	-	(325,747)
Gain (loss) with financial instruments	-	-	4,985	-	-	4,985
Income for the year	-	-	-	-	241,622	241,622
Treasury shares	-	(845)	-	-	-	(845)
Balances at December 31, 2016	**3,265,216**	**100,875**	**4,985**	**61,704**	**(2,598,628)**	**834,152**

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of cash flows
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash flows from operating activities				
Income (loss) for the period (before taxes)	**249,962**	**110,421**	**252,951**	**104,894**
Depreciation and amortization	72	158	69,569	65,836
Financial income	(56,582)	(6,992)	(297,880)	(207,777)
Financial expenses	16,752	11,328	294,021	253,047
Share-based compensation	-	3	-	3
Equity in income of subsidiaries	(262,554)	(117,298)	-	-
Loss/Write-off of non-current assets	322	15	321	9,201
Provision for contingencies/losses	(28)	947	2,606	28,259
Provision for impairment	-	-	6,712	79,497
Gains from acquisition of E&P assets	-	-	-	(271,654)
Reclassification of accumulated translation adjustment (CTA)	38,600	-	(309,187)	-
	(13,456)	**(1,418)**	**19,113**	**61,306**
(Increase) decrease in assets				
Accounts receivable	-	36	164,960	(110,013)
Recoverable taxes	2,028	949	(62,042)	(14,469)
Prepaid expenses	59	(206)	(2,000)	2,764
Advances to suppliers	(18)	191	1,229	10,489
Inventory	-	-	9,911	(30,969)
Related parties	(89)	-	-	-
Other receivables	(9)	51	2,435	(2,956)
Increase (decrease) in liabilities				
Suppliers	499	(4,821)	(498)	751
Labor obligations	(205)	(2,133)	2,795	(66)
Taxes and social contributions	(492)	(414)	(14,224)	1,339
Related parties	7,186	(1,404)	-	-
Contingencies	(74)	-	(2,467)	-
Advances from partners in oil and gas operations	-	-	(2,222)	59,287
Other liabilities	-	-	(2,990)	2,366
Net cash (invested in) from operating activities	**(4,571)**	**(9,169)**	**114,000**	**(20,171)**
Cash flows from investment activities				
(Investment in) redemption of securities	(55,705)	58,291	(319,800)	(100,712)
Deposits and pledges	(289)	14	(1,593)	(930)
Non-current assets held for sale	-	-	3,831	180,908
(Purchase) sale of fixed assets	-	18	247	(489)
(Purchase) sale of intangible assets	-	-	(73,786)	(36)
(Purchase) sale of E&P assets	-	-	-	(96,108)
Paid-up capital in subsidiary	62,968	(37,572)	-	-
(Purchase) sale of shares of the Company (in treasury)	(845)	-	-	-
Net cash (invested in) from investment activities	**6,129**	**20,751**	**(391,101)**	**(17,367)**
Cash flows from financing activities				
Debentures	(3,821)	(8,532)	(3,821)	(8,532)
Derivative transactions	-	-	(1,878)	-
Net cash (invested in) from financing activities	**(3,821)**	**(8,532)**	**(5,699)**	**(8,532)**
Translation adjustment	-	-	23,642	(20,613)
Net increase (decrease) in cash and cash equivalents	**(2,263)**	**3,050**	**(259,158)**	**(66,683)**
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	836	3,099	24,793	283,951
Net increase (decrease) in cash and cash equivalents	**(2,263)**	**3,050**	**(259,158)**	**(66,683)**

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of added value (supplementary information for IFRS purposes)
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Income				
Sale of services	**-**	-	**397,871**	253,071
	-	-	**397,871**	253,071
Inputs and services				
Third party's services and other	**(5,671)**	(3,670)	**(33,307)**	(34,046)
Geology and geophysics expenses	**-**	-	**(797)**	(1,450)
Costs of services	**-**	-	**(303,816)**	(205,557)
Gross added value	**(5,671)**	(3,670)	**59,951**	12,018
Retentions				
Depreciation and amortization	**(72)**	(158)	**(69,569)**	(65,836)
Net added value	**(5,743)**	(3,828)	**(9,618)**	(53,818)
Transferred value added				
Net financial income (loss)	**42,491**	2,579	**(6,133)**	20,680
Equity in income of subsidiaries	**262,554**	117,298	**-**	-
Deferred taxes	**(6,941)**	-	**(6,690)**	5,403
Income from transactions with permanent assets	**-**	-	**(6,712)**	192,157
Rents, royalties and other	**(41,077)**	239	**304,564**	(20,627)
Added value payable	**251,284**	116,288	**275,411**	143,795
Distribution of added value				
Personnel	**7,652**	5,515	**27,762**	27,872
Taxes	**2,010**	352	**6,027**	5,502
Interest attributable to Group's shareholders	**241,622**	110,421	**241,622**	110,421
Distributed added value	**251,284**	116,288	**275,411**	143,795

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”). The Company in 2014 also entered into a purchase and sale agreement with Maersk Energia Ltda. ("Maersk") to acquire remaining 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 concluded in 2016 the execution of 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 in 2016 was of roughly 8.1 thousand barrels (8.2 thousand barrels in 2015), with API 20.3. The license covers an area of approximately 134 km2 with several prospects for future exploration.

Per Note 31.1, on March 20, 2017 the subsidiary PetroRioOG concluded the transaction for the acquisition of 100% of the shares of Brasoil Exploração Petrolífera S.A. (“Brasoil”). The transaction was carried out in stages; the first and second stages were carried out in December 2016, with the signing of purchase/sale agreements with Goldman Sachs & Co. (“GO”) – 23.19% – and with the Brascan Petroleum, Gas and Energy Fund – Equity Investment Fund (“FIP Brascan”) – 29.21% – totaling 52.40% in 2016. The third stage, carried out in the first months of 2017, was the acquisition of the remaining 47.60% stake, held by minority shareholders, who adhered to the tag-along clause of the agreements

originally signed with GO and FIP Brascan. The conclusion of the purchase and sale transaction was confirmed after the fulfillment of all the previous conditions.

Brasoil is a **holding** company, which indirectly holds a 10% stake in the rights and obligations set forth in the concession contract of Campo de Manati, currently producing 4.2 million cubic meters of natural gas per day (approximately 26,000 barrels of oil equivalent per day), ranking as the 8th largest natural gas field in Brazil.

In addition to its interest in Campo de Manati, other relevant assets of Brasoil include the indirect 100% stake in the concessions of Campo de Pirapema, currently under development, and of the FZA-M-254 Block, both located at the mouth of the Amazon River.

Besides, the subsidiary Petro Rio Internacional S.A. ("PTRIntl") 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.

In 2016, the affiliate of subsidiary PRTIntl in Namibia was liquidated, with a significant effect of reclassification between the heading of Other Comprehensive Income in Shareholders' Equity, and Other Income and Expenses in the income statement, as described in Notes 9 and 24.

2. Preparation basis and presentation of the financial statements

2.1. Statement of conformity

The individual and consolidated financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, which include the provisions of Brazilian Corporation Law, Procedures, Guidance and Interpretations issued by Accounting Pronouncement 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 purposes.

The financial statements of Petro Rio S.A. are being disclosed in accordance with technical instruction OCPC 07, which deals with the basic requirements for preparation and disclosure to be followed when disclosing accounting and financial reports, especially those contained in the notes thereto. The Management confirms that all relevant pieces of information characteristic of interim financial statements are being evidenced, and correspond to those used by Management.

2.2. Basis of preparation

The individual and consolidated financial statements were prepared based on the historical cost, except for derivative those measured at fair value, when indicated.

Summary of main accounting policies adopted by the Group is described below:

2.3. Basis of consolidation and investments in subsidiaries

Consolidated financial statements include financial statements of the Company and its subsidiaries. Control is achieved when the Company has the power to control financial and operating policies of an entity to gain benefits from its activities.

The income of the subsidiaries acquired, sold or merged during the period are included in the consolidated income and comprehensive income information from the effective date of acquisition, disposal or merger, as applicable.

In the Company's individual financial statements, the financial data of direct and indirect subsidiaries are recognized under the equity method of accounting.

When necessary, subsidiaries' financial statements accounting policies are adjusted to those of the Group. All transactions, balances, income and expenses among the Group's companies are fully eliminated in consolidated financial statements.

The Company's consolidated financial statements include:

	Interest			
	12/31/2016		12/31/2015	
Fully consolidated companies	**Direct**	**Indirect**	**Direct**	**Indirect**
Petro Rio O&G Exploração e Produção de Petróleo Ltda.	**100%**	**-**	100%	-
HRT América Inc.	**100%**	**-**	100%	-
Petro Rio Internacional S.A.	**2%**	**98%**	25%	75%
Petrorio Luxembourg Holding Sarl	**-**	**100%**	-	100%
Petrorio Lux Energy Sarl	**-**	**100%**	-	100%
HRT Netherlands BV	**-**	**100%**	-	100%
HRT Walvis Petroleum (Pty) Ltd.	**-**	**100%**	-	100%
HRT Canada Inc.	**-**	**100%**	-	100%
Petrorio Luderitz Luxembourg Holding SARL	**-**	**100%**	-	100%
HRT Luderitz Petroleum (Pty) Ltd.	**-**	**100%**	-	100%
Petrorio Luxembourg Sarl	**-**	**100%**	-	100%
Cumoxi Investments (Pty) Ltd.	**-**	**100%**	-	100%
Kunene Energy (Pty) Ltd.	**-**	**100%**	-	100%
Orange Petroleum Ltd.	**-**	**100%**	-	100%

2.4. Cash and cash equivalents

They are maintained for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Comprised of balances in cash, demand bank deposits, and financial investments with immediate liquidity and insignificant risk of change in value.

2.5. Current and non-current assets and liabilities

Current and non-current assets and liabilities are stated at realization and/or collection values, respectively, and contemplate monetary or foreign exchange variations, as well as earned or incurred earnings and charges, when applicable.

2.6. Oil and gas exploration, development, and production expenditures

For the expenses on exploration, development and production of oil and gas, the Group – for the purposes of the accounting practices adopted in Brazil – uses accounting criteria in accordance with IFRS 6 – "Exploration for and evaluation of mineral resources."

Property, plant and equipment
It is recorded at the amortized or construction cost, restated, when applicable, to its recovery amount and it is represented mainly by assets associated to stages of exploration and oil and natural gas production development, such as, for example, expenses on drilling and completion, and E&P equipment. Also includes machinery and equipment and other tangible assets used for administrative purposes, such as furniture, telephone devices, IT equipment. Gains and losses deriving from write-off or disposal of a property, plant and equipment asset are determined by the difference between earned revenue, if applicable, and respective residual value of the asset, and is recognized in income for the year.

Successful efforts
Expenses with exploration and development of oil production are recorded in accordance with the successful efforts method. This method determines that the development costs of all production wells and successful exploratory wells, related to economically feasible reserves, be capitalized, while geological and geophysical and seismic costs should be considered as expenses for the year when incurred. Additionally, the dry exploratory well costs and those related to non-commercial areas should be recognized in results when identified as such.

Abandonment expenditure
Expenses with the abandonment of the oil development and production areas are recorded as intangible assets in contra account to a provision in liabilities. Note 17.

Depreciation
Expenses with exploration and development of production are depreciated beginning as of declaration of commercial viability and start of production, using the produced

units method ("DUP"). According to this method, monthly depreciation rate is obtained by dividing monthly production by total estimated reserve balance (proven plus probable) at the beginning of the month. On an annual basis, the Company reviews total reserve balance. Machinery and equipment are depreciated by the straight-line method based on the rates mentioned in Note 10 that takes into consideration the estimated useful lives of the assets with the respective residual values.

2.7. Business combination

Business combinations are accounted for under the acquisition method. The cost of an acquisition is measured for the consideration amount transferred, valuated on fair value basis on the acquisition date, including the value of any ownership interest held by non-controlling shareholders in the acquired company, regardless of their proportion. For each business combination, the buyer must measure the non-controlling interest in the acquired business at the fair value of based on its interest in the net assets identified in the acquired business. Costs directly attributable to the acquisition should be accounted for as expense when incurred.

If a business combination is performed in stages, the fair value on the date of acquisition of the shareholding interest previously held in the capital of the acquiree is revaluated at fair value on the dates of the acquisition of additional portions, impacts being recognized in statement of income. Any contingent payments to be transferred by the acquiree will be recognized at fair value on the acquisition date.

Initially, goodwill is initially measured as being the excess of consideration transferred in relation to net assets acquired (acquired identifiable assets, nets and assumed liabilities). If consideration is lower than fair value of net assets acquired, the difference must be recognized as gain in statement of income.

After initial recognition, the goodwill is carried at cost less any accumulated loss for the impairment losses. For impairment testing purposes, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating units of the Group that are expected to benefit by the synergies of combination, regardless of other assets or liabilities of the acquiree being allocated to those units.

2.8. Analysis of Recoverable value of assets

Pursuant to CPC 01, Property, plant and equipment items, intangible assets and other non-current assets are valued on an annual basis to identify evidence of unrecoverable losses, whenever events or significant changes in the circumstances indicate that the book value may not be recoverable.

When there are losses deriving from situations in which the asset book value exceeds its recoverable value, defined as the higher of the asset's value in use and asset's net sales value, they are recognized in income for the year.

2.9. Non-current assets held for sale

The Company classifies non-current assets held for sale measured at fair value less selling costs. Property, plant and equipment and intangible assets are not depreciated or amortized when classified as held for sale.

2.10. Inventories

Costs incurred to take the product to its location and conditions are measured at weighted acquisition or production average cost. The net realizable amount corresponds to the sales price estimated for the normal course of the businesses, less estimated execution costs and those required for the sale.

2.11. Income and social contribution taxes

Such taxes are calculated and recorded considering the tax rates prevailing on the date of the preparation of the financial statements. Deferred taxes are recognized based on inter-temporal differences, tax losses, and social contribution negative basis, when applicable, only when and up to the amount that may be considered as of probable realization by Management (in accordance with business model approved by the Company's Management and governance councils).

2.12. Statement of income

Income and expenses are recognized on the accrual basis. Sales income is recognized upon transfer of ownership and its inherent risks to third parties.

2.13. Transactions involving payment in shares

Share-based remuneration plan for employees, to be settled with equity instruments, is measured at fair value on grant date, as described in note 20.2.

Granted options fair values determined on grant date are recorded at the straight-line basis as expenses in income for the year during the period in which the right is acquired, based on the Company's estimates on which granted options will be possibly acquired, with corresponding increase in shareholders' equity (stock option plan). At each year end, the Company reviews its estimates on the number of equity instruments that will be eventually acquired.

Review impact on original estimates, if any, is recognized in income for the year, so that accumulated expenses reflect reviewed estimates with the corresponding adjustment in shareholders' equity under "Capital reserve" that recorded the benefit to employees.

2.14. Financial instruments

Financial assets and liabilities are recognized when the Group is a party of the contractual provisions of the instruments. Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities are increased or reduced by the fair value of the financial assets or liabilities, when applicable, after initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in the statement of income.

2.15. Financial assets

The Group's financial assets are classified into the following categories: (i) financial assets at fair value through profit or loss, (ii) financial assets available for sale, and (iii) investments held to maturity. Classification depends on nature and purpose of financial assets and is determined on initial recognition date.

All regular acquisitions or disposals of financial assets are recognized or written-off based on negotiation date. Regular acquisitions or disposals correspond to financial assets' acquisitions or disposals requiring delivery of assets within term established in a standard or market practice.

Financial assets measured at fair value through profit or loss

Include financial assets held for trading (that is, acquired mainly to be sold in the short-term), or assigned at fair value through profit or loss. Any interest, monetary restatement, foreign exchange rate and any changes arising from evaluation at fair value are recognized in income (loss), as financial income or expenses, when incurred.

Financial assets available for sale

They include equity instruments and debt instruments, which are intended to be held for an indefinite period and can be sold to meet liquidity needs or in response to changes in market conditions. After initial recognition, the financial assets available for sale are measured at fair value, with unrealized gains and losses, recognized directly in the available-for-sale reserve within other comprehensive income until the investment is derecognized.

Investments held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has contractual obligation, the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of the financial asset impairment as a result of one or more events that occurred after initial recognition with impact on this asset's estimated future cash flows.

For all other financial assets, an objective evidence may include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delay in interest or principal payments; or
- Probability of debtor declaring its bankruptcy or financial reorganization; or
- Extinction of that financial asset active market due to financial problems.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's book and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss recognized for goodwill will not be reversed in subsequent periods.

The book value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the book value is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited to the provision. Changes in book value are recognized in income (loss)

2.16. Derivative financial instruments

The Company uses derivative financial instruments to provide protection against its exposure to changes in oil price risks (Note 28). 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 measured 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 earnings or losses resulting from changes in the fair value of derivatives during the year are entered directly in the income (loss) for the period.

2.17. Functional currency and currency

The individual and consolidated financial statements are being presented in Brazilian Real, functional currency of the Company. The Company defined that its functional currency is the Brazilian Real of its foreign subsidiaries is the United States dollar, on account of its incurred costs of operation. All financial information presented in Reais has been rounded to the nearest value, except otherwise indicated.

Translation of balances in foreign currencies

The assets and liabilities of foreign subsidiaries are translated into BRL at the exchange rate on the balance sheet date, and the corresponding statements of income are translated based on average monthly foreign exchange rate. Foreign exchange differences resulting from said translation are accounted for separately in shareholders' equity, in comprehensive statement of income, in line of other comprehensive income – accumulated translation adjustments.

2.18. Statements of cash flows ("DFC")

Statements of cash flows were prepared and presented in accordance with the Technical Pronouncement CPC 03 (R2) - IAS 7 under the indirect method.

2.19. Statements of added value ("DVA")

Statements of added value have been prepared and are presented in accordance with Technical Pronouncement CPC 09.

2.20. Use of estimates and judgments

The preparation of individual and consolidated financial statements according to IFRS and CPC standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income, expenses and notes. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews in relation to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

Information on assumptions and estimates that may result in adjustments within the next financial year are included in the following notes:

- Note 8 – Non-current assets held for sale
- Note 10 – Property, plant and equipment, primarily those relating to written-off, amortizations and impaired oil & gas assets.
- Note 11 – Intangible assets, primarily those relating to written-off, amortization and impaired oil & gas assets.
- Note 14 – Debentures, concerning the estimated fair value of debt-to-equity swap option.
- Note 16 - Current and deferred income and social contribution taxes.
- Note 20 - Shareholders' equity / Share-based compensation plan.
- Note 28 - Objectives and policies for financial risk management.
- Note 30 - Contingencies.

2.21. Net income (loss) per share

Income per basic / diluted share is computed by dividing net income by the weighted average of common shares held by the shareholders, excluding treasury shares in the period.

2.22. 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 15	Income from contracts with clients	January 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 7	Disclosure	January 1, 2017

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

2.23. Effects of adopting CPC 23 - Accounting policies, estimate changes and error correction.

Change in accounting estimate

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 2017, the field useful life was estimated up to 2017). This extension represents a proportional reduction of Polvo assets amortization, including Fixed Platform “Polvo A”. Throughout 2016 a series of interventions in the Polvo field were made, completed in July 2016. On December 31, 2016, reserves were again certified by DeGolyer and MacNaughton, which confirmed the extension of the useful life until 2021, adjusting only the estimated production curve, and consequently the amortization of the assets in 2016, since there was a confirmed increase of proven developed reserves, by about 1 million barrels.

2.24. Conclusion of financial statements

The Company's management authorized the completion of these financial statements on March 27, 2017.

3. Cash and cash equivalents

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Cash	**-**	-	**1**	1
Banks	**836**	3,099	**24,792**	283,950
	836	3,099	**24,793**	283,951
National	**599**	14	**655**	374
Abroad	**237**	3,085	**24,138**	283,577

The balance of cash and cash equivalents consists primarily of funds for the purpose of business working capital, applied in highly liquid instruments in Brazil (committed and "DI") and abroad (fixed income securities or current account deposits), without risk of significant variation of the principal, and yields upon redemption.

4. Securities

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
purchase and sale commitments (Debentures) (i)	-	117	1,522	9,424
Shares (ii)	41,690	-	41,690	-
Time Deposit (interbank deposits on the international market) (i)	-	-	-	151,834
Short duration (Investment Fund in debt securities)	-	32,038	-	32,038
Total investments for trading	**41,690**	32,155	**43,212**	193,296
Fixed income debt securities (bonds) (i)	-	-	296,885	-
Multimarket investment funds (iii)	91,165	-	171,786	-
Shares	81,161	-	149,870	-
Government bonds (LFT/NTN)	3,526	-	3,852	-
Cash / Money Market	6,478		18,064	
Total available for sale	**91,165**	-	**468,671**	-
Promissory note (iv)	-	-	34,624	19,794
Total held to maturity	**-**	-	**34,624**	19,794
	132,855	32,155	**546,507**	213,090

(i) Compared to 2015, there was a new balancing of investments both in Brazil and abroad. The investments initially allocated to debt securities and interbank deposits on the international market were replaced by investments in fixed income securities, in US dollars, of large Brazilian institutions, with an average yield of 6.8% p.a., as a capital preservation strategy.

(ii) The Company has investments in shares of an organization that is undergoing judicial recovery, which are not relevant in volume, as it understands that this investment has great

potential for appreciation. As of December 31, 2016, the valuation of the portfolio (market) was 63.12%.
(iii) Another move in terms of balancing occurred with the allocation of resources in investment funds in Brazil and abroad, which apply primarily to stocks with market-based income (negative yield of 1.51%), and government bonds ("NTN"), with a yield of 13.53% p.a. This move is in line with the strategy of the PetroRio Group to concentrate part of its financial investments with independent professional managers, in order to maximize the return of part of the Group's cash. These are open (non-exclusive) funds and have independent management, with autonomy to transact the resources invested.

(iv) Also, the Company holds a promissory note, with 6% annual earnings, also pegged to changes in the US dollar.

The Company carries out the risk management of securities through appropriate policy and procedure practices, as described in Note 28.

5. Accounts receivable

	Consolidated	
	12/31/2016	**12/31/2015**
Glencore (i)	**7,374**	15,875
Rosneft (ii)	**-**	78,096
Maersk (iii)	**-**	13,491
Shell (iv)	**22,814**	117,144
Petrobras (iv)	**-**	19,524
Other	**85**	369
Total	**30,273**	244,499
Total local currency	**75**	269
Total foreign currency	**30,198**	244,230

(i) Balance receivable remaining from the sale of oil in December 2016, referring to approximately 477,000 barrels of oil, which generated revenue of R$ 72,556, of which R$ 65,182 has already been received.

(ii) In May 2015, the Company entered into with Rosneft Brasil E&P Ltda ("Rosneft", Rosneft Oil Company subsidiary) 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$18 million refundable referring to advance for acquisition of drilling rigs that were not included in new contracts. In July 2015 the Company was advised by ANP of approval of this Assignment of Rights. After the final price adjustment, which reduced the amount receivable by US$ 4.8 million (R$ 15.6 million), the Company received a net balance of US$ 15.2 million (R$ 51.9 million).

(iii) 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 had US$ 3,500 (R$ 11,514) receivable as reimbursement of taxes levied on transaction, as detailed on Note 11. In July 2016, the receivable balance was

fully settled by Maersk.

(iv) 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. Petrobras has already repaid all the amount as an advance. Of the amounts paid to Shell, there is still US$ 7 million (R$ 22,814) to be refunded of the total being charged by means of arbitration procedure.

6. Recoverable taxes

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Income and social contribution taxes (i)	**7,579**	9,798	**22,634**	13,128
PIS and COFINS (ii)	**666**	4	**51,156**	14,688
ICMS	**-**	-	**15,432**	15,713
Tax abroad (VAT) (iii)	**-**	-	**22,497**	2,975
Other	**-**	233	**213**	381
Total	**8,245**	10,035	**111,932**	46,885
Current assets	**1,649**	2,227	**69,331**	26,801
Non-current assets	**6,596**	7,808	**42,601**	20,084

(i) Primarily refers to income tax withheld on financial investments and negative balance of IRPJ/CSLL (Corporate Income Tax / Social Contribution on Net Earnings);
(ii) PIS/COFINS credits on inputs, raised in 2016;
(iii) Recoverable taxes of the Namibian subsidiaries during the exploratory period.

7. Advances to suppliers

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Queiroz Galvão Óleo & Gás (i)	**-**	-	**-**	37,682
Geoquasar Energy (ii)	**-**	-	**12,596**	12,596
BW (Prosafe) guarantee (iii)	**-**	-	**22,199**	25,861
Other	**21**	3	**1,201**	85
Subtotal	**21**	3	**35,996**	76,224
Provision for non-realization of assets	**-**	-	**-**	(35,337)
Total	**21**	3	**35,996**	40,887
Total current assets	**21**	3	**23,400**	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 Drilling Rigs QG-VIII and QG-IX, which started to be discounted from the monthly billing of said drilling 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 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, 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$ 18,482) 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).

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. Of these assets, two aircrafts were sold for the amount of R$ 4,930. On December 1, 2016, there were 1 aircraft and 4 drilling rigs.

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 12/31/2016**
Aircrafts	**12,417**	**-**	(4,930)	-	-	(1,947)	**5,540**
Drilling rigs	**61,227**	**-**	-	-	(6,712)	(9,800)	**44,715**
	73,644	-	(4,930)	-	(6,712)	(11,747)	**50,255**

	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**
Drilling 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.

In 2016, a provision for impairment of drilling rigs was formed in the amount of R$ 6,712 (US$ 1.96 million) due to the ongoing negotiations for the sale of assets, reducing the amounts of each rig from US$ 3,920,000 (R$ 12,776 already net of the 2% sales commission) to US$ 3,430,000 (R$ 11,179).

9. Investments

At December 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) ownership 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 98.3% of interest in PTRIntl capital.

  In December 2016, PetroRioOG entered into a purchase and sale agreement for the acquisition of 52.40% of Brasoil Exploração Petrolífera S.A. ("Brasoil"), conditional upon the non-exercise, by minority shareholders, of the right of first offer, which expired in January 2017. In February 2017, minority shareholders decided to adhere to the tag-along clause, and PetroRioOG now holds a 100% stake in Brasoil. The transaction was completed on March 20, 2017. (Note 31.1)

  Brasoil is a holding company, which indirectly holds a 10% stake in the rights and obligations set forth in the concession contract of Campo de Manati, currently producing 4.2 million cubic meters of natural gas per day (approximately 26,000 barrels of oil equivalent per day), ranking as the 8th largest natural gas field in Brazil.

  In addition to its interest in Campo de Manati, other relevant assets of Brasoil include the indirect 100% stake in the concessions of Campo de Pirapema, currently under development, and of the FZA-M-254 Block, both located at the mouth of the Amazon River.

- **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) ownership 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, the main Companies controlled by PTRIntl are PetroRio Lux Energy S.à.r.l. and HRT Netherlands BV, companies that have large-sized assets in operation or held for sale, and PetroRio Luxembourg S.à.r.l, which from September 2016 started to trade the oil produced in the Polvo field. The acquisition of Petrorio Lux Energy S.à.rl (former BP Energy América LLC) was part of the acquisition of Campo de Polvo, being the owner of the fixed platform, "Polvo A", and a 3,000 HP drilling rig.

  Also under this corporate structure are subsidiaries located in Luxembourg and the Republic of 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.

  Accordingly, on December 30, 2016, the Company decided to dissolve PTRIntl branch in Namibia, which was used by the Company from 2011 to 2013 as operator of the exploratory campaign in Namibia, centralizing financial funds. The liquidation of this international subsidiary led to the reclassification of the cumulative conversion adjustment, previously classified under Other Comprehensive Income, in Shareholders' Equity, to the Company's Income for the reporting period, under Other Revenues and Expenses. The impact of this reclassification on the Company's bottom line was a credit of R$ 309,187 (Note 24).

  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 associated companies, mainly to PTRIntl and its subsidiaries.

Portfolio of concessions

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

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

a) Relevant information on investees as of December 31, 2016

	PetroRio	PTRIntl	HRTA
Direct interest	100.0%	1.7%	100.0%
Indirect interest	0.0%	98.3%	0.0%
Shareholders' equity	739,590	181,785	(932)
Income (loss) for the period	255,363	321,813	1,761
Total assets	1,098,739	187,783	195

b) Breakdown of investments

	Parent company	
	12/31/2016	12/31/2015
PetroRio	**739,590**	829,796
HRTA	**(932)**	(7,149)
PTRIntl	**3,067**	78,854
	741,725	901,501
Investments	**742,657**	908,650
Provision for loss on investments in subsidiaries	**(932)**	(7,149)

b) Changes in the investment

	PetroRio	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	(58,493)	(14,571)	3,649	(69,415)
Equity in income of subsidiaries	255,363	5,430	1,761	262,554
Ownership interest adjustments	60,490	(60,490)	-	-
Equity valuation adjustments	11,432	-	-	11,432
Conversion adjustments	(358,998)	(6,156)	807	(364,347)
Balance at December 31, 2016	**739,590**	**3,067**	**(932)**	**741,725**

10. Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 12/31/2016	Balance at 12/31/2015
In operation						
Polvo A platform and drilling rig	UOP	101,439	(75,062)	16,137	42,514	68,215
Machinery and equipment	10	-	-	-	-	-
Furniture and fixtures	10	689	(294)	-	395	407
Communication equipment	20	63	(31)	-	32	64
Vehicles	20	-	-	-	-	13
IT equipment	20	1,868	(1,775)	-	93	145
Leasehold improvements	4	1,263	(63)	-	1,200	1,091
Facilities	10	-	-	-	-	14
Total		105,322	(77,225)	16,137	44,234	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 12/31/2016
In operation						
Polvo A platform and drilling rig	**68,215**	**-**	**-**	**(15,378)**	**(10,323)**	**42,514**
Machinery and equipment	**-**	**-**	**-**	**-**	**-**	**-**
Furniture and fixtures	**407**	**82**	**(20)**	**(74)**	**-**	**395**
Communication equipment	**64**	**9**	**(9)**	**(32)**	**-**	**32**
Vehicles	**13**	**-**		**(13)**	**-**	**-**
IT equipment	**145**	**211**	**(109)**	**(154)**	**-**	**93**
Leasehold improvements	**1,091**	**486**	**(331)**	**(46)**	**-**	**1,200**
Facilities	**14**	**-**	**(13)**	**(1)**	**-**	**-**
Total	**69,949**	**788**	**(482)**	**(15,698)**	**(10,323)**	**44,234**

	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**

11. Intangible assets (consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated	
		12/31/2016	12/31/2015
Oil & Gas assets			
Subscription bonus - Reconcavo - ES	(*)	**151**	151
Subscription bonus - Polvo	(*)	**335,530**	335,530
Exploration / development expenses	(*)	**68,212**	170
Emergency spare parts	(*)	**5,744**	-
Software and others	20	**8,777**	8,790
		418,414	344,641
Accumulated amortization		**(235,831)**	(182,875)
Total		**182,583**	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 when exploration/redevelopment processes will be completed.

b) Changes in balance

	Balance at 01/01/2016	Additions	Write-offs	Amortization	Foreign exchange	Translation adjustment	Balance at 12/31/2016
Subscription bonus - Reconcavo - ES	151	-	-	-	-	-	**151**
Subscription bonus - Polvo	161,298	-	-	(40,797)	-	-	**120,501**
Exploration / development expenses	170	68,042	-	(12,050)	-	-	**56,162**
Emergency spare parts	-	5,744	-	-	-	-	**5,744**
Software and others	147	-	(13)	(109)	-		**25**
	161,766	**73,786**	**(13)**	**(52,956)**	**-**	**-**	**182,583**

	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	12/31/2016
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	(40,797)	120,501
Total production offshore bonus (operator)	**161,298**	**(40,797)**	**120,501**

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 classified as expenses on redevelopment, recorded in the fiscal year ended December 31, 2016, totaled R$ 68,042.

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 that 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 negotiations were concluded, Maersk considered all obligations related to payment of calculated value as settled. In addition, Maersk committed itself with transferring US$3.5 million (R$11,514) 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 Petrorio 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 book 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 2017, the field useful life was estimated up to 2017). This extension represents a proportional reduction of Polvo assets amortization, including Fixed Platform “Polvo A”. Throughout 2016 a series of interventions in the Polvo field were made, completed in July 2016 which had a positive result. On December 31, 2016, reserves were again certified by DeGolyer and MacNaughton, which confirmed the extension of the useful life until 2021, adjusting only the estimated production curve, and consequently the amortization of the assets in 2016, since there was a confirmed increase of proven developed reserves, by 1 million barrels.

12. Suppliers

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Domestic suppliers	**725**	266	**36,097**	41,556
Foreign suppliers	**89**	48	**26,907**	23,623
	814	314	**63,004**	65,179
Total current liabilities	814	314	50,176	52,469
Total non-current liabilities	-	-	12,828	12,710

13. Taxes and social contributions payable

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
IRPJ and CSLL payable	**1,399**	-	**4,635**	-
PIS and Cofins on service imports	**914**	-	**1,321**	1,768
Service tax	**-**	-	**142**	93
IRRF on services	**32**	88	**554**	1,050
Social contribution on services	**-**	9	**-**	439
INSS	**4,436**	4,401	**6,052**	5,729
Taxes on Equity	**-**	-	**175**	3,494
FGTS	**2**	3	**73**	229
Other	**7**	-	**542**	280
	6,790	4,501	**13,494**	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 December 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.

	01/01/2016	Addition	Write-off	Conversion into shares	12/31/2016
Principal	31,461	-	-	(30)	**31,431**
Financial charges	664	3,846	(3,822)	-	**688**
Total	**32,125**	**3,846**	**(3,822)**	**(30)**	**32,119**
Current	664	3,846	(3,822)	-	688
Non-current	31,461	-	-	(30)	31,431

Up to March 31, 2016, debentureholders opted to convert 2,787,375 debentures (R$ 55,762 reversed to capital), 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 in the year ended December 31, 2016 was R$ 76,001 (US$ 21,819 thousand) and in the year ended December 31, 2015 was of R$ 53,259 (US$ 15,976 thousand).

16. Current and deferred income and social contribution taxes

	Tax loss		Tax credit	
Companies	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
PetroRio	**76,022**	**77,830**	**25,847**	**26,462**
PetroRio	**1,240,475**	**1,250,544**	**421,761**	**425,185**
PetroRio	**10,205**	**10,201**	**3,470**	**3,468**
	1,326,702	**1,338,575**	**451,079**	**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 for recognizing only the amounts corresponding to 30% of the recorded deferred liabilities, which refer to the discount recorded in the acquisition of the Polvo Field, and the marking to the market of the financial instruments. Other credits, which will be recognized as the future taxable income is being generated.

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

	Parent company		Consolidated	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Negative goodwil on fair value recognized assets on in business combinations	**-**	**-**	**3,855**	4,087
Mark to market of financial instruments	**9,916**	**-**	**15,420**	-
	9,916	-	**19,275**	4,087
Deferred tax asset credit	**(2,975)**	-	**(5,782)**	(1,226)

17. Provision for abandonment (ARO)

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

	Consolidated	
	12/31/2016	**12/31/2015**
Previous balance	**201,752**	**138,039**
Addition	**-**	131,997
Decrease	**-**	(137,368)
Currency restatement	(30,820)	62,515
Price-level restatement	(10,655)	6,569
Balance	**160,277**	**201,752**
(-) Accounts receivable guarantee Maersk, net of exchange fluctuation	(111,607)	(133,719)
Net balance of liabilities	**48,670**	**68,033**

The estimated abandonment costs were provisioned for the period ended December 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 1.49% 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 book 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 to/from partners in oil and gas operations

	Consolidated	
Operated blocks	**12/31/2016**	**12/31/2015**
GALP - Namíbia – Petroleum Exploration Licences	**3,865**	7,530
Total operated blocks	**3,865**	7,530
Non-operated blocks (Cowan - ES)	**305**	128
Total advances to/from partners	**4,170**	7,658
Total current liabilities	**4,170**	7,658

19. *Impairment*

Management annually reviews the net book value of assets for purposes of identifying events or changes in economic and operating estimates that may indicate impairment or loss of its recoverable value. These evidences are detected and the net book value exceeded, the recoverable value, a deterioration provision is formed to adjust book value to recoverable value.

As of December 31, 2016, the Company conducted an impairment test on its assets and determined a loss amounting to R$ 6,712 regarding drilling rigs recorded in non-current assets held for sale. (Note 8).

20. Shareholders' equity

20.1. Capital

On December 31, 2016 the Company's subscribed and paid-in capital totaling R$ 3,401,910 is represented by 13,190,747 all nominative, book-entry and with no par value. The Company had 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, however, on February 27, 2017, all Global Depositary Shares ("GDSs") were de-listed and the their holders will receive Common Shares underlying them (Note 30.2).

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 3,300,000 common shares issued by the Company within 18 months,

without reducing capital stock and to be held in treasury, canceled and/or for subsequent disposal.

Until December 31, 2016, the Company acquired a total of 42,800 common shares of Petro Rio S.A., which were classified as Treasury Shares, rectifying Shareholders' Equity, at an acquisition cost of R$ 845.

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$ 3,265,185.

Shareholder	Number of common shares	% of interest
Aventti Strategic Partners LLP	3,554,391	26.9%
One Hill Capital LLC	3,027,497	23.0%
Societe Mondiale Des Energies FIA	1,700,099	12.9%
Deutsche Bank Trust Company Americas	723,094	5.5%
Other Shareholders	4,185,666	31.7%
Total	**13,190,747**	**100.0%**

The Company's capital stock was subject to changes during 2016, due to a R$ 30 increase through the conversion of Debentures into shares, pursuant to Note 14.

20.2. Share-based compensation plan

The Board of Directors, 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
	04/01/2014	11/11/2013	01/02/2013	05/09/2012	05/14/2010
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 year ended December 31, 2016, are summarized below:

	Outstanding options			Options exercised/ canceled	
Plan	Options outstanding on 12/31/2016	Average maturity in years	Exercise price	Options exercised up to 12/31/2016	Options canceled up to 12/31/2016
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	Immediate	R$ 0.20	437,160	55,400

For the year ended December 31, 2016, the Company has a balance recorded in shareholders' equity - income from stock-based compensation - in the amount of R$ 77,665, including R$ 28,376 of the 2010 plan, R$27,839 of 2012 plan, R$ 20,660 of 2013 plan (SOP III), R$ 734 of 2013 plan (SOP IV) and R$ 56 of 2014 plan, with a contra entry in the respective income statement as personnel cost.

20.3. Earnings per share

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

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

Determination of basic and diluted earnings per share	12/31/2016	12/31/2015
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group's shareholders	**241,622**	110,421
Denominator (in thousands of shares)		
(+) Weighted average number of common shares adjusted by dilution effect	**13,191**	**13,191**
(-) Treasury shares	**(43)**	**0**
	13,148	65,940
Basic and diluted earnings per share	**18,377**	1,675

21. Related party transactions

	Parent company	
	12/31/2016	**12/31/2015**
Reimbursement of administrative expenses Petrorio x O&G	**44**	8
Loan Petrorio S.A x Petrorio Internacional (i)	**(1,358)**	-
Loan Petrorio S.A x Petrorio O&G (II)	**(6,076)**	-
Service agreement Petrorio x Lux Energy (iii)	**487**	359
	(6,903)	367
Total non-current assets	**531**	367
Total non-current liabilities	**(7,434)**	-

(i) Balance related to the loan contract signed on August 30, 2016 between PetroRio and PetroRio Internacional, in the amount of R$ 1,301, with six-month term, and interest rate of 80% of the CDI.

(ii) Balance related to the loan contracts signed on October 21, 2016 and December 6, 2016 between PetroRio and PetroRioOG, in the amounts of R$ 3,469 and R$ 2,405, respectively, with 12 month-term, and interest rate of 80% of the CDI.

(iii) Balance of R$ 487 (R$ 359 as of December 31, 2015) refers to contract entered into by PetroRio and Petrorio Lux Energy S.à.r.l., which establishes that Petrorio 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

The Company's management remuneration in the year ended December 31, 2016 was R$3,276 (R$2,701 on December 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.

22. 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.

23. Costs of products sold and services rendered

	Consolidated	
	01/01/2016– 12/31/2016	01/01/2015– 12/31/2015
FPSO	(107,100)	(67,030)
Logistics	(57,642)	(29,677)
Consumables	(60,640)	(39,409)
Operation and maintenance	(43,773)	(32,402)
Personnel	(11,247)	(8,470)
SMS	(13,619)	(13,850)
Other costs	(9,795)	(14,719)
Royalties	(35,451)	(26,259)
Depreciation and amortization	(69,201)	(62,641)
Total	**(408,468)**	**(294,457)**

On December 31, 2016, the oil inventories in the amount of R$ 33,192 is representative of 245,000 bbl – information not reviewed by the independent auditors (on December 31, 2015 the oil inventories in the amount of R$ 25,279 was representative of 253,000 bbl).

24. Other operating income (expenses), net

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Income from aircraft rental	-	-	-	2,796
Marking-to market of inventories	-	-	19,283	(19,283)
Reversal (Provision) for labor contingencies	28	1,038	(3,155)	(9,886)
Adjustment to the sale price of Solimões	-	-	(15,622)	19,373
Income (loss) from the sale of property, plant and equipment/scrap	-	(15)	837	(1,864)
Write-off of permanent assets	(429)	-	(464)	(1,237)
Income from the sale of aircrafts	-	-	(56)	-
Rendering of accounts for administrative management - Cowan	-	-	(340)	(99)
Service Fee Lux Energy	159	359	-	-
Reimbursement of expenses - Glencore	-	-	(4,808)	-
Tax credits (PIS & COFINS/ICMS/ISS)	662	525	47,841	24,591
Reversal loss provision Queiroz Galvão	-	-	-	2,345
Reversal of CTA Namibia (i)	(38,600)	-	309,187	-
Other income (expenses)	(117)	2,153	(1,281)	1,061
Total	**(38,297)**	**4,060**	**351,422**	**17,797**

(i) In December 2016, the Company decided to liquidate the subsidiary PTRIntl, in Namibia. This branch was used by the Company from 2011 to 2013 as operator of the exploratory campaign in Namibia, centralizing financial funds. In this period, the Company contributed US$260,789 thousand, which, translated at historic rate of each remittance,

amounted to R$500,923 thousand. Foreign exchange variation was calculated on this amount up to December 30, 2016 and recorded in accumulated adjustment of translation, under other comprehensive income in Shareholders' equity. With winding-up of this international branch, accumulated adjustment of translation was restated in income for the year, under Other Revenues and Expenses. The impact of this reclassification on the Company's bottom line was a credit of R$ 309,187.

25. Financial income (loss)

	Parent company		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial income	**61,655**	**15,344**	**313,817**	**332,553**
Income from realized financial investment	**23,746**	2,965	**50,417**	5,791
Income from foreign exchange rate	**2,324**	9,325	**220,976**	324,448
Marked at fair value - financial instruments *	**32,549**	-	**32,742**	-
Marked at fair value - Derivatives	**-**		**4,847**	-
Other financial income	**3,036**	3,054	**4,835**	2,313
Financial expenses	**(19,164)**	**(12,765)**	**(319,950)**	**(311,873)**
Loss on realized financial investment	**(787)**	(82)	**(766)**	(82)
Expense on foreign exchange rate	**(9,219)**	(3,475)	**(281,194)**	(270,774)
Interest on loans/debentures	**(3,987)**	(9,097)	**(4,050)**	(11,108)
Commission on bank guarantees	**-**	-	**(4,063)**	(21,524)
Marked at fair value - financial instruments *	**(2,286)**	-	**(2,664)**	(1,284)
Marked at fair value - Derivatives	**-**	-	**(8,334)**	2,273
Other financial expenses	**(2,884)**	(111)	**(18,878)**	(9,374)

* Mark to fair value– financial instruments refer to the market value of shares of the variable income portfolio, as described in Notes 4 and 28.

26. Guarantees and commitments

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. 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 period ended December 31, 2016 was R$4,063.

As informed in note 5, in February 2016, Shell terminated the contract for acquisition of 80% of BJSA concession. Hence, PetroRio canceled the Glencore letter of credit.

27. Segment information

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

	12/31/2016	12/31/2015
Current assets		
Brazil	679,634	1,272,299
Abroad	101,943	(372,477)
Non-current assets		
Brazil	257,786	1,339,519
Abroad	43,005	(1,062,304)
Income	**12/31/2016**	**12/31/2015**
Brazil	384,054	253,071
Abroad	13,816	-

28. 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.

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.

The Company adopted the Value at Risk (VaR) as risk management methodology, to measure a potential loss in the variable income portfolio, in the year ended December 31, 2016. In this period, the Company invested mainly in shares of a company that is undergoing judicial recovery, as it as it understands that this investment has great potential

for appreciation. For the purpose of mitigating part of the risk and enhance investments, a major portion of the Company's share portfolio was invested in investment funds with professional and independent management (Note 4).

The VaR was calculated based on historical data of the twelve-month period ended December 31, 2016 (one year), for one-day period, confidence level at 95.0%, segregated in investments in Reais and Dollars. The result was 9.98% of maximum daily loss of the portfolio in Brazilian Reais, and 11.48% of the daily maximum loss of the portfolio in US Dollars. The security devaluation, in the 249-day calculation period, has just exceeded the VaR six times (the calculated limit was 12 times).

The accuracy of this market risk methodology was tested using daily back-testing, which compares the adherence between the VaR estimates and the realized gains and losses.

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	(8)	(27)	(47)
Impact on debentures	Increase in CDI	273	(564)	(1,118)

For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the period of 12 months as from December 31, 2016 were taken into account under the probable scenario (CDI 12.52%), 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 (I) 25%	Scenario (II) 50%
Impact on financial investments	Decrease in US dollar	29,162	(125,727)	(251,455)
Provision for abandonment (ARO)	Dollar increase	(9,294)	(40,069)	(80,139)

For calculation of the amounts included in the above scenarios the average exchange rate projection disclosed by BM&FBOVESPA for the period of 12 months as from December 31, 2016 (US$ 1/R$ 3.448). 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 clients, in conjunction with the provider of marketing services (trader), which also operates as an intermediary in transactions for the sale of oil. During the year ended on December 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 December 31, 2016	up to 12 months	1–5 years	Total
Liabilities			
Suppliers	(50,176)	(12,828)	**(63,004)**
Labor obligations	(10,151)	-	**(10,151)**
Taxes and social contributions	(13,494)	-	**(13,494)**
Advance from partners	(4,170)	-	**(4,170)**
Debentures	(688)	(31,431)	**(32,119)**
Financial instruments	(162)		**(162)**
Provision for abandonment	-	(48,670)	**(48,670)**
Provision for contingencies	-	(56,393)	**(56,393)**
Deferred taxes and social contributions	-	(19,275)	**(19,275)**
Other liabilities	(779)	-	**(779)**
	(79,620)	**(168,597)**	**(248,217)**

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)	(339)	**(4,516)**
	(85,423)	**(177,509)**	**(262,932)**

Parent company

Year ended December 31, 2016	up to 12 months	1–5 years	Total
Liabilities			
Suppliers and other	(814)	-	**(814)**
Labor obligations	(74)	-	**(74)**
Taxes and social contributions	(6,790)	-	**(6,790)**
Deferred taxes and social contributions	(9,916)	-	**(9,916)**
Debentures	(688)	(31,431)	**(32,119)**
Provision for contingencies	-	(845)	**(845)**
	(18,282)	**(32,276)**	**(50,558)**

Year ended December 31, 2015	up to 12 months	1–5 years	Total
Liabilities			
Suppliers and other	(314)	-	**(314)**
Labor obligations	(279)	-	**(279)**
Taxes and social contributions	(4,501)	-	**(4,501)**
Debentures	(664)	(31,461)	**(32,125)**
Provision for contingencies	-	(947)	**(947)**
	(5,758)	**(32,408)**	**(38,166)**

Derivative financial instruments - hedge

In the year ended December 31, 2016, the Company executed into call and put options in the futures market. The instruments aim at providing hedge against the risk of volatility in oil prices.

								Price			Gain (loss)	
Coverage	Contract	Operation	Type	Maturity	Settlement	Strike	Quantity	Engagement	Settlement	12/31/2016	US$ thousand	In thousand of reais
Offtake Apr/16	Brent Jun/16	Purchase	Put Option	04/29/2016	04/25/2016	37.0	400,000	0.98	0.01	-	(388)	(1,376)
Offtake Apr/16	Brent Jun/16	Sale	Purchase Option	04/29/2016	04/25/2016	42.5	400,000	(1.60)	(2.25)	-	(260)	(922)
Offtake Apr/16	Brent Jun/16	Purchase	Purchase Option	04/29/2016	04/25/2016	45.0	400,000	0.89	0.22	-	(268)	(951)
Offtake May/16	Brent Aug/16	Purchase	Put Option	06/27/2016	06/22/2016	41.0	400,000	1.60	0.02	-	(631)	(2,137)
Offtake May/16	Brent Aug/16	Sale	Purchase Option	06/27/2016	06/22/2016	49.0	400,000	(1.60)	(1.42)	-	72	243
Offtake Jul/16	Asian Option	Purchase	Purchase Option	07/31/2016	-	45.0	50,000	(0.20)	-	-	10	32
Offtake Jul/16	Asian Option	Sale	Put Option	07/31/2016	-	54.3	50,000	0.10	-	-	(5)	(16)
Offtake Jul/16	Asian Option	Purchase	Put Option	07/31/2016	-	45.0	350,000	1.10	-	-	(385)	(1,247)
Offtake Jul/16	Asian Option	Sale	Purchase Option	07/31/2016	-	54.3	350,000	(1.10)	-	-	385	1,247
Offtake Aug and Sep 2016	Asian Option	Purchase	Put Option	10/31/2016	-	46.0	600,000	1.70	-	-	(1,020)	(3,245)
Offtake Aug and Sep 2016	Asian Option	Sale	Purchase Option	10/31/2016	-	51.5	600,000	(1.70)	-	-	1,020	3,245
Offtake Nov/16	Brent Jan/17	Purchase	Purchase Option	11/25/2016	10/25/2016	43.0	800,000	5.09	8.74	-	2,919	9,104
Offtake Nov/16	Brent Jan/17	Sell	Purchase Option	11/25/2016	10/25/2016	47.0	800,000	(3.23)	(5.16)	-	(1,550)	(4,833)
Offtake Nov/16	Brent Jan/17	Sell	Purchase Option	11/25/2016	10/25/2016	47.0	800,000	(3.18)	(4.96)	-	(1,424)	(4,442)
Offtake Nov/16	Brent Jan/17	Purchase	Purchase Option	11/25/2016	10/25/2016	51.0	800,000	1.92	2.13	-	169	526
Offtake Jul/17	Brent Aug/17	Sell	Purchase Option	07/17/2017	12/12/2016	50.0	300,000	5.58	7.90	-	696	2,345
Offtake Jul/17	Brent Aug/17	Purchase	Purchase Option	07/17/2017	12/12/2016	60.0	300,000	(2.55)	(2.54)	-	3	10
											(657)	(2,417)
Offtake March 2017	Brent May 2017	Sale	Futures contracts	03/31/2017	-	-	400,000	57.92	-	58.04	(50)	(162)
											(50)	(162)

The premium paid for the call options of the first contracts, traded i March 2016, net of the premium received from the put option, was of US$ 108 thousand (R$ 411). The options traded in August 2016 had initial cost of US$ 1,389 thousand (R$ 4,547). The remaining agreements were entered into at the zero cost collar modality, when there is no initial cost.

Options traded to cover 2016 sales upon settlement generated a loss of $ 657,000 (R$ 2,417).

On December 31, 2016, only one futures contract was in effect, which was marked by the Brent price on that date, at US$ 50,000 (R$ 162). This entry was recorded in financial expenses in the statement of income.

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.

	12/31/2016				12/31/2015			
	Parent company		Consolidated		Parent company		Consolidated	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets								
Loans and receivables								
Accounts receivable (i)	-	-	30,680	30,680	-	-	244,499	244,499
Related parties	531	531	-	-	367	367	-	-
Fair value through profit or loss								
Cash and cash equivalents (ii)	836	836	24,793	24,793	3,099	3,099	283,951	283,951
Securities (ii)	41,690	41,690	43,212	43,212	32,155	32,155	193,296	193296
Available for sale								
Securities (iii)	91,165	91,165	468,671	468,671	-	-	-	-
Financial liabilities								
Amortized cost:								
Suppliers (i)	814	814	63,004	63,004	315	315	65,179	65,179
Debentures (ii)	32,119	32,593	32,119	32,593	32,125	30,412	32,125	30,412
Derivative financial instruments (ii)	-	-	162	-	-	-	-	-

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).

29. Insurance **(This supplementary information was 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: Physical Damage over offshore assets, Operator's extra expenses (OEE), Offshore liability (TPL) and Cargo/equipment coverage related to the Polvo field operations and D&O (Directors & Officers Liability) policy for directors and subordinates.

D&O, one of the main insurance policies hired by the company, is able to protect the company against losses due to third party complaints. Additionally, the Company hires insurance for Operator's Extras Expenses, which includes: Control over Well, Extra Expense/Re-drilling and Infiltration and Pollution, Cleaning and Contamination.

The insurance policies in force at December 31, 2016 cover the insured amount of R$ 2,751,014. We set out below the main assets and interests covered and its respective indemnity limits:

Insurance/Modality	Amount insured
Physical damages (Oil inventories)	**136,882**
Fixed Platform	**847,366**
Offshore property (Pipeline)	**65,182**
OEE production (Well control)	**488,865**
OEE development (Well control)	**325,910**
Offshore Civil Liability	**814,775**
Aircrafts (Physical damages)	**8,334**
Aircrafts (Civil liability)	**32,591**
Cargo (Polvo)	**3,500**
D&O	**20,000**
General liability	**5,000**
Equity	**1,700**
DPEM Polvo A	**14**
Travel Insurance Travel Guard	**896**
Total insured	**2,751,015**

30. 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 December 31, 2016 and December 31, 2015 in the amounts of R$ 56,393 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$39,645 thousand. The sentence was handed down on February 5, 2015, condemning the Company to pay the amounts of R$ 106 and US$ 13,507 thousand (corresponding to R$ 44,022 – foreign exchange rate as of December 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. A judgment of inadmissibility was handed down, and the Company filed the appropriate appeal, which is currently awaiting judgment

Furthermore, there is a probable risk owing to labor claims that add up to R$ 11,997 and one tax claim of R$ 268.

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. The Superior Labor Court (*Tribunal Superior do Trabalho*) upheld PetroRioOG's appeal to exclude the conviction regarding collective moral damages, maintaining said conviction only for Geoquasar. The lawsuit was definitely judged on November 10, 2016.

According to the Group's legal counsel, the risk of loss due to other lawsuits (R$ 57,818) 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.

31. Subsequent events

31.1. Residual acquisition of investment – Brasoil

On February 10, 2017, PetroRio received information of total acceptance of Brasoil's minority investors of the terms agreed upon in the purchase and sale agreements entered into in December 2016. The minority shareholders exercised the tag-along clause.

Accordingly, with the completion of the transaction, as well as the acquisition of ownership interests held by Goldman Sachs & Co ("GS") and by the Brascan Petroleum, Gas and Energy Fund – Equity Investment Fund ("FIP Brascan"), PetroRio holds 100% of the voting capital of Brasoil.

Brasoil is a holding company, which indirectly holds a 10% stake in the rights and obligations set forth in the concession contract of Campo de Manati, currently producing 4.2 million cubic meters of natural gas per day (approximately 26,000 barrels of oil equivalent per day), ranking as the 8th largest natural gas field in Brazil.

In addition to its interest in Campo de Manati, other relevant assets of Brasoil include the indirect 100% stake in the concessions of Campo de Pirapema, currently under development, and of the FZA-M-254 Block, both located at the mouth of the Amazon River.

Transaction was concluded on March 20, 2017, when all preceding conditions were met and payment referring to 100% of Brasoil's shares, was made.

31.2. De-listing from the TSX-V and termination of the GDS Program

All of the Global Depositary Shares ("GDS") issued by PetroRio and outstanding in the TSX Venture Exchange ("TSXV") were de-listed after the close of the trading session on January 27, 2017.

The delisting occurred jointly with the termination of the deposit agreement ("Deposit Agreement") between GDS holders ("GDS Holders"), Deutsche Bank Trust Company Americas ("Deutsche Bank") and the Company, on January 27, 2017 ("Closing Date"). Beginning as of the Closing Date and ending four months after said date, Deutsche Bank will – at the request of the GDS Holders – deliver the Common Shares underlying them, pursuant to the terms and conditions of the Deposit Agreement and written instructions from the aforementioned GDS Holders. In the absence of written instructions from the GDS Holders or respective agents at the end of the four-month period, regarding the manner in which the underlying Common Shares are to be delivered to a valid account at a broker, such Common Shares in the name of the current GDS Holder will be sold on the market by Deutsche Bank,

and the net amounts will be sent to the former.

The Common Shares will continue to be traded within the ambit of BM&FBOVESPA, and the GDS Holders – if they have given instructions to receive such shares – will be able to sell them, received after the end of the GDS program, on BM&FBOVESPA, with no restrictions except those due to tax procedures and the legislation applicable to securities in Brazil.