Financial Statements

HRT Participações em Petróleo S.A.

March 31, 2014
with Independent Auditor's Report on Financial Statements

HRT Participações em Petróleo S.A.

Financial statements

March 31, 2014

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A free translation from Portuguese into English of Independent Auditor's Review Report on Individual Quarterly Financial Information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, and on Consolidated Quarterly Financial Information prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board - IASB, and accounting practices adopted in Brazil

Independent auditor's review report on quarterly financial information

Report on the review of interim quarterly information

The Shareholders, Board of Directors and Officers
HRT Participações em Petróleo S.A.
Rio de Janeiro - RJ

Introduction

We have reviewed the interim condensed individual and consolidated financial statements of HRT Participações em Petróleo S.A. ("Company") contained in the Quarterly Financial Information (ITR) for the quarter as of March 31, 2014, comprising the balance sheet at March 31, 2014 and the related statements of income, comprehensive income, of changes in equity and cash flows for the three-month period then ended, and other explanatory notes.

Management is responsible for the preparation of the interim condensed individual financial statements in accordance with CPC 21 - Interim Financial Reporting, and for the preparation of the interim condensed consolidated financial information in accordance with CPC 21 and with the international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the fair presentation of this information in conformity with the standards issued by the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários* - CVM) applicable to the preparation of Quarterly Financial Information (ITR). Our responsibility is to express a conclusion on these interim individual and consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim individual and condensed financial statements included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of quarterly information (ITR), and is presented consistently with the standards issued by the Brazilian Securities and Exchange Commission.

Conclusion on the consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of quarterly information (ITR), and is presented consistently with the standards issued by the Brazilian Securities and Exchange Commission.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Notes 10 and 13, which show that the Company and its subsidiaries spent significant amounts primarily related to the costs of exploration and evaluation, and that their recovery is subject to success in their ongoing exploratory campaigns. Investing significant amounts in the exploration and development of oil and gas may not lead to the discovery of economically viable reserves. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. The interim quarterly information does not include any adjustment that would be required if any of the investments does not present the expected results, which depend on the success of its future operations. Management's plans in relation to the Company's consolidated operating activities are described in Note 1.

Report on the review of interim quarterly information -- Continued

Other matters

Interim statements of value added

We have also reviewed the condensed individual and consolidated statements of value added for the three-month period ended March 31, 2014, prepared under the responsibility of the Company's management, the presentation of which in the interim financial information is required by the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Financial Information (ITR), and as supplementary information for IFRS, under which there is no requirement to present a statement of value added. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they were not presented, in all material respects, in relation to the overall interim condensed individual and interim financial information.

Rio de Janeiro, May 14, 2014

ERNST & YOUNG
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ



Roberto Cesar Andrade dos Santos
Accountant CRC - 1RJ 093.771/O-9

HRT Participações em Petróleo S.A.

Balance sheets (financial position)
March 31, 2014 and December 31, 2013
(In thousands of reais)

		Company		Consolidated	
	Note	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**
Assets					
Current assets					
Cash and cash equivalents	3	**79**	18	**186,937**	33,582
Marketable securities	4	**9,127**	18,165	**121,332**	120,957
Accounts receivable		**36**	36	**15,048**	989
Inventories	20	**-**	-	**25,856**	-
Taxes recoverable	5	**14,344**	14,222	**40,949**	42,523
Asset held for sale	6	**-**	-	**145,090**	155,540
Advances to suppliers	7	**113**	113	**53,413**	33,008
Prepaid expenses		**898**	1,148	**9,300**	3,057
Financial investments as collateral	4	**-**	-	**-**	273,001
Other credits		**103**	69	**3,436**	10,593
		24,700	33,771	**601,361**	673,250
Noncurrent assets					
Deposits and guarantees	21	**4,392**	4,392	**4,724**	4,590
Related parties	19	**9,321**	8,305	**-**	-
Investments	9	**1,519,804**	1,491,696	**-**	-
Property, plant and equipment	10	**721**	760	**135,211**	139,124
Intangible assets	11	**86**	93	**1,200,929**	988,315
		1,534,234	1,505,246	**1,340,864**	1,132,029
Total assets		**1,559,024**	1,539,017	**1,942,225**	1,805,279

	Note	Company		Consolidated	
		03/31/2014	12/31/2013	03/31/2014	12/31/2013
Liabilities and shareholders' equity					
Current liabilities					
Trade accounts payable	12	**3,238**	3,602	**175,686**	63,362
Labor charges		**5,309**	8,450	**12,451**	17,669
Income and social contribution taxes	15	**9,640**	8,737	**30,636**	26,301
Income and social contribution	16	**-**	-	**1,602**	65
Loans and financing	13	**-**	-	**-**	70,380
Financial instruments		**-**	-	**-**	11,163
Related parties	19	**180**	180	**-**	-
Advances from partners in oil and gas operations	8	**-**	-	**630**	25,896
Other liabilities		**-**	-	**3,011**	8,969
		18,367	20,969	**224,016**	223,805
Noncurrent liabilities					
Asset retirement obligation	17	**-**	-	**114,139**	-
Deferred income and social contribution taxes	16	**70,559**	63,450	**133,972**	126,877
		70,559	63,450	**248,111**	126,877
Equity	18				
Capital - paid up		**3,821,205**	3,821,205	**3,821,205**	3,821,205
Capital reserves		**416,914**	416,914	**416,914**	416,914
Equity valuation adjustment		**204,756**	190,955	**204,756**	190,955
Accumulated losses		**(2,974,476)**	(736,606)	**(2,974,476)**	(736,606)
Loss for the year		**1,699**	(2,237,870)	**1,699**	(2,237,870)
		1,470,098	1,454,598	**1,470,098**	1,454,598
Total liabilities and equity		**1,559,024**	1,539,017	**1,942,225**	1,805,280

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of operations
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

	Note	Company		Consolidated	
		03/31/2014	03/31/2013	03/31/2014	03/31/2013
Gross revenues		**-**	-	**143,617**	2,143
Deductions from gross revenue		**-**	-	**(314)**	-
Net revenues		**-**	**-**	**143,303**	2,143
Cost of services/products	20	**-**	-	**(120,006)**	(499)
Gross profit		**-**	**-**	**23,297**	1,644
Operating income (expenses)					
Geology and geophysics expenses		**-**	-	**(5,012)**	(11,230)
Personnel expenses		**(1,346)**	(34,598)	**(10,773)**	(63,127)
General and administrative expenses		**(1,218)**	(1,719)	**(13,659)**	(6,832)
Expenses with third party services		**(2,775)**	(1,156)	**(2,793)**	(16,847)
Taxes and fees		**(4)**	(292)	**(638)**	(3,599)
Depreciation and amortization expenses		**(47)**	(62)	**(2,722)**	(6,419)
Equity pick-up	9	**6,705**	(66,044)	**-**	-
Financial expenses		**(11)**	(3)	**(17,820)**	(12,891)
Financial income		**395**	4,693	**10,710**	17,718
Other operating income, net		**-**	-	**22,654**	2,402
Profit (loss) before income and social contribution taxes		**1,699**	(99,181)	**3,244**	(99,181)
Income and social contribution taxes	16				
Current		**-**	-	**(1,545)**	-
Deferred		**-**	-	**-**	-
Net profit (loss) for the period		**1,699**	**(99,181)**	**1,699**	**(99,181)**
Profit (loss) per share, basic and diluted	*18.2*				
Basic		***0,006***	*(0,335)*	***0,006***	*(0,335)*
Diluted		***0,006***	*(0,335)*	***0,006***	*(0,335)*

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of comprehensive income
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

	Company and Consolidated	
	03/31/2014	**03/31/2013**
Accumulated gains (losses)	**1,699**	(99,181)
Other comprehensive income		
Exchange rate variation on investments abroad, net of taxes	**13,801**	(11,875)
Gain from derivatives	**-**	1,164
Other comprehensive income for the year, net of taxes	**13,801**	(10,711)
Total comprehensive income for the year, net of taxes	**15,500**	(109,892)
Attributable to controlling shareholders	**15,500**	(109,892)

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A

Statement of changes in shareholders' equity
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

	Capital	Capital reserve	Equity valuation adjustment	Accumulated loss	Total
Balances at January 1, 2014	**3,821,205**	**416,914**	**190,955**	**(2,974,476)**	**1,454,598**
Exchange rate variation on investments abroad	-	-	13,801	-	13,801
Profit for the period	-	-	-	1,699	1,699
Balances at March 31, 2014	**3,821,205**	**416,914**	**204,756**	**(2,972,277)**	**1,470,098**
Balances at January 1, 2013	**3,817,130**	**416,914**	**161,939**	**(736,606)**	**3,659,377**
Stock options exercised	1,535	-	-	-	1,535
Exchange rate variation on investments abroad	-	-	(11,875)	-	(11,875)
Gain from derivatives	-	-	1,164	-	1,164
Share-based compensation	-	-	23,076	-	23,076
Loss for the period	-	-	-	(99,181)	(99,181)
Balances at March 31, 2013	**3,818,665**	**416,914**	**174,304**	**(835,787)**	**3,574,096**

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Cash flow statements
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

	Company		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Cash flows from operating activities				
Profit (loss) for the period (before taxes)	**1,699**	(99,181)	**3,244**	(99,181)
Depreciation and amortization	**47**	62	**25,434**	6,419
Financial income	**(395)**	(4,693)	**(10,710)**	(17,718)
Financial expense	**11**	3	**17,820**	12,891
Share-based compensation	**-**	23,076	**-**	23,076
Equity pick-up	**(6,705)**	66,044	**-**	-
	(5,343)	(14,689)	**35,788**	(74,513)
(Increase) decrease in assets				
Accounts receivable	**-**	-	**(14,059)**	1,320
Taxes recoverable	**(122)**	(80)	**1,574**	(1,081)
Prepaid expenses	**250**	(631)	**(6,243)**	(2,274)
Advances to suppliers	**-**	(34)	**(3,203)**	(7,411)
Inventories	**-**	-	**23,271**	-
Other	**(35)**	(120)	**19,995**	(3,754)
Increase (decrease) in liabilities				
Suppliers	**(364)**	(346)	**112,324**	19,178
Labor charges	**(3,141)**	(2,201)	**(5,218)**	(6,544)
Income and social contribution taxes	**903**	454	**5,872**	(14,825)
Related parties	**(1,016)**	(35)	**-**	-
Advances from partners in oil and gas operation	**-**	-	**(25,266)**	-
Other liabilities	**-**	-	**10,862**	(16,442)
Net cash used in operating activities	**(8,868)**	(17,682)	**155,697**	(106,346)
Cash flows from investing activities				
Redemption of Securities	**9,422**	81,941	**283,202**	242,442
Sale (purchase) of fixed and intangible assets	**(1)**	110	**3,613**	(122,415)
Capital contribution in subsidiary	**(492)**	(65,903)	**-**	-
Polvo acquisition	**-**	-	**(207,614)**	-
Net cash used in investing activities	**8,929**	16,148	**79,201**	120,027
Cash flows from financing activities				
Loans	**-**	-	**(70,380)**	(630)
Derivative transactions	**-**	-	**(11,163)**	(2,785)
Capital paid up	**-**	1,535	**-**	1,535
Net cash flow from financing activities	**-**	1,535	**(81,543)**	(1,880)
Net increase in cash and cash equivalents	**61**	1	**153,355**	11,801
Cash and cash equivalents in the beginning of the year	**18**	130	**33,582**	37,608
Cash and cash equivalents in the end of the year	**79**	131	**186,937**	49,409
Net increase in cash and cash equivalents	**61**	1	**153,355**	11,801

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of value added (supplementary information for IFRS purposes)
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

	Company		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Revenues				
Sale of products/services	**-**	-	**143,303**	2,143
	-	**-**	**143,303**	2,143
Supplies and services				
Third party services and other	**(2,775)**	(1,156)	**(2,793)**	(16,847)
Geology and geophysics expenses	**-**	-	**(5,012)**	(11,230)
Cost of products/services	**-**	-	**(85.636)**	(499)
Gross value added	**(2,775)**	(1,156)	**49.862**	(26,433)
Retentions				
Depreciation and amortization	**(47)**	(62)	**(25.434)**	(6,419)
Net value added	**(2,822)**	(1,218)	**24.428**	(32,852)
Transferred value added				
Net financial income	**384**	4,690	**(7,110)**	4,827
Equity pick-up	**6,705**	(66,044)	**-**	-
Rents, royalties and other	**(1,218)**	(1,719)	**(2.662)**	(4,430)
Value added to distribute	**3,049**	(64,291)	**14,656**	(32,455)
Distribution of value added				
Personnel	**1,346**	34,598	**10,773**	63,127
Taxes	**4**	292	**2,184**	3,599
Portion attributable to Group's shareholders	**1,699**	(99,181)	**1,699**	(99,181)
Value added distributed	**3,049**	(64,291)	**14,656**	(32,455)

The accompanying notes are an integral part of these financial statements.

1. Operations

HRT Participações em Petróleo S.A. (Company or HRTP) was incorporated on July 17, 2009 by the conversion of BN 16 Participações Ltda. into a corporation under the latter name Its headquarters are in the city of Rio de Janeiro - RJ, Brazil and its business purposes are: (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.

HRT's activities are focused on exploration and production of oil and natural gas, operating in the Solimões Sedimentary Basin, State of Amazonas, and in Namibia, the west coast of Africa and currently also in the Campos Basin off the state of Rio de Janeiro.

The Company has a portfolio of 28 exploratory blocks onshore and offshore, of which 16 onshore blocks are in the Solimões Basin, for which it is the operator with a 55% stake. Also in Brazil, the Group holds a 10% interest in two exploration blocks in onshore basins, located in the Recôncavo Basin (BA), Espírito Santo (ES) and Rio do Peixe (PB). In Namibia, HRT Africa operates 10 offshore exploration blocks in the Walvis and Orange basins. Notes 12, 13 and 14 provide more details of operations run by the Group and its subsidiaries.

Directly or through its subsidiaries, HRT has been making investments needed to carry out its exploratory program and obtain access to sufficient reserves for the success of its future operations.

To continue funding its exploratory campaign in Namibia and the Solimões, the Group aims to raise funds through new partnerships and reduce its holdings in exploratory blocks (processes known in the oil and gas sector as farm down or farm out).

1. **Operations**--Continued

On May 6, 2013, HRT Participações em Petróleo S.A., together with its subsidiary HRT Oil & Gas Ltda. ("HRTO&G"), signed a sale and purchase agreement with BP Energy do Brazil Ltda. ("BP") to acquire a 60% stake in the Polvo Field worth US$135 million adjusted to the effects discussed in the note 11 to be effective January 1, 2013. HRT and HRTO&G signed a loan agreement with Credit Suisse to finance most of the amount for the acquisition. This loan was repaid on February 21, 2014.

The Polvo field is located in the southern portion of the Campos Basin some 100 km east of the city of Cabo Frio in the state of Rio de Janeiro. Its daily production is around 13,000 barrels with 20.3 _ API, from three producing reservoirs: Maastrichtian and Turonian age Carapebus Formation sandstones and Albian age Macae/Quissamã Member Formation carbonates.

The license covers an area of approximately 134 km^2 with several prospects for future exploration.

The Purchase and Sale Agreement also covers the acquisition of a 100% stake in BP Energy America LLC, the owner of a fixed platform called "Polvo A" a 3,000 HP drilling rig, which is the equipment needed for operations in this field. The "Polvo A" platform is interconnected to "FPSO Polvo", which has capability for hydrocarbon separation, water treatment, and oil storing and offloading.

On December 18, 2013, the Assignment of Rights for participation of BP Energy do Brasil Ltda. ("BP") in the Polvo field was approved by Brazil's National Petroleum Agency (ANP) in Official Circular nº 1.397/2013/SEP.

The final stages provided for in the Purchase and Sale Agreement ("PSA") were completed in the first fortnight of January 2014, and HRTO&G has been the Polvo field operator since then.

This new asset consolidated the Company's intention to diversify its portfolio by operating as an earning oil producer and generating cash as from January 2014.

2. Accounting practices

2.1. Basis of presentation

The consolidated quarterly information was prepared and is presented in accordance with accounting practices adopted in Brazil, applicable to interim information in accordance with Brazilian FASB (CPC 21 – Interim Financial Statement) and in accordance with accounting practices adopted by the Company for the year ended December 31, 2013.

The result of the three-month period ended March 31, 2014 is not necessarily indicative of the results that may be expected for the full year ending on December 31, 2014.

The interim condensed financial statements and related notes do not include all information and disclosure requirements for annual financial statements. Therefore, these statements shall be read in conjunction with the audited annual financial statements of December 31, 2013.

The preparation of individual and consolidated quarterly information in accordance with IFRS and CPC standards requires that management make judgments and estimates and adopt assumptions that affect the application of accounting policies and the amounts disclosed referring to assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Significant items subject to such estimates and assumptions include the useful life and residual value of property and equipment, impairment of assets, provision for contingencies, fair value of financial instruments, among others. Settlement of transactions involving these estimates may lead to significantly different amounts in relation to those recognized in the financial statements due to the probabilistic treatment involved in making estimates. The Company reviews estimates and assumptions annually.

Management authorized these concluded financial statements on May 14, 2014.

3. Cash and cash equivalents

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Cash	**1**	1	**1**	1
Bank	**78**	17	**186,936**	33,581
	79	18	**186,937**	33,582

4. Marketable securities

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
For trading	**9,127**	**18,165**	**121,332**	**120,957**
	9,127	**18,165**	**121,332**	**120,957**

Short-term investments mainly comprise Bank Deposit Certificates (CDB) issued by Banks and repurchase agreements backed by debentures issued by first-tier banks. In Brazil they are remunerated based on Interbank Deposit Certificate (CDI) variation while abroad by reference to LIBOR.

4. Marketable securities--Continued

We present below a summary table of the investments by type of financial instrument:

For trading

			Company		Consolidated	
Bank	**Maturity**	**Remuneration**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**
Backed repurchase						
Bradesco	jan/14	CDI	**-**	-	**3.053**	31,033
Itaú BBA	aug/15	CDI	**9,127**	18,165	**117.341**	35,248
BTG Pactual	jun/14	CDI	**-**	-	**-**	31,023
Citibank			**-**	-	**-**	22,688
Chase			**-**	-	**938**	965
Total de aplicações para negociação			**9,127**	18,165	**121,332**	120,957

At December 31, 2013, the Company had guarantee deposits for the amount of R$ 273,001 which were substantially linked to Polvo field acquisition, as discussed in Note 11, which were released with the closing of the transaction, as well as resources to the financial guarantee for the loan with Credit Suisse, also used in anticipated liquidation of debit, as described in note 13.

5. Taxes recoverable

	Company		Consolidated	
	03/31/2014	**12/31/2013**	**03/31/2014**	**12/31/2013**
Income and social contribution taxes	**14,344**	14,222	**35,527**	36,829
VAT	**-**	-	**5,422**	5,613
Other	**-**	-	**-**	81
	14,344	14,222	**40,949**	42,523

6. Assets held for sale

On 2012, the Group began the process of divesting of non-core assets. This process includes the sale of the remaining fleet of helicopters, the sale of the subsidiary IPEX and helitransportable drilling rigs, besides the sale of subsidiary Air Amazonia and part of the aircraft fleet, which was completed in the third quarter of 2013.

6. Assets held for sale--Continued

On March 31, 2014, the Group intended to divest the support activities related to the exploitation in the Solimões Basin. To do so, it is making available for sale all its aircrafts and drilling rigs.

	03/31/2014	12/31/2013
Aircrafts		
Cost of aircrafts	**151,639**	**151,639**
Accumulated depreciation of aircrafts	**(31,858)**	**(31,858)**
Write-off of aircrafts sold	**(71,650)**	**(64,005)**
Translation adjustment	**15,491**	**16,050**
Fair value of aircrafts	**63,622**	**71,826**
Rigs		
Cost of rigs	**126,860**	**126,860**
Loss on revaluation to market value	**(59,994)**	**(59,994)**
Translation adjustment	**14,602**	**16,848**
Fair value of rigs	**81,468**	**83,714**
Total	**145,090**	**155,540**

On September 3, 2013, the Group sold its subsidiary Air Amazonia to Erickson, in addition to six (6) helicopters, of which 4 belonged to HRT BV and 2 belonged to HRT O&G, for the amount of US$26 million, of which US$23 million (R$54,7 million) have already been received and additional US$3 million (R$7 million) will be received within 12 months.

In the same transaction, the execution of a support service agreement for HRT operations in the Solimões Basin for a 1-year term, with the annual renewal option for 4 additional years, was consummated. In addition, the Group granted Erickson preemptive right for purchase of the remaining fleet of eight (8) helicopters and the provision of support services for future operations in other regions.

The Service Agreement was approved by the Management Committee of the Joint Venture between HRT O&G Exploração e Produção de Petróleo Ltda. and Rosneft Brasil E&P Ltda., which holds exploitation rights in 16 blocks in Solimões Basin.

The sale of 4 drilling rigs are included in the value of the transaction concluded with Rosneft on March 21, 2014, as described in note 9. During this period the HRT BV completed the sale of one helicopter and received R$ 6 million.

7. Advances to suppliers

	Consolidated	
	03/31/2014	**12/31/2013**
Queiroz Galvão Óleo & Gás	**13,347**	13,347
Geoquasar Energy	**18,234**	15,530
Garantia BW (PROSAFE)	**17,202**	-
Others	**4,630**	4,131
	53,413	33,008

The amount paid in advance to Queiroz Galvão refers to clause 24.2 of the agreements of Rigs QG-VIII and QG-IX, which started to be discounted from the monthly billing of said rigs as from October 2012. The advances to Geoquasar refer to deposits in court made by determination of the Ministry of Labor. The advances to BW Offshore (Prosafe) refer to contractual commitments and are held as collateral from leases and operation of FPSO Polvo.

8. Advances from partners in Oil and Gas operations

Solimões

In 2011, HRTO&G entered into an FOA (Farm-Out Agreement) with Rosneft Brasil E&P related to the 19 blocks of Solimões consortium, through which HRTOG undertook to fund investments for the exploration program of Solimões consortium, without the proportional interest of Rosneft Brasil E&P, until March 2013, with disbursements totaling US$175 million.

By March 31, 2014, Rosneft Brasil E&P made all payments issued through the cash calls determined by February 2014, proportionally to its interest of 45%.

Namibia

On November 26, 2012, HRT, through its Namibian subsidiaries, executed a Farm-Out Agreement with Galp Energia, in which it assigns 14% of its interest held in exploration rights of 3 Petroleum Exploration Licenses (PEL 23, 24 and 28). This transaction was approved by the Ministry of Mines and Energy (MME) on January 24, 2013.

8. Advances from partners in Oil and Gas operations-(Continued)

Namibia-(Continued)

By March 31, 2014 HRT had already received five contributions from GALP, in the amount of US$76,271 (equivalent to R$171,861) related to the drilling of Wingat, Murombe and Moosehead wells. The amounts received have already been allocated to the respective projects.

Polvo

On January 8, 2014 HRT O&G concludes the business transaction with BP Energy do Brasil Ltda ("BP") for the acquisition of 60% stake in the Polvo field, becoming the operator, whose partner Maersk Energia Ltda.

Until March 31, 2014, Maersk Energia Ltda made all payments issued through cash calls to February 2014 calculated in its proportion of 40%.

9. Investments

Concession portfolio

At March 31, 2014 the Group's subsidiaries were part in the following concessions in Brazilian basins and had the following *Petroleum Exploration Licenses* in Namibian basins:

País	Bacia	Bloco	Operador	% HRT
Brasil	Solimões	SOL-T-169	HRTOG	55%
Brasil	Solimões	SOL-T-168	HRTOG	55%
Brasil	Solimões	SOL-T-170	HRTOG	55%
Brasil	Solimões	SOL-T-191	HRTOG	55%
Brasil	Solimões	SOL-T-192	HRTOG	55%
Brasil	Solimões	SOL-T-214	HRTOG	55%
Brasil	Solimões	SOL-T-215	HRTOG	55%
Brasil	Solimões	SOL-T-216	HRTOG	55%
Brasil	Solimões	SOL-T-217	HRTOG	55%
Brasil	Solimões	SOL-T-194	HRTOG	55%
Brasil	Solimões	SOL-T-195	HRTOG	55%
Brasil	Solimões	SOL-T-151	HRTOG	55%
Brasil	Solimões	SOL-T-174	HRTOG	55%
Brasil	Solimões	SOL-T-197	HRTOG	55%
Brasil	Solimões	SOL-T-196	HRTOG	55%
Brasil	Solimões	SOL-T-218	HRTOG	55%
Brasil	Espírito Santo	ES-T-400	HRTAF	10%
Brasil	Recôncavo	REC-T-158	HRTAF	10%
Brasil	Campos	BM-C-8	HRTOG	60%
Namíbia	Orange	PEL028	HRT Luderitz	77,2%
Namíbia	Orange	PEL024	Kunene	86%
Namíbia	Orange	PEL022	Orange	95%
Namíbia	Walvis	PEL023	HRT Walvis	86%

(*) The terms of the exploration period, as well as its estimated activities, are detailed in Note 21.

9. **Investments**--Continued

Breakdown of Investment

	Company	
	03/31/2014	**12/31/2013**
HRT O&G Exploração e Produção de Petróleo Ltda.	**1,048,740**	1,049,485
IPEX - Integrated Petroleum Expertise Company Serviços em Petróleo Ltda.	**(3,869)**	(4,048)
HRT América	**15,009**	12,174
HRT Africa	**459,924**	434,085
	1,519,804	1,491,696

a) Changes in investments

	HRTOG	IPEX	HRTBV	HRT África	HRT America	Air Amazonia	Total
Balance at January 1, 2013	1,820,451	(4,303)	211,023	1,468,334	13,334	(64,502)	3,444,337
Capital increase	34,016	-	-	217,940	-	2,612	254,568
Merger of UNX by HRT Africa	-	-	(283,807)	283,807	-	-	-
Deferred income tax on merger	(794,361)	255	50,921	(1,428,065)	(3,106)	73,802	(2,100,554)
Derivative transactions	-	-	-	-	-	(11,912)	(11,912)
Equity pick-up	(10,621)	-	21,863	13,890	1,946	-	27,078
Cumulative translation adjustment	-	-	-	(121,821)	-	-	(121,821)
Balance at December 31, 2013	1,049,485	(4,048)	-	434,085	12,174	-	1,491,696
Capital increase	**-**	**-**	**-**	**492**	**-**	**-**	**492**
Equity pick-up	**(4,147)**	**179**	**-**	**7,254**	**3,419**	**-**	**6,705**
Cumulative translation adjustment	**3,402**	**-**	**-**	**18,096**	**(584)**	**-**	**20,911**
Balance at March 31, 2014	**1,048,740**	**(3,869)**	**-**	**459,924**	**15,009**	**-**	**1,519,804**

(*) Goodwill determined on the acquisition of HRT Canada (former UNX) comprises two amounts: (i) R$1,195,677 referring to the difference between fair value and the Group's net book assets; and (ii) R$406,530 referring to deferred income tax on goodwill.

(*) Due to the ownership restructuring carried out during the second quarter, the portion of goodwill and deferred tax liability, in the amount of R$406,530, that it originated in the acquisition of HRT Canada (former UNX) on the effect of the difference between accounting and tax bases of assets acquired applied to effective tax rate in Canada of 26.5% was transferred (pushed down) to subsidiary HRT Africa. Additional taxation in Brazil of 7.5%, stemming from the difference in the Brazilian tax rate of 34%. The Canadian rate remains in the parent company, as well as the corresponding goodwill for future profitability.

9. **Investments**--Continued

b) Significant information on investees

	HRTOG	IPEX	HRT Africa	HRT America
Direct interest	100%	100%	84%	100%
Indirect interest	0%	0%	16%	0%
Equity	1,176,816	(4,043)	521,598	15,010
Income for the Year	(4,147)	101	8,618	3,249
Total assets	1,514,445	6,133	630,718	17,860

(*) The revenue among related parties of IPEX, HRT BV and AA was eliminated against intangible assets for consolidation purposes, as well as for calculation of investments and equity pick-up.

10. Property, plant and equipment (Consolidated)

a) Breakdown of balances

	Depreciation rate %	Historical Cost	Accumulated Depreciation	Translation Adjustment	Balance at 03/31/2014	Balance at 31/12/2013
In operation						
Sculptures	-	**26**	**-**	**-**	**26**	26
Vessels	10	**694**	**(168)**	**-**	**526**	543
Machinery and equipment	10	**12,241**	**(3,872)**	**(2)**	**8,367**	8,677
Furniture and fixtures	10	**6,477**	**(2,619)**	**105**	**3,963**	4,158
Communication equipment	20	**542**	**(303)**	**-**	**239**	265
Vehicles	20	**10,065**	**(5,165)**	**167**	**5,067**	5,581
IT equipment	20	**10,532**	**(6,517)**	**181**	**4,196**	4,639
Leasehold improvements	4	**67,114**	**(11,857)**	**374**	**55,631**	57,534
Facilities	10	**9,406**	**(1,571)**	**872**	**8,707**	8,983
In progress						
Material for use and consumption (wells)		**41,989**	**-**	**-**	**41,989**	41,989
Advances for acquisition of cranes		**5,903**	**-**	**597**	**6,500**	6,729
Total		**164,989**	**(32,072)**	**2,294**	**135,211**	139,124

10. Property, plant and equipment (Consolidated)--Continued

b) Changes in balances

	Balance at 01/01/2014	Additions	Write-offs	Depreciation	Impairment	Translation Adjustments	Balance at 03/31/2014
In operation							
Sculptures	26	-	-	-	-	-	26
Vessels	543	-	-	(17)	-	-	526
Machinery and equipment	8.677	-	-	(308)	-	(2)	8.367
Furniture and fixtures	4.158	-	-	(165)	-	(30)	3.963
Communication equipment	265	-	-	(26)	-	-	239
Vehicles	5.581	-	-	(497)	-	(17)	5.067
IT equipment	4.639	16	-	(384)	-	(75)	4.196
Leasehold improvements	57.534	-	(1.131)	(726)	-	(46)	55.631
Facilities	8.983	-	-	(144)	-	(132)	8.707
In progress							
Material for use and consumption (wells)	41.989	-	-	-	-	-	41.989
Advances for acquisition of cranes	6.729	-	-	-	-	(229)	6.500
Total	**139.124**	**16**	**(1.131)**	**(2.267)**	**-**	**(531)**	**135.211**

	Balance at 01/01/2013	Additions	Write-offs	Depreciation	Impairment	Translation Adjustments	Transf. Into assets held for sale	Balance at 12/31/2013
In operation								
Aircraft	133.838	**-**	**(64.005)**	**(14.057)**	**-**	**16.050**	**(71.826)**	**-**
Sculptures	26	**-**	**-**	**-**	**-**	**-**	**-**	**26**
Vessels	613	**-**	**-**	**(70)**	**-**	**-**	**-**	**543**
Machinery and equipment	9.788	**112**	**-**	**(1.223)**	**-**	**-**	**-**	**8.677**
Furniture and fixtures	4.826	**323**	**(373)**	**(657)**	**-**	**39**	**-**	**4.158**
Communication equipment	359	**5**	**-**	**(99)**	**-**	**-**	**-**	**265**
Vehicles	7.362	**43**	**-**	**(1.932)**	**-**	**108**	**-**	**5.581**
IT equipment	6.589	**-**	**(197)**	**(1.878)**	**-**	**125**	**-**	**4.639**
Leasehold improvements	60.394	**-**	**(96)**	**(3.068)**	**-**	**304**	**-**	**57.534**
Facilities	8.786	**-**	**-**	**(575)**	**-**	**772**	**-**	**8.983**
In progress								
Material for use and consumption (wells)	39.446	**2.543**	**-**	**-**	**-**	**-**	**-**	**41.989**
Advances for acquisition of cranes	5.641	**262**	**-**	**-**	**-**	**826**	**-**	**6.729**
Advances for acquisition of rig	115.108	**11.752**	**-**	**-**	**(59.994)**	**16.848**	**(83.714)**	**-**
Other	1.086	**-**	**(1.086)**	**-**	**-**	**-**	**-**	**-**
Total	393.862	**15.040**	**(65.757)**	**(23.559)**	**(59.994)**	**35.072**	**(155.540)**	**139.124**

11. Intangible assets (Consolidated)

a) Balance breakdown

	% - Amortization rate	Consolidated	
		03/31/2014	12/31/2013
Oil & Gas assets			
Subscription bonus - Solimões Basin	(*)	**135,707**	135,707
Subscription bonus – Walvis Basin	(*)	**10,449**	10,449
Subscription bonus – Orange Basin	(*)	**337,465**	349,335
Subscription bonus - Recôncavo - ES	(*)	**151**	151
Polvo acquisition	(*)	**256,351**	-
Exploration expenses	(*)	**483,543**	487,488
Software and other	20	**12,383**	11,018
		1,236,049	994,148
Accumulated amortization		**(35,120)**	(5,833)
Total		**1,200,929**	988,315

b) Changes in balances

	Balance at 01/01/2013	Additions	Write-offs	Amortization	Impairment	Translation Adjustments	Balance at 12/31/2013
Subscription bonus - Solimões Basin	167,095	-	(20,445)	-	(10,943)	-	135,707
Subscription bonus – Walvis Basin	53,689	-	-	-	(43,240)	-	10,449
Subscription bonus – Orange Basin	1,278,703	-	-	-	(973,971)	44,603	349,335
Subscription bonus - Recôncavo - ES	165	-	(14)	-	-	-	151
Exploration expenses	810,270	509,739	(641,712)	-	(190,809)	-	487,488
Software and other	6,959	-	-	(1,774)	-	-	5,185
Goodwill	406,530	-	-	-	(406,530)	-	-
	2,723,411	509,739	(662,171)	(1,774)	(1,625,493)	44,603	988,315

	Balance at 01/01/2014	**Additions**	**Write-offs**	**Amortization**	**Impairment**	**Translation Adjustments**	**Balance at 03/31/2014**
Subscription bonus - Solimões Basin	**135,707**	**-**	**-**	**-**	**-**	**-**	**135,707**
Subscription bonus – Walvis Basin	**10,449**	**-**	**-**	**-**	**-**	**-**	**10,449**
Subscription bonus – Orange Basin	**349,335**	**-**	**-**	**-**	**-**	**(11,870)**	**337,465**
Subscription bonus - Recôncavo - ES	**151**	**-**	**-**	**-**	**-**	**-**	**151**
Polvo acquisition	**-**	**256,351**	**-**	**(28,832)**	**-**	**-**	**227,519**
Exploration expenses	**487,488**	**-**	**(3,945)**	**-**	**-**	**-**	**483,543**
Software and other	**5,185**	**1,447**	**-**	**(455)**	**-**	**(82)**	**6,095**
	988,315	**257,798**	**(3,945)**	**(29,287)**	**-**	**(11,952)**	**1,200,929**

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

11. Intangible assets (Consolidated)--Continued

The subscription bonus for each block is presented below:

Block	12/31/2013	Acquisitions	Amortization	Translation Adjustment	03/31/2014
Onshore					
SOL-T-168	10,492	-		-	**10,492**
SOL-T-169	5,802	-		-	**5,802**
SOL-T-170	4,010	-		-	**4,010**
SOL-T-191	9,903	-		-	**9,903**
SOL-T-192	10,561	-		-	**10,561**
SOL-T-214	9,892	-		-	**9,892**
SOL-T-215	10,553	-		-	**10,553**
SOL-T-216	10,553	-		-	**10,553**
SOL-T-217	10,553	-		-	**10,553**
SOL-T-151	8,593	-		-	**8,593**
SOL-T-174	10,567	-		-	**10,567**
SOL-T-194	8,049	-		-	**8,049**
SOL-T-195	4,400	-		-	**4,400**
SOL-T-196	5,940	-		-	**5,940**
SOL-T-197	10,561	-		-	**10,561**
SOL-T-218	5,278	-		-	**5,278**
Total Solimões	135,707	-		-	**135,707**
ES-BT-400	100	-		-	**100**
REC-T-158	51	-		-	**51**
Total other onshore in Brazil	151	-		-	**151**
Total onshore bonus	135,858	-		-	**135,858**
Offshore					
PEL 0023	10,449	-		-	**10,449**
PEL 0028	22,980	-		(781)	**22,199**
PEL 0024	232,372	-		(7,896)	**224,476**
PEL 0022	93,983	-		(3,193)	**90,790**
BM-C-8	-	256,351	(28,832)	-	**227,519**
Total offshore bonus	359,784	256,351	(28,832)	(11,870)	**575,433**

11. Intangible assets (Consolidated)--Continued)

Regarding the blocks in Solimões Basin, the terms for exploration of SOL-T-151, SOL-T-174, SOL-T-192, SOL-T-196, SOL-T-197, SOL-T-214, SOL-T-215, SOL-T-216, SOL-T-217 and SOL-T-218 blocks were postponed for another 4 years. The Group's strategy includes the farm-out of a portion of this project as alternative for investment financing. Also, a study was performed regarding monetization of gas findings, and alternatives for deployment are underway by the current partner in these assets (Rosneft) and other potential partners for development of assets.

HRTO&G requested ANP to postpone or suspend the second phase of the exploration period regarding SOL-T-148, SOL-T-149 and SOL-T-195 blocks. On January 28, 2014, the company received an official letter informing that the request was rejected, the final term of May 5, 2014 being maintained.

Management decided to record a provision for impairment in the amount of the bonuses relating to SOL-T-148 and SOL-T-149 blocks, or R$4,630. Regarding SOL-T-195 block, expectations are on the reversal of this situation and obtainment of the extension.

Regarding the Namibia project, costs for drilling Wingat, Murombe and Moosehead wells were transferred to P&L according to the best accounting practices. This reclassification reflects the results of tests made in the geological structures of the wells drilled and that will not be developed in the future.

On December 31, 2013, the Group performed an impairment test that indicated a loss of R$945,535. Despite the negative result, HRT currently has no plans to return any of its exploration blocks, except for those already written-off, since it intends to proceed with its exploration program.

On March 31, 2014, were not identified indicators of impairment in addition to those already registered.

11. Intangible assets (Consolidated)--Continued

Business Combination

On January 8th, 2014 the commercial transaction with BP Energy do Brasil Ltda ("BP") for the transfer of 60% working interest in the Polvo Field to HRT, becoming the operator. In addition, HRT acquired 100% interest in BP ENERGY AMERICA, LLC ("BPEA") which owns the fixed platform, "Polvo A" and a 3,000 HP drilling rig that operates in the field.

In accordance with contractual terms, the final value to be used as the purchase price is still subject to review by the Company and may be changed related to preliminary figures subject to settlement on January 8, 2014. Scheduled for completion of the Final purchase price to be held in the second quarter of 2014.

	US$
Original value of the transaction - based January 1st, 2013	135,000
(-) Price adjustments on January 8, 2014	(46,020)
(+) Guarantees transferred contracts	7,356
(+) Balance of the joint venture cash - on January 1st, 2013	4,349
Consideration paid until January 2014	100,685 (*)

(*) Equivalent of R$ 234,037

The Company valued at the date of acquisition, the assets acquired and liabilities assumed at their fair values. The appraisal report prepared by independent evaluators is being prepared. As provided for Brazilian FASB CPC 15 (R1) - Business Combinations, during the measurement period, the initial allocation of the purchase price may be updated. The expectation is that the final allocation of the purchase price will be reflected on the various elements of the oil and gas assets, namely:

- Concession Contract;
- Production platform;
- Drilling rigs;
- Contracts with suppliers, mainly operating lease of the FPSO;

The Company entered an independent third party to assist in the validation process of the allocation of the purchase price and achieve your final analysis completed in the second quarter of 2014.

11. Intangible assets (Consolidated)--Continued

Allocations made in the acquisition are presented below :

(Preliminary allocation of the purchase price):

	R$ thousand
Assets	
Current assets	
Cash and cash equivalents	26,423
Advances to suppliers	17,202
Inventories	43,007
Other	5.193
	91.825
Noncurrent assets	
Oil and gas assets	256.351
	256.351
Total assets	**348.176**
Liabilities and shareholders' equity	
Noncurrent liabilities	
Asset retirement obligation	114.139
	114.139
Total liabilities and equity	**114.139**
Consideration paid	**234.037**

12. Suppliers (Consolidated)

	Consolidated	
	03/31/2014	12/31/2013
Domestic suppliers	**118,767**	**60,287**
Suppliers Abroad	**56,918**	**3,075**
	175,686	**63,362**

At March 31, 2014, the primary amounts payable regarding operations in the Solimões basin relate to Geoquasar, Queiroz Galvao and J.Malucelli (insurance guarantee), and they amount to R$12,709, R$7,871 and R$15,400, respectively. Regarding the Polvo field operations, the main values are BHS, Ventura Petróleo, Terrana and BWO, R$4,736, R$4,316, R$3,360 and R$22,771 respectively.

13. Loans (consolidated)

	Consolidated	
	03/31/2014	12/31/2013
Current		
Credit Suisse	**-**	70,380
Total	**-**	**70,380**

HRT O&G entered into a financing agreement with Credit Suisse in the amount of US$75,000, effective for 24 months. According to the agreement, repayment will be made in 6 installments, as follows: fixed rate of 7.25% p.a. and variable rate of 1.5% on the estimated production of the asset in the first 12 months, and 1.25% on the production estimated for the period between the 13th and 24th month.

On February 21, 2014, HRTO&G settled the outstanding balance of this financing. The first repayment, in the amount of US$40 million, was made on October 15, 2013, and the outstanding balance would be paid in 5 quarterly installments as from April 2014, as explained above.

14. Operating lease (lessee)

Helitransportable rigs leased from Queiroz Galvão Óleo e Gás S.A.

Queiroz Galvão

Subsidiary HRTOG (lessee) entered into lease and service agreements involving two helitransportable rigs. The agreements were entered into on August 3, 2010, and shall be effective for 4 years as from April 15, 2011.

Minimum future payments discounted to present value are estimated as follows:

Minimum future payments (In US$ thousands)	
Year 1(until 12/2014)	11,672
Year 2 (from 01/2015 to 05/2015)	5,863
	17,535

(a) tax 0,7974% monthly

FPSO (leased Floating, Production, Storage and Offloading from Prosafe Production B.V.)

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

HRTOG (lessee) entered into lease agreement involving one FPSO. The agreement was entered into on December 10, 2013, shall be effective for one year and may be renewed annually up to a maximum period of May 1, 2022.

15. Taxes and social contributions

	Company		Consolidated	
	03/31/2014	12/31/2013	**03/31/2014**	12/31/2013
PIS and COFINS on service imports	**2**	-	**39**	-
Service Tax (ISS)	**45**	45	**3,434**	3,808
Withholding Income Tax (IRRF) on services	**2,096**	1,253	**5,785**	3,285
Social contribution tax on services	**123**	31	**4,206**	3,444
Social Security Tax (INSS)	**6,807**	6,825	**15,630**	14,624
Unemployment Compensation Fund (FGTS)	**533**	575	**870**	921
Other	**34**	8	**672**	219
	9,640	8,737	**30,636**	26,301

16. Current and deferred income and social contribution taxes

	Company	
	03/31/2014	12/31/2013
Profit (Loss) for the period before income and social contribution taxes	1,699	(99,181)
Permanent additions	-	66,044
Permanent exclusions	(6,705)	-
Income and social contribution tax base	(5,006)	(33,137)
Income and social contribution taxes	**-**	**-**

Company	Tax loss		Tax credit	
	03/31/2014	12/31/2013	**03/31/2014**	12/31/2013
HRTP	**61,485**	47,503	**20,905**	16,151
HRTOG	**606,353**	608,269	**206,160**	206,812
IPEX	**13,362**	13,564	**4,543**	4,612
HRTAF	**9,992**	9,038	**3,397**	3,073
	691,192	678,374	**235,005**	230,648

The Group has tax loss carryforwards generated in Brazil which may be offset against future taxable profit, limited, however, to 30% of this figure for the year. Due to the absence of a history of profitability and uncertainties surrounding the Group's segment, management chose not to register the tax loss carryforwards, which will be recorded to the extent that future tax credits are generated.

On March 31, 2014 the subsidiary HRTOG compensated R$ 1,902 thousands of the balance of tax losses and negative basis of social contribution, which resulted in a reduction of R$647 thousands in tax payable, related to 34% of the tax due.

The amount of deferred income and social contribution tax liabilities are as follows:

	Company		Consolidated	
	03/31/2014	**12/31/2013**	**03/31/2014**	**12/31/2013**
Temporary differences on fair value recognized assets on business combinations	**70.559**	63.450	**133.972**	126.877
	70.559	63.450	**133.972**	126.877

At March 31, 2014, the Group had a balance of R$80,786, due to deferred income tax liabilities arising from differences between the accounting base and the tax base of assets arising from the acquisition of HRT Canada, as a consequence of the amount not being deductible by Canadian legislation.

16. Current and deferred income and social contribution taxes--Continued

On September 17, 2013, Brazilian IRS Revenue Procedure (IN) No. 1,397 was disclosed and, on November 12, 2013, the Provisional Executive Order No. 627 ("MP 627") was enacted, thus revoking the Transition Tax Regime (RTT) as from 2015, with the introduction of the new tax regime; (ii) amends Decree-Law No. 1,598/77 for computation of the corporate income tax, and legislation on social contribution tax (CSLL). The new tax regime provided for in MP 627 enters in force as from 2014, if so elected by the entity. Among the provisions of MP 627, we point out those approaching profit sharing and payment of dividends, interest on equity calculation basis and the equity pickup calculation during RTT term.

The Group prepared an analysis of the possible effects of MP 627 and IN 1397, and concluded that they have no significant effect on its operations and financial statements for year ended December 31, 2013, based on our best interpretation of the current wording of MP 627. The possible conversion of MP 627 into Law may lead to a different conclusion. The Group awaits definition of amendments to MP 627 to elect or not early adoption for year 2014.

17. Asset Retirement Obligation (ARO)

Asset Retirement Obligation (ARO) estimated were accrued for the period ended March 31, 2014. This accrual reflects the estimated expenses to be incurred, including but not limited to buffering of wells and removal of lines and production equipment.

The amount accrued until March 31, 2014 was R$114,139.

18. Equity

18.1. Capital

At March 31, 2014, the subscribed and paid-in capital in the amount of R$3,821,205 is divided into 297,466,746 common registered book-entry shares, with no par value. The Group's authorized capital is R$10,000,000,000.00 (ten billion *Reais*).

It is worth mentioning that at the Annual and Special Shareholders' Meeting held on April 27, 2012, the split of shares issued by the Group at the ledge of 1/50 was approved, so that each share issued by the Company is represented by 50 (fifty) shares.

18. Equity--Continued

18.1. Capital--Continued

Capital increases were made through issue of shares of the same type, as follows:

Date	Fair value	Number of shares
Total capital at December 31, 2013	**3.821.205**	**297.466.746**
Payment of stock option	**-**	**-**
Total capital at March 31, 2014	**3.821.205**	**297.466.746**

18. Equity--Continued

18.2. Earnings per share

In compliance with CPC 41 (IAS 33) (approved by CVM Rule No. 636, of August 6, 2010 - Earnings per Share), the Group presents the following information on earnings per share for the fiscal periods ended December 31, 2013 and 2012.

Basic earnings per share are calculated by dividing net income for the year attributed to the Company's common and preferred shareholders by the weighted average number of common and preferred shares available in the period.

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

The table below shows P&L data and shares used to calculate basic and diluted earnings/loss per share:

Basic and diluted earnings (loss) per share	03/31/2014	03/31/2013
Numerator		
Profit (Loss) for the year attributed to the Group shareholders	**1.699**	(99.181)
Denominator (in thousands of shares)		
Weighted average number of common shares adjusted by dilution effect	**297.390**	296.112
Loss basic and diluted per share	**0,006**	(0,335)

19. Transactions with related parties

Intercompany agreements

Business transactions of HRTP with its subsidiaries are carried out at regular market prices and conditions.

Key management personnel compensation

Key management personnel compensation for the year ended March 31, 2014, totaled R$1,986 (R$2,720 in 2013).

20. Gross Operating Margin

	Consolidated
	03/31/2014
Net revenue	**143,303**
Cost of products/services	
Cost of oil production	**(85,636)**
Royalties	**(11,658)**
Depreciation and amortization	**(22,712)**
Gross operating margin	**23,297**

On March 31, 2014 the oil and gas in store in the amount of R$25,856 is representative of 123 thousands bbl.

21. Guarantees and commitments

At March 31, 2014, the Group and subsidiaries entered into various agreements with suppliers for exploration activities, most of which are “umbrella agreements” involving services, materials and equipment to be provided with different maturities, basically concerning lease and operation of rigs, drilling services, supply of fuel, seismic, among others..

The 19 Solimões basin blocks under concession are in the Second Exploration Period with minimum commitment to drilling one well per block, up to the litho-stratigraphic horizon of the Juruá Formation, as follows:

Block	Exploration period	Conclusion	Minimum exploration program	Activity performed	Note
SOL-T-169	Second	02/16/2014	1 well per block	Drilled 1-HRT-2-AM e 1-HRT-8-AM	Presented the Discovery Assessment Plan - PAD
SOL-T-168 SOL-T-170 SOL-T-191	Second	03/20/2014	1 well per block	Drilled 1-HRT-3-AM Drilled 1-HRT-1-AM e 1-HRT-6-AM Drilled 1-HRT-9-AM	Presented the Discovery Assessment Plan - PAD
SOL-T-148 SOL-T-149 SOL-T-172 SOL-T-194 SOL-T-195	Second	05/05/2014	1 well per block	SOL-T-172: 1-HRT-11-AM SOL-T-194: 1-HRT-4-AM e 1-HRT-7-AM	SOL-T-148: Request for extension of the exploration phase for 2 more years presented to ANP SOL-T-149: Request for extension of the exploration phase for 2 more years presented to ANP SOL-T-172: Bloco a ser devolvido a ANP SOL-T-194: Será apresentado PAD SOL-T-195: Request for extension of the exploration phase for 2 more years presented to ANP
SOL-T-151 SOL-T-174 SOL-T-192 SOL-T-196 SOL-T-197 SOL-T-214 SOL-T-215 SOL-T-216 SOL-T-217 SOL-T-218	Second	03/03/2017	1 well per block	SOL-T-192: 1-HRT-5-AM e 1-HRT-10-AM	SOL-T-196: Well linked to commitment of SOL-T-195 SOL-T-218: Well linked to commitment of SOL-T-195

21. Guarantees and commitments--Continued

With regard to the minimum exploration program of the licenses in Namibia, the following commitments are assumed:

PEL	Exploration period	Conclusion	Minimum exploration program	Activity performed
022 (blocks 2815, 2816 and 2915)	2º Period	2014	USD 3,1MM - 1.500 Km 2D seismic or 400 Km^2 3D seismic	Acquisition of 1.137 km^2 of 3D seismic
023 (blocks 2112B and 2212A)	2º Period	2015	USD 2,0MM - 200 Km^2 3D seismic	Acquisition of 5.359 km^2 of 3D seismic
024 (blocks 2713A and 2713B)	2º Period	2014	USD 1,1MM - 1.000 Km 2D seismic or 400 Km^2 3D seismic	Acquisition of 1.424 km^2 of 3D seismic
028 (blocks 2813A, 2814B and 2914A)	1º Period	2015	USD 8,5MM - 2.000 Km 2D seismic or 500 Km^2 3D seismic	Acquisition of 1.237 km^2 of 3D seismic

Under the terms of the Participation Agreement entered into with HRT Canada and Acarus on December 1, 2010, the Group is engaged to pay 50% of the evaluation and exploration transaction costs in PEL 28, located in Namibia's offshore.

22. Segment information

Information by business area (operating segment) is presented according to CPC 22 (IFRS 8) - Segment Information. The Group's operations are segmented as follows:

a) Exploration and Production

Include activities of exploration and production of oil and byproducts for sale in Brazil and abroad.

b) Geology and Geophysics

Include geological and geophysical services.

c) Management and others

Include basically the Company's headquarters.

Management monitors business units operating income/losses separately, which allows decision making regarding allocation of funds and performance assessment. Segments are assessed based on operating income or losses, which, in certain cases, as shown in the table below, are measured differently from operating income or expenses in the consolidated financial statements.

22. Segment information--Continued

	03/31/2014					03/31/2013				
	Exploration and production	**Geology and Geophysics Services**	**Management and other**	**Adjustments and eliminations**	**Consolidated**	**Exploration and production**	**Geology and Geophysics Services**	**Management and other**	**Adjustments and eliminations**	**Consolidated**
External net revenue	141,595	1,708	-	-	143,303	-	2,143	-	-	2,143
Intersegment net revenue	2,542	9,456	-	(11,998)	-	25,800	4,697	-	(30,497)	-
Net revenue	**144,137**	**11,164**	**-**	**(11,998)**	**143,303**	**25,800**	**6,840**	**-**	**(30,497)**	**2,143**
Selling costs	(111,776)	(4,436)	-	4,206	(120,006)	(6,056)	(3,018)	-	8,575	(499)
Gross profit	**24,361**	**6,728**	**-**	**(7,792)**	**23,297**	**19,744**	**3,822**	**-**	**(21,922)**	**1,644**
Geology and geophysics expenses	(5,466)	-	-	454	(5,012)	(15,606)	-	-	4,376	(11,230)
Personnel expenses	(3,870)	(1,350)	(1,346)	(4,207)	(10,773)	(23,086)	(2,924)	(34,598)	(2,519)	(63,127)
General and administrative expenses	(11,357)	(1,084)	(1,218)	-	(13,659)	(6,137)	(1,521)	(1,719)	2,545	(6,832)
Expenses with third party services	(2,679)	(163)	(2,775)	2,824	(2,793)	(12,439)	(300)	(1,155)	(2,953)	(16,847)
Taxes and fees	(623)	(12)	(3)	-	(638)	(1,926)	(25)	(292)	(1,356)	(3,599)
Depreciation expense	(2,131)	(544)	(47)	-	(2,722)	(2,773)	(482)	(62)	(3,102)	(6,419)
Dry Well Write off	13,039	-	-	(13,039)	-	2,402	-	-	-	2,402
Net financial income	(7,500)	7	383	-	(7,110)	137	-	4,690	-	4,827
Other operating revenues (expenses)	843	-	-	21,811	22,654	-	-	-	-	-
Net income before taxes	**4,617**	**3,582**	**(5,006)**	**51**	**3,244**	**(39,684)**	**(1,430)**	**(33,136)**	**(24,931)**	**(99,181)**

1. Intersegment revenues are eliminated upon consolidation.
2. Segment information considers the income/loss before provision for IRPJ and CSLL.
3. The segment's operational assets and liabilities do not include intersegment balances.

22. Segment information--Continued

Geographic Information

	03/31/2014			
	Exploration and production	**Geology and Geophysics Services**	**Management and others**	**Consolidated**
Current assets				
Brazil	455,306	2,793	25,331	483,430
Abroad	107,238	10,693	-	117,931
Noncurrent assets				
Brazil	818,654	3,341	14,346	836,341
Abroad	501,118	3,405	-	504,523

	12/31/2013			
	Exploration and production	**Geology and Geophysics Services**	**Management and others**	**Consolidated**
Current assets				
Brazil	587,364	2,199	33,772	623,335
Abroad	40,525	9,391	-	49,916
Noncurrent assets				
Brazil	598,476	3,510	13,550	615,536
Abroad	513,865	2,628	-	516,493

23. Financial risk management objectives and policies

The main financial liabilities of HRT refer to trade accounts payable for goods and services to be used in the Group's exploration campaign and the financial security agreements. On the other hand, cash and cash equivalents are recorded in assets, as described in Notes 6 and 7.

The Group is exposed to market (interest and exchange rates), credit, liquidity and environmental risks. The Group's senior management manages these risks by means of appropriate policies and procedures. All activities involving derivatives are conducted for risk management purposes and are carried out by specialized teams with the adequate skills, experience and supervision. It is the Group's policy not to participate in negotiation of derivatives for speculative purposes.

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

23. Financial risk management objectives and policies--Continued

Market risk

Market risk is the possibility of losses arising from the effect of the fluctuation of market values of financial instruments. As the Group is formed by non-financial companies, a conservative policy is adopted based on management of asset and liability positions, focusing on liquidity and risk mitigation.

Interest rate risk

Available funds are invested in securities issued by first-tier financial institutions, in local currency at variable rates, mostly with daily liquidity, in compliance with prudential concentration limits.

Sensitivity to interest rates

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

Transaction	Risk	Probable Scenario	Scenario (II) -25%	Scenario (III) -50%
Income from financial investiments	Decrease in CDI / Libor	5.280	(61.974)	(123.949)

For calculation of the amounts included in the above scenarios, charges, earnings and variation in derivatives were projected for the following quarter. Debt charges took into account, under the probable scenario, the interest rate projection disclosed by BM&FBOVESPA for the period. Under scenario II, this projection was increased by 25% and under scenario III, the curve was increased by 50% against the probable scenario.

For earnings from financial investments, the CDI projection disclosed by BM&FBOVESPA for the period was taken into account under the probable scenario, a 25% reduction in the projected CDI was taken into account under scenario II and a 50% reduction was taken into account under scenario III.

23. Financial risk management objectives and policies--Continued

Currency risk

Currency risk refers to the exposure to oscillations in the levels of commodity price or service contracted (future cash flows) in foreign currency by HRT Group. The Group's exposure to currency risk refers primarily to the Group's operating activities and net investments in foreign subsidiaries.

Regarding sensitivity analysis of derivatives, the Company's Management understands that liabilities with exposure to exchange rate variation and their respective derivatives recorded in the balance sheet must be considered.

The table below shows the sensitivity to a variation that may occur in the exchange rate and the impact on the Group's income and equity, before taxation.

Transaction	Risk	Probable Scenario	Scenario (II) -25%	Scenario (III) -50%
Income from financial investments	Decrease in US dollar	1.893	(23.736)	(47.472)
Investments in subsidiaries	Decrease in US dollar	75.128	(942.158)	(1.884.317)

For calculation of the amounts included in the above scenarios, charges and earnings were projected for the following quarter. The exchange rate projection disclosed by BM&FBOVESPA for the period was taken into account under the probable scenario. Under scenario II, this projection was increased by 25% and under scenario III, the curve was increased by 50% against the probable scenario.

Credit risk

This refers to the risk of a business counterparty not complying with an obligation under a financial instrument or agreement with the client, leading to a financial loss.

The Group is exposed to credit risk arising from its operating activities, including deposits in banks and/or financial institutions, exchange transactions and other financial instruments. To mitigate these risks, the Group adopts a conservative approach for investments, mostly having daily liquidity and variable rates, in first-tier banks, taking into account the ratings of major risk agencies and complying with prudential concentration limits.

23. Financial risk management objectives and policies--Continued

Liquidity risk

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

Consolidated

Period ended March 31, 2014	Immediate	Until 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	186,937	-	-	-	**186,937**
Marketable securities	121,332	-	-	-	**121,332**
Taxes recoverable	-	40,949	-	-	**40,949**
Advances to suppliers	-	53,413	-	-	**53,413**
Prepaid expenses	-	9,300	-	-	**9,300**
Asset held for sale	-	145,090	-	-	**145,090**
Inventories	-	25,856	-	-	**25,856**
Other	-	18,484	4,724	-	**23,208**
Liabilities					
Trade accounts payable and other	-	(176,316)	-	-	**(176,316)**
Labor charges	-	(12,451)	-	-	**(12,451)**
Income and social contribution taxes	-	(32,238)	-	-	**(32,238)**
Other liabilities	-	(3,011)	-	-	**(3,011)**
	308,269	**69,076**	**4,724**	**-**	**382,069**

Period ended December 31, 2013	Immediate	Until 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	33,582	-	-	-	**33,582**
Marketable securities	120,957	273,001	-	-	**393,958**
Taxes recoverable	-	42,523	-	-	**42,523**
Advances to suppliers	-	33,008	-	-	**33,008**
Advances to partners	-	3,057	-	-	**3,057**
Asset held for sale	-	155,540	-	-	**155,540**
Others	-	11,583	4,590	-	**16,173**
Liabilities					
Loans and financing	-	(70,380)	-	-	**(70,380)**
Derivative transactions	-	(11,163)	-	-	**(11,163)**
Trade accounts payable and other	-	(89,259)	-	-	**(89,259)**
Labor charges	-	(17,669)	-	-	**(17,669)**
Income and social contribution taxes	-	(26,366)	-	-	**(26,366)**
Other liabilities	-	(8,968)	-	-	**(8,968)**
	154,539	**294,907**	**4,590**	**-**	**454,036**

23. Financial risk management objectives and policies--Continued

Liquidity risk--Continued

Company

Period ended March 31, 2014	Immediate	Until 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	79	-	-	-	**79**
Marketable securities	9,127	-	-	-	**9,127**
Taxes recoverable	-	14,344	-	-	**14,344**
Advances to suppliers	-	113	-	-	**113**
Prepaid expenses	-	898	-	-	**898**
Related parties	-	-	9,321	-	**9,321**
Other	-	103	4,392	-	**4,495**
Liabilities					
Trade accounts payable and other	-	(3,238)	-	-	**(3,238)**
Labor liabilities	-	(5,309)	-	-	**(5,309)**
Taxes and social contributions	-	(9,640)	-	-	**(9,640)**
Other liabilities	-	(180)	-	-	**(180)**
	9,206	**(2,909)**	**13,713**	**-**	**20,010**

Period ended December 31, 2013	Immediate	Until 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	18	-	-	-	**18**
Marketable securities	18,165	-	-	-	**18,165**
Taxes recoverable	-	14,222	-	-	**14,222**
Advances to suppliers	-	113	-	-	**113**
Prepaid expenses	-	1,148	-	-	**1,148**
Other	-	69	4,392	-	**4,461**
Liabilities					
Trade accounts payable and other	-	(3,602)	-	-	**(3,602)**
Labor liabilities	-	(8,450)	-	-	**(8,450)**
Taxes and social contributions	-	(8,737)	-	-	**(8,737)**
Other liabilities	-	(180)	-	-	**(180)**
	18,183	**(5,337)**	**4,392**	**-**	**17,158**

23. Financial risk management objectives and policies--Continued

Liquidity risk--Continued

Fair value of financial assets and liabilities

The concept of "fair value" assumes a valuation of assets and liabilities based on market prices, in the case of assets with high liquidity, or other pricing mathematical methodologies otherwise. The level of fair value hierarchy gives priority to unadjusted quoted prices in an active market.

The table below states an analysis of financial instruments recognized at fair value, after their initial recognition. 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 is derived from 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.

24. Environmental risk

The Group has a comprehensive social-environmental program, supported by the Health, Safety and Environment (HSE) management system, consistent with the sensitivity of the Solimões Basin ecosystems, which includes areas of biodiversity and traditional cultures.

25. Insurance coverage

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

In fact, it has, together with other Group companies, coverage against major risks such as property damage, PP&E items and D&O with coverage "A" (damages on behalf of Management), "B" (reimbursement to company) and "C" (coverage extension for claims directly related to the capital market).

Coverage provided by Civil liability (D&O) comprise unavailability of assets and online pledge, D&O's liabilities, publicity expenses, liabilities due to errors and omissions in service provision, bodily injury, claims of insurer against insured and insured against insured.

Coverage also includes claims for environmental damages, liability of the spouse or partner in a common law marriage, cost of extradition, estate, heirs, successors and legal representatives, administrators of external entities, emergency expenses, and disqualification of the exercise of the administrator function.

The insurance policies in force at March 31, 2014 cover the amount of R$2,651,424 with total premium, according to their effectiveness, of R$13,426. We set out below the main insurance types and insured amounts:

Insurance/insured peril	Insured amount
Civil liability (D&O)	**200,000**
Fire, lightning, explosion and implosion	**27,414**
Electronic Equipment	**706**
Aircraft	**93,388**
Transportation	**124,200**
Oil risks	**2,191,021**
General civil liability	**12,671**
Vehicles	**459**
Residential	**1,565**
Total amount insured	**2,651,424**

The sum insured and consequently its premium had a significant increase due to contracting Energy Package and cargo insurance for the Polvo Field.

26. Contingencies

At March 31, 2014, the Company is party to the following judicial proceedings:

1. HRT Group is a defendant in eight (8) civil proceedings, totaling approximately eight hundred thousand *Reais* (R$800,000.00).

2. HRT Group is a defendant in seven (7) administrative proceedings involving tax aspects, totaling approximately one million two hundred thousand *Reais* (R$1,200,000.00).

3. Tuscany Perfurações Brasil Ltda. and Tuscany Rig Leasing S.A. filed a request for arbitration against HRT O&G, in the amount of US$ 39,644,601.99. HRT Group is awaiting procedural order for the submission of final arguments. According to the Legal Adviser of the case, it is possible the chance of success.

4. The Geoquasar Energy Solutions Participações Ltda. filed on February 28, 2014, the arbitration proceeding against HRT O&G and allocated to arbitration the amount of R$67,292,009.00. HRT O&G will present its response to the Request for Arbitration and appoint an arbitrator for the Arbitration Court until April 17, 2014.

5. HRT Group is a co-respondent in 262 labor claims totaling approximately eight million *Reais* (R$8,000,000.00). HRT Group is a party to 28 labor claims totaling approximately nine million *Reais* (R$9,000,000.00).

Except for the 25 labor claims referred to in item 5 of this note, based on the opinion of the Group's legal advisors, the likelihood of loss regarding the other proceedings is rated as "possible"; therefore, no provision for contingencies was recognized, in accordance with accounting practices adopted in Brazil and IFRS.