Financial statements

Petro Rio S.A.

December 31, 2015
with independent auditors' report on the financial statements

Petro Rio S.A.

Financial statements

December 31, 2015

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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

We have audited the accompanying individual and consolidated financial statement of Petro Rio S.A. ("Company"), identified as parent company and consolidated, respectively, which comprises the balance sheet as of December 31, 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management´s responsibility for the financial statements

The Company´s 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 the International Financial Report Standards (IFRS), issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Petro Rio S.A. as of December 31, 2015, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil

and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 8, which indicates that the Company and subsidiaries have significant balance of non-current assets held for sale as of December 31, 2015, the recoverability of which depends on the success of future sales operations. These conditions indicate the existence of uncertainty to the realization of these assets. The financial statements do not include any adjustments that would be required if any of the investments is not realized at their expected values, which is contingent upon the success of the negotiations currently in progress. The Company's management plans with respect to these activities are described in Note 8.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added ("DVA") for the year ended December 31, 2015, and also the comparative statements restated for the year ended on December 31 , 2014 (note 2.28), prepared under the responsibility of the Company's management, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies, and as supplemental information by the International Financial Reporting Standards (IFRS), which does not require the presentation of a DVA. These statements were subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Financial statements for the previously year audited by other independent auditor

The individual and consolidated financial statements for the year ended December 31, 2014 presented for comparative purposes, were audited by other independent auditors who issued an unqualified opinion on March 25, 2015. Such opinion contained an emphases related to the existence of significant uncertainty to the realization of non-current assets held for sale as of December 31, 2014,

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

Rio de Janeiro, March 21, 2016

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

Independent Member of BKR International

Mário Vieira Lopes
Contador - RJ - 060611/O

Petro Rio S.A.

Balance sheet on
December 31, 2015 and 2014
(In thousands of reais)

	Note	Parent company		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
			(Restated)		(Restated)
Assets					
Current assets					
Cash and cash equivalents	3	**3,099**	49	**283,951**	350,634
Securities	4	**32,155**	87,924	**213,090**	98,312
Accounts receivable	5	**-**	36	**244,499**	1,835
Oil inventories	23	**-**	-	**25,279**	8,784
Recoverable taxes	6	**2,227**	9,937	**26,801**	30,843
Advances to suppliers	7	**3**	194	**28,291**	23,957
Advances to partners	18	**-**	-	**-**	7,214
Prepaid expenses		**206**	-	**722**	3,486
Other receivables		**3**	53	**3,545**	3,495
		37,693	98,193	**826,178**	528,560
Non-current assets available for sale	8	**-**	-	**73,644**	258,158
Total assets Current		**37,693**	98,193	**899,822**	786,718
Non-current assets					
Long-term assets					
Advances to suppliers	7	**-**	-	**12,596**	12,596
Deposits and pledges		**4,426**	4,440	**11,594**	10,664
Recoverable taxes	6	**7,808**	-	**20,084**	-
Deferred taxes		**-**	-	**1,226**	-
Related parties	21	**367**	4,871	**-**	-
Investments	9	**908,650**	620,413	**-**	-
Property, plant and equipment	10	**447**	609	**69,949**	72,925
Intangible assets	11	**29**	65	**161,766**	176,951
Total non-current assets		**921,727**	630,398	**277,215**	273,136
Total assets		**959,420**	728,591	**1,177,037**	1,059,854

	Note	Parent company		Consolidated	
		12/31/2015	12/31/2014	12/31/2015	12/31/2014
			(Restated)		(Restated)
Liabilities and shareholders' equity					
Current liabilities					
Suppliers	12	**315**	5,133	**52,469**	50,507
Labor obligations		**278**	2,411	**7,373**	7,439
Taxes and social contributions	13	**4,501**	4,890	**13,082**	8,518
Debentures	14	**664**	-	**664**	-
Related parties	21	**-**	6,856	**-**	-
Advances from partners	18	**-**	-	**7,658**	62,495
Advances for disposal of fixed assets		**-**	-	**-**	25,368
Other liabilities		**-**	-	**4,177**	-
Total liabilities Current		**5,758**	19,290	**85,423**	154,327
Non-current liabilities					
Suppliers	12	**-**	-	**12,710**	12,710
Debentures	14	**31,461**	87,568	**31,461**	87,568
Provision for abandonment (ARO)	17	**-**	-	**68,033**	138,039
Provision for contingencies	30	**947**	-	**60,879**	33,838
Deferred taxes and social contributions	16	**-**	-	**4,087**	9,487
Investment deficit	9	**7,149**	-	**-**	-
Other liabilities		**-**	-	**339**	2,152
Total non-current liabilities		**39,557**	87,568	**177,509**	283,794
Shareholders' equity	20				
Realized capital stock		**3,265,185**	3,821,206	**3,265,185**	3,821,206
Capital reserves		**101,720**	518,631	**101,720**	518,631
Cumulative translation adjustment		**387,451**	261,233	**387,451**	261,233
Cumulative losses		**(2,950,672)**	(2,976,264)	**(2,950,672)**	(2,976,264)
Income (loss) for the period		**110,421**	(1,003,073)	**110,421**	(1,003,073)
Total shareholders' equity		**914,105**	621,733	**914,105**	621,733
Total liabilities and shareholders' equity		**959,420**	**728,591**	**1,177,037**	**1,059,854**

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

Petro Rio S.A.

Statements of income
Years ended December 31, 2015 and 2014
(In thousands of reais, except earnings/losses per share)

		Parent company		Consolidated	
	Note	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Net income	22	**-**	**-**	**253,071**	486,839
Costs of products/services	23	**-**	-	**(294,457)**	(468,078)
Gross Income		**-**	**-**	**(41,386)**	18,761
Operating income (expenses)					
Geology and geophysics expenses		**-**	-	**(1,450)**	(4,976)
Personnel expenses		**(5,515)**	(5,231)	**(27,872)**	(38,633)
General and administrative expenses		**(3,821)**	(4,840)	**(12,165)**	(30,857)
Expenses with outsourced Services		**(3,670)**	(10,879)	**(34,046)**	(55,392)
Taxes and rates		**(352)**	114	**(5,626)**	(3,684)
Depreciation and amortization expenses		**(158)**	(188)	**(3,195)**	(10,090)
Equity Method		**117,298**	(997,300)	**-**	-
Income from transactions with permanent assets	24	**-**	(6,266)	**192,157**	(930,459)
Other operating income (expenses), net		**4,060**	2,873	**17,797**	(12,545)
Operating income (loss) before financial income (loss)		**107,842**	(1,021,717)	**84,214**	(1,067,875)
Financial income	25	**15,344**	1,482	**332,553**	81,445
Financial expenses	25	**(12,765)**	(665)	**(311,873)**	(65,573)
Income before income and social contribution taxes		**110,421**	(1,020,900)	**104,894**	(1,052,003)
Current income and social contribution taxes		**-**	-	**124**	(13,287)
Deferred income and social contribution taxes	16	**-**	17,827	**5,403**	66,528
Income (loss) from continuing operations		**110,421**	(1,003,073)	**110,421**	(998,762)
Income from discontinued operation		-	-	-	(4,311)
Consolidated Income (loss) for the period		**110,421**	**(1,003,073)**	**110,421**	**(1,003,073)**
Income (loss) attributed to the Parent company's shareholders		**110,421**	(1,003,073)	**110,421**	(1,003,073)
Income (loss) attributed to non-controlling shareholders		**-**	**-**	**-**	**-**
Earnings (loss) per share - basic and diluted					
Basic	*20.3*	***1,675***	*(33,718)*	***1,675***	*(33,718)*
Diluted		***1,675***	*(33,718)*	***1,675***	*(33,718)*

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

Petro Rio S.A.

Statements of comprehensive income
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Consolidated	
	12/31/2015	**12/31/2014**
		(Restated)
Retained earnings (loss)	**110,421**	(1,003,073)
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**126,218**	170,884
Other comprehensive income for the year, net of taxes	**126,218**	170,884
Total comprehensive income for the year net of taxes	**236,639**	(832,189)
Attributable to parent company's shareholders	**236,639**	(832,189)
Attributable to non-controlling shareholders	**-**	-

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

Petro Rio S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Capital	Capital reserve	Accumulated translation adjustment	Accumulated loss	Total
Balances at January 1, 2014 – Restated	**3,821,205**	**519,308**	**90,349**	**(2,976,264)**	**1,454,598**
Capital increase in cash	-	-	-	-	-
Stock option exercised	1	-	-	-	1
Translation adjustment on investment abroad	-	-	170,884	-	170,884
Gains (losses) from derivatives	-	-	-	-	-
Share-based compensation	-	(677)	-	-	(677)
Loss for the period	-	-	-	(1,003,073)	(1,003,073)
Balances at December 31, 2014 – Restated	**3,821,206**	**518,631**	**261,233**	**(3,979,337)**	**621,733**
Balances at January 1, 2015 – Restated	**3,821,206**	**518,631**	**261,233**	**(3,979,337)**	**621,733**
Capital increase in cash	55,731	-	-	-	55,731
Stock option exercised	-	-	-	-	-
Translation adjustment on investment abroad	-	-	126,218	-	126,218
Gains (losses) from derivatives	-	-	-	-	-
Share-based compensation	-	3	-	-	3
Offset of loss	(611,752)	(416,914)	-	1,028,666	-
Loss for the period	-	-	-	110,421	110,421
Balances at December 31, 2015	**3,265,185**	**101,720**	**387,451**	**(2,840,251)**	**914,105**

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

Petro Rio S.A.

Statements of cash flows
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Cash flows from operating activities				
Income (loss) for the period (before taxes)	**110,421**	**(1,020,900)**	**104,894**	**(1,052,003)**
Depreciation and amortization	158	186	65,836	176,338
Financial income	(6,992)	(1,482)	(207,777)	(81,445)
Financial expenses	11,328	665	253,047	65,573
Share-based compensation	3	(884)	3	(884)
Equity in income of subsidiaries	(117,298)	997,300	-	-
Loss/Write-off of non-current assets	15	-	9,201	28,635
Provision for contingencies/losses	947	-	28,259	57,128
Provision for impairment	-	7,768	79,497	486,875
Results from transactions of permanent assets	-	-	(271,654)	(96,705)
Write-offs of dry wells and discontinued blocks	-	-	-	541,791
	(1,418)	**(17,347)**	**61,306**	**125,303**
(Increase) decrease in assets				
Accounts receivable	36	-	(110,013)	(846)
Recoverable taxes	949	4,285	(14,469)	3,182
Prepaid expenses	(206)	1,148	2,764	(429)
Advances to suppliers	191	(81)	10,489	(21,154)
Inventory	-	-	(30,969)	(5,646)
Advance to partners in oil and gas operations	-	-	-	-
Other receivables	51	16	(2,956)	7,098
Increase (decrease) in liabilities				
Suppliers	(4,821)	1,531	751	(145)
Labor obligations	(2,133)	(6,039)	(66)	(10,230)
Taxes and social contributions	(414)	(3,847)	1,339	(9,350)
Related parties	(1,404)	10,110	-	-
Advances from partners in oil and gas operations	-	-	59,287	6,941
Other liabilities	-	-	2,365	(6,556)
Net cash (invested in) from operating activities	**(9,169)**	**(10,224)**	**(20,171)**	**88,168**
Cash flows from investment activities				
(Investment in) redemption of securities	58,291	(68,942)	(100,712)	75,122
Deposits and pledges	14	(48)	(930)	272,565
Non-current assets held for sale	-	-	180,908	7,937
Advance for sale of fixed assets	-	-	-	47,812
(Purchase) sale of fixed assets	18	(7)	(489)	(48,934)
(Purchase) sale of intangible assets	-	-	(36)	986
(Purchase) sale of E&P assets	-	-	(96,108)	(132,630)
Paid-up capital in subsidiary	(37,572)	(12,385)	-	-
Sale of ownership interest	-	4,068	-	-
Net cash (invested in) from investment activities	**20,751**	**(77,314)**	**(17,367)**	**222,858**
Cash flows from financing activities				
Loans and financing	-	-	-	(70,380)
Debentures	(8,532)	87,568	(8,532)	87,568
Derivative transactions	-	-	-	(11,163)
Paid-up capital	-	1	-	1
Net cash (invested in) from financing activities	**(8,532)**	**87,569**	**(8,532)**	**6,026**
Translation adjustment	-	-	(20,613)	-
Net increase (decrease) in cash and cash equivalents	**3,050**	**31**	**(66,683)**	**317,052**
Cash and cash equivalents at the beginning of the year	49	18	350,634	33,582
Cash and cash equivalents at the end of the year	3,099	49	283,951	350,634
Net increase in cash and cash equivalents	**3,050**	**31**	**(66,683)**	**317,052**

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

Petro Rio S.A.

Statements of value added (supplementary information for IFRS purposes)
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Income				
Sale of services	**-**	-	**253,071**	486,839
Other income	**-**	-	**-**	-
	-	**-**	**253,071**	486,839
Inputs and services				
Third party's services and other	**(3,670)**	(10,879)	**(34,046)**	(55,393)
Geology and geophysics expenses	**-**	-	**(1,450)**	(4,977)
Costs of services	**-**	-	**(205,557)**	(254,861)
Gross added value	**(3,670)**	(10,879)	**12,018**	171,608
Retentions				
Depreciation and amortization	**(158)**	(188)	**(65,836)**	(176,338)
Net added value	**(3,828)**	(11,067)	**(53,818)**	(4,730)
Transferred value added				
Net financial income (loss)	**2,579**	816	**20,680**	15,872
Equity in income of subsidiaries	**117,298**	(997,300)	**-**	-
Deferred taxes	**-**	17,827	**5,403**	66,528
Income from discontinued operations	**-**	-	**-**	(4,311)
Income from transactions with permanent assets	**-**	(6,266)	**192,157**	(930,459)
Rents, royalties and other	**239**	(1,966)	**(20,627)**	(90,369)
Added value payable	**116,288**	(997,956)	**143,795**	(947,469)
Distribution of added value				
Personnel	**5,515**	5,231	**27,872**	38,633
Taxes	**352**	(114)	**5,502**	16,971
Interest attributable to Group's shareholders	**110,421**	(1,003,073)	**110,421**	(1,003,073)
Minority interest	**-**	-	**-**	-
Distributed added value	**116,288**	(997,956)	**143,795**	(947,469)

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

1. Operations

Petro Rio S.A. (PetroRio), former HRT Participações em Petróleo S.A. (changing the name approved at the Special Shareholders' Meeting held on May 15, 2015), was established on July 17, 2009. Its head office is 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, Rio de Janeiro State.

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

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

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

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 production (2015) is approximately 8,600 barrels, with 20.3º API. The license covers an area of approximately 134 km2 with several prospects for future exploration.

On January 20, 2015, the Company announced a purchase and sale agreement to acquire 80% interest of the rights and obligations of the concession contracts of Bijupirá and Salema (“BJSA”) fields with Shell Brasil Petróleo Ltda. (“Shell”). In July, PetroRio announced it had entered into a purchase agreement with Petrobras to acquire the remaining 20% share in the rights and obligations of the concession agreements for the Bijupirá and Salema fields (BJSA) with Petróleo Brasileiro S.A. - Petrobras.

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. As provided for in contracts, amounts paid as advance will be returned (US$35 million – R$137,668, being US$30 million of Shell and US$5 million of Petrobras), as described in note 31.1.

In May 2015, the Company executed definitive agreements for the sale and transfer of the total participation and the respective rights and obligations in the Concession Agreements of the oil and gas blocks located in the Solimões Sedimentary Basin in the State of Amazonas to Rosneft Brasil E&P Ltda, ("Rosneft", subsidiary of Rosneft Oil Company). In July 2015, the Company received ANP's confirmation for approval of this ANP and, in October 2015, received the first installment related to transaction, in the amount of R$148 million (US$38 million) and refunded to Rosneft an amount of R$69,331 (US$18 million), as described in Note 6.

Besides, the Company holds a 10% interest in two exploration blocks in onshore basins, located in the Recôncavo Basin (BA) and Espírito Santo (ES).

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 Pronouncements Committee - CPC and approved by the Brazilian Securities Commission - CVM and by the Federal Accounting Council - CFC, which are in conformity with international accounting standards issued by *International Accounting Standards Board - IASB.*

The statements of value added are presented as supplementary information for IFRS purposes.

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.

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			
	12/31/2015		**12/31/2014**	
Fully consolidated companies	**Direct**	**Indirect**	**Direct**	**Indirect**
HRT O&G Exploração e Produção de Petróleo Ltda.	**100%**	**-**	100%	-
HRT America Inc.	**100%**	**-**	100%	-
HRT África Petróleo S.A.	**25%**	**75%**	89%	11%
HRT Luxembourg Holding Sarl	**-**	**100%**	-	100%
HRT Lux Energy Sarl	**-**	**100%**	-	100%
HRT Netherlands BV	**-**	**100%**	-	100%
HRT Walvis Petroleum (Pty) Ltd.	**-**	**100%**	-	100%
HRT Canada Inc.	**-**	**100%**	-	100%
HRT Luderitz Luxembourg Holding SARL	**-**	**100%**	-	100%
HRT Luderitz Petroleum (Pty) Ltd.	**-**	**100%**	-	100%
HRT 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

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 fixed assets in contra account to a provision in liabilities. See 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 amount 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. 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.

2.13. 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.

2.14. Financial assets

The Group's financial assets are classified into the following categories: (i) financial assets at fair value through income, and (ii) 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.

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 carrying amount 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 carrying amount 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)

2.15. Functional currency and presentation 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 and the functional currency of its overseas subsidiaries is the United States dollar, on account of its prior business plan and particularly as a result of its incurred costs of operation. All financial information presented in Reais has been rounded to the nearest value, except otherwise indicated.

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 at the foreign exchange rate on the transaction date. 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.

2.16. 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.

2.17. Statements of added value ("DVA")

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

2.18. 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.

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

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

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

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

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

Change in accounting estimate

In December 2015, the Company, through a contracted international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo Field reserves, specifically of proven developed reserves motivated by a significant variation between the presented production curve and production curve estimated by the Company in the beginning of 2015, based on a report, of the same certifying agency. Reevaluation indicated extension of field useful life up to the end of 2020 (previously indicated up to 2017). This extension represented a proportional reduction of Polvo assets amortization in 2015, including Fixed Platform “Polvo A”. Impact on amortization/ depreciation of assets in this year was a decrease of R$68,647.

Re-presentation of the financial statements of 2014

The effects on the balance sheet and on the statement of changes in shareholder’s equity due to reclassifications made by the Management in the balances as of December 31, 2014.

Balance sheet:

	Original consolidated 12/31/2014	Reclassification	Consolidated Restated 12/31/2014
Assets			
Current assets			
Recoverable taxes (a)	39,341	(8,498)	30,843
Advances to suppliers (b)	42,191	(18,234)	23,957
Advances to partners (d)	-	7,214	7,214
Other current not affected	724,704	-	724,704
	806,236	**(19,518)**	**786,718**
Non-current assets			
Advances to suppliers (b)	-	12,596	12,596
Deposits and pledges (b)	5,026	5,638	10,664
Other non-current not affected	249,876	-	249,876
	254,902	**18,234**	**273,136**
Total assets	**1,061,138**	**(1,284)**	**1,059,854**
Liabilities and shareholders' equity			
Current liabilities			
Suppliers (c)	63,217	(12,710)	50,507
Income and social contribution taxes (a)	8,498	(8,498)	-
Advance from partners (d)	32,837	29,658	62,495
Advances for disposal of fixed assets (d)	47,812	(22,444)	25,368
Other current not affected	15,957	-	15,957
	168,321	**(13,994)**	**154,327**
Non-current liabilities			
Suppliers (c)	-	12,710	12,710
Other non-current not affected	271,084	-	271,084
	271,084	**12,710**	**283,794**
Shareholders' equity			
Capital reserves (e)	416,914	101,717	518,631
Accumulated translation adjustment (f)	-	261,233	261,233
Equity valuation adjustments (e) / (f) / (g)	361,162	(361,162)	-
Accumulated losses (g)	(2,974,476)	(1,788)	(2,976,264)
Other shareholders' equity items not affected	2,818,133	-	2,818,133
	621,733	**-**	**621,733**
Total liabilities and shareholders' equity	**1,061,138**	**(1,284)**	**1,059,854**

	Parent company Original 12/31/2014	Reclassification	Parent company Restated 12/31/2014
Shareholders' equity			
Capital reserves	416,914	101,717	518,631
Accumulated translation adjustment	-	261,233	261,233
Equity valuation adjustments	361,162	(361,162)	-
Accumulated losses	(2,974,476)	(1,788)	(2,976,264)
Other shareholders' equity items not affected	2,818,133	-	2,818,133
Total shareholders' equity	**621,733**	**-**	**621,733**

(a) Taxes recoverable are stated at net liabilities for income and social contribution taxes in the amount of R$ 8,498;

(b) Advance to suppliers reclassified to non-current assets between advances to suppliers (R$ 12,596) and deposits and guarantees (R$ 5,638);

(c) Balance of suppliers partially transferred to non-current liabilities in the amount of R$ 12,710;

(d) Advances from partners reclassified to current assets in the amount of R$ 7,214 and to advances for sale of fixed assets in current liabilities in the amount of R$ 22,444.

(e) Balance of stock options and transaction capital reclassified from equity valuation adjustment to capital reserves in the amount of R$ 101,717;

(f) Balance of foreign exchange rate adjustments in the translation of the financial statements reclassified from equity valuation adjustment to cumulative translation adjustment in the amount of R$ 261,233;

(g) Balance of derivative instruments reclassified from equity valuation adjustment to accumulated losses in amount of R$ 1,788.

Changes in the shareholders' equity for the year ended December 31, 2014:

	Capital	Capital reserve	Equity valuation adjustment	Accumulated loss	Total
Balances at January 1, 2014 – Original	**3,821,205**	**416,914**	**190,955**	**(2,974,476)**	**1,454,598**
Stock option exercised	1	-	-	-	1
Foreign exchange rate of foreign investment	-	-	171,091	-	171,091
Share-based compensation	-	-	(884)	-	(884)
Loss for the period	-	-	-	(1,003,073)	(1,003,073)
Balances at December 31, 2014 - Original	**3,821,206**	**416,914**	**361,162**	**(3,977,549)**	**621,733**

	Capital	Capital reserve	Equity valuation adjustment	Accumulated loss	Total
Balances at January 1, 2014 – Restated	**3,821,205**	**519,308**	**90,349**	**(2,976,264)**	**1,454,598**
Stock option exercised	1	-	-	-	1
Foreign exchange rate of foreign investment	-	-	170,884	-	170,884
Share-based compensation	-	(677)	-	-	(677)
Loss for the period	-	-	-	(1,003,073)	(1,003,073)
Balances at December 31, 2014 – Restated	**3,821,206**	**518,631**	**261,233**	**(3,979,337)**	**621,733**

2.21. Conclusion of financial statements

The Company's management authorized the completion of these financial statements on March 21, 2016.

3. Cash and cash equivalents

	Parent company		Consolidated	
	12/31/2015	**12/31/2014** *(Restated)*	**12/31/2015**	**12/31/2014** *(Restated)*
Cash	**-**	1	**1**	1
Banks	**3,099**	48	**283,950**	350,633
	3,099	49	**283,951**	350,634
National	**14**	49	**374**	202
Abroad	**3,085**	-	**283,577**	350,432

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

4. Securities

		Parent company		Consolidated	
Bank/ Issuer	**Remuneration**	**12/31/2015**	**12/31/2014**	**12/31/2015**	**12/31/2014**
Itaú BBA	75% CDI	**117**	87,924	**9,424**	94,370
JP Morgan	0.16% p.a.	**32,038**	-	**32,038**	-
Santander	1.80% p.a.	-	-	**71,126**	-
Bradesco	0.95% p.a.	-	-	**80,708**	-
Votorantim		-	-	**-**	3,942
Total held for trading		**32,155**	87,924	**193,296**	98,312

		Parent company		Consolidated	
Bank/ Issuer	**Remuneration**	**12/31/2015**	**12/31/2014**	**12/31/2015**	**12/31/2014**
Winterbotham	6.00%	-	-	**19,794**	-
Total held to maturity		**-**	-	**19,794**	-

Financial investments carried out in JP Morgan are assigned in US dollars in Global Short Duration Bond Fund, focused on government and non-government securities rated as AAA. Other investments were carried out in Time Deposits (TD), investment in fixed-term deposit in foreign currency with fixed remuneration pegged to US dollar variation. In addition, the Company made investments in repurchase and resale commitments backed by debentures, in domestic currency, linked to remuneration of interbank deposit certificate (CDI) (14.14% as of December 31, 2015) and holds a promissory note against United Capital International Inc. with annual remuneration of 6%, also pegged to North-American dollar variation.

5. Accounts receivable

	Consolidated	
	12/31/2015	**12/31/2014**
Glencore	**15,875**	622
Rosneft	**78,096**	-
Maersk	**13,491**	**-**
Shell	**117,144**	**-**
Petrobras	**19,524**	**-**
Other	**369**	1,213
Total	**244,499**	1,835
Total local currency	**269**	622
Total foreign currency	**244,230**	1,213

Glencore – As of December 31, 2015, 403 thousand barrels of oil were sold for R$40,145, equivalent to US$10,281. Of this amount, R$38,492 was received in December. The balance payable is R$ 1,102 considering foreign exchange rate in the period. In addition, the Company recorded accounts receivable from Glencore referring to partial reimbursement of interest of the letter of credit contracted on January 20, 2015, in the amount of R$14,773, according to contract provisions.

Rosneft – On May 18, 2015, the Company entered into definitive contracts related to "FOA" (*Farm-Out Agreement*) with Rosneft for assignment of transactions and of 100% of interest in Concession Agreements for gas and oil blocks located in Sedimentary Basin of Solimões in the State of Amazonas (approved by ANP on July 1, 2015), 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. Of total net value, the Company still has to receive US$20 million (R$78,096).

Maersk – On December 2, 2015, ANP approved acquisition of 40% of remaining interest in Polvo Field, which previously belonged to Maersk. As a result of negotiations for commercial agreement, PetroRio has US$3.5 million (R$13,491) receivable as reimbursement of taxes levied on transaction, as detailed on note 11.

Shell and Petrobrás – With rescission of contracts for the acquisition of Bijupirá and Salema fields, as described in note 1, amounts paid as advance for acquisition of the field, US$30 million and US$5 million (R$117,144 and R$19,524), respectively, will be fully returned.

6. Recoverable taxes

	Parent company		Consolidated	
	12/31/2015	**12/31/2014**	**12/31/2015**	**12/31/2014**
Income and social contribution taxes	**9,798**	9,937	**13,128**	21,323
PIS and COFINS	**4**	-	**14,688**	13,599
ICMS recoverable	**-**	-	**15,713**	-
VAT	**-**	-	**2,975**	4,273
Other	**233**	-	**380**	146
Subtotal	**10,035**	9,937	**46,885**	39,341
IRPJ and CSLL payable	-	-	-	(8,498)
Total	**10,035**	9,937	**46,885**	30,843
Current assets	**2,227**	9,937	**26,801**	30,843
Non-current assets	**7,808**	-	**20,084**	-

7. Advances to suppliers

	Parent company		Consolidated	
	12/31/2015	**12/31/2014**	**12/31/2015**	**12/31/2014**
				(Restated)
Queiroz Galvão Óleo & Gás (i)	**-**	-	**37,682**	25,993
Geoquasar Energy (ii)	**-**	-	**12,596**	12,596
BW (Prosafe) guarantee (iii)	**-**	-	**25,861**	18,613
Other	**3**	194	**85**	5,344
Subtotal	**3**	194	**76,224**	62,546
Provision for non-realization of assets (i)	**-**	-	**(35,337)**	(25,993)
Total	**3**	194	**40,887**	36,553
Total current assets	**3**	194	**28,291**	23,957
Total non-current assets	**-**	-	**12,596**	12,596

(i) The amount paid in advance to Queiroz Galvão refers to clause 24.2 of the agreements of Rigs QG-VIII and QG-IX, which started to be discounted from the monthly billing of said rigs as from October 2012 (Note 31.3).

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

(iii) The advances to BW Offshore (Prosafe) - US$ 5,671 (R$ 22,144) 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

On 2013, the Company began the process of divesting of non-core assets. This process included the sale of the subsidiaries Air Amazonia Serviços Aéreos Ltda. ("AA") and Integrated Petroleum Expertise Company - Serviços em Petróleo Ltda. - ("IPEX"), which were completed in the third quarter of 2014, respectively, besides the sale of the remaining fleet of helicopters, and helitransportable drilling rigs.

The Company started 2015 with 7 aircraft and 4 rigs, as well as Solimões exploratory blocks, classified as non-current assets held for sale. Of these assets, four aircrafts were sold in 2015 for the amount of R$17,490, and Solimões exploration blocks were sold for the net amount of R$158,916.

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

	Balance at 01/01/2015	Transfers	Write-offs	Commission	Impairment	Translation adjustment	**Balance at 12/31/2015**
Aircrafts	**26,828**	**-**	(18,052)	-	(2,074)	5,715	**12,417**
Rigs	**95,623**	**-**	-	(1,239)	(77,423)	44,266	**61,227**
Cranes	**-**	**-**	-	-	-	-	**-**
Solimões	**135,707**	25,349	(161,056)	-	-	-	**-**
	258,158	25,349	(179,108)	(1,239)	(79,497)	49,981	**73,644**

	Balance at 01/01/2014	Transfers	Write-offs	Impairment	Translation adjustment	**Balance at 12/31/2014**
Aircrafts	**71,826**	-	(11,515)	(42,304)	8,820	**26,828**
Rigs	**83,714**	-	-	-	11,909	**95,623**
Cranes	**-**	5,547	(6,434)	-	887	**-**
Solimões	**-**	135,707	-	-	-	**135,707**
	155,540	141,254	(17,949)	(42,304)	21,617	**258,158**

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

9. Investments

At December 31, 2015 and December 31, 2014, the Company presented the following main interest held in subsidiaries:

- **HRT O&G Exploração e Produção de Petróleo Ltda. ("HRTOG")**

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

  HRTOG 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, HRTOG 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 HRTOG, in the amount of R$197,269, with shares of PTRIntl; now, HRTOG holds 74.7% of interest in PTRIntl capital.

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

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

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

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

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

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

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

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

Portfolio of concessions

At December 31, 2015, the Group's subsidiaries were part in the following concessions in Brazilian basins and had the following Petroleum Exploration Licenses (PEL) in Namibian basins:

Country	Basin	Block	Operator	% HRT	Status
Brazil	Fields	BM-C-8	HRTOG	100%	Operator
Brazil	Espírito Santo	ES-T-400	PTRIntl	10%	Non-operator
Brazil	Recôncavo	REC-T-158	PTRIntl	10%	Non-operator
Namíbia (*)	Orange	PEL028	HRT Luderitz (**)	77.20%	*Impairment*
Namíbia (*)	Orange	PEL024	Kunene (**)	86%	*Impairment*
Namíbia (*)	Orange	PEL022	Orange (**)	100%	*Impairment*
Namíbia (*)	Walvis	PEL023	HRT Walvis (**)	86%	*Impairment*

(*) The terms of the exploration period are detailed in Note 26.
(**) Subsidiárias indiretas da PetroRio Internacional S.A.

a) Breakdown of investments

	Parent company	
	12/31/2015	12/31/2014
HRTOG	**829,796**	361,979
HRTA	**(7,149)**	379
PTRIntl	**78,854**	258,055
	901,501	620,413
Total permanent assets	**908,650**	620,413
Total Unsecured Liability	**(7,149)**	-

b) Changes in investment

	HRTOG	IPEX	PTRIntl	HRTA	Total
Balance at January 01, 2014	1,038,199	(4,048)	445,371	12,174	1,491,696
Capital increase	-	11,888	497	-	12,385
Equity in income of subsidiaries	(707,257)	(3,772)	(273,812)	(12,459)	(997,300)
Sale of ownership interest	-	(4,068)	-	-	(4,068)
Conversion adjustments	19,751	-	105,053	664	125,468
Impairment	-	-	(7,768)	-	(7,768)
Balance at December 31, 2014	350,693	-	269,341	379	620,413
Capital increase/(decrease)	233,840	-	(197,269)	1,000	37,571
Equity in income of subsidiaries	152,368	-	(26,800)	(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
Total permanent assets	829,796	-	78,854	-	908,650
Total Unsecured Liability	-	-	-	(7,149)	(7,149)

c) Relevant information on investees as of December 31, 2015

	HRTOG	PTRIntl	HRTA
Direct interest	100.0%	25.3%	100.0%
Indirect interest	0.0%	74.7%	0.0%
Shareholders' equity	829,796	311,581	(7,149)
Income (loss) for the period	152,368	(105,901)	(8,269)
Total assets	1,649,845	323,254	515

10. Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 12/31/2015	Balance at 12/31/2014
In operation						
Polvo A platform and drilling rig	*UOP	101,439	(59,684)	26,460	68,215	63,493
Machinery and equipment	10	74	(55)	(19)	-	1,004
Furniture and fixtures	10	1,463	(762)	(294)	407	1,351
Communication equipment	20	240	(176)	-	64	86
Vehicles	20	462	(334)	(115)	13	228
IT equipment	20	5,974	(5,506)	(323)	145	2,053
Leasehold improvements	4	2,820	(1,106)	(623)	1,091	1,875
Facilities	10	16	(2)	-	14	2,832
In progress						
Material for use and consumption (wells)		-	-	-	-	3
Total		112,488	(67,625)	25,086	69,949	72,925

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

b) Changes in balance

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

(*) Reduction in relation to prior period as a result of new evaluation on reserves, as explained in note 2.20.

	Balance at 01/01/2014	Additions	Write-offs	Depreciation	Impairment	Translation adjustment	Transfers	Balance at 12/31/2014
In operation								
Sculptures	26	-	(26)	-	-	-	-	-
Vessels	543	-	-	(81)	(462)	-	-	-
Polvo A platform and drilling rig	-	101,439	-	(41,983)	-	4,037	-	63,493
Machinery and equipment	8,677	98	(2,939)	(1,135)	(2,337)	(1)	(1,359)	1,004
Furniture and fixtures	4,158	-	(1,569)	(633)	(840)	204	31	1,351
Communication equipment	265	53	(27)	(102)	(103)	-	-	86
Vehicles	5,581	3,828	(265)	(1,841)	(6,853)	(222)	-	228
IT equipment	4,639	72	(327)	(1,585)	(183)	(563)	-	2,053
Leasehold improvements	57,534	1,197	(387)	(2,905)	(560)	294	(53,298)	1,875
Facilities	8,983	16	(3,571)	(572)	(1,997)	(499)	472	2,832
In progress								
Material for use and consumption (wells)	41,989	14,257	(31,657)	-	(24,941)	-	355	3
Advances for acquisition of cranes	6,729	-	-	-	-	(402)	(6,327)	-
Total	139,124	120,960	(40,768)	(50,837)	(38,276)	2,848	(60,126)	72,925

11. Intangible assets (consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated	
		12/31/2015	12/31/2014
Oil & Gas assets			
Subscription bonus - Recôncavo - ES	(*)	**151**	151
Subscription bonus - Polvo	(*)	**335,530**	301,973
Exploration expenses	(*)	**170**	170
Software and others	20	**8,790**	9,533
		344,641	311,827
Accumulated amortization		**(182,875)**	(134,876)
Total		**161,766**	176,951

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

b) Changes in balance

	Balance at 01/01/2015	Additions	Write-offs	Assets held for sale	Amortization	Foreign exchange	Translation adjustment	Balance at 12/31/2015
Subscription bonus - Recôncavo - 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
Total	176,951	175,900	(146,860)	-	(47,999)	3,279	495	161,766

	Balance at 01/01/2014	Additions	Write-offs	Assets held for sale	Amortization	Impairment	Translation adjustment	Balance at 12/31/2014
Subscription bonus - Solimões Basin	135,707	-	-	(135,707)	-	-	-	-
Subscription bonus - Walvis Basin	10,449	-	-	-	-	(10,449)	-	-
Subscription bonus - Orange Basin	349,335	-	-	-	-	(396,099)	46,764	-
Subscription bonus - Reconcavo - ES	151	-	-	-	-	-	-	151
Subscription bonus - Polvo	-	301,973	-	-	(127,403)	-	-	174,570
Exploration expenses	487,488	55,395	(542,713)	-	-	-	-	170
Software and others	5,185	1,464	(3,125)	-	(1,640)	-	176	2,060
Total	988,315	358,832	(545,838)	(135,707)	(129,043)	(406,548)	46,940	176,951

(*) Reduction in relation to prior period as a result of new evaluation on reserves, as explained in note 2.20.

The subscription bonus for each block is presented below:

Blocks	12/31/2014	Acquisition	Write-off	Amortization	12/31/2015
Onshore					
ES-BT-400	100	-		-	**100**
REC-T-158	51	-		-	**51**
Total exploratory onshore bonus (non-operator)	151	-	-	-	**151**
Offshore					
BM-C-8	170,140	175,864	(137,877)	(46,829)	161,298
Total production offshore bonus (operator)	170,140	175,864	(137,877)	(46,829)	**161,298**

Business combinations

On January 8, 2014, the Company completed the commercial transaction with BP for the transfer of the 60% interest in the Polvo Field, becoming the operator of said concession. In addition, the Company acquired 100% interest in BP HRT Lux Energy S.à.r.l. (former BP Energy America, LLC -“BPEA”), which owns the fixed platform, "Polvo A" and a 3,000 HP drilling rig that operates in the field (Note 10).

It is important to point out that in accordance with the conditions of the agreement, the acquisition price was subject to review by the Company and was amended with regard

to the provisional amounts, pursuant to the conclusion of the commercial transaction with BP on January 8, 2014.

	US$
Original transaction amount – base January 1, 2013	**135,000**
(-) Price adjustments	**(54,528)**
(+) Guarantees from agreements transferred	**7,356**
(+) Cash balance of the joint venture – on January 1, 2013	**4,351**
Consideration transferred at the end of the transaction (*)	**92,179**

(*) Pursuant to the price adjustments stipulated in the agreement and equivalent of R$ 219,192

The final acquisition price was determined in October 2014, and the outright allocation of the price led to a breakdown of the oil and gas assets into their various elements.

The Company hired an independent specialist to assist in the validation process for allocating the acquisition price and determining the fair value of the net asset acquired, which was concluded in December 2014.

The allocations made in accordance with CPC 15 (R1) are shown below:

	In thousand of reais
Current assets	
Cash and cash equivalents	50,499
Advances to suppliers	17,492
Oil inventories	52,228
Recoverable taxes	7,658
	127,877
Non-current	
Oil & Gas assets	
Concession contract	296,816
Production platform and drilling rig	99,416
	396,232
Total assets	**524,109**
Current liabilities	
Deferred income and social contribution taxes	15,701
Advance from partners	56,124
Taxes payable	29,567
	101,392
Non-current	
Provision for abandonment	122,521
	122,521
Total liabilities	**223,913**
Final consideration transferred in Reais	**219,192**
Bargain purchase recognized in business combinations	**81,004**

Acquisition of interest

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

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

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

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

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

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) in liabilities, as a contra-entry to intangible assets, increasing recorded accounting value by the same amount (note 17).

Increase of Polvo Field useful life

In December 2015, the Company, through a contracted 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). This extension represents a proportional reduction of Polvo assets amortization, including Fixed Platform “Polvo A”.

12. Suppliers

	Parent company		Consolidated	
	12/31/2015	12/31/2014	**12/31/2015**	12/31/2014
				(Restated)
Domestic suppliers	**267**	4,985	**41,556**	45,221
Suppliers no exterior	**48**	148	**23,623**	17,996
Total	**315**	5,133	**65,179**	63,217
Total current liabilities	**315**	5,133	**52,469**	50,507
Total non-current liabilities	**-**	-	**12,710**	12,710

13. Taxes and social contributions payable

	Parent company		Consolidated	
	12/31/2015	**12/31/2014**	**12/31/2015**	**12/31/2014**
PIS and Cofins on service imports	**-**	-	**1,768**	62
Sales taxes	**-**	-	**93**	115
IRRF on services	**88**	102	**1,050**	960
Social contribution on services	**9**	15	**439**	419
INSS	**4,401**	4,246	**5,729**	5,559
Tax on Equity	**-**	-	**3,494**	-
FGTS	**3**	501	**229**	646
Other	**-**	26	**280**	757
Total	**4,501**	4,890	**13,082**	8,518

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, 2015, and in accordance with financial models has concluded that there is no attributable value at the present time.

The Company's management has assessed fair value of debentures based on Monte Carlo simulation with random variables and adopting the following premises: (i) expectation of annual returns (drift) of -59.8% per year; (ii) volatility of 66.6% per year; (iii) closing price of share PRIO3 on December 30, 2015 (R$ 2.45); and (iv) risk-free rate of 14.38%.

It must be mentioned that for purposes of average and volatility calculation of PetroRio stocks, the Management has contemplated historical stock prices of share PRIO3 from January 2, 2015 to December 30, 2015 and adopted the exponentially weighted moving average and exponentially weighted moving volatility models. The historical return of PetroRio stocks does not necessarily reflect the future trend of its quotations.

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.

	Parent company and Consolidated				
	12/31/2015	**Additions**	**Payments**	**Conversion into shares**	**12/31/2014**
Principal	**31,461**	-	-	(55,731)	87,192
Average interest rate	**664**	8,820	(8,532)	-	376
Total	**32,125**	**8,820**	(8,532)	(55,731)	87,568
Current	**664**	**8,820**	(8,156)	-	-
Non-current	**31,461**	**-**	(376)	(55,731)	87,568

Up to December 31, 2015, debentureholders opted to convert 2,786,563 debentures (R$ 55,731 reverted to Share Capital), representing around 64% of total issued debentures (Note 31.2 - Subsequent events).

15. Operational lease (lessee)

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

The subsidiary HRTOG (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 amount recognized in the year ended December 31, 2015 was R$ 53,529 (US$ 15,976 thousand) and in the year ended December 31, 2014, R$ 43,455 (US$ 18,458 thousand).

16. Current and deferred income tax and social contribution

	Tax loss and negative social contribution basis		Tax credits not recognized	
Companies	**12/31/2015**	**12/31/2014**	**12/31/2015**	**12/31/2014**
HRTP	**77,830**	67,455	**26,462**	22,935
HRTOG	**1,250,544**	590,358	**425,185**	200,722
PTRIntl	**10,201**	10,204	**3,468**	5,897
Total	**1,338,575**	668,016	**455,116**	229,553

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

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

	Consolidated	
	12/31/2015	**12/31/2014**
Temporary differences on fair value recognized assets on in business combinations (decreased in the same proportion of the asset amortization)	**4,087**	9,102
Deferred income tax and social contribution in liabilities	**-**	385
Total	**4,087**	9,487

17. Provision for abandonment (ARO)

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

	Provision for abandonment
As of January 8, 2014	**122,520**
Currency adjustment	**14,488**
Price-level restatement	**1,031**
December 31, 2014	**138,039**
Addition	131,997
Decrease	(137,368)
Currency adjustment	62,515
Price-level restatement	6,569
December 31, 2015	**201,752**
(-) Accounts receivable – Maersk Guarantee	(133,719)
Net balance of liabilities	**68,033**

The estimated abandonment costs were provisioned for the year ended December 31, 2015. This provision corresponds to PetroRio interest of 100% (as from December 2, 2015), and reflects the estimated present value discounted at the rate of 1.25% per annum and monetary restated at the rate of 1.69% 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$131,997). This increase directly impacted intangible assets, increasing recorded accounting value by the same amount. According to acquisition contract, Maersk presented a letter of credit committing itself to deposit the same value of increase in provision (US$34,245 thousand) in an abandonment fund owned by PetroRio, thus reducing total amount owed by the Company.

On December 3, 2015, PetroRio presented a new Development Plan (“PD”) of Polvo Field, with new estimated value for its abandonment: US$51,668 thousand (R$201,752), homologated by the Brazilian National Oil Agency. 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	**12/31/2015**	**12/31/2014**
		(Restated)
Maersk - BM-C-8 - Polvo	**-**	62,495
GALP - Namíbia - Petroleum Exploration Licences 23	**7,530**	(7,198)
Total operated blocks	**7,530**	55,297
Non-operated blocks (Cowan - ES)	**128**	(16)
Total advances to/from partners	**7,658**	55,281
Total current assets	**-**	(7,214)
Total current liabilities	**7,658**	62,495

19. *Impairment*

Management annually reviews the net carrying amount of assets for purposes of identifying events or changes in economic and operating estimates that may indicate impairment or loss of its recoverable amount. 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, 2015, the Company conducted an impairment test on its assets and determined total net loss amounting to R$79,497, fully related to assets held for sale.

20. Shareholders' equity

20.1. Capital

On December 31, 2015, subscribed and paid-in capital in the amount of R$3,401,879 is represented by 65,940,277 common shares (after grouping approved by the Extraordinary Shareholders' Meeting held on June 24, 2014 and completed on August 4, 2014, at the proportion of 10 to 1), all of them nominative, registered and with no par value. This grouping also includes grouping of Global Depositary Shares ("GDSs") issued by the Company and outstanding, under negotiation at TSX Venture Exchange (TSX-V) in Toronto, Canada, maintaining the proportion of two GDS's for each common share prevailing until then.

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	17,771,955	27.0%
ONE HILL CAPITAL LLC	15,137,489	23.0%
SOCIETE MONDIALE DES ENERGIES FIA	8,500,633	12.9%
DEUTSCHE BANK TRUST COMPANY AMERICAS	4,281,673	6.5%
OTHER SHAREHOLDERS	20,248,527	30.7%
Total	65,940,277	100.0%

The Company's capital was changed during 2015; reduction of R$611,752 refers to offset of part of accumulated losses, authorized by Annual and Special Shareholders' Meeting held on April 30, 2015, and increase of R$55,731 through conversion of debentures into shares, according to note 14.

20.2. Share-based compensation plan

The Board of Director, within the scope of its duties and in accordance with the stock option plan, approved the grant of preferred stock option to the strategic employees.

The fair value of the stock options was estimated at the stock option grant date using the Black-Sholes pricing model and amounts to R$ 2.51 for the 2014 Plan (SOP V), R$ 4.00 and R$ 38.10 for the 2013 Plans (SOP IV and SOP III, respectively), R$ 39.50 for the 2012 Plan (SOP II) and R$57.60 for the 2010 Plan (SOP I).

The dates of Board of Directors' meetings and the assumptions used in the pricing model are listed below:

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

The strike price range and the average maturity of outstanding options, as well the strike price range for the exercisable options for the year ended December 31, 2015, are summarized below:

	Options in circulation			Options exercised/ canceled	
Plan	Options outstanding on 12/31/2015	Average maturity in years	Exercise price	Options exercised up to 12/31/2015	Options canceled up to 12/31/2015
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, 2015, the Company has a balance recorded in shareholders' equity - income from stock-based compensation - the amount of R$ 77,665, R$ 28,376 of the 2010 plan grant, R$27,839 of grant the 2012 plan, R$ 20,660 of the 2013 plan grant (SOP III), R$ 734 of the 2013 plan grants (SOP IV) and R$ 56 of the 2014 plan was granted, the counterpart being in the respective statements of income as personnel cost.

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, 2015 and 2014. 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 Parent company's common shareholders by the weighted average number of common shares available for the period, plus the weighted average number of common shares that would be issued on conversion of all potential diluted common shares into common shares.

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

Basic and diluted earnings per share	12/31/2015	12/31/2014
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group's shareholders	110,421	(1,003,073)
Denominator (in thousands of shares)		
Weighted average number of common shares adjusted by dilution effect	65,940	29,748
Basic earnings and diluted per share	1,675	(33,718)

21. Related party transactions

	Parent company	
	12/31/2015	**12/31/2014**
Reimbursement of administrative expenses PetroRio x HRTOG	**8**	4,871
Service agreement PetroRio x HRT Lux Energy S.à.r.l. (a)	**359**	-
Total non-current assets	**367**	4,871
Loan agreement - PetroRio x HRTOG	**-**	(3,134)
Loan agreement - PetroRio x PTRIntl	**-**	(2,068)
Reimbursement of aircraft sale transaction PetroRio x HRTBV	**-**	(1,654)
Total current liabilities	**-**	(6,856)

(a) Balance of R$359 refers to contract entered into by PetroRio and HRT Lux Energy S.à.r.l., which establishes that HRT Lux Energy S.à.r.l. must reimburse PetroRio of all expenses incurred for management of its assets (platform), such as salaries, rent of physical space and equipment, telephone, Internet and software.

Management remuneration

The Company's management remuneration in the year ended December 31, 2015 was R$2,701 (R$4,056 on December 31, 2014).

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	
	12/31/2015	**12/31/2014**
FPSO	(67,030)	(58,429)
Logistics	(29,677)	(42,441)
Consumables	(39,409)	(29,058)
Operation and maintenance	(32,402)	(25,548)
Personnel	(8,470)	(13,203)
SMS	(13,850)	(12,504)
BP transferred oil	-	(51,077)
Royalties	(26,259)	(46,969)
Depreciation and amortization (*)	(62,641)	(166,248)
Other costs	(14,719)	(22,601)
Total	**(294,457)**	**(468,078)**

(*) Reduction in relation to prior period as a result of new evaluation on reserves, as explained in note 2.20.

On December 31, 2015, the oil inventories in the amount of R$ 25,279 is representative of 253,000 bbl – information not reviewed by the independent auditors (on December 31, 2014 the oil inventories in the amount of R$ 8,784 was representative of 57,000 bbl). On the same date, a provision for losses in inventories resulting from adjustment to market value was recorded in the amount of R$19,283. Such effect is recorded under “Other operating income (expenses), net”.

24. Income from transactions with permanent assets

Acquisition of E&P Assets – On December 2, 2015, transaction for acquisition of 40% of Polvo Field was completed, as described in note 1. Net effect on income on that date was a revenue of R$17,079, being R$271,654 positive, which includes forgiveness of acquisition price balance debt (R$36,158), transfer of oil inventory balance (R$13,214), forgiveness of debt referring to freight of Fixed Platform “Polvo A” (R$76,795), receipt of guarantee for creation of abandonment fund (R$131,996), and tax reimbursement (R$13,491). As a result of these increases in assets, calculation of Field recoverability was made on that date, with assumptions of reserve and useful life prevailing until then, and negative impairment result of R$254,575.

Impairment of Assets Test – as of December 31, 2015, impairment test was conducted on non-current assets held for sale; impairment of R$79,497 was determined, being R$77,423 of recoverable value of drilling rigs and R$2,074 of aircrafts.

In addition, as a result of increased useful life presented in reevaluation of Polvo Field (note 2.2) and of reduction in provision for abandonment as a contra-entry to intangible assets (note 17), the Company conducted impairment test on Polvo Field again and, with new assumptions adopted, entire impairment determined on December 2, 2015 (R$254,575) was reversed from the Company’s income (loss).

25. Financial income (loss)

	Parent company	
	12/31/2015	12/31/2014
Financial income	**15,344**	**1,482**
Income from interest earning bank deposits	**4,150**	1,275
Income from foreign exchange rate	**8,140**	148
Other financial income	**3,054**	59
Financial expenses	**(12,765)**	**(665)**
Expense on foreign exchange rate	**(3,475)**	(8)
Interest on loans/debentures	**(9,099)**	(578)
Other financial expenses	**(191)**	(79)

	Consolidated	
	12/31/2015	12/31/2014
Financial income	**332,553**	81,445
Income from interest earning bank deposits	**4,613**	7,101
Income from foreign exchange rate	**323,515**	72,439
Other financial income	**4,425**	1,905
Financial expenses	**(311,873)**	(65,573)
Expense on foreign exchange rate	**(260,720)**	(48,819)
Interest on loans/debentures/guarantee	**(29,399)**	(15,082)
Other financial expenses	**(21,754)**	(1,672)

26. Guarantees and commitments

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

PEL	Exploration period	Conclusion at	Minimum Exploratory Program	Activity performed
022 (blocks 2815, 2816 and 2915)	2nd Period	09/22/2014	USD 3.1MM 1.500 Km seismic 2D or 400 Km^2 seismic 3D	Acquisition of 1.137 km^2 3D seismic
023 (blocks 2112B and 2212A)	2nd Period	06/05/2015	USD 2.0MM 200 Km^2 seismic 3D	Acquisition of 5.359 km^2 3D seismic and well Moosehead-1
024 (blocks 2713A and 2713B)	2nd Period	08/03/2014	USD 1.1MM 1,000 Km seismic 2D or 400 Km^2 seismic 3D	Acquisition of 1,424 km^2 3D seismic and wells Wingat-1 and Murombe-1
028 (blocks 2813A, 2814B and 2914A)	1st Period	05/14/2015	USD 8.5MM 2,000 Km seismic 2D or 500 Km^2 seismic 3D	Acquisition of 1,237 km^2 3D seismic

Under the terms of the Participation Agreement entered into with HRT Canada and Acarus, the Company was engaged to pay 50% of the evaluation and exploration transaction costs in PEL 28, located in Namibia's offshore, and they were accomplished.

The Company has applied to the Ministry of Mines and Energy of Namibia renewal of PEL 22 and 24 for extension of exploration period, expired in September and August 2014, respectively, and the extension of the term of the PEL 23 and 28, ending in May and June 2015.

Upon closing of year ended December 31, 2014, as there was no indication of these renewals, the Company recorded a provision for losses of 100% of exploratory assets located in Africa.

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% would be financed, the Company obtained from Glencore Ltd a letter of credit for US$ 120 million (equivalent to R$ 468,576 on December 31, 2015). This credit letter financial cost recorded as financial expenses in the period ended December 31, 2015 was R$21,520.

As informed in note 1, in February 2016, Shell rescinded the purchase and sale contract for acquisition of 80% of BJSA and FPSO Fluminense concession, as permitted by contract. In this same month, PetroRio rescinded contract with Petrobras for acquisition of 20% in BJSA concession and letter of credit from Glencore, as described in Note 31.1.

27. Segment information

Considering the Company's strategy of operating in the segment of hydrocarbon production in mature fields such as Polvo, and minimization of exploration risk mainly through divestiture of Solimões concessions and non-performance of new investments in Namibia, Management performed revaluations in 2015, concluding that PetroRio operates in a single operating segment, that of exploration and production (E&P) of oil and gas in Brazil and abroad.

Geographical information for the exploration and production segment (E&P)

	Consolidated
	12/31/2015
Current assets	
Brazil	1,272,299
Abroad	(372,477)
Non-current assets	
Brazil	1,339,519
Abroad	(1,046,590)
Income	
Brazil	253,071
Abroad	-

	12/31/2014
Current assets	
Brazil	426,625
Abroad	360,091
Non-current assets	
Brazil	198,940
Abroad	74,197
Income	
Brazil	471,233
Abroad	15,606

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. It is the Company's policy not to participate in negotiation of derivatives for speculative purposes.

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

Market risk

Market risk is the possibility of losses arising from the effect of the fluctuation of market values of financial instruments and commodities. The Company does not use derivative instruments for risk mitigation purposes.

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	11	(27)	(65)
Impact on debentures	Increase in CDI	(128)	(185)	(365)

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, 2015 were taken into account under the probable scenario (CDI 15.24%), 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 0.16% was carried out showing not significant impacts.

Exchange risk

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

Operation	Risk	Probable scenario	Scenario (II) 25%	Scenario (III) 50%
Impact on financial investments	Decrease in US dollar (USD)	39,812	(110,009)	(220,018)
Provision for abandonment (ARO)	Increase in US Dollar (USD)	(18,544)	(51,241)	(102,482)

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, 2015 (US$ 1/R$ 4.258). Under scenario I, this projection was increased by 25% and under scenario II, the curve was increased by 50%, both against the probable scenario.

Credit risk

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

Related to credit risk of its sales operations, the Company analyzes the financial condition of its client, in conjunction with the provider of marketing services (trader), which also operates as an intermediary in transactions for the sale of oil. In year ended December 31, 2015, net sales were fully concentrated in a single client (in comparison with 90% in year ended December 31, 2014); however, it presents immaterial credit risk, considering that, historically, it did not present delays or default.

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, 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)**
Other liabilities	(4,177)	(339)	**(4,516)**
	(85,423)	**(173,422)**	**(258,845)**

Year ended December 31, 2014 (Restated)	up to 12 months	1–5 years	Total
Liabilities			
Suppliers	(50,507)	(12,710)	**(63,217)**
Advances for disposal of fixed assets	(25,368)	-	**(25,368)**
Labor obligations	(7,439)	-	**(7,439)**
Taxes and social contributions	(8,518)	-	**(8,518)**
Advances to partners	(62,495)	-	**(62,495)**
Debentures	-	(87,568)	**(87,568)**
Provision for abandonment	-	(138,039)	**(138,039)**
Provision for contingencies	-	(33,838)	**(33,838)**
Other liabilities	-	(2,152)	**(2,152)**
	(154,327)	**(274,307)**	**(428,634)**

Parent company

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

Year ended December 31, 2014	up to 12 months	1–5 years	Total
Liabilities			
Suppliers	(5,133)	-	**(5,133)**
Labor obligations	(2,411)	-	**(2,411)**
Taxes and social contributions	(4,890)	-	**(4,890)**
Related parties	(6,856)	-	**(6,856)**
Debentures	-	(87,568)	**(87,568)**
	(19,290)	**(87,568)**	**(106,858)**

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.

	12/31/2015			
	Parent company		**Consolidated**	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Loans and receivables				
Accounts receivable (i)	**-**	**-**	**244,499**	**244,499**
Related parties	**367**	**367**	**-**	**-**
Fair value through profit or loss				
Cash and cash equivalents (ii)	**3,099**	**3,099**	**283,951**	**283,951**
Securities (ii)	**32,155**	**32,155**	**193,296**	**193,296**
Financial liabilities				
Amortized cost:				
Suppliers (i)	**315**	**315**	**65,179**	**65,179**
Debentures (ii)	**32,125**	**30,412**	**32,125**	**30,412**

	12/31/2014			
	Parent company		Consolidated	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans and receivables				
Accounts receivable (i)	36	36	1,835	1,835
Related parties	4,871	4,871	-	-
Assets held for sale (ii)	-	-	258,158	258,158
Fair value through profit or loss				
Cash and cash equivalents (ii)	49	49	350,634	350,634
Securities (ii)	87,924	87,924	98,312	98,312
Financial liabilities				
Amortized cost:				
Suppliers (i)	5,133	5,133	63,217	63,217
Related parties	6,856	6,856	-	-
Debentures (ii)	87,568	81,547	87,568	81,547

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 (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, 2015 cover the insured amount of R$ 5,329,821. In addition, the Company also contracts insurance for Operator' Extra Expenses, whose main exposures covered are as follows:

Insurance/Modality	Amount insured
Physical damages (Oil inventories)	164,002
Fixed Platform	1,015,248
Offshore property (Pipeline)	78,096
OEE production (Well control)	585,720
OEE development (Well control)	390,480
Offshore Civil Liability	976,200
Civil Liability Offshore - Pipelines	1,952,400
Aircrafts (Physical damages)	19,524
Aircrafts (Civil liability)	117,144
Cargo (Polvo)	3,500
D&O	20,000
General liability	5,000
Patrimonial	2,495
Travel Insurance Travel Guard	12
Total insured	**5,329,821**

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, 2015 and 2014 in the amounts of R$ 60,879 and R$ 33,838, respectively, are sufficient to cover losses considered probable and reasonably estimated.

Provision registered

Tuscany Perfurações Brasil Ltda. and Tuscany Rig Leasing S.A. filed a request for arbitration against HRT O&G, in the amount of US$39,645 thousand. The sentence was handed down on February 5, 2015, condemning the Company to pay the amounts of R$1,484 and US$12,130 thousand (corresponding to R$ 47,365 – foreign exchange rate as of December 31, 2015). 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 obtained an injunction in the second degree, removing the effects of an arbitration decision.

Additionally, presents under the probable risk twenty-nine labor claims totaling R$ 8,879, two civil claims for R$ 2.904 and a tax claim in the amount of R$ 247.

Other lawsuits

The subsidiary HRTOG 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 HRTO&G, whose value is R$ 7,834. Final decision was issued convicting Geoquasar and HRTOG for pain and suffering in the amount of R$ 500, and HRTOG filed an appeal from the decision. Appeal reduced conviction to R$ 200 with joint liability of HRTOG, which filed an appeal again. HRT is awaiting sentencing trial. According to the Legal Adviser of the case, it is possible the chance of loss.

Geoquasar Energy Solutions Participações Ltda. requested, on February 28, 2014, for filing arbitration proceeding against HRTOG and allocated to arbitration the amount of R$ 67,292. Due to non-payment of the costs of arbitration proceeding by Geoquasar, the Court of Arbitration sent a letter stating that the arbitration proceeding was filed.

According to the Group's legal advisors, the risk of loss from other lawsuits is “possible” (R$ 136,557) or “remote”. Based on this evaluation, Management decided not to form a provision for contingencies, in accordance with accounting practices adopted in Brazil and IFRS.

31. Subsequent events

31.1. Rescission of contracts for purchase and sale of BJSA fields

On February 16, 2016, PetroRio was informed by Shell Brasil Petróleo Ltda. (“Shell”) on rescission of contract for the purchase and sale for acquisition of 80% of interest in Bijupirá and Salema ("BJSA") interest and of FPSO Fluminense, used in production of both fields, as permitted by contract.

Also in February, as a result of rescission informed above, the Company rescinded the purchase and sale contract for acquisition of 20% interest of Petrobras in the same fields.

Accordingly, PetroRio will not pursue transactions initially announced on January 20, 2015 and July 1, 2015.

Of amounts paid as advance for acquisition of fields, totaling US$35 million, US$23 million have already been returned.

In addition, Letter of Credit contracted from Glencore, which supported purchase of assets amounting to US$120 million, was also cancelled in February 2016.

31.2. Debentures convertible into shares

On the first quarter of 2016, the Company’s Board of Directors ratified issuance of 5,398 common shares as a result of conversion of 332 debentures (Note 14) and resulting homologation of increase in the Company’s capital, which went from 65,940,277 common shares to 65,945,675 common shares. Company’s capital net value went from R$3,265,185 to R$3,265,192 and total balance of non-converted debentures par value was reduced from R$31,461 to R$31,454.

31.3. Agreement entered into with Queiroz Galvão

On February 2, 2016, the Company entered into an agreement with Queiroz Galvão to end dispute between the parties and determine that PetroRio will be refunded for R$2,345. The Company had an advance of R$37,682 (note 7) recorded in balance sheet, as well as respective provision for impairment of this amount. On March 10, 2016, the amount of R$2,345 was paid to the Company, net of amount destined to court and attorney costs.

31.4. Aircraft sale

Following the Company's assets divestiture plan, in February and March, PetroRio completed the sale of two aircrafts for the amounts of R$800 and US$1,275 thousand, respectively. Additional impairment was recognized as of December 31, 2015 for these assets, and no gains or losses were determined on transaction date. Currently, the Company has only one aircraft, which is also included in divestiture plans (note 8).

31.5. Discontinuance of activities in Namibia

On March 9, 2016, PetroRio announced that, as a result of current scenario of oil and gas industry and after a long period of dialogues with Namibia' government (Note 9), 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.

31.6. Proposal of reverse split and common share buyback program

The Company's Board of Directors have approved, in a meeting held in March 21, 2016, the convening of the Shareholders Annual and Special Meeting to be held on April 29, 2016 to decide, among other matters: (i) the reverse split of common shares and Global Depositary Shares (GDSs) issued by the Company at the rate of 25 (twenty five) common shares and 25 (twenty five) GDSs for 1 (one) common share and 1 (one) GDS, respectively, maintaining the same proportion currently in force of 2 (two) GDSs to 1 (one) common share and (ii) the implementation of a buyback program of up to 16,500,000 (sixteen million five hundred thousand) Company's common shares within 18 (eighteen) months, without capital reduction, to be held in treasury, cancellation and/or subsequent sale. The maximum amount of common shares to be acquired in the buyback program will be adjusted to reflect the reverse split mentioned in item (i) above, if it is approved.