Quarterly information - ITR

Petro Rio S.A.

March 31, 2018
with Independent Auditors' Report on the Review of the Quarterly Information

Contents

Independent auditors' report on the review of the quarterly information

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

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Petro Rio S.A. identified as individual and consolidates, respectively, included in the Interim Financial Information (ITRs), for the quarter as of March 31, 2018, which comprises the balance sheet at March 31, 2018, and the respectively income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended, including the explanatory notes.

The Company´s Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), applicable to the preparation of Interim Financial Information (ITRs). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion on the interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the ITRs referred to above are not prepared, in all material respects, in accordance with IAS 34, applicable to the preparation of Interim Financial Information (ITRs), and presented in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board - IASB.

Other matters

Statements of Value Added (DVA)

We have also reviewed the condensed individual and consolidated statements of value added for the three-month period ended March 31, 2018, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they were not presented, in all material respects, in relation to the overall interim condensed individual and interim financial information.

The accompanying financial information has been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, May 07, 2018

BKR - Lopes, Machado Auditores
CRC-RJ-2026-O/5
Independent Member of BKR International

Mario Vieira Lopes
Contador – CRC-RJ-60.611/O

Balance sheets

March 31, 2018 and December 31, 2017
(In thousands of reais – R$)

	Note	Consolidated 03/31/2018	12/31/2017
Assets			
Current assets			
Cash and cash equivalents	3	**86,663**	92,445
Securities	4	**475,776**	511,863
Restricted cash	5	**-**	17,965
Accounts receivable	6	**63,713**	62,046
Oil inventories	25	**60,054**	41,174
Recoverable taxes	7	**54,721**	59,492
Advances to suppliers	8	**28,822**	28,781
Advances to partners	20	**4,007**	3,639
Prepaid expenses		**4,201**	3,106
Other receivables		**739**	828
		778,696	821,339
Non-current assets available for sale	9	**28,452**	28,316
		807,148	849,655
Non-current assets			
Advances to suppliers	8	**12,596**	12,596
Deposits and pledges		**16,464**	16,010
Recoverable taxes	7	**54,449**	51,669
Deferred taxes		**18,422**	18,480
Related parties	23	**-**	-
Investments	10	**-**	-
Property, plant and equipment	11	**58,108**	61,286
Intangible assets	12	**261,239**	260,548
		421,278	420,589
Total assets		**1,228,426**	1,270,244

See the accompanying notes to the quarterly information.

PETRORIO

Balance sheets

March 31, 2018 and December 31, 2017
(In thousands of reais – R$)

	Note	Consolidated	
		03/31/2018	**12/31/2017**
Liabilities and shareholders' equity			
Current liabilities			
Suppliers	13	**72,888**	70,535
Labor obligations		**7,074**	9,979
Taxes and social contributions	14	**24,418**	20,076
Loans and financing	15	**75,437**	75,011
Debentures	16	**805**	21,621
Advances from partners	20	**6,607**	7,129
Other liabilities		**287**	12,500
		187,516	216,851
Non-current liabilities			
Suppliers	13	**13,161**	13,456
Debentures	16	**31,245**	31,391
Provision for abandonment (ARO)	19	**75,298**	74,119
Provision for contingencies	30	**14,643**	15,120
Deferred taxes and social contributions	18	**25,447**	36,177
Related parties	23	**-**	-
Investment deficit	10	**-**	-
		159,794	170,263
Shareholders' equity			
Realized capital	22	**3,273,110**	3,265,256
Capital reserves		**72,997**	73,852
Accumulated translation adjustment		**64,951**	65,102
Equity valuation adjustments		**15,141**	26,698
Accumulated losses		**(2,547,777)**	(2,598,629)
Income (loss) for the period		**2,694**	50,851
		881,116	883,130
Total liabilities and shareholders' equity		**1,228,426**	**1,270,244**

See the accompanying notes to the quarterly information.

Statements of income

Three-month period ended March 31, 2018 and 2017
(In thousands of reais, except earnings/losses per share)

		Consolidated	
	Note	03/31/2018	03/31/2017
Net revenue	24	**117,155**	74,786
Costs of products/services	25	**(93,692)**	(68,240)
Gross revenue		**23,463**	6,546
Operating income (expenses)			
Geology and geophysics expenses		**(203)**	(203)
Personnel expenses		**(13,042)**	(5,330)
General and administrative expenses		**(3,784)**	(2,704)
Expenses with Outsourced Services		**(10,720)**	(10,198)
Taxes and rates		**(804)**	(424)
Depreciation and amortization expenses		**(558)**	(72)
Equity in income of subsidiaries	10	**-**	-
Other operating income (expenses), net		**3,533**	106
Operating profit (loss) before financial income (expenses)		**(2,115)**	(12,279)
Financial income	26	**49,311**	68,333
Financial expenses	26	**(44,818)**	(46,731)
Profit before income and social contribution taxes		**2,378**	9,323
Current income and social contribution taxes		**(8,975)**	(650)
Deferred income and social contribution taxes		**9,291**	(4,654)
Consolidated profit (loss) for the period		**2,694**	4,019
Earnings (loss) per share - basic and diluted			
Basic	22	***0.213***	*0.311*
Diluted	22	***0.213***	*0.311*

See the accompanying notes to the quarterly information.

Statements of comprehensive income

Three-month period ended March 31, 2018 and 2017
(In thousands of reais – R$)

	Consolidated	
	03/31/2018	03/31/2017
Retained earnings (loss)	**2,694**	4,019
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**(151)**	(4,621)
Equity valuation adjustments	**(11,557)**	75,436
Other comprehensive income for the period, net of taxes	**(11,708)**	70,815
Total other comprehensive income for the period, net of taxes	**(9,014)**	74,834

See the accompanying notes to the quarterly information.

Statements of changes in shareholders' equity

Three-month period ended March 31, 2018 and 2017
(In thousands of reais – R$)

	Capital Capital	Capital reserve	Equity valuation adjustment	Accumulated translation adjustment	Accumulated loss	Total
Balances at January 1, 2017	**3,265,216**	**100,875**	4,985	**61,704**	**(2,598,629)**	**834,151**
Paid-up capital	-	-	-	-	-	-
Stock option exercised	-	-	-	-	-	-
Translation adjustment on investment abroad	-	-	-	(4,621)	-	(4,621)
Gain (loss) with financial instruments	-	-	75,436	-	-	75,436
Offset of loss	-	-	-	-	-	-
Income for the period	-	-	-	-	4,019	4,019
Treasury shares	-	(4,326)	-	-	-	(4,326)
Balances at March 31, 2017	**3,265,216**	**96,549**	**80,421**	**57,083**	**(2,594,610)**	**904,659**
Balances at January 1, 2018	**3,265,256**	**73,852**	**26,698**	**65,102**	**(2,547,778)**	**883,130**
Paid-up capital	7,854	-	-	-	-	7,854
Stock options granted	-	6,480	-	-	-	6,480
Translation adjustment on investment abroad	-	-	-	(151)	-	(151)
Gain (loss) with financial instruments	-	-	(11,557)	-	-	(11,557)
Offset of loss	-	-	-	-	-	-
Loss for the period	-	-	-	-	2,694	2,694
Treasury shares	-	(7,335)	-	-	-	(7,335)
Balances at March 31, 2018	**3,273,110**	**72,997**	**15,141**	**64,951**	**(2,545,083)**	**881,116**

See the accompanying notes to the quarterly information.

Statements of cash flows
Three-month period ended March 31, 2018 and 2017
(In thousands of reais – R$)

	Consolidated	
	03/31/2018	03/31/2017
Cash flows from operating activities		
Income (loss) for the period (before taxes)	**2,378**	**9,323**
Depreciation and amortization	26,164	12,715
Financial income	(45,909)	(59,268)
Financial expenses	40,547	42,821
Remuneration based on stock option plan	6,480	-
Equity in income of subsidiaries	-	-
Equity valuation adjustment	-	-
Provision for contingencies/losses	(650)	(1)
	29,010	**5,590**
(Increase) decrease in assets		
Accounts receivable	(1,514)	6,813
Recoverable taxes	2,066	4,945
Prepaid expenses	(1,095)	776
Advances to suppliers	66	(774)
Inventory	(25,819)	(28,977)
Related parties	-	-
Advances from partners in oil and gas operations	41	-
Other receivables	226	(236)
Increase (decrease) in liabilities		
Suppliers	711	(2,738)
Labor obligations	(2,904)	(3,780)
Taxes and social contributions	(6,288)	(3,361)
Related parties	-	-
Contingencies	(541)	8
Advances from partners in oil and gas operations	173	-
Other liabilities	(12,213)	2,533
Net cash (invested in) from operating activities	**(18,081)**	**(19,201)**
Cash flows from investment activities		
(Investment in) redemption of securities	35,524	14,147
(Investment) Restricted cash redemption	17,965	-
(Investment) Redemption in Abandonment Fund	(1,629)	-
Deposits and pledges	(575)	(1,877)
(Increase) decrease in permanent assets	(16,653)	(122,920)
Net cash (invested in) from investment activities	**34,632**	**(110,650)**
Cash flows from financing activities		
Loans and financing	374	123,855
Debentures	(21,327)	-
Derivative transactions	-	(162)
(Purchase) sale of own Company’s shares (held in treasury)	(7,252)	(4,326)
(Decrease) Paid-up capital	7,709	-
Net cash (invested in) from financing activities	**(20,496)**	**119,367**
Translation adjustment	(1,837)	(956)
Net increase (decrease) in cash and cash equivalents	**(5,782)**	**(11,440)**
Cash and cash equivalents at the beginning of the year	92,445	24,793
Cash and cash equivalents at the end of the year	86,663	13,353
Net increase (decrease) in cash and cash equivalents	**(5,782)**	**(11,440)**

See the accompanying notes to the quarterly information.

1. Operations

Petro Rio S.A. (PetroRio) was established on July 17, 2009. Headquartered in the city of Rio de Janeiro, its main purpose is to hold interests in other companies as partner, shareholder or quotaholder, in Brazil and abroad, with a focus on exploration, development and production of oil and natural gas.

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

Its significant operations are carried out by means of subsidiaries Petro Rio O&G Exploração e Produção de Petróleo Ltda. ("PetroRioOG") and Brasoil Manati Exploração Petrolífera S.A. ("Manati") and are the production of oil and natural gas, operating in Campos Basin (RJ) and Camumu Basin (BA), respectively.

PetroRioOG is the operator and holds 100% of the Polvo Field concession contract, acquired from BP Energy do Brasil Ltda. ("BP") – 60% in 2014 and from Maersk Energia Ltda. ("Maersk") – 40% in 2015.

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. The license covers an area of approximately 134 km2 with several prospects for future exploration. Average daily output during the first quarter of 2018 was of roughly 6.1 thousand barrels (8.2 thousand barrels for the first quarter of 2017).

In April 2018, the Company started the Second Phase of the Revitalization Plan for the Polvo Field, continuing the successful Phase 1 in the first quarter of 2016, which resulted in a 20% increase in production and volumes of proven developed reserves. Phase 2 consists of drilling three new wells in order to reach undeveloped proved reserves (1P) and probable reserves (2P). (Notes 12 and 31).

In March 2017, PetroRioOG concluded the transaction for the acquisition of 100% of the shares of Brasoil do Brasil Exploração Petrolífera S.A. ("Brasoil"). Brasoil is a holding company, indirectly holding a 10% interest in the rights and obligations of the Manati Field concession contract, in the production phase, in addition to a 10% interest in the Camarão Norte Field, under development, and a 100% interest in the concessions of Blocks FZA-Z-539 and FZA-M-254, both in the exploration phase. (Note 12c).

The Manati Field is located in the Camumu Basin, on the coast of the State of Bahia. The license covers an area of approximately 76 km². Average daily output during the first quarter of 2018 was of roughly 4.6 million cubic meters of natural gas (4.2 thousand cubic meters of natural gas for the first quarter of 2017).

2. Preparation basis and presentation of quarterly information

2.1. Statement of conformity

The consolidated quarterly information was prepared and is presented in accordance with International Financial Accounting Standards (“IFRS”), issued by International Accounting Standards Board (“IASB”).

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

The Management confirms that all relevant pieces of information characteristic of quarterly information are being evidenced and correspond to those used by Management.

2.2. Basis of preparation

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

2.3. Basis of consolidation and investments in subsidiaries

The consolidated quarterly information includes quarterly information of the Company and its subsidiaries. Control is achieved when the Company has the power to control financial and operating policies of an entity to gain benefits from its activities.

The income of the subsidiaries acquired, sold or merged during the period are included in the consolidated income and comprehensive income information from the effective date of acquisition, disposal or merger, as applicable. Thus, Brasoil's result was considered in the consolidated results of the company as of March 20, 2017, the date of the conclusion of the purchase and sale transaction.

The quarterly information of the direct and indirect subsidiaries is recognized under the equity method.

When necessary, subsidiaries' quarterly information 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 quarterly information.

(In thousands of reais, unless otherwise indicated)

The Company's consolidated quarterly information comprises:

		Interest			
		03/31/2018		12/31/2017	
Fully consolidated companies		**Direct**	**Indirect**	**Direct**	**Indirect**
Petro Rio O&G Exploração e Produção de Petróleo Ltda.	"PetroRioOG"	**100.00%**	**-**	100.00%	-
HRT América Inc.	"HRTA"	**100.00%**	**-**	100.00%	-
Petro Rio Internacional S.A.	"PTRIntl"	**1.69%**	**98.31%**	1.69%	98.31%
Petrorio Luxembourg Holding Sarl	"Lux Holding"	**-**	**100.00%**	-	100.00%
HRT Netherlands BV	"Netherlands"	**-**	**100.00%**	-	100.00%
HRT Walvis Petroleum (Pty) Ltd.	"Walvis"	**-**	**100.00%**	-	100.00%
HRT Canada Inc.	"Canadá"	**-**	**100.00%**	-	100.00%
HRT Luderitz Petroleum (Pty) Ltd.	"Luderitz"	**-**	**100.00%**	-	100.00%
Petrorio Luxembourg Sarl	"Lux Sarl"	**-**	**100.00%**	-	100.00%
Cumoxi Investments (Pty) Ltd.	"Cumoxi"	**-**	**100.00%**	-	100.00%
Kunene Energy (Pty) Ltd.	"Kunene"	**-**	**100.00%**	-	100.00%
Orange Petroleum Ltd.	"Orange"	**-**	**100.00%**	-	100.00%
Brasoil do Brasil Exploração Petrolífera S.A.	"Brasoil"	**-**	**100.00%**	-	100.00%
Brasoil OPCO Exploração Petrolífera Ltda.	"Opco"	**-**	**99.99%**	-	99.99%
Brasoil Manati Exploração Petrolífera S.A.	"Manati"	**-**	**100.00%**	-	100.00%
Brasoil Coral Exploração Petrolífera Ltda.	"Coral"	**-**	**100.00%**	-	100.00%
Brasoil Cavalo Marinho Exploração Petrolífera Ltda.	"Cavalo Marinho"	**-**	**100.00%**	-	100.00%
Brasoil Round 9 Exploração Petrolífera Ltda.	"Round 9"	**-**	**100.00%**	-	100.00%
Brasoil Finco LLC	"Finco"	**-**	**100.00%**	-	100.00%

2.4. Accounting policies adopted

In response to CVM Official Circular Letter 003/2011, dated April 28, 2011, we declared that accounting policies adopted in the preparation of such quarterly information is presented in the most current annual financial statements (year ended December 31, 2017) which, in the absence of material changes during this period, are not included in their full form in this quarterly information.

2.5. Functional currency and presentation currency

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

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

In the preparation of quarterly information, the Company's Management considered, when applicable, the new reviews and interpretations of IFRS and technical pronouncements, issued by IASB, which became mandatorily effective for the accounting periods ended March 31, 2018.

For the other standards already issued and which will become effective on January 1, 2019 (see table below), the Company evaluated the effects of adopting pronouncements, and understands that aforesaid adoption will not have material impacts on its quarterly information. Therefore, the Company did not adopt and does not intend to adopt these standards in advance.

Notes to the quarterly information
March 31, 2018
(In thousands of reais, unless otherwise indicated)

Pronouncement or interpretation	Description	Effective for years as of
IFRS 16	Leases	January 1, 2019
CPC 32 / IFRIC 23	Uncertainty on treatment of income taxes	January 1, 2019

2.7. Completion of quarterly information

The Company's management authorized the conclusion of this quarterly information on May 7, 2018.

3. Cash and cash equivalents

	Consolidated	
	03/31/2018	**12/31/2017**
Cash and bank deposits	**86,663**	92,445
	86,663	92,445
National	**10,640**	14
Abroad	**76,023**	92,431

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

4. Securities

	Consolidated	
	03/31/2018	**12/31/2017**
Repurchase and resale agreements (debentures)	**2**	2
Financing bills	**12,986**	13,115
Shares (i)	**2,789**	46,811
Investment Fund	**4,102**	699
Promissory note (ii)	**48,026**	47,162
Financial assets at fair value through profit or loss	**67,905**	107,789
Fixed income debt bonds (iii)	**107,691**	106,255
Multimarket investment funds (iv)	**300,180**	297,819
Shares	**215,279**	286,391
Government bonds (LFT/NTN)	**36,973**	8,845
Bonds	**2,154**	-
Cash/Money Market	**45,774**	2,583
Financial assets at fair value through comprehensive income	**407,871**	404,074
	475,776	511,863

(In thousands of reais, unless otherwise indicated)

(i) The company had non-material investments in the shares of the company in court-ordered reorganization, almost fully settled (97%) in the first quarter of 2018. In the three-month period ended March 31, 2018, the valuation of the portfolio (market) was 8.54%.

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

(iii) Investments in fixed income securities, in US dollars, of large institutions, with an average yield of 6.8% p.a., as a capital preservation strategy.

(iv) Investment funds in Brazil and abroad, which basically invest in shares, with market-based income (average negative change of 2% in the three-month period ended March 31, 2018), and government bonds (LFT's), with a yield of 13.53% p.a. These are open (non-exclusive) funds and have independent management, with autonomy to transact the resources invested.

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

5. Restricted cash

The Company, under the terms of the instrument of debentures (Note 16b), was required to maintain deposits in a bank assigned account of financial investments in a fixed income fund (13.20% yield in accumulated in the last 12 months) to guarantee future payments of its obligations related to such debentures. Changes in these deposits occurred every six months for payment of such debentures and was completed in January 2018 with their settlement.

6. Accounts receivable

	Consolidated	
	03/31/2018	**12/31/2017**
Trafigura (i)	**-**	8,383
Shell (ii)	**41,356**	23,156
Petrobras (iii)	**21,932**	30,084
Other	**425**	423
Total	**63,713**	62,046
Total local currency	**21,932**	30,084
Total foreign currency	**41,781**	31,962

(i) Balance receivable remaining from the sale of oil in December 2017, referring to approximately 425,000 barrels of oil, which generated an income of R$ 84,251, fully received.

(In thousands of reais, unless otherwise indicated)

(ii) In 2015, the Company announced a purchase and sale agreements to acquire 80% and 20% interest of the rights and obligations of the concession contracts of Bijupirá and Salema ("BJSA") fields with Shell Brasil Petróleo Ltda. ("Shell") and Petróleo Brasileiro S.A. – Petrobras, respectively. In February 2016, Shell rescinded contract for the purchase and sale for acquisition of 80% of BJSA and FPSO Fluminense concession, as permitted by contract. In that same month, PetroRio rescinded contract with Petrobras for acquisition of 20% in BJSA concession. Petrobras has already repaid the full amount as an advance. Of the amounts paid to Shell, there is still US$ 7 million (R$ 23,267) to be refunded of the total being charged by means of arbitration procedure.

Additionally, there is a balance receivable totaling R$ 18,089, remaining from the sale of oil in March 2018, referring to approximately 463,000 barrels of oil, which generated a total income of R$ 90,493.

(iii) Balance receivable related to sales of gas and condensed oil by Manati in February and March 2018, roughly 25.8 million m³ of gas, corresponding to a net income of R$ 21,032 and balance referring to the amount not withdrawn in 2016 (take or pay) in the amount of R$ 900.

7. Recoverable taxes

	Consolidated	
	03/31/2018	**12/31/2017**
Income and social contribution taxes (i)	**18,411**	18,032
PIS and COFINS (ii)	**51,870**	54,525
ICMS	**15,300**	15,303
Tax abroad (VAT) (iii)	**23,377**	23,089
Other	**212**	212
Total	**109,170**	111,161
Current assets	**54,721**	59,492
Non-current assets	**54,449**	51,669

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

Notes to the quarterly information
March 31, 2018
(In thousands of reais, unless otherwise indicated)

8. Advances to suppliers

	Consolidated	
	03/31/2018	**12/31/2017**
Geoquasar Energy	**12,596**	12,596
BW (Prosafe) guarantee	**22,566**	22,477
Petrobras	**174**	2,345
Other	**6,082**	3,959
Total	**41,418**	41,377
Total current assets	**28,822**	28,781
Total non-current assets	**12,596**	12,596

(i) The advances to Geoquasar refer basically to operating costs assumed by PetroRioOG and contractual payments in advance.
(ii) The advances to BW (Prosafe) - US$ 5,671 (R$ 18,849) and R$ 3,717 refer to contractual commitments and are held as a financial collateral from lease agreements and operation of FPSO Polvo (Note 17).

9. Non-current assets available for sale

The Company has one aircraft and two helitransportable drilling rigs, classified as non-current assets held for sale as the table below:

	Balance at 12/31/2017	Write-offs	Commission	Translation adjustment	**Balance at 03/31/2018**
Aircrafts	**5,623**	-	-	27	**5,650**
Drilling Rigs	**22,693**	-	-	109	**22,802**
	28,316	-	-	136	**28,452**

	Balance at 12/31/2016	Write-offs	Commission	Translation adjustment	**Balance at 12/31/2017**
Aircrafts	**5,540**	-	-	83	**5,623**
Drilling rigs	**44,715**	(21,725)	435	(732)	**22,693**
	50,255	(21,725)	435	(649)	**28,316**

In 2016, a provision for impairment of drilling rigs was formed in the amount of R$ 6,712 (US$ 1.96 million) due to the ongoing negotiations for the sale of assets, reducing the amounts of each drilling rig from US$ 3,920,000 (R$ 12,967 already net of the 2% sales commission) to US$ 3,430,000 (R$ 11,401).

On April 25, 2017, two helitransportable drilling rigs were sold to the company Neftpromleasing LLC (subsidiary of Rosneft) for an amount of US$ 3.5 million per drilling rig (an amount that were recorded), fully received as of May 25, 2017.

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.

10. Investments

At March 31, 2018, the Company presented the following main interest held in subsidiaries:

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

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

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

On October 7, 2015, PetroRio paid-up capital of PetroRioOG, in the amount of R$197,269, with shares of PTRIntl; now, PetroRioOG holds 98.3% of interest in PTRIntl capital.

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

Brasoil is a holding company which holds an indirect interest of 10% in the rights and obligations set forth in the concession contract of Manati Field, which, on its turn, currently producing about 4.6 million cubic meters of natural gas per day (4.2 million cubic meters of natural gas in the first quarter of 2017), ranking as the 8th largest natural gas field in Brazil.

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

- **Petro Rio Internacional S.A. (“PrioIntl”)**

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 PrioUSA, are consolidated under a single corporate structure having PrioIntl as head office in Brazil.

Currently, the main Companies controlled by PTRIntl are PetroRio Lux Energy S.à.r.l. and HRT Netherlands BV, companies that have large-sized assets in operation or held for sale, and PetroRio Luxembourg S.à.r.l, which from September 2016 started to trade the oil produced in the Polvo field. The acquisition of Petrorio Lux Energy S.à.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.

On March 09, 2016, PetroRio announced that, as a result of current scenario of oil and gas industry and after a long period of dialogues with Namibia’ government, it decided not to renew its oil exploration licenses in that country. Accordingly, the Company will not make new investments in Namibia. A provision was recorded for previous investments in field exploration (Impairment) in prior years.

Accordingly, on December 30, 2016, the Company decided to dissolve PTRIntl branch in Namibia, which was used by the Company from 2011 to 2013 as operator of the exploratory campaign in Namibia, centralizing financial funds.

Additionally, PTRIntl has interest in a block in the Recôncavo Basin and one Block in Espírito Santo Basin (ES), where is non-operator, and on February 28, 2017 the Company entered into an assignment agreement of interest in these blocks (10%) to the consortium operator, COWAN, in exchange for outstanding amounts payable to the operator regarding cash calls, in the amount of R$ 305.

- **Petrorio USA Inc (“PrioUSA”)**

Established on March 4, 2011, former HRT America Inc., incorporated under the laws of the State of Delaware and headquartered in Houston, USA. The subsidiary was established primarily to provide geological and geophysical services to the affiliates, mainly to PTRIntl and its subsidiaries.

Notes to the quarterly information
March 31, 2018
(In thousands of reais, unless otherwise indicated)

Portfolio of concessions

On March 31, 2018 the Company's subsidiaries were participants in the following concessions in Brazilian basins

Country	Basin	Block	Field	Concessionaire	%	Status	Phase
Brazil	Campos	BM-C-8	Polvo	PetroRioOG	100%	Operator	Production
Brazil	Camamu	BCAM-40	Manati	Manati	10%	Non-operator	Production
Brazil	Camamu	BCAM-40	Camarão Norte	Manati	10%	Non-operator	Development
Brazil	Foz do Amazonas	FZA-M-254	-	Manati	100%	Operator	Exploration
Brazil	Foz do Amazonas	FZA-M-539	-	Manati	100%	Operator	Exploration
Brazil	Santos	BS-3	Cavalo Marinho	Cavalo Marinho	15%	Non-operator	Development
Brazil	Santos	BS-3	Coral	Coral	15%	Non-operator	Development

a) Relevant information on investees as of March 31, 2018

	PetroRioOG	PrioIntl	PrioUSA
Direct interest	100.0%	1.69%	100.0%
Indirect interest	0.0%	98.31%	0.0%
Shareholders' equity	771,742	190,630	(77)
Income (loss) for the period	12,840	4,210	(340)
Total assets	1,178,761	245,834	508

b) Breakdown of investments

	Parent company	
	03/31/2018	**12/31/2017**
PetroRioOG	**771,742**	772,568
PrioUSA	**(77)**	(315)
PrioIntl	**3,216**	3,154
	774,881	775,407
Investments	**774,958**	775,722
Provision for loss on investments in subsidiaries	**(77)**	(315)

c) Changes in investment

	PetroRioOG	PrioIntl	PrioUSA	Total
Balance at December 31, 2016	**739,590**	**3,067**	**(932)**	**741,725**
Capital increase/decrease	-	(723)	1,355	632
Equity in income of subsidiaries	47,789	755	(772)	47,772
Equity evaluation adjustments	(18,121)	-	-	(18,121)
Conversion adjustments	3,310	55	34	3,399
Balance at December 31, 2017	**772,568**	**3,154**	**(315)**	**775,407**
Capital increase/decrease	-	-	695	695
Equity in income of subsidiaries	12,840	71	(339)	12,572
Equity valuation adjustment	-	-	(119)	(119)
Equity evaluation adjustments	(13,516)	(7)	-	(13,523)
Conversion adjustments	(150)	(2)	1	(151)
Balance at March 31, 2018	**771,742**	**3,216**	**(77)**	**774,881**

(In thousands of reais, unless otherwise indicated)

11. Property, plant and equipment

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 03/31/2018	Balance at 12/31/2017
In operation						
Polvo A platform and drilling rig	UOP*	101,439	(89,545)	16,463	28,357	30,650
Oil & gas assets - Manati	UOP*	59,410	(32,995)	-	26,415	28,128
Machinery and equipment	10	2	-	-	2	2
Furniture and fixtures	10	838	(395)	-	443	460
Communication equipment	20	263	(106)	-	157	163
IT equipment	20	2,711	(1,955)	-	756	540
Property, plant and equipment in progress		638	-	-	638	-
Leasehold improvements	4	1,472	(132)	-	1,340	1,343
Total		166,773	(125,128)	16,463	58,108	61,286

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

b) Changes in balance

	Balance at 01/01/2018	Additions	Write-offs	Depreciation	Translation adjustment	Acquisition - Brasoil	Balance at 03/31/2018
In operation							
Polvo A platform and drilling rig	30,650	-	-	(2,383)	90	-	28,357
Oil & gas assets - Manati	28,128	31	-	(1,744)	-	-	26,415
Machinery and equipment	2	-	-	-	-	-	2
Furniture and fixtures	460	4	-	(21)	-	-	443
Communication equipment	163	5	-	(11)	-	-	157
IT equipment	540	259	-	(43)	-	-	756
Property, plant and equipment in progress	-	638	-	-	-	-	638
Leasehold improvements	1,343	11	-	(14)	-	-	1,340
Total	61,286	948	-	(4,216)	90	-	58,108

	Balance at 01/01/2017	Additions	Write-offs	Depreciation	Translation adjustment	Acquisition - Brasoil	Balance at 12/31/2017
In operation							
Polvo A platform and drilling rig	42,514	-	-	(12,027)	163	-	30,650
Oil & gas assets - Manati	-	24	(4,170)	(7,052)	-	39,326	28,128
Machinery and equipment	-	82	(80)	-	-	-	2
Furniture and fixtures	395	137	(6)	(76)	-	10	460
Communication equipment	32	161	-	(33)	-	3	163
IT equipment	93	573	(16)	(114)	-	4	540
Leasehold improvements	1,200	213	(20)	(59)	-	9	1,343
Total	44,234	1,190	(4,292)	(19,361)	163	39,352	61,286

(In thousands of reais, unless otherwise indicated)

12. Intangible assets

a) <u>Breakdown of the balance</u>

	Amortization rate (%)	Consolidated 03/31/2018	Consolidated 12/31/2017
Oil & Gas assets			
Acquisition cost - Polvo	(*)	335,530	335,530
Acquisition cost - Manati	(*)	263,035	263,035
Goodwill on acquisition of Brasoil	(**)	19,777	19,777
Subscription bonus - FZA-M-254		5,968	5,968
Subscription bonus - FZA-Z-539		8,022	8,022
Development expenses	(*)	78,036	70,684
Maintenance of wells	(*)	15,873	11,018
Emergency spare	(*)	15,723	11,395
Client portfolio - Manati	(*)	9,561	9,561
Software and others	20	9,038	9,038
		760,563	744,028
Accumulated amortization		(499,324)	(483,480)
Total		261,239	260,548

(*) Acquisition costs/subscription bonuses and exploration expenses are amortized by the unit of production method, considering the production of each concession and the volume of reserves when exploration/redevelopment processes will be completed. **(**)** Goodwill on acquisition of Brasoil and included in the book value of the investment of the subsidiary PetrorioO&G, and not amortized. Due to the goodwill based on future profitability (goodwill), it is recognized and separately impairment tested.

b) <u>Changes in balance</u>

	Balance at 01/01/2018	Additions	Write-offs	Amortization	Balance at 03/31/2018
Acquisition cost - Polvo	85,589	-	-	(6,778)	**78,810**
Acquisition cost - Manati	70,697	-	-	(4,381)	**66,316**
Goodwill on acquisition of Brasoil	19,777	-	-	-	**19,777**
Subscription bonus - FZA-M-254	5,968	-	-	-	**5,968**
Subscription bonus - FZA-Z-539	8,022	-	-	-	**8,022**
Development expenses	42,411	7,352	-	(3,150)	**46,614**
Maintenance of wells	8,838	4,855	-	(1,066)	**12,626**
Emergency spare	11,395	4,328	-	-	**15,723**
Client portfolio - Manati	7,566	-	-	(469)	**7,097**
Software and others	286	-	-	-	**286**
	260,548	**16,535**	**-**	**(15,844)**	**261,240**

	Balance at 01/01/2017	Additions	Write-offs	Amortization	Acquisition - Brasoil	Balance at 12/31/2017
Subscription bonus - Reconcavo - ES	151	-	(151)	-	-	**-**
Acquisition cost - Polvo	120,501	-	-	(34,912)	-	**85,589**
Acquisition cost - Manati	-	-	-	(15,432)	86,129	**70,697**
Goodwill on acquisition of Brasoil	-	-	-	-	19,777	**19,777**
Subscription bonus - FZA-M-254	-	-	-	-	5,968	**5,968**
Subscription bonus - FZA-Z-539	-	-	-	-	8,022	**8,022**
Exploration / development expenses	56,162	2,642	(170)	(16,222)	-	**42,411**
Maintenance of wells	-	11,018	-	(2,180)	-	**8,838**
Emergency spare	5,744	5,651	-	-	-	**11,395**
Client portfolio - Manati	-	-	-	(1,995)	9,561	**7,566**
Software and others	25	-	-	-	261	**286**
	182,583	**19,310**	**(321)**	**(70,742)**	**129,718**	**260,548**

On conclusion of the 40% Campo de Polvo acquisition in January 2016, PetroRio put in place the first stage of the Polvo revamping plan, intended to extend its useful life by increasing production based on undeveloped proved reserves (1P) and probable reserves (2P), involving three existing wells, two of which operating. The investment classified as development expenditures, recorded in the fiscal year ended December 31, 2016, totaled R$ 68,042.

(In thousands of reais, unless otherwise indicated)

In April 2018, the Company started the second phase of the Revitalization Plan for the Povo Field, continuing the successful first phase. Phase 2 consists of drilling three new wells. (Note 31).

c) Business combination

On March 20, 2017, the Company concluded the transaction for the acquisition of 100% of Brasoil shares by means of its direct parent company PetroRioOG. Brasoil is a holding company that holds the interest (directly and indirectly) of 100% of the shares of 6 companies, as follows:

Brasoil OPCO Exploração Petrolífera Ltda.
Brasoil Manati Exploração Petrolífera S.A.
Brasoil Coral Exploração Petrolífera Ltda.
Brasoil Cavalo Marinho Exploração Petrolífera Ltda.
Brasoil Round 9 Exploração Petrolífera Ltda.
Brasoil Finco LLC

Manati has a 10% interest in the rights and obligations set forth in the concession contract of Manati Field, currently producing about 4.6 million cubic meters of natural gas per day (4.2 million cubic meters of natural gas in the first quarter of 2017), ranking as the 8th largest natural gas field in Brazil.

In addition, Manati holds a 100% interest in the concessions of Pirapema field and FZA-M-254 Block, both at the mouth of the Amazon River, in the exploration stage.

The Company, by means of specialized advisory services, performed the calculation of fair values of assets acquired and liabilities assumed, to allocate the purchase price. The definitive allocation of purchase price recognized in the subsidiary PetroRioOG caused the following distribution:

Description	Fair value
Excess purchase price (Amount paid net of Shareholders' Equity)	**29,338**
Client portfolio	9,361
Non-competition agreement	200
Total intangible assets	**9,561**
Total goodwill	**19,777**

The goodwill in the amount of R$ 19,777 is due to the expectation of future profitability (goodwill). On March 31, 2018, it was not required to form a provision for losses on the value recorded as goodwill in the subsidiary's assets, due impairment test, which is carried out every year.

Notes to the quarterly information
March 31, 2018
(In thousands of reais, unless otherwise indicated)

13. Suppliers

	Consolidated	
	03/31/2018	12/31/2017
Domestic suppliers	**42,533**	**50,761**
Foreign suppliers	**43,516**	**33,230**
	86,049	**83,991**
Total current liabilities	72,888	70,535
Total non-current liabilities	13,161	13,456

14. Taxes and social contributions payable

	Consolidated	
	03/31/2018	12/31/2017
IRPJ and CSLL payable	**7,493**	1,520
PIS and Cofins on service imports	**8,131**	7,721
Service tax	**91**	137
IRRF on services	**446**	1,993
ICMS	**1,408**	1,605
INSS	**5,494**	5,626
Taxes on Equity	**152**	138
FGTS	**137**	171
Other	**1,066**	1,165
	24,418	**20,076**

On July 20, 2017, the subsidiary Manati joined to the Special Tax Regularization Program (PERT) to settle outstanding debts (IRPJ, CSSL, PIS; COFINS) in the amount of R$ 7,850, of which R$ 6,273 was principal and R$ 1,577 referring to fine and interest, up to the date of the membership. The amount of R$ 1,080 was reversed in the year with the decrease of 90% interest and 70% fine. Of the net balance, 7.5% (R$ 587), is being paid in cash as down payment and the rest (R$ 6,180) will be paid with credits arising from tax losses from the group's companies, after the consolidation of the installments.

15. Loans and financing

In March 2017, the Company used the credit limit of Credit Suisse's and Morgan Stanley's accounts to acquire new assets, as well as to fund maintenance costs of Polvo and working capital for the Company's operations. As a result, the balance of the accounts on March 31, 2018, totaled R$ 70,066.

Such debt has costs that vary between Libor+1% and Libor+2% p.a. The term of the credit facility is flexible and tied to the term of our financial investments, acting as a guarantee in these banks.

The company works to offset this financing by generating cash from the operation of its assets, including long-term financing to improve its capital structure.

In July 2017, the Company contracted a loan of R$ 10,000 made by Banco ABC to finance working capital from Manati's operations.

This debt has fixed costs of 5.53% p.a. and in the year ended March 31, 2018 amounted to R$ 371. The loan term is 1year and the Company works to settle this financing by generating cash from the operation of its assets, and R$ 5,000 were paid in January 2018.

16. Debentures

a) Convertible into shares – PetroRio S.A.

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 change of 90% of the average daily rates of the DI rate.

The debentures may be converted into shares at the sole discretion of the debentureholders, since October 24, 2015 until the date of maturity of the debentures (exclusive). The number of shares to be delivered to the debentureholders on the date of conversion of the debentures will be the result of dividing the par value of the debentures by the lesser of: (i) the weighted average, based on the daily volume, of the closing price of the shares in the last ten (10) trading sessions on BM&FBOVESPA, preceding October 27, 2014, applying a 25% discount; or (ii) the weighted average, based on the daily volume, of the closing price of shares in the last 10 trading sessions on the BM&FBOVESPA, prior to receipt of the conversion request by applying a discount of 25%, thus giving a conversion price. The Management has assessed this conversion option on March 31, 2018, and in accordance with financial models has concluded that there is no attributable value at the present time.

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

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

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

(In thousands of reais, unless otherwise indicated)

	01/01/2018	Addition	Write-off	03/31/2018
Principal	31,391	-	(145)	**31,246**
Financial charges	352	456	(3)	**805**
Total	**31,743**	**456**	**(148)**	**32,050**
Current	352	456	(3)	805
Non-current	31,391	-	(145)	31,246

Up to March 31, 2018, debentureholders opted to convert 2,797,360 debentures (R$ 55,946 reversed to capital), representing around 64% of total issued debentures.

b) Non-convertible into shares - Manati

On January 4, 2011, Manati issued debentures in accordance with CVM Instruction 476, in the amount of R$ 160,000, which establishes that public offers distributed with restricted efforts are automatically exempted from the distribution registry, which is the case of Manati. Additionally, such debentures are not traded on a regulated market. Debentures had an amortization period of 84 months, yield equivalent to the change of the IGP-M (General Market Price Index) + 9.6% interest per annum and were paid in equal semi-annual installments since July 4, 2012. In January 2018, following the payment schedule, the Company paid the last installment of debentures issued by Manati, in the amount of R$ 21,325.

	01/01/2018	Restatement	Write-off	03/31/2018
Principal	19,454	-	(19,454)	**-**
Financial charges	1,821	50	(1,871)	**-**
Transaction costs	(5)	-	5	**-**
Total	**21,270**	**50**	**(21,320)**	**-**

17. Operational lease (lessee)

Prosafe Production B.V. (currently controlled by BW Offshore - “BWO”)

The subsidiary PetroRioOG (lessee) has a lease agreement of a FPSO vessel with Prosafe (lessor) entered into on December 10, 2013, with one-year term, and may be renewed annually up to May 1, 2022. The sum appropriated during the three-month period ended March 31, 2018 was R$ 21,366 (US$ 6,428 thousand) and during the three-month period ended March 31, 2017 was R$ 23,983 (US$ 6,146 thousand).

18. Current and deferred income tax and social contribution

	Tax loss		Tax credit	
Companies	**03/31/2018**	**12/31/2017**	**03/31/2018**	**12/31/2017**
PetroRio S.A.	**55,450**	61,647	**18,853**	20,960
PetroRio O&G	**1,229,339**	1,227,636	**417,975**	417,396
PetroRio Internacional	**10,661**	10,645	**3,625**	3,619
Brasoil Group	**140,252**	90,672	**47,686**	30,828
	1,435,702	1,390,600	**488,139**	472,803

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.

(In thousands of reais, unless otherwise indicated)

Management opted for recognizing only the amounts corresponding to 30% of the recorded deferred liabilities, which refer to the discount recorded in the acquisition of the Polvo Field, and the marking to the market of the financial instruments. Other credits, which will be recognized as the future taxable income is being generated.

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

	Consolidated	
	03/31/2018	12/31/2017
Negative goodwil on fair value recognized assets on in business combinations	**2,439**	2,649
Mark to market of financial instruments	**23,008**	33,528
	25,447	36,177
Deferred tax asset credit	**(18,422)**	(18,480)

19. Provision for abandonment (ARO)

Changes in the balance of provision for abandonment of wells in the Polvo and Manati fields are shown below:

	Polvo	Manati
Balance at December 31, 2016	**160,277**	**-**
Acquisition - Brasoil	-	48,009
Currency adjustment	2,580	645
Price-level restatement	5,924	653
Balance at December 31, 2017	**168,781**	**49,307**
Currency adjustment	839	210
Price-level restatement	1,683	617
Balance at March 31, 2018	**171,303**	**50,134**
(-) Maersk’s guarantee / Brasoil’s abandonment fund	(113,823)	(32,316)
Net balance of liabilities	**57,480**	**17,818**

The estimated abandonment costs were provisioned for the year ended March 31, 2018.

For Polvo field, this provision corresponds to PetroRio interest of 100%, and reflects the estimated present value discounted at the rate of 3.30% p.a. and monetarily restated at the rate of 2.04% p.a. In addition, amounts are adjusted by the changes in 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.

For Manati field, the provision corresponds to the 10% interest of Manati. 20% of the provision for abandonment are represented by costs in Reais, updated at the inflation rate of 4.5% per annum and discounted at the risk-free rate of 10.16% per annum. The other costs, estimated in US Dollars, are updated at the inflation rate of 2.0% per annum and discounted at the risk-free rate of 3.30%, before translation into Reais.
In order to assure the consortium's ability to settle the abandonment obligations in the Manati field, the operator Petrobras collects monthly installment regarding estimated abandonment costs from consortium members. The contributed amounts are invested and will be used to

(In thousands of reais, unless otherwise indicated)

pay the abandonment costs when they occur. As of March 31, 2018, the Company maintained a balance of R$ 32,316.

20. Advances to/from partners in oil and gas operations

	Consolidated	
	03/31/2018	**12/31/2017**
Blocks operated (GALP - PEL 23 Namibia)	**3,941**	3,922
Non-operated blocks (Petrobras - Brasoil Manati)	**(1,341)**	(432)
Total advances to/from partners	**2,600**	3,490
Total current liabilities	**6,607**	7,129
Total current assets	**(4,007)**	(3,639)

21. Impairment

The Company periodically monitors changes in economic and operating expectations that may indicate impairment or loss of its recoverable value. If such evidence is identified, calculations are performed to verify whether the net book value exceeds the recoverable value and, in such case, a provision for devaluation is recorded adjusting the book value to the recoverable value.

The Company did not identify such evidence for the three-month period ended March 31, 2018.

22. Shareholders' equity

22.1 Capital

On December 31, 2017 the Company's subscribed and paid-in capital totaling R$ 3,409,804 is represented by 13,337,039 all nominative, book-entry and with no par value. The Company had Global Depositary Shares ("GDSs") traded in the TSX Venture Exchange (TSX-V) in Toronto, Canada, at a rate of two GSDs for each common share, however, on February 27, 2017, all Global Depositary Shares ("GDSs") were de-listed. Holders who have not convert the GDSs into PetroRio common shares up to May 27, 2017 had the GDSs compulsorily canceled and will receive their cash amountsthroughout 2017 and 2018.

The Common and Special Shareholders' Meeting, held on April 29, 2016 approved the reverse split of PetroRio's common share at a rate of 5 (five) common shares for 1 (one) common share, also including a reverse split of Global Depositary Shares ("GDSs") issued by the Company at a rate of 5 (five) GDSs for 1 (one) GDS, and preserving in effect the rate of 2 (two) GDSs for each common share. On this same occasion a proposal was approved putting in place a repurchase program for as many as 3,300,000 common shares issued by the Company within 18 months, without reducing capital stock and to be held in treasury, canceled and/or for subsequent disposal.

(In thousands of reais, unless otherwise indicated)

Until March 31, 2018, the Company acquired a total of 766,846 common shares from Petro Rio S.A., which were classified as Treasury Shares, rectifying Shareholders' Equity, at an acquisition cost of R$ 35,196.

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

The Company recorded R$ 136,694 referring to share issuance costs in a capital reducing account and which comprise the balance shown of R$ 3,265,256.

Shareholder	Number of common shares	% of interest
Aventti Strategic Partners LLP	3,459,391	26%
One Hill Capital LLC	3,957,084	30%
Morgan Stanley Uruguay Ltda.	453,956	3%
Others Shareholders	5,466,608	41%
Total	**13,337,039**	**100%**

The Company's capital was subject to changes during 2017, due to a R$ 40 increase through the conversion of Debentures into shares, pursuant to Note 16a.

22.2 Share-based remuneration plan

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

	Program I 01/25/2018	Program II - 02/28/2018
Total stock options granted	329,557	12,300
Share price on granting date	91.50	72.50
Strike Price	54.70	48.62
Weighted fair value on concession date	40.70	26.56
Estimated volatility of share price	43.17%	43.17%
Risk-free rate of return	7.6%	7.3%
Option validity (in years)	3	2

For the period ended March 31, 2018, the Company has a balance recorded in shareholders' equity - income (loss) from share-based remuneration in the amount of R$ 6,480, and R$ 6,457 for the grant of program I and R$ 23 for the grant of program II, and the counterpart being in the statements of income as personnel cost.

Of the options granted in Program I, 141,559 options were exercised on March 1, 2018, with the full payment of R$ 7,709 in the Company's capital stock.

22.3 Earnings per share

Pursuant to CPC 41 (IAS 33), the Company presents some information on earnings per share for the three-month periods ended March 31, 2018 and 2017. Basic earnings per share are calculated by dividing net income for the year attributed to the Parent Company's common and preferred shareholders by the weighted average number of common and preferred shares available in the year.

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

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

Basic and diluted earnings per share	03/31/2018	03/31/2017
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group's shareholders	**2,694**	4,019
Denominator (in thousands of shares)		
(+) Weighted average number of common shares adjusted by dilution effect	**13,192**	13,337
(-) Treasury shares	**(673)**	(250)
	12,664	12,941
Basic earnings and diluted per share	**0.213**	0.311

23. Related party transactions

	03/31/2018	12/31/2017
Reimbursement of administrative expenses Petrorio x O&G	**(86)**	(85)
Loan Petrorio S.A x Petrorio Internacional (i)	**(428)**	(1,314)
Loan Petrorio S.A x Petrorio O&G (ii)	**(5,425)**	(36,923)
Service agreement Petrorio x Lux Energy (iii)	**599**	609
	(5,340)	**(37,713)**
Total non-current assets	**647**	**657**
Total non-current liabilities	**(5,987)**	**(38,371)**

(i) Balance related to the loan contract signed on August 30, 2016 between PetroRio and PetroRio Internacional, with six-month term, and interest rate of 80% of the CDI.
(ii) Balance related to the loan contracts signed on October 21, 2016 and December 6, 2016 between PetroRio and PetroRioOG, with 24 month-term, and interest rate of 80% of the CDI.
(iii) Refers to contract entered into by PetroRio and Petrorio Lux Energy S.à.r.l., which establishes that Petrorio Lux Energy S.à.r.l. must reimburse PetroRio of all expenses incurred for management of its assets (platform), such as salaries, rent of physical space and equipment, telephone, Internet and software.

Management remuneration

Company's Management remuneration for the three-month period March 31, 2018 was R$ 5,246 (R$ 885 on March 31, 2017).

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Debentures

The Company for the year ended December 31, 2014, issued convertible debentures in a single series, subordinated and unsecured, of private placement, as detailed on Note 16a. All debentures convertible into issued shares were subscribed by Company’s shareholders.

24. Net revenue

Net revenue for the three-month period ended March 31, 2018 is comprised of the export income of 100% of its Polvo Field production (R$ 91,695), which, since it is exported, has no taxes on sale, and of gross sales of Gas and Condensate to Petrobras in the Manati Field (R$ 32,500), which, due to its sale in national territory, is subject to ICMS, PIS and COFINS taxes (deduction of R$ 13,225).

25. Costs of products sold and services rendered

	Consolidated	
	01/01/2018–03/31/2018	**01/01/2017–03/31/2017**
FPSO	(22,859)	(17,861)
Logistics	(9,773)	(7,845)
Consumables	(13,625)	(8,944)
Operation and maintenance	(11,212)	(7,311)
Personnel	(2,545)	(2,052)
SMS	(2,209)	(1,885)
Other costs	(4,343)	(1,702)
Royalties and special interest	(10,762)	(7,997)
Depreciation and amortization	(16,364)	(12,643)
Total	**(93,692)**	**(68,240)**

On March 31, 2018, the oil inventories in the amount of R$ 60,054 is representative of 346,000 bbl – information not reviewed by the independent auditors (on March 31, 2017 the oil inventories in the amount of R$ 63,324 was representative of 481,000 bbl).

(In thousands of reais, unless otherwise indicated)

26. Financial income (loss)

	Consolidated	
	03/31/2018	03/31/2017
Financial income	**49,311**	**68,333**
Income from realized financial investment	**34,428**	10,011
Income from exchange-rate change	**39,747**	27,834
Realized hedge income	**-**	7,597
Marked at fair value - financial instruments*	**(25,110)**	22,191
Other financial income	**246**	700
Financial expenses	**(44,818)**	**(46,731)**
Loss on realized financial investment	**(273)**	(1)
Expense on foreign exchange rate	**(41,244)**	(42,699)
Interest on loans/debentures	**(1,419)**	(2,059)
Marked at fair value - financial instruments*	**1**	-
Other financial expenses	**(1,883)**	(1,972)

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

27. Segment information (Consolidated)

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

	03/31/2018	12/31/2017
Current assets		
Brazil	599,214	620,164
Abroad	207,932	229,492
Non-current assets		
Brazil	268,149	266,186
Abroad	153,130	154,403
Income	**03/31/2018**	**03/31/2017**
Brazil	116,244	63,817
Abroad	7,952	11,746

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, and its strategy is to make a portion of its investments in fixed and variable income assets, foreign exchange transactions, interest, swaps, derivatives, sundry commodities and other financial instruments for speculative purposes in various industries in Brazil and abroad in the short, medium and/or long term, to maximize the profitability and seek a higher return to its shareholder. By adopting this strategy, the Company is exposed to the risks inherent to such investments, and to fluctuations in the prices of these assets, which may negatively impact the Company's cash position.

(In thousands of reais, unless otherwise indicated)

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 constantly monitors the market and, when necessary, contracts derivative transactions to neutralize the impacts of these commodity price oscillations.

The Company adopted the Value at Risk (VaR) as risk management methodology, to measure a potential loss in the equity investment portfolio, in the three-month period ended March 31, 2018. During this period, the Company, which had mainly invested in shares of a company under court-ordered reorganization, considerably reduced this risk in its portfolio, with 97% of the securities held directly by the Company and 12% held within investment funds (Note 4).

The VaR was calculated based on historical data of the twelve-month period ended March 31, 2018 (one year), for one-day period, confidence level at 95.0%, segregated in investments in Reais and Dollars. The result was 4.99% of maximum daily loss of the portfolio in Brazilian Reais, and 14.37% of the daily maximum loss of the portfolio in US Dollars.

The accuracy of this market risk methodology was tested using daily back-testing, which compares the adherence between the VaR estimates and the realized gains and losses. In this test, the security devaluation, in the 252-day calculation period, has exceeded the VaR ten times (the calculated limit was 13 times).

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 change 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	(122)	(630)	(1,138)
Impact on debentures	Increase in CDI	30	(101)	(201)

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For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the nine-month period as from March 31, 2018 were taken into account under the probable scenario (CDI 6.26%), 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 0.12% 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 change that may occur in the exchange rate and the impact on the Company's income and equity, before taxation.

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Impact on financial investments	Decrease in US dollar	1,488	(38,002)	(76,005)
Provision for abandonment (ARO)	Dollar incr.	(2,168)	(55,359)	(110,719)

For calculation of the amounts included in the above scenarios the average exchange rate projection disclosed by BM&FBOVESPA for the period nine months as from March 31, 2018 (US$ 1/R$ 3.356). Under scenario I, this projection was increased by 25% and under scenario II, the curve was increased by 50%, both against the probable scenario.

Credit risk

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

Related to credit risk of its sales operations, the Company analyzes the financial condition of its clients, in conjunction with the provider of marketing services (trader), which also operates as an intermediary in transactions for the sale of oil. During the three-month period ended March 31, 2018, only one sale of oil was carried out to Shell and gas sales in other client (Petrobrás); however, they present an irrelevant credit risk, considering that its background does not show any delays or defaults.

Liquidity risk

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

(In thousands of reais, unless otherwise indicated)

Consolidated

Year ended March 31, 2018	up to 12 months	1–5 years	Total
Liabilities			
Loans and financing	(75,437)	-	**(75,437)**
Suppliers	(72,888)	(13,161)	**(86,049)**
Labor obligations	(7,074)	-	**(7,074)**
Taxes and social contributions	(24,418)	-	**(24,418)**
Advance from partners	(6,607)	-	**(6,607)**
Debentures	(805)	(31,245)	**(32,050)**
Provision for abandonment	-	(75,298)	**(75,298)**
Provision for contingencies	-	(14,643)	**(14,643)**
Deferred taxes and social contributions	-	(25,447)	**(25,447)**
Other liabilities	(287)	-	**(287)**
	(187,516)	**(159,794)**	**(347,310)**

Year ended December 31, 2017	up to 12 months	1–5 years	Total
Liabilities			
Loans and financing	(75,011)	-	**(75,011)**
Suppliers	(70,535)	(13,456)	**(83,991)**
Labor obligations	(9,979)	-	**(9,979)**
Taxes and social contributions	(20,076)	-	**(20,076)**
Advance from partners	(7,129)	-	**(7,129)**
Debentures	(21,621)	(31,391)	**(53,012)**
Provision for abandonment	-	(74,119)	**(74,119)**
Provision for contingencies	-	(15,120)	**(15,120)**
Deferred taxes and social contributions	-	(36,177)	**(36,177)**
	(204,351)	**(170,263)**	**(374,614)**

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.

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	03/31/2018		12/31/2017	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans and receivables				
Accounts receivable (i)	63,713	63,713	62,046	62,046
Related parties	-	-	-	-
Fair value through profit or loss				
Cash and cash equivalents (ii)	86,663	86,663	92,445	92,445
Securities (ii)	19,879	19,879	60,627	60,627
Fair value through other comprehensive income				
Securities (iii)	407,871	407,871	404,074	404,074
Financial liabilities				
Amortized cost:				
Suppliers (i)	86,049	86,049	83,991	83,991
Debentures (ii)	32,050	31,576	53,012	51,598
Loans and financing	75,437	75,437	75,011	75,011

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. Contingencies

Management of the Company and its subsidiaries, based on the opinion of its legal advisors regarding the possibility of success in several lawsuits, believes that the provisions recorded in the balance sheet on March 31, 2018 and December 31, 2017 in the amounts of R$ 14,643 and R$ 15,120, respectively, are sufficient to cover losses considered probable and reasonably estimated.

Provisions recorded

Currently, the Company is party to lawsuits with probable risk, which are basically labor claims that add up to R$ 14,339 and one tax claim of R$ 304.

Provision reversed - Tuscany Arbitration

In June 2017, the Company reversed the provision for contingency recorded in its balance sheet, in the amount of R$ 43,920, referring to the arbitration proceeding instituted by Tuscany Perforations Brasil Ltda. and Tuscany Rig Leasing S.A. against PetroRioOG. By means of an annulment lawsuit filed by its lawyers and judged on June 28, 2017, the decision of the arbitration proceeding was annulled.

The sentence of the arbitration procedure was handed down on February 5, 2015, condemning the Company to pay the amounts of R$ 106 and US$ 13,507 thousand. An applicable appeal was filed on March 9, 2015 and September 02, 2015. The Company was notified by the Court of Arbitration, which upheld the decision. As of October 7, 2015, the Company filed an annulment suit, aiming at dissolving the arbitral award, based on violation of full defense and the arbitration clause that forbade decision by equity and obtained an injunction in the second degree, removing the effects of an arbitration decision. A judgment of inadmissibility was handed down, and the Company filed the appropriate appeal. As of June 28, 2017, the appeal was provided by the Court to annul the arbitration decision for another to be rendered, after producing the necessary expert evidence. The parties filed an appeal for motion to clarify the judgment.

Other suits

According to the Group's legal counsel, the risk of loss due to other lawsuits (R$ 382,256) is "possible" or "remote". Pursuant to accounting practices adopted in Brazil and IFRS, Management decided not to form a provision for contingencies for these lawsuits, with likelihood of possible and remote loss.

30. Subsequent events

31.1 Beginning of the Drilling Campaign

As announced to the market on April 6, 2018, the Company started the second phase of the Revitalization Plan for the Polvo Field. Continuing with the successful Phase 1, carried out in the first quarter of 2016, which resulted in a 20% increase in the production and volumes of Campo's reserves, the Company will invest in Phase 2 of the Revitalization project. Phase 2 consists of drilling three new wells and of an initial investment of US$ 20 million, which can reach US$ 50 million depending on the results obtained. The estimated time for completion of the three drillings is six months; however, throughout the campaign, PetroRio will keep the market informed about the progress of the activities in the wells prospected.

Additional information to the financial statements
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Statements of added value
(supplementary information for IFRS purposes)
Three-month period ended March 31, 2018 and 2017
(In thousands of reais – R$)

	Consolidated	
	03/31/2018	**03/31/2017**
Net revenue		
Oil & Gas sales	**117,155**	74,786
	117,155	74,786
Inputs and services		
Third party's services and other	**(10,720)**	(10,198)
Geology and geophysics expenses	**(203)**	(203)
Costs of services	**(66,566)**	(47,600)
Gross added value	**39,666**	16,785
Retentions		
Depreciation and amortization	**(16,922)**	(12,715)
Net added value	**22,744**	4,070
Transferred value added		
Net financial income (loss)	**4,493**	21,602
Equity in income of subsidiaries	**-**	-
Deferred taxes	**9,291**	(4,654)
Rents, royalties and other	**(11,013)**	(10,595)
Added value payable	**25,515**	10,423
Distribution of added value		
Personnel	**13,042**	5,330
Taxes	**9,779**	1,074
Interest attributable to Group's shareholders	**2,694**	4,019
Distributed added value	**25,515**	10,423

See the accompanying notes to the quarterly information.

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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 March 31, 2018 cover the insured amount of R$ 3,381,246. 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)	**139,600**
Offshore Platform	**679,053**
Offshore property (Pipeline)	**97,055**
Onshore properties (Pipeline)	**38,888**
Onshore Treatment Station	**57,834**
OEE production (Well control)	**747,855**
Offshore Civil Liability + Surplus	**1,246,425**
Transport (Polvo)	**3,500**
D&O	**30,000**
General liability	**5,000**
Equity	**1,717**
Energy package (TPL)	**332,380**
Customs Guarantee	**1,025**
Travel Insurance Travel Guard	**914**
Total insured	**3,381,246**