

Quarterly information - ITR

Petro Rio S.A.

September 30, 2018

Independent Auditors' Report on the Review of the
Quarterly Information



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Independent auditors' report on the review of the quarterly information

To the Board of Directors and Shareholders 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 September 30, 2018, which comprises the balance sheet at September 30, 2018, and the respectively income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the nine-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.

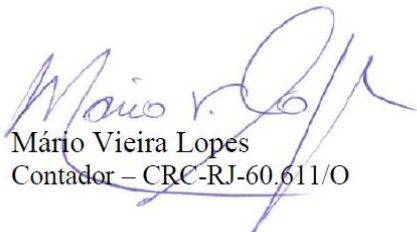
Other matters

Statements of Value Added (DVA)

We have also reviewed the condensed individual and consolidated statements of value added for the nine-month period ended September 30, 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, October 30, 2018.



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



Balance sheet

September 30, 2018 and December 31, 2017
(In thousands of reais – R\$)

	Note	Consolidated	
		09/30/2018	12/31/2017
Assets			
Current assets			
Cash and cash equivalents	3	28,160	92,445
Securities	4	501,935	511,863
Restricted cash	5	-	17,965
Accounts receivable	6	37,097	62,046
Oil inventories	25	79,501	41,174
Inventory of consumables		2,314	
Recoverable taxes	7	76,443	59,492
Advances to suppliers	8	34,684	28,781
Advances to partners	20	3,178	3,639
Prepaid expenses		2,534	3,106
Deposits and pledges		-	-
Other receivables		1,227	828
		767,073	821,339
Non-current assets available for sale	9	27,467	28,316
		794,540	849,655
Non-current assets			
Advances to suppliers	8	12,596	12,596
Deposits and pledges		17,448	16,010
Recoverable taxes	7	36,135	51,669
Deferred taxes		12,438	18,480
Related parties	23	-	-
Investments	10	-	-
Property, plant and equipment	11	60,338	61,286
Intangible assets	12	346,504	260,548
		485,459	420,589
Total assets		1,279,999	1,270,244

See the accompanying notes to the quarterly information.



Balance sheet

September 30, 2018 and December 31, 2017
(In thousands of reais – R\$)

	Note	Consolidated	
		09/30/2018	12/31/2017
Liabilities and shareholders' equity			
Current liabilities			
Suppliers	13	92,833	70,535
Labor obligations		5,192	9,979
Taxes and social contributions	14	50,460	20,076
Loans and financing	15	-	75,011
Debentures	16	771	21,621
Derivative financial instruments	29	13,445	-
Advances from partners	20	4,781	7,129
Other liabilities		-	12,500
		167,482	216,851
Non-current liabilities			
Suppliers	13	13,161	13,456
Debentures	16	31,241	31,391
Provision for abandonment (ARO)	19	91,480	74,119
Provision for contingencies	31	14,882	15,120
Deferred taxes and social contributions	18	2,108	36,177
Related parties	23	-	-
Investment deficit	10	-	-
		152,872	170,263
Shareholders' equity			
Realized capital	22	3,273,114	3,265,256
Capital reserves		50,510	73,852
Accumulated translation adjustment		103,494	65,102
Equity valuation adjustments		(64,408)	26,698
Accumulated losses		(2,547,777)	(2,598,629)
Income (loss) for the period		144,712	50,851
		959,645	883,130
Total liabilities and shareholders' equity		1,279,999	1,270,244

See the accompanying notes to the quarterly information.



Statements of income

Nine-month period ended September 30, 2018 and 2017
(In thousands of reais, except earnings/losses per share)

	Note	Consolidated	
		09/30/2018	09/30/2017
Net revenue	24	581,187	340,307
Costs of products/services	25	(358,146)	(293,559)
Gross Revenue		223,041	46,748
Operating income (expenses)			
Geology and geophysics expenses		(1,331)	(590)
Personnel expenses		(30,853)	(24,161)
General and administrative expenses		(15,303)	(9,936)
Expenses with Outsourced Services		(24,576)	(24,470)
Taxes and rates		(5,229)	(2,077)
Depreciation and amortization expenses		(1,821)	(197)
Equity in income of subsidiaries	10	-	-
Income from transactions with permanent assets		(64)	-
Other operating income (expenses), net	26	(19,199)	40,582
Operating profit before financial income		124,665	25,899
Financial income	27	246,039	165,016
Financial expenses	27	(200,228)	(118,498)
Profit before income tax and social contribution		170,476	72,417
Current income tax and social contribution		(36,482)	(1,982)
Deferred income tax and social contribution		10,718	(2,928)
Profit for the period		144,712	67,507
Basic and diluted profit per share			
<i>Basic</i>	22	11,908	5,343
<i>Diluted</i>	22	11,908	5,343

See the accompanying notes to the quarterly information.



Statements of income

Three-month period ended September 30, 2018 and 2017

(In thousands of reais, except earnings/losses per share)

	Note	Consolidated	
		07/01/2018– 09/30/2018	07/01/2017– 09/30/2017
Net revenue	24	224,627	110,014
Costs of products/services	25	(116,987)	(93,512)
Gross Revenue		107,640	16,502
Operating income (expenses)			
Geology and geophysics expenses		(980)	(241)
Personnel expenses		(8,635)	(5,810)
General and administrative expenses		(5,696)	(3,254)
Expenses with Outsourced Services		(4,761)	(4,242)
Taxes and rates		(2,929)	(1,543)
Depreciation and amortization expenses		(665)	(70)
Equity in income of subsidiaries	10	-	-
Income from transactions with permanent assets		(64)	-
Other operating income (expenses), net	26	(15,839)	(1,848)
Operating profit (loss) before financial income		68,071	(506)
Financial income	27	111,863	64,758
Financial expenses	27	(82,722)	(50,534)
Profit before income tax and social contribution		97,212	13,718
Current income tax and social contribution		(25,633)	2,069
Deferred income tax and social contribution		(121)	595
Profit for the period		71,458	16,382
Basic and diluted profit per share			
<i>Basic</i>		5,883	1,389
<i>Diluted</i>		5,883	1,389

See the accompanying notes to the quarterly information.



Statements of comprehensive income

Nine-month period ended September 30, 2018 and 2017

(In thousands of reais – R\$)

	Consolidated	
	09/30/2018	09/30/2017
Retained earnings (loss)	144,712	67,507
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	38,392	(3,048)
Equity valuation adjustments	(91,106)	91,237
Other comprehensive income for the year, net of taxes	(52,714)	88,189
Total comprehensive income for the year net of taxes	91,998	155,696

See the accompanying notes to the quarterly information.



Statements of comprehensive income

Three-month period ended September 30, 2018 and 2017
(In thousands of reais – R\$)

	Consolidated	
	07/01/2018– 09/30/2018	07/01/2017– 09/30/2017
Retained earnings (loss)	71,458	16,382
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	7,309	(5,979)
Equity valuation adjustments	(61,570)	41,364
Other comprehensive income for the year, net of taxes	(54,261)	35,385
Total comprehensive income for the year net of taxes	17,197	51,767

See the accompanying notes to the quarterly information.



Statements of changes in shareholders' equity

Nine-month period ended September 30, 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-in capital	37	-	-	-	-	37
Translation adjustment on investment abroad	-	-	-	(3,048)	-	(3,048)
Gain (loss) with financial instruments	-	-	91,237	-	-	91,237
Income for the period	-	-	-	-	67,507	67,507
Treasury shares	-	(19,776)	-	-	-	(19,776)
Balances at September 30, 2017	3,265,253	81,099	96,222	58,656	(2,531,122)	970,108
Balances at January 1, 2018	3,265,256	73,852	26,698	65,102	(2,547,777)	883,131
Paid-in capital	7,858	-	-	-	-	7,858
Stock options granted	-	10,290	-	-	-	10,290
Translation adjustment on investment abroad	-	-	-	38,392	-	38,392
Gain (loss) with financial instruments	-	-	(91,106)	-	-	(91,106)
Income for the period	-	-	-	-	144,712	144,712
Treasury shares	-	(33,632)	-	-	-	(33,632)
Balances at September 30, 2018	3,273,114	50,510	(64,408)	103,494	(2,403,065)	959,645

See the accompanying notes to the quarterly information.



Statements of cash flows

Nine-month period ended September 30, 2018 and 2017

(In thousands of reais – R\$)

	Consolidated	
	09/30/2018	09/30/2017
Cash flows from operating activities		
Income (loss) for the period (before taxes)	170,476	72,417
Depreciation and amortization	66,457	67,986
Financial income	(239,533)	(144,462)
Financial expenses	181,014	108,394
Share-based compensation	10,290	-
Equity valuation adjustment	119	-
Loss/Write-off of non-current assets	1,316	-
Provision for contingencies/losses	13,457	(40,014)
Provision for impairment	64	-
	203,660	64,321
(Increase) decrease in assets		
Accounts receivable	16,188	(3,779)
Recoverable taxes	2,635	7,104
Prepaid expenses	546	(829)
Advances to suppliers	(1,796)	(6,878)
Inventory	(32,357)	(24,772)
Consumables Inventory	(2,314)	-
Advance to partners in oil and gas operations	458	(804)
Other receivables	259	(810)
Increase (decrease) in liabilities		
Suppliers	12,722	6,465
Labor obligations	(4,861)	(3,526)
Taxes and social contributions	(11,195)	(13,546)
Contingencies	(552)	(735)
Advances from partners in oil and gas operations	(3,173)	4,589
Other liabilities	(12,500)	(757)
Net cash (invested in) from operating activities	167,710	26,243
Cash flows from investment activities		
(Investment in) redemption of securities	18,385	71,896
(Investment) Restricted cash redemption	18,119	(554)
(Investment) Redemption in Abandonment Fund	(5,032)	(2,709)
Deposits and pledges	(1,941)	(3,129)
Non-current assets held for sale	6,807	21,732
(Increase) decrease in permanent assets	(153,558)	(134,132)
Net cash (invested in) from investment activities	(117,220)	(46,896)
Cash flows from financing activities		
Loans and financing	(76,391)	70,304
Debentures	(22,253)	(22,785)
Derivative transactions	(2,087)	652
(Purchase) sale of own Company's shares (held in treasury)	(33,549)	(24,949)
(Decrease) Paid-up capital	7,709	-
Net cash (invested in) from financing activities	(126,571)	23,222
Translation adjustment	11,796	516
Net increase (decrease) in cash and cash equivalents	(64,285)	3,085
Cash and cash equivalents at the beginning of the year	92,445	24,793
Cash and cash equivalents at the end of the year	28,160	27,878
Net increase (decrease) in cash and cash equivalents	(64,285)	3,085

See the accompanying notes to the quarterly information.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

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 third quarter of 2018 was of roughly 10 thousand barrels (7.7 thousand barrels for the third 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). Of the three new oil wells planned to be drilled, two were performed and had been successfully completed. The first well operations started-up on May 20, 2018, while the second one started-up on July 30, 2018, as detailed in Note 12. The third well of Phase 2 concerning the Revitalization Plan began to be drilled in August 2018, and it is still in process.

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, which is in the process of being returned by the consortium to the Agência Nacional de Petróleo, Gás Natural e Biocombustível, 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 of the field during the third quarter of 2018 was of roughly 5.2 million cubic meters of natural gas (5.1 million cubic meters of natural gas for the third quarter of 2017).



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

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.

Notes to the quarterly information September 30, 2018

(In thousands of reais, unless otherwise indicated)

The Company's consolidated quarterly information comprises:

Fully consolidated companies		Interest			
		09/30/2018		12/31/2017	
		Direct	Indirect	Direct	Indirect
Petro Rio O&G Exploração e Produção de Petróleo Ltda.	"PetroRioOG"	100.00%	-	100.00%	-
Petrorio USA Inc.	"PrioUSA"	100.00%	-	100.00%	-
Petro Rio Internacional S.A.	"PrioIntl"	1.69%	98.31%	1.69%	98.31%
Petrorio Luxembourg Holding Sarl	"Lux Holding"	-	100.00%	-	100.00%
Petrorio Netherlands BV	"Netherlands"	-	100.00%	-	100.00%
Walvis Petroleum (Pty) Ltd.	"Walvis"	-	100.00%	-	100.00%
Petrorio Canada Inc.	"Canadá"	-	100.00%	-	100.00%
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 and CPC, respectively, which became mandatorily effective for the accounting periods ended September 30, 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.

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



Notes to the quarterly information September 30, 2018

(In thousands of reais, unless otherwise indicated)

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

Change in accounting estimate

In July 2018, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo field, specifically of proven developed reserves after the start of production of two first wells completed in 2018. Reevaluation indicated extension of field useful life up to the end of 2024 (before the useful life of the Field was estimated up to 2021) with an increment to the proved developed reserve is 5 million barrels. This increase represents a proportional reduction of Polvo assets amortization, including Fixed Platform "Polvo A".

2.8. Completion of quarterly information

The Company's management authorized the conclusion of this quarterly information on October 30, 2018.

3. Cash and cash equivalents

	<u>Consolidated</u>	
	<u>09/30/2018</u>	<u>12/31/2017</u>
Cash and bank deposits	28,160	92,445
	28,160	92,445
National	1,463	14
Abroad	26,697	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.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

4. Securities

	Consolidated	
	09/30/2018	12/31/2017
Repurchase and resale agreements (debentures)	1,213	2
Investment Fund	412	699
Shares (i)	681	46,811
Bank Deposit Certificates	18,151	-
Financial Bills	27,305	13,115
Promissory note (ii)	59,419	47,162
Time deposit (iii)	100,690	-
Financial assets - fair value through profit or loss	207,871	107,789
Fixed income debt bonds (iv)	121,213	106,255
Multimarket investment funds (v)	172,851	297,819
Shares	62,149	286,391
Government bonds (LFT/NTN)	57,973	8,845
Bonds	18,104	-
Cash/Money Market	34,625	2,583
Financial assets - fair value through other comprehensive income	294,064	404,074
	501,935	511,863

- (i) The Company had non-material investments in the shares of the company in court-ordered reorganization, fully settled in the first semester of 2018, realizing accumulated gains in this period totaling R\$ 27,096.
- (ii) The Company holds a promissory note, with 6% annual earnings, also pegged to changes in the US dollar.
- (iii) Position of Time Deposit in dollar, which corresponds to a fixed-income investment with daily liquidity, earning interest at 1.6% p.a.
- (iv) Investments in fixed income securities, in US dollars, of large institutions, with average negative earnings of 2.13% p.a. in 2018.
- (v) Investment funds in Brazil and abroad with average negative earnings of 17.6% in 2018, which basically invest in shares, bonds and government bonds. 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 29.

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 (13.2% p.a.) 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.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

6. Accounts receivable

	Consolidated	
	09/30/2018	12/31/2017
Trafigura (i)	-	8,383
Shell (ii)	-	23,156
Petrobras (iii)	24,126	30,084
Repsol (iv)	11,625	-
Other	1,346	423
Total	37,097	62,046
Total local currency	24,126	30,084
Total foreign currency	12,971	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.
- (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 all the amount as an advance. Of the amounts paid to Shell, US\$ 7 million (R\$26,991), being charged by means of arbitration procedure, an arbitral award was handed convicting Shell to the payment of US\$3.5 million (R\$14 million), fully received in July 2018. The remaining balance of US\$ 3.5 million was written off as loss.
- (iii) Balance receivable related to sales of gas and condensed oil by Manati in August and September 2018, roughly 29.5 million m³ of gas, corresponding to a net revenue of R\$ 24,126.
- (iv) Balance receivable remaining from the sale of oil in September 2018, referring to approximately 232,000 barrels of oil, which generated an income of R\$ 69,791.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

7. Recoverable taxes

	Consolidated	
	09/30/2018	12/31/2017
Income tax and social contribution (i)	33,109	18,032
PIS and COFINS (ii)	35,555	54,525
ICMS	15,308	15,303
Tax abroad (VAT) (iii)	28,388	23,089
Other	218	212
Total	112,578	111,161
Current assets	76,443	59,492
Non-current assets	36,135	51,669

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

8. Advances to suppliers

	Consolidated	
	09/30/2018	12/31/2017
Geoquasar Energy	12,596	12,596
BW (Prosafe) guarantee	26,423	22,477
Petrobras	2,669	2,345
Nitshore	1,873	-
Mira Capital	1,800	-
Other	1,919	3,959
Total	47,280	41,377
Total current assets	34,684	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\$ 22,706) 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).



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

9. Non-current assets available for sale (Consolidated)

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

	Balance at 12/31/2017	Write-offs	Commission	Impairment	Translation adjustment	Balance at 09/30/2018
Aircrafts	5,623	(8,798)	-	2,203	972	-
Drilling rigs	22,693	-	-	-	4,774	27,467
	28,316	(8,798)	-	2,203	5,746	27,467

	Balance at 12/31/2016	Write-offs	Commission	Impairment	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.

On July 2, 2018 the sale of the last aircraft of the Company was made to Omni Taxi Aereo, for the amount of US\$ 800 thousand.

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.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

10. Investments

At September 30, 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 07, 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 PrioIntl 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 4.9 million cubic meters of natural gas per day (4.5 million cubic meters of natural gas in the second 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 PrioIntl are Lux Holding and Netherlands, companies that have large-sized assets in operation or held for sale, and Lux Sarl, which from



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

September 2016 started to trade the oil produced in the Polvo field. The acquisition of Petrorio Lux Energy S.à.r.l. (formerly BP Energy América LLC and merged in December 2017 by Lux Holding) 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, PrioIntl 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.

Portfolio of concessions

As of September 30, 2018, the Company's subsidiaries were participants in the following concessions in Brazilian basins:

Country	Basin	Block	Field	Concessionaire	%	Status	Phase
Brazil	Fields	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

The BCAM-40 Block Consortium started the process of returning the discovery of Camarão Norte to the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), located south of the Manati Field, in the Camamu-Almada Basin. The Company holds a 10% interest in the discovery of Camarão Norte, which was declared commercial in 2009. After evaluating several development plans and potential unitization to the adjacent area, the consortium concluded that the area was not economically viable and decided to return it. The amount recorded by Manati regarding the discovery of Camarão Norte totals R\$64, amount provisioned as a loss, impacting the third quarter of 2018.



Notes to the quarterly information September 30, 2018

(In thousands of reais, unless otherwise indicated)

a) Relevant information on investees as of September 30, 2018

	<u>PetroRioOG</u>	<u>PrioIntl</u>	<u>PrioUSA</u>
Direct interest	100.0%	1.69%	100.0%
Indirect interest	0.0%	98.31%	0.0%
Shareholders' equity	881,467	236,107	(108)
Income (loss) for the period	126,149	15,047	(464)
Total assets	1,292,483	325,189	229

b) Breakdown of investments

	<u>09/30/2018</u>	<u>12/31/2017</u>
PetroRioOG	881,467	772,568
PrioUSA	(108)	(315)
PrioIntl	3,983	3,154
	885,342	775,407
Investments	885,450	775,722
Provision for loss on investments in subsidiaries	(108)	(315)

c) Changes in investment

	<u>PetroRioOG</u>	<u>PrioIntl</u>	<u>PrioUSA</u>	<u>Total</u>
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	-	-	819	819
Equity in income of subsidiaries	126,149	254	(463)	125,940
Equity valuation adjustment	-	-	(119)	(119)
Equity evaluation adjustments	(55,019)	(78)	-	(55,097)
Conversion adjustments	37,769	653	(30)	38,392
Balance at September 30, 2018	881,467	3,983	(108)	885,342



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

11. Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 09/30/2018	Balance at 12/31/2017
In operation						
Polvo A platform and drilling rig	UOP*	101,439	(94,792)	21,885	28,532	30,650
Oil & gas assets - Manati	UOP*	59,320	(36,787)	-	22,533	28,128
Machinery and equipment	10	2	-	-	2	2
Furniture and fixtures	10	1,054	(443)	-	611	460
Communication equipment	20	273	(129)	-	144	163
IT equipment	20	3,519	(2,095)	-	1,424	540
Property, plant and equipment in progress		7,088	-	-	7,088	-
Leasehold improvements	4	16	(12)	-	4	1,343
Total		172,711	(134,258)	21,885	60,338	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	Impairment	Balance at 09/30/2018
In operation							
Polvo A platform and drilling rig	30,650	-	-	(7,646)	5,527	-	28,531
Oil & gas assets - Manati	28,128	70	-	(5,602)	-	(64)	22,532
Machinery and equipment	2	-	-	-	-	-	2
Furniture and fixtures	460	220	-	(67)	-	-	613
Communication equipment	163	15	-	(34)	-	-	144
IT equipment	540	1,067	-	(183)	-	-	1,424
Property, plant and equipment in progress	-	7,088	-	-	-	-	7,088
Leasehold improvements	1,343	11	(1,316)	(34)	-	-	4
Total	61,286	8,471	(1,316)	(13,566)	5,527	(64)	60,338

	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

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September 30, 2018

(In thousands of reais, unless otherwise indicated)

12. Intangible assets (consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated	
		09/30/2018	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 expenditures	(*)	192,917	70,684
Maintenance of wells	(*)	32,443	11,018
Emergency spare parts	(*)	12,827	11,395
Client portfolio - Manati	(*)	9,561	9,561
Software and others	20	9,036	9,038
		889,116	744,028
Accumulated amortization		(542,612)	(483,480)
Total		346,504	260,548

(*) Acquisition costs/subscription bonuses and exploration expenditures 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) Changes in balance

	Balance at 01/01/2018	Additions	Write- offs	Amortization	Balance at 09/30/2018
Acquisition cost - Polvo	85,589	-	-	(19,763)	65,826
Acquisition cost - Manati	70,697	-	-	(14,067)	56,630
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 expenditures	42,411	122,233	-	(19,693)	144,951
Maintenance of wells	8,838	21,425	-	(4,103)	26,160
Emergency spare parts	11,395	10,871	(9,439)	-	12,827
Client portfolio - Manati	7,566	-	-	(1,506)	6,060
Software and others	286	-	-	-	286
	260,548	154,529	(9,439)	(59,132)	346,506

	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 expenditures	56,162	2,642	(170)	(16,222)	-	42,411
Maintenance of wells	-	11,018	-	(2,180)	-	8,838
Emergency spare parts	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.



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In April 2018, the Company started the second phase of the Revitalization Plan for the Polvo Field, continuing the successful first phase. Phase 2 consists of the drilling three new wells, of which the first one, named POL H, was successfully completed, starting-up its operations on May 20, 2018, with flow of approximately 2,600 barrels per day, a 35% increase in Field total production in the first month. The Company has immediately carried out, after the completion of the first well, the drilling of the second well, named POL-Z, which was also successfully completed. The well had its operations started-up on July 30, 2018, with initial flow of approximately 2,000 barrels per day. The third-well named POL M, started the drilling in August 2018 according to the planned schedule.

In July 2018, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo field, specifically of proven developed reserves after the start of production of two first wells completed in 2018. Reevaluation indicated extension of field useful life up to the end of 2024 (before the useful life of the Field was estimated up to 2021) with an increment to the proved developed reserve is 5 million barrels.

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 subsidiary 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 5.2 million cubic meters of natural gas per day (5.1 million cubic meters of natural gas in the third 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



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The goodwill in the amount of R\$ 19,777 is due to the expectation of future profitability (goodwill). On September 30, 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.

13. Suppliers

	Consolidated	
	09/30/2018	12/31/2017
Domestic suppliers	58,727	50,761
Foreign suppliers	47,267	33,230
	105,994	83,991
Total current liabilities	92,833	70,535
Total non-current liabilities	13,161	13,456

14. Taxes and social contributions payable

	Consolidated	
	09/30/2018	12/31/2017
IRPJ and CSLL payable	28,822	1,520
PIS and Cofins on service imports	8,260	7,721
Service tax	4,459	137
IRRF on services	962	1,993
ICMS	1,190	1,605
INSS	5,662	5,626
Taxes on Equity	273	138
FGTS	261	171
Other	571	1,165
	50,460	20,076

On July 20, 2017, the subsidiary Manati joined to the Special Tax Regularization Program (PERT) to settle outstanding debts (IRPJ, CSLL, 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 still pending in tax authorities.

15. Loans and financing

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. The loan term was 1 year and the Company paid R\$ 5,000 in January 2018. The remaining balance was paid in July 2018.



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(In thousands of reais, unless otherwise indicated)

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 issuance 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 September 30, 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.

	01/01/2018	Addition	Write-off	09/30/2018
Principal	31,391	-	(150)	31,241
Financial charges	352	1,348	(929)	771
Total	31,743	1,348	(1,079)	32,012
Current	352	1,348	(929)	771
Non-current	31,391	-	(150)	31,241

Up to September 30, 2018, debentureholders opted to convert 2,797,553 debentures (R\$ 55,951 reversed to capital), representing around 64% of total issued debentures.



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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.

	<u>01/01/2018</u>	<u>Restatement</u>	<u>Write-off</u>	<u>09/30/2018</u>
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 nine-month period ended on September 30, 2018 was of R\$ 85,059 (US\$ 21,244 thousand) and during the nine-month period ended on September 30, 2017 was of R\$ 55,900 (US\$ 17,645 thousand).

18. Current and deferred income tax and social contribution

<u>Companies</u>	<u>Tax loss</u>		<u>Tax credit</u>	
	<u>09/30/2018</u>	<u>12/31/2017</u>	<u>09/30/2018</u>	<u>12/31/2017</u>
PetroRio S.A.	47,793	61,607	16,250	20,946
PetroRio O&G	1,199,020	1,223,281	407,667	415,916
PetroRio Internacional	10,846	10,645	3,688	3,619
Brasoil Group	140,442	140,158	47,750	47,654
	1,398,101	1,435,691	475,355	488,135

The Company has tax loss carry forwards and negative social contribution tax generated in Brazil, which may be offset against future taxable profit, limited to 30% every year. Management opted for recognizing only the amounts corresponding to 30% of the recorded deferred liabilities, which refer to the discount recorded in the acquisition of the Polvo Field, and the marking to the market of the financial instruments. Other credits, which will be recognized as the future taxable income is being generated.



Notes to the quarterly information September 30, 2018

(In thousands of reais, unless otherwise indicated)

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

	Consolidated	
	09/30/2018	12/31/2017
Negative goodwill on fair value recognized assets on in business combinations	2,120	2,649
Mark to market of financial instruments	(12)	33,528
	2,108	36,177
Deferred tax asset credit	(12,438)	(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	35,742	8,948
Price-level restatement	3,318	1,746
Balance at September 30, 2018	207,841	60,001
(-) Maersk's guarantee / Brasoil's abandonment fund	(137,113)	(39,249)
Net balance of liabilities	70,728	20,752

The estimated abandonment costs were provisioned for the year ended September 30, 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 2.04% 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 pay the abandonment costs when they occur. As of September 30, 2018, the Company maintained a balance of R\$ 39,249.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

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

	Consolidated	
	09/30/2018	12/31/2017
Blocks operated (GALP - PEL 23 Namibia)	4,747	3,922
Non-operated blocks (Petrobras - Brasoil Manati)	(3,145)	(432)
Total advances to/from partners	1,602	3,490
Total current liabilities	4,780	7,129
Total current assets	(3,178)	(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.

In September 2018, the Company conducted an impairment test on its assets and determined a loss amounting to R\$ 3,470 regarding an aircraft recorded in non-current assets held for sale was sold in July 2018 by a lower amount recorded in balance sheet. (Note 9). In addition, a provision was made for non-realization of the amounts invested in the Camarão Norte field (Note 10), in the amount of R\$ 64, due to the request for return with the ANP. The Company did not identify such evidence for other assets in the nine-month period ended September 30, 2018.

22. Shareholders' equity

22.1 Capital

On September 30, 2018 the Company's subscribed and paid-in capital totaling R\$ 3,409,808 is comprised of 13,336,517 nominative registered shares 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 GDSs 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 received their cash amounts by selling shares by custodian agent.

During the Annual and Special Shareholders' Meeting held on April 29, 2016, 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 and to be held in treasury, canceled and/or for subsequent disposal. On December 22, 2017, at a new Special Shareholders' Meeting, the proposal for implementation of the program to buy back up to 1,000,000 shares was approved, to be performed in 18 months, without reducing capital, for maintaining in treasury, cancellation and/or subsequent disposal.



Notes to the quarterly information September 30, 2018

(In thousands of reais, unless otherwise indicated)

Until September 30, 2018, the Company acquired a total of 1,183,946 common shares of Petro Rio S.A., which were classified as Treasury Shares, rectifying Shareholders' Equity, at an acquisition cost of R\$ 61,500.

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\$ 3,273,114.

Shareholder	Number of common shares	% of interest
Aventti Strategic Partners LLP	3,846,004	29%
One Hill Capital LLC	3,957,084	30%
Other Shareholders	5,533,429	41%
Total	13,336,517	100%

The Company's capital was subject to changes in the first semester of 2018, due to a R\$ 7,858 increase through the conversion of Debentures into shares, pursuant to Note 16a and the exercise of stock options granted to employees, as follows:

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 pricing 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 September 30, 2018, the Company has a balance recorded in shareholders' equity - income (loss) from share-based remuneration in the amount of R\$ 10,289, and the counterpart being in the statement 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.

22.3 Earnings per share

Pursuant to CPC 41 (IAS 33), the Company presents some information on earnings per share for the nine-periods ended on September 30, 2018 and 2017. Basic earnings per share are calculated by dividing net revenue 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.



Notes to the quarterly information September 30, 2018

(In thousands of reais, unless otherwise indicated)

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	09/30/2018	09/30/2017
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group's shareholders	144,712	67,507
Denominator (in thousands of shares)		
(+) Weighted average number of common shares adjusted by dilution effect	13,337	13,192
(-) Treasury shares	(556)	(556)
	12,153	12,636
Basic earnings and diluted per share	11,908	5,343

23. Related party transactions

	09/30/2018	12/31/2017
Reimbursement of administrative expenses Petrorio x O&G	279	(85)
Loan Petrorio S.A x Petrorio Internacional (i)	(433)	(1,314)
Loan Petrorio S.A x Petrorio O&G (ii)	-	(36,923)
Service agreement Petrorio x Lux Energy (iii)	721	609
	567	(37,713)
Total non-current assets	1,001	657
Total non-current liabilities	(433)	(38,371)

- (i) Balance related to the loan contract signed on August 30, 2016 between PetroRio and PetroRio Internacional, with 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

The Company's management remuneration in the nine-month period ended September 30, 2018 was R\$9,333 (R\$8,923 on September 30, 2017).



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

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 nine-month period ended September 30, 2018 is comprised of the export income of 100% of its Polvo Field production (R\$ 496,904), which, since it is exported, has no taxes on sale, and of gross sales of Gas and Condensate to Petrobras in Campo de Manati (R\$ 84,283), which, due to its sale in national territory, is subject to ICMS, PIS and COFINS taxes (deduction of R\$ 20,506).

25. Costs of products sold and services rendered

	Consolidated			
	07/01/2018– 09/30/2018	07/01/2017– 09/30/2017	01/01/2018– 09/30/2018	01/01/2017– 09/30/2017
FPSO	(32,471)	(21,532)	(93,825)	(70,613)
Logistics	(10,837)	(9,754)	(35,040)	(31,798)
Consumables	(13,094)	(9,691)	(50,226)	(34,889)
Operation and maintenance	(11,337)	(13,053)	(37,931)	(38,253)
Personnel	(2,359)	(2,706)	(8,616)	(7,832)
SMS	(2,615)	(2,547)	(8,311)	(8,414)
Other costs	(4,151)	(2,958)	(13,718)	(7,300)
Royalties and special interest	(18,352)	(10,028)	(45,846)	(33,054)
Depreciation and amortization	(21,771)	(21,243)	(64,633)	(61,406)
Total	(116,987)	(93,512)	(358,146)	(293,559)

On September 30, 2018, the oil inventories in the amount of R\$ 77,885 is representative of 531,000 bbl – information not reviewed by the independent auditors (on September 30, 2017 the oil inventories in the amount of R\$ 56,985 corresponded to 422,000 bbl).

26. Other operating income (expenses), net

	07/01/2018– 09/30/2018	07/01/2017– 09/30/2017	01/01/2018– 09/30/2018	01/01/2017– 09/30/2017
Reversal (provision) for contingencies	(2,176)	(2,065)	173	40,222
Income (loss) from the sale of property, plant and equipment/scrap	(1,316)	268	(4,786)	263
Write-off of accounts receivable - SHELL	(13,142)	-	(13,142)	-
Other income (expenses)	795	(51)	(1,444)	97
Total	(15,839)	(1,848)	(19,199)	40,582



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September 30, 2018

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27. Financial income (loss)

	Consolidated			
	07/01/2018– 09/30/2018	07/01/2017– 09/30/2017	01/01/2018– 09/30/2018	01/01/2017– 09/30/2017
Financial income	111,863	64,758	246,039	165,016
Income from realized financial investment	(10,926)	17,838	38,580	38,915
Income from exchange-rate change	68,456	29,078	178,010	79,412
Gain from realization of derivative financial instruments	839	1,224	839	8,849
Marked at fair value - financial instruments	(80)	16,659	(25,553)	37,076
Marked at fair value - Derivatives	1	-	1	-
Gain from realization of financial instruments	52,756	-	52,756	-
Other financial income	818	41	1,406	764
Financial expenses	(82,722)	(50,534)	(200,228)	(118,498)
Loss on realized financial investment	(316)	-	(590)	(1)
Expense on foreign exchange rate	(66,618)	(36,976)	(164,399)	(93,181)
Realized hedge expense	859	-	-	(1,356)
Interest on loans/debentures	(2,144)	(2,348)	(4,964)	(6,296)
Marked at fair value - financial instruments	281	-	1	-
Marked at fair value - Derivatives	(2,858)	(9,732)	(13,445)	(11,796)
Loss from realization of financial instruments	(284)	-	(284)	-
Loss from realization of derivative financial instruments	(5,461)	-	(5,461)	-
Other financial expenses	(6,180)	(1,478)	(11,085)	(5,868)

* 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.

28. 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.

	09/30/2018	12/31/2017
Current assets		
Brazil	512,875	620,164
Abroad	281,663	229,492
Non-current assets		
Brazil	341,699	266,186
Abroad	143,761	154,403
Revenue	09/30/2018	09/30/2017
Brazil	553,815	331,667
Abroad	48,002	23,432



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

29. 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.

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 nine-month period ended September 30, 2018. During this period, the Company, which had mainly invested in shares of a company under court-ordered reorganization, fully settled this risk in its portfolio, both securities held directly by the Company and held within investment funds (Note 4).

The VaR was calculated based on historical data of the twelve-month period ended September 30, 2018 (one year), for one-day period, confidence level at 95.0%, segregated in investments in Reais and Dollars. The result was 10.76% of the daily maximum loss of the portfolio.

Derivative financial instruments - hedge

In the nine-month period ended September 30, 2018, the Company entered into derivative agreements aimed at providing hedge against the risk of volatility in oil prices for sales projected for 2018.

Basically, this oil price hedge transaction hedges the company by obtaining a floor price ranging between US\$70 and US\$75 per barrel, and a ceiling price of US\$90 per barrel. The contracts provide coverage for 740 million barrels to be sold during the fourth quarter.

As the barrel price hit US\$82.72 in the closing of the quarter, the consolidated position recorded in income (loss) was R\$ 13,445, which amount refers to the mark-to-market of options in effect, but not yet realized.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

Additionally, in May, July and August 2018, contracts were settled realizing losses of US\$ 1.412 thousand (R\$ 4,622), recorded in profit or loss for the period.

A summarized table of contracted operations still effective is shown as follows:

Contract	Type	Maturity	Price interval	Quantity	MTM
Brent	Option	Oct 2018	75 – 90	330	(5,950)
Brent	Option	Nov 2018	70 – 90	160	(3,051)
Brent	Option	Dec 2018	70 – 90	250	(4,444)
				740	(13,445)

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	85	(805)	(1,695)
Impact on debentures	Increase in CDI	15	80	159

For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the nine-month period as from September 30, 2018 were taken into account under the probable scenario (CDI 6.55%), 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	4,615	(72,729)	(145,458)
Provision for abandonment (ARO)	Dollar incr.	(4,249)	(66,961)	(133,921)

For calculation of the amounts included in the above scenarios the average exchange rate projection disclosed by BM&FBOVESPA for the nine-month period as from September 30, 2018 (US\$ 1/R\$ 4.067). Under scenario I, this projection was increased by 25% and under scenario II, the curve was increased by 50%, both against the probable scenario.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

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 period ended on September 30, 2018 oil net sales were decentralized, with sales to clients Shell, ENAP, Trafigura and Repsol 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.

Consolidated

Year ended September 30, 2018

	up to 12 months	1–5 years	Total
Liabilities			
Loans and financing	-	-	-
Suppliers	(92,833)	(13,161)	(105,994)
Labor obligations	(5,192)	-	(5,192)
Taxes and social contributions	(56,227)	-	(56,227)
Advance from partners	(4,781)	-	(4,781)
Debentures	(771)	(31,241)	(32,012)
Financial instruments	(13,445)	-	(13,445)
Provision for abandonment	-	(91,480)	(91,480)
Provision for contingencies	-	(14,882)	(14,882)
Deferred taxes and social contributions	-	(2,108)	(2,108)
	(173,249)	(152,872)	(326,121)

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)



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(In thousands of reais, unless otherwise indicated)

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.

	09/30/2018		12/31/2017	
	Book value	Fair value	Book value	Fair value
<u>Financial assets</u>				
Loans and receivables				
Accounts receivable (i)	37,097	37,097	62,046	62,046
Related parties	-	-	-	-
Fair value through profit or loss				
Cash and cash equivalents (ii)	28,160	28,160	92,445	92,445
Securities (ii)	207,871	207,871	60,627	60,627
Fair value through other comprehensive income				
Securities (iii)	294,064	294,064	404,074	404,074
<u>Financial liabilities</u>				
Amortized cost:				
Suppliers (i)	105,994	105,994	83,991	83,991
Debentures (ii)	32,012	31,952	53,012	51,598
Derivative financial instruments (ii)	13,445	13,445	-	-
Loans and financing	-	-	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).



Notes to the quarterly information

September 30, 2018

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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 September 30, 2018 and December 31, 2017 in the amounts of R\$ 14,882 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\$ 14,568 and one tax claim of R\$ 313.

Provision reversed - Tuscany Arbitration

In September 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 suit filed by its lawyers and judged on September 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 September 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\$ 354,205) 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.



Notes to the quarterly information

September 30, 2018

(In thousands of reais, unless otherwise indicated)

31. Subsequent events

31.1 Assets acquisition

On October 26, 2018, the Company signed a Share Purchase Agreement for the acquisition of 18.26% working interest in the Frade field through the acquisition of Frade Japão Petróleo Ltda. The conclusion of the acquisition is subject to certain conditions precedent as well as internal and external approvals.

The Frade field produces an average of 17,000 barrels of oil per day (August 2018 position). With the acquisition, Petrorio will increase its daily production by approximately 3 thousand barrels, an increase of 25%.

With this transaction the company reaffirms, once again, its strategy of growth through acquisitions of producing assets, as well as representing a diversification of its portfolio of revenue generating assets.

31.2 Completion of drilling of the third well

On October 30, 2018, the Company completed the Revitalization Plan of Polvo Field, with the starting of commercial production of the third well drilled in 2018, named POL-M. The drilling of the third well began in August 2018, lasting approximately 60 days until its production started, following the timeline established by the Company.

The initial estimated flow, based on the stabilization of the reservoir pressure, is approximately 250 barrels per day. The Company opted to complete the well to take advantage of, besides the oil produced, information relevant to the definition of the targets of the Drilling Campaign of 2019.



Additional information to the financial statements

September 30, 2018

(In thousands of reais, unless otherwise indicated)

Statements of added value

(supplementary information for IFRS purposes)

Nine-month period ended September 30, 2018 and 2017

(In thousands of reais – R\$)

	Consolidated	
	09/30/2018	09/30/2017
Income		
Oil & Gas sales	581,187	340,307
	581,187	340,307
Inputs and services		
Third party's services and other	(24,576)	(24,470)
Geology and geophysics expenses	(1,331)	(590)
Costs of services	(247,667)	(293,559)
Gross added value	307,613	21,688
Retentions		
Depreciation and amortization	(66,454)	(197)
Net added value	241,159	21,491
Transferred value added		
Net financial income (loss)	45,811	46,518
Equity in income of subsidiaries	-	-
Deferred taxes	10,718	(2,928)
Rents, royalties and other	(80,412)	30,646
Added value payable	217,276	95,727
Distribution of added value		
Personnel	30,853	24,161
Taxes	41,711	4,059
Interest attributable to shareholders	144,712	67,507
Distributed added value	217,276	95,727



Additional information to the financial statements

September 30, 2018

(In thousands of reais, unless otherwise indicated)

Statements of added value

(supplementary information for IFRS purposes)

Three-month period ended September 30, 2018 and 2017

(In thousands of reais – R\$)

	Consolidated	
	07/01/2018– 09/30/2018	07/01/2017– 09/30/2017
Income		
Oil & Gas sales	224,627	110,014
	224,627	110,014
Inputs and services		
Third party's services and other	(4,761)	(4,242)
Geology and geophysics expenses	(980)	(241)
Costs of services	(76,864)	(93,512)
Gross added value	142,022	12,019
Retentions		
Depreciation and amortization	(22,436)	(70)
Net added value	119,586	11,949
Transferred value added		
Net financial income (loss)	29,141	14,224
Equity in income of subsidiaries	-	-
Deferred taxes	(121)	595
Rents, royalties and other	(39,951)	(5,102)
Added value payable	108,655	21,666
Distribution of added value		
Personnel	8,635	5,810
Taxes	28,562	(526)
Interest attributable to shareholders	71,458	16,382
Distributed added value	108,655	21,666

See the accompanying notes to the quarterly information.



Additional information to the financial statements

September 30, 2018

(In thousands of reais, unless otherwise indicated)

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 is covered against major risks such as Energy Package, which includes: Physical Damage over offshore assets, Operator's Extra Expenses (OEE - Well Control, Extra Expense/Reboring and Infiltration and Pollution, Cleaning and Contamination) and Offshore Liability (TPL) and Cargo/equipment coverage related to the Polvo field operations and D&O (Directors & Officers Liability) policy for directors and subordinates.

The insurance policies in force at September 30, 2018 cover the insured amount of R\$ 4,092,772. 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)	168,164
Fixed Platform	728,710
Offshore Platform	89,287
Offshore property (Pipeline)	116,914
Onshore properties (Pipeline)	46,846
Onshore Treatment Station	69,668
OEE production (Well control)	900,878
Offshore Civil Liability + Surplus	1,501,463
Cargo (Polvo)	3,500
D&O	30,000
General liability	5,000
Equity	2,900
Energy package (TPL)	400,390
Customs Guarantee	1,026
Legal guarantee	26,927
Travel Insurance Travel Guard	1,101
Total insured	4,092,772