Quarterly information - ITR

Petro Rio S.A.

June 30, 2017
with Independent Auditors' Report on the Review of the Quarterly Information

Petro Rio S.A.

Quarterly information - ITR

June 30, 2017

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 June 30, 2017, which comprises the balance sheet at June 30, 2017, and the respectively income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-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 (ITR). 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..

Emphasis of matter - Individual and consolidated interim financial information

According Notes 04 and 29, as per June 30, 2017, the Company has investments in shares, mostly concentrated in a single company that is undergoing judicial recovery. Consequently, when this investment takes place, the value may be different from that recorded, as a result, of the market values fluctuation of these financial instruments. Our opinion is not qualified because of this matter.

Other matters

Statements of Value Added (DVA)

We have also reviewed the condensed individual and consolidated statements of value added for the six-month period ended June 30, 2017, 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, August 08, 2017

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

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

Petro Rio S.A.

Balance sheets (financial position)
June 30, 2017 and December 31, 2016
(In thousands of reais)

	Note	Consolidated 06/30/2017	Consolidated 12/31/2016
Assets			
Current assets			
Cash and cash equivalents	3	**41,604**	24,793
Securities	4	**615,468**	546,507
Restricted cash	5	**21,377**	-
Accounts receivable	6	**79,173**	30,680
Oil inventories	25	**42,373**	33,192
Recoverable taxes	7	**54,959**	69,331
Advances to suppliers	8	**24,413**	23,400
Advances to partners	20	**833**	-
Prepaid expenses		**1,484**	2,696
Other receivables		**1,829**	726
		883,513	731,325
Non-current assets available for sale	9	**28,318**	50,255
		911,831	781,580
Non-current assets			
Advances to suppliers	8	**12,596**	12,596
Deposits and pledges		**14,994**	12,993
Recoverable taxes	7	**53,334**	42,601
Deferred taxes		**18,905**	5,782
Related parties	23	**-**	-
Investments	10	**-**	-
Property, plant and equipment	11	**75,661**	44,234
Intangible assets	12	**292,139**	182,583
		467,629	300,789
Total assets		**1,379,460**	1,082,369

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Balance sheets (financial position)
June 30, 2017 and December 31, 2016
(In thousands of reais)

	Note	Consolidated 06/30/2017	Consolidated 12/31/2016
Liabilities and shareholders' equity			
Current liabilities			
Suppliers	13	**53,993**	50,176
Labor obligations		**6,429**	10,151
Taxes and social contributions	14	**24,683**	13,494
Loans and financing	15	**124,328**	-
Debentures	16	**41,278**	688
Derivative financial instruments	29	**2,062**	162
Advances from partners	20	**8,941**	4,170
Other liabilities		**-**	779
		261,714	79,620
Non-current liabilities			
Suppliers	13	**13,456**	12,828
Debentures	16	**31,431**	31,431
Provision for abandonment (ARO)	19	**70,862**	48,670
Provision for contingencies	30	**25,215**	56,393
Deferred taxes and social contributions	18	**45,958**	19,275
Related parties	23	**-**	-
Investment deficit	10	**-**	-
		186,922	168,597
Shareholders' equity			
Realized capital	22	**3,265,216**	3,265,216
Capital reserves		**93,619**	100,875
Accumulated translation adjustment		**64,635**	61,704
Equity valuation adjustments		**54,858**	4,985
Accumulated losses		**(2,598,629)**	(2,840,250)
Income (loss) for the period		**51,125**	241,622
		930,824	834,152
Total liabilities and shareholders' equity		**1,379,460**	**1,082,369**

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of income
Six-month period ended June 30, 2017 and 2016
(In thousands of reais, except earnings/losses per share)

	Note	Consolidated	
		01/01/2017–06/30/2017	01/01/2016–06/30/2016
Net income	24	**230,293**	144,890
Costs of products/services	25	**(200,047)**	(180,653)
Gross Income		**30,246**	(35,763)
Operating income (expenses)			
Geology and geophysics expenses		**(349)**	(384)
Personnel expenses		**(18,351)**	(10,145)
General and administrative expenses		**(6,682)**	(5,231)
Expenses with outsourced services		**(20,228)**	(13,857)
Taxes and rates		**(534)**	(645)
Depreciation and amortization expenses		**(127)**	(361)
Equity in income of subsidiaries	10	**-**	-
Income from transactions with permanent assets		**-**	(6,712)
Other operating income (expenses), net	26	**42,430**	14,809
Operating income (loss) before financial income (loss)		**26,405**	(58,289)
Financial income	27	**100,258**	176,318
Financial expenses	27	**(67,964)**	(234,414)
Income (loss) before income and social contribution taxes		**58,699**	(116,385)
Current income and social contribution taxes		**(4,051)**	-
Deferred income and social contribution taxes		**(3,523)**	(24)
Income (loss) from continuing operations		**51,125**	(116,409)
Income (loss) from discontinued operation		-	-
Consolidated Income (loss) for the period		**51,125**	(116,409)
Income (loss) attributed to the Parent company's partners		**51,125**	(116,409)
Income (loss) attributed to non-controlling partners		**-**	-
Earnings (loss) per share - basic and diluted			
Basic		***3.954***	*(8.825)*
Diluted		***3.954***	*(8.825)*

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of income
Three-month period ended June 30, 2017 and 2016
(In thousands of reais, except earnings/losses per share)

	Note	Consolidated 04/01/2017–06/30/2017	Consolidated 04/01/2016–06/30/2016
Net income	24	**155,507**	103,381
Costs of products/services	25	**(131,807)**	(114,076)
Gross Income		**23,700**	(10,695)
Operating income (expenses)		**-**	-
Geology and geophysics expenses		**(146)**	(206)
Personnel expenses		**(13,021)**	(4,242)
General and administrative expenses		**(3,978)**	(2,969)
Expenses with outsourced services		**(10,030)**	(7,307)
Taxes and rates		**(110)**	(293)
Depreciation and amortization expenses		**(55)**	(34)
Equity in income of subsidiaries	10	**-**	-
Income from transactions with permanent assets		**-**	(6,712)
Other operating income (expenses), net	26	**42,324**	16,977
Operating income (loss) before financial income (loss)		**38,684**	(15,481)
Financial income	27	**31,925**	86,422
Financial expenses	27	**(21,233)**	(122,299)
Income before income and social contribution taxes		**49,376**	(51,358)
Current income and social contribution taxes		**(3,401)**	-
Deferred income and social contribution taxes		**1,131**	336
Income (loss) from continuing operations		**47,106**	(51,022)
Income from discontinued operation		-	-
Consolidated Income (loss) for the period		**47,106**	(51,022)
Income (loss) attributed to the Parent company's partners		**47,106**	(51,022)
Income (loss) attributed to non-controlling partners		**-**	-
Earnings (loss) per share - basic and diluted		**-**	-
Basic		***3.881***	*(7.834)*
Diluted		***3.881***	*(7.834)*

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of comprehensive income
Six-month period ended June 30, 2017 and 2016
(In thousands of reais)

	Consolidated	
	01/01/2017–06/30/2017	**01/01/2016–06/30/2016**
Retained earnings (loss)	**51,125**	(116,409)
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**2,931**	(42,317)
Equity valuation adjustments	**49,873**	19,115
Other comprehensive income for the year, net of taxes	**52,804**	(23,202)
Total comprehensive income for the year net of taxes	**103,929**	(139,611)
Attributable to parent company's shareholders	**103,929**	(139,611)
Attributable to non-controlling shareholders	**-**	-

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of comprehensive income
Three-month period ended June 30, 2017 and 2016
(In thousands of reais)

	Consolidated	
	04/01/2017–06/30/2017	**04/01/2016–06/30/2016**
Retained earnings (loss)	**47,106**	(51,022)
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**7,552**	(17,094)
Equity valuation adjustments	**(25,563)**	7,625
Other comprehensive income for the year, net of taxes	**(18,011)**	(9,469)
Total comprehensive income for the year net of taxes	**29,095**	(60,491)
Attributable to parent company's shareholders	**29,095**	(60,491)
Attributable to non-controlling shareholders	**-**	-

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of changes in shareholders' equity
Six-month period ended June 30, 2017 and 2016
(In thousands of reais)

	Capital assets	Capital reserve	Equity valuation adjustment	Accumulated translation adjustment	Accumulated loss	Total
Balances at January 1, 2016	**3,265,185**	**101,720**	**-**	**387,451**	**(2,840,250)**	**914,106**
Paid-up capital	31	-	-	-	-	31
Translation adjustment on investment abroad	-	-	-	(42,317)	-	(42,317)
Gain (loss) with financial instruments	-	-	19,115	-	-	19,115
Loss for the period	-	-	-	-	(116,409)	(116,409)
Balances at June 30, 2016	**3,265,216**	**101,720**	**19,115**	**345,134**	**(2,956,660)**	**774,526**
Balances at January 1, 2017	**3,265,216**	**100,875**	**4,985**	**61,704**	**(2,598,629)**	**834,151**
Translation adjustment on investment abroad	-	-	-	2,931	-	2,931
Gain (loss) with financial instruments	-	-	49,873	-	-	49,873
Income for the period	-	-	-	-	51,125	51,125
Treasury shares	-	(7,256)	-	-	-	(7,256)
Balances at June 30, 2017	**3,265,216**	**93,619**	**54,858**	**64,635**	**(2,547,504)**	**930,824**

See the accompanying notes to the quarterly information.

Petro Rio S.A.

Statements of cash flows
Six-month period ended June 30, 2017 and 2016
(In thousands of reais)

	Consolidated	
	06/30/2017	06/30/2016
Cash flows from operating activities		
Income (loss) for the period (before taxes)	**58,699**	**(116,385)**
Depreciation and amortization	44,269	32,980
Financial income	(88,760)	(170,740)
Financial expenses	59,673	223,220
Equity in income of subsidiaries	-	-
Loss/Write-off of non-current assets	-	1
Provision for contingencies/losses	(42,078)	(17,353)
Impairment	-	6,291
	31,803	**(41,986)**
(Increase) decrease in assets		
Accounts receivable	(30,059)	119,642
Recoverable taxes	4,708	(1,167)
Prepaid expenses	2,1471	(5,056)
Advances to suppliers	(734)	(2,594)
Inventory	(10,897)	(24,827)
Related parties	-	-
Advances from partners in oil and gas operations	(833)	-
Other receivables	(634)	(230)
Increase (decrease) in liabilities		
Suppliers	(1,332)	388
Labor obligations	(229)	(1,115)
Taxes and social contributions	(7,587)	(4,776)
Related parties	-	-
Contingencies	(337)	(71)
Advances from partners in oil and gas operations	4,709	(753)
Other liabilities	(791)	(2,617)
Net cash (invested in) from operating activities	**(10,072)**	**34,788**
Cash flows from investment activities		
(Investment in) redemption of securities	39,532	(234,381)
(Increase) decrease in restricted cash	(11,176)	-
(Increase) decrease in abandonment fund	(1,381)	-
(Increase) decrease in deposits and pledges	(2,137)	(388)
Non-current assets held for sale	22,694	-
(Increase) decrease in permanent assets	(130,739)	(54,517)
Net cash (invested in) from investment activities	**(83,207)**	**(163,305)**
Cash flows from financing activities		
Loans and financing	123,455	-
Debentures	(1,749)	(1,880)
Derivative transactions	(162)	(5,158)
(Purchase) sale of shares of the Company (held in treasury)	(12,429)	-
Net cash (invested in) from financing activities	**109,115**	**(7,038)**
Translation adjustment	974	5,654
Net increase (decrease) in cash and cash equivalents	**16,810**	**(255,882)**
Cash and cash equivalents at the beginning of the year	24,793	283,951
Cash and cash equivalents at the end of the year	41,603	28,069
Net increase (decrease) in cash and cash equivalents	**16,810**	**(255,882)**

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, Rio de Janeiro - RJ, Brazil, and is engaged in: (1) holding interests in other companies as partner or shareholder in Brazil or abroad, regardless of their type of business, and (2) (i) providing consulting services and research projects for environmental, oil, natural gas and mining, providing professional consulting services to companies in the areas of collection, chemical analyses (organic and inorganic) and interpreting data from geological, geochemical, geophysical surveys, and remote sensing for these data as well as consultant services for foreign trade; (ii) exploration, development and production of oil and natural gas; (iii) importing, exporting, refining, marketing and distributing oil, natural gas, fuels and petroleum products, and (iv) generating, marketing and distributing electricity.

Its activities are the production of oil and natural gas, operating in Campos Basin (RJ) and Camuru Basis (BA).

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

In 2014, subsidiary Petro Rio O&G Exploração e Produção de Petróleo Ltda. (“PetroRioOG”) acquired 60% of concession contract of Polvo field, BP Energy do Brasil Ltda. (“BP”) and became the field operator. On December 2, 2015, the acquisition of the remaining 40% interest, belonging to Maersk Energia Ltda. (“Maersk”), was completed. With the conclusion of the Operation, PetroRio now holds 100% of Polvo Field, and due to this fact, started in 2016, to execute the plan for extension of useful life of this Field through development of undeveloped probable reserves (1P) and probable reserves (2P) (Note 12).

The Polvo field is located in the southern portion of the Campos Basin (offshore) some 100 km east of the city of Cabo Frio in the state of Rio de Janeiro. Average daily output during the second quarter of 2017 was of roughly 8.0 thousand barrels (8.8 thousand barrels for the second quarter of 2016. The license covers an area of approximately 134 km2 with several prospects for future exploration.

On March 20, 2017 the subsidiary PetroRioOG concluded the transaction for the acquisition of 100% of the shares of Brasoil do Brasil Exploração Petrolífera S.A. (“Brasoil”). The transaction was carried out in stages; the first and second stages were carried out in December 2016, with the signing of purchase/sale agreements with Goldman Sachs & Co. (“GO”) – 23.19% – and with the Brascan Petroleum, Gas and Energy Fund – Equity Investment Fund (“FIP Brascan”) – 29.21% – totaling 52.40%. The third stage, carried out in 1Q17, was the acquisition of the remaining 47.60% stake, held by minority shareholders, who adhered to the tag-along clause of the agreements originally signed with GO and FIP Brascan. The conclusion of the purchase and sale transaction was confirmed after the fulfillment of the previous conditions.

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

In addition to its interest in Manati field i, other relevant assets of the Brasoil include 100% stake in the concessions of FZA-Z-539 and FZA-M-254 blocks, both located in Foz do Rio Amazonas, which are Company's operator.

Besides, the subsidiary Petro Rio Internacional S.A. ("PTRIntl") holds a 10% interest in two exploration blocks in onshore basins, located in the Recôncavo Basin (BA) and Espírito Santo (ES). The remaining 90% belong to Cowan, the consortium's operator.

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

(In thousands of reais, unless otherwise indicated)

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.

The Company's consolidated quarterly information comprises:

		Interest			
		06/30/2017		12/31/2016	
Fully consolidated companies		**Direct**	**Indirect**	**Direct**	**Indirect**
Petro Rio O&G Exploração e Produção de Petróleo Ltda.	"PetroRioOG"	**100%**	**-**	100%	-
HRT América Inc.	"HRTA"	**100%**	**-**	100%	-
Petro Rio Internacional S.A.	"PTRIntl"	**2%**	**98%**	25%	75%
Petrorio Luxembourg Holding Sarl	"Lux Holding"	**-**	**100%**	-	100%
Petrorio Lux Energy Sarl	"Lux Energy"	**-**	**100%**	-	100%
HRT Netherlands BV	"Netherlands"	**-**	**100%**	-	100%
HRT Walvis Petroleum (Pty) Ltd.	"Walvis"	**-**	**100%**	-	100%
HRT Canada Inc.	"Canadá"	**-**	**100%**	-	100%
Petrorio Luderitz Luxembourg Holding SARL	"Lux Luderitz"	**-**	**100%**	-	100%
HRT Luderitz Petroleum (Pty) Ltd.	"Luderitz"	**-**	**100%**	-	100%
Petrorio Luxembourg Sarl	"Lux Sarl"	**-**	**100%**	-	100%
Cumoxi Investments (Pty) Ltd.	"Cumoxi"	**-**	**100%**	-	100%
Kunene Energy (Pty) Ltd.	"Kunene"	**-**	**100%**	-	100%
Orange Petroleum Ltd.	"Orange"	**-**	**100%**	-	100%
Brasoil do Brasil Exploração Petrolífera S.A.	"Brasoil"	**-**	**100%**	-	100%
Brasoil OPCO Exploração Petrolífera Ltda.	"Opco"	**-**	**100%**	-	100%
Brasoil Manati Exploração Petrolífera S.A.	"Manati"	**-**	**100%**	-	100%
Brasoil Coral Exploração Petrolífera Ltda.	"Coral"	**-**	**100%**	-	100%
Brasoil Cavalo Marinho Exploração Petrolífera Ltda.	"Cavalo Marinho"	**-**	**100%**	-	100%
Brasoil Round 9 Exploração Petrolífera Ltda.	"Round 9"	**-**	**100%**	-	100%
Brasoil Finco LLC	"Finco"	**-**	**100%**	-	100%

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, 2016) which, in the absence of material changes during this period, are not included in their full form in this quarterly information, except for the following item, whose operation was not classified in financial statements of 2016:

(In thousands of reais, unless otherwise indicated)

2.4.1. Government grants

Manati – located in the SUDENE area, since the beginning of 2009 – enjoys decrease in 75% for the income tax rate, based on the operating profit for 10 years, for operations in the State of Bahia.

A governmental grant is recognized in income (loss) throughout the period, compared with the expenses it intends to set-off, in a systematic basis, provided that the conditions of CPC 07 (R1) - Governmental Grants and Assistance be meet.

2.5. Functional 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

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

Pronouncement or interpretation	Description	Application to the business years/periods to be initiated on or after
IFRS 9	Financial instruments – measurement and classification;	January 1, 2018
IFRS 15	Income from contracts with clients	January 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 7	Disclosure information	January 1, 2017

The Company understands that adopting these pronouncements will not relevantly impact its quarterly information.

2.7. Effects of adopting IAS 8 - Accounting policies, estimate changes and error correction.

In December 2016, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo field, specifically of proven developed reserves. Reevaluation indicated extension of field useful life up to the end of 2021 (before, the field useful life was estimated up to 2020). This extension 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 August 8, 2017.

(In thousands of reais, unless otherwise indicated)

3 Cash and cash equivalents

	Consolidated	
	06/30/2017	**12/31/2016**
Cash	**1**	1
Banks	**41,603**	24,792
	41,604	24,793
National	**4,251**	655
Abroad	**37,353**	24,138

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

4 Securities

	Consolidated	
	06/30/2017	**12/31/2016**
Purchase and sale commitments (debentures)	-	1,522
Shares (i)	60,601	41,690
Total investments for trading	**60,601**	43,212
Fixed income debt securities (bonds) (ii)	232,939	296,885
Multimarket investment funds (iii)	285,798	171,786
Shares	281,595	149,870
Government bonds (LFT/NTN)	2,495	3,852
Cash/Money Market	1,708	18,064
Total available for sale	**518,737**	468,671
Promissory note (iv)	36,131	34,624
Total held to maturity	**36,131**	34,624
	615,468	546,507

(i) The Company has investments in shares of an organization that is under court-ordered reorganization, which are not relevant in volume, as it understands that this investment has great potential for appreciation. In the six-month period ended June 30, 2017, the valuation of the portfolio (market) was 45.36%.

(ii) 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.

(iii) Investment funds in Brazil and abroad, which basically invest in shares, with market-based income (yield of 46.54% in the six-month period ended June 30, 2017), 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.

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

(In thousands of reais, unless otherwise indicated)

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 (see details in Note 16b), is required to maintain deposits in a bank assigned account of financial investments in a fixed income fund (yield of 13.22% accumulated in the last 12 months) to guarantee future payments of its obligations related to such debentures. The movement of these deposits occurs every six months for payment of such debentures.

6 Accounts receivable

	Consolidated	
	06/30/2017	**12/31/2016**
Glencore (i)	**-**	7,374
Repsol (ii)	**31,704**	-
Shell (iii)	**23,157**	22,814
Petrobras (iv)	**23,889**	-
Other	**423**	492
Total	**79,173**	30,680
Total domestic currency	**23,889**	75
Total foreign currency	**55,284**	30,605

(i) Balance receivable remaining from the sale of oil in December 2016, referring to approximately 477,000 barrels of oil, which generated an income of R$ 72,556, fully received.

(ii) Balance receivable remaining from the sale of oil in June 2017, referring to approximately 224,000 barrels of oil, which generated an income of R$ 31,704.

(iii) In January and July 2015, the Company announced a purchase and sale agreements to acquire 80% and 20% interest of the rights and obligations of the concession contracts of Bijupirá and Salema ("BJSA") fields with Shell Brasil Petróleo Ltda. ("Shell") and Petróleo Brasileiro S.A. – Petrobras, respectively. In February 2016, Shell rescinded contract for the purchase and sale for acquisition of 80% of BJSA and FPSO Fluminense concession, as permitted by contract. In that same month, PetroRio rescinded contract with Petrobras for acquisition of 20% in BJSA concession. Petrobras has already repaid all the amount as an advance. Of the amounts paid to Shell, there is still US$ 7 million (R$ 23,157) to be refunded of the total being charged by means of arbitration procedure.

(iv) Balance receivable related to sales of gas and condensed oil by Manati in May and June 2017, roughly 25 million m³ of gas, corresponding to a net income of R$ 20,048 and balance referring to the amount not withdrawn in 2016 (take or pay) in the amount of R$ 3,841.

(In thousands of reais, unless otherwise indicated)

7 Recoverable taxes

	Consolidated	
	06/30/2017	**12/31/2016**
Income and social contribution taxes (i)	**20,690**	22,634
PIS and COFINS (ii)	**49,097**	51,156
ICMS	**15,336**	15,432
Tax abroad (VAT) (iii)	**22,952**	22,497
Other	**218**	213
Total	**108,293**	111,932
Current assets	**54,959**	69,331
Non-current assets	**53,334**	42,601

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

8 Advances to suppliers

	Consolidated	
	06/30/2017	**12/31/2016**
Geoquasar Energy	**12,596**	12,596
BW (Prosafe) guarantee	**22,478**	22,199
Other	**1,935**	1,201
Total	**37,009**	35,996
Total current assets	**24,413**	23,400
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$ 18,761) 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).

(In thousands of reais, unless otherwise indicated)

9 Non-current assets available for sale

The Company started 2017 with one aircraft and four helitransportable drilling rigs, classified as non-current assets held for sale.

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

	Balance at 12/31/2016	Write-offs	Commission	Impairment	Translation adjustment	**Balance at 06/30/2017**
Aircrafts	**5,540**	-	-	-	83	**5,623**
Drilling rigs	**44,715**	(21,725)	435	-	(730)	**22,695**
	50,255	(21,725)	435	-	(647)	**28,318**

	Balance at 12/31/2015	Write-offs	Commission	*Impairment*	Translation adjustment	**Balance at 12/31/2016**
Aircrafts	**12,417**	(4,930)	-	-	(1,947)	**5,540**
Drilling rigs	**61,227**	-	-	(6,712)	(9,800)	**44,715**
	73,644	(4,930)	-	(6,712)	(11,747)	**50,255**

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$ 12,776 already net of the 2% sales commission) to US$ 3,430,000 (R$ 11,179).

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

This negotiation results from the sale of the gas and oil blocks located in *Bacia Sedimentar de Solimões*, in the State of Amazonas, to Rosneft itself, held in 2015. When negotiating the blocks, the drilling rigs were included, but the parties agreed that the drilling rigs would be negotiated in a second moment.

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

On June 30, 2017 and December 31, 2016, 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% stake in Brasoil. The transaction was completed on March 20, 2017.

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

  In addition to its interest in 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. ("PTRIntl")**

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

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

Currently, 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 9, 2016, PetroRio announced that, as a result of current scenario of oil and gas industry and after a long period of dialogues with Namibia' government, it decided not to renew its oil exploration licenses in that country. Accordingly, the Company will not make new investments in Namibia. A provision was recorded for previous investments in field exploration (Impairment) in prior years.

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

Additionally, PTRIntl has interest in a block in the Recôncavo Basin and one Block in Espírito Santo Basin (ES), where is non-operator (Note 12).

(In thousands of reais, unless otherwise indicated)

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

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

Portfolio of concessions

On June 30, 2017 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
Brazil	Santos	BS-3	Cavalo Marinho	Cavalo Marinho	15%	Non-operator	Development
Brazil	Santos	BS-3	Coral	Coral	15%	Non-operator	Development
Brazil	Espírito Santo	ES-T-400	-	PTRIntl	10%	Non-operator	Exploration
Brazil	Recôncavo	REC-T-158	-	PTRIntl	10%	Non-operator	Exploration

a) Relevant information on investees as of June 30, 2017

	PetroRioOG	PTRIntl	HRTA
Direct interest	100.0%	1.7%	100.0%
Indirect interest	0.0%	98.3%	0.0%
Shareholders' equity	802,552	179,914	(191)
Income (loss) for the period	41,354	15,167	68
Total assets	1,251,010	187,077	188

b) Breakdown of investments

	Parent company	
	06/30/2017	12/31/2016
PetroRioOG	**802,552**	739,590
HRTA	**(191)**	(932)
PTRIntl	**3,035**	3,067
	805,396	741,725
Investments	**805,587**	742,657
Provision for loss on investments in subsidiaries	**(191)**	(932)

(In thousands of reais, unless otherwise indicated)

b) Changes in the investment

	PetroRioOG	PTRIntl	HRTA	Total
Balance at December 31, 2015	**829,796**	**78,854**	**(7,149)**	**901,501**
Capital increase/decrease	(58,493)	(14,571)	3,649	(69,415)
Equity in income of subsidiaries	255,363	5,430	1,761	262,554
Ownership interest adjustments	60,490	(60,490)	-	-
Equity valuation adjustments	11,432	-	-	11,432
Conversion adjustments	(358,998)	(6,156)	807	(364,347)
Balance at December 31, 2016	**739,590**	**3,067**	**(932)**	**741,725**
Capital increase/decrease	-	(337)	635	298
Equity in income of subsidiaries	41,354	256	68	41,678
Equity valuation adjustments	18,764	-	-	18,764
Conversion adjustments	2,844	49	38	2,931
Balance at June 30, 2017	**802,552**	**3,035**	**(191)**	**805,396**

11 Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 06/30/2017	Balance at 12/31/2016
In operation						
Polvo A platform and drilling rig	UOP	101,439	(81,858)	16,577	**36,158**	42,514
Oil & gas assets - Manati	UOP	70,395	(33,228)	-	**37,167**	-
Machinery and equipment	10	2	-	-	**2**	-
Furniture and fixtures	10	812	(335)	-	**477**	395
Communication equipment	20	258	(73)	-	**185**	32
IT equipment	20	2,182	(1,857)	-	**325**	93
Leasehold improvements	4	1,436	(89)	-	**1,347**	1,200
Total		176,524	(117,440)	16,577	**75,661**	44,234

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

(In thousands of reais, unless otherwise indicated)

b) Changes in balance

	Balance at 01/01/2017	Additions	Write-offs	Depreciation	Translation adjustment	Acquisition - Brasoil	Balance at 06/30/2017
In operation							
Polvo A platform and drilling rig	**42,514**	**-**	**-**	**(6,722)**	366	-	**36,158**
Oil & gas assets - Manati	**-**	**7**	**-**	**(2,166)**	-	**39,326**	**37,167**
Machinery and equipment	**-**	**82**	**(80)**	**-**	-	**-**	**2**
Furniture and fixtures	**395**	**113**	**(6)**	**(35)**	-	**10**	**477**
Communication equipment	**32**	**161**	**-**	**(11)**	-	**3**	**185**
IT equipment	**93**	**287**	**-**	**(59)**	-	**4**	**325**
Leasehold improvements	**1,200**	**188**	**(20)**	**(30)**	-	**9**	**1,347**
Total	**44,234**	**838**	**(106)**	**(9,023)**	**366**	**39,352**	**75,661**

	Balance at 01/01/2016	Additions	Write-offs	Depreciation	Translation adjustment	Balance at 12/31/2016
In operation						
Polvo A platform and drilling rig	68,215	-	-	(15,378)	(10,323)	42,514
Furniture and fixtures	407	82	(20)	(74)	-	395
Communication equipment	64	9	(9)	(32)	-	32
Vehicles	13	-		(13)	-	-
IT equipment	145	211	(109)	(154)	-	93
Leasehold improvements	1,091	486	(331)	(46)	-	1,200
Facilities	14	-	(13)	(1)	-	-
Total	69,949	788	(482)	(15,698)	(10,323)	44,234

12 Intangible assets (consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated 06/30/2017	Consolidated 12/31/2016
Oil & Gas assets			
Subscription bonus - Reconcavo - ES	(*)	151	151
Acquisition cost - Polvo	(*)	335,530	335,530
Acquisition cost - Manati	(*)	292,372	-
Subscription bonus - FZA-M-254	(*)	5,968	-
Subscription bonus - FZA-Z-539	(*)	8,022	-
Exploration / development expenses	(*)	68,212	68,212
Maintenance of wells	(*)	9,359	-
Emergency spare parts	(*)	9,738	5,744
Software and others	20	9,040	8,777
		738,392	418,414
Accumulated amortization		(446,253)	(235,831)
Total		292,139	182,583

(*) 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.

(In thousands of reais, unless otherwise indicated)

b) Changes in balance

	Balance at 01/01/2017	Additions	Write-offs	Amortization	Acquisition - Brasoil	Goodwill	Balance at 03/31/2017
Subscription bonus - Reconcavo - ES	151	-	-	-	-	-	**151**
Acquisition cost - Polvo	120,501	-	-	(19,538)	-	-	**100,963**
Acquisition cost - Manati	-	-	-	(4,456)	86,129	29,337	**111,010**
Subscription bonus - FZA-M-254	-	-	-	-	5,968	-	**5,968**
Subscription bonus - FZA-Z-539	-	-	-	-	8,022	-	**8,022**
Exploration / development expenses - Polvo	56,162	-	-	(9,079)	-	-	**47,083**
Maintenance of wells	-	9,359	-	(442)	-	-	**8,917**
Emergency spare parts	5,744	3,994	-	-	-	-	**9,738**
Software and others	25	-	-	-	262	-	**287**
	182,583	**13,353**	**-**	**(33,515)**	**100,381**	**29,337**	**292,139**

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

On conclusion of the 40% Polvo field acquisition in January 2016, PetroRio put in place the first stage of the Polvo revamping plan, intended to extend its useful life by increasing production based on undeveloped proved reserves (1P) and probable reserves (2P), involving three existing wells, two of which operating.

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

Business combination

On March 20, 2017, the Company concluded the transaction for the acquisition of 100% of Brasoil shares, as Note 10. 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% stake in the rights and obligations set forth in the concession contract of Manati Field, currently producing 4.2 million cubic meters of natural gas per day (approximately 26,000 barrels of oil equivalent per day), ranking as the 8th largest natural gas field in Brazil.

(In thousands of reais, unless otherwise indicated)

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.

Coral and Cavalo Marinho have a 15% interest in the rights and obligations of the concession contracts of Coral and Cavalo Marinho fields, respectively, both in BS-3 Block.

The Company is performing the calculation of the fair valuesof the assets acquired and liabilities assumed, to allocate the purchase price. The legal deadline for completing the analyzes according to CPC 15 is one year as of the date of conclusion of the purchase and sale transaction, but the Company is making every effort to complete the analyzes in the third quarter of 2017.

During the measurement period, the initial allocation of the purchase price may be updated. The expectation is that the definitive allocation of the purchase price will promote the distribution of the goodwill generated in the transaction by the assets that justified such gain/goodwill.

<u>Increase of Polvo Field useful life</u>

In December 2016, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo field, specifically of proven developed reserves. Reevaluation indicated extension of field useful life up to the end of 2021 (before, the field useful life was estimated up to 2020). This extension represents a proportional reduction of Polvo assets amortization, including Fixed Platform “Polvo A”.

13 Suppliers

	Consolidated	
	06/30/2017	**12/31/2016**
Domestic suppliers	**40,375**	36,097
Foreign suppliers	**27,074**	26,907
	67,449	63,004
Total current liabilities	53,993	50,176
Total non-current liabilities	13,456	12,828

(In thousands of reais, unless otherwise indicated)

14 Taxes and social contributions payable

	Consolidated	
	06/30/2017	**12/31/2016**
IRPJ and CSLL payable	**5,491**	4,635
PIS and COFINS	**7,696**	1,321
Service tax	**149**	142
IRRF (Withholding income tax) on services	**2,201**	554
ICMS	**1,863**	-
INSS	**5,392**	6,052
Taxes on Equity	**174**	175
FGTS	**117**	73
Other	**1,600**	542
	24,683	13,494

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 June 30, 2017, totaled R$ 124,328.

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.

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

The debentures may be converted into shares at the sole discretion of the debentureholders, since October 24, 2015 until the date of maturity of the debentures (exclusive). The number of shares to be delivered to the debentureholders on the date of conversion of the debentures will be the result of dividing the par value of the debentures by the lesser of: (i) the weighted average, based on the daily volume, of the closing price of the shares in the last ten (10) trading sessions on BM&FBOVESPA, preceding October 27, 2014, applying a 25% discount; or (ii) the weighted average, based on the daily volume, of the closing price of shares in the last 10 trading sessions on the BM&FBOVESPA, prior to receipt of the conversion request by applying a discount of 25%, thus giving a conversion price. The Management has assessed this conversion option on June 30, 2017, and in accordance with financial models has concluded that there is no attributable value at the present time.

(In thousands of reais, unless otherwise indicated)

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.

	01/01/2017	Addition	Write-off	06/30/2017
Principal	31,431	-	-	**31,431**
Financial charges	688	1,601	(1,748)	**541**
Total	**32,119**	**1,601**	**(1,748)**	**31,972**
Current	688	1,601	(1,748)	541
Non-current	31,431	-	-	31,431

Up to June 30, 2017, debentureholders opted to convert 2,787,375 debentures (R$ 55,762 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 have an amortization period of 84 months, yield equivalent to the variation of the IGP-M (General Market Price Index) + 9.6% interest per annum, to be paid in equal half-yearly installments since July 4, 2012.

In accordance with the debentures issuance deed, early maturity clause, the debentures shall be reported as early overdue in case the following indices are not maintained:

(In thousands of reais, unless otherwise indicated)

Description of the agreement (Covenants)	2011	2012-2013	2014-2017
Financial leverage - net debt/EBITDA ratio	3.00	2.50	2.00
Debt service - EBITDA/interest costs	2.00	2.00	2.00
Debt service coverage - (cash (e.g.: net investments) + operating cash flow of last 12 months)/obligations required in the next 12 months	1.30	1.30	1.30

Changes in non-convertible debentures of Manati:

	03/19/2017	Restatement	Write-off	06/30/2017
Principal	**39,461**	(1,038)	-	**38,423**
Financial charges	**1,683**	(1,003)	-	**2,686**
Transaction costs	**(580)**	-	208	**(372)**
Total	**40,564**	**(35)**	**208**	**40,737**
Current	40,564	(35)	208	40,737

17 Operational lease (lessee)

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

The subsidiary PetroRioOG (lessee) has a lease agreement of a FPSO vessel with Prosafe (lessor) entered into on December 10, 2013, with one-year term, and may be renewed annually up to May 1, 2022. The sum appropriated during the three-month period ended June 30, 2017 was of R$ 37,037 (US$ 11,196 thousand) and during the six-month period ended on June 30, 2016 was of R$ 45,175 (US$ 14,074 thousand).

18 Current and deferred income tax and social contribution

	Tax loss		Tax credit	
Companies	**06/30/2017**	**12/31/2016**	**06/30/2017**	**12/31/2016**
PetroRio S.A.	**60,816**	**76,022**	**20,677**	**25,847**
PetroRio O&G	**1,216,185**	**1,240,475**	**413,503**	**421,761**
PetroRio Internacional	**10,673**	**10,209**	**3,629**	**3,471**
	1,287,674	**1,326,705**	**437,809**	**451,080**

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.

(In thousands of reais, unless otherwise indicated)

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

	Consolidated	
	06/30/2017	12/31/2016
Negative goodwill on fair value recognized assets on in business combinations	**3,124**	3,855
Mark to market of financial instruments	**42,834**	15,420
	45,958	19,275
Deferred tax asset credit	**(18,905)**	(5,782)

19 Provision for abandonment (ARO)

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

	Consolidated	
	06/30/2017	12/31/2016
Previous balance	**160,277**	**201,752**
Acquisition - Brasoil	48,009	-
Currency adjustment	3,142	(30,820)
Price-level restatement	1,629	(10,655)
Balance	**213,056**	**160,277**
(-) Accounts receivable guarantee Maersk, net of exchange fluctuation	(113,292)	(111,607)
(-) Brasoil's abandonment fund	(28,902)	-
Net balance of liabilities	**70,862**	**48,670**

The estimated abandonment costs were provisioned for the period ended June 30, 2017.

For Polvo field, this provision corresponds to PetroRio interest of 100%, and reflects the estimated present value discounted at the rate of 3.30% per annum and monetary restated at the rate of 2.04% per annum. In addition, amounts are adjusted by the variation of the U.S. dollar. These costs will be incurred in the abandonment of the Polvo field, including, but not limited to the plugging of wells, and the removal of production lines and equipment.

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 pay the abandonment costs when they occur. As of June 30, 2017, the Company maintained a balance of R$ 28,902.

(In thousands of reais, unless otherwise indicated)

20 Advances to/from partners in oil and gas operations

	Consolidated	
Operated blocks	**06/30/2017**	**12/31/2016**
GALP - Namíbia - Petroleum Exploration Licences 23	**3,923**	3,865
Total operated blocks	**3,923**	3,865
Non-operated blocks (Cowan - ES)	**305**	305
Non-operated blocks (Petrobras - Brasoil Manati)	**3,880**	-
Total advances to/from partners	**8,108**	4,170
Total current liabilities	**8,941**	4,170
Total current assets	**(833)**	**-**

21 *Impairment*

The Company periodically monitors indicators and 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 six-month period ended June 30, 2017.

22 Shareholders' equity

22.1 Capital

On June 30, 2017 the Company's subscribed and paid-in capital totaling R$ 3,401,910 is comprised of 13,190,747 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 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 ordinary shares up to May 27, 2017 had the GDSs compulsorily canceled and will receive their cash amounts throughout 2017.

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 and to be held in treasury, canceled and/or for subsequent disposal.

(In thousands of reais, unless otherwise indicated)

Until June 30, 2017, the Company acquired a total of 402,400 common shares of Petro Rio S.A., which were classified as Treasury Shares, rectifying Shareholders' Equity, at an acquisition cost of R$ 13,682. Moreover, as of June 30, the Company used a parts of treasury shares as a payment method of debt with part of its employees and administrators, totaling 141,560 shares, in the amount of R$ 5,173 (R$ 36.54 per share).

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

Furthermore, the Company recorded R$ 136,694 referring to share issuance costs in a capital reducing account and which comprise the balance shown of R$ 3,265,216.

Shareholder	Number of common shares	% of interest
Aventti Strategic Partners LLP	3,554,391	26.9%
One Hill Capital LLC	3,027,497	23.0%
Societe Mondiale Des Energies FIA	1,510,299	11.4%
Other Shareholders	5,098,560	38.7%
Total	**13,190,747**	**100.0%**

The Company's capital was subject to changes during 2016, due to a R$ 30 increase through the conversion of Debentures into shares, pursuant to Note 16a.

22.2 Share-based compensation plan

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

	SOP V 04/01/2014	SOP IV 11/11/2013	SOP III 01/02/2013	SOP II 05/09/2012	SOP I 05/14/2010
Total stock options granted	22,497	175,000	541,458	662,295	492,600
Stock option strike price	R$ 8.00	R$ 7.90	R$ 20.60	R$ 22.20	R$ 0.20
Fair value on concession date	R$ 2.51	R$ 4.00	R$ 38.10	R$ 39.51	R$ 57.60
Estimated volatility of share price	76.79%	0.78%	74.22%	127.49%	37.47%
Risk-free rate of return	9.50%	9.50%	8.22%	8.74%	9.12%
Option validity (in years)	3	5	Immediate	3	5

The strike price range and the average maturity of outstanding options, as well the strike price range for the exercisable options for the period ended June 30, 2017, are summarized below:

	Outstanding options			Options exercised/ canceled	
Plan	Options outstanding on 12/31/2016	Average maturity in years	Exercise price	Options exercised up to 06/30/2017	Options canceled up to 06/30/2017
SOP V	22,497	3	R$ 8.00	-	-
SOP IV	175,000	5	R$ 7.90	-	39,167
SOP III	541,458	Immediate	R$ 20.60	98,087	93,931
SOP II	662.295	3	R$ 22.20	147,852	479,993
SOP I	492,600	Immediate	R$ 0.20	437,160	55,400

For the period ended on June 30, 2017, the Company has a balance recorded in shareholders' equity - income from share-based compensation - the amount of R$ 77,665, R$ 28,376 of the 2010 plan grant, R$27,839 of grant the 2012 plan, R$ 20,660 of the 2013 plan grant (SOP III), R$ 734 of the 2013 plan grants (SOP IV) and R$ 56 of the 2014 plan was granted, the counterpart being in the respective statements of income as personnel cost.

22.3 Earnings per share

Pursuant to CPC 41 (IAS 33), the Company presents some information on earnings per share for the periods ended June 30, 2017 and June 30, 2016. Basic earnings per share are calculated by dividing net income for the year attributed to the Company’s common and preferred shareholders by the weighted average number of common and preferred shares available in the period.

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

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

Basic and diluted earnings per share	06/30/2017	06/30/2016
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group’s shareholders	**51,125**	**(116,409)**
Denominator (in thousands of shares)		
(+) Weighted average number of common shares adjusted by dilution effect	**13,191**	13,191
(-) Treasury shares	**(261)**	-
	12,930	**13,191**
Basic and diluted earnings per share	**3.954**	**(8.825)**

(In thousands of reais, unless otherwise indicated)

23 Related party transactions

	06/30/2017	12/31/2016
Reimbursement of administrative expenses Petrorio x O&G	**-**	44
Loan Petrorio S.A x Petrorio Internacional (i)	**(1,283)**	(1,358)
Loan Petrorio S.A x Petrorio O&G (ii)	**(16,587)**	(6,076)
Service agreement Petrorio x Lux Energy (iii)	**533**	487
	(17,337)	(6,903)
Total non-current assets	**533**	531
Total non-current liabilities	**(17,870)**	(7,434)

(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 12 month-term, and interest rate of 80% of the CDI.
(iii) Balance of R$ 533 (R$ 487 as of December 31, 2016) 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 six-month period ended June 30, 2017 was R$ 8,070 (R$1,750 on June 30, 2016).

Debentures

The Company for the year ended on 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 income

Net income for the six-month period ended June 30, 2017 is comprised of the export income of 100% of its Polvo Field production (R$ 202,362), which, since it is exported, has no taxes on sale, and of gross sales of Gas and Condensate to Petrobras (R$ 35,144), which, due to its sale in national territory, is subject to ICMS, PIS and COFINS taxes (deduction of R$ 7,213).

(In thousands of reais, unless otherwise indicated)

25 Costs of products sold and services rendered

	Consolidated			
	04/01/2017–06/30/2017	**04/01/2016–06/30/2016**	**01/01/2017–06/30/2017**	**01/01/2016–06/30/2016**
FPSO	(31,220)	(26,789)	(49,081)	(44,044)
Logistics	(14,199)	(12,587)	(22,044)	(20,548)
Consumables	(16,254)	(15,037)	(25,198)	(25,440)
Operation and maintenance	(17,889)	(8,918)	(25,200)	(16,046)
Personnel	(3,074)	(3,066)	(5,126)	(4,939)
SMS	(3,982)	(3,834)	(5,867)	(7,428)
Other costs	(2,640)	(14,612)	(4,342)	(16,774)
Royalties and special interest	(15,029)	(7,868)	(23,026)	(12,815)
Depreciation and amortization	(27,520)	(21,365)	(40,163)	(32,619)
Total	**(131,807)**	**(114,076)**	**(200,047)**	**(180,653)**

On June 30, 2017, the oil inventories in the amount of R$ 42,373 is representative of 316,000 bbl – information not reviewed by the independent auditors (on December 31, 2016 the oil inventories in the amount of R$ 33,192 was representative of 245,000 bbl).

26 Other operating income (expenses), net

	Consolidated			
	04/01/2017–06/30/2017	**04/01/2016–06/30/2016**	**01/01/2017–06/30/2017**	**01/01/2016–06/30/2016**
Returning unused insurance premium	-	-	-	2,157
Mark-to-market of inventories	-	21,337	-	19,283
Reversal (provision) for contingencies	42,384	154	42,366	(1,929)
Income (loss) from the sale of property, plant and equipment/scrap	-	451	-	664
Write-off of permanent assets	(5)		(5)	-
Income (loss) from the sale of aircrafts	-	-	-	(56)
Rendering of accounts for administrative management - Cowan	-	(1)	-	(337)
Service Fee Lux Energy	-	-	-	-
Reimbursement of expenses - Glencore	-	(4,808)	-	(4,808)
Storage of drilling rigs - Hansa Meyer	-	(157)	-	(157)
Write-off of commission on drilling rigs' sales	439	-	439	-
Cash call return - Coral and Cavalo	172	-	172	-
Write-off of accounts receivable - Brasoil FIP	(700)	-	(700)	-
Other income (expenses)	34	1	158	(8)
Total	**42,324**	**16,977**	**42,430**	**14,809**

(In thousands of reais, unless otherwise indicated)

27 Financial income (loss)

	Consolidated			
	04/01/2017–06/30/2017	**04/01/2016–06/30/2016**	**01/01/2017–06/30/2017**	**01/01/2016–06/30/2016**
Financial income	**31,925**	86,422	**100,258**	**176,318**
Income from realized financial investment	**11,066**	6,767	**21,077**	13,349
Income from foreign exchange rate	**22,481**	66,207	**50,333**	148,936
Realized hedge income	**-**	-	**7,597**	**-**
Marked at fair value - financial instruments	**(1,773)**	12,406	**20,418**	12,406
Marked at fair value - Derivatives	**28**	73	**28**	73
Other financial income	**123**	969	**805**	1,554
Financial expenses	**(21,233)**	(122,299)	**(67,964)**	**(234,414)**
Loss on realized financial investment	**(1)**	3,533	**(1)**	(893)
Expense on foreign exchange rate	**(14,301)**	(105,975)	**(56,888)**	(209,558)
Realized hedge expense	**(955)**	(5,145)	**(955)**	(5,145)
Interest on debentures	**(1,207)**	(1,092)	**(3,266)**	(2,032)
Commission on bank guarantees	**-**	(2,424)	**-**	(3,572)
Marked at fair value - financial instruments	**-**	(6,499)	**-**	(6,499)
Marked at fair value - Derivatives	**(2,463)**	242	**(2,465)**	-
Other financial expenses	**(2,306)**	(4,938)	**(4,389)**	(6,715)

* Mark to fair value– financial instruments refer to the market value of shares of the variable income portfolio, as described in Notes 4 and 29.

28 Segment information

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

	06/30/2017	**12/31/2016**
Current assets		
Brazil	737,723	679,634
Abroad	174,107	101,943
Non-current assets		
Brazil	290,937	257,786
Abroad	199,661	43,005
Gross income	**06/30/2017**	**06/30/2016**
Brazil	214,444	144,890
Abroad	23,061	-

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 made 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 shareholders. 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 three-month period ended June 30, 2017. In this period, the Company maintained investments mainly in shares of a company that is under court-ordered reorganization, as it as it understands that this investment has great potential for appreciation.

The VaR was calculated based on historical data of the twelve-month period ended June 30, 2017 (one year), for one-day period, confidence level at 95.0%, segregated in investments in Reais and Dollars. The result was 6.77% of maximum daily loss of the portfolio in Brazilian Reais, and 13.33% 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 12 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 variation of 90% of CDI –Over Extra Group.

(In thousands of reais, unless otherwise indicated)

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	(318)	(510)	(701)
Impact on debentures	Increase in CDI	318	(305)	(604)

For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the nine-month period as from June 30, 2017 were taken into account under the probable scenario (CDI 9.38%), 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 variation that may occur in the exchange rate and the impact on the Company's income and equity, before taxation.

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Impact on financial investments	Decrease in US dollar	8,299	(106,960)	(213,920)
Provision for abandonment (ARO)	Dollar increase	(4,133)	(53,264)	(106,528)

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 June 30, 2017 (US$ 1/R$ 3.372). 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 period ended on June 30, 2017 oil net sales were decentralized, with sales to clients Petrochina, Shell 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.

(In thousands of reais, unless otherwise indicated)

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 June 30, 2017	up to 12 months	1–5 years	Total
Liabilities			
Loans and financing	(124,328)	-	**(124,328)**
Suppliers	(53,993)	(13,456)	**(67,449)**
Labor obligations	(6,429)	-	**(6,429)**
Taxes and social contributions	(24,683)	-	**(24,683)**
Advance from partners	(8,941)	-	**(8,941)**
Debentures	(41,278)	(31,431)	**(72,709)**
Provision for abandonment	-	(93,831)	**(93,831)**
Provision for contingencies	-	(25,215)	**(25,215)**
Deferred taxes and social contributions	-	(45,958)	**(45,958)**
Derivative financial instruments	(2,062)		**(2,062)**
	(261,714)	**(209,891)**	**(471,605)**

Year ended December 31, 2016	up to 12 months	1–5 years	Total
Liabilities			
Suppliers	(50,176)	(12,828)	**(63,004)**
Labor obligations	(10,151)	-	**(10,151)**
Taxes and social contributions	(13,494)	-	**(13,494)**
Advance from partners	(4,170)	-	**(4,170)**
Debentures	(688)	(31,431)	**(32,119)**
Financial instruments	(162)	-	**(162)**
Provision for abandonment	-	(48,670)	**(48,670)**
Provision for contingencies	-	(56,393)	**(56,393)**
Deferred taxes and social contributions	-	(19,275)	**(19,275)**
Other liabilities	(779)	-	**(779)**
	(79,620)	**(168,597)**	**(248,217)**

Derivative financial instruments - hedge

In the six-month period ended June 30, 2017, the Company settled two sales agreements in future market. The instruments aimed at providing hedge against the risk of volatility in oil prices. Agreements were settled on March 29 and June 27, 2017, determining a net gain of R$ 6,642. Moreover, the Company has two contracts in force, maturing on October 26, 2017. Together, these contracts presented negative mark-to-market of R$ 2,062 on June 30, 2017.

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.

(In thousands of reais, unless otherwise indicated)

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.

	06/30/2017			06/30/2016	
	Book value	Fair value		Book value	Fair value
<u>Financial assets</u>					
Loans and receivables					
Accounts receivable (i)	79,173	79,173		30,680	30,680
Related parties	-	-		-	-
Fair value through profit or loss					
Cash and cash equivalents (ii)	41,604	41,604		24,793	24,793
Securities (ii)	60,601	60,601		43,212	43212
Available for sale					
Securities (iii)	517,471	517,471		468,671	468,671
<u>Financial liabilities</u>					
Amortized cost:					
Suppliers (i)	67,442	67,442		63,004	63,004
Debentures (ii)	72,709	72,010		32,119	32,593
Derivative financial instruments (ii)	2,062	-		162	-
Loans and financing	124,328	124,328	-	-	-

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).

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 June 30, 2017 and December 31, 2016 in the amounts of R$ 25,215 and R$ 56,393, respectively, are sufficient to cover losses considered probable and reasonably estimated.

Provisions recorded

Tax assessment notice of the Brazilian Federal Revenue Service against Manati for the 2009/2011 period, demanding payment of income and social contribution taxes in the amount of R$ 11,436.

Furthermore, there is a probable risk owing to labor claims that add up to R$ 13,496 and one tax claim of R$ 282.

Provision reversed – Arbitration Tuscany

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 lawsuits

According to the Group's legal advisors, the risk of loss due to other lawsuits (R$ 349,192) is "possible" or "remote". Based on this evaluation, Management decided not to form a provision for contingencies for these lawsuits, with likelihood of possible and remote loss, in accordance with accounting practices adopted in Brazil and IFRS.

31 Subsequent event

On July 3, 2017, the Company paid the penultimate installment referring to debentures issued by Manati, in the amount of R$ 21,035, of which R$ 19,199 of principal and R$ 1,836 of interest. There is only the final installment outstanding, maturing on January 4, 2018.

Petro Rio S.A.

Additional information to the financial statements
June 30, 2017
(In thousands of reais, unless otherwise indicated)

Statements of added value (supplementary information for IFRS purposes)
Six-month period ended June 30, 2017 and 2016
(In thousands of reais)

	Consolidated	
	06/30/2017	**06/30/2016**
Income		
Oil & Gas sales	**230,293**	144,890
	230,293	144,890
Inputs and services		
Third party's services and other	**(20,228)**	(13,857)
Geology and geophysics expenses	**(349)**	(384)
Costs of services	**(200,047)**	(135,219)
Gross added value	**9,669**	(4,570)
Retentions		
Depreciation and amortization	**(127)**	(32,980)
Net added value	**9,542**	(37,550)
Transferred value added		
Net financial income (loss)	**32,294**	(58,096)
Equity in income of subsidiaries	**-**	-
Deferred taxes	**(3,523)**	(24)
Income from transactions with permanent assets	**-**	(6,712)
Rents, royalties and other	**35,748**	(3,237)
Added value payable	**74,061**	(105,619)
Distribution of added value		
Personnel	**18,351**	10,145
Taxes	**3,906**	645
Interest attributable to Group's shareholders	**51,125**	(116,409)
Distributed added value	**74,061**	(105,619)

(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 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, can 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 June 30, 2017 cover the insured amount of R$ 3,157,658. 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)	**138,944**
Offshore Platform	**933,905**
Offshore property (Pipeline)	**116,449**
Onshore properties (Pipeline)	**38,706**
Onshore Treatment Station	**57,563**
OEE production (Well control)	**545,853**
OEE development (Well control)	**330,820**
Offshore Civil Liability + Surplus	**909,755**
Aircrafts (Physical damages)	**5,955**
Aircrafts (Civil liability)	**33,082**
Cargo (Polvo)	**3,500**
D&O	**35,500**
General liability	**5,000**
Equity	**1,717**
Travel Insurance Travel Guard	**910**
Total insured	**3,157,658**