Petro Rio S.A.

Consolidated financial statements for the year ended December 31, 2017 and Independent auditors' report

Petro Rio S.A.

Financial statements

December 31, 2017

Contents

Independent auditors' report on financial statements

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

Opinion

We have audited the consolidated financial statements of Petro Rio S.A. ("the Company"), identified as Consolidated, which comprise the consolidated balance sheet as of December 31, 2017, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of Petro Rio S.A. as of December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board - IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements of Ethics Standards Boards for Accountants and Professional Standard issued by Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter

According Notes 04 and 29, as per December 31, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1) Fair value of financial instruments – Individual and consolidated financial statements

As mentioned in note 4 and 29, the Company has relevant balances of securities for sale and trading recorded at market value. For financial instruments that are not actively traded and for which market prices and parameters are not available, determination of market value is subject to a significant judgment to estimate those amounts. The use of specific valuation techniques and assumptions may result in significantly different market value estimates. Due to the relevance, complexity and judgment involved in the evaluation and measurement of financial instruments, which may impact the amount of this provision in the consolidated financial statements and the amount of the investment recorded under the equity accounting method in the financial statements of the parent company, we consider this subject as a significant matter for the audit.

Audit procedures performed

Our procedures included, among others, the assessment of Company´s valuation procedures and assumptions to determine the market value of its assets, as well as review the report of external experts and verify the existence of these assets through independent confirmation with the respective financial institutions in which the financial instruments are applied.

Based on the evidence obtained through the summarized procedures above, we considered acceptable the balances presented for financial instruments recorded at market value, as well as the respective disclosures in the accompanying notes, in the context of the individual and consolidated financial statements taken as a whole, for the year ended December 31, 2017.

2) Impairment - Consolidated financial statements

As of December 31, 2017, the consolidated financial statements presents property plant and equipment (PP&E) and intangible of R$ 61 million and R$ 261 million, respectively (As per Notes 11 and 12 to the financial statements).

Company evaluated impairment indicators for the respectively ("GCU´s") in which assets were allocated. For the calculation of the recoverable value, and assessment of the register of impairment, Company used the discount cash flow that presents significant judgments concerning factors related to the level of future production, commodities price, production cost and economic assumptions such as discount rates, inflation rates and exchange rates of the countries with which the Company operates. Due to the materiality of PP&E, intangible assets, and to the level of uncertainty for determining the related impairment, which may impact the value of those assets in the consolidated financial statements and the value of the investment recorded under the equity accounting method in the parent company's financial statements, we considered this subject as a significant matter for the audit.

Audit procedures performed

Our procedures included, among others, the assessment of Company´s valuation procedures for its assets, the assessment of the Company's assumptions and estimates to determine the recoverable value of its assets, including the ones related to production, production cost, capital investments, discount rates and exchange rates, the arithmetic checking of the economic models regarding future cash flows and forecast results, and the appropriateness assessment of the related disclosure made by the Company.

Based on the evidence obtained through the summarized procedures above, we considered acceptable the balances presented for property, plant and equipment and intangible assets, as well as the respective disclosures in the accompanying notes, in the context of the consolidated financial statements taken as a whole, for the year ended December 31, 2017.

3) Business Combination - Individual and consolidated financial statements

As detailed in note 1, 10 and 12 on March 2017, the Company concluded through its direct subsidiary PetroRioOG the acquisition of a controlling interest in Brasoil do Brasil Exploração Petrolifera S.A. ("Brasoil"), an entity that operates substantially in the same business segments as the Company. The acquisition was accounted for using the acquisition method. The use of the acquisition method requires, among other procedures, that the Company determine the date on which the acquirer obtained control of the acquiree, the fair value of the consideration transferred, the fair value of the assets acquired, and the liabilities assumed, and goodwill or gain on a bargain purchase. These procedures typically involve a high degree of judgment and require fair-value estimates to be made based on calculations and assumptions related to the future performance of the acquired business, which are subject to a high degree of uncertainty. Due to the high degree of judgment involved, and the impact that any changes in assumptions could have on the financial statements, we consider this to be a significant matter for our audit.

Audit procedures performed

Our audit included, among other procedures, reviewing the documents formalizing the transaction, such as agreements and minutes, and obtaining evidence underlying the determination of the acquisition date and the determination of the fair value of the consideration transferred, including market quotes for the transferred equity instruments and fair-value valuation of the investment previously held, prepared by independent specialists. With the assistance of our corporate finance specialists, we reviewed the methodology used to measure the fair value of the previously held interest, the assets acquired and the liabilities assumed, and evaluated the reasonableness of the assumptions used and the calculations made by comparison with market data, to the extent available, and we evaluated the sensitivity analysis of the key assumptions used and the impacts of any changes in those assumptions on fair-value determinations and their relevance to the financial statements as a whole. Based on the information analyzed, we also recalculated the determination of goodwill and evaluated the adequacy of the disclosures presented by the Company

Based on the evidence obtained through the summarized procedures above, we considered acceptable the balances presented for Brasoil acquisition, we also believe that the judgments and assumptions used by management to assess the recoverability of goodwill are reasonable, and the disclosures are consistent with the data and information obtained.

Other Information

Statement of Added Value

The consolidated statements of value added (DVA) for the year ended December 31, 2017, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, was submitted for the auditing procedures jointly with audit of the Company's financial statements. For the purposes of forming our opinion, we evaluate whether these statements are reconciled with the financial statements and accounting records, as applicable. In our opinion, this statement of value added have been properly prepared, in all material respects, and is consistent with the consolidated financial statements taken as a whole.

Previously financials statements

The information and balances, individual and consolidated, related to the year ended December 31, 2016, presented for comparison purposes, were audited by us. We issued our audit report dated March 27, 2016, without modifications, but with the same emphasis paragraph related to the financial instruments.

Other information accompanying the consolidated financial statements and the auditor's report

Management is responsible for the other information, which comprises the Management report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Management Report, we are required to report that fact. We have nothing to report regarding this matter.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the (consolidated) financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter, or, when in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Rio de Janeiro, March 15, 2018

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 sheet on
December 31, 2017 and 2016
(In thousands of reais)

	Note	Consolidated 12/31/2017	Consolidated 12/31/2016
Assets			
Current assets			
Cash and cash equivalents	3	**92,445**	24,793
Securities	4	**511,863**	546,507
Restricted cash	5	**17,965**	-
Accounts receivable	6	**62,046**	30,680
Oil inventories	25	**41,174**	33,192
Recoverable taxes	7	**59,492**	69,331
Advances to suppliers	8	**28,781**	23,400
Advances to partners	20	**3,639**	-
Prepaid expenses		**3,106**	2,696
Other receivables		**828**	726
		821,339	731,325
Non-current assets available for sale	9	**28,316**	50,255
		849,655	781,580
Non-current assets			
Advances to suppliers	8	**12,596**	12,596
Deposits and pledges		**16,010**	12,993
Recoverable taxes	7	**51,669**	42,601
Deferred taxes		**18,480**	5,782
Related parties	23	**-**	-
Investments	10	**-**	-
Property, plant and equipment	11	**61,286**	44,234
Intangible assets	12	**260,548**	182,583
		420,589	300,789
Total assets		**1,270,244**	1,082,369

See the accompanying notes to the financial statements.

Petro Rio S.A.

Balance sheet on
December 31, 2017 and 2016
(In thousands of reais)

		Consolidated	
	Note	12/31/2017	12/31/2016
Liabilities and shareholders' equity			
Current liabilities			
Suppliers	13	**70,535**	50,176
Labor obligations		**9,979**	10,151
Taxes and social contributions	14	**20,076**	13,494
Loans and financing	15	**75,011**	-
Debentures	16	**21,621**	688
Derivative financial instruments	29	**-**	162
Advances from partners	20	**7,129**	4,170
Advances from clients		**-**	-
Other liabilities	26	**12,500**	779
		216,851	79,620
Non-current liabilities			
Suppliers	13	**13,456**	12,828
Debentures	16	**31,391**	31,431
Provision for abandonment (ARO)	19	**74,119**	48,670
Provision for contingencies	30	**15,120**	56,393
Deferred taxes and social contributions	18	**36,177**	19,275
Related parties	23	**-**	-
Investment deficit	10	**-**	-
		170,263	168,597
Shareholders' equity			
Realized capital	22	**3,265,256**	3,265,216
Capital reserves		**73,852**	100,875
Accumulated translation adjustment		**65,102**	61,704
Equity valuation adjustments		**26,698**	4,985
Accumulated losses		**(2,598,629)**	(2,840,250)
Profit (loss) for the year		**50,851**	241,622
		883,130	834,152
Total liabilities and shareholders' equity		**1,270,244**	**1,082,369**

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of income
Years ended December 31, 2017 and 2016
(In thousands of reais, except earnings/losses per share)

		Consolidated	
	Note	12/31/2017	12/31/2016
Net revenue	24	**533,922**	397,871
Costs of products/services	25	**(435,064)**	(408,468)
Gross revenue		**98,858**	(10,597)
Operating income (expenses)			
Geology and geophysics expenses		**(716)**	(797)
Personnel expenses		**(37,901)**	(27,762)
General and administrative expenses		**(13,186)**	(11,407)
Expenses with Outsourced Services		**(40,393)**	(33,307)
Taxes and rates		**(3,644)**	(1,388)
Depreciation and amortization expenses		**(2,276)**	(368)
Equity in income of subsidiaries	10	**-**	-
Income from transactions with permanent assets		**-**	(6,712)
Other operating income (expenses), net	26	**41,467**	351,422
Operating profit before financial income (expenses)		**42,209**	259,084
Financial income	27	**171,756**	313,817
Financial expenses	27	**(165,307)**	(319,950)
Profit before income and social contribution taxes		**48,658**	252,951
Current income and social contribution taxes		**(2,545)**	(4,639)
Deferred income and social contribution taxes		**4,738**	(6,690)
Consolidated profit (loss) for the year		**50,851**	241,622
Earnings per share - basic and diluted			
Basic		***3,855***	*18,377*
Diluted		***3,855***	*18,377*

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of comprehensive income
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Consolidated	
	12/31/2017	**12/31/2016**
Retained earnings (loss)	**50,851**	241,622
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**3,398**	(325,747)
Equity valuation adjustments	**21,713**	4,985
Other comprehensive income for the year, net of taxes	**25,111**	(320,762)
Total comprehensive income for the year net of taxes	**75,962**	**(79,140)**
Attributable to parent company's shareholders	**75,962**	**(79,140)**

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Capital	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
Stock option exercised	-	-	-	-	-	-
Translation adjustment on investment abroad	-	-	-	(325,747)	-	(325,747)
Gain (loss) with financial instruments	-	-	4,985	-	-	4,985
Share-based compensation	-	-	-	-	-	-
Offset of loss	-	-	-	-	-	-
Income for the year	-	-	-	-	241,622	241,622
Treasury shares	-	(845)	-	-	-	(845)
Balances at December 31, 2016	**3,265,216**	**100,875**	**4,985**	**61,704**	**(2,598,628)**	**834,152**
Balances at January 1, 2017	**3,265,216**	**100,875**	**4,985**	**61,704**	**(2,598,628)**	**834,152**
Paid-up capital	40	-	-	-	-	40
Stock option exercised	-	-	-	-	-	-
Translation adjustment on investment abroad	-	-	-	3,398	-	3,398
Gain (loss) with financial instruments	-	-	21,713	-	-	21,713
Share-based compensation	-	-	-	-	-	-
Offset of loss	-	-	-	-	-	-
Income for the year	-	-	-	-	50,851	50,851
Treasury shares	-	(27,023)	-	-	-	(27,023)
Balances at December 31, 2017	**3,265,256**	**73,852**	**26,698**	**65,102**	**(2,547,778)**	**883,130**

See the accompanying notes to the financial statements.

Petro Rio S.A.

Statements of cash flows
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Consolidated	
	12/31/2017	**12/31/2016**
Cash flows from operating activities		
Income (loss) for the period (before taxes)	**48,658**	**252,951**
Depreciation and amortization	123,759	69,571
Financial income	(155,919)	(297,880)
Financial expenses	127,367	294,021
Equity in income of subsidiaries	-	-
Loss/Write-off of non-current assets	-	321
Provision for contingencies/losses	(51,451)	2,606
Reclassification of accumulated translation adjustment (CTA)	-	(309,187)
Provision for impairment	-	6,712
	92,414	**19,115**
(Increase) decrease in assets		
Accounts receivable	(12,303)	164,960
Recoverable taxes	1,903	(62,042)
Prepaid expenses	589	(2,000)
Advances to suppliers	(5,731)	1,229
Inventory	(44,074)	9,909
Related parties	-	-
Advance to partners in oil and gas operations	(2,024)	-
Other receivables	317	2.435
Increase (decrease) in liabilities		
Suppliers	12,928	(498)
Labor obligations	3,320	2,795
Taxes and social contributions	(11,798)	(14,224)
Related parties	-	-
Contingencies	(1,060)	(2,467)
Advances from partners in oil and gas operations	2,897	(2,222)
Other liabilities	11,709	(2,990)
Net cash (invested in) from operating activities	**49,087**	**114,000**
Cash flows from investment activities		
(Investment) redemption of securities	126,036	(319,800)
(Investment) Restricted cash redemption	(7,553)	-
(Investment) Redemption in Abandonment Fund	(4,732)	-
(Increase) decrease in deposits and pledges	(3,396)	(1,593)
Non-current assets held for sale	22,693	3,831
(Increase) decrease in permanent assets	(130,424)	(73,539)
Net cash (invested in) from investment activities	**2,624**	**(391,101)**
Cash flows from financing activities		
Loans and financing	67,286	-
Debentures	(24,105)	(3,821)
Derivative transactions	2,876	(1,878)
(Purchase) sale of own Company’s shares (held in treasury)	(32,196)	-
Net cash (invested in) from financing activities	**13,861**	**(5,699)**
Translation adjustment	2,080	23,642
Net increase (decrease) in cash and cash equivalents	**67,652**	**(259,158)**
Cash and cash equivalents at the beginning of the year	24,793	283,951
Cash and cash equivalents at the end of the year	92,445	24,793
Net increase (decrease) in cash and cash equivalents	**67,652**	**(259,158)**

See the accompanying notes to the financial statements.

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 Camumu Basin (BA).

For the purpose of this report, Petro Rio S.A 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 in 2017 was of roughly 7.8 thousand barrels (8.1 thousand barrels in 2016). The license covers an area of approximately 134 km2 with several prospects for future exploration.

On March 20, 2017, 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% interest in the rights and obligations set forth in the concession contract of Manati field, currently producing 5.1 million cubic meters of natural gas per day (approximately 32,000 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 the Brasoil include 100% interest in the concessions of FZA-Z-539 and FZA-M-254 blocks, both located in Foz do Rio Amazonas, which are Company's operator.

2 Preparation basis and presentation of the financial statements

2.1. Statement of conformity

The consolidated financial statements were prepared and are 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 financial statements of Petro Rio S.A. are being 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 interim financial statements are being evidenced and correspond to those used by Management.

2.2. Basis of preparation

The consolidated financial statements were prepared based on the historical cost, except for derivative those measured at fair value, when indicated.

Summary of main accounting policies adopted by the Group is described below:

2.3. Basis of consolidation and investments in subsidiaries

Consolidated financial statements include financial statements of the Company and its subsidiaries. Control is achieved when the Company has the power to control financial and operating policies of an entity to gain benefits from its activities.

The income (loss) of the subsidiaries acquired, sold or merged during the year 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 financial data of direct and indirect subsidiaries are recognized under the equity method of accounting.

(In thousands of reais, unless otherwise indicated)

When necessary, subsidiaries' financial statements accounting policies are adjusted to those of the Group. All transactions, balances, income and expenses among the Group's companies are fully eliminated in consolidated financial statements.

The Company's consolidated financial statements include:

		Interest			
		12/31/2017		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"	**1.69%**	**98.31%**	25%	75%
Petrorio Luxembourg Holding Sarl	"Lux Holding"	**-**	**100%**	-	100%
HRT Netherlands BV	"Netherlands"	**-**	**100%**	-	100%
HRT Walvis Petroleum (Pty) Ltd.	"Walvis"	**-**	**100%**	-	100%
HRT Canada Inc.	"Canadá"	**-**	**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%**	-	-
Brasoil OPCO Exploração Petrolífera Ltda.	"Opco"	**-**	**99.99%**	-	-
Brasoil Manati Exploração Petrolífera S.A.	"Manati"	**-**	**100%**	-	-
Brasoil Coral Exploração Petrolífera Ltda.	"Coral"	**-**	**100%**	-	-
Brasoil Cavalo Marinho Exploração Petrolífera Ltda.	"Cavalo Marinho"	**-**	**100%**	-	-
Brasoil Round 9 Exploração Petrolífera Ltda.	"Round 9"	**-**	**100%**	-	-
Brasoil Finco LLC	"Finco"	**-**	**100%**	-	-

2.4. Cash and cash equivalents

They are maintained for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Comprised of balances in cash, demand bank deposits, and financial investments with immediate liquidity and insignificant risk of change in value.

2.5. Current and non-current assets and liabilities

Current and non-current assets and liabilities are stated at realization and/or collection values, respectively, and contemplate inflation adjustments or exchange-rate changes, as well as earned or incurred earnings and charges, when applicable.

2.6. Oil and gas exploration, development, and production expenditures

For the expenses on exploration, development and production of oil and gas, the Group – for the purposes of the accounting practices adopted in Brazil – uses accounting criteria in accordance with IFRS 6 – "Exploration for and evaluation of mineral resources."

Property, plant and equipment

It is recorded at the amortized or construction cost, restated, when applicable, to its recovery amount and it is represented mainly by assets associated to stages of exploration and oil and natural gas production development, such as, for example, expenses on drilling and completion, and E&P equipment. Also includes machinery and equipment and other tangible assets used for administrative purposes, such as furniture, telephone devices, IT equipment. Gains and losses deriving from write-off or disposal of a property, plant and equipment asset are determined by the difference between earned revenue, if applicable, and respective residual value of the asset, and is recognized in income (loss) for the year.

Successful efforts

Expenditures with exploration and development of oil production are recorded in accordance with the successful efforts method. This method determines that the development costs of all production wells and successful exploratory wells, related to economically feasible reserves, be capitalized, while geological and geophysical and seismic costs should be considered as expenses for the year when incurred. Additionally, the dry exploratory well costs and those related to non-commercial areas should be recognized in results when identified as such.

Abandonment expenditures

Abandonment expenditures of the oil development and production areas are recorded as intangible assets in contra account to a provision in liabilities. Note 19.

Depreciation

Expenses with exploration and development of production are depreciated beginning as of declaration of commercial viability and start of production, using the produced units method (“DUP”). According to this method, monthly depreciation rate is obtained by dividing monthly production by total estimated reserve balance (proven plus probable) at the beginning of the month. On an annual basis, the Company reviews total reserve balance. Machinery and equipment are depreciated by the straight-line method based on the rates mentioned in Note 11 that takes into consideration the estimated useful lives of the assets with the respective residual values.

2.7. Business combination

Business combinations are accounted for under the acquisition method. The cost of an acquisition is measured for the consideration amount transferred, valuated on fair value basis on the acquisition date, including the value of any ownership interest held by non-controlling shareholders in the acquired company, regardless of their proportion. For each business combination, the buyer must measure the non-controlling interest in the acquired business at the fair value of based on its interest in the net assets identified in the acquired business. Costs directly attributable to the acquisition should be accounted for as expense when incurred.

If a business combination is performed in stages, the fair value on the date of acquisition of the ownership interest previously held in the capital of the acquiree is revaluated at fair value on the dates of the acquisition of additional portions, impacts being recognized in statement of income. Any contingent payments to be transferred by the acquiree will be recognized at fair value on the acquisition date.

Initially, goodwill is measured as being the excess of consideration transferred in relation to net assets acquired (acquired identifiable assets, nets and assumed liabilities). If consideration is lower than fair value of net assets acquired, the difference must be recognized as gain in statement of income.

After initial recognition, the goodwill is carried at cost less any accumulated loss for the impairment losses. For impairment testing purposes, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating units of the Group that are expected to benefit by the synergies of combination, regardless of other assets or liabilities of the acquiree being allocated to those units.

2.8. Analysis of asset's recoverable value

Pursuant to IAS 36, Property, plant and equipment items, intangible assets and other non-current assets are valued on an annual basis to identify evidence of unrecoverable losses, whenever events or significant changes in the circumstances indicate that the book value may not be recoverable.

When there are losses deriving from situations in which the asset book value exceeds its recoverable value, defined as the higher of the asset's value in use and asset's net sales value, they are recognized in income for the year.

2.9. Non-current assets held for sale

The Company classifies non-current assets held for sale measured at fair value less selling costs. Property, plant and equipment and intangible assets are not depreciated or amortized when classified as held for sale.

2.10. Inventories

Costs incurred to take the product to its location and conditions are measured at weighted acquisition or production average cost. The net realizable amount corresponds to the sales price estimated for the normal course of the businesses, less estimated execution costs and those required for the sale.

2.11. Income and social contribution taxes

Such taxes are calculated and recorded considering the tax rates prevailing on the date of the preparation of the financial statements. Deferred taxes are recognized based on inter-temporal differences, tax losses, and social contribution negative basis, when applicable, only when and up to the amount that may be considered as of probable realization by Management (in accordance with business model approved by the Company's Management and governance councils).

2.12. Statement of income

Income and expenses are recognized on the accrual basis. Sales income is recognized upon transfer of ownership and its inherent risks to third parties.

2.13. Transactions involving payment in shares

Share-based remuneration plan for employees, to be settled with equity instruments, is measured at fair value on grant date, as described in note 31.1.

Granted options fair values determined on grant date are recorded at the straight-line basis as expenses in income for the year during the period in which the right is acquired, based on the Company's estimates on which granted options will be possibly acquired, with corresponding increase in shareholders' equity (stock option plan). At each year end, the Company reviews its estimates on the number of equity instruments that will be eventually acquired.

Review impact on original estimates, if any, is recognized in income (loss) for the year, so that accumulated expenses reflect reviewed estimates with the corresponding adjustment in shareholders' equity under "Capital reserve" that recorded the benefit to employees.

2.14. Financial instruments

Financial assets and liabilities are recognized when the Group is a party of the contractual provisions of the instruments. Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities are increased or reduced by the fair value of the financial assets or liabilities, when applicable, after initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in the statement of income.

2.15. Financial assets

The Group's financial assets are classified into the following categories: (i) fair value through other comprehensive income, and (ii) financial assets at fair value through profit or loss. Classification depends on nature and purpose of financial assets and is determined on initial recognition date.

All regular acquisitions or disposals of financial assets are recognized or written-off based on negotiation date. Regular acquisitions or disposals correspond to financial assets' acquisitions or disposals requiring delivery of assets within term established in a standard or market practice.

Financial assets measured at fair value through profit or loss

Include financial assets held for trading (that is, acquired mainly to be sold in the short-term), or assigned at fair value through profit or loss. Any interest, inflation adjustment, exchange-rate change and any changes arising from evaluation at fair value are recognized in income (loss), as financial income or expenses, when incurred.

Financial assets at fair value through other comprehensive income

They include equity instruments and debt securities, which are intended to be held for an indefinite period and can be sold to meet liquidity needs or in response to changes in market conditions. After initial recognition, the financial assets available for sale are measured at fair value, with unrealized gains and losses, recognized directly in the available-for-sale reserve within other comprehensive income until the investment is derecognized.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of the financial asset impairment as a result of one or more events that occurred after initial recognition with impact on this asset's estimated future cash flows.

For all other financial assets, an objective evidence may include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delay in interest or principal payments; or
- Probability of debtor declaring its bankruptcy or financial reorganization; or
- Extinction of that financial asset active market due to financial problems.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's book and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss recognized for goodwill will not be reversed in subsequent periods.

The book value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the book value is reduced through the use of a provision account. Subsequent recoveries of amounts previously written off are credited to the provision. Changes in book value are recognized in income (loss)

2.16. Derivative financial instruments

The Company uses derivative financial instruments to provide protection against its exposure to changes in oil price risks (Note 29). The derivative financial instruments designated in hedge operations are initially recognized at fair value on the date on which the derivative contract is signed and are subsequently measured also at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive; and as financial liabilities when the value is negative.

Any earnings or losses resulting from changes in the fair value of derivatives during the year are entered directly in the income (loss) for the year.

2.17. Functional and presentation currency

The consolidated financial statements are being presented in Brazilian Real, functional currency of the Company. The Company defined that its functional currency is the Brazilian Real 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.

Translation of balances in foreign currencies

The assets and liabilities of foreign subsidiaries are translated into BRL at the exchange rate on the balance sheet date, and the corresponding statements of income are translated based on average monthly foreign exchange rate. Foreign exchange differences resulting from said translation are accounted for separately in shareholders' equity, in comprehensive statement of income, in line of other comprehensive income – accumulated translation adjustments.

2.18. Statements of cash flows (“DFC”)

Statements of cash flows were prepared and presented in accordance with the Technical Pronouncement IAS 7 under the indirect method.

2.19. Statements of added value (“DVA”)

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

2.20. Use of estimates and judgments

The preparation of consolidated financial statements according to IFRS standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income, expenses and notes. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews in relation to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

Information on assumptions and estimates that may result in adjustments within the next financial year are included in the following notes:

- Note 8 – Non-current assets held for sale
- Note 10 – Property, plant and equipment, primarily those relating to write-offs, amortizations and impaired oil & gas assets.
- Note 11 – Intangible assets, primarily those relating to write-offs, amortization and impaired oil & gas assets.
- Note 14 – Debentures, concerning the estimated fair value of debt-to-equity swap option.
- Note 16 - Current and deferred income and social contribution taxes.
- Note 21 - Shareholders' equity / Share-based compensation plan.
- Note 29 - Objectives and policies for financial risk management.
- Note 30 - Contingencies.

2.21. Net income (loss) per share

Basic/diluted earnings per share is computed by dividing net income by the weighted average of common shares held by the shareholders, excluding treasury shares in the period.

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

In the preparation of financial statements, the Company's Management considered, when applicable, the new reviews and interpretations of IFRS and technical pronouncements, issued by IASB, which became mandatorily effective for the accounting periods ended December 31, 2017.

For the other standards already issued and which became effective on January 1, 2018 (see table below), the Company evaluated the effects of adopting pronouncements, and understands that aforesaid adoption will not have material impacts on its financial statements. Therefore, the Company did not adopt and does not intend to adopt these standards in advance.

(In thousands of reais, unless otherwise indicated)

Pronouncement or interpretation	Description	Application to the business years/periods to be initiated on or after
CPC 48 / IFRS 9	Financial instruments – measurement and classification	January 1, 2018
CPC 47 / IFRS 15	Income from contracts with clients	January 1, 2018
IFRS 16	Leases	January 1, 2019
CPC 32 / IFRIC 23	Uncertainty on treatment of income taxes	January 1, 2019

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

Change in accounting estimate

In December 2017, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo and Manati fields, specifically of proven developed reserves. At Polvo Field, the revaluation indicated the maintenance of useful life of the field until the end of 2021, and an increase of the developed proven reserves by approximately 608 thousand barrels. This increase represents a proportional reduction of Polvo assets amortization, including Fixed Platform “Polvo A”. In Manati, the revaluation indicated the maintenance of useful life of the field until the end of 2023, but with decrease of 59 million m3 (6.5% of the total considered in 2016) in its developed proven reserves and as a result, a proportional increase in amortization of assets.

2.24. Conclusion of financial statements

The Company's Management authorized the completion of these financial statements on March 15, 2018.

3 Cash and cash equivalents

	Consolidated	
	12/31/2017	**12/31/2016**
Cash	**1**	1
Banks	**92,444**	24,792
	92,445	24,793
National	**14**	655
Abroad	**92,431**	24,138

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.

(In thousands of reais, unless otherwise indicated)

4 Securities

	Consolidated	
	12/31/2017	**12/31/2016**
Purchase and sale commitments (debentures)	2	1,522
Financial Treasury Bills	13,115	-
Shares (i)	46,811	41,690
Investment Fund	699	-
Total investments for trading	**60,627**	43,212
Fixed income debt bonds (ii)	106,255	296,885
Multimarket investment funds (iii)	297,819	171,786
Shares	286,391	149,870
Government bonds (LFT/NTN)	8,845	3,852
Cash/Money Market	2,583	18,064
Total available for sale	**404,074**	468,671
Promissory Note (iv)	47,162	34,624
Total held to maturity	**47,162**	34,624
	511,863	546,507

(i) The Company has investments in shares of an organization that is under court-ordered reorganization, which are not significant in volume, as it understands that this investment has great potential for appreciation. In the year ended December 31, 2017, the valuation of the portfolio (market) was 38.02% (Note 31.3).

(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 51.88% in the year ended December 31, 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) The Company holds a promissory note, with 6% annual earnings, also pegged to changes in the US dollar.

The Company carries out the risk management of securities through appropriate policy and procedure practices, as described in Note 29.

(In thousands of reais, unless otherwise indicated)

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 (13.20% yield in accumulated in the last 12 months) to guarantee future payments of its obligations related to such debentures. Changes in these deposits occurs every six months for payment of such debentures and was completed in January 2018 with their settlement.

6 Accounts receivable

	Consolidated	
	12/31/2017	**12/31/2016**
Glencore (i)	**-**	7,374
Trafigura (ii)	**8,383**	-
Shell (iii)	**23,156**	22,814
Petrobras (iv)	**30,084**	-
Other	**423**	492
Total	**62,046**	30,680
Total local currency	**30,084**	75
Total foreign currency	**31,962**	30,198

(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 December 2017, referring to approximately 425,000 barrels of oil, which generated an income of R$ 84,251, fully received.

(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$ 23,156) 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 November and December 2017, roughly 32 million m^3 of gas, corresponding to a net income of R$ 26,325 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	
	12/31/2017	**12/31/2016**
Income and social contribution taxes (i)	**18,032**	22,634
PIS and COFINS (ii)	**54,525**	51,156
ICMS	**15,303**	15,432
Tax abroad (VAT) (iii)	**23,089**	22,497
Other	**212**	213
Total	**111,161**	111,932
Current assets	**59,492**	69,331
Non-current assets	**51,669**	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;
(iii) Taxes in the refund process of the Namibian subsidiaries during the exploration period.

8 Advances to suppliers

	Consolidated	
	12/31/2017	**12/31/2016**
Geoquasar Energy	**12,596**	12,596
BW (Prosafe) guarantee	**22,477**	22,199
Petrobras	**2,345**	-
Other	**3,959**	1,201
Total	**41,377**	35,996
Total current assets	**28,781**	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$ 18,760) 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 (Consolidated)

The Company helds one aircraft and two 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 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**

	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$ 12,967 already net of the 2% sales commission) to US$ 3,430,000 (R$ 11,346).

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.

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 dispose such assets by amounts equal or higher than those recorded. Changes in economic conditions or in transactions currently under discussion may result in the recognition of further losses to those already recognized.

10 Investments

At December 31, 2017 and 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% interest in Brasoil. The transaction was completed on March 20, 2017.

Brasoil is a holding company, which indirectly holds a 10% interest in the rights and obligations set forth in the concession contract of Manati field, currently producing 5.1 million cubic meters of natural gas per day (approximately 32,000 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 cumulative conversion adjustment, previously classified under Other Comprehensive Income, in Shareholders’ Equity, to the Company’s Income for the reporting period, under Other Income 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, 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.

(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 December 31, 2017, the Company's subsidiaries were participants in the following concessions in Brazilian basins:

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

a) Relevant information on investees as of December 31, 2017

	PetroRioOG	PTRIntl	HRTA
Direct interest	100.0%	1.7%	100.0%
Indirect interest	0.0%	98.3%	0.0%
Shareholders' equity	772,568	186,891	(315)
Income (loss) for the year	47,789	44,772	(772)
Total assets	1,179,925	198,147	193

b) Breakdown of investments

	Parent company	
	12/31/2017	**12/31/2016**
PetroRioOG	**772,568**	739,590
HRTA	**(315)**	(932)
PTRIntl	**3,154**	3,067
	775,407	741,725
Investments	**775,722**	742,657
Provision for loss on investments in subsidiaries	**(315)**	(932)

(In thousands of reais, unless otherwise indicated)

c) Changes in the investment

	PetroRio	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	-	(723)	1,355	632
Equity in income of subsidiaries	47,789	755	(772)	47,772
Equity valuation 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**

11 Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 12/31/2017	Balance at 12/31/2016
In operation						
Polvo A platform and drilling rig	UOP	101,439	(87,163)	16,374	30,650	42,514
Oil & gas assets - Manati	UOP	59,379	(31,251)	-	28,128	-
Machinery and equipment	10	2	-	-	2	-
Furniture and fixtures	10	834	(374)	-	460	395
Communication equipment	20	258	(95)	-	163	32
IT equipment	20	2,452	(1,912)	-	540	93
Leasehold improvements	4	1,461	(118)	-	1,343	1,200
Total		165,825	(120,913)	16,374	61,286	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 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**

	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	
		12/31/2017	12/31/2016
Oil & Gas assets			
Subscription bonus - Reconcavo - ES	(*)	-	151
Acquisition cost - Polvo	(*)	335,530	335,530
Acquisition cost - Manati	(*)	263,035	-
Goodwill on the acquisition of Brasoil	(**)	19,777	-
Subscription bonus - FZA-M-254		5,968	-
Subscription bonus - FZA-Z-539		8,022	-
Exploration / development expenses	(*)	70,684	68,212
Maintenance of wells	(*)	11,018	-
Emergency spare parts	(*)	11,395	5,744
Customer portfolio- Manati	(*)	9,561	-
Software and others	20	9,038	8,777
		744,028	418,414
Accumulated amortization		(483,480)	(235,831)
Total		260,548	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.
(**) 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.

(In thousands of reais, unless otherwise indicated)

b) Changes in balance

	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 the acquisition of Brasoil	-	-	-	-	19,777	**19,777**
Subscription bonus - FZA-M-254	-	-	-	-	5,968	**5,968**
Subscription bonus - FZA-Z-539	-	-	-	-	8,022	**8,022**
Exploration / development expenses	56,162	2,642	(170)	(16,222)	-	**42,411**
Maintenance of wells	-	11,018	-	(2,180)	-	**8,838**
Emergency spare parts	5,744	5,651	-	-	-	**11,395**
Customer 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**

	Balance at 01/01/2016	Additions	Write-offs	Amortization	Balance at 12/31/2016
Subscription bonus - Recôncavo - 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

(In thousands of reais, unless otherwise indicated)

Manati has a 10% interest in the rights and obligations set forth in the concession contract of Manati Field, currently producing 5.1 million cubic meters of natural gas per day (approximately 32,000 barrels of oil equivalent per day), 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.

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, 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 O&G caused the following distribution:

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

The goodwill in the amount of R$ 19,777 is due to the expectation of future profitability (goodwill). On December 31, 2017, 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	
	12/31/2017	12/31/2016
Domestic suppliers	**50,761**	36,097
Foreign suppliers	**33,230**	26,907
	83,991	63,004
Total current liabilities	70,535	50,176
Total non-current liabilities	13,456	12,828

(In thousands of reais, unless otherwise indicated)

14 Taxes and social contributions payable

	Consolidated	
	12/31/2017	12/31/2016
IRPJ and CSLL payable	**1,520**	4,635
PIS and COFINS	**7,721**	1.321
Service tax	**137**	142
IRRF (Withholding income tax) on services	**1,993**	554
ICMS	**1,605**	-
INSS	**5,626**	6,052
Taxes on Equity	**138**	175
FGTS	**171**	73
Other	**1,165**	542
	20,076	13,494

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

15 Loans and financing

In March 2017, the Company used the credit limit of Credit Suisse's and Morgan Stanley's accounts to acquire new assets, as well as to fund maintenance costs of Polvo and working capital for the Company's operations. As a result, the balance of the accounts on December 31, 2017, totaled R$ 64,321.

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

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

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

This debt has fixed costs of 5.53% p.a., and in the year ended December 31, 2017 amounted to R$ 263. The loan term is 1 year and the Company works to offset this financing by generating cash from the operation of its assets.

(In thousands of reais, unless otherwise indicated)

	07/18/2017	Interest appropriation	Exchange-rate change	Payment	12/31/2017
Unsettled principal + interest	11,041			(143)	10,898
(-) Adjustment to present value	(1,041)	263	570		(208)
Amount Total	**10,000**	**263**	**570**	**(143)**	**10,690**

16 Debentures

a) Convertible into shares – PetroRio S.A.

The meeting of the Company's Board of Directors' held on October 27, 2014 approved the 1st issue of convertible debentures in a single series, subordinated and unsecured, of private placement, amounting to R$ 90 million.

On December 9, 2014, the placement was completed, with the subscription of a total of 4,359,624 debentures, totaling R$87,192.

The debentures have a term of five (5) years, maturing in October 24, 2019, and bear interest corresponding to the accumulated change of 90% of the average daily rates of the DI rate.

The debentures may be converted into shares at the sole discretion of the debentureholders, since October 24, 2015 until the date of maturity of the debentures (exclusive). The number of shares to be delivered to the debentureholders on the date of conversion of the debentures will be the result of dividing the par value of the debentures by the lesser of: (i) the weighted average, based on the daily volume, of the closing price of the shares in the last ten (10) trading sessions on BM&FBOVESPA, preceding October 27, 2014, applying a 25% discount; or (ii) the weighted average, based on the daily volume, of the closing price of shares in the last 10 trading sessions on the BM&FBOVESPA, prior to receipt of the conversion request by applying a discount of 25%, thus giving a conversion price. The Management has assessed this conversion option on December 31, 2017, 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, court-ordered organization or extrajudicial request of the issuing company;
- Protest of debt-claims for amounts greater than R$ 100,000;
- Mergers, consolidations and split-ups without prior consent of debentureholders, in accordance with Corporation Law.

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

(In thousands of reais, unless otherwise indicated)

	01/01/2017	Addition	Write-off	12/31/2017
Principal	31,431	-	(40)	**31,391**
Financial charges	688	2,750	(3,086)	**352**
Total	**32,119**	**2,750**	**(3,126)**	**31,743**
Current	688	2,750	(3,086)	352
Non-current	31,431	-	(40)	31,391

Up to December 31, 2017, debentureholders opted to convert 2,790,065 debentures (R$ 55,801 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 change 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. Following the payment schedule, in January 2018 the last installment due was settled, as Note 32.2.

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

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	12/31/2017
Principal	**39,461**	(808)	(19,199)	**19,454**
Financial charges	**1,683**	138	-	**1,821**
Transaction costs	**(580)**	-	575	**(5)**
Total	**40,564**	**(670)**	**392**	**21,270**
Current	40,564			21,270

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 in the year ended December 31, 2017 was R$ 78,212 (US$ 23,643 thousand) and in the year ended December 31, 2016 was of R$ 76,001 (US$ 22,975 thousand).

(In thousands of reais, unless otherwise indicated)

18 Current and deferred income tax and social contribution

	Tax loss		Tax credit	
Companies	**12/31/2017**	12/31/2016	**12/31/2017**	12/31/2016
PetroRio S.A.	**61,647**	76,022	**20,960**	25,847
PetroRio O&G	**1,227,636**	1,240,475	**417,396**	421,761
PetroRio Internacional	**10,645**	10,209	**3,619**	3,471
Brasoil Group	**90,672**	89,305	**30,828**	30,364
	1,390,600	1,416,010	**472,803**	481,443

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.

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

	Consolidated	
	12/31/2017	**12/31/2016**
Negative goodwill on fair value recognized assets on in business combinations	**2,556**	3,855
Mark to market of financial instruments	**33,621**	15,420
	36,177	19,275
Deferred tax asset credit	**(18,480)**	(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	
	12/31/2017	**12/31/2016**
Previous balance	**160,277**	**201,752**
Acquisition - Brasoil	48,009	-
Currency adjustment	3,225	(30,820)
Inflation adjustment	6,577	(10,655)
Balance	**218,088**	**160,277**
(-) Accounts receivable guarantee Maersk, net of exchange-rate change	(113,282)	(111,607)
(-) Brasoil's abandonment fund	(30,687)	-
Net balance of liabilities	**74,119**	**48,670**

(In thousands of reais, unless otherwise indicated)

The estimated abandonment costs were provisioned for the year ended December 31, 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% p.a. and monetarily restated at the rate of 2.04% p.a. In addition, amounts are adjusted by the changes in the U.S. dollar. These costs will be incurred in the abandonment of the Polvo field, including, but not limited to the plugging of wells, and the removal of production lines and equipment.

For Manati field, the provision corresponds to the 10% interest of Manati. 20% of the provision for abandonment are represented by costs in Reais, updated at the inflation rate of 4.5% per annum and discounted at the risk free rate of 10.16% per annum. The other costs, estimated in US Dollars, are updated at the inflation rate of 2.0% per annum and discounted at the risk free rate of 3.30%, before translation into Reais.

In order to assure the consortium's ability to settle the abandonment obligations in the Manati field, the operator Petrobras collects monthly installment regarding estimated abandonment costs from consortium members. The contributed amounts are invested and will be used to pay the abandonment costs when they occur. As of December 31, 2017, the Company maintained a balance of R$ 30,687.

20 Advances to/from partners in oil and gas operations

	Consolidated	
Operated blocks	**12/31/2017**	**12/31/2016**
GALP - Namíbia - Petroleum Exploration Licences 23	**3,922**	3,865
Total operated blocks	**3,922**	3,865
Non-operated blocks (Cowan - ES)	**-**	305
Non-operated blocks (Petrobras - Brasoil Manati)	**(432)**	-
Total advances to/from partners	**3,490**	4,170
Total current liabilities	**7,129**	4,170
Total current assets	**(3,639)**	**-**

21 Impairment

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

The Company did not identify such evidence in the year ended December 31, 2017.

(In thousands of reais, unless otherwise indicated)

22 Shareholders' equity

22.1 Capital

On December 31, 2017 the Company's subscribed and paid-in capital totaling R$ 3,402,064 is represented by 13,191,932 all nominative, book-entry and with no par value. The Company had Global Depositary Shares ("GDSs") traded in the TSX Venture Exchange (TSX-V) in Toronto, Canada, at a rate of two GSDs for each common share, however, on February 27, 2017, all Global Depositary Shares ("GDSs") were de-listed. Holders who have not convert the GDSs into PetroRio common shares up to May 27, 2017 had the GDSs compulsorily canceled and will receive their cash 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 stock and to be held in treasury, canceled and/or for subsequent disposal.

Until December 31, 2017, the Company acquired a total of 672,740 common shares of Petro Rio S.A., which were classified as Treasury Shares, rectifying Shareholders' Equity, at an acquisition cost of R$ 27,869. 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.

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

Shareholder	Number of common shares	% of interest
Aventti Strategic Partners LLP	3,459,391	26%
One Hill Capital LLC	3,027,497	23%
Societe Mondiale FIA	1,322,000	10%
Others Shareholders	5,383,044	41%
Total	**13,191,932**	**100%**

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

22.2 Earnings per share

Pursuant to CPC 41 (IAS 33), the Company presents information on earnings per share for the years ended on December 31, 2017 and 2016. Basic earnings per share are calculated by dividing net income for the year attributed to the Parent Company's common and preferred shareholders by the weighted average number of common and preferred shares available in the year.

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

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

Basic and diluted earnings per share	12/31/2017	12/31/2016
Numerator (in thousand of reais)		
(Loss) Income for the year attributable to Group's shareholders	**50,851**	241,621
Denominator (in thousands of shares)		
(+) Weighted average number of common shares adjusted by dilution effect	**13,192**	**13,192**
(-) Treasury shares	**(673)**	(43)
	13,192	13,148
Basic earnings and diluted per share	**3,855**	18,377

23 Related party transactions

	12/31/2017	12/31/2016
Reimbursement of administrative expenses Petrorio x O&G	**(85)**	44
Loan Petrorio S.A x Petrorio Internacional (i)	**(1,314)**	(1,358)
Loan Petrorio S.A x Petrorio O&G (ii)	**(36,923)**	(6,076)
Service agreement Petrorio x Lux Energy (iii)	**609**	487
	(37,713)	(6,903)
Total non-current assets	**657**	531
Total non-current liabilities	**(38,371)**	(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 24 month-term, and interest rate of 80% of the CDI.

(iii) Balance of R$ 609 (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.

(In thousands of reais, unless otherwise indicated)

Management remuneration

The Company's management remuneration in the year ended December 31, 2017 was R$9,484 (R$3,276 on December 31, 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 revenue

Net revenue for the year ended December 31, 2017, is comprised of the export income of 100% of its Polvo Field production (R$ 444,836), which, since it is exported, has no taxes on sale, and of gross sales of Gas and Condensate to Petrobras in Manati field (R$ 112,155), which, due to its sale in national territory, is subject to ICMS, PIS and COFINS taxes (deduction of R$ 23,060).

25 Costs of products sold and services rendered

	Consolidated	
	01/01/2017–12/31/2017	**01/01/2016–12/31/2016**
FPSO	(105,104)	(107,100)
Logistics	(46,501)	(57,642)
Consumables	(55,151)	(60,640)
Operation and maintenance	(58,142)	(43,773)
Personnel	(11,694)	(11,247)
SMS	(11,377)	(13,619)
Other costs	(11,327)	(9,795)
Royalties and special interest	(48,589)	(35,451)
Depreciation and amortization	(87,179)	(69,201)
Total	**(435,064)**	**(408,468)**

On December 31, 2017, the oil inventories in the amount of R$ 41,174 is representative of 256,000 barrels – 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).

(In thousands of reais, unless otherwise indicated)

26 Other operating income (expenses), net

	Consolidated	
	12/31/2017	**12/31/2016**
Mark-to-market of inventories	-	19,283
Reversal (provision) for contingencies	51,985	(3,155)
Adjustment to the sale price of Solimões	-	(15,622)
Income (loss) from the sale of property, plant and equipment/scrap	268	837
Write-off of permanent assets	(184)	(464)
Write-off ARO Well BAS-128	(4,139)	-
Income (loss) from the sale of aircrafts	-	(56)
Rendering of accounts for administrative management - Cowan	-	(340)
Service Fee Lux Energy	3	-
Reimbursement of expenses - Glencore	-	(4,808)
Tax credits (PIS and COFINS/INSS/ICMS)	7,619	47,841
Reversal of CTA Namibia	-	309,187
Disproportionate dividends distribution in subsidiary	(12,500)	-
Write-off of commission on drilling rigs' sales	439	-
Cash call return - Coral and Cavalo	169	-
Write-off of accounts receivable - Brasoil FIP	(700)	-
Other income (expenses)	(1,493)	(1,282)
Total	**41,467**	**351,421**

27 Financial income (loss)

	Consolidated	
	12/31/2017	**12/31/2016**
Financial income	**171,756**	**313,817**
Income from realized financial investment	**49,827**	50,417
Income from exchange-rate change	**102,061**	220,976
Realized hedge income	**8,849**	-
Marked at fair value - financial instruments*	**9,600**	32,742
Marked at fair value - Derivatives	**1**	4,847
Other financial income	**1,418**	4,835
Financial expenses	**(165,307)**	**(319,950)**
Loss on realized financial investment	**(192)**	(766)
Expense on exchange-rate change	**(112,889)**	(281,194)
Realized hedge expense	**(35,995)**	-
Interest on debentures	**(8,974)**	(4,050)
Commission on bank guarantees	**-**	(4,063)
Marked at fair value - financial instruments*	**(1)**	(2,664)
Marked at fair value - Derivatives	**(2)**	(8,334)
Other financial expenses	**(7,254)**	(18,878)

* 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.

(In thousands of reais, unless otherwise indicated)

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.

	12/31/2017	12/31/2016
Current assets		
Brazil	620,164	679,634
Abroad	229,492	101,943
Non-current assets		
Brazil	266,186	257,786
Abroad	154,403	43,005
Gross income	**12/31/2017**	**12/31/2016**
Brazil	495,288	384,054
Abroad	61,693	13,816

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 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 variable income portfolio, in the year ended December 31, 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.

(In thousands of reais, unless otherwise indicated)

The VaR was calculated based on historical data of the twelve-month period ended December 31, 2017 (one year), for one-day period, confidence level at 95.0%, segregated in investments in Reais and Dollars. The result was 5.33% of maximum daily loss of the portfolio in Brazilian Reais, and 14.37% of the daily maximum loss of the portfolio in US Dollars.

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

Interest rate risk

Available funds are invested in securities issued by first-tier financial institutions at variable rates, mostly with daily liquidity, in compliance with prudential concentration limits. Company has interest-bearing debentures convertible into shares corresponding to the accumulated change of 90% of CDI - OVER EXTRA Group.

Interest rate sensitivity

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

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Impact on the securities	Decrease in CDI	(142)	(660)	(1,178)
Impact on debentures	Increase in CDI	(369)	151	301

For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the period of 12 months as from December 31, 2017 were taken into account under the probable scenario (CDI 6.76%), 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	7,330	(65,918)	(131,836)
Provision for abandonment (ARO)	Dollar incr.	(6,063)	(54,522)	(109,044)

(In thousands of reais, unless otherwise indicated)

For calculation of the amounts included in the above scenarios the average exchange rate projection disclosed by BM&FBOVESPA for the period of 12 months as from December 31, 2017 (US$ 1/R$ 3.40). 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 December 31, 2017 oil net sales were decentralized, with sales to clients Petrochina, Shell, Repsol and Trafigura and gas sales for only one 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 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)**

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)**

(In thousands of reais, unless otherwise indicated)

Derivative financial instruments - hedge

In the year ended December 31, 2017, the Company entered into derivative agreements aimed at providing hedge against the risk of volatility in oil prices. A summarized table of contracted operations is shown as follows: These operations were fully settled in 2017.

						Price		Gain (loss)	
Operation	Type	Maturity	Settlement	Strike	Quantity	Contracting	Settlement	US$ thousand	R$ thousand
Sale	Future	03/31/2017	03/29/2017	-	(400)	57.92	51.84	2,431	7,597
Purchase	Future	04/05/2017	04/05/2017	-	150	54.35	54.41	9	28
Sale	Future	10/31/2017	10/31/2017	-	(255)	53.02	61.29	(2,110)	(6,907)
Sale	Future	11/30/2017	11/30/2017	-	(255)	53.03	63.49	(2,666)	(8,701)
Sale	Future	12/28/2017	12/27/2017	-	(255)	53.79	66.71	(3,297)	(10,928)
Sale	Future	10/26/2017	10/26/2017	-	(350)	60.75	59.30	(508)	(1,682)
Purchase	Call Option	10/26/2017	10/26/2017	52.00	350	3.93	7.30	1,178	3,897
Sale	Call Option	10/26/2017	10/26/2017	60.00	(350)	(1.19)	(0.00)	416	1,377
Sale	Sell option	10/26/2017	08/15/2017	46.00	350	(2.17)	(1.08)	383	1,223
Purchase	Call Option	06/27/2017	06/27/2017	60.00	150	0.13	0.01	(18)	(60)
Purchase	Sell option	06/27/2017	06/27/2017	48.00	(150)	1.68	1.35	(50)	(164)
Sale	Call Option	06/27/2017	06/27/2017	56.00	(150)	(0.46)	(0.01)	68	223
Sale	Sell option	06/27/2017	06/27/2017	53.00	150	(4.43)	(6.35)	(288)	(955)
Purchase	Sell option	10/26/2017	10/26/2017	44.00	(350)	1.90	(0.00)	(666)	(2,203)
Sale	Call Option	10/26/2017	10/26/2017	55.00	(700)	(1.16)	(4.30)	(2,198)	(7,272)
Purchase	Call Option	10/26/2017	10/26/2017	57.00	600	0.52	2.30	1,070	3,539
Sale	Call Option	10/26/2017	10/26/2017	51.00	(600)	(2.35)	(8.30)	(3,569)	(12,198)
Sale	Sell option	10/26/2017	10/26/2017	52.00	600	(3.45)	0.00	2,071	6,850
Purchase	Sell option	10/26/2017	10/26/2017	46.00	(250)	0.98	0.00	(245)	(812)
								(7,990)	(27,146)

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.

(In thousands of reais, unless otherwise indicated)

	12/31/2017		12/31/2016	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans and receivables				
Accounts receivable (i)	62,046	62,046	30,680	30,680
Related parties	-	-	-	-
Fair value through profit or loss				
Cash and cash equivalents (ii)	92,445	92,445	24,793	24,793
Securities (ii)	60,627	60,627	43,212	43,212
Available for sale				
Securities (iii)	404,074	404,074	468,671	468,671
Financial liabilities				
Amortized cost:				
Suppliers (i)	83,991	83,991	63,004	63,004
Debentures (ii)	53,012	51,598	32,119	32,593
Derivative financial instruments (ii)	-	-	162	-
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).

30 Contingencies

Management of the Company and its subsidiaries, based on the opinion of its legal advisors regarding the possibility of success in several lawsuits, believes that the provisions recorded in the balance sheet on December 31, 2017 and 2016 in the amounts of R$ 15,120 and R$ 56,393, 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$ 14,820 and one tax claim of R$ 299.

Provision reversed - Tuscany Arbitration

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

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

Other lawsuits

According to the Group's legal advisors, the risk of loss due to other lawsuits (R$ 358,047) 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.

(In thousands of reais, unless otherwise indicated)

31 Subsequent events

31.1 Share-based compensation plan

The Board of Directors, within the scope of its duties and in accordance with Petrorio's stock option plan, approved in the first quarter of 2018 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 and are being certified by expert consultants. 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	332,018	12,300
Share price on granting date	91.50	72.50
Strike price	54.70	48.62
Weighted fair value on concession date	44.50	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

31.2 Settlement of Debentures – Manati

In January 2018, following the contractual schedule, the Company paid the last installment of debentures issued by Manati, in the amount of R$ 21,326.

31.3 Realization of securities

In the first quarter of 2018, 86% of the position of stock portfolio on December 31, 2017 was settled, realizing accumulated gains in this period totaling R$ 23,990.

Petro Rio S.A.

Additional information to the financial statements
December 31, 2017
(In thousands of reais, unless otherwise indicated)

Statements of added value (supplementary information for IFRS purposes)
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Consolidated	
	12/31/2017	12/31/2016
Income		
Oil & Gas sales	**533,922**	397,871
	533,922	397,871
Inputs and services		
Outsourced services and other	**(40,393)**	(33,307)
Geology and geophysics expenses	**(716)**	(797)
Costs of services	**(299,296)**	(303,816)
Gross added value	**193,517**	59,951
Retentions		
Depreciation and amortization	**(89,230)**	(69,569)
Net added value	**104,287**	(9,618)
Transferred value added		
Net financial income (loss)	**6,449**	(6,133)
Equity in income of subsidiaries	**-**	-
Deferred taxes	**4,738**	(6,690)
Income from transactions with permanent assets	**-**	(6,712)
Rents, royalties and other	**(20,308)**	304,564
Added value payable	**94,941**	275,411
Distribution of added value		
Personnel	**37,901**	27,762
Taxes	**6,189**	6,027
Interest attributable to Group's shareholders	**50,851**	241,622
Distributed added value	**94,941**	275,411

See the accompanying notes to the financial statements.

(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 is able to protect the company against losses due to third party complaints. Additionally, the Company hires insurance for Operator’s Extras Expenses, which includes: Control over Well, Extra Expense/Re-drilling and Infiltration and Pollution, Cleaning and Contamination.

The insurance policies in force at December 31, 2017 cover the insured amount of R$ 2,875,281. In addition, the Company also contracts insurance for Operator’ Extra Expenses, whose main exposures covered are as follows:

Insurance/Modality	Insured amount
Physical damages (Oil inventories)	**138,936**
Offshore Platform	**675,824**
Offshore property (Pipeline)	**96,594**
Onshore properties (Pipeline)	**38,704**
Onshore Treatment Station	**57,559**
OEE production (Well control)	**545,820**
Offshore Civil Liability + Surplus	**1,240,500**
Aircrafts (Physical damages)	**5,954**
Aircrafts (Civil liability)	**33,080**
Cargo (Polvo)	**3,500**
D&O	**30,000**
General liability	**5,000**
Equity	**2,900**
Travel Insurance Travel Guard	**910**
Total insured	**2,875,281**