Quarterly information - ITR

Petro Rio S.A.

September 30, 2019
with Independent Auditors' Report on the Review of the Quarterly Information

Summary

PetroRio

Independent auditors' report on the review of the quarterly information

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

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of Petro Rio S.A. identified as individual and consolidates, respectively, included in the Interim Financial Information (ITRs), for the quarter as of September 30, 2019, which comprises the balance sheet at September 30, 2019, and the respectively income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the nine-month period then ended, including the explanatory notes.

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

Scope of Review

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

Conclusion on the interim financial information

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

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Other matters

Statements of Value Added (DVA)

We have also reviewed the condensed individual and consolidated statements of value added for the nine-month period ended September 30, 2019, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they were not presented, in all material respects, in relation to the overall interim condensed individual and interim financial information.

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

Rio de Janeiro, October 31, 2019

BKR - Lopes, Machado Auditores
CRC-RJ-2026/O-5

Independent Member of BKR International

Mario Vieira Lopes
Contador – CRC-RJ-060.611/O-0

PetroRio

Balance sheet
September 30, 2019 and December 31, 2018
(In thousands of reais - R$)

	Note	Consolidated 09/30/2019	Consolidated 12/31/2018
Assets			
Current assets			
Cash and cash equivalents	3	**358,921**	154,109
Securities	4	**252,003**	643,783
Restricted cash	5	**12,602**	11,628
Accounts receivable	6	**86,047**	34,932
Oil inventories	25	**125,632**	56,702
Inventory of consumables		**5,023**	2,084
Financial instruments	29	**5,476**	-
Recoverable taxes	7	**74,886**	67,011
Advances to suppliers	8	**43,517**	37,949
Advances to partners	20	**36,129**	2,922
Prepaid expenses		**9,335**	1,659
Other receivables		**1,701**	202
		1,011,272	1,012,981
Non-current assets available for sale	9	**28,568**	26,581
		1,039,840	1,039,562
Non-current assets			
Advances to suppliers	8	**12,596**	12,596
Deposits and pledges		**27,411**	19,621
Recoverable taxes	7	**20,208**	25,711
Deferred taxes		**9,514**	8,338
Related parties	23	**-**	-
Right-of-use (Lease CPC 06.R2 IFRS 16)	17	**926,254**	-
Investments	10	**-**	-
Property, plant and equipment	11	**1,512,692**	45,292
Intangible assets	12	**979,893**	385,943
		3,488,568	497,501
Total assets		**4,528,408**	1,537,063

See the accompanying notes to the financial statements.

PetroRio

Balance sheet
September 30, 2019 and December 31, 2018
(In thousands of reais - R$)

	Note	Consolidated 09/30/2019	12/31/2018
Liabilities and shareholders' equity			
Current liabilities			
Suppliers	13	**129,730**	73,258
Labor obligations		**36,108**	14,923
Taxes and social contributions	14	**56,859**	37,010
Loans and financing	15	**848,109**	222,437
Debentures	16	**9,374**	306
Advances from partners	20	**131**	6,792
Contractual Charges (Lease IFRS 16)	17	**208,780**	-
Other liabilities		**-**	16,260
		1,289,091	370,986
Non-current liabilities			
Suppliers	13	**13,447**	13,413
Loans and financing	15	**459,663**	25,718
Debentures	16	**-**	31,241
Provision for abandonment (ARO)	19	**709,478**	68,713
Provision for contingencies	31	**34,680**	17,441
Deferred taxes and social contributions	18	**2,040**	2,311
Related parties	23	**-**	-
Investment deficit	10	**-**	-
Contractual Charges (Lease IFRS 16)	17	**791,380**	-
Other liabilities		**1,819**	644
		2,012,507	159,481
Minority interest		**1,519**	-
Shareholders' equity			
Realized capital	22	**3,307,246**	3,273,114
Capital reserves		**114,154**	58,183
Accumulated translation adjustment		**172,628**	94,057
Equity valuation adjustments		**(63,275)**	(75,856)
Accumulated losses		**(2,342,903)**	(2,547,777)
Income (loss) for the period		**37,441**	204,875
		1,225,291	1,006,596
Total liabilities and shareholders' equity		**4,528,408**	1,537,063

See the accompanying notes to the financial statements.

PetroRio

Statements of income

Nine-month period ended September 30, 2019 and 2018
(In thousands of reais, except earnings/losses per share)

	Note	Consolidated	
		09/30/2019	09/30/2018
Net revenue	24	**1,086,351**	581,187
Costs of products/services	25	**(609,366)**	(358,146)
Gross revenue		**476,985**	223,041
Operating revenues (expenses)			
Geology and geophysics expenses		**371**	(1,331)
Personnel expenses		**(37,435)**	(30,853)
General and administrative expenses		**(14,313)**	(15,303)
Expenses with Outsourced Services		**(26,374)**	(24,576)
Taxes and rates		**(3,341)**	(5,229)
Depreciation and amortization expenses		**(6,484)**	(1,821)
Equity in income of subsidiaries	10	**-**	-
Income from transactions with permanent assets		**-**	(64)
Other operating revenues (expenses), net	26	**(58,879)**	(19,199)
Operating income (loss) before financial income (loss)		**330,530**	124,665
Financial revenues	27	**226,874**	246,039
Financial expenses	27	**(478,795)**	(200,228)
Income before income tax and social contribution		**78,609**	170,476
Current income tax and social contribution		**(42,680)**	(36,482)
Deferred income tax and social contribution		**1,512**	10,718
Income for the period		**37,441**	144,712
Basic and diluted profit per share			
Basic		***0,285***	*11,908*
Diluted		***0,285***	*11,908*

See the accompanying notes to the financial statements.

PetroRio

Statements of income

Three-month period ended September 30, 2019 and 2018
(In thousands of reais, except earnings/losses per share)

	Note	Consolidated	
		07/01/2019-09/30/2019	07/01/2018-09/30/2018
Net revenue	24	**399,045**	224,627
Costs of products/services	25	**(238,688)**	(116,987)
Gross revenue		**160,357**	107,640
Operating revenues (expenses)			
Geology and geophysics expenses		**(199)**	(980)
Personnel expenses		**(15,999)**	(8,635)
General and administrative expenses		**(8,545)**	(5,696)
Expenses with Outsourced Services		**(5,087)**	(4,761)
Taxes and rates		**1,526**	(2,929)
Depreciation and amortization expenses		**(2,859)**	(665)
Equity in income of subsidiaries	10	**-**	-
Income from transactions with permanent assets		**-**	(64)
Other operating revenues (expenses), net	26	**(26,614)**	(15,839)
Operating income (loss) before financial income (loss)		**102,580**	68,071
Financial revenues	27	**96,209**	111,863
Financial expenses	27	**(269,920)**	(82,722)
Income before income tax and social contribution		**(71,131)**	97,212
Current income tax and social contribution		**(583)**	(25,633)
Deferred income tax and social contribution		**(146)**	(121)
Income for the period		**(71,860)**	71,458
Basic and diluted profit per share			
Basic		***(0,547)***	*5,883*
Diluted		***(0,547)***	*5,883*

See the accompanying notes to the financial statements.

PetroRio

Statements of comprehensive income

Nine-month period ended September 30, 2019 and 2018
(In thousands of reais - R$)

	Consolidated	
	09/30/2019	**09/30/2018**
Retained earnings (loss)	**37,441**	144,712
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**78,571**	38,392
Equity valuation adjustments	**12,581**	(91,106)
Other comprehensive income for the period, net of taxes	**91,152**	(52,714)
Total comprehensive income for the period net of taxes	**128,593**	91,998

See the accompanying notes to the financial statements.

PetroRio

Statements of comprehensive income

Nine-month period ended September 30, 2019 and 2018
(In thousands of reais - R$)

	Consolidated	
	07/01/2019–09/30/2019	**07/01/2018–09/30/2018**
Retained earnings (loss)	**(71,860)**	71,458
Other comprehensive income		
Translation adjustment on investment abroad, net of taxes	**86,058**	7,309
Equity valuation adjustments	**7,574**	(61,570)
Other comprehensive income for the period, net of taxes	**93,632**	(54,261)
Total comprehensive income for the period net of taxes	**21,772**	17,197

See the accompanying notes to the financial statements.

PetroRio

Statements of changes in shareholders' equity

Nine-month period ended September 30, 2019 and 2018
(In thousands of reais - R$)

	Capital	Capital reserve	Equity valuation adjustment	Accumulated translation adjustment	Accumulated loss	Total
Balances at January 1, 2018	**3,265,256**	**73,852**	**26,698**	**65,102**	**(2,547,777)**	**883,131**
Paid-up capital	7,858	-	-	-	-	7,858
Stock options granted	-	10,290	-	-	-	10,290
Translation adjustment on investment abroad	-	-	-	38,392	-	38,392
Gain (loss) with financial instruments	-	-	(91,106)	-	-	(91,106)
Income for the period	-	-	-	-	144,712	144,712
Treasury shares	-	(33,632)	-	-	-	(33,632)
Balances at September 30, 2018	**3,273,114**	**50,510**	**(64,408)**	**103,494**	**(2,403,065)**	**959,645**
Balances at January 1, 2019	**3,273,114**	**58,182**	**(75,856)**	**94,057**	**(2,342,903)**	**1,006,594**
Paid-up capital	34,132	-	-	-	-	34,132
Stock options granted	-	12,492	-	-	-	12,492
Translation adjustment on investment abroad	-	-	-	78,571	-	78,571
Gain (loss) with financial instruments	-	-	12,581	-	-	12,581
Income for the period	-	-	-	-	37,441	37,441
Income in sale of treasury shares	-	31,793	-	-	-	31,793
Treasury shares	-	11,687	-	-	-	11,687
Balances at September 30, 2019	**3,307,246**	**114,154**	**(63,275)**	**172,628**	**(2,305,462)**	**1,225,291**

See the accompanying notes to the financial statements.

PetroRio

Statements of cash flows

Nine-month period ended September 30, 2019 and 2018

(In thousands of reais - R$)

	Consolidated	
	09/30/2019	**09/30/2018**
Cash flows from operating activities		
Income (loss) for the period (before taxes)	**78,609**	**170,476**
Depreciation and amortization	225,666	66,457
Financial revenues	(210,936)	(239,533)
Financial expenses	451,161	181,014
Share-based compensation	12,492	10,290
Equity valuation adjustment	-	119
Loss/Write-off of non-current assets	-	1,316
Provision for contingencies/losses	8,156	13,457
Provision for impairment	-	64
	565,148	**203,660**
(Increase) decrease in assets		
Accounts receivable	(49,941)	16,188
Recoverable taxes	23,877	2,635
Prepaid expenses	(7,632)	546
Advances to suppliers	(3,741)	(1,796)
Oil inventories	39,513	(32,357)
Inventory of consumables	(2,940)	(2,314)
Advance to partners in oil and gas operations	(26,277)	458
Other receivables	139	249
Increase (decrease) in liabilities		
Suppliers	22,261	12,722
Labor obligations	9,770	(4,861)
Taxes and social contributions	2,191	(11,195)
Contingencies	-	(552)
Advances from partners in oil and gas operations	(6,000)	(3,173)
Other liabilities	(15,086)	(12,500)
Net cash (invested in) from operating activities	**551,282**	**167,710**
Cash flows from investment activities		
(Investment in) redemption of securities	383,513	18,385
(Investment) Restricted cash redemption	-	18,119
(Investment) Redemption in abandonment fund	(1,472)	(5,032)
(Increase) decrease in deposits and pledges	(6,188)	(1,941)
(Increase) decrease in permanent assets	(62,314)	(153,558)
(Acquisition) of oil and gas assets	(1,527,598)	-
Non-current assets held for sale	-	6,807
Net cash (invested in) from investment activities	**(1,214,059)**	**(117,220)**
Cash flows from financing activities		
Loans and financing	934,764	(76,391)
Contractual charges (Lease IFRS 16)	(137,636)	(22,253)
Debentures	(864)	-
Derivative transactions	(1,110)	(2,087)
(Purchase) sale of own Company's shares (held in treasury)	43,479	(33,549)
(Decrease) Paid-up capital	12,055	7,709
Minority interest	687	-
Net cash (invested in) from financing activities	**851,375**	**(126,571)**
Translation adjustment	16,214	11,796
Net increase (decrease) in cash and cash equivalents	**204,812**	**(64,285)**
Cash and cash equivalents at the beginning of the period	154,109	92,445
Cash and cash equivalents at the end of the period	358,921	28,160
Net increase (decrease) in cash and cash equivalents	**204,812**	**(64,285)**

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, its main purpose is to hold interests in other companies as partner, shareholder or quotaholder, in Brazil and abroad, with a focus on exploration, development and production of oil and natural gas.

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

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

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

The Polvo Field is in the southern portion of the Campos Basin (offshore) some 100 km east of the city of Cabo Frio in the state of Rio de Janeiro. The license covers an area of approximately 134 km2 with several prospects for future exploration. Average daily output during the third quarter of 2019 was of roughly 8 thousand barrels (10 thousand barrels for the third quarter of 2018).

In April 2018, the Company started the Second Phase of the Revitalization Plan for the Polvo Field, continuing the successful Phase 1 in the 1Q16, which resulted in a 20% increase in production and volumes of proven developed reserves. Phase 2 consisted of drilling three new wells to reach undeveloped proved reserves (1P) and probable reserves (2P). Of the three new oil wells planned to be drilled, performed and were successfully completed. The first well operations started-up on May 20, 2018, while the second one started-up on July 30, 2018, and the third on November 1, 2018, as detailed in Note 12.

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

The Manati Field is in the Camumu Basin, on the coast of the State of Bahia. The license covers an area of approximately 76 km². Average daily output during the third quarter of 2019 was of roughly 3.8 million cubic meters of natural gas (5.2 million cubic meters of natural gas for the third quarter of 2018).

On March 25, 2019, after complying with the precedent conditions and obtaining the necessary approvals, the Company completed the acquisition of Chevron Brasil Upstream Frade Ltda., renamed to Petro Rio Jaguar Petróleo Ltda., holding 51.74% of the concession and operation of Frade Field, in addition to an equivalent interest in the operational assets of the Field, becoming its operator (Note 12).

In addition, on October 2, 2019, after the precedent conditions were met and the necessary approvals obtained, the acquisition of Frade Japão Petróleo Ltda ("FJPL"), holder of an 18.26% interest in Campo de Frade's concession, was completed, as described in Note 32.1, provided that now that the Company of Frade Field holds a 70% interest.

With the completion of the acquisition, Petrorio increased its daily production by approximately 13 thousand barrels (70% of Frade's production), an increase of approximately 120% in comparison with Polvo's and Manati's production.

The Frade Field is located in the northern region of the Campos Basin, about 120 kilometers from the coast of the State of Rio de Janeiro. The license covers an area of approximately 154 km², with an average water depth of 1,155 m. The Field produced approximately 18.8 thousand bbl of oil per day in the third quarter.

2. Preparation basis and presentation of the financial statements

2.1. Statement of conformity

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

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

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

2.2. Basis of preparation

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

(In thousands of reais, unless otherwise indicated)

2.3. Basis of consolidation and investments in subsidiaries

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

The income (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. Accordingly, income from new subsidiaries Jaguar, Frade LLC and Frade BV was considered in the Company's consolidated income beginning as of March 25, 2019, date in which purchase and sale transaction was concluded.

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

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

The Company's consolidated financial statements include:

		Interest			
		09/30/2019		**12/31/2018**	
Fully consolidated companies		**Direct**	**Indirect**	**Direct**	**Indirect**
Petro Rio O&G Exploração e Produção de Petróleo Ltda.	"PetroRioOG"	**100.00%**	**-**	100.00%	-
Petrorio USA Inc.	"PrioUSA"	**100.00%**	**-**	100.00%	-
Petro Rio Internacional S.A.	"PrioIntl"	**1.26%**	**98.74%**	1.69%	98.31%
Petrorio Luxembourg Holding Sarl	"Lux Holding"	**-**	**100.00%**	-	100.00%
Petrorio Netherlands BV	"Netherlands"	**-**	**100.00%**	-	100.00%
Walvis Petroleum (Pty) Ltd.	"Walvis"	**-**	**100.00%**	-	100.00%
Petrorio Canada Inc.	"Canadá"	**-**	**100.00%**	-	100.00%
Luderitz Petroleum (Pty) Ltd.	"Luderitz"	**-**	**100.00%**	-	100.00%
Petrorio Luxembourg Sarl	"Lux Sarl"	**-**	**100.00%**	-	100.00%
Cumoxi Investments (Pty) Ltd.	"Cumoxi"	**-**	**100.00%**	-	100.00%
Kunene Energy (Pty) Ltd.	"Kunene"	**-**	**100.00%**	-	100.00%
Orange Petroleum Ltd.	"Orange"	**-**	**100.00%**	-	100.00%
Petro Rio do Brasil Exploração Petrolífera S.A.	"Brasoil"	**-**	**100.00%**	-	100.00%
Brasoil OPCO Exploração Petrolífera Ltda.	"Opco"	**-**	**99.99%**	-	99.99%
Brasoil Manati Exploração Petrolífera S.A.	"Manati"	**-**	**100.00%**	-	100.00%
Brasoil Coral Exploração Petrolífera Ltda.	"Coral"	**-**	**100.00%**	-	100.00%
Petro Rio Energia Ltda.	"PrioEnergia"	**-**	**100.00%**	-	100.00%
Petro Rio Comercializadora de Energia Ltda	"Comercializadora"	**-**	**100.00%**	-	-
Brasoil Round 9 Exploração Petrolífera Ltda.	"Round 9"	**-**	**100.00%**	-	100.00%
Brasoil Finco LLC	"Finco"	**-**	**100.00%**	-	100.00%
Petro Rio Jaguar Petróleo Ltda	"Jaguar"	**-**	**100.00%**	-	-
Chevron Frade LLC	"Frade LLC"	**-**	**100.00%**	-	-
Frade B.V.	"Frade B.V."	**-**	**51.74%**	-	-

2.4. Accounting policies adopted

In response to CVM Official Circular Letter 003/2011, dated April 28, 2011, we declared that accounting policies adopted in the preparation of such quarterly information is presented in the most current annual financial statements (year ended December 31, 2018), except for the adoption of CPC 06 (R2) / IFRS 16 and ICPC 22 / IFRIC 23, the policy to deal with expenses associated with the Frade consortium, emphasized below.

2.5. ICPC 22 / IFRIC 23 - Uncertainty on treatment of income taxes

ICPC 22 clarifies the criteria for recognition, measurement and disclosure of the uncertainties referring to taxes on profit, due to the absence of explanations in this regard by Technical Pronouncement CPC 32 - Income taxes (CPC 32) and differences between the procedures adopted by the companies. The Company evaluated the effects and there is no impact on the financial statements.

2.6. CPC 06 (R2) / IFRS 16 – Lease operations

The Technical Pronouncement CPC 06 (R2) / IFRS 16 amend the form of presentation of operating leases in balance sheet of lessees, and also replaces the linear cost of the operating lease at the amortization cost of assets subject to right to use and interest expense on lease obligations at funding effective rates, prevailing on the hiring date of these transactions and calculated in financial expense.

After analyzing the contracts that could be included in the Pronouncement's identification principles, short-term leases maturing within 12 months were not taken into considering, in addition to leases of non-significant amounts, provided that the payments of the leases related to these contracts are recognized as expenses over the term of the contract.

The Company adopted the cumulative effect method and did not make the restatement of financial statements for prior periods, recognizing the effects in a prospective manner, as detailed in Note 17.

Lease liabilities were measured at present value of the remaining lease payments, using the surcharge rate on the Company's loan at first-time adoption date;

The right of use asset was recognized based on the value of the lease liability, adjusted for any advance or accumulated lease payment related to this lease, recognized in the balance sheet immediately before the date of the first-time adoption date.

(In thousands of reais, unless otherwise indicated)

2.7. Expenditures associated to Join Operating Agreement (JOA) of Frade Field

The Company, in the capacity of Frade Field operator, is responsible for contracting and paying all suppliers of this concession.

On a monthly basis, disbursements projected for subsequent month are estimated and charged from partners through cash calls, and evidence of expenditures is provided in billing statements.

Therefore, invoices received by the Company contemplate total value of acquired materials and services, but presentation in the Company's statements of income/ cost reflects only its interest.

2.8. Functional currency and presentation currency

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

2.9. Standards and new and reviewed interpretations already issued

In the preparation of quarterly information, the Company's Management considered, when applicable, the new reviews and interpretations of IFRS and technical pronouncements, issued by IASB and CPC, respectively, which became mandatorily effective on January 1, 2019 and have been effective on September 30, 2019 namely:

Pronouncement or interpretation	Description
CPC 02 (R2) / IFRS 16	Leases
CPC 32 / IFRIC 23	Uncertainty on treatment of income taxes

2.10. Completion of quarterly information

The Company's management authorized the conclusion of this quarterly information on October 31, 2019.

(In thousands of reais, unless otherwise indicated)

3. Cash and cash equivalents

	Consolidated	
	09/30/2019	12/31/2018
Cash	**20**	1
Banks	**358,902**	154,108
	358,921	154,109
National	**3,241**	1,410
Abroad	**355,680**	152,699

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

4. Securities

	Consolidated	
	09/30/2019	12/31/2018
Investment fund (i)	**1,150**	8,908
Bank deposit certificates (ii)	**14,573**	202,325
Promissory note (iii)	**65,049**	58,265
Repurchase and resale agreements (debentures) *(iv)*	**32,296**	63,221
Financial Bills	-	354
Shares	**573**	1,234
Time Deposit (v)	**133,365**	95,698
Financial assets - fair value through profit or loss	**247,006**	430,005
Fixed income debt bonds (vi)	-	114,591
Investment funds (vii)	**4,997**	99,187
Shares	**4,997**	70,886
Government bonds (LFT/NTN)	-	788
Bonds	-	6,651
Cash/Money Market	-	20,862
Financial assets - fair value through other comprehensive income	**4,997**	213,778
Total	**252,003**	643,783

i. Fixed income investment fund in Brazil remunerated no average at 102.02% of CDI rate.

ii. Fixed income investments (CDB) in reais, with average yield of 100% of the CDI;

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

iv. Repurchase and resale agreements (debentures) remunerated on average at 75% of CDI rate;

(In thousands of reais, unless otherwise indicated)

v. Position of Time Deposit in dollar, which corresponds to a fixed-income investment with daily liquidity, earning interest at 1.9% p.a.;

vi. Investments in fixed income securities, in US dollars, of large institutions, with an average yield of 6.8% p.a.;

vii. Investment funds in Brazil and abroad with average negative earnings of 37% in the quarter, which basically invest in shares, bonds and government bonds. These are open (non-exclusive) funds and have independent management, with autonomy to transact the resources invested.

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

5. Restricted cash

The Company, following the purchase and sale agreement for the acquisition of a 18.26% interest in the Frade Field concession (Frade Japão Petróleo Ltda – Note 1), the Company deposited the amount of US$ 3 million (R$ 12,602 million) in an escrow account in October 2018. The release of the amount to seller was conditions upon completion of the acquisition, which occurred on October 2, 2019, as described in Note 32.1.

The Company, in compliance with purchase and sale agreement for acquisition of 51.74% of interest in concession of Frade Field (Petro Rio Jaguar Petróleo Ltda – note 1), makes monthly deposits in a restricted account (Escrow) that is released to the seller according to terms agreed-upon for debt payment. In the third quarter of 2019, total deposits amounted to US$ 22,744 (R$ 94,714), and the first amount of the financing was paid on September 9, 2019, amounting to R$ 35,391 (R$ 147,384), as described in Note 15.

6. Accounts Receivable

	Consolidated	
	09/30/2019	**12/31/2018**
Petrobras (i)	**23,088**	21,206
Repsol (ii)	**-**	12,952
Petrochina (iii)	**11,075**	-
Vale (iv)	**51,884**	
Other	**-**	774
Total	**86,047**	34,932
Total local currency	**23,088**	21,206
Total foreign currency	**62,959**	13,726

(In thousands of reais, unless otherwise indicated)

(i) Balance receivable related to sales of gas and condensed oil by Manati and Frade in August and September 2019, roughly 26.9 million m³ of gas, corresponding to a revenue of R$ 22,870 for Manati and R$ 218 to Frade.

(ii) Balance receivable remaining from the sale of oil in December 2018, referring to approximately 418,000 barrels of oil, which generated a revenue of R$ 84,695.

(iii) Balance receivable remaining from the sale of oil in September 2019, referring to approximately 508 barrels of oil, which generated a revenue of R$ 119,851.

(iv) Balance receivable remaining from the sale of oil in September 2019, referring to approximately 995 barrels of oil, which generated a revenue of R$ 256,096.

7. Recoverable taxes

	Consolidated	
	09/30/2019	**12/31/2018**
Income tax and social contribution (i)	**13,182**	25,747
PIS and COFINS (ii)	**57,297**	24,666
ICMS (iii)	**23,208**	16,137
VAT	**589**	25,775
Other	**818**	397
Total	**95,094**	92,722
Current assets	**74,886**	67,011
Non-current assets	**20,208**	25,711

(i) Primarily refers to withholding income tax on financial investments and negative balance of IRPJ/CSLL (Corporate Income Tax / Social Contribution on Net Revenue) and prepaid income tax and social contribution.

(ii) PIS/COFINS credits on inputs used in operation;

(iii) ICMS recoverable referring to oil loans between Frade Field partners and movement of materials upon acquisition of Polvo.

(In thousands of reais, unless otherwise indicated)

8. Advances to suppliers

	Consolidated	
	09/30/2019	**12/31/2018**
Geoquasar Energy (i)	**12,596**	12,596
BW (Prosafe) guarantee (ii)	**27,333**	25,691
Petrobras	**3,886**	2,728
Sotreq	**2,206**	1,706
Nitshore	**1,388**	1,931
Alpina	**188**	1,537
BJ Services Brasil	**1,800**	-
Asa Assessoria	**1,772**	-
Other	**4,944**	4,356
Total	**56,113**	50,545
Total current assets	**43,517**	37,949
Total non-current assets	**12,596**	12,596

(i) The advances to Geoquasar refer to operating costs assumed by PetroRioOG and contractual payments in advance. As a counterparty to these advances, the Company has maintained the provision under "Long term suppliers" caption recorded, in the amount of R$ 12,961 (Note 13). The settlement of these amounts, both assets and liabilities, awaits court decision.

(ii) The advances to BW (Prosafe) - US$ 5,671 (R$ 23,616) 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).

Other advances derive from the Company's regular transactions.

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

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

	Balance at 12/31/2018	Write-offs	Commission	Impairment	Translation adjustment	**Balance at 09/30/2019**
Aircrafts	**-**	-	-	-	-	**-**
Drilling rigs	**26,581**	-	-	-	**1,987**	**28,568**
	26,581	-	-	-	**1,987**	**28,568**

(In thousands of reais, unless otherwise indicated)

	Balance at 12/31/2017	Write-offs	Commission	Impairment	Translation adjustment	**Balance at 12/31/2018**
Aircrafts	**5,623**	(8,798)	-	2,203	972	-
Drilling rigs	**22,693**	-	-	-	3,888	**26,581**
	28,316	(8,798)	-	2,203	4,860	**26,581**

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 (already net of the 2% sales commission) to US$ 3,430,000 (R$ 14,284).

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

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

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

10. Investments

At September 30, 2019, the Company presented the following main interest held in direct subsidiaries:

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

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

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

On October 07, 2015, PetroRio paid-up capital of PetroRioOG, in the amount of R$197,269, with shares of PTRIntl; now, PetroRioOG holds 98.3% of interest in PrioIntl capital.

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

Brasoil is a holding company which holds an indirect interest of 10% in the rights and obligations set forth in the concession contract of Manati Field, which, on its turn, currently producing about 3.1 million cubic meters of natural gas per day (4.9 million cubic meters of natural gas in 2018), 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.
Due to restructurings of the Company's organization chart, Brasoil and all associated companies were transferred from PetroRioOG to Lux Holding, as capital contribution.

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

The subsidiary, headquartered in Rio de Janeiro is engaged 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.

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

Currently, the main Companies controlled by PrioIntl are Lux Holding and Netherlands, companies that have large-sized assets in operation or held for sale, Brasoil Manati, , which was contributed by PetroRioOG in June 2019, and Lux Sarl, which as for September 2016 started to trade the oil produced in the Polvo field. The acquisition of Petrorio Lux Energy S.à.r.l. (formerly BP Energy América LLC and merged in December 2017 by Lux Holding) was part of the acquisition of Polvo field and owner of a 3,000 HP drilling rig, which is the equipment needed for operations in this field.

Moreover, under this corporate structure are subsidiaries located In Canada and the Republic of Namibia.

(In thousands of reais, unless otherwise indicated)

As mentioned in Notes 1, Petrorio, through its subsidiary Lux Holding, entered into purchase and sale agreements for the acquisition of a 18.26% and 51.74% interest on October 26, 2018 and January 30, 2019, respectively, in the Frade Field concession, through the acquisition of Frade Japão Petróleo Ltda and of Chevron Brasil Upstream Frade Ltda.

On March 25, 2019, the acquisition of the 51.74% interest was completed, and the Company became also the operator of Frade Field. The acquisition of the 18.26%, which dependent on precedent conditions and internal and external approvals was completed on October 2, 2019 (Note 32.1). The Company now holds 70% of asset interest.

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

- **Petrorio USA Inc ("PrioUSA")**

Established on March 4, 2011, former HRT America Inc., incorporated under the laws of the State of Delaware and headquartered in Houston, USA. Subsidiary was basically established to provide geology and geophysics services to other subsidiaries of the Group, mainly to PrioIntl and its subsidiaries.

Portfolio of concessions

On September 30, 2019 the Company's subsidiaries were participants in the following concessions in Brazilian basins:

Country	Basin	Block	Field	Concessionaire	%	Status	Phase
Brazil	Fields	BM-C-8	Polvo	PetroRioOG	100%	Operator	Production
Brazil	Camamu	BCAM-40	Manati	Manati	10%	Non-operator	Production
Brazil	Fields	Frade	Frade	Jaguar	52%	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	Pirapema	Manati	100%	Operator	Exploration
Brazil	Ceará	CE-M-715	-	Jaguar	50%	Operator	Exploration

The BCAM-40 Block Consortium started and awaits for the process of returning the discovery of Camarão Norte, located in south of the Manati Field, in the Camamu-Almada Basin, to the National Agency of Petroleum, Natural Gas and Biofuels (ANP). The Company has a 10% interest in the discovery of Camarão Norte, which was declared a commercial undertaking in 2009. After evaluating several development plans and potential unitization to the adjacent area, the consortium concluded that the area was not economically feasible and decided to return it.

(In thousands of reais, unless otherwise indicated)

The acquisition of Jaguar expanded the concessions portfolio with 51.74% Frade Field, in partnership with Petróleo Brasileiro S.A. with 30% and Frade Japão Petróleo Ltda. with 18.26%, and with 50% of the Exploratory Block CE-M-715, in Ceará Basin, in partnership with Ecopetrol.

a) Relevant information on investees as of September 30, 2019

	PetroRioOG	PrioIntl	PrioUSA
Direct interest	100.00%	1.23%	100.00%
Indirect interest	0.00%	98.77%	0.00%
Shareholders' equity	1,325,623	1,276,197	(68)
Income (loss) for the period	59,822	144,201	(137)
Total assets	2,984,380	3,458,618	233

b) Breakdown of investments

	09/30/2019	12/31/2018
PetroRioOG	**1,325,623**	985,061
PrioUSA	**(68)**	(61)
PrioIntl	**15,760**	4,231
	1,341,315	989,231
Investments	**1,341,383**	989,292
Investment deficit *(Provision for loss on investments in subsidiaries)*	**(68)**	(61)

c) Changes in investment

	PetroRioOG	PrioIntl	PrioUSA	Total
Balance at December 31, 2017	**772,568**	**3,154**	**(315)**	**775,407**
Capital increase/decrease	50,000	1	914	50,915
Equity in income of subsidiaries	195,936	666	(515)	196,087
Equity valuation adjustment	-	-	(119)	(119)
Equity evaluation adjustments	(61,931)	(83)	-	(62,014)
Conversion adjustments	28,488	493	(26)	28,955
Balance at December 31, 2018	**985,061**	**4,231**	**(61)**	**989,231**
Capital increase/decrease	197,907	-	138	198,045
Equity in income of subsidiaries	59,822	10,245	(136)	69,931
Equity evaluation adjustments	4,822	716	-	5,538
Conversion adjustments	78,011	568	(8)	78,571
Balance at September 30, 2019	**1,325,623**	**15,760**	**(68)**	**1,341,315**

PetroRio

Notes to the quarterly information
September 30, 2019
(In thousands of reais, unless otherwise indicated)

11. Property, plant and equipment (Consolidated)

a) Breakdown of the balance

	Depreciation rate %	Cost	Depreciation	Translation adjustment	Balance at 09/30/2019	Balance at 12/31/2018
In operation						
Platform and Drilling rig - Polvo	UOP*	101,439	(98,371)	23,185	26,253	29,366
Oil & gas assets - Manati	UOP*	44,683	(39,507)	-	5,176	6,400
Oil & gas assets - Frade	UOP*	1,049,241	(68,978)	71,469	1,051,732	-
Machinery and equipment	10	8,008	(1,132)	-	6,876	2
Furniture and fixtures	10	1,974	(558)	-	1,416	649
Communication equipment	20	519	(196)	-	323	172
IT equipment	20	4,874	(2,614)	-	2,260	1,762
Leasehold improvements	4	5,779	(55)	-	5,724	4
In progress						
Construction in progress **		1,371	-	-	1,371	6,937
Spare parts		39,211	-	823	40,034	-
Material for well revitalization/re-entry – Frade		198,777	-	-	**198,777**	-
Equipment to increase production FPSO - Frade***		172,544	-	205	**172,749**	-
Total		**1,628,420**	**(211,409)**	**95,682**	**1,512,692**	**45,292**

*UOP – Units of Production (Unit-of-production depreciation method)
** Construction in progress refers basically to expenditures with administrative facilities.
*** With the completion of Jaguar acquisition, the Company then consolidates 51.74% of the assets related to the field, which include, in addition to the expenses related to producing wells, FPSO Frade and all submarine equipment. In addition, Frade consortium prepared for the Field Revitalization Plan by acquiring materials and equipment that are classified as assets in progress, as well as FPSO equipment and submarines that are waiting drilling of more wells to start operation.

b) Changes in balance

	Balance at 01/01/2019	Additions	Write-offs	Depreciation	Impairment	Translation adjustment	Acquisition - Frade	Balance at 09/30/2019
In operation								
Platform and Drilling rig - Polvo	**29,366**	-	-	(4,950)	-	1,837	-	**26,253**
Oil & gas assets - Manati	**6,400**	54	(47)	(1,247)	16	-	-	**5,176**
Oil & gas assets - Frade	**-**	19,582	-	(68,977)	-	69,865	1,031,262	**1,051,732**
Machinery and equipment	**2**	-	-	(1,132)	-	-	8,006	**6,876**
Furniture and fixtures	**649**	877	(28)	(104)	-	-	22	**1,416**
Communication equipment	**172**	206	-	(55)	-	-	-	**323**
IT equipment	**1,762**	899	(17)	(423)	-	-	39	**2,260**
Leasehold improvements	**4**	5,817	(42)	(54)	-	-	-	**5,725**
In progress								
Constructions in progress	**6,937**	25,408	(30,974)	-	-	-	-	**1,371**
Spare parts	**-**	45,369	(6,158)	-	-	823	-	**40,034**
Material for well revitalization/re-entry - Frade	**-**	1,753	(6,305)	-	-	-	203,329	**198,777**
Equipment for FPSO production increase - Frade	**-**	12,208	-	-	-	205	160,336	**172,749**
Total	**45,292**	**112,173**	**(43,571)**	**(76,943)**	**16**	**72,730**	**1,402,994**	**1,512,692**

(In thousands of reais, unless otherwise indicated)

	Balance at 01/01/2018	Additions	Write-offs	Depreciation	Impairment	Translation adjustment	Balance at 12/31/2018
In operation							
Polvo A platform and drilling rig	30,650	-	-	(6,258)	-	4,974	29,366
Oil & gas assets - Manati	28,128	305	(14,747)	(7,197)	(89)	-	6,400
Machinery and equipment	2	-	-	-	-	-	2
Furniture and fixtures	460	289	(5)	(95)	-	-	649
Communication equipment	163	55	-	(46)	-	-	172
IT equipment	540	1,504	-	(282)	-	-	1,762
Constructions in progress	-	6,937	-	-	-	-	6,937
Leasehold improvements	1,343	11	(1,311)	(39)	-	-	4
Total	**61,286**	**9,101**	**(16,063)**	**(13,917)**	**(89)**	**4,974**	**45,292**

12. Intangible assets (Consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated 09/30/2019	Consolidated 12/31/2018
Oil & Gas assets			
Acquisition cost - Polvo	(*)	**335,530**	335,530
Acquisition cost - Manati	(*)	**263,035**	263,035
Goodwill on acquisition of Brasoil	(**)	**20,900**	19,777
Subscription bonus - FZA-M-254		**5,968**	5,968
Subscription bonus - FZA-Z-539		**8,022**	8,022
Subscription bonus - Frade	(*)	**39,304**	-
Subscription bonus - Ceará		**31,358**	-
Goodwill on acquisition (preliminary) - Frade	(***)	**610,796**	-
Development expenditures - Polvo	(*)	**255,974**	226,911
Maintenance of wells - Polvo	(*)	**39,356**	34,922
Emergency spare parts - Polvo	(*)	**-**	22,857
Client portfolio - Manati	(*)	**9,506**	9,561
Software and others	20	**9,025**	9,037
		1,628,774	935,620
Accumulated amortization		**(648,881)**	(549,677)
Total		**979,893**	385,943

(*) Acquisition costs/subscription bonus and exploration expenditures are amortized by the unit of production method, considering the production of each concession and the volume of reserves when exploration/redevelopment processes will be completed. **(**)** Goodwill on acquisition of Brasoil and included in the book value of the investment of PetroRioOG, and not amortized. Due to goodwill based on future earnings, it is recognized and tested separately (on an annual basis) for impairment. **(***)** Preliminary goodwill not yet substantiated and recognized related to acquisition of Frade and included in accounting value of Lux Holding investment is not amortized.

(In thousands of reais, unless otherwise indicated)

b) Changes in balance

	Balance at 01/01/2019	Additions	Write-offs	Acquisition - Frade	Amortization	Translation adjustment	Balance at 09/30/2019
Acquisition cost - Polvo	70,007	-	-	-	(11,773)	-	**58,234**
Acquisition cost - Manati	51,269	-	-	-	(9,837)	-	**41,432**
Goodwill on acquisition - Brasoil	19,777	-	-	-	-	1,124	**20,901**
Subscription bonus - FZA-M-254	5,968	-	-	-	-	-	**5,968**
Subscription bonus - FZA-Z-539	8,022	-	-	-	-	-	**8,022**
Subscription bonus - Frade	-	-	-	1,037	42	-	**1,078**
Subscription bonus - Ceará	-	-	-	31,358	-	-	**31,358**
Goodwill on acquisition (preliminary) - Frade	-	-	(28,182)	597,904	-	41,073	**610,796**
Development expenditures	175,889	31,759	(2,697)	-	(29,579)	-	**175,372**
Maintenance of wells	26,309	6,549	(2,115)	-	(8,969)	-	**21,773**
Emergency spare parts	22,857	5,567	(28,318)	-	-	(106)	**(0)**
Client portfolio - Manati	5,560	-	-	-	(820)	(54)	**4,685**
Software and others	286	-	(12)	-	-	-	**274**
	385,943	**43,875**	**(61,324)**	**630,299**	**(60,936)**	**42,038**	**979,893**

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

In April 2018, the Company started the second phase of the Revitalization Plan for the Polvo Field, continuing the successful first phase. Phase 2 consisted of drilling three new wells and they were completed successfully. The wells, called POL H, POL Z and POL M, started operating on May 20, 2018, July 30, 2018, and November 1, 2018, respectively, following the planned schedule. Development expenditures related to this campaign of 2018 amounted to R$ 156,227.

In December 2018, the Company, through an independent international certifying agency (DeGolyer and MacNaughton), conducted a reevaluation of Polvo and Manati Field, specifically of proven developed reserves after the start of production of three wells completed in 2018. Reevaluation indicated extension of Polvo field useful life with abandonment in 2025 (in December 2017, the useful life of the Field was estimated up to 2021) with an increment to the proved developed reserve is approximately 10 million barrels.

In Manati, the revaluation indicated the maintenance of useful life of the field up to the end of 2023, although with a decrease of 24 million m3 (3.5% of the total considered in 2017) in the proven developed reserves.

In June 2019, the Company carried out with the same international certifying entity re-evaluation of Frade Field proven and developed reserves; this re-evaluation indicated reserves of approximately 19 million barrels. This result made accumulated depreciation/amortization recorded in 2019 period to be reduced by approximately R$ 68 million to reflect new reserves and depreciation percentages.

(In thousands of reais, unless otherwise indicated)

c) Business combination

On March 25, 2019, the Company concluded the transaction for the acquisition of 100% of Jaguar shares by means of its direct subsidiary Lux Holding. These companies together hold a 51.74% interest in the consortium that operates Frade Field, 51.74% of FPSO and the Submarine Equipment operating in the Field, and the same percentage over the shares of Empresa Frade B.V., located in Netherlands, legal owner of the assets imported under the special regime (REPETRO).

The acquired companies and their capital interest are as follows:

Petro Rio Jaguar Petróleo Ltda	"Jaguar"	**100.00%**
Chevron Frade LLC	"Frade LLC"	**100.00%**
Frade B.V.	"Frade B.V."	**51.74%**

The Company is also the operator of the Frade Field, which may influence the decisions of the consortium, which are formed, in addition to PetroRio, by Petrobrás with 30%, and FJPL with 18.26%, and implement cost reductions and synergies to its operation.

Currently, the Frade Field produces 18.6 thousand barrels of oil per day and is in the northern region of the Campos Basin, about 120 kilometers from the coast of the State of Rio de Janeiro. The license covers an area of approximately 154 km^2, with an average water depth of 1,155 m.

Additionally, Jaguar holds a 50% interest in Exploratory Block CE-M-715 concession, in Ceará Basin, west coast, in the municipality of Paracuru, 80km from the coast. Currently, the Company, which has a partnership with Ecopetrol in this block, is awaiting the environmental licensing to start the exploratory drilling.

The Company is performing the calculation of the fair values of the assets acquired and liabilities assumed, to allocate the purchase price. The legal deadline for completing the analyzes according to CPC 15 is one year as of the date of conclusion of the purchase and sale transaction, but the Company is making every effort to complete the analyzes in 2019.

The initial allocation of the purchase price was made taking into consideration the assets and liabilities recorded in the balance sheets of the acquired companies, presenting a goodwill amounting to R$597,904. The fair value of the assets is expected to exceed their book value, reducing or inverting the amount previously recorded as goodwill.

(In thousands of reais, unless otherwise indicated)

13. Suppliers

	Consolidated	
	09/30/2019	**12/31/2018**
Domestic suppliers	**92,503**	55,634
Foreign suppliers	**50,674**	31,037
	143,177	86,671
Total current liabilities	129,730	73,258
Total non-current liabilities	13,447	13,413

14. Taxes and social contributions payable

	Consolidated	
	09/30/2019	**12/31/2018**
IRPJ and CSLL payable	**28,727**	18,307
PIS/COFINS/CSLL	**9,157**	6,678
Service tax	**1,729**	3,200
IRRF on services	**2,214**	1,291
ICMS	**919**	945
INSS	**6,967**	5,667
Taxes on Equity	**1,127**	166
FGTS	**237**	225
Royalties	**5,285**	-
Other	**497**	531
	56,859	37,010

On July 20, 2017, the subsidiary Manati joined to the Special Tax Regularization Program (PERT) to settle outstanding debts (IRPJ, CSSL, PIS and COFINS) in the amount of R$ 7,845, of which R$ 6,269 was principal and R$ 1,576 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, 5% (R$ 398), were paid in cash as down payment and the remaining balance (R$ 6,343) was settled with credits arising from tax losses from the group's companies by means of consolidation of the installments carried out on 12/12/2018.

(In thousands of reais, unless otherwise indicated)

15. Loans and financing

	Consolidated	
	09/30/2019	12/31/2018
Chevron (i)	782,269	-
ICBC (ii)	225,938	-
Credit Suisse (iii)	-	222,388
FINEP (iv)	54,349	25,767
Citibank (v)	203,904	-
CCB (vi)	32,962	-
Bradesco (vii)	8,350	-
Total	**1,307,772**	**248,155**
Current	848,109	222,437
Non-current	459,663	25,718

(i) On January 29, 2019, the Company entered into a contract, effective as of March 25, 2019, with Chevron Latin America Marketing LLC and Chevron Amazonas LLC for the acquisition of Chevron Brasil Upstream Frade LTDA, Chevron Frade LLC and Frade B.V., in the amount of USD 224,023, with a two-year term. The financing is at Libor + 3% p.a., generating financial expense of R$ 23,672 until September 30, 2019.

(ii) On February 18, 2019, the Company signed an export prepayment agreement with the Chinese bank ICBC in the amount of US$ 60 million (R$ 229,932) and with a four-year term. The financing has a cost of Libor + 3% p.a., generating R$ 7,649 for financial expense up to September 30, 2019.

(iii) Credit limit of Credit Suisse's used to finance maintenance costs of Polvo and working capital for the Company's operations. The terms is conditioned to the short-term investments remaining in the bank, which are the guarantee for this credit facility, at cost of Libor + 1.9% p.a., generating financial expense of R$ 133 in year 2018.

(iv) On November 19, 2018, the Company signed an agreement with Finep for a R$ 90 million credit facility to be paid in 10 years, including a 2.5-year grace period. Financing cost is TJLP (Long-term interest rate) + 1.5% p.a. Up to September 30, 2019, FINEP released approximately R$ 54,101 with accumulated interest of R$ 1,954.

(v) The Company signed an agreement for prepayment of receivables with Citibank, amounting to R$ 48 million over a 4-month term at Libor + 3% p.a., generating financial expenses of R$ 435 through September 30, 2019.

(vi) The Company signed 2 Advance on Exchange Agreements with China Construction Bank, the first on June 24, 2019, totaling USD 5,242 (R$ 21,830), with costs of 5% p.a., and the second on July 10, 2019, totaling USD 2,600 (R$ 10,827), with costs of 5.2% p.a., both with a 6-month term, generating financial expenses of R$ 294 through September 30, 2019.

(vii) On August 28, 2019, the Company entered into a contract for Advance on Exchange Contract with Banco Bradesco in the amount of USD 2,000 (R$ 8,329) with costs of 3.98% p.a. and period of 6 months, generating a financial expense of R$ 22 up to September 30, 2019.

16. Debentures

a) Convertible into shares – PetroRio S.A.

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

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

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

The debentures may be converted into shares at the sole discretion of the debentureholders, since October 24, 2015 until the date of maturity of the debentures (exclusive). The number of shares to be delivered to the debentureholders on the date of conversion of the debentures will be the result of dividing the par value of the debentures by the lesser of: (i) the weighted average, based on the daily volume, of the closing price of the shares in the last ten (10) trading sessions on BM&FBOVESPA, preceding October 27, 2014, applying a 25% discount; or (ii) the weighted average, based on the daily volume, of the closing price of shares in the last 10 trading sessions on the BM&FBOVESPA, prior to receipt of the conversion request by applying a discount of 25%, thus giving a conversion price. The Management has assessed this conversion option on September 30, 2019, and in accordance with financial models has concluded that there is no attributable value at the present time.

In accordance with the debenture issuance deed, early maturity clause 4.12, the debentures shall be reported as early overdue in the occurrence of any following hypothesis:

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

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

(In thousands of reais, unless otherwise indicated)

	01/01/2019	Addition	Write-off	09/30/2019
Principal	31,241	-	(22,077)	**9,164**
Financial charges	306	743	(839)	**210**
Total	**31,547**	**743**	**(22,916)**	**9,374**
Current	306			**9,374**
Non-current	31,241			-

Up to September 30, 2019, debentureholders opted to convert 3,901,219 debentures (R$ 78,028 reversed to capital), representing around 89% of total issued debentures.

In accordance with Note 32.1, the debentures that has not yet been converted until October 24, 2019, i.e. 3,219 debentures, were redeemed in cash on that date, amounting to R$ 64,380.

17. Lease operations CPC 06 (R2) / IFRS 16

At January 1, 2019, the Company adopted the guidance and procedures of CPC 06 (R2) / IFRS 16, related to lease transactions.

Following the practices presented in note 2.6, the Company initially recognized R$ 1,184,577 in Noncurrent Assets, in a specific account of Rights of Use, matching against Liabilities with Contractual Charges, which are classified as short-term and long-term. To calculate this amount, the terms when the assets are necessary for the operation and surcharge on loans, of 5.63% p.a., were taken into consideration.

The right of use assets presented refer to the following underlying assets:

Right-of-use assets	
FPSO	805,192
Support Vessels	245,617
Helicopters	45,759
Buildings	70,174
Equipment	17,835
Total	1,184,577

The amortization of the right of use, when related to assets used for the operations, is firstly recognized in inventory and then transferred to income when disposed. Administrative assets are directly recorded in the income statement, both under the straight-line method, observing the periods when they are used.

Exchange-rate change and inflation adjustment are recorded directly in the Company’s statement of income.

(In thousands of reais, unless otherwise indicated)

The effects presented in nine-month period as of September 30, 2019 were:

	Assets	Liabilities
Recognition on January 1, 2019	**1,184,577**	**(1,184,577)**
Additions/Reversals	(130,390)	130,390
Currency adjustment	-	(53,610)
Price-level restatement	-	(40,566)
Payments made	-	148,203
Amortization	(127,933)	-
Balance at September 30, 2019	**926,254**	**(1,000,160)**
Current	-	(208,780)
Non-current	926,254	(791,380)

** Considers 100% of the changes occurred in the first semester of 2019. For consolidation purposes, only 6 days of monetary and exchange adjustment of the obligations related to Frade Field as for the 1Q19 were considered in PetroRio's income statement, as the acquisition was completed on March 25, 2019.*

18. Current and deferred income tax and social contribution

	Tax loss		Tax credit	
Companies	**09/30/2019**	**12/31/2018**	**09/30/2019**	**12/31/2018**
PetroRio S.A.	**46,925**	48,891	**15,955**	16,623
PetroRio O&G	**1,208,472**	1,188,659	**410,880**	404,144
PetroRio Internacional	**14,775**	10,643	**5,024**	3,619
Brasoil Group	**139,725**	139,685	**47,507**	47,493
Petro Rio Jaguar Ltda.	**1,495,876**	-	**508,598**	-
	2,905,773	**1,387,878**	**987,964**	**471,879**

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	
	09/30/2019	**12/31/2018**
Negative goodwill on fair value recognized assets on in business combinations	**1,802**	2,187
Mark to market of financial instruments	**238**	124
	2,040	2,311
Deferred tax asset credit	**(9,514)**	(8,338)

(In thousands of reais, unless otherwise indicated)

19. Provision for abandonment (ARO)

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

	Polvo	Manati	Frade
Balance at December 31, 2017	**167,926**	**50,161**	**-**
Decrease	-	(16,329)	-
Currency adjustment	29,082	7,125	-
Price-level restatement	2,311	2,150	-
Balance at December 31, 2018	**199,319**	**43,107**	**-**
Acquisition - Frade	-	-	561,338
Addition	-	-	19,582
Currency adjustment	15,092	2,690	40,658
Price-level restatement	3,517	1,078	10,366
Balance at September 30, 2019	**217,928**	**46,875**	**631,944**
(-) Maersk's guarantee / Brasoil's abandonment fund	(142,609)	(44,660)	-
Net balance of liabilities	**75,319**	**2,215**	**631,944**

The estimated abandonment costs were provisioned for the period ended September 30, 2019.

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 USD rate. 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.

Regarding Manati field, a new abandonment study was approved in November 2018, which reduced the total provision by approximately US$ 48 million (100%), with a decrease of R$ 16,329 in the Company's balance sheet, corresponding to a 10% interest in 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 USD, are updated at the inflation rate of 2.04% p.a. and discounted at the risk-free rate of 3.30%, before translation into reais.

To assure the consortium's ability to settle the abandonment obligations in the Manati field, the operator Petrobras collects monthly installment regarding estimated abandonment expenditures from consortium members. The contributed amounts are invested and will be used to pay the abandonment costs when they occur. As of September 30, 2019, the Company maintained a balance of R$ 44,660.

(In thousands of reais, unless otherwise indicated)

For Frade field, this provision corresponds to PetroRio interest of 51.74%, and reflects the estimated present value discounted at the rate of 4.80% p.a. The main expenses included in these entries are removal of FPSO, abandonment of wells (e.g. drilling rig lease, cementation, pipe and pipeline removal, placement of buffers), environmental remediation and removal of seabed equipment (e.g. Christmas tree, anchoring blocks).

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

	Consolidated	
Operated blocks	**09/30/2019**	**12/31/2018**
Blocks operated (GALP - PEL 23 Namibia)	**(481)**	6,757
Petrobras - Frade	**(23,400)**	-
FJPL - Frade	**(13,461)**	-
Ecopetrol - Ceará	**383**	
Total operated blocks	**(36,959)**	**6,757**
Non-operated blocks (Petrobras - Brasoil Manati)	**961**	(2,887)
Total advances to/from partners	**(35,998)**	3,870
Total current liabilities	**131**	6,792
Total current assets	**(36,129)**	(2,922)

21. Impairment

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

The Company did not identify such evidence for the nine-month period ended September 30, 2019.

(In thousands of reais, unless otherwise indicated)

22. Shareholders' equity

22.1 Capital

On September 30, 2019 the Company's subscribed and paid-in capital totaling R$ 3,443,940 is comprised of 140,964,679 nominative registered shares with no par value. The Company had Global Depositary Shares ("GDSs") traded in the TSX Venture Exchange (TSX-V) in Toronto, Canada, at a rate of two GSDs for each common share, however, on January 27, 2017, all Global Depositary Shares ("GDSs") were de-listed. Holders who have not convert the GDSs into PetroRio common shares up to May 27, 2017 had the GDSs compulsorily canceled and received their cash amounts by selling shares by custodian agent.

During the Annual and Special Shareholders' Meeting held on April 29, 2016, occasion a proposal was approved putting in place a repurchase program for as many as 3,300,000 common shares issued by the Company within 18 months, without reducing capital and to be held in treasury, canceled and/or for subsequent disposal. On December 22, 2017, at a new Special Shareholders' Meeting, the proposal for implementation of the program to buy back up to 1,000,000 shares was approved, to be performed in 18 months, without reducing capital, for maintaining in treasury, cancellation and/or subsequent disposal. On March 1, 2019, the Special General Meeting approved the splitting shares issued by the Company, at the ratio of 1/10, so that each share issued by the Company is represented by 10 (ten) shares.

On September 30, 2019, balance of Petro Rio S.A. common shares in Treasury Shares account, rectifying Shareholders' Equity, is 9,505,950 shares at acquisition cost of R$ 49,463.

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

The Company recorded R$ 136,809 referring to share issuance costs in a capital reducing account and which comprise the balance shown of R$ 3,307,246.

Shareholder	Number of common shares	% of interest
Aventti Strategic Partners LLP	34,145,440	24%
One Hill Capital LLC	27,704,010	20%
Sentinel Investments Holdings LLC	11,337,980	8%
Other Shareholders	67,777,249	48%
Total	**140,964,679**	**100%**

*According to information disclosed in reference form.

(In thousands of reais, unless otherwise indicated)

The Company's capital was subject to changes in 2019, due to a R$ 34,132 increase through the conversion of Debentures into shares, pursuant to Note 16a and the exercise of stock options granted to employees, as follows:

22.2 Share-based remuneration plan

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

	Program I	Program II	Program III	Program IV
Grant date by Board of Directors	01/25/2018	02/28/2018	11/05/2018	11/05/2018
Total stock options granted	329,557	12,169	33,481	152,744
Share price on granting date	91.50	72.50	118.00	118.00
Strike Price	54.70	48.62	54.70	54.70
Weighted fair value on concession date	41.87	31.30	66.52	70.00
Estimated volatility of share price	73.99%	51.07%	55.58%	72.41%
Risk-free rate of return	8.83%	7.55%	7.13%	8.75%
Option validity (in years)	3	2	2	4

	Program V	Program VI	Program VII
Grant date by Board of Directors	02/28/2019	02/28/2019	02/28/2019
Total stock options granted	24,665	105,790	79,026
Share price on granting date	150.98	150.98	150.98
Strike Price	86.27	86.27	97.06
Weighted fair value on concession date	77.40	77.40	82.24
Estimated volatility of share price	52.54%	52.54%	69.46%
Risk-free rate of return	7.14%	7.14%	8.25%
Option validity (in years)	2	2	4

For the period ended September 30, 2019, the Company has a balance recorded in shareholders' equity - income (loss) from share-based remuneration in the amount of R$ 30,104, and the counterpart being in the statement of income as personnel cost since the grant.

Of the options granted in Program I–IV, 221,062 options were exercised on January 1, 2019, with the full payment of R$ 12,055 in the Company's capital.

22.3 Earnings per share

Pursuant to CPC 41 (IAS 33), the Company presents some information on earnings per share for the nine-periods ended on September 30, 2019 and 2018. Basic earnings per share are calculated by dividing income (loss) for the year attributed to the Parent Company's common and preferred shareholders by the weighted average number of common and preferred shares available in the year.

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

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

Basic and diluted earnings per share	09/30/2019	09/30/2018
Numerator (in thousands of reais)		
(Loss) Income for the year attributable to Group's shareholders	**37,441**	144,712
Denominator (in thousands of shares)		
(+) Weighted average number of common shares adjusted by dilution effect	**140,965**	13,337
(-) Treasury shares	**(9,506)**	(1,184)
	131,459	12,153
Basic earnings and diluted per share	**0,285**	11,908

23. Related party transactions

	09/30/2019	12/31/2018
Loan Petrorio S.A x Petrorio Internacional	**2**	(437)
Accounts payable - Petrorio O&G x Petrorio S.A (i)	**4,556**	2,464
Service agreement Petrorio x Lux Holding (ii)	**750**	698
Apportionment administrative expenses Brasoil Manati	**44**	-
Apportionment administrative expenses Frade	**1,299**	-
Loan - Petrorio S.A vs. Petrorio Luxembourg Sarl (iii)	**(124,378)**	-
	(117,727)	2,725
Total non-current assets	**6,651**	3,162
Total non-current liabilities	**(124,378)**	(437)

(i) Balance of share-based remuneration plan between PetroRio and PetroRioOG.

(ii) 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.

(iii) Balance referring to loan contract executed on June 19, 2019 by PetroRio and Lux Sarl, with 6-month term and Libor interest rate + 3% p.a.

Management remuneration

The Company's management remuneration in the period ended on September 30, 2019 was R$ 6,775 (R$ 9,333 on September 30, 2018).

(In thousands of reais, unless otherwise indicated)

Debentures

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

24. Net revenue

Net revenue for the nine-month period ended September 30, 2019 is comprised of the export revenue of 100% of its Polvo Field production (R$ 490,036) and Frade Field (R$ 536,024), which, since it is exported, has no taxes on sale, and of gross sales of Gas and Condensate to Petrobras in Manati Field (R$ 74,693), which, due to its sale in national territory, is subject to ICMS, PIS and COFINS taxes (deduction of R$ 14,402).

25. Costs of products sold and services rendered

	Consolidated			
	07/01/2019-09/30/2019	**07/01/2018-09/30/2018**	**01/01/2019-09/30/2019**	**01/01/2018-09/30/2018**
FPSO/Platform	(4,311)	(32,471)	(28,691)	(93,825)
Logistics	(28,305)	(10,837)	(51,331)	(35,040)
Consumables	(22,531)	(13,094)	(67,348)	(50,226)
Operation and maintenance	(24,997)	(11,337)	(66,856)	(37,931)
Personnel	(12,390)	(2,359)	(37,458)	(8,616)
SMS	(1,913)	(2,615)	(6,587)	(8,311)
Other costs	(12,869)	(4,151)	(39,543)	(13,718)
Royalties and special interest	(31,892)	(18,352)	(95,466)	(45,846)
Amortization - CPC 06 (R2)	(23,346)	-	(87,642)	-
Depreciation and amortization	(76,134)	(21,771)	(128,444)	(64,633)
Total	**(238,688)**	**(116,987)**	**(609,366)**	**(358,146)**

On September 30, 2019, the oil inventories in the amount of R$ 106,991 is representative of 655,000 bbl – quantity not reviewed by the independent auditors (on September 30, 2018 the oil inventories in the amount of R$ 77,885 corresponded to 531,000 bbl) and Frade's oil inventory in the amount of R$ 18,641, corresponds to 126,000 barrels – amount not reviewed by the independent auditors.

(In thousands of reais, unless otherwise indicated)

26. Other revenues and expenses

	Consolidated			
	07/01/2019-09/30/2019	07/01/2018-09/30/2018	01/01/2019-09/30/2019	01/01/2018-09/30/2018
Reversal of provisions	-	-	1,746	-
Loss on investments in subsidiary (dividends)	-	-	(5,030)	-
Asset sale success rate (aircraft and drilling rigs)	(23,736)	-	(23,736)	-
Frade acquisition success rate	-	-	(11,447)	-
Provision for non-recovery - Namibia VAT	-	-	(18,381)	-
Reversal (Provision) for labor contingencies	(1,451)	(2,176)	(3,628)	173
Reversal (Provision) for tax contingencies	(3,376)	-	(3,376)	-
Income from transactions with permanent assets	-	(1,316)	10	(4,786)
Sale of aircraft engine	-	-	593	
SHELL advance payment partial loss	-	(13,142)	-	(13,142)
Tax credits (PIS and COFINS/INSS/ICMS)	227	-	758	
Other revenues (expenses)	1,722	795	3,612	(1,444)
Total	**(26,614)**	**(15,839)**	**(58,879)**	**(19,199)**

27. Financial Net Results

	Consolidated			
	07/01/2019-09/30/2019	07/01/2018-09/30/2018	01/01/2019-09/30/2019	01/01/2018-09/30/2018
Financial revenues	**96,209**	**111,863**	**226,874**	**246,039**
Revenue from realized financial investment	**4,465**	(10,926)	**11,804**	38,580
Revenue from exchange-rate change	**84,282**	68,456	**192,302**	178,010
Gain from realization of financial instruments	**-**	52,756	**2,144**	52,756
Gain in realization of derivative financial instruments	**1,099**	839	**11,498**	839
Marked at fair value - financial instruments *	**(111)**	(80)	**16**	(25,553)
Marked at fair value - Derivatives	**4,365**	1	**5,472**	1
Other financial revenues	**2,109**	817	**3,638**	1,406
Financial expenses	**(269,920)**	**(82,722)**	**(478,795)**	**(200,228)**
Loss on realized financial investment	**-**	(316)	**(850)**	(590)
Expense on foreign exchange rate **	**(224,703)**	(66,618)	**(336,886)**	(164,399)
Realized hedge expense	**-**	859	**-**	-
Interest on loans/debentures	**(19,110)**	(2,144)	**(40,681)**	(4,964)
Commission on bank guarantees	**(316)**	-	**(543)**	-
Marked at fair value - financial instruments *	**-**	281	**79**	1
Marked at fair value - Derivatives	**-**	(2,858)	**(6)**	(13,445)
Loss from realization of financial instruments	**(9,663)**	(284)	**(29,995)**	(284)
Loss in realization of derivative financial instruments	**-**	(5,461)	**(16,172)**	(5,461)
Expenses with interest on leases (IFRS 16)	**(12,734)**	**-**	**(37,230)**	**-**
Other financial expenses	**(3,394)**	(6,181)	**(16,511)**	(11,086)

(*) Mark to fair value– financial instruments refer to the market value of shares of the variable income portfolio.
(**) Expense on foreign exchange rate basically refers to US dollar exchange rate used to index the balance of provision for abandonment, liabilities with lease operations (IFRS 16) and loans.

(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.

	09/30/2019	12/31/2018
Current assets		
Brazil	435,777	716,603
Abroad	604,063	322,958
Non-current assets		
Brazil	1,376,984	378,361
Abroad	2,111,584	119,141

Revenue	09/30/2019	09/30/2018
Brazil	892,747	553,815
Abroad	208,661	48,002

29. Objectives and policies for financial risk management

The main financial liabilities of PetroRio refer to trade accounts payable to suppliers for goods and services to be used in its hydrocarbon exploration and production operations, debentures convertible into shares, and the financial security agreements. On the other hand, cash and cash equivalents are recorded in assets, as described in Notes 3 and 4.

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

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

Market risk

Market risk is the possibility of losses arising from the effect of the fluctuation of market values of financial instruments and commodities. The company constantly monitors the market and, when necessary, contracts derivative transactions to neutralize the impacts of these commodity price oscillations.

(In thousands of reais, unless otherwise indicated)

The Company adopted the Value at Risk (VaR) as risk management methodology, to measure a potential loss in the equity investment portfolio, in the nine-month period ended September 30, 2019.

The VaR was calculated based on historical data of the twelve-month period ended September 30, 2019 (one year), for one-day period, confidence level at 95.0%, segregated in investments in Reais and Dollars. The result was 5.11% of the daily maximum loss of the portfolio.

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 246-day calculation period, has exceeded the VaR seven times (the calculated limit was 12 times).

Derivative financial instruments - hedge

In the 3Q19, the Company entered into derivative agreements aimed at providing hedge against the risk of volatility in oil prices for sales of October 2019.

Oil price hedge transaction protects the Company, which obtained minimum price (floor) of US$ 61 per barrel. By the end of September 2019, the agreements generated gains of US$ 1,315 (R$ 5,476) amount referring to the effective options marked to marked not yet realized.

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	(81)	(234)	(387)
Impact on debentures	Increase in CDI	15	(10)	(19)

For the earnings from financial investments and securities the CDI projections disclosed by BM&FBOVESPA for the nine-month period as from September 30, 2019 were taken into account under the probable scenario (CDI 5.21%), 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.

(In thousands of reais, unless otherwise indicated)

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	USD decr.	31	(10,095)	(20,191)
Provision for abandonment (ARO)	USD incr.	(697)	(224,187)	(448,374)

For calculation of the amounts included in the above scenarios the average exchange rate projection disclosed by BM&FBOVESPA for the nine-month period as from September 30, 2019 (US$ 1/R$ 3.168). 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.

As for the credit risk of its sales transactions, the Company is analyzing the financial and equity position of its customers together with the service provider (trader), which also intermediates the oil sale transactions. During the nine-month period ended on September 30, 2019 oil net sales were decentralized, with sales to clients Trafigura, Petrochina and Valero Marketing, and gas sales in other client (Petrobras); however, they present an irrelevant credit risk, considering that its background does not show any delays or defaults.

Liquidity risk

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

(In thousands of reais, unless otherwise indicated)

Consolidated

Year ended September 30, 2019	**up to 12 months**	**1-5 years**	**Total**
Liabilities			
Loans and financing	(848,109)	(459,663)	**(1,307,772)**
Suppliers	(129,730)	(13,447)	**(143,177)**
Labor obligations	(36,108)	-	**(36,108)**
Taxes and social contributions	(56,859)	-	**(56,859)**
Advance from partners	(131)	-	**(131)**
Debentures	(9,374)	-	**(9,374)**
Provision for abandonment	-	(709,478)	**(709,478)**
Provision for contingencies	-	(34,680)	**(34,680)**
Deferred taxes and social contributions	-	(2,040)	**(2,040)**
Contractual Charges (Lease IFRS 16)	(208,780)	(791,380)	**(1,000,160)**
Other liabilities	-	(1,819)	**(1,819)**
	(1,289,091)	**(2,012,507)**	**(3,301,598)**

Year ended December 31, 2018	**up to 12 months**	**1-5 years**	**Total**
Liabilities			
Loans and financing	(222,437)	(25,718)	**(248,155)**
Suppliers	(73,258)	(13,413)	**(86,671)**
Labor obligations	(14,923)	-	**(14,923)**
Taxes and social contributions	(37,010)	-	**(37,010)**
Advance from partners	(6,792)	-	**(6,792)**
Debentures	(306)	(31,241)	**(31,547)**
Provision for abandonment	-	(68,713)	**(68,713)**
Provision for contingencies	-	(17,441)	**(17,441)**
Deferred taxes and social contributions	-	(2,311)	**(2,311)**
Financial instruments	(16,260)	(644)	**(16,904)**
	(370,986)	**(159,481)**	**(530,467)**

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)

	09/30/2019		12/31/2018	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans and receivables				
Accounts receivable (i)	86,047	86,047	34,932	34,932
Related parties	-	-	-	-
Fair value through profit or loss				
Cash and cash equivalents (ii)	358,921	358,921	154,109	154,109
Securities (ii)	247,006	247,006	430,005	430,005
Fair value through other comprehensive income				
Securities (iii)	4,997	4,997	213,778	213,778
Financial liabilities				
Amortized cost:				
Suppliers (i)	143,177	143,177	86,671	86,671
Debentures (ii)	9,374	9,046	31,547	31,547
Loans and financing	1,307,772	1,307,772	248,155	248,155

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 since receivable/payment turnover of these balances is 60 days on average.

(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 September 30, 2019 and December 31, 2018 in the amounts of R$ 34,680 and R$ 17,441, 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$ 21,871 and tax claims of R$ 3,708 and contingency due to Frade's incident in the amount of R$ 9,101.

Provision reversed - Tuscany Arbitration

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

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

Incidents in Frade

Because of the incident of November 2011 at Frade Field, the Company was notified by ANP in years 2011 and 2012. Additionally, on November 21, 2011, the Company received a fine from IBAMA (Brazilian Institute for the Environment and Renewable Natural Resources) in the amount of R$ 50,000 and on December 23, 2011, other fine in the amount of R$ 10,000. These fines, of R$ 37,762 and R$ 7,095, respectively, were paid in July 2013, at their restated amount, after negotiation with IBAMA. The differences between the provisioned amounts and the payments made have been reversed to the income statement.

In September 2012, ANP issued 6 fines referring to the incident at Frade Field occurred in November 2011, totaling R$ 35,160. The Consortium waived the right to appeal and paid this amount during the 10-day appeal period, the fine being reduced by 30%. On September 21, 2012, the Frade Field Consortium paid the total amount of R$ 24,612.

The Company was cited in two public civil lawsuits filed by the Federal Public Prosecutor's Office (MPF) of Campos dos Goytacazes alleging environmental damage caused by oil leak, amounting to R$ 20 billion each. This civil suit was filed with the 1st Federal Court of Rio de Janeiro. At the end of 2012, the Company accrued the amount of R$ 95,000 related to the preventive and compensatory measures of the Term of Adjustment of Conduct (TAC), which was approved and signed in September 2013 with the MPF, ANP and IBAMA. This agreement supersedes the two civil lawsuits, which were initialed filed by the MPF.

The Company's management only maintains a provision for TAC, amounting to R$ 9,101, corresponding to the Company's interest in Frade Field. In the nine-month period ended September 30, 2019, the Company invested in environmental recovery projects, amounting to R$ 990 (R$ 23,246 at December 31, 2018). The amounts of this provision are monetarily restated every month.

Other suits

According to the Group's legal advisors, risk of loss in other lawsuits is "possible" - R$ 704,769 (R$ 354,205 on September 30, 2018) - 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.

31. Subsequent events

31.1 Completion of acquisition of 18.26% of Frade Field

On October 2, 2019, after the precedent conditions were met and the necessary approvals obtained, the acquisition of Frade Japão Petróleo Ltda ("FJPL"), holder of an 18.26% interest in Frade Field's concession and operating assets, was completed.

As of this date, the profits and losses arising from this 18.26% in Frade Field is accounted for in the financial statements of the Company.

PetroRio's reserves will increase by 16 million 2P barrels and production will increase by 3.5 thousand barrels a day, considering the results of the last three months of the field.

31.2 Settlement of debentures

On October 24, 2019, the dentures issued by PetroRio in December 2014 have matured. Of the 4,359,624 debentures issued, 99.9% were converted into shares (4,356,405 debentures), and the remaining ones (3,219 debentures), upon maturity, was redeemed in cash on that date, amounting to R$ 64,380.

PetroRio

Additional information to the quarterly information
September 30, 2019
(In thousands of reais, unless otherwise indicated)

Statements of added value
(supplementary information for IFRS purposes)
Nine-month period ended September 30, 2019 and 2018
(In thousands of reais - R$)

	Consolidated	
	09/30/2019	**09/30/2018**
Revenues		
Oil & Gas sales	**1,086,351**	581,187
	1,086,351	581,187
Inputs and services		
Third party's services and other	**(26,374)**	(24,576)
Geology and geophysics expenses	**371**	(1,331)
Costs of services	**(512,515)**	(247,667)
Gross added value	**547,833**	307,613
Retentions		
Depreciation and amortization	**(6,484)**	(66,454)
Net added value	**541,349**	241,159
Transferred value added		
Net financial income (loss)	**(251,921)**	45,811
Equity in income of subsidiaries	**-**	-
Deferred taxes	**1,512**	10,718
Income from transactions with permanent assets	**-**	-
Rents, royalties and other	**(170,043)**	(80,412)
Added value payable	**120,897**	217,276
Distribution of added value		
Personnel	**37,435**	30,853
Taxes	**46,021**	41,711
Interest attributable to Group's shareholders	**37,441**	144,712
Distributed added value	**120,897**	217,276

See the accompanying notes to the financial statements.

PetroRio

Additional information to the quarterly information
September 30, 2019
(In thousands of reais, unless otherwise indicated)

Statements of added value
(supplementary information for IFRS purposes)
Three-month period ended September 30, 2019 and 2018
(In thousands of reais - R$)

	Consolidated	
	07/01/2019-09/30/2019	**07/01/2018-09/30/2018**
Revenues		
Oil & Gas sales	**399,045**	224,627
	399,045	224,627
Inputs and services		
Third party's services and other	**(5,087)**	(4,761)
Geology and geophysics expenses	**(199)**	(980)
Costs of services	**(205,411)**	(76,864)
Gross added value	**188,348**	142,022
Retentions		
Depreciation and amortization	**(2,859)**	(22,436)
Net added value	**185,489**	119,586
Transferred value added		
Net financial income (loss)	**(173,717)**	29,141
Equity in income of subsidiaries	**-**	-
Deferred taxes	**(146)**	(121)
Income from transactions with permanent assets		-
Rents, royalties and other	**(68,436)**	(39,951)
Added value payable	**(56,804)**	108,655
Distribution of added value		
Personnel	**15,999**	8,635
Taxes	**(943)**	28,562
Interest attributable to Group's shareholders	**(71,860)**	71,458
Distributed added value	**(56,804)**	108,655

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

The insurance policies in force at September 30, 2019 cover the insured amount of R$ 11,255,394. In addition, the Company also contracts insurance for Operator' Extra Expenses, whose main exposures covered are as follows:

Insurance/Modality	Amount insured
Physical damages (Oil inventories)	304,182
Fixed Platform	757,921
Offshore Platform	92,866
FPSO	1,596,360
Subsea Equipment	1,503,314
Offshore property (Pipeline)	121,600
Onshore properties (Pipeline)	48,723
Onshore Treatment Station	72,461
OEE production (Well control)	1,260,183
Offshore Civil Liability + Surplus	1,777,112
Cargo (Polvo)	5,000
D&O	40,000
P&I	3,123,300
General liability	5,000
Equity	3,000
Energy Package (TPL)	416,440
Customs Guarantee	1,026
Legal guarantee	48,186
Life insurance	7,299
PEM guarantee insurance - ANP	70,276
Travel Insurance Travel Guard	1,145
Total insured	**11,255,394**