

Operator: Good morning ladies and gentlemen. At this time, we would like to welcome everyone to **QGEP's first quarter 2016 earnings conference call**. Today we have here with us the executives **Mr. Lincoln Rumenos Guardado, CEO of the Company, Ms. Paula Costa Côrte-Real, CFO and IRO, Mr. Danilo Oliveira, Production Director and Mr. José Milton Mendes, Exploration Manager**.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After **QGEP's** remarks are over, there will be a question and answer section, when further instructions will be provided. Should any participant need assistance during this conference call, please press *0 to reach the operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call relative to QGEP's business expectations, projections and operating and financial goals are based on the beliefs and assumptions of **QGEP** management and on information currently available to the company.

Forward-looking statements are not a guarantee of success, they involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of **QGEP** and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to **Mr. Lincoln Guardado, QGEP's CEO**, who will start the presentation. **Mr. Guardado**, you may begin.

Mr. Lincoln Rumenos Guardado: Thank you very much. Good morning. Again, I would like to thank you for joining QGEP's conference call, as today is a very special day for Brazil. I will start disclosing and commenting on QGEP's first quarter 2016 results.

Initiating the presentation on slide 3, we highlight that QGEP follows a consistent strategy based on operating excellence and disciplined growth. This strategy has helped us navigate the current environment and difficult market conditions while maintaining our financial solidity.

We have been posting consistently strong financial results, thanks primarily to the output from Manati gas production. As you know, Manati is one of Brazil's largest non-associated gas fields and an important source of energy for northeastern Brazil.

Manati is a high-margin asset with a take-or-pay contract that gives us important visibility on future productions and consequently on our results.

Our goal has been and continues to be to complement this gas production with Atlanta oil production in the medium term. We are working towards the startup of the Early Production System (EPS) in the end of this year.

We already have a commercialization contract of this oil with Shell and full production through the full development system is expected to take place in 3 to 4 years, and will also incorporate the results obtained in the Early Production System.

Elsewhere, in other assets, we seek to balance our long-term vision and the generation of revenues in the long-term in order to allocate our capital in the best possible way.

In exploratory activities we prioritize the highest potential assets in our portfolio. The most important of these is of course Block BM-S 8, where we have the Carcará discovery, which presents one of the largest oil columns in the Brazilian pre-salt.

This approach has allowed us to maintain a strong balance sheet with a healthy cash position and low leverage, with QGEP withstanding out among other E&P companies in Latin America.

Lastly, we are actively managing our portfolio and our goal remains to have a range of assets with different risk levels and timelines. So, even in a challenging operating environment we have now several options to grow and develop our business.

Please turn to slide 4. In the first quarter of 2016, we had positive performance in all of our activities, backed by this strategy just described. Gas production at Manati averaged 6 million m³ per day in the quarter; the highest in 2 years. This increased production was due to the start of operations of the gas compression plant.

We are also announcing today that Gaffney, Cline & Associates has released their latest reserve certification on the Manati Field as of December 31, 2015.

Gaffney's report showed 2P reserve of 11.1 billion m³ of gas and condensate; a slight reduction from December 31, 2014. This slight reduction in the reserve was the result of a new modeling of Manati, which showed a lower yield of condensate as well as an adjustment in the modeling of the behavior of the pressures in the reservoir, which in turn reduced the estimated gas volume.

This reduction in reserves is in line with the current data and with the precision of the modeling techniques used in the study of reservoir behaviors. Changes in modeling lead us to periodically reassess the reserves, this knowledge now reflects the correct knowledge of the field.

At BS-4, we continue to work towards first oil late in the year. The FPSO is being adapted in Rotterdam and should arrive in the fourth quarter of 2016.

At BM-S-8, we are still processing data obtained during the drilling of the wells and tests performed in 2015. With the information obtained in the drill stem test completed in Carcará North well, the Consortium updated its Discovery Evaluation Plan to proceed at Carcará without an Extended Well Test. And this has been approved by the Brazilian Oil Agency (ANP).

Financially, this was another positive quarter. We had double-digit growth in Ebitdax compared to the same quarter last year. And we ended the year with a cash balance equivalent to R\$4.86 per share. We paid the annual dividend of R\$.15 per share and based on our cash position, we can continue to take advantage of opportunities seeking to maximize returns for our shareholders.

I will now turn the call to Paula for a closer look at our financial results. Paula, you have the floor.

Ms. Paula Costa Côrte-Real: Thank you, Lincoln. Please, turn to slide 6. Operating results for the first quarter showed important growth as compared with the fourth quarter of last year and the year-ago quarter.

This was due to increased production and reduced costs at Manati, which will be detailed in slide 8. There was an increase in Manati production of 6% compared to the first quarter of 2015 due to the startup of the gas compression plant, which enabled production capacity to return to 6 million m³ per day.

Higher gas production, coupled with the annual contract price increase of Manati's gas, drove a 14% increase in net revenue compared to the same quarter last year.

This quarter we started the painting of the Manati platform and other maintenance services. This activity should last 4 to 6 months and will cost US\$13 million net to QGEP.

We expect that Manati's production capacity will be able to remain at this annual average with little variation for the next 2 years, and then begin to decline. Regarding the rest of 2016, we reaffirm our guidance that Manati's average production will be around 5.7 million m³ per day.

Production was strong in this first quarter with a consistent demand from the Northeast region. However, due to the economic conditions that we currently have in Brazil, we feel that an estimate of 5.7 million m³ per day for the year 2016 is appropriate at this time.

Please go to slide 7. As you can see, our financial performance in the first quarter showed a strong growth across revenues, gross profit and Ebitdax. Net income and cash from operations both lagged revenue and Ebitdax growth. There are 2 main factors to understand here: Firstly, the appreciation of the Brazilian real against the US dollar, which led to negative financial income for the quarter for the first time in several years of QGEP's existence. The 9% Real appreciation in the period reduced the value of our US dollar denominated securities and investments held by the company. We invest part of our cash in exchange funds as a hedge against future expenses in foreign currency, not as a source of revenue, therefore in line with our cash management strategy, we are maintaining our investments capacity in accordance with our policy of market risk management.

Secondly, results for the quarter were positively affected by a reduction in operating costs and general and administrative expenses, amounts that will be detailed momentarily in the coming slides.

Income tax and social contribution had a significant reduction since the basis of calculation was impacted by the net financial result of the company, as the financial expenses arising from the negative profitability of the exchange funds are tax-deductible.

Operating cash flow was also lower than in the first quarter of 2015. The annual reduction reflects a decrease of 51% in net income as well as an increase in the

balance of Accounts Receivable due to the increased production and the pricing adjustment, increase in the balance of credit with partners and higher payments related to seismic data in the period.

To sum up, our financials show the strength and visibility of our operations. We were impacted in this quarter by certain factors beyond our control, particularly currency movements. However, we remain confident in the outlook and our ability to generate positive comparisons in both revenue and Ebitdax.

Please turn to slide 8 for a closer look at our costs. Costs were lower than in the first quarter despite the increased production leading to a 32% increase in gross profit. This reduction in costs was due to a R\$38 million drop in the depreciation and amortization costs as a result of 2 major factors: First, the signing of the amendment to the Manati gas sales contract in July 2015, which led to the increase in proved 1P reserves used to calculate depreciation and second, the foreign exchange depreciation which impacts provision for abandonment, which impacts depreciation as it is accounted in Fixed Assets.

Operating costs remained stable, production costs totaled R\$21 million in the quarter; above the R\$12 million in the first quarter of 2015 due to costs related with the Manati gas compression plant. Costs associated with the gas compression plant were R\$10 million in the period.

G&A expenses were down 28% compared to the first quarter of last year, mainly due to an increase in expenses allocated to partners and blocks where QGEP is the operator.

Please turn to slide 9. Our Capex budget for the year is US\$82 million, as we discussed during the fourth quarter of 2015 call held in March. We expect that US\$47 million will be spent on the development of the Atlanta Field and further US\$22 million will be spent at blocks acquired in the ANP's Bidding Round in 2013.

At the end of March, we had disbursed US\$18 million or just under a quarter of our total Capex for the year. It is worth noting that a large portion of the year's Capex will coincide with the arrival of the FPSO at Block BS-4, so we expect that the second half of the year will have the highest levels of disbursements.

Next year, our Capex is budgeted at US\$80 million. The bulk of that will be allocated to our exploratory portfolio with US\$27 million at block BM-S-8 and the further US\$25 million at the pioneer drilling at CAL-M-372.

We will also spend US\$13 million at the blocks acquired in the 11th ANP Bidding Round, where we will be working towards the start of exploratory activities in 2017-2018.

I will now turn the call back to Lincoln for a look at our assets.

Mr. Guardado: Thank you, Paula. Please, turn to slide 11. As I said at the beginning of this call, QGEP's working towards becoming an oil producer, and the Atlanta Field will be our next asset to start producing through the Early Production System.

Full development production should only begin in 2019, but the first step towards this will be the EPS, which is based on the 2 production wells that we have already drilled and will have an initial production capacity of 20,000 barrels per day.

This output has already been commercialized through a crude-oil sales agreement already signed with Shell and already disclosed to you previously.

If the Consortium chooses to add a third well, potential output capacity may rise to approximately 30,000 barrels per day. This decision hasn't been made yet and it will be based on several factors, including the operating performance of the first 2 producing wells and, obviously, the Brent price.

We are encouraged by the recent upward trend in oil prices, which suggests a convergence to a greater balance between global supply and demand, but we will continue to closely monitor this situation so as to make our decisions accordingly.

The next milestone for Atlanta is of course the arrival of the FPSO. Petrojarl 1 has a storage capacity of 180,000 barrels and is currently being adapted in Rotterdam. We expect the vessel to arrive in the fourth quarter with first oil by year-end.

As you know, this is QGEP's first project as an operator, particularly in deep-waters and we have had to overcome a variety of technical challenges at the field. We are pleased with the progress we have made to date and we will remain focused on achieving full production starting in 2019.

Please turn to slide 12. At Block BM-S-8, the Consortium is currently planning the next steps after an active 2015. Carcará is one of the most important discoveries in the Brazilian pre-salt and a very important long-term asset for QGEP.

In the course of 2015, we drilled two wells - Carcará North and Carcará Northeast - and also held 2 Drill Stem Tests at Carcará North. Both tests produced very encouraging data.

The oil column at the accumulation is at least 530 m deep and the oil found was of high quality with no contaminants.

To date, we have not identified the oil-water contact, suggesting the column may be bigger than the identified. Based on the gathered data, it is estimated that the initial production flow rates per well are at least equivalent to the highest-producing wells at the pre-salt in the Santos Basin.

Given the positive results from 2015 tests, the Consortium has updated its Discovery Evaluation Plan with the ANP. Under the new version of the Evaluation Plan, the Consortium will proceed straight to Drill Stem Tests in Carcará Northeast in 2017 with no Extended Well Tests, as previously expected.

This is due to the excellent results achieved with the tests, which indicated there is no need to hold the Extended Well Test. In addition, the Consortium will begin drilling at the Guanxuma prospect in 2017 as well.

The ANP has received and already approved this updated Evaluation Plan, which generated savings for QGEP of nearly US\$10 million in Capex.

On slide 13 you can see developments at other exploratory assets of the company. We are continuing with the process of acquiring, processing and interpreting seismic data of the blocks acquired in the 11th Bidding Round in 2013.

At that time, we acquired a total of 8 blocks in the Bidding Round across 5 basins. We have made considerable progress analyzing these blocks in conjunction with our partners.

At Pará-Maranhão Basin we are in the process of data acquisition, while in the blocks of the Ceará, Foz do Amazonas and Espírito Santo basins, seismic data is already being processed and interpreted as well in some of them.

Seismic data is crucial as we plan these drilling campaigns, which might commence as from 2017-2018. However, always considering Brent price scenario and the risk-benefit scenario of each one of the prospects identified.

At Block CAL-M-372 we are in discussions with the ANP regarding the potential extension of the deadlines for the exploration of this asset.

Please turn to slide 14. In conclusion, we are working in a realistic operational execution and taking market challenges into account. Our current portfolio offers several advantages: Firstly, Manati production visibility means we can expect solid financial results with positive vital cash flow to finance exploration and part of our development.

The Atlanta Early Production System will be a crucial step to increase our hydrocarbon production. It will give us some exposure to global oil prices for the first time. However, that exposure will be limited while we are in the Early Production System phase, which will last until at least 2019.

Our strong balance sheet and cash position means we are in a privileged position of being able to seize growth opportunities that may come along. We are continuously assessing our portfolio to see if we can generate more value.

As you know, last year we acquired 100% ownership of 2 very attractive blocks in the Sergipe-Alagoas Basin. This basin has multiple production fields and we consider the 2 we acquired to be very low-risk due to the findings already made by Petrobras in the surrounding areas close to these blocks.

We are evaluating the best strategy for continuity of these operations in these 2 areas taking into account the possible market opportunities and our cash management.

Before I close, I wanted to touch on the current environment for QGEP. The last 2 years have been extremely challenging for the sector with the financial challenges faced by companies in the sector and the economic slowdown in Brazil coupled with a sharp decline in global oil prices.

The environment remains difficult. However, we do see some signs of improvement. Firstly, global brand prices improved more than 60% from the lows of January. It is still well below levels seen in recent years, but it does show a more balanced supply and demand in global markets, showing a potential increase in years to come.

Secondly, the regulatory environment in Brazil shows concrete signs of becoming more flexible with a more pragmatic approach to the rules, for instance, of local content and the potential presence of multiple operators in the pre-salt area, among other factors.

Brazil's oil assets remain uniquely attractive and this greater level of flexibility will help companies such as QGEP to move ahead with their strategies.

So, despite the turmoil in the sector in terms of economics, we still believe in improvements over the medium term. In the meantime, we are relying on our expertise and our unique portfolio of assets to create maximum value to our stakeholders.

Thank you again for joining us today and we will be happy to take any questions you may have. Thank you very much.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press star one. If at any time you would like to remove yourself from the questioning queue, please, press star two.

Our first question comes from Diego Mendes, with Itaú BBA.

Mr. Diego Mendes: Good morning, everyone. I have 2 questions. One has to do with Atlanta. Could you give us some color in terms of what are the major concerns regarding potential delays and are you considering any delays in the schedule to have the startup of production by year end?

I just want to understand if there is anything that should be of concern or if things are on track.

My second question has to do with Carcará. You're talking about the next steps to do all the necessary tests. However, we know that there is a unitization issue, so I would like to know how do these 2 things relate? Can you proceed with all of these tests without having a final definition about unitization?

And regarding unitization, what kind of data do you have regarding the area outside the block? And if you need to drill another well to see how much of the volume is outside the block, who would pay for the cost? Thank you.

Mr. Danilo Oliveira: Good morning, Diego. About Atlanta, originally in our schedule, the FPSO should have arrived in March. We had mentioned that there was a delay that it was expected to arrive in July, but now we are expecting the FPSO to arrive in the final quarter of the year.

What is happening is that there was a greater difficulty than expected in converting Petrojarl into the oil conditions of Atlanta. There are some engineering changes and processing plant modifications that were greater than originally expected; that resulted in the acquisition of new equipment that only now is arriving at the FPSO for assembly.

So this delay is uniquely related to a delay of the FPSO. This was just the only reason. We are currently expecting the arrival of Petrojarl 1 for the fourth quarter.

Mr. Guardado: Diego, regarding Carcará unitization, I will give the floor to Mendes, because he really knows about the procedures that are being implemented. However, what I can say is that the government is putting a lot of effort to set all the rules.

There is a working group coordinated by the Ministry of Mines and Energy with the participation of the industry, particularly with the participation of IBP (the Brazilian Petroleum Institute) and their goal is to disclose and inform the rules regarding unitization, and as you will see this will be fundamental for the next steps.

We are very confident that this issue will be resolved very soon and announced to all of the operators. Mendes, please.

Mr. José Mendes: Good morning, Diego. You are asking about unitization in the pre-salt area; this has been relatively resolved by the ANP.

In areas where the volume extends outside the block's area, in an area belonging to the union, this area should be auctioned as quickly as possible so that the Consortium that wins this outside area (that was not included in the auction), this company bidder will be responsible for working that area.

So we expect that the Carcará area will be auctioned as quickly as possible and that the new concession, the new concessionaire of this area outside of BM-S-8 where Carcará discovery is, will be outlining this external area.

The unitization process of that outlined area that is part of the BM-S-8 area is already being resolved and there is one part that belongs to the Federal Government.

Mr. Mendes: Okay, but do you have an expected date for this other auction or does it depend on the change of the rules of the pre-salt in Congress?

Mr. José Mendes: Well, what we have heard and seen in the press is that there are 2 areas in the pre-salt expected for 2017. We expect Carcará to be one of these areas. The press talked about it and we are still awaiting. Hopefully this will take place in 2017, hopefully Atlanta will be auctioned in 2017 so that we won't have any delays in the unitization schedule and in the schedule for startup of production.

Mr. Mendes: Okay, thank you very much.

Operator: Our next question comes from Mr. Vicente Falanga, from Bank of America.

Mr. Vicente Falanga: Good afternoon, Lincoln, Paula, Danilo, Mendes. I have 2 questions. First, in terms of the seismic data that you have for the 11th Bidding Round blocks, can you tell us what is more interesting; Pará-Maranhão, Ceará, Espírito Santo? And in Espírito Santo, do you know whether you're going to aim at the pre-salt?

And secondly, you mentioned in the press release a farm out potential in 2016, and considering the potential assets for a farm out, would you prioritize assets in development and production or rather exploratory assets? Thank you.

Mr. Guardado: Vicente, good morning. Well, the interpretation of these areas is still very incipient; these are very large areas. Some went through the acquisition process, for others processing has been defined and we are starting to interpret the data, particularly in Foz do Amazonas Basin and Espírito Santo Basin. These 2 areas are the most advanced in terms of interpretation of the data.

But this is an ongoing process. As you know, Espírito Santo Basin is the biggest producing basin with a well-defined oil system there and the major goal of this area is still the post-salt. We bought that block led by this oil system, which is already established in that basin.

But there is always this possibility because the blocks are located in the continuity of what could be the pre-salt polygon. It's outside, but it is in that trend and exploration deals with these regional trends, so this is not out of the question, but the major focus is the post-salt.

And we are still a bit far away from deciding when to drill. We have until 2018 to drill and there are some initiatives given some difficulties that we had (general difficulties, not specifically for Foz do Amazonas or Espírito Santo Basins), with some licensing difficulties.

So there is the possibility that there will be a certain postponement of the drilling. It's very reasonable to say that this will occur.

At Foz do Amazonas Basin we continue to work and what we are trying to get at Foz is to find similarities given the discovery that we had in Jubilee, despite the distance (we are talking about the West of Africa) and also in the French Guiana, particularly Suriname, where recently Exxon had a discovery with the same type of prospect that we believe we will have in Foz do Amazonas.

But again, we still did not reach a conclusion because we are still at the very beginning of the interpretation phase, and this will take at least another year for us to have a firm position of our priorities.

In Ceará Basin it ended, we are now processing the seismic data of Pará-Maranhão, where we are, as we speak, acquiring the seismic data. There was some delay for the environmental licensing and other natural procedures that IBAMA has and so this is probably what will be for last in terms of a decision.

As for Sergipe-Alagoas Basin, we have 5 years to acquire the seismic data. At Sergipe we just have to get the seismic data, but given that Sergipe has a very big appeal, given the results that this area has shown and given the fact that it has an operation and infrastructure that is well-established, distance to the coast of 100 km, etc., Sergipe should gain importance in our portfolio.

Although we still have 5 years, it's very likely that we will not wait 5 years to get the seismic data. We will do it before because we see some market signs and I think it's part of your question, you want to know how we intend to manage these blocks. Well, undoubtedly, our priority is always to have a farm out particularly in blocks where we have a high percentage, and this should happen in Sergipe.

We do have an intention to do a farm out, but this in principle we will do after the seismic data acquisition. But this is not restricted to Sergipe, we have an opportunity to do that in Pará-Maranhão where we have a working interest which is sufficient for us to go through an eventual dilution.

But this will come in time. And undoubtedly depending on the continuity of the results that we observe for this area. But Sergipe is something already established in the company and, yes, we should farm out and we already see some industry signs of interest for that area given the visibility that it has in terms of E&P.

Undoubtedly, after the Santos Basin one of the most appealing areas for E&P is Sergipe given the distance to the coast, the type of oil of 38° API, excellent quality oil and a market which now lacks this type of oil and even gas.

Mr. Falanga: Okay, perfect. Thank you very much, this was very clear Lincoln.

Operator: As a reminder, if you want to ask questions, please press star one.

Our next question is from Mr. Gustavo Allevato, Banco Santander.

Mr. Gustavo Allevato: Good morning, everyone. My question has to do with the Atlanta Field. What about the default of the partners in the block? And how is this being addressed at the Consortium level? Could you give us an update, please?

Mr. Guardado: I can tell you that these pending amounts, the ones that were mentioned in our last call, luckily the partners are working on the structure of all the payments in a very satisfactory manner.

Mr. Allevato: Thank you.

Operator: Once again, if you want to ask questions, please press star one.

This concludes the question and answer session. I would like to invite Mr. Lincoln Guardado to proceed with his closing remarks. Please, go ahead Sir.

Mr. Guardado: Once again, thank you all for joining us today to discuss our earnings and results.

Undoubtedly it's a special day considering the political scenario in Brazil.

So once again I thank you all for your time, thank you for being with us and we highlight our trust in the fundamentals of our Company, our country and our industry. We are confident that all these processes even though they are very sensitive, they will all be overcome and the Company will keep on growing at the end of the year and with the startup of Carcará.

So once again we highlight our trust in our growth, in the recovery of the industry, recovery of other companies, so feel free to contact our Investor Relations Area for information you might need *vis-à-vis* our earnings, our results and the future of our company.

Once again thank you very much, see you next time.

Operator: That does conclude QGEP's audio conference call for today. Thank you very much for your participation and have a good day.