

Operator:

Good morning ladies and gentleman. At this time we would like to welcome everyone to QGEP's 2Q11 earnings conference call. Today with us we have Mr. José Augusto Fernandes Filho, CEO of the Company; Mr. Danilo Oliveira, Production Director; Mr. Felipe Barbuto, Portfolio Manager; and Ms. Paula Costa, CFO and IRO.

We would like to inform you that this event is being recorded and all participants will be on listen-only mode during the Company's presentation. After QGEP's remarks are completed, there will be a question and answer session. At that time further instructions will be given. If any participants need assistance during this 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 are based on the beliefs and assumptions of QGEP management and on information currently available to the Company. 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. José Augusto, QGEP's CEO, who will start the presentation. Mr. José Augusto, you may begin the conference.

José Augusto:

Thank you. Good morning everyone and thank you for your participation in today's conference call to review QGEP 2Q and 1H11 performance and discuss our upcoming plans. Joining me today are Paula Costa, our CFO; Danilo Oliveira, our Production Director; and Felipe Barbuto, our Portfolio Manager, between other people there are also here joining us. We will provide you an overview of our results and then open the call to questions.

Moving to slide 3, in the 2Q we have executed effectively on our strategic plan to build long-term shareholders' value. One of the key highlights was our successful negotiation of a very important farm-in agreement which was officially announced in July. The agreement gives us a 10% participation interest in block BM-S-8, located offshore in Santos Basin and makes QGEP one of the first private Brazilian E&P companies to participate in this premium pre-salt area, the heart of what people use to call the *picanha*.

BM-S-8 is one of the largest blocks in the Santos Basin, and it is strategically important to us for a number of reasons. First, as an important addition to our asset portfolio, located near to some giant oil field discoveries. Second, it is one of the main commitments we contemplated during our IPO and we are pleased to have delivered to our shareholders. Third, because this participation will give us a valuable experience in the area acquiring knowledge for future opportunities.

I am also pleased to report that drilling activities have started on three important exploratory wells. In block BM-S-8, in Santos Basin, which is the farm-in agreement we just concluded, operated by Petrobras. Block BM-S-12, also in Santos Basin, where we

own 30% interest and Petrobras is also the operator. Finally, block BM-J-2 in Jequitinhonha Basin where we are the operator and have 100% of interest.

We continue to post positive operating income and operating cash flow in the 2Q despite the reduced number of wells production from the Manati field due to maintenance work. For the 2Q, operating cash flow was R\$20 million and R\$102 million for the 1H.

Also, we ended the period with a very strong cash position of R\$1.7 billion, which gives us significant financial flexibility to take advantage of interesting acquisition opportunities.

The slide 4 shows our strategic position inside the hot spot area of the Santos Basin where our recently acquired block BM-S-8 is located. We are close to billion barrels fields and in an area with high chance of geological success where we expect to find high volumes of oil.

In block BM-S-8, we bought a 10% interest from Shell for US\$175 million, as we have already announced last July. Petrobras is the operator with 66% working interest, with Petrogal holding 14% working interest and Barra Energia acquired the remaining 10%.

Here, on slide 5, a closer look at our recently announced farm-in agreement. Block BM-S-8 is one of the largest blocks in Santos Basin covering more than 2,400 km², and water depth up to 2,200 m. One discovery, Bem-Te-Vi, has been made in this block. And there is a potential extension of another discovery, Abaré West, that was made in an adjacent block. At least four other promising prospects have also been identified.

Moving to slide 6, here, on slide 6, we can take a look at QGEP's current exploratory activities. Our first prospect in block BM-S-8, Biguá, started to be drilled with the Sevan Driller Rig in mid-June and the drilling is expected to last five to six months and reach a final depth of 6,400 m.

Another key priority is block BM-S-12, our golden block, located in the Santos Basin on the southeastern coast of Brazil, where we are targeting four prospects. We started to drill the Ilha do Macuco well in mid-July to test Santos#1, Santos#2, Santos#3 and Santos#4 prospects. This is an appraisal well to prove the extension of the accumulations discovered by the Santa Catarina-13, SCS-13 well, in Santos#1 and Santos#2, and will test the huge pre-salt structure, Santos#4.

This well is being drilled initially by the Lone Star Rig until it reaches a depth of 2,200 m and then the second phase will be drilled by the Ocean Baroness Rig. Drilling activities will last five to six months until a final depth of 6,400 m is reached.

Our third exploratory asset located in Jequitinhonha Basin is BM-J-2. In this block, we are the operator and own 100% interest. We started drilling the Alto de Canavieiras well in early-June to test the pre-salt structure with the Offshore Mischief Rig. Drilling activities are underway and its final depth of 4,700 m is expected to be reached by the end of September.

Regarding our production in the 2Q we experienced the positive results in Manati field, one of the Brazil's largest non-associated gas fields, in which we have a 45% of participating interest. In June, a 4th well came back on production from being shut down for maintenance, and this moved our production capacity up to 5.3 million m³ per day.

We expect a 3Q production level to exceed those of the 2Q, and therefore, we expect to continue reporting positive operating income and cash flow.

Based on the most current information we have received, all six wells will be back producing in the 3Q, and production should ramp up quickly. As you know, operating profitability in Manati Field is high. And the productivity seasonal factor in the 2H of the year should help us increase revenues and income.

Now, I would like to turn over the call to Paula Costa, our Chief Financial Officer, for a review of the 2Q financials. Paula, please.

Paula Costa:

Thank you, José Augusto. Now, let us review the financial highlights of 2Q11. Moving to slide 9, Manati Field accounts for 100% of our revenue and this slide displays our revenue performance for the quarter with three of our six wells temporarily shut down for maintenance work.

Gas production was 309 million m³, a decrease of 34% when compared to the 1H10. Net revenues were R\$132 million in the 1H11, a 26% decrease over the same period last year. The inflation readjustments in gas prices partially offset the decrease in revenues. As José Augusto mentioned, we expect the 3Q results to show improvements over the 2Q as we benefitted from the highest production levels for a longer period of time.

Moving to slide 10, as you can see, despite the significant drop in production, the Company succeeded in achieving positive operating profitability as measured by an EBITDAX of R\$34 million in the 2Q. As you know, the Manati Field Consortium owns all of infra-structure related to the production and transport of the gas which makes this a very profitable operation.

We reported net income of R\$58 million for the 2Q, a result of the combination of operational results and net financial income of around R\$50 million, primarily representing interest income on the funds raised through our IPO.

On slide 11, there is a comparison of 2Q11 and 2010 operating expenses. Lower production resulted in a 10% decline in operating expenses from the 2Q10 levels. The increase in exploration costs were primarily due to the residual cost relating to the drilling of BM-S-76 earlier this year. All costs related to that well are now behind us. G&A expenses increased approximately 30% in the 2Q resulting from the impact of stock option plan, project “Portinari Para Todos”, insurance expenses, and other related costs.

Project “Portinari Para Todos” promotes environment awareness for children based on the work of the Brazilian painter Cândido Portinari, and it is financed through the fiscal benefits of “Lei Rouanet” cultural incentive.

Moving to slide 12, you see the privileged net cash position of the Company close to R\$1.5 billion. This gives us significant financial flexibility to take advantage of asset acquisition opportunities in the fast growing Brazilian oil and gas industry.

And now, I would like to turn over the call to José Augusto, who will provide more information on our strategic plans.

José Augusto:

OK, Paula, thank you. In slide 14, here we can see an overview of QGEP drilling activity for the 2H11, which represents a significant acceleration, particularly in our exploratory activities. As you know, our exploration prospects are well located close to Brazil's hot spot areas. In the aggregate the total reserve potential of these prospects is over 390 billion of barrels of oil equivalent, not considered, of course, block BM-S-8. We look forward to keeping you updated to our progress, and expect to have results to report in the 4Q of this year.

In conclusion, we would like to remind you of QGEP strategic strength. Our large ownership position in Manati field gives us an ongoing resource of cash-flow to fund a portion of our exploration activities. We are moving ahead with our exploration program with three large projects currently in the drilling stage and we hope to have positive results to report by the end of this year. Our strong balance sheet positions us well to take advantage of the future opportunities that would complement and add value to our existing asset portfolio.

Ladies and gentlemen, thank you very much for your time and attention.

Hubert Van Der Heijden, Tudor, Pickering & Holt:

Yes, good morning. Just a couple of questions from our side. Beginning with Manati: now that you have more clarity around the timing of the wells coming back on production there, could you walk us through any updated guidance for the full year average production and what is the current throughput of volumes at the field?

José Augusto:

OK. I will pass the word to our Production Director that can give you the answer to the question that you have made. Danilo, please.

Danilo Oliveira:

Good morning, Hubert. Our forecast for Manati, the last forecast from Manati we have released, was anticipating full production by the end of August. Presently, we have a new schedule because we are facing some delivery of parts and logistic problems, so we have escaped to September for having both wells producing.

So, we expect to have by the end of August one well back and full capacity should be back by the end of this semester. And about the capacity of production, we expect to be 7.8 million for the last three months and the annual delivery capacity should average, for the year about 5.2 million m³ a day.

Hubert Van Der Heijden:

OK. And how should we, I guess, from one of your partners in the block, I saw that the 3Q to date production has been around, or throughput has been around 4.5 million m³ per day, so I am just trying to figure out how to ramp up your production to get to an average of 5.2. It seems that you have to really pull on the field and have more throughput than you have ever had before. Am I thinking about this the wrong way or...?

Danilo Oliveira:

OK, presently, we have an average of 4.1 million m³ per day until July 31st. For this next month, our expectations are 4.4 for August, 6.0 for September, and 7.8 for the last 3 months. That gives us 5.2 million m³ per day.

Hubert Van Der Heijden:

OK. That is helpful. Could you just repeat the number you said for September?

Danilo Oliveira:

6.0

Hubert Van Der Heijden:

6.0. OK. That is very helpful for us to draw in our models there. Moving on to the exploration target, can you comment on any of the progress at BM-S-12, like: what is your current depth, and when do you expect to make the switch to the Ocean Baroness Rig? And also, will you have to announce the presence of hydrocarbons to the ANP for each target horizon separately or only upon completion of the entire well?

José Augusto:

OK. First of all, Hubert, the well is in progress right now. What we expect, because in this case we depend on two things: first is to conclude this first phase up to 2,200 m with the Lone Star and this we believe we can finish by next two weeks.

And at the same time we have to have the change of the rig by the Ocean Baroness, and according to the information we got yesterday from the operator, they will finalize everything, not only the well but the abandoning of everything, by two or three weeks. So, we believe that we can continue this well with the Ocean Baroness by, let me say, around three weeks.

But the most important thing to emphasize in this case is the fact that using the Lone Star Rig we anticipated 2,200 m of drilling. So, it is very, very important for us to keep what we have programmed for this well.

And according to the second question you made, we have the obligation to inform ANP of every discovery that is eventually made. I mean, when we have confirmed something you have to inform ANP, and consequently to inform the market. The same with Santos#2, Santos#3 and Santos#4.

Hubert Van Der Heijden:

OK. Very good. And lastly, can we have a similar discussion on the Jequitinhonha well? So, thinking of the presentation it said it started in mid-May and you are expecting three to four months drilling time, so I am guessing you should be getting pretty close to total depth, is that correct?

José Augusto:

No, Hubert, what happened is that we are not close to the total depth. We are in fact in the beginning of the well again. Why? When we started drilling this well we faced some problems with loss of circulation. It was a severe loss of circulation. And we tried to fight against it, and it took too long and we reached the depth that time over 900 m. And the exit took too long to fight, I mean, we have faced a lot of difficulties, we decided just to abandon this phase and move the rig and restart the well, and right now we are around 500 m.

And again, we are facing a different problem, we started drilling with no return and just because now we are absolutely safe about what we are doing, but to have to face the problem of the stuck of the column, so now we are deviating the well and we are going to proceed. But we keep our estimation to finish this well by the end of September.

Hubert Van Der Heijden:

OK. And after that, will you move the rig immediately to the second prospect on BM-J-2?

José Augusto:

No. In fact, we have never planned it, any time. Why? Because first we need to finish the well, and analyze just to take all the experience we got from this well to the next one. But even if we would like to do that we cannot because this rig, as you probably know, is part of a rig club where we are with Sonangol, Anadarko.

And so, Anadarko has drilled one well, Sonangol has drilled another well and now the rig will be back to Anadarko building the second well of Anadarko. So, just in the future we could have the rig back to J-2.

Hubert Van Der Heijden:

OK. That was all from me for now. Thank you very much for your time.

Frank McGann, Bank of America / Merrill Lynch:

Yes, good day. Just a couple of things. One, maybe you could just give us some information on when you think you will have the purchase of your stake in BM-S-8 completed and the timing of the payment for that.

And then, secondly, in terms of the 2H of the year in terms of costs. You mentioned in the release that you have US\$10 million for the maintenance expenses for Manati, I was just wondering if you have any remaining expenses that are expected in the 2H related to BM-S-75, 76 and 77.

And then, in terms of administrative costs and interests that are not financial income, can we assume that the levels we saw in the 2Q would be similar to what you might expect in the 3Q and 4Q for both those items? Assuming for financial costs, of course, that cash always remained the same, which I know they will not, but just to get an idea of the kind of level of financial income you are expecting.

José Augusto:

Hi, Frank. I will try to answer this question about B-S-8 first, and I will pass the word to Paula to answer the other questions concerning financial part of your point. We have already, I mean, Shell has already sent the documents to ANP. ANP is analyzing all the documents, as usual, and we expect to have this concluded by, let me say, two or three months.

Because ANP has made a lot of improvements in this evaluation and right now we believe that we can have more speed. For you to have an idea, when we transferred our seven or eight assets we took just four months for everything and so I believe that two or three months we will have everything finished and the conclusion of the B-S-8. Did I answer the question?

Frank McGann:

Yes. That is perfect, thank you very much.

José Augusto:

OK, Frank, thank you, I will pass the word to Paula.

Paula Costa:

Hi, Frank. Regarding the results that we expect for the next 2 quarters of the year, I would say that the operational results should be better, as we are going to increase, we expect to increase Manati production, and we will have higher revenue and regarding the operating costs, it will be higher due to the maintenance, most part of this will come in the 2H, in the 2H of the year, and the administrative costs should be similar levels.

For the financial income, we should expect a bit lower levels as we have already invested part of our cash in the farm-in of BM-S-8 and we are also drilling two wells, so it will reduce due to the use of cash for investments.

Frank McGann:

OK. Do we have anything left in terms of write-offs, for BM-S-75, 76 and 77 or has that already all been taken care of?

Paula Costa:

No, all the costs of those blocks are behind us now. They have already been accounted and we should not expect anything for the 2H of the year.

Frank McGann:

OK. Great. Thank you very much.

Hubert Van Heijden, Tudor, Pickering & Holt:

Yes. Thank you. One more follow-up question: we were just wondering what your current views are on the upcoming bid rounds in Brazil, such as when do you expect it to occur and what areas would you potentially be interested in there?

José Augusto:

Hubert, this is a good question. And I would appreciate a lot if I could answer you correctly, but I cannot. But anyway, what we know is that, in fact, ANP is very anxious and prepared to announce this as soon as possible. But, of course, as far as we know, ANP needs, as they usually say, at least four months from the approval of the Government of Brazil, to announce, prepare and performing this round bid.

And it is possible that you can run this by December, but if it takes a little bit longer it is impossible and it goes probably to the next year, beginning of the next year. But, we are still waiting for this in this year yet.

OK, the second part is that we are being prepared. Our people are focused in these areas that we have already know about where the areas are, ANP is disclosing this to the companies that intend to know just to advance the analysis and so. We have our interest in offshore but unfortunately I cannot precise to you because this is a competitive edge. So, we are interested in offshore and mainly in deep water.

Hubert Van Heijden:

OK. That is fair. Thank you very much.

Gustavo Gattass, BTG Pactual:

Hi, guys. I have just this one quick question for you, with regards to the cost and probably one for Paula this time around, José Augusto. In the 2Q, was there any relevant amount of costs actually related to the maintenance that were booked?

Paula Costa:

Nothing significant. The main amount, most of it will come in the 2H of the year. We do have some very small impact in the 2Q but it is not significant.

Gustavo Gattass:

And Paula, there was an increase on what you guys call on the broken out results the extraction costs, or the lifting costs, in absolute terms, what was really the driver there, if I may ask?

Paula Costa:

Gattass, could you please repeat the question?

Gustavo Gattass:

Yes. If I look at your lifting cost number that you published in your filings, they seem to have gone up from about R\$6 million a quarter, in the 1Q, to something like 9.5 and that on the back of a lower production.

I was personally thinking that you might have actually recognized some maintenance cost there, so that is just what I wanted to check. What has been driving the increase in costs, if it is not maintenance?

Danilo Oliveira:

Good morning, Gustavo, we have not found the number you have told us right now. The highest cost we have in this period is related mainly to the maintenance of Manati but it is not R\$3 million for sure, maybe R\$1 million, R\$1.5 million, and I need time to locate where this increase is, but I do not have on hand right now. I could release this information through our website or later on.

Gustavo Gattass:

OK. I will follow up with you guys, no problem. Thank you.

Operator:

This concludes our question and answer session. I would like to turn the conference back over to Mr. José Augusto for any closing remarks.

José Augusto:

OK. First of all I would like to thank all of you for your time and attention and especially for the questions that were made because this gives us the opportunity to clarify to everybody any doubts you have.

We can tell you that we will continue to be absolutely transparent, trying to increase the results in a sustainable way, and we would just like to tell you that we continue to look for new opportunities that are coming from the round bid of ANP, and also for any opportunity of farm-in that is offered by the market especially after the talk of the president of Petrobras that informed everybody that they will in the near future offer many opportunities for farm-in in developing areas and in exploratory areas. So, we are with our focus in this and we hope that we have the opportunity to get this. Thank you very much to everybody.

Operator:

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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