

Operator:

Good morning ladies and gentlemen. At this time we would like to welcome everyone to the QGEP's 1Q11 earnings conference call. Today with us, we have Mr. José Augusto Fernandes Filho, CEO of the Company; Mr. Lincoln Rumenos Guardado, Exploration Officer; and Mrs. Paula Costa, CFO and IRO.

We would like to inform you that this event is being recorded and all participants will be in 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. Should any participant 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 Fernandes Filho:

Good morning, everybody, and thank you for your participation in today's conference call to review QGPE 1Q11 performance and discuss our upcoming plans. Joining me today are Paula Costa, our CFO; Danilo Olvieira, our Production Director; and Felipe Barbuto, the Portfolio Manager. We will provide you an overview of our results and then open the call to questions.

Moving to slide three, the key event of the 1Q was clearly our successful IPO completed in February, when the Company raised net proceeds of approximately R\$1.5 billion. These funds will be used primarily to add value to our great exploratory assets portfolio, to farm-ins and acquiring new blocks at ANP bidding rounds.

While we ended 2010 with a strong financial position, the IPO transaction significantly increased our financial strength and flexibility, moving us to a strong net cash position of close to R\$1.5 billion. I am also pleased that our ongoing gas production operation continues to provide positive results during the 1Q11.

Our net income for this period was derived from a combination of operating and financial income. I would like to highlight that we posted operating cash flow of R\$82 million, despite the temporary maintenance shutdown we experienced in the quarter. This illustrates the high level of operating profitability achieved in the Manati field.

On slide four, we provide a snapshot of our market advantages. First, we would like to emphasize that we are the largest Brazilian independent measure by both 2010 and

1Q11 in oil and gas production. In fact, we are the fourth largest considering all companies operating in Brazil, just after Petrobras, Shell and Chevron.

Second, we are the only Brazilian company besides Petrobras, of course, that is qualified as Type A operator by ANP, which means that we are able to operate in shallow, deep and ultra-deep waters. We are currently studying opportunities to partner with other companies who do not have this Type A operator qualification.

Thirdly, we have a high quality and balanced portfolio, represented by one producing field Manati, four discoveries under evaluation and five exploratory blocks, with very promising ready-to-drill prospects. We had a high historical geological rate of success of 41%, having made seven discoveries from 17 wildcats wells drilled.

Finally one of our key strength is the strong cash visibility we had from our 45% interest in Manati field, when operating at capacity provides us an EBITIDA margin close to 80%.

On slide five you can see the Manati field, which has been in operation since 2007, and which is Brazil's largest non-associated gas field in production. We hold 45% working interest in this field, where in 2010 and yearend, our 3P reserves were 11.8 billion m³ of natural gas, or 74 million barrels of oil equivalent, both of these numbers are under certification. We had record in average production of 6.2 million m³ per day in 2010. In fact, in the 1Q10 we reached 7.9 million m³, setting a daily production record.

In addition to being a very predictable field, Manati is one of the most profitable, as the consortium owns the related to the infrastructure including the production platform, gas pipeline and the gas production plant. We have a long-term take or pay contract with Petrobras, which provides us with good visibility on cash flow generation.

Here on slide six, as we previously announced in the end of December 2010, the Manati field's well was shut down for maintenance and in mid-March this year three more wells were shut after inspection of the risers. This resulted in a reduction of gas production to 2 million m³ per day, towards the end of the 1Q11.

Here is where we stand right now. Two wells came back on stream in the end of April, bringing production capacity to 4.1 million m³, and another one is scheduled to be back in July, increasing daily production capacity to 5.3 million m³.

By August we currently expect the two remaining wells to be back in production, which would bring us to full daily production capacity of 7.8 million m³. We expect we will back to full production level for most of the 2H11.

We estimate that our share of the maintenance cost will be about R\$10 million to be expensed in 2011.

Now I would like to turn the call over to Paula Costa, our CFO.

Paula Costa:

Thank you, José Augusto. Now let us go our financial highlights for 1Q11. Moving to slide eight, the Manati field accounted for 100% of our revenues, and as you can see from this slide, our revenue performance for the quarter was impacted by the reduction in the gas production that José Augusto has just described.

On slide nine we can see that despite the significant drop in production, the Company succeeded in achieving a positive net income results, helped by the financial income earned in the period. Additionally, as you can see, the high level of profitability that we achieved in Manati field, which resulted in a positive EBITDA of R\$28 million for the 1Q. If you excluded the non-recurring incentive payment related to the IPO, our EBITDA margin would have been 73%.

Here on slide ten, the comparison of the 1Q11 and 2010 operating expenses. Lower production resulted in an 11.5% decline in operating expense from the 1Q10 levels. The increase in exploration costs is due to the drilling of BMS76, which did not identify potential productive zones, as we have already disclosed to the market. 60% to 70% of these costs have already been accounted for the 1Q11, with the remaining cost to be incurred in the 2Q.

Moving to slide 11, you see the positive impact of the IPO on our cash position, moving us from a net debt position of R\$21.3 million at the end of 2010 to a net cash position close to R\$1.5 billion at the end of the 1Q11.

Looking ahead we expect 2011 to be a year of progressive improvements for QGEP. We will still see an impact from the lower production of Manati field in the 2Q results, but the 2H results should improve substantially over the 1H results.

In the 2H of the year, we will also be moving ahead with more exploratory drills. And now I would like to turn back to José Augusto, who will provide more information on our strategic plans.

José Augusto Fernandes Filho:

Thank you. Slide 13 provides an overview of QGEP's asset portfolio and the risked volumes associated with the prospects. As you can see, our exploration prospects are well located close to Brazil's hotspot areas. In the aggregate, the total reserve potential of these prospects is over 391 million of barrels of oil equivalent.

Moving to slide 14, I am pleased to report that we are on track with our exploratory drilling program. You can see our road map based on our current asset portfolio, that our timetable for developed and first oil is projected to 2017. We expect to have an active exploratory program in 2011, which should de-risk our portfolio significantly over the following months.

One of our priority assets featured on slide 15 is BM-J-2, located in Jequitinhonha basin in the Northeast of Brazil. In this block, where QGEP has 100% stake and will also be operating, we have two prospects target pre-salt reservoirs in an emerging basin. We expect to start drilling here with the Offshore Mischief rig at the end of May, and we will test the Jeq#1 prospect. Drilling is expected to last between three and four months.

Another priority is Bolck BM-S-12, as you can see on slide 16, the BM-S-12 is our golden block, located in the Santos basin in the Southeastern Coast of Brazil, where we are targeting four prospects. There has been a higher rate of exploratory success in this region, showing the extensive presence of carbonate reservoir where giant fields were discovered in the pre-salt sediments recently.

We have submitted a evaluation plan to ANP based on the results of the Santa Catarina 13 well, where we identified two zones with hydrocarbons. The plan called for drilling an additional well to confirm the size of this discovery already made in Santos 1 and Santos 2, and testing two new prospects, Santos 3 and Santos 4. The Santos 4 prospect, we have to emphasize, is a huge structure that we are going to target the pre-salt reservoir and where we have very high promising results.

We have already contracted the Ocean Baroness rig, which is expected to be moved in early June and begin drilling shortly thereafter. Drilling is expected to last between five to six months. Joining us is our Exploration Director, Mr. Lincoln Guardado, at this moment.

Slide 17 shows the expected production based on our current portfolio, where we expect to reach a production of around 120,000 barrels/day in the years 2017 and 2018.

In conclusion, as the largest owner of the Manati field, we have a significant visibility and strong and predictable cash flow. At the same time, our portfolio of exploratory prospects provides us with tremendous opportunities to significantly increase productions to reserves in the short and medium term. We have a highly experienced management team in the activity of exploration production, in the onshore and offshore Brazilian and international basins. We also believe that in support of Queiroz Galvão Group and our unique relationship with Petrobras are strengths that cannot be replicated.

As discussed, we plan to move ahead with the drilling program, and we hope to continue achieving industry leading success rates. We are currently evaluated farm-in opportunities that could complement and add value to our existing portfolio, and we are preparing to participate in the next ANP bidding round in September this year.

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

Frank McGann, Bank of America/Merrill Lynch:

Good morning. Just two questions, one in terms of volumes, as you look out into the 2Q, 3Q and 4Q, and you indicated where the capacity will be in each of those quarters as the wells come back in Manati. Do you think you will be able to produce at capacity? If not, what level do you think you would be able to produce that? And if you have an estimate maybe of where you think you would be on average for the full year now.

And secondly in terms of exploration cost that you mentioned that would be booked in the 2Q, do you have an estimate for approximately how much that might be?

José Augusto Fernandes Filho:

First of all, I will pass the word to Danilo to answer your first question.

Danilo Oliveira:

Frank, good morning. Regarding production of Manati we expect that from the end of August through yearend we will be producing at full capacity. We are presently producing 4.1 million m³ per day, and with another well we will be reaching 5.3 million

m³. The two last wells that will be brought into production by the end of August will complete the full capacity.

In terms of daily rate, average capacity, during the year, it will be around 4.3 million m³ to 5.5 million m³ per day, average.

Frank McGann:

OK. Great.

José Augusto Fernandes Filho:

OK. Frank, I will give the word to Lincoln to answer your second question.

Lincoln Rumenos Guardado:

Regarding the BMS76, we have around 70% of already cashed to us, considering our 1Q results, and we are expecting around R\$7 million to complete all of the costs regarding the BMS76 coming in the next few months, probably this month or the other, it is just that, not a big amount so far.

Frank McGann:

OK. Great. If may just follow up on that with a big broader question, just in terms of looking towards the auction, any thoughts on strategy and what is going along with partners, how do you new plan to approach the auction, any particular focus as you think about what you might bid for?

Lincoln Rumenos Guardado:

Sure, we continue with our I can say big picture regarding our plans, already constructed in the Company, we are looking for offshore, for sure, by the time being offshore is our focus, we are tracking onshore but offshore related to the auction will be the main target and we plan to participate with partners. It is for sure no way to leave that, it is still considering a frontier area, we intend to be with partners and if possible in deep offshore areas too.

As for the shallow waters, we are analyzing, we know more or less those areas, if we found an area that we have a good risk reward in shallow areas, we plan to analyze, but the main focus will be participate with partners in deep offshore and analyze the possibility of being the operator or not, this is not something already discussed but that is the main trend for us, offshore and deep offshore as the focus.

Frank McGann:

OK. Thank you.

Paula Kovarsky, Itaú BBA:

Hi, guys. Good afternoon. Two quick questions, the first one is a follow up, so did I understand correct that the guidance for average production in 2011 will be 5.5 million m³ rather than the original 6 million m³? That is question number one.

And question number two, if you guys could give us a bit of schedule for expected results and drilling campaign targeting Santos 2 and Santos 4 and Jequitinhonha 2 prospects.

José Augusto Fernandes Filho:

OK. Danilo will answer your first question.

Danilo Oliveira:

OK, Paula. Good morning. Yes, there was a little bit change in the average rate of our Manati field for this year, and the main cause is that by the end of this month the operator has change the schedule for repairing. We were expecting to be back with all the wells by June, and with the moving to the end of August, we will be losing these two months of full capacity of production.

But there is no change in the repair to be made, but we have faced logistics problems since the platforms is enormous, and we have to go back and forth daily with equipments and people and it is delaying a little bit our scheduled program there.

José Augusto Fernandes Filho:

Paula, if we understood your second question, one thing you would like to know is when we will be reaching the objectives of Santos 2 and Santos 4 in the well Santa Catarina 15, is that correct?

Paula Kovarsky:

Yes, and when do you plan to reach the Jequitinhonha target and by when more or less we should be expecting initial results?

José Augusto Fernandes Filho:

OK. Let us start with Jequitinhonha. Jequitinhonha, the prediction is that we have a three to four months to drill the well and, of course, as our main objective is at the end of the drilling I believe between three and four months we will be reaching the main objectives. Some secondary objectives could be reached before, but our main target which is the pre-salt would be by three to four months.

And what is concerning the BMS12, we are going to reach the first objective, which you did not asked, but anyway it is an appraisal for this objective also that is Santos 1, we should reach by two months approximately, I would say, and for the Santos 2 around four months, and of course five to six months to reach the pre-salt target in Santos 4.

Paula Kovarsky:

From now?

José Augusto Fernandes Filho:

When we start the well, from the time we start. Our prediction is to start Jeq#1 by May and the second well by June, the well in the BMS12.

Paula Kovarsky:

OK. Thank you.

Gustavo Gattass, BTG Pactual:

Hello, guys. How are you? Just two quick questions for you guys, the first one, with regard to the Jequitinhonha wells, I was just wondering, has there been any additional work or any additional data that has become available over the course of the last three to four months in the area that has allowed you to even upgrade I would say your expectations or upgrade just your understanding of the data or are you going to be drilling with the exact same picture you had at the time of the IPO? That would be the first question.

The second one, I just wanted to understand whether or not the numbers you are giving us may be conservative with regards how long it will take to reach Santos 1 and Santos 2. At least the impression I had is that the two to three months to get to the first objective might be a bit on the cautions side and I just wanted to check if that is really the case or is that something that really does take a little bit longer to get there? Thank you.

José Augusto Fernandes Filho:

Gattass, how are you? Everything is OK, I suppose. Anyway, you asked about the BMS12, we can tell you that probably we are a little bit conservative what concerns Santos 1, we can reach Santos 1 in a short time, because it is just 800 m, so we can easily reach just after one month of drilling, probably.

But the others we are not so conservative, we believe that the right time for we can tell you is: Santos 2, probably we will go for not less than three months, between three and four months, and for four months is the best prediction you can have for this and the same what concerns Santos 4.

Lincoln Rumenos Guardado:

Regarding Jequi, Gattass, unfortunately we do not have any improvements regarding the knowledge about the area, the area is not being drilled, our well will be I can say the new idea about the area, we are drilling more or less 600 m in the pre-salt and I mean our well will be I can say the big new on the area. The companies are still working in the area, in the interpretation, as far as we know, either Petrobras is looking for pre-salt in BJ3, but nothing was released and as we do not continue because the work done is very deeply and there is not much to do unless we have a direct stake with the well there.

Gustavo Gattass:

OK. Thank you.

Operator:

I am showing no further questions at this time. So, this will conclude our question and answer session. I would like to turn the conference back over to Mr. José Augusto and the management team for any final remarks they may have.

José Augusto Fernandes Filho:

OK. Ladies and gentlemen, thank you very much for your time and attention and be sure that we will put our best efforts and with the support of the team that we have for getting in a very short time improve our returns and production and creating value for all our shareholders. Thank you very much.

Operator:

Thank you. The conference is now concluded. Have a wonderful day, and you may now disconnect your lines.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript."