MANAGEMENT REPORT

Dear Shareholders:

We are pleased to present to you our Management Report and Individual (Parent Company) and Consolidated Financial Statements for the fiscal year ending December 31, 2011.

MANAGEMENT COMMENTS

2011 was a transformative year for QGEP. Our successful initial public offering raised approximately R$1.5 billion in proceeds, enabling us to develop our existing assets and to expand and diversify our exploratory portfolio. In our first year as a public company, we made significant progress in following through on our strategic plan of transforming QGEP into a more balanced exploration and production company.

Highlights in 2011 included:

- Return to full production capacity in the Manati Field in the fourth quarter, 2011, following the completion of maintenance work performed throughout the year;
- Successful negotiations of two farm-in agreements for Blocks BM-S-8 and BS-4, promising assets located in the Santos Basin, one of Brazil’s most prolific exploratory areas;
- Ongoing drilling activities at Blocks BM-S-12, BM-S-8 and BM-J-2, with results expected in the near-to medium-term;
- Leveraging our competitive advantage as a “Type A” operator to develop the deep water fields of Atlanta and Oliva at Block BS-4.

We reported positive operating cash flow for the year of R$194.2 million, despite maintenance work that was performed at the Manati Field in 2011. We also returned to full production capacity at Manati Field in the fourth quarter, and we anticipate only minor maintenance work there in 2012, when average daily production capacity is expected to return to 6 MMm3 of natural gas.

In 2011, we completed two important farm-in agreements, adding exploratory and development assets located in the pre-salt area of the Santos Basin.

At Block BM-S-8, our first farm-in as a public company, we began drilling the Biguá well in June 2011. Results from this well have indicated oil presence and the collected data is still under analysis. Given the consortium’s confidence of the potential at this block, drilling of another pre-salt prospect, Carcará, began in December 2011. Results for this well are expected to be announced in the second quarter of 2012.

Our second farm-in, Block BS-4, provides a promising prospect for future drilling, as it is located near a number of giant pre-salt oil discoveries, including Libra and Franco. In early 2012, QGEP was granted approval from the ANP to act as operator of this block, reaffirming our important status as the only independent Brazilian company qualified as a “Type A” operator. In the fourth quarter of 2011, we substantially increased our headcount of technical personnel with extensive industry expertise to support operations at BS-4. The fields of Atlanta and Oliva add more than 2.0 billion barrels of oil in place, and development drilling, set to begin by the end of 2013, offers important production and cash flow potential for QGEP over the medium-term.

In June 2011, the Company began drilling at the Alto de Canavieiras well to test the JEQ #1 prospect pre-salt target in Block BM-J-2. In late September, drilling was temporarily halted at a depth of 2,540 meters due to regulatory restrictions from IBAMA (Brazilian Environmental Authority), which imposed a black-out period on exploration activities for a certain period. The Company plans to resume exploratory activities in 2012, using a previously issued environmental license that is valid through June 2013. QGEP expects to reach the final depth of 4,700 meters approximately two months after drilling resumes.

Drilling of exploratory well 3-SCS-15 in Block BM-S-12 began in July 2011. These activities were aimed at testing the Santos #1, Santos #2, Santos #3 and Santos #4 prospects. During the initial phase, the Lone Star Rig drilled to a depth of 2,200 meters. The Ocean Baroness Rig began the second phase of drilling in late October 2011. The final depth of approximately 6,400 meters will be reached in 2012. Block BM-S-12, which offers an elevated potential for reserves in the pre-salt region, is located in the Santos Basin, roughly 230 km off Brazil's southeastern coast. The Company holds a 30% interest in this block, which is operated by Petrobras.

In summary, in 2011 we effectively executed on our strategic plan to continue to build value. We succeeded in reporting operating profits and positive operating cash flow under constrained production conditions at Manati Field and we expanded our asset portfolio while diversifying our potential revenues sources. For 2012, we are confident to have another year of progress, as we move forward with our E&P activities and benefit from increased natural gas production levels.

MACROECONOMIC SCENARIO

Although 2011 was marked by the European debt crisis, we are beginning to see significant advances in early 2012. In terms of economic activity, Brazilian GDP dropped to 2.7% in 2011, compared to 7.5% in the previous year. In response to this lower economic growth and the crisis in Europe, the Central Bank reduced the SELIC, Brazil's basic interest rate, to an annual rate of 11% at the end of 2011. Further cuts may occur in 2012, according to FOCUS bulletin projections dated March 9, 2012, which expect the SELIC to dip to 9.0% by year-end.

In response to stimulus efforts such as lowering interest rates and offering tax incentives, official inflation, as measured by the IPCA (amplified consumer price index), stood at 6.5% at the close of 2011, versus 5.9% at the close of 2010. Inflation influences the Company's results since the sale price of Manati gas is adjusted by an inflationary index. The barrel price of oil has a slight impact on our current result, affecting the sale price of condensate only. The price of Brent oil rose significantly in 2011, closing at US$107 per barrel, 13% higher than in 2010.

At the close of 2011, the exchange rate stood at R$ 1.87/US$, compared to R$ 1.66/US$ in 2010. A large portion of exchange rate depreciation occurred from September 2011 onward, as the European debt crisis reached its peak. As a result, in December 2011, the QGEP's Board of Directors approved the Market Risk Management Policy, with the intent of formalizing the measures that the Company and its subsidiaries may use in mitigating risks associated with market exposure, not inherent to oil and gas exploration and production activities. The policy sets forth the conditions and limitations for the use of derivatives such as futures, NDFs (non-deliverable forwards) and options, which may be contracted for hedge-related purposes only.

CAPEX

QGEP holds a 45% interest in the Manati Field, which is located in the Camamu Basin, currently one of the largest active non-associated gas fields in Brazil. This interest makes us the largest privately controlled Brazilian company operating in the exploration and production sector in terms of daily average BOE (barrels of oil equivalent) production, according to 2011 data furnished by the ANP. For this Field, we have a long-term gas take-or-pay contract with Petrobras, with defined prices and volumes, helping to ensure stable and predictable cash flow.

In 2010, average daily production at the Manati Field reached 6.2 million m^3. In 2011, the rate was 4.1 million m^3. The year-over-year reduction reflected the maintenance work performed during the year but which was concluded in December 2011.

As previously disclosed, the Company's average daily production in the fourth quarter of 2011 was 4.7 million m^3, a level generated by five of the Company's six producing wells. In December 2011, QGEP announced that all six of its wells were operational and that the Manati Field had resumed full capacity. The Company recorded an expense of approximately R$10 million in 2011 related to the maintenance at Manati Field.

In 2011, QGEP's total capital expenditures came to US$150 million, which was used to finance our exploratory activities at the BM-S-76, BM-J-2, BM-S-12 and BM-S-8 Blocks, as well as for the acquisition of seismic data related to areas of interest. Moreover, the Company spent US$332 million to acquire interests in the BM-S-8 and BS-4 Blocks, which are both located in the Santos Basin. Of that total, US$142 million were dispensed in 2012.

FINANCIAL RESULTS

The following financial statements correspond to the Company's consolidated financial information for the year ending December 31, 2011.

The Company was created on March 9, 2010, and initiated operations on September 2, 2010, when Queiroz Galvão Óleo e Gás S.A. ("QGOG") transferred to the Company its entire stake in Queiroz Galvão Exploração e Produção S.A. ("QGEP"), converting the latter into a wholly owned subsidiary. The Company's financial statements for 2010 thus represent results from operations corresponding to the three-month, 29-day period ending December 31, 2010, making an accurate comparison of yearly results between 2010 and 2011 impractical.

As a firm that holds interest in corporations dedicated substantially to the exploration, production and sale of oil and natural gas products, the Company's results basically reflect those of its subsidiaries: Manati S.A. and Queiroz Galvão Exploração e Produção S.A.

Below are the major financial highlights for the fourth quarter and full year ended 2011:

<u>Cash (Cash Equivalents, Financial Investments and Restricted Cash)</u>

The Company ended 2011 with a cash[1] balance of R$1,213.4 million, a significant increase compared to our 2010 year-end position, as a result of the Company's IPO, which yielded approximately R$1.5 billion to finance existing exploratory operations and to expand our asset portfolio. Furthermore the restricted cash was reducted by R$60.0 million due to the anticipation of 22 installments relating to the financing from BNB.

<u>Recoverable Taxes</u>

Recoverable taxes (current and non-current) totaled R$20.9 million in 2011. This amount basically refers to the credits relating to a semiannually charging system of income tax on the profitability of the investments funds, called "come cotas". The amount is calculated based on both lower tax rate of each fund type (percentage of 20% for short-term funds and 15% for long-term funds).

<u>Property, Plant and Equipment</u>

Property, plant and equipment totaled R$869.4 million in 2011, compared to R$713.7 million in 2010. This change refers to: (i) additions amounting to R$112.2 million for Block BM-J-2, which include expenses associated with drilling, logistics and materials and (ii) write-offs amounting to R$11.7 million, mainly related to Block BMS-76 returned to the ANP in the second quarter of 2011.

<u>Intangible Assets</u>

In 2011, QGEP signed an agreement to acquire a 10% interest in Block BM-S-8 and a 30% interest in Block BS-4, located offshore in the Santos Basin, for US$175.0 million and US$157.5 million, respectively. The transfer of interest rights to QGEP for BM-S-8 was approved by the ANP in December 2011. In February 2012, the transfer of rights and the operations of BS-4 were approved by the ANP.

[1] Cash includes cash, cash equivalents, short-term investments and restricted cash

Accounts Payable

Accounts payable were R$265.9 million at the end of 2011, due to the provision for payment of the outstanding balance (90% of the acquisition price) of the purchase and sale agreement to acquire a 30% interest in Block BS-4. On March 2, 2012, the complementary payment was made.

Loans and Financing

The Company ended 2011 with total debt of R$103.6 million, a 45% decrease compared to the close of 2010, due primarily to the amortization of the entire IFC financing of R$23.9 million and the anticipation of 33 installments of the BNB financing in the amount of R$60.0 million.

Provision for Guarantee - Return of Blocks

The balance in 2010 refers to the guarantees under the Minimum Exploratory Program (PEM) of the exploratory block BM-S-77. A sum of R$10.6 million was provisioned in December 2010 and settled in May 2011 when exercised by the ANP.

Net Revenue

In 2011, net revenue totaled R$289.0 million on average natural gas production of 4.1 million m^3/day and average condensate production of 65 m^3/day. Production volumes at the Manati field totaled 1,500 million m^3 in 2011, with 675 million m^3 of that total corresponding to QGEP's portion.

QGEP posted net revenue of R$83.1 million in the fourth quarter of 2011, down 21.4% year-over-year.

Operating Costs

Total operating costs in 2011 were R$128.7 million for the year. In addition to gas plant operating costs of R$37.5 million, the following costs also contributed to the total in the period: R$53.1 million in depreciation costs; R$24.7 million in royalties and special participation; R$3.0 million in R&D costs; and R$10.4 million in maintenance costs.

General and Administrative Expenses

In 2011, the Company increased the number of its technical personnel in preparation for its role as the operator of Block BS-4 and as part of its strategy to bolster its presence as an operator at other blocks.

For 2011, General and Administrative Expenses also include incentive payments to QGEP executive officers, manages and employees totaling R$23.1 million relating to our successful IPO, which concluded on March 9, 2011, as disclosed in the Company's prospectus.

Exploratory Costs

In 2011, exploratory costs relating to oil and gas extraction totaled R$52.1 million. This amount mainly reflects costs for the 1-SPS-80 well, located in Block BM-S-76, which was drilled in the first quarter of 2011 and did not yield potentially productive zones (R$13.2 million), as well as R$29.7 million for the acquisition of seismic data for the regions surrounding the farm-ins that the Company acquired in 2011.

Financial Result

Net financial income was R$84.4 million in 2011, compared to R$9.8 million in 2010. This amount refers to financial income generated through investment of IPO funds raised by the Company in February 2011. Additionaly, financial result was impacted by a foreign exchange loss of R$48.5 million relating to the impact of the foreign exchange variation on the outstanding balance payable related to the acquisition of Block BS-4, as well as the provision for abandonment of the Manati Field.

Net Income

The Company reported net income of R$92.1 million in 2011, stemming from the combination of operating and financial income. The primary factors affecting this result during the period were: (i) lower gas sales revenues, due to decreased production volume at the Manati Field; (ii) exploratory costs relating to well 1-SPS-80; (iii) non-recurring administrative expenses relating to the IPO; (iv) higher financial revenue due to the Company's IPO in 2011; and (v) foreign exchange variation reflecting the depreciation of the Brazilian real versus the U.S. dollar.

CAPITAL MARKET

The stock price of QGEP's shares (Ticker: QGEP3) ended the year at R$16.50, representing a market value of R$4.4 billion, down 13% relative to the Company's IPO price. This decline mirrored the Ibovespa's 14% drop in the same period. The capital market was marked by high volatility throughout the year as a result of the global macroeconomic scenario.

The stock's negotiability in the year generated an excellent result, evidenced by average financial volume of R$12 million and an average daily volume of approximately 19 thousand trades. In July 2011, the Company engaged Credit Suisse as a market maker to promote the stock's liquidity. The result was an 80% increase in the number of trades for the year, considering the period following the IPO's conclusion. As a result, the Company's stock was selected for inclusion in the Brazil Index (IBrX), which tracks the BM&FBovespa's Top 100 companies in terms of negotiability, beginning in January 2012.

The Company's stock has garnered market interest and is currently covered by 15 sell-side analysts representing domestic and international banks and brokerages. In late 2011, 12 of these institutions were issuing BUY recommendations, with just three issuing HOLD recommendations, and the stock's target price was R$24.10.

DIVIDENDS

The Company's bylaws set forth the following rules for distributing its profits:

- 5% (five percent) of the net income in each fiscal year will be allocated to the legal reserve until it reaches 20% (twenty percent) of the Company's capital stock;
- Shareholders are guaranteed the minimum dividend of 0.001% on income, as set forth in Brazilian Corporate Law, after 5% of net income from the year have been allocated to the legal reserve until that reserve reaches 20% of the Company's capital stock; and
- Any remaining balance of net income from the year will be allocated in accordance with the decisions of the Annual Shareholders' Meeting.

HUMAN RESOURCES

Our management and technical personnel have vast experience in the oil and gas sector in Brazil and abroad, experience gained in large measure through prolonged involvement with Petrobras, where they have held key positions in oil and natural gas exploration, production development and sales activities. Our professionals possess specialized knowledge in the areas of geology, geophysics, reservoir engineering, production, drilling and the environment. Most have played active roles in the major discoveries in Brazilian basins, including the Manati, Garoupa, Marlim, Albacora and Roncador fields. The experience of our current management and technical staff allows us to conduct our operations according to high performance standards.

Our administrative and financial team is composed of professionals trained by the Grupo Queiroz Galvão and professionals which have also acquired relevant experience at other large companies in our market. At the close of 2011, we had approximately 60 employees, including QGEP employees and third-party workers, a 100% increase compared to our workforce in place in 2010.

SOCIAL RESPONSIBILITY

QGEP's operations are firmly rooted in safety, ethical principles, sound corporate governance practices and respect for the environment. We strive to be among the top E&P companies considered as the best companies to work for in

Brazil. Our goal is to encourage social responsibility initiatives, job creation, the engagement of services and business operations and considered among the best in terms of integration and excellence. QGEP is committed to acting safely and responsibly to minimize the environmental impact of its activities and to benefit the local communities in the areas surrounding its operations. In 2011, the Company launched a series of socio-environmental projects in the areas surrounding Block BM-J-2, establishing a solid program for the drilling of that prospect.

In order to safely prepare for this operation, QGEP leased the proper equipment allowing for immediate response in the case of an emergency. Additionally, the Company maintained bases in the cities of Ilhéus, Una, Canavieiras and Alcobaça which were stocked with response equipment and boats capable of protecting the coastline in the event of any incident. Fishing vessels and crews were also trained to use response equipment if necessary.

Our socio-environmental activities involve the local communities surrounding the Jequitinhonha Basin and are designed to benefit the region as a whole. These projects include the Beach Monitoring project, the Fishery Landings Monitoring Project and the Social Communication project. One especially successful program has been the Beach Monitoring Project, whereby local monitors and experienced biologists and veterinarians monitor more than 100 km of coastline on a daily basis, during the months of April to November, to assess any possible direct impacts that exploratory operations may have on marine life.

In addition to our environmental projects, QGEP also contributes to educational and athletic incentive programs. One example is VivaVôlei, a social program endorsed by the Brazilian Volleyball Federation and UNESCO, which is fully sponsored by QGEP through the tax incentive provided by the sports incentive law.

Another initiative is the "Portinari para Todos" (Portinari for All) project, which promotes environmental awareness in children by using the works of Brazilian painter Cândido Portinari. In May 2011, the city of Ilhéus became the first to host the traveling exhibition, consisting of 22 paintings and art education workshops. From there, the program moved on to Canavieiras, Una and Belmonte. In addition to the exhibition and workshops, local schools also received pedagogical materials especially designed for the program, and teachers were trained in their classroom use. The project is financed with funds obtained through the Lei Rouanet cultural incentive law.

During the year, QGEP also put into place sustainability management indicators. The Company plans to publish its First Annual Sustainability Report for fiscal year 2011 using the internationally adopted framework provided by the Global Reporting Initiative (GRI). Thus, the Company has initiated dialogues with diverse stakeholder groups and created an online survey to determine which topics the groups consider most relevant.

The Company also has a Code of Ethical Conduct, drafted by QGEP employees, and an Integrated Management System that guides our operations regarding environmental, health, safety and quality standards. Moreover, as a sign of our commitment to the protection of human rights and the environment, as well as the effort against corruption, the Company signed the UN’s Global Compact in December 2011, which will also play a role in guiding our decisions.

RELATIONSHIP WITH INDEPENDENT AUDITORS

The Company’s policy regarding its relationship with external auditors in the provision of services unrelated to external auditing is rooted in principles that safeguard their independence. These principles are based on the idea auditors should not audit their own work, nor exercise managerial functions, advocate for their clients or provide any services that could be considered restricted under current regulations.

Deloitte Touche Tohmatsu Auditores Independentes were engaged by QGEP Participações S.A. to provide external auditing services relating to the review of its financial statements and those of its subsidiaries for fiscal year 2011. As stipulated by Brazilian accounting independence rules, the external auditor did not perform any services for the Company or its subsidiaries other than those mentioned above in the period.

Rio de Janeiro, December 31, 2011.

QGEP Management

QGEP Participações S.A.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Individual and Consolidated Financial Statements for the Year Ended December 31, 2011 and 2010 and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
QGEP Participações S.A.
Rio de Janeiro - RJ

Introduction

We have audited the individual and consolidated financial statements of QGEP Participações S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2011 and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Individual Financial Statements

In our opinion, the individual financial statements present fairly, in all material aspects, the financial position of QGEP Participações S.A. as at December 31, 2011, and its financial performance for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of QGEP Participações S.A. as at December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and accounting practices adopted in Brazil.

Emphasis of Matter

As described in Note 2 to the financial statements, which states that the individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of QGEP Participações S.A. these accounting practices differ from the IFRS, applicable to separate financial statements, only with respect to the measurement of investments in subsidiaries by the equity method of accounting, which, for purposes of IFRS would be measured at cost or fair value. Our opinion is not qualified in respect of this matter.

As described in Note 29, at February 8, 2012, the industry regulator, ANP ("Agência Nacional de Petróleo, Gás Natural e Biocombustiveis"), approved the transfer of the concession contracts for the exploration of Campo de Coral from the entity BS-3 S.A to Queiroz Galvão Exploração e Produção S.A. ("QGEP"), and at February 16, 2012, ANP approved the transfer of the concession contracts for the exploration of BS-4 block from Shell Brasil Petróleo Ltda. to QGEP.

Other matters

Statements of Value Added

We have also audited the individual and consolidated statements of value added ("DVA"), for the year ended December 31, 2011, prepared under the responsibility of the Company´s management, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies and as supplemental information for IFRS that does not require a presentation of DVA. These statements were subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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

Rio de Janeiro, March 12, 2012

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Auditores Independentes

André Ricardo Aguillar Paulon
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

QGEP PARTICIPAÇÕES S.A.

BALANCE SHEET AT DECEMBER 31, 2011 AND 2010
(The financial statements on December 31, 2011 were reviewed by independent auditors in the extention described in the report on review of financial statements dated March 12, 2012)
(In thousands of Brazilian reais - R$)

	Note	Parent company (BRGAAP)		Consolidated (IFRS and BRGAAP)	
ASSETS		12/31/2011	12/31/2010	12/31/2011	12/31/2010
CURRENT ASSETS					
Cash and cash equivalents	4	2,705	5,229	1,021,951	137,225
Short-term investments	4	-	-	130,479	-
Accounts receivable	5	-	-	76,140	82,007
Inventories	6	-	-	5,362	-
Recoverable taxes	9.1	-	-	20,698	1,156
Dividends receivable	10.2	2,716	-	-	-
Others		100	659	3,477	1,209
Total current assets		5,521	5,888	1,258,107	221,597
NONCURRENT ASSETS					
Restricted cash	8	-	-	60,968	110,571
Recoverable taxes	9.1	-	-	167	218
Deferred income tax and social contribution	9.4	-	-	5,800	2,861
Investments	10.2	2,170,498	617,148	-	-
Property, plant and equipment	11	-	-	869,425	713,657
Intangible	12	-	-	535,205	5,836
Others		-	-	51	-
Total noncurrent assets		2,170,498	617,148	1,471,616	833,143
TOTAL ASSETS		2,176,019	623,036	2,729,723	1,054,740
LIABILITIES AND NET EQUITY					
CURRENT LIABILITIES					
Suppliers		83	29	26,652	18,999
Trade accounts payable	13	-	-	265,895	-
Borrowings and financing	14	-	-	51,992	76,330
Taxes payable	9.2	28	-	24,438	22,579
Payroll and related taxes		32	44	1,453	283
Related party transactions	7	113	660	500	1,181
Provision for research and development		-	-	6,035	5,001
Provision for guarantees - return of blocks		-	-	-	10,555
Other obligations		-	-	18,383	13,732
Total current liabilities		256	733	395,348	148,660
NONCURRENT LIABILITIES					
Borrowings and financing	14	-	-	51,565	188,692
Provision for abandonment	16	-	-	107,047	95,085
Total noncurrent assets		-	-	158,612	283,777
NET EQUITY					
Capital stock	23	2,078,116	620,417	2,078,116	620,417
Legal reserve		6,387	1,780	6,387	1,780
Investment reserve		87,529	-	87,529	-
Stock options	23	3,731	-	3,731	-
Proposed dividends		-	106	-	106
Total net equity		2,175,763	622,303	2,175,763	622,303
TOTAL LIABILITIES AND NET EQUITY		2,176,019	623,036	2,729,723	1,054,740

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

QGEP PARTICIPAÇÕES S.A.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011
AND FOR THE THREE MONTHS AND TWENTY NINE DAY PERIOD ENDED DECEMBER 31, 2010
(The financial statements on December 31, 2011 were reviewed by
independent auditors in the extention described in the report on review
(In thousands of Brazilian reais - R$)

		Parent company (BRGAAP)		Consolidated (IFRS and BRGAAP)	
	Note	01/01/2011 a 12/31/2011	09/02/2010 a 12/31/2010	01/01/2011 a 12/31/2011	09/02/2010 a 12/31/2010
NET REVENUE	17	-	-	289,007	142,242
COSTS	18.1	-	-	(128,722)	(57,158)
GROSS PROFIT		-	-	160,285	85,084
OPERATING INCOME (EXPENSES)					
General and administrative expenditure	18.2	(3,565)	(73)	(64,096)	(10,113)
Equity method	10	95,289	35,659	-	-
Oil and gas exploration expenditure	19	-	-	(52,071)	(39,044)
Other net operating		-	-	(7,261)	-
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME		91,724	35,586	36,857	35,927
FINANCIAL INCOME, NET	20	413	9	84,354	9,781
INCOME BEFORE INCOME TAX SOCIAL CONTRIBUTION		92,137	35,595	121,211	45,708
Deferred Income tax and social contribution	9.3	-	-	2,939	(710)
Current Income tax and social contribution	9.3	-	-	(32,013)	(9,403)
NET INCOME FOR THE YEAR		92,137	35,595	92,137	35,595
NET INCOME PER SHARE - BASIC AND DILUTED	23	0.36	0.59	0.36	0.59

(*) Besides the income for the period, there was no other comprehensive income. For this reason, the Company is not presenting the comprehensive income statement.

The accompanying notes are an integral part of these financial statements.

QGEP PARTICIPAÇÕES.A.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2011
AND FOR THE NINE MONTHS AND TWENTY THREE DAY PERIOD ENDED DECEMBER 31, 2010
(The financial statements on December 31, 2011 were reviewed by independent auditors in the
extention described in the report on review of financial statements dated March 12, 2012)
(In thousands of Brazilian reais - R$)

			Income Reserve			Propposal		
	Note	Capital stock	Legal reserve	Investment reserve	Stock Options	for additional dividends	Retained earnings	Total
ESTABLISHMENT OF COMPANY ON MARCH 9, 2010		-	-	-	-	-	-	-
Payment of capital as authorized by the Extraordinary General Shareholders' meeting on September 2, 2010 - net assets		558,197	-	-	-	-	-	558,197
Capital increase as authorized by the Board of Directors on December 16, 2010		62,220	-	-	-	-	-	62,220
Net income		-	-	-	-	-	35,595	35,595
Appropriation of profit for the period:								
Legal reserve		-	1,780	-	-	-	(1,780)	-
Proposed dividends		-	-	-	-	106	(106)	-
Dividends paid		-	-	-	-	-	(33,709)	(33,709)
BALANCE AT DECEMBER 31, 2010		620,417	1,780	-	-	106	-	622,303
Capital increase: resolution of the Board of Directors of February 7, 2011	23	1,317,460	-	-	-	-	-	1,317,460
Capital increase: resolution of the Board of Directors of March 2, 2011	23	197,619	-	-	-	-	-	197,619
Net income for the year		-	-	-	-	-	92,137	92,137
Appropriation of profit for the year:								-
Legal reserve		-	4,607	-	-	-	(4,607)	-
Investment reserve		-	-	87,529	-	-	(87,529)	
Minimum mandatory dividends		-	-	-	-	-	(1)	(1)
Dividends paid		-	-	-	-	(106)	-	(106)
Stock option		-	-	-	3,731	-	-	3,731
Cost of share issue	23	(57,380)	-	-	-	-	-	(57,380)
BALANCE AT DECEMBER 31, 2011	23	2,078,116	6,387	87,529	3,731	-	-	2,175,763

(*) Fully paid‑up capital of R$ 80.00 rounded to zero, due to, the presentation in thousands of reais.

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

QGEP PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2011
FOR THE NINE MONTHS AND TWENTY THREE DAY PERIOD ENDED DECEMBER 31, 2010
(The financial statements on December 31, 2011 were reviewed by independent auditors in the extention described in the report on review of financial statements dated March 12, 2012)
(In thousands of Brazilian reais - R$)

		Parent Company (BRGAAP)		Consolidated (IFRS and BRGAAP)	
	Note	01/01/2011 a 12/31/2011	03/09/2010 a 12/31/2010	01/01/2011 a 12/31/2011	03/09/2010 a 12/31/2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income for the year		92,137	35,595	92,137	35,595
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity method	10	(95,289)	(1,950)	-	-
Depreciation and amortization	11/12	-	-	53,606	29,847
Deferred income tax and social contribution	9	-	-	(2,939)	(429)
Financial charges and exchange rate (gain) loss on borrowings and financing	14	-	-	17,431	3,537
Provision for guarantees - return of the blocks	11/12	-	-	(10,555)	10,555
Reduction of fixed assets and intangibles		-	-	14,067	19,737
Stock option plan	23	3,731	-	3,731	-
Provision for income tax and social contribution	9.3	-	-	32,013	9,402
Provision for research and development		-	-	1,034	4,999
Financial instruments derivatives	22	-	-	(308)	-
Exchange rate on Trade accounts payable - acquisition of the exploration block		-	-	40,259	-
Exchange rate on provision for abandonment	16	-	-	11,962	(5,125)
(Increase) decrease in operating assets:					
Trade accounts receivable	5	-	-	5,867	428
Inventories	6	-	-	(5,362)	-
Recoverable taxes	9.1	-	-	(19,491)	54
Dividends receivable		(2,716)	-	-	-
Other assets		559	(659)	(1,231)	36
Increase (decrease) in operating liabilities:					
Suppliers		54	28	6,852	2,318
Taxes payable	9.2	28	-	(2,602)	(1,694)
Interest paid	14	-	-	(19,059)	(9,309)
Income tax and social contribution paid		-	-	(27,555)	(9,253)
Related parties		(547)	661	(680)	(124)
Other liabilities		(13)	43	5,043	(488)
Net cash provided by (used in) operating activities		(2,056)	33,718	194,219	90,086
CASH FLOWS FROM INVESTING ACTIVITIES					
Restricted cash	8	-	-	49,603	(63,124)
Dividends recieved	10	5,000		-	
Short term investments	4	-	-	(130,479)	-
Increased investment	10.2	(1,463,061)	-	-	-
Purchase of property, plant and equipment	11	-	-	(221,084)	(16,274)
Purchase of intangible	12	-	-	(305,290)	-
Increased investment in QGEP, net of cash obtained on its acquisition		-	(57,000)	-	-
Net cash used in investing activities		(1,458,061)	(57,000)	(607,250)	(79,398)
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital increase	23	1,515,079	62,220	1,515,079	62,220
Cost of share issue	23	(57,380)	-	(57,380)	-
Payment of financing	14	-	-	(159,836)	(122,837)
Payment of dividends	23	(106)	(33,709)	(106)	(33,709)
Related parties		-	-	-	(2,750)
Net cash paid in on aquisition of QGEPP by shareholders		-	-	-	223,613
Net cash inflows from financing activities		1,457,593	28,511	1,297,757	126,537
Increase (decrease) in cash and cash equivalents		(2,524)	5,229	884,726	137,225
Cash and cash equivalents at beginning of year		5,229	-	137,225	-
Cash and cash equivalents at end of year		2,705	5,229	1,021,951	137,225

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

QGEP PARTICIPAÇÕES S.A.

STATEMENTS OF VALUE ADDED FOR THE YEAR ENDED DECEMBER 31, 2011
AND FOR THE THREE MONTHS AND TWENTY NINE DAY PERIOD ENDED DECEMBER 31, 2010
(The financial statements on December 31, 2011 were reviewed by independent auditors in the extention described in the report on review of financial statements dated March 12, 2012)
(In thousands of Brazilian reais - R$)

		Parent company (BRGAAP)		Consolidated (IFRS and BRGAAP)	
	Note	01/01/2011 a 12/31/2011	09/02/2010 a 12/31/2010	01/01/2011 a 12/31/2011	09/02/2010 a 12/31/2010
REVENUES		-	-	898,777	199,111
Gas sales	17	-	-	372,020	183,983
Other revenues		-	-	383	-
Revenues related to own assets of construction	11	-	-	221,084	15,128
Acquisition of exploratory concession	12	-	-	305,290	-
INPUTS ACQUIRED FROM THIRD PARTIES					
(including Tax - ICMS, IPI, PIS and COFINS)		1,677	28	669,472	78,997
Gas production and service costs		-	-	100,991	17,931
Material, energy and other service		1,677	28	561,300	56,643
Others	17	-	-	7,181	4,423
GROSS VALUE-ADDED		(1,677)	(28)	229,305	120,114
DEPRECIATION, AMORTIZATION AND EXHAUSTION		-	-	53,606	29,847
NET VALUE-ADDED PRODUCED BY THE ENTITY		(1,677)	(28)	175,699	90,267
VALUE-ADDED RECEIVED IN TRANSFER		95,711	35,668	153,276	10,370
Equity income and dividends	10	95,288	35,659	-	-
Financial income	20	423	9	153,276	10,370
TOTAL VALUE-ADDED TO BE DISTRIBUTED		94,034	35,640	328,975	100,637
VALUE-ADDED DISTRIBUTION					
PERSONEL					
Personnel		1,462	45	32,668	1,552
Benefits		-	-	540	58
Charges and fees		-	-	270	31
		1,462	45	33,478	1,641
TAXES					
Federal		327	-	64,441	26,921
State		-	-	42,109	20,709
Municipal		-	-	29	-
ANP (Bonus e royalties)	18.1	-	-	24,711	15,225
		327	-	131,290	62,855
PAYMENT OF THIRD PARTY CAPITAL					
Interest		10	-	20,421	12,871
Rentals		-	-	578	5
Bank charges		98	-	2,570	-
Monetary/Exchange variation	20	-	-	48,501	(12,330)
		108	-	72,070	546
SHAREHOLDERS					
Proposed dividends		-	106	-	106
Dividends paid		-	33,709	-	33,709
Legal reserve		4,607	1,780	4,607	1,780
Minimum mandatory dividends		1	-	1	-
Investment reserve	23	87,529	-	87,529	-
		92,137	35,595	92,137	35,595
DISTRIBUTION OF VALUE ADDED		94,034	35,640	328,975	100,637

The accompanying notes are an integral part of these financial statements.

1. OPERATIONAL CONTEXT

Operational history

QGEP Participações S.A. (“QGEPP” or the “Company”) was incorporated on March 9, 2010 under the name Latina Participações S.A., subsequently changed to QGEP Participações S.A. on September 2, 2010, and remained dormant until such date, when Queiroz Galvão Óleo e Gás (“QGOG”) transferred to QGEPP 100% of its investment in Queiroz Galvão Exploração e Produção S.A. (“QGEP, which became a fully owned subsidiary of QGEPP.

The principal objective of QGEPP is to hold interests in companies that are focused on the exploration, production and sale of oil, natural gas and their by products, whether as a partner or shareholder, or through other types of forms of association with or without separate legal identity. Its subsidiaries, Queiroz Galvão Exploração e Produção S.A. (“QGEP”) and Manati S.A. (“Manati”) are successors of the exploration and production (“E&P”) business of Queiroz Galvão Óleo e Gás S.A. (“QGOG”).

The E&P business is regulated by the Brazilian Oil, Natural Gas and Biofuel Agency (“ANP”). The company and its wholly owned subsidiaries are referred to in this Financial Statements as “the Group”.

On November 1, 2010 the Management filed with the Superintendent Relations Companies (SEP) of the Securities Commission (CVM), the request to obtain a company registration as a publicly listed Company, which was granted by that Commission on February 2, 2011.

Information about the Group

As at December 31, 2011, the Group holds interests in six offshore oil exploration blocks on the Brazilian continental shelf, of which three are located in the Camamu basin (BM-CAL-5, CAL-M-312 and CAL-372), one in the Jequitinhonha basin (BM-J-2), and two in the Santos basin (BM-S-12 and BM-S-8). QGEP operates Block BM-J-2, with all other blocks being operated by Petrobras.

The Company also participates in four fields under development and production. Two are located in the Camamu Basin (Manati e Camarão Norte) and two are located in Santos Basin (Atlanta and Oliva – old block BS-4). QGEP operates Atlanta and Oliva fields with all other blocks being operated by Petrobras.

The Manati Field was developed through the drilling of six wells, installed with Wet Christmas Trees (WCT). They produce for a fixed production rig (PMNT-1) that pumps gas along a 24" pipeline, approximately 125 km long, to the Geologist Vandemir Ferreira treatment station, which stabilizes and condenses the gas.

In the third quarter of 2011, the drilling of the prospectus High Canavieiras relating to BM-J-2 block, was temporarily interrupted due to the condition of the environmental license issued by IBAMA that restricts drilling activities between the months of October 2011 and February 2012 at this location. The environmental license is valid until June 2013, and the resumption of drilling should occur in the second quarter of 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the individual and consolidated financial statements are described below:

2.1. Statement of Compliance

The consolidated financial statements of the Company comprise:

- The consolidated financial statements been prepared in accordance with International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB"), which are consistent with accounting practices adopted in Brazil, identified as Consolidated – IFRS and BRGAAP; and

- The individual financial statement of the parent company has been prepared in accordance with accounting practices adopted in Brazil, identified as "The Parent Company – BRGAAP".

The accounting practices adopted in Brazil comprise those included in the Brazilian Corporate Law and the Accounting Pronouncements Committee – CPC and approved by the Brazilian Securities Exchange Commission (CVM).

The individual Financial Statements present the investment in subsidiaries under the equity method of accounting, according to Brazilian law. Thus, the Individual Financial Statements are not considered to be in accordance with IFRS, which explicitly states that such investments should be reported in the individual financial Statements of the Parent Company at their cost or at fair value.

As there is no difference between the consolidated shareholders' equity, and consolidated Income Statement assigned to the Company`s shareholders, listed in the Individual Financial Statements prepared in accordance with IFRS and the accounting practices adopted in Brazil and the shareholder`s equity and Income Statement in the Parent Company, issued in accordance with accounting practices adopted in Brazil, the Company opted for presenting these Financial Statements as one, side by side.

2.2. Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Company is presenting the individual financial statements of the parent company (QGEP Participações S.A.) and consolidated. This procedure is required given that the Brazilian corporate legislation determines the disclosure of the individual financial statements of entities that have investments in subsidiaries and jointly-owned subsidiaries, even when these entities disclose their consolidated statements.

The summary of principal accounting policies followed by the Company is as follows:

2.3. Basis of consolidation and investment in subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, as at the same period end and in accordance with the same accounting practices. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Thus, the process of consolidating the balance sheet and income statement for the sum of the respective assets, liabilities, revenues and expenses, along with the following eliminations between the Company and its direct and indirect subsidiaries: (i) shares in the capital, Reserves and retained earnings and investments, (ii) current account balances and other assets and / or liabilities, (iii) the effects of significant transactions.

In the individual financial statements of the Company, financial reporting of the subsidiaries is recognized by the equity method.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company and its subsidiaries. All related parties transactions, balances, income and expenses are eliminated in full on consolidation.

Group's ownership interests in subsidiaries

The Company's financial statements include the financial information of its subsidiaries, direct and indirect, listed below:

	Percentage of shareholding - %	
	Control	12/31/2011
QGEP	Direct	100%
Manati	Indirect	100%

2.4. Segment information

The Management has concluded that QGEPP operates with a single segment, being Exploration and Production (E&P). Additionally, net revenue is substantially derived from transactions with Petrobras in Brazil.

Summary of significant accounting policies:

2.5. Cash and cash equivalents

Are held in order to cash commitments for short-term and consist of the balance of cash, bank deposits in cash and highly liquid investments with insignificant risk of changes in value.

2.6. Inventories

Represented by materials and supplies acquired from third parties, to be used in exploratory drilling campaign. Inventories are recorded for lower value of cost and net realizable value. The inventories costs are determined by the average cost method. (Note 6).

2.7. Current and noncurrent assets and liabilities

Current and noncurrent assets and liabilities are stated at realizable value and/or settlement amounts, respectively. Inflation adjustments, changes in exchange rates, income earned and charges incurred, when applicable, are recognized on a pro rata basis to the balance sheet date.

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost of purchase, plus interest and other financial charges on borrowing used to purchase or build qualifying assets less accumulated depreciation and amortization.

Exploration, development and production expenditure is recorded under the successful efforts method. Under this method, development costs of all production wells and of successful exploration wells, related to economically viable reserves, are capitalized, whereas geological and geophysics costs, costs of dry wells and costs related to commercially unviable reserves are recorded in the statement of comprehensive income as incurred. Drilling costs incurred prior to completion of such viability assessments are not capitalized.

Property, plant and equipment represented by natural gas exploration, development and production assets in the Manati field are recorded at cost and amortized under the unit-of-production method, in which the charge for the year is based on the ratio between the annual volume produced and the total proved reserve of the producing field. Proved reserves used to calculate amortization in relation to the monthly production volume are estimated by external geologists and petroleum engineers in accordance with international standards and reviewed annually or when there is an indication of significant change.

Interest and other finance charges incurred on the liabilities related to acquisition of property, plant and equipment are capitalized as costs of these assets until the beginning of their operations (the production/operation phase).

The gain or loss arising from the sale or impairment of property, plant and equipment is determined by the difference between the residual value of the asset and any income received on disposal and is recognized in the results for the year in which the event occurred.

2.9. Intangible assets

The Company records expenditure on rights and concessions as intangible assets, which principally includes the signature bonus related to licensing rounds and is recorded at cost, adjusted as applicable to recoverable value and amortized under the unit of production method.

Management conducts an annual qualitative assessment of its oil and gas exploration assets to identify events or circumstances which may be indicators of impairment, such as the following:

- The period for which the Company has the right to explore in a specific area has expired or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned by the Company or its partners;
- Exploration and evaluation in a specific area have not led to the discovery of commercially viable quantities of reserves or resources and the Company has decided to discontinue such activities in that specific area;
- Sufficient data exist to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Based on this assessment, conducted for the year ended December 31, 2011, management believes that there is no need to recognize a provision for the impairment of these exploration assets at this date.

2.10. Impairment of Assets

In accordance with CPC 01 (“Redução do Valor Recuperável dos Ativos”), the Company annually reviews the carrying values of its property, plant, equipment, intangible and other non financial assets to determine whether there is any indication that those assets are impaired. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. When applicable, if there is loss, arising from situations in which the asset's carrying amount exceeds its recoverable amount, defined as the higher value between the asset's value in use and value of net asset sale. If the book value exceeds the recoverable value, this loss is recognized in the income for the year.

QGEPP's management did not identify changes in circumstances, evidence of technological obsolescence or other indication that property, plant and equipment items used in operations might be impaired, and concluded that for the year ended December 31, 2011 the recognition of an impairment provisions for its property, plant and equipment was not required.

2.11. Provision for abandonment of wells and production areas

Future obligations for abandonment of wells and of the production areas are based on information provided by the field operator and based on estimates of the management when it is the operator. Provision for these obligations is fully recorded at the time of the declaration of commercial viability of each field. This cost is recognized in property, plant and equipment as part of the cost of the related assets, see Note 16.

The provision for abandonment is reviewed annually by the management and any change to obligations is recorded as an increase or reduction in the provision. Revisions to the base of calculation are capitalized in property, plant and equipment. Changes to the provision due to the effects of the fluctuations in exchange rates on the obligations expressed in non-Brazilian currency are recorded in results of the reporting period in which they occur.

2.12. Borrowings and financing

Borrowings and financing are initially recognized when funds are received at fair value net of any transaction costs. They are subsequently measured at amortized cost, including charges, interest *pro rata temporis*, inflation adjustments and exchange differences contractually incurred up to the balance sheet date.

Non-Brazilian-currency denominated financing is translated into Brazilian *reais* (R$) at the exchange rates prevailing on the balance sheet dates.

2.13. Provision for judicial lawsuits

The provision for tax, civil and labor risks consists of the risks which settlement is probable based on the opinion of Management and external legal advisors, and values are recorded based on estimated costs of the outcomes of these processes. Contingent risks assessed as "possible loss" are disclosed by Management but not recognized.

2.14. Revenue and expense recognition

Revenues and expenses are recognized on the accrual basis. Sales revenue is recognized when the risks and rewards of ownership are transferred to the counterparty.

2.15. Income tax and social contribution

Income tax and social contribution are calculated and recorded based on the effective rates prevailing at the balance sheet date. Deferred taxes are recognized for temporary differences and tax loss carry-forwards, when applicable.

Deferred income tax and social contribution assets are recognized to the extent that realization is considered probable.

2.16. Tax incentives

As the Company’s subsidiary Manati is located in the region under the jurisdiction of the Northeast Development Authority (SUDENE), it is entitled to income tax relief of 75%, calculated on its operating profit during a ten-year period. Manati was granted this benefit in 2008. The amounts allocated to income tax expenses correspond to 25% of the statutory income tax rate, net of the tax incentive, which subsequently are allocated to the earnings reserve in equity under tax incentives, for the subsidiary Manati.

2.17. Payment arrangements based on the Company's shares

Equity-settled share-based payments to employees, services are measured at the fair value of the equity instruments at the grant date, as described in Note 23iii).

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a accelerated basis over the vesting year, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits “Stock Option”.

2.18. Financial instruments

Financial assets and liabilities are recognized when a entity of Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

2.19. Financial assets

Financial assets are classified into the following specified categories: (i) financial assets “at fair value through profit or loss” (FVTPL), (ii) ‘held-to-maturity' investments, (iii)“available-for-sale” (AFS) financial assets and (iv) ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

2.19.1. Financial assets at fair value through the profit or loss

Includes financial assets maintained for negotiation (ie acquired mainly for sale in the short term), or designated at fair value through profit or loss. Interest, monetary correction and exchange rate changes arising from the valuation at fair value are recognized in income as financial income or expenses as incurred. The Company has cash and cash equivalents and short-term investments classified in this category.

2.19.2. Investments held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the contractual obligation, the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. The Company has restricted cash classified in this category.

2.19.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The Company has accounts receivable and bank deposits (cash equivalents) under this class.

2.19.4. Impairment of financial assets

Financial assets, except those designated at fair value through profit or loss, are valued using impairment indicators at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more events occurred after the initial recognition of the asset, with an impact on the estimated future cash flows.

For all other financial assets, objective evidence of impairment may include:

- Significant financial difficulty of the issuer or obligor; or
- Breach of contract, in the form of default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

2.20. Financial liabilities

Financial liabilities are classified either as ‘financial liabilities at fair value through profit or loss’ or ‘other financial liabilities’.

2.20.1. Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2.20.2. Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

2.21. Functional currency

The functional currency of QGEPP and its subsidiaries used in preparing the financial statements is the currency of Brazil - Real (R$), being the one that best reflects the primary economic environment that the Company operates.

2.22. Value Added Statement ("DVA")

The purpose of this statement is to disclose the wealth created by the Company and its distribution during a certain reporting period, and is presented as required by the Brazilian Corporate Law, as an integral part of its individual financial statements, and as additional disclosure of the consolidated financial statements, since this statement is not required by IFRSs.

The statement of value added was prepared using information obtained in the same accounting records used to prepare the financial statements and pursuant to the provisions of CPC 09 – Statement of Value Added. Firstly, this statement presents the wealth created by the Group, which is represented by revenues (gross sales revenue, including taxes thereon, other revenues and the effects of the allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchases of materials, electric power and outsourced services, including taxes levied at the time of the purchase, effects of losses and recovery of assets, depreciation and amortization) and value added received from third parties (equity in earnings (loss) of subsidiaries, financial and other income). The second part of the statement of value added presents the distribution of wealth among personnel, taxes, fees and contributions, lenders and lessors, and shareholders.

2.23. New and revised standards and interpretations issued and not yet adopted

Standards, interpretations and amendments to existing standards issued by the CPC and IFRS with effect from January 1, 2011 had no impact on the Company's financial statements. The standards listed below were published and are mandatory for accounting periods beginning on or after January 1, 2012 or in subsequent periods.

The Company did not early adopted the following new and revised pronouncements and interpretations already issued but not yet in effect:

Pronouncement or interpretation	Description	Applicable to fiscal years beginning on or after
IFRS 7	Financial Instruments –Disclosure	January 1, 2015
IFRS 9	Financial Instruments - Measurement and Classification	July 1, 2015
IFRS 10	Consolidadted Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of interests in other entities	January 1, 2013
IFRS 13	Fair value measurement	January 1, 2013
IAS 1	Presentation of financial statements	July 1, 2012
IAS 12	Deferred Taxes – Recovery of the underlying assets when the asset is measured under IAS 40 fair value framework	January 1, 2012
IAS 27	Consolidated and separate financial statements	January 1, 2013
IAS 28	Investments in Associates	January 1, 2013
IAS 32	Financial Instruments -Presentation	January 1, 2014

The Company's management will assess the impacts of the adoption of these pronouncements and interpretations on the financial statements, which will be adopted when they become effective.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Company's accounting policies described in Note 2, management must make judgments and develop estimates regarding the carrying values of assets and liabilities for which are not easily obtained from other sources. The estimates and associated assumptions are based on historical experience and other factors deemed relevant. Actual results could differ from these estimates, when its effective realization in subsequent periods.

The main estimates used refer to record the effect of the provision for tax, civil and labor, depreciation of fixed assets and intangible assumptions for determining the provision for abandonment and decommissioning of areas, expected realization of tax credits and Other assets, provision for income tax and social contribution and the valuation of financial instruments and determining the fair value of derivative financial instruments, including financial assets held to maturity.

The estimates and assumptions are reviewed continuously. The effects of revisions to accounting estimates are recognized prospectively.

4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

a) Cash and Cash Equivalents

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Cash and bank deposits	51	21	758	935
CDBs and committed	2,654	5,208	106,553	136,290
Exclusive investment fund	-	-	914,640	-
Total	2,705	5,229	1,021,951	137,225

Cash and cash equivalents are concentrated in Banks Certificates of Deposit (CBD) and repurchase agreements (with debentures as guarantee) and shares of exclusive investment funds (item "c" bellow), possessing immediate liquidity and profitability indexed to the CDI rate, without impacts to the principal and earnings when redeemed.

b) Short-term investments

	Consolidated	
	12/31/2011	12/31/2010
Exclusive investment fund	130,479	-
Total	130,479	-

On December 31, 2011, the average return of, cash equivalents and short term investments was equivalent to 100.26% of the CDI.

c) Composition of the portfolios of exclusive investment funds

The Company has a multimarket exclusive investment fund that applies exclusively in shares of fixed income funds, backed by public and private securities indexed to the rate of the Interbank Deposit Certificate (CDI). Until December 31, 2011 all applications of exclusive funds offer daily liquidity, regardless of the maturity of the securities backing the funds.

The portfolios of investment funds are composed of exclusive titles and balances demonstrated in the table below:

Product	Maturity Date	Value
Committed (LFT e Debentures)	july,17 to april,26	220,579
CDB/ CDI (post-fixed)	november,12 to june,14	694,061
Tittles classified as Cash and Cash equivalents		914,640
Letters of treasury financial (LFT)	march,13 to september,16	130,479
Titles classified as short term investments		130,479

5. ACCOUNTS RECEIVABLE

The Manati has a long term contract from 2007 (up to 25 years) to supply a minimum annual volume of gas to Petrobras, for an actual price that is adjusted annually based on contractual index.

The balances of accounts receivable relate primarily to transactions of sale of gas with Petrobras, which historically have no defaults or delays. There was an allowance for doubtful accounts because the accounts receivable balance is comprised only of balance with average collection period of approximately 40 days.

6. INVENTORIES

	Consolidated	
	12/31/2011	12/31/2010
Inventories (*)	5,362	-

(*) Composed by materials needed to carry out exploratory drilling campaign of the subsidiary QGEP.

7. RELATED-PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries have been eliminated in consolidation and are not presented in this note. Information on transactions between the Company and other related parties is detailed below:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Liabilities – Current				
Accounts payable – QG S.A (a).	-	-	58	-
Accounts payable – QGOG (b)	-	-	325	1,049
Accounts payable – BS3S.A.	-	-	117	132
Accounts payable – QGEP (c)	113	660	-	-
Total	113	660	500	1,181

	Consolidated	
Income	01/01/11 to 12/31/11	09/02/10 to 12/31/10
General and administrative expenses	1,515	1,573
Financial expenses	1,177	-

(a) Refers to financial charges of loans from BNB/BNDES.

(b) Due to provide of administrative services rendered by QGOG to QGEP and Manati. The costs incurred were allocated between the companies based on the efforts required for each corporate activity, with a maturity of 35 days. In case of delay in settlement, interest of 1% will be charged.

(c) Refers to reimbursement of expenses incurred, basically with external consultants and others.

7.1. Management Compensation

Includes fixed remuneration (wages and salaries, vacation, 13th salary and pension), social contributions (contributions to Social Security - INSS, FGTS, and others), the variable remuneration and stock option plan of key personnel in the administration is presented as table below:

	Parent		Consolidated	
	01/01/11 to 12/31/11	09/02/10 to12/31/10	01/01/11 a 31/12/11	09/02/10 a 31/12/10
Short term benefits	1,690	44	5,356	2,551
Stock option plan	-	-	2,221	-

In addition to the compensation mentioned above, during the first quarter of 2011, the company recognized an amount of R$13,712 relating to bonus of the process of IPO for the Directors, as approved in the minutes of meeting of Board of Directors ("RCA"), at March 28, 2011.

7.2. Guarantees between related parties

The bank loans of financial institutions BNB and BNDES have corporate guarantee to the settlement thereof, as described in Note 14.

8. RESTRICTED CASH

	Consolidated	
	12/31/2011	12/31/2010
Abandonment fund (a)	11,379	4,049
Term investments -Accelerated depreciation BNB loans (b)	2,142	59,075
Term investments - Account reserve (c)	47,447	47,447
Total Restricted cash	60,968	110,571

(a) The abandonment fund is represented by investments held for the payment of the allowance for noncompliance of Manati Field (drop-out fund - see Note 16) and are fully applied in Banco Bradesco. The benchmark of the fund is 70% of the variation plus 30% of the CDI. The average fund profitability was equivalent to 11,71% for the year ended December 31, 2011.

(b) Financial applications for which they are transferred every month, funds from the purchase and sale of natural gas, assuming production of Manati field excess the estimated monthly amount produced, according to contract, and equal to 50% of this surplus production multiplied by the sales contract price within the month. When the balance of this account reaches an amount equal to the value of the provision of principal repayment, BNB may request additional payments in order to reduce the total number of parcels. Treasury Financing Bills (LFT), indexed to the rate of the Interbank Deposit Certificate (CDI), with a return of 99% per year, having a maturity of up to 48 months from December 31, 2011. On November 2011, BNB used the right to make additional payments in order to reduce 33 parcels of this financing in amount of R$60,036.

(c) Other financial assets of the subsidiary Manati composed of financial balances that are part of the package of securities transferred to BNB as a result of the funding for development of the Manati Field (reserve account). These resources are invested in fixed income operations, indexed to the Interbank Deposit Certificate (CDI), fully applied with the Bank of Northeast Brazil (BNB), which yields a rate of 99% of CDI, within 108 days from December 31, 2011.This short term investment will be renewed until the ended of this financing.

9. TAXES

9.1. Recoverable taxes:

	Consolidated	
	12/31/2011	12/31/2010
Prepaid income tax and social contribution	978	-
Income tax (WIT) on short-term investments (a)	19,514	781
State VAT (ICMS) on property, plant and equipment (b)	373	486
Others	-	107
Total	20,865	1,374
Current	20,698	1,156
Non current	167	218

(a) Credits refers to a semiannually charging system of income tax on the profitability of the investments funds, called “come cotas. The amount is calculated based on both lower tax rate of each fund type (percentage of 20% for short-term funds and 15% for long term funds).

(b) Credits claimed by Manati on the purchase of property, plant and equipment. These credits are offset on a monthly basis at the rate of 1/48t of the original principal per month.

9.2. Taxes payable

	Parent	Consolidated	
	12/31/2011	12/31/2011	12/31/2010
State VAT (a)	-	5,006	4,375
Income tax and social contribution	-	6,301	7,937
IRRF	28	343	-
Taxes on revenue (PIS/COFINS) (a)	-	9,395	6,981
Royalties (b)	-	2,453	2,501
Special participation(c)	-	865	775
Others	-	75	10
Total current	28	24,438	22,579

(a) Taxes on the sale of natural gas produced in the Manati field.

(b) The Company pays royalties to the ANP on gas produced in the Manati field, as described in Note 21.

(c) The special participation provided for the gas produced in the Manati field, as described in Note 21.

9.3. Reconciliation of income tax and social contribution expenses in income:

	Parent	
	01/01/11 to 12/31/11	09/02/10 to 12/31/10
Income before tax	92,137	35,595
Statutory rates	34%	34%
Income tax and social contribution expenses at statutory rates	(31,327)	(12,102)
Adjustment of taxes at effective rate:		
Shareholders' equity	32,398	12,124
Tax benefits not recognized	(1,071)	(22)
Deferred income tax and social contribution	-	-
Current income tax and social contribution	-	-

	Consolidated	
	01/01/11to 12/31/11	09/02/10 to 12/31/10
Income before tax	121,211	45,708
Statutory rates	34%	34%
Income tax and social contribution expenses at statutory rates	(41,212)	(15,541)
Adjustment of taxes at effective rate:		
Tax incentives (a)	24,035	15,738
Tax losses not recognized as tax credits (b)	(4,681)	(11,176)
Non deductible expenses/Other	(7,215)	866
Income tax and social contribution	(29,073)	(10,113)
Effective rate	23.99%	22.13%
Deferred income tax and social contribution	2,939	(710)
Current income tax and social contribution	(32,013)	(9,403)

(a) Tax incentive calculated on the operating profits of the Manati operations (see Note 2.15).
(b) Referes to 100% of the tax losses os the subsidiary QGEP and parent QGEPP.

9.4. Deferred income tax and social contribution

Deferred income tax and social contribution assets arise from expenses and temporarily non-deductible expenses/provisions recorded in profit or loss of the subsidiary Manati, which will be deducted from and/or added to income to calculate income tax and social contribution in future periods.

	Consolidated
Balance at December 31, 2010	
Temporary difference	2,861
Amortization of assets related to the abandonment provision	1,143
Exchange variation - abandonment provision	1,796
Balance at December 31, 2011	5,800

The Company estimates the realization of deferred tax assets, based on the realization of temporary differences as of 2027.

10. INVESTMENTS

10.1. Composition

The following, are presented the details of the Company's subsidiaries at year ended:

Participation	Name of subsidiary	Place of incorporation and operation	Participation capital and total voting detainees %
Direct	Queiroz Galvão Exploração e Produção S.A.	Brazil	100%
Indirect	Manati S.A.	Brazil	100%

10.2. Equity pick up bond on Investments

Data on investment and financial information for calculating the equity pick up on direct and indirect investments in subsidiaries are as follows:

	Direct subsidiary QGEP	Indirect subsidiary Manati
Number of ordinary shares	191,352,711	38,044,131
Direct shareholding	100%	100%
	R$	R$
Capital stock	2,042,553	253,481
Shareholders' equity	2,170,498	515,838
Net income	95,289	105,906

Changes in investments in direct subsidiary of QGEP presented in financial statements is as follows:

	R$
Balance at December 31, 2010	617,148
Payment of capital on February 11, 2011 (a)	1,271,000
Payment of capital on March 4, 2011 (b)	191,046
Stock option plan	3,731
Minimum mandatory dividends	(2,716)
Payment of Dividends (c)	(5,000)
Equity (d)	95,289
Balance at December 31, 2011	2,170,498

(a) The Extraordinary General Meeting ("EGM") held on February 11, 2011 approved the capital increase of subsidiary QGEP in the amount of R$1,271,000 from the current R$580,506 to R$1,851,506 through the issuance of 116,228,375 ordinary shares.

(b) The Extraordinary General Meeting ("EGM") held on March 4, 2011 approved the capital increase of subsidiary QGEP R$191,046 totaling the current from R$1,851,506 to R$2,042,553 through the issuance of 17,470,595 shares.

(c) The Extraordinary General Meeting ("EGM") held on August 4, 2011 approved the dividends distribution and payment to shareholders of QGEP in amount of R$5,000

(d) .The result obtained by the subsidiary for the year ended December 31, 2011.

10.3. Information about subsidiaries

- Queiroz Galvão Exploração e Produção S.A.

  Queiroz Galvão Exploração e Produção S.A. (“QGEP”) was incorporated on October 16, 2009 under the name Chania Participações S.A., subsequently changed to Queiroz Galvão Exploração e Produção S.A. on May 14, 2010, and was dormant until July 2, 2010 when QGOG subscribed to the capital of QGEP with the above net assets of its E&P segment. With this, QGEP became a fully owned subsidiary of QGOG.

  The principal objectives of QGEP are exploration for oil and gas, production and trade of oil, natural gas and their derivatives, and investment in other entities substantially focused on related activities, Such investments may be as partner, shareholder or through other forms of association with or without separate legal identity.

- Manati S.A.

  Manati S.A. is a privately held company, which has an unlimited duration. It was founded on October 13, 2004, in Salvador, Bahia. Its objective is to invest in the Manati Field located in the Camamu/Almada Basin and, sale of hydrocarbons resulting from the operation of that field, as well as the development of other related activities. All production of gas is sold to Petrobras.

11. PROPERTY, PLANT AND EQUIPMENT

	Depreciation and amortization rate %	Consolidated 12/31/2011 Cost	Depreciation and amortization	Net	12/31/2010 Net
Corporative segment					
Furniture and fixtures	10%	646	(53)	593	171
Vehicles	20%	583	(51)	532	-
Improvement in third parties properties	20%	1,344	(203)	1,141	979
Computers – Hardware	20%	960	(80)	880	-
Subtotal		3,533	(387)	3,146	1,150
Upstream segment					
Expenditure on exploration of natural resources in progress (i)	-	327,917	-	327,917	131,820
Expenditure on exploration of natural resources (ii)	(iii)	16,844	(10,491)	6,353	7,473
Expenditures on development of production oil and gas in progress	-	1,362	-	1,362	405
Expenditure on the development of oil and gas Production	(iii)	802,178	(271,531)	530,647	572.809
Subtotal		1,148,301	(282,022)	866,279	712,507
Total		1,151,834	(282,409)	869,425	713,657

(i) Expenditure on exploration in progress is not amortized until the completion of the exploration process.

(ii) Refers to discovery and boundary wells of the Manati field, which is already on operation.

(iii) The proved reserves used to calculate amortization (in proportion to monthly production volume) are estimated by external geologists and petroleum engineers in accordance with international standards, These estimates are revised annually or when there is evidence of significant change, see Note 21(b), The effects of any such changes in reserves on depreciation or amortization are recorded prospectively and do not affect charges in previous periods.

Cost	Consolidated Corporate spending on fixed assets	Expenditure on exploration of natural resources - in progress	Expenditure on exploration of natural resources	Expenditures on development of oil and gas in progress	Expenditures on development of oil and gas	Total
(+) Additions through shareholders' equity subscription	-	120,702	16,844	405	788,315	926,266
(+) Additions for the period (a)	1,150	11,118	-	-	4,010	16,278
Balance at 12/31/2010	1,150	131,820	16,844	405	792,325	942,544
(+) Additions of the period (	2,383	208,512	-	957	9,853	221,705
(-) Write-off period	-	(12,415)	-	-	-	(12,415)
Balance at 12/31/2011	3,533	327,917	16,844	1,362	802,178	1,151,834

(a) Additions refers to BM-J-2 in amount of R$112,205,that includes expenses with drilling services, logistics and material.
(b) Write –off related to BM-S-76 block, due to decision to return to ANP, as note 12.

Depreciation and Amortization	Corporate asset depreciation	Expenditure on exploration amortization	Expenditures on development amortization	Total
(+) Additions through shareholders' equity subscription	-	(8,761)	(190,279)	(199,040)
(+) Additions for the period	-	(610)	(29,237)	(29,847)
Balance at 12/31/2010	-	(9,371)	(219,516)	(228,887)
(+) Additions of the period	(387)	(1,120)	(52,015)	(53,522)
Balance at 12/31/2011	(387)	(10,491)	(271,531)	(282,409)

12. INTANGIBLE

	Consolidated			
	Cost	Amortization	12/31/2011	12/31/2010
Acquisition of exploration concession (i)	529,399	-	529,399	-
Signing bonus (ii)	4,364	-	4,364	5,836
Others	1,527	(85)	1,442	-
Total	535,290	(85)	535,205	5,836

(i) On June 01, 2011, the subsidiary QGEP signed with Shell Brasil Petróleo Ltda. ("Shell") a purchase and sale agreement regarding the right to participate in the block BM-S-8, located in the offshore Santos Basin in the total amount of US$ 175,000 (one hundred seventy-five million dollars). The transfer of rights of participation of Shell to QGEP was approved by ANP in December 2011. The consortium formed by Petrobras (operator), QGEP, Petrogal and Barra Energia. The payment of 10% of the value (US$ 17,500) for the acquisition was held on June 15, 2011 and the other 90% (US$ 157,000) of the acquisition were paid on July 15, 2011.

On August 16, 2011, the subsidiary QGEP signed with Shell Brasil Petróleo Ltda. ("Shell") a purchase and sale agreement regarding the right to participate in the fields Atlanta and Oliva (BS-4), located in the offshore Santos Basin in the total amount of US$ 157,500 (one hundred fifty-seven million and five hundred thousand dollars). The consortium formed by Petrobras, Chevron and Shell (operator). On February 16, 2012, ANP approved the transfer of 30% of concession rights, as the operation of Atlanta and Oliva fields (BS-4) to QGEP. The payment of 10% of the value (US$ 15,750) for the acquisition was held on August 18, 2011 and the other 90% (US$ 141,750) of the acquisition were paid on March 2, 2012 as note 29.

(ii) On December 31, 2011, the signing bonus in the amount of R$4,364, corresponds to expenditures for the acquisition of exploration rights from ANP which are not being amortized yet, as it refers to the concession areas in exploratory phase. The composition of this balance is available for consultation in Note 21.

	Consolidated			
Cost	Acquisition of exploration concession	Signing bonus	Software	Total
(+)Additions through shareholders' equity	-	25,573	-	25,573
(-)Write-off period	-	(19,737)	-	(19,737)
Balance at 12/31/2010	-	5,836	-	5,836
(+)Additions for the period (i)/(ii)	529,399	-	1,527	530,926
(-)Write-off period (iii)	-	(1,472)	-	(1,472)
Balance at 12/31/2011	529,399	4,364	1,527	535,290

(iii) In March and June 2011, the consortium decided to return the adjacent blocks BM-S-75/BM-S-77 and BM-S-76 to the ANP respectively.As a result, the Company incurred with the commitments to the guaranteed Minimum Exploration Program ("PEM") of block BM-S-77 in the amount of R$10,555 that was accrued in December 2010 as "Provision for guarantees: Return of blocks" and liquidated in May 2011 when exercised by the ANP. In addition, the Company lowered the balances relating to the signing bonus of blocks BM-S 75/BM-S 77 (totaling R$19,737 in December 2010) and BM-S-76 (in the amount of R$1,472 in May 2011).

13. TRADE ACCOUNTS PAYABLE

At December 31, 2011, the balance consolidated of R$265,895 refers mainly to payables due to Shell, related to the acquisition of the participation in Atlanta and Oliva fields (BS-4) as described in Note 12. The payment of 10% of the value (US$ 15,750) for the acquisition was held on August 18, 2011 and the other 90% (US$ 141,750) of the acquisition were paid on March 2, 2012 (Note 29).The impact of exchange differences is recorded in profit and loss of the year.

14. BORROWINGS AND FINANCING

Borrowings and financing are intended primarily to finance exploration and evaluation projects and/or development of oil and natural gas reserves, and capital expenditures normally incurred for drilling and other services related to the Company's operations.

	Consolidated					
	12/31/2011	12/31/2010	Charges	Guarantee	Payment method	Maturity
Foreign currency						
US$						
IFC – A	-	7,028	Libor + 1.75% p.a.	Deposit	semiannual	Nov/11 (*)
IFC – C	-	16,829	10.29% p.a.- 11.48% p.a.	Deposit	semiannual	Nov/11(*)
Total in non-Brazilian currency	-	23,857				
Brazilian currency						
BNDES	52,474	96,202	TJLP +3.5% p.a.	Deposit, pledge shares Manati	Monthly	Dec/13
BNB	51,083	144,963	10% p.a.(b)	Deposit, pledge shares Manati	Monthly	Dec/13
Total in Brazilian currency	103,557	241,165				
Current	51,992	76,330				
Non current	51,565	188,692				
Total consolidated:	103,557	265,022				

BNDES - National Bank for Economic and Social Development
TJLP - Long-term interest rate
URTJLP - Reference Unit of long term Interest
BNB - Banco do Nordeste
IFC - International Finance Corporation

(*) On May 16, 2011, the contract with IFC was fully settled.

Description	Sept-11
TJLP annual	6.00%

(a) Promissory Note with Guarantee of Queiroz Galvão S.A. (QGS.A.) without payment of financial charges.
(b) As set out in the loan agreement, a performance bonus of 15% is applied on the actual rate provided that the installments are paid on the contractual due dates.
(c) Loan agreements between the indirect subsidiary Manati S.A. and the banks BNB and BNDES foresees as warranty, (i) a guarantee provided by QGS.A. until the signature of the accessory contracts (ii) pledge in the first degree of the credit rights of Manati S.A. emerging from all the contracts related to the project, contracts for the sale of natural gas and condensate and other hydrocarbons owned by Manati S.A and produced in the Manati field and (iii)a pledge of shares.

Changes in borrowings

Balance on 12/31/2010	265,022
(-) Repayment of principal (a)	(159,836)
(+) Interest charged	20,250
(-) Payment of interest (a)	(19,059)
(-) Term compliance bonus	(1,924)
(+/-)Exchange differences	(896)
Closing balance on 12/31/2011	103,557

(a) Settlement of loans from financial institutions was as below:

Bank	Principal	Interest
IFC – A	6,679	74
IFC – C	16,030	882
BNDES	43,552	6,678
BNB (*)	93,575	11,425
	159,836	19,059

(*) On November 2011, BNB used the right to make additional payments in order to reduce 33 parcels of this financing in amount of R$60,036.

Maturities of long-term borrowings and financing are as follows:

Maturities	Dec-11
2012	51,992
2013	51,565

The loan agreements contain restrictive clauses (covenants) which refer basically to maintain certain liquidity levels, which are current ratio, debt ratio and debt service coverage. The covenants are required to be calculated annually.

The non-financial covenants related to the loan agreements with the Manati, BNB and BNDES basically correspond to the distribution of dividends above 25%, which should be authorized by the financing banks of Manati. Historically all the requests made were addressed in order to release the excess cash generated from Manati to QGEP.

On December 31, 2011, the Company and its subsidiaries are in compliance with all clauses in those contracts.

The financing agreement with the International Finance Corporation (IFC) was originally concluded between this institution and QGOG. In May 2010, a term of consent (waiver) was concluded through which the IFC agreed, subject to certain conditions, that the obligations under that loan contract be transferred to QGEP.

On April 15, 2011 the Company requested IFC to consent the anticipation of the last share of financing maturing on November 15, 2011 in the amount US$ 7,083 to May 16, 2011, Therefore, on this date the contract was entirely settled.

15. PROVISION FOR LAWSUITS

Management, based on the opinion of its external legal counsel, has concluded that there are no lawsuits for which the likelihood of an unfavorable outcome for the Company is probable; therefore no provision for loss on such risks has been recognized in these financial statements.

The lawsuits that have been identified where the likelihood of an unfavorable outcome is considered possible, based on the opinion of external legal counsel, are as follows:

(a) Environmental contingency related to siltation of the Rio Castro and breach of conditions of the License of Operation of the pipeline Precarious Manati. The value assigned to the original action was R$300 and Manati S.A. may be responsible for 45% of any contingency, in proportion to its share in each concession agreement and may involve the repair of damage and environmental responsibility.

(b) Environmental contingency related to erosion and silting of streams in the installation of the pipeline between Guaibin and San Francisco do Conde - breach of conditions. Resulting from Assessment Letter, issued at November 22,2006, at Instituto do Meio Ambiente (IMA). The value assigned is R$364 and Manati S.A. may be responsible for 45% of any contingency, in proportion to its share in each concession agreement and may involve the repair of damage and environmental responsibility.

Through an agreement made on October 28, 2010, the Company has agreed to indemnify QGOG for any claims related to E&P activities that may be imputed to that Company. In compensation, on January 18, 2011, the Company signed a contract with Constellation and QGOG Overseas, Ltd. ("Constellation"), whereby those companies were required to compensate for losses accruing in respect of all existing liabilities and contingent risk not related to E&P that will be allocated to the Company. Based on the opinion of outside legal counsel of QGOG and Constellation, the Company concluded that there are no probable cases of loss, hence no provision was recorded in the period presented in the financial statements.

16. PROVISION FOR ABANDONMENT

The estimated costs for abandonment of the Manati field were defined in 2011 by the block’s operator (Petrobras), as approved by the consortium Operations Committee’s Meeting of November 11, 2011.

At subsidiary Manati, the impact of exchange differences arising from the non-Brazilian currency-denominated provision for abandonment (US$) are accounted for directly in net income for the year.

Changes in the provision for abandonment

	Consolidated
Balance on 12/31/2010	95,085
Exchange differences	11,962
Balance on 12/31/2011	107,047

17. NET REVENUE

	Consolidated	
	01/01/11 a 12/31/11	09/02/10 a 31/12/10
Gross operating revenue	372,020	183,983
Tax on revenue (PIS)	(6,019)	(2,963)
Tax on revenue (COFINS)	(27,723)	(13,646)
State VAT (ICMS)	(42,026)	(20,709)
Discounts – contractual reduction	(7,245)	(4,423)
Total deductions	(83,013)	(41,741)
Net revenue	289,007	142,242

18. OPERATING COSTS AND GENERAL AND ADMINISTRATIVE EXPENDITURE

18.1 Cost

	Consolidated	
	01/01/11 a 12/31/11	09/02/10 a 31/12/10
Extraction costs (*)	(47,983)	(7,087)
Royalties and special participation	(24,711)	(15,225)
Research and Development	(2,973)	(4,999)
Amortization and depreciation	(53,055)	(29,847)
Total	(128,722)	(57,158)

(*) In September 2010, the Company had recovery from the operator of Manati field expenses incurred in amount of R$4,348 from the billings of the period related to activities incurred.

18.2 General and Administrative Expenditure

	Parent	
	01/01/11 a 12/31/11	09/02/10 a 31/12/10
Payroll	(1,751)	(44)
Services from third parties	(485)	(29)
Insurance	(865)	-
Taxes and fees	(136)	-
Other expenses	(328)	-
Total	(3,565)	(73)

	Consolidated	
	01/01/11 a 12/31/11	09/02/10 a 31/12/10
Payroll (a)	(44,042)	(5,018)
Services from third parties	(4,614)	(1,603)
Insurance	(958)	-
Taxes and fees	(5,897)	(12)
Shared services	(1,834)	(1,573)
Sponsor	(687)	(1,221)
Other expenses	(6,064)	(686)
Total	(64,096)	(10,113)

(a) The amount in December 31, 2011, includes the amount of R$23,070 related to the payments to directors, managers, officers and employees (including directors, managers, officers and employees of the subsidiary QGEP) for an incentive compensation tied to the completion of the IPO. This incentive compensation was the total value of 1,523% of the primary offering, as approved on the Minutes of Meeting of Board of Directors ("MBD") of March 28, 2011.

19. OIL AND GAS EXPLORATION EXPENDITURES

The oil and gas exploration expenditure is related to the purchase, processing and interpretation of seismic data, drilling campaign planning, licensing and environmental impact studies, costs of dry wells or costs related to commercially unviable reserves, and similar costs. From the balance of R$52,071 on December 31, 2011, R$13,213 is related to exploration expenses of the well 1-SP-80 located in block BM-S-76, which did not show potentially producing areas, as already reported to the market and R$29,584 refers seismic of new acquisitions.

20. FINANCIAL INCOME, NET

	Parent	
	01/01/11 a 12/31/11	09/02/10 a 31/12/10
Interest on short-term investments	423	9
Financial expenses	(10)	-
Total	413	9

	Consolidated	
	01/01/11 a 12/31/11	09/02/10 a 31/12/10
Interest on short-term investments and other financial income	153,276	10,370
Interest on borrowings and financing and other financial income (*) and financial expenses	(20,421)	(12,919)
Gains or losses on non-Brazilian currency balances, net (**)	(48,501)	12,330
Total	84,354	9,781

(*) Refers to compliance bonus as set out in the loan and financing agreements.

(**) Changes in exchange rates on non-Brazilian currency-denominated borrowings and financing, on the provision for abandonment for the period and the payables to Shell regarding the purchase of BM-S 8 block and Atlanta and Olivas Fields (BS-4).

21. ADDITIONAL INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION (NOT AUDITED BY INDEPENDENT AUDITORS)

a) Rights and obligations with the ANP

The Company owns concessions for exploration and production of oil and natural gas in the following blocks:

Stage	Basin	Block/field	Equity interest	%
Abandoned	Santos	Coral	Petrobras (operator) Queiroz Galvão Exploração e Produção Panoro Energy Brasoil	35 15 35 15
Development and production	Camamu	Manati Camarão Norte	Petrobras (operator) Manati Panoro Energy Brasoil	35 45 10 10
	Santos	Atlanta and Oliva (BS-4)	Petrobras Barra Energia Queiroz Galvão Exploração e Produção (operator)	40 30 30
Exploration	Camamu	BM-CAL-5 Copaiba e Jequitiba	Petrobras (operator) Queiroz Galvão Exploração e Produção	72.5 27.5
	Camamu	CAL-M-312 CAL-M-372	Petrobras (operator) Queiroz Galvão Exploração e Produção El Paso	60 20 20
	Santos	BM-S-12	Petrobras (operator) Queiroz Galvão Exploração e Produção	70 30
	Santos	BM-S-8	Petrobras (operator) Petrogral Barra Energia Queiroz Galvão Exploração e Produção	66 14 10 10
	Jequitinhonha	BM-J-2	Queiroz Galvão Exploração e Produção (operator)	100

As shown above, Petrobras is the operator of almost all of the Company's blocks. Under the terms of the concession agreements, if a natural reserve that can be commercially explored is discovered, the Company has the right to explore, develop and produce oil and natural gas during a 27-year period in the fields that are delineated within the boundaries of these blocks as from the date the production license is awarded (declaration of commercial viability). There are no price restrictions for the sale of products derived from these areas.

The table below shows the commitments assumed under the Company's current portfolio of interests in oil and natural gas exploration and production projects:

Block/field	PEM guarantee (QGEP %) MM R$	Year of contract	Signatures bonds	Área km^2	Royalties	Area retention rate per km^2 (Amounts in Brazilian *reais*) Exploration	Development	Production
Manati	NA	2000	-	75.650	7.5%	100.00	200.00	1,000.00
Camarão Norte	NA	2000	-	16.470	7.5%	100.00	200.00	1,000.00
Coral	NA	2000	-	43.915	8.5%	200.00	400.00	2,000.00
BM-S-12	-	2001	1,596	2,058.720	10%	435.52	871.04	4,355.20
BM-CAL-5	-	2001	1,146	341.700	10%	152.43	304.86	1,524.30
BM-J-2	14	2002	855	742.051	10%	174.43	348.86	1,744.30
CAL-M-312	-	2004	205	745.851	10%	239.00	478.00	2,390.00
CAL-M-372	7.2	2004	562	745.031	10%	239.00	478.00	2,390.00
BM-S-8	-	2000	-	2.432,2	10%	396.02	792.04	3,960.20
BS-4	-	2000	-	199,6	7.8%	200.00	400.00	2,000.00
Subtotal	21.2		4,364					

As at December 31, 2011, QGEP has undertaken to perform the Minimum Exploration Program ("PEM"), which comprises the drilling of two (2) exploration wells, as well as the special seismic reprocessing and processing. If this minimum exploratory program is not met, the ANP will perform the stipulated warranty. These commitments are being met within the exploration period of each concession.

The subsidiary Manati S.A. holds 45% of the Manati field, which started production in January 2007, and has decommissioning obligations. As at December 31, 2011, the provision for abandonment is R$107,047, see Note 16.

The following payments of Government profit participation and third-party royalties are covered by Manati's agreement with the ANP:

- Royalties - equivalent to 7.5% (Manati field) of the higher of the benchmark price or the sales revenue, payable from the start of production of the concession area. During the year ended December 31, 2011 were charged R$22,698 royalty on the production of the Manati field in theyear, of which R$2,453 remains accrued on that date. These charges are recorded in the income statement as operating costs.
- Special Participation - The special participation provided for by Article 45, III, of Law 9478/97 sets out financial compensation due by oil and natural gas production concessionaires in the case of a large production volume or high profitability, as defined in the regulating Decree. This is paid for each field in a given concessionarea as from the quarter in which such field starts production. During the year ended December 31, 2011 were accrued R$2,014 special participation of which R$865 remains on accounts payable.
- Payment for concession area occupation and retention - During the exploration, development and production stage the company incurred retention payments of R$113 recorded in the statement of comprehensive income as Operating Costs.

b) Information on reserves (Not audited by independents auditors)

The net proved gas reserves of Manati were prepared in accordance with the criteria set out by the FASB Accounting Standards Codification (ASC) 932 *Extractive Industries - Oil and Gas*

These reserves are the estimated quantities of gas that, based on geological analysis and engineering information, can be estimated with reasonable certainty under defined economic conditions, established methods of operation and prevailing regulatory conditions.

The estimate of reserves is subject to uncertainties, and therefore changes in such estimates may occur as knowledge is increased based on new information collected.

The estimated gas reserve is as follows:

	Total field reserve MMm^3 (Unaudited)
Estimated proved reserve at December 31, 2011 (a)	14,287

(a) Based on estimates of the Company's petroleum engineers.

The proved reserve was estimated based on the certified reserve in 2010, less annual production.

c) Guarantees

The Company has a policy of granting guarantees to the subsidiaries for some financial transactions. Currently the Company is committed to pay 100% of the subsidiary's obligations QGEP with Shell for the acquisition of Atlanta and Oliva fields (BS-4). The guarantees offered by the Company are made based on contractual clauses that support financial transactions between the subsidiaries and third parties, ensuring the purchase of debt in the event of default by the subsidiaries.

22. FINANCIAL INSTRUMENTS

a) General Considerations

The Company's financial instruments include cash and cash equivalents, short-term investments, restricted cash, trade accounts receivable, suppliers, trade accounts payable, borrowings and financing and related parties.

The Company has no options, swaptions, swaps with non-exercise option, flexible options, derivatives embedded in other products, structured transactions with derivatives or exotic derivatives. The Company does not conduct derivative transactions for speculative purposes reaffirming its commitment to conservative financial management policy, in relation to its financial liability, or cash and cash equivalents position.

b) Categories of financial instruments

	12/31/2011			
	Parent		Consolidated	
	Registered value	Fair value	Registered value	Fair value
Financial assets				
Held to maturiry:				
Restricted cash (i)	-	-	60,968	60,968
Borrowings ans receivables:				
Cash and bank deposits(i)	2,705	2,705	107,311	107,311
Trade account receivables (ii)	-	-	76,140	76,140
Fair value through income:				
Cash equivalent (i)				
Short-term investments	-	-	914,640	914,640
Derivative financial instrument	-	-	130,479	130,479
	-	-	1,088	1,088
Financial liabilities				
Other financial liabilities:				
Borrowings and financing	-	-	103,557	91,555
Suppliers	83	83	26,652	26,652
Related Parties	113	113	500	500
Accounts payable	-	-	265,895	265,895
Derivative financial instrument (i)	-	-	780	780

The fair values of financial instruments estimated by management were determined as follows nível 2:

(i) The fair value measurements are obtained by observable variables for assets and liabilities, directly (that is, as price) or indirectly (coming from prices).

(ii) Additionally, the values related to the balances of receivables and payables also have no significant differences to their fair values due to the turnover of receivables / payables in of these balances being less than 60 days.

c) Liquidity Risk

The Company manages liquidity risk by maintaining adequate reserves, and approved credit lines for funding of loans as it considers appropriate, through the continuous monitoring of expected and actual cash flows, and through the alignment of the maturity profiles of financial assets and liabilities. The following table shows in detail the maturity of contracts for financial liabilities:

	Less than 1 year	Between 1 to 2 years	Total
Suppliers	26,652	-	26,652
Trade accounts payables	265,895	-	265,895
Related Parties	500	-	500
Borrowings and financing	51,992	51,565	103,557
Total	345,039	51,565	396,604

d) Credit risk

Credit risk is minimized because the Company's sales are made primarily to Petrobras. Regarding the concentration of business, Management believes that, although most of transactions being with only one customer, Petrobras, the credit risk is insignificant, considering that Petrobras is assessed by rating agencies as Investment Grade, is controlled by the Federal Government and does not have a history of default or delays.

e) Interest rate risk

The Company uses funds generated by operating activities to manage its operations and to ensure their investment and growth. Financial investments are tied to interest post fixed – rates. To supplement its cash needs for investment, the Company obtains financing from loans and to certain financial institutions at interest rates substantially in the market. The loans are obtained with interest rates fixed-rate and variable rate (Libor and TJLP - Long Term Interest).

Sensitivity analysis for interest rates

Operation	Risk	Probable scenario	Scenario I - 25% stress	Scenario II - 50% stress
Effective rate on December 31, 2011		10.87%		
Cash equivalents	Decrease CDI	914,640	914,640	914,640
Short-term investments	Decrease CDI	130,479	130,479	130,479
Estimated annual rate of CDI		9.69%	7.27%	4.85%
Annual effect on investments:				
Reduction		(10,496)	(32,376)	(54,718)

Operation	Risk	Probable scenario	Scenario I - 25% stress	Scenario II - 50% stress
Effective rate on December 31, 2011		10.87%		
Restricted cash				
Provision for abandonment	Decrease CDI	11,379	11,379	11,379
BNB	Decrease CDI	2,142	2,142	2,142
Account reserve	Decrease CDI	47,447	47,447	47,447
Estimated annual rate of CDI		9.69%	7.27%	4.85%
Annual effect on restricted cash				
Reduction		(315)	(971)	(1,640)

Operation	Risk	Probable scenario	Scenario I - 25% stress	Scenario II - 50% stress
Effective rate on December 31, 2011		6%		
Borrowings:				
BNDES A	Increase TJLP	24,463	24,463	24,463
BNDES B	Increase TJLP	28,011	28,011	28,011
BNB 001	Increase TJLP	43,848	43,848	43,848
BNB 002	Increase TJLP	7,235	7,235	7,235
Estimated annual rate of TJLP		6.00%	7.50%	9.00%
Annual effect on borrowings				
Increase		-	571	1,136

f) Non-Brazilian exchange rate risk

These risks are derived principally from the effect of exchange rates increase on the provision for abandonment and accounts payable which are denominated in U.S. Dollars.

In order to reduce exposure from fluctuations of the dollar, Management opted to protect part of the value in R$, indexed in dollar, using derivative instruments with the purpose of hedging, as detailed below. This presentation refers to the second share in the acquisition of 30% of Atlanta and Oliva fields (BS-4) were paid in March 2, 2012.

The instruments signed for part of the second installment of the acquisition were Non Deliverable Forwards (*NDFs*)in the notional amount of US$70,000 which the terms and provisions are the following:

Trade date	09/21/11 a 10/11/11
Valid thru:	03/19/12
Notional Amount:	USD 70,000
Echange rate:	R$/USD 1.8135 a R$/USD 1.9123

Financial Instruments	Valid thru	Rate	2011 Notional value R$	2011 Fair value R$
NDFs	March 19, 2012	USD	130,071	308 (a)

(a) The fair value was recorded in Others Assets (Current Assets) and the Revenue recorded in the P/L of the year.

Sensitivity analysis for non-Brazilian exchange rate exposure

The table below shows potential changes in income or expenses on balances, without reference to market values.

Operation	Risk	Probable scenario	Scenario I - 25% stress	Scenario II - 50% stress
Average contractual rate (R$ / US$)		1.89		
NDF notional (US$ thousands)	Decrease US$	70,000	70,000	70,000
Rate R$ / US$		1.89 (*)	1.42	0.95
Effect on exchange rates				
Reduction		-	(33,075)	(66,150)
Increase		-	-	-

(*) Based on US dollar futures contracts – BMF December 29, 2011

			Consolidated		
			2011		
	Amounting in USD	Amouting thousands R$	Risk	Scenario Possible (25%)	Scenario Remote (50%)
US dollar				2.3448	2.8137
Transaction					
Accounts payable - Shell	141,750	265,895	Increase US$	265,895	265,895
Provision for abandonment	57,067	107,047	Increase US$	107,047	107,047
Liabilities expressed in Reais at the respectiveexchange rates	198,817	372,942		372,942	372,942
Effect on results of each hypothetical increment in appreciation of the US$ against the Real	N/A	N/A		93,234	186,469

23. SHAREHOLDERS' EQUITY

i. Capital stock

At the Extraordinary General Meeting ("EGM") of 17 January 2011 it was decided to split each share into three (3) common shares and therefore the number of issued shares stood at 186,065,886 as of that date.

A meeting of the Board of Directors ("MBD") held on 7 February 2011 approved the capital increase of R$1,317,460 from the current R$620,417 to R$1,937,877 through the issuance of 69,340,017 shares, all ordinary nominative, with no par value which were subject to public offering held in Brazil on this date in the OTC market which is not organized, according to CVM Instruction 400 of December 29, 2003.

In “MBD” held on March 2, 2011were approved the capital increase of R$197,619 from the current R$1,937,877 to R$2,135,496 by issuing 10,401,002 common shares, all nominative without nominal value, were publicly distributed under the same conditions and at the same price of the shares initially offered, due to the exercise of an option to distribute additional shares by BTG Pactual in accordance with the provisions of the Distribution Agreement and Final Prospectus for Public Offering Primary Distribution of Common Shares of QGEP Participações S.A. ("Final Prospectus").

The capital stock of the Company on December 31, 2011 is R$2,078,116, divided into 265,806,905 common shares without nominal value, net amount of R$57.380 of share issue costs. The composition of the share capital on December 31, 2011 is as follows:

Shareholder	Nº ordinary shares	% of shareholding	Capital
Queiroz Galvão S.A.	167,459,291	62.9	1,307,135
FIP Quantum	18,606,588	7.0	145,468
Management	7	0.1	2,078
Outstanding shares	79,741,019	30.0	623,435
Total	265,806,905	100	2,078,116

ii. Net income per share

The basic earnings per share is computed by dividing net income by the weighted average of all classes of shares outstanding during the year. The calculation of diluted earnings per share is computed including options to purchase shares of executives and key employees using the treasury stock method when the effect is dilutive.

The instruments of participation that will or may be settled in shares of the Company are included in the calculation only when the liquidation has a dilution impact on earnings per share.

Basic and diluted earnings per share	Period from 01/01/11 to 12/31/11	Period from 09/02/11 to 12/31/11
Numerator		
Net income of the period	92,137	35,595
Denominator (in thousands of share)		
Weighted average number of common shares	256,849,695	60,143
Basic and diluted earnings per common share (whole reais)	0.36	0.59

Basic earnings and diluted earnings per common share is the same as in December 31, 2011 stock options are "out of money", and therefore do not impact the calculation of diluted earnings per share.

iii. Stock options

The Board of Directors, within their functions and in accordance to the Stock option approved the granting of preferred stock options to managements and executives of the Company. Grants for 2011, the options become exercisable 20% from the first year, an additional 30% from the second and remaining 50% from the third year. The options under this Plan of 2011 may be exercised within 7 years after the grant date.

The fair value of the purchase options was estimated at concession date of options using the binomial model for pricing in the amount of R$9.87.

The meetings of the Board of Directors and the assumptions used in pricing model are as follows:

	Stock options 2011
Date of board of directors meeting	29/04/2011
Total of options granted	1,097,439
Exercise price of the option	R$19.00
Fair value of the option at grant date	R$9.87
Estimated votality of the stock price	59.24%
Expected dividend	2.35%
Rate of return risk-free	6.36%
Length of the options (in years)	7

The movement of stock options existing on December 31, 2011 is presented below:

	Stock option	Price weighted average exercise
Option outstanding at December 31, 2010	-	-
Granted	1,097,439	19.00
Options outstanding at December 31,2011	1,097,439	19.00
Number of options exercisable at December 31, 2011	-	-

The range of exercise prices and average maturity of outstanding options, as well as the ranges of exercise prices for options exercisable at December 31, 2011 are summarized below:

Options outstanding				Option exercisable	
Range of exercise price	Options outstanding at December/2011	Average remaining maturity in years	Average exercise price	Options outstanding at Dec/2011	Average exercise price
19.00	1,097,439	7	19.00	-	-

For the year ended December 31, 2011, the Company recorded in shareholders' equity a result with stock-based compensation in the amount of $ 3,731, being the counterpart in the income statement as personnel cost.

iv. Transaction costs

As set forth in the Standard CPC 08 - Transaction Costs and Premiums on Issuance of Securities, the Company recorded as a reduction of the share capital amounts paid related to the opening of capital of R$57,380.

v. Appropriation of profit for the year:

The Management of the Company is proposing to the General Shareholders' Meeting to appropriate the amount of net income for the year ended December 31, 2011, as follows:

	2011
Net income for the year	92,137
Legal reserve (5%)	(4,607)
Minimum mandatory dividends	(1)
Investment reserve	87,529

The Company's bylaws provide for the payment of minimum dividend of 0.001% calculated on the adjusted net income in the form of the Corporations Law.

vi. Investment reserves

Based on the profits remaining after allocations to legal reserves and mandatory dividends, that will be submitted for approval at a shareholder's meeting.

24. INSURANCE

The major assets or interests covered by insurance and respective amounts are summarized as follows:

Insurance type	Maturity	Insured amounts Dec-11
Civil liability general	01/21/2012	835,669
Civil liability for directors and managements	01/16/2012	100,000
Petroleum and operating risks	01/21/2012	280,800
Total		1,216,469

The insurances were renewed in 2012, and de maturity of new policies to January 21, 2013, as described in Note 29.

25. RETIREMENT PLAN BENEFITS

The direct subsidiary QGEP, has a voluntary private pension plan to which all employees and directors are eligible. This is a defined contribution plan, with contributions of up to 12% of the monthly salary by the employee, and a counterpart of up to 6.5% by QGEP, according to the level of the employee in the hierarchy. The plan is managed by the Bradesco Life and Pension with two types of regime, progressive and regressive. When employees leave the plan before the end of the minimum contribution period, the contributions payable are reduced to the amount already paid by the Company. The only obligation of the Company in relation to the retirement plan is to make the specified contributions.

The total expenditure of R$196, recognized in the consolidated income statement, refers to contributions to be paid as rates specified by the rules of these plans.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized by the Board of Directors on March 12, 2012.

27. ADDITIONAL INFORMATION ON CASH FLOWS

The non cash items flows of the Company are as follows:

	12/31/2011	12/31/2010
Addition to intangible assets	225,636	-
Addition to fixed assets	801	
Stock options	3,731	-
Accounts receivable	-	82,434
exploration expenditure	-	752,798
Other assets	-	5,102
Suppliers	-	16,680
Taxes payable	-	25,891
Borrowings and financing	-	393,630
provision for abandonment	-	100,210
Other liabilities	-	16,785

28. SEASONALITY

There is no seasonality impact over the Company´s activity of exploration and production.

29. SUBSEQUENT EVENTS

On January 2012, the major assets or interests covered by insurance were renewed. The amounts and maturity are summarized as follows:

Insurance type	Maturity	Insured amounts Dec-11
Civil liability general	01/21/2013	3,106,722
Civil liability for directors and managements	01/16/2013	100,000
Petroleum and operating risks	01/21/2013	280,800
Total		3,487,522

On February 8, 2012, ANP approved the transfer of 15% of concession rights of Coral Field to QGEP. The consortium formed by Petrobras (35%), Panoro Energy (35%) and Brasoil (15%). On February 16, 2012, ANP approved the transfer of 30% of concession rights, as the operation of Atlanta and Oliva fields (BS-4) block to Queiroz Galvão Exploração e Produção S.A. ("QGEP").The consortium members are Petrobras (40%) and Barra Energia (30%).

As described in note 12, on August 16, 2011, QGEP signed with Shell Brasil Petróleo Ltda. (“Shell”) a purchase and sale agreement regarding the right to participate in the Atlanta and Oliva fields (BS-4), located in the offshore Santos Basin in the total amount of US$ 157,500 (one hundred fifty-seven million and five hundred thousand dollars). The consortium formed by Petrobras, Chevron and Shell (operator).On March 2, 2012, QGEP made the complementary payment of 90% of the acquisition in amount of R$243,130 (US$141,750). The derivative instruments (NDFs) was settled on the same date, considering that the objective was to reduce exposure fluctuations in the dollar.