



Operator:

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to QGEP's Update on Asset Portfolio conference call. Today with us, we have Mr. Lincoln Rumenos Guardado, CEO and Exploration Officer, Mr. Danilo Oliveira, Production Director, and Mrs. Paula Costa, CFO and IRO.

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

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of QGEP's management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of QGEP and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Lincoln Guardado, who will start the presentation. Mr. Guardado, you may begin the conference.

Lincoln Guardado:

Good afternoon, everyone, and thank you for your participation on such short notice. We have organized this conference call to provide our analysts and investors with the opportunity to talk to us further about the release we issued this morning, providing an update on our assets portfolio. As you know, it contains positive news on preliminary results on our Carcará well, and lesser good news related to Santos #4.

It is too early for us to provide any additional material information on Carcará, but of course these initial results are very encouraging to us. The purpose of this call is to provide you with access to our team and clarify any additional questions you may have, to the extent we are allowed to answer.

We recognize that our Santos #4 news is coming at a moment of high volatility of the market as a whole. Therefore, we understand that our shares have declined considerably, now selling at a discount to just the value of our Manati fields and our cash, without giving any value to Atlanta, Oliva, Carcará, and the rest of our portfolio.

Therefore we want to be responsive and provide you with this opportunity to ask questions, and we will do our best to answer them.

Operator, I would now like to open the call to questions.

Anish Kapadia, TPH:

Good afternoon. Just a few questions; firstly on the BM-S-12 unsuccessful well, could you just give a bit more detail in terms of why it failed? Was the well wet, what were the reasons, and also what was the total cost of the well?

And then just on the BM-S-8 well, I was wondering if you could just say how the results, so far as compared with your pre-drill expectations in terms of the quality of the reservoir, I think this is the pay that you have seen today. And if you believe, from the results so far, that you have reached a commercial threshold on the well.

And then just a final question relates to Manati, I see you continue to have strong volumes there. Could you give an indication of where you see pricing overall on a USD basis for Manati for this year, given the depressed Real at the moment?

Lincoln Guardado:

Firstly, regarding the BM-S-12, what happened was that we did not find the reservoir. The reservoir is not that good. I would like to remind you that reservoir occurrence and quality was the problem. Since the beginning, Gaffney highlighted that, and we used to highlight that as well.

The reservoir used to be the problem there: to qualify and to identify through seismic, that there is not too much I can say, evidences about that, and the seismic is quite similar to other areas where pre-salt reservoirs are present.

What happens is that the reservoir is not a deposit in principle, and the lack of reservoir quality is the reason why the well is classified as dry. For sure in such circumstances, the log is much easier, it is very fast because we do not have too much to do, and because of that we anticipated a little those results.

In spite of that we drilled almost 200 meters more than the expected total depth, trying to identify something, but we realized that there is no more chance for the reservoir in that structure, and we decided to finish.

Regarding the second question, if I understood well, you are talking to us about the column that we identified in Carcará. Is that it?

Anish Kapadia:

Yes. In terms of a column, how does that compare to what you expect to treat from your pre-drill expectation? How that compares and whether that was thicker than what you were expecting from the seismic?

Lincoln Guardado:

From now, Anish, I can tell you that what we found so far is fulfilling our expectations about the well, and we still have to drill around 700 meters more in principle, or a little bit more than that, we will see, depending on the conditions in the well. I would like to remind you that we have a very deep well with a lot of salt layers above, and we plan to continue drilling. The expectation is good so far, we are very happy with the thermoporosity that we identified and the oil quality that we highlighted, as did Petrobras, in their release.

The oil is so good, 32° API, this is the second best oil already found in the pre-salt area. And this, I can say, reinforces our good expectations about this well.

Anish Kapadia:



So, just back to the 12 well, the one other thing there being covered, what is the total cost of that well to you?

Lincoln Guardado:

For the BM-S-12, the total cost expected is US\$70 million for us.

Anish Kapadia:

OK. Thank you.

Lincoln Guardado:

And regarding Manati, we released that information because Manati is doing very well. Regarding the production in these two months, May and end of April, it is performing above our expectations, producing in average close to 6.5 million m³ daily, which gives us confidence to have the average yearly daily production close to 6 million m³ for the whole year.

In these two months the behavior is really good, this is a function of the market, but we know that this kind of shortage in the rain season in the Northeast is promoting this high production, so far, in Manati. We are, again, happy with this 6.5 million m³ daily during these last two months.

Anish Kapadia:

The other question was just on the pricing for Manati at the moment, given the weaker Real, where would you expect pricing to be at the moment for Manati, in USD terms?

Paula Costa:

The price for Manati is fixed in Reais adjusted yearly by local inflation, so there is no USD components in the adjustment of the price. It should be around US\$7 per medium BTU now. It is important to highlight that this is net of sales taxes.

Anish Kapadia:

OK. Thank you.

Gustavo Gattass, BTG Pactual:

Hi, Guys. I had two quick questions, but just to come back to your point, you did stress that, at the moment, your perception, and I think our perception is as well, that the stock is not trading, giving much value whatsoever to Atlanta and Oliva or to the Carcará find.

Lincoln, I was just wondering, and I know we have had this discussion in the past, but just to check if something has changed, we do have a little bit of difficulty in setting up proper value for these assets for this year, lack of understanding of what they might be, whereas at Santos #4 we actually did have an independent report that said this is the size expected, this is what we are looking for, and we could actually have some kind of

expectation about it, Santos #2 the same thing. Truth is that for both assets we do not really have ballpark figures of what might be at play.

I was wondering if you could, if it is possible in any way to either talk a little bit about the size and the expectations that the Company has about either one of the two assets, or if that is not possible, just to let us know a little bit more about the timing of the events that are coming on each of those two, and when in that timeline might we effectively have some sense of size on those assets.

Lincoln Guardado:

We could understand what you said and the concern that the market has regarding the whole BM-S-8 and Carcará, Oliva, and the potential pre-salt in that area. In that discussion, I think we have two main potential outcomes.

Regarding BM-S-8, if we have a discovery there, and depending on what will be the next step, if we have a test or if we have another well, depending on what will be the outcome from this discovery so far, probably we can release something depending on what we got from the result of the well. This is one point. This is very material if we have something in our hands, for instance, a test or something else.

When I say 'us', I am saying the consortium. But regarding our Company, we are planning to run another certification in the second semester encompassing BM-S-8, Atlanta as a field, and the potential prospective resources that we have in BM-S-8 and in B-S-4.

This is just to give to the market some numbers about what we have there. If we have a discovery in BM-S-8, probably we will disclose a potential prospective resource and some contingency. And for BS-4, or Atlanta and Oliva, probably we may disclose something regarding a potential reserve.

This is something on the way right now, our production side people are discussing with Gaffney just following what we are doing in Manati; Manati's certification is on the way right now, and we plan to do it this way.

That is what we are planning, but depending on the outcome, this could be anticipated, and we hope for that, but we cannot promise.

Gustavo Gattass:

Lincoln, just to put this thing in perspective, you are talking about second half; is there a little tighter window or is that something that we should think about closer to the end of the year as far as the disclosure of the volumes?

Lincoln Guardado:

Normally, Gattass, I can tell you that we are waiting in principle for the drilling results. I think it is not worth to release something if we have a well drilling, if we have drills in testing underway in a well, just to give you information about potential volumes, potentiality of the discoveries, potentiality of reservoirs.

We plan to do this in the second semester, probably at the end of the second semester, because considering what we plan to do, we have to take into account that for any company the certification would take at least two to three months to start and finish the evaluation.

Gustavo Gattass:

OK. And with regard to the actual activity, can you just refresh us on what is planned for Atlanta and Oliva, the best-case timeline that you have for when you are going to be drilling the test well and the extended well test?

Lincoln Guardado:

I will pass to Danilo, who will inform you about this update regarding Atlanta and Oliva.

Danilo Oliveira:

Good afternoon, Gattass. As we mentioned a few months ago, Queiroz Galvão was very confident in the Atlanta field development, and after we reviewed all the studies done by Shell and the previous partners, we are even more confident on that.

So, we developed plans, and presented to the Agency, ANP, as foreseen, our first oil for May 2014. We are keeping the schedule, and probably we are going to the market this month or late next month to buy the items to be drilling the well planned to be the long duration test for the Atlanta field on the second semester of 2013.

Additionally, we are doing studies to evenly enhance the plans presented to the Agency. We are very confident and plan the first oil for the first semester of 2014.

Gustavo Gattass:

OK. Thank you, guys.

Operator:

Having no further questions, this concludes our question and answer session. I would like to turn the conference back over to Mr. Guardado for any closing remarks.

Lincoln Guardado:

I would like to thank everyone for participating with us in this call. And we will be ready in the next coming days to talk if you have any doubts. Thank you all for participating with us.

Operator:

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



**Conference Call Transcript
Update on Asset Portfolio
Queiroz Galvão – QGEP Participações (QGEP3 BZ)
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