New Investor's Book

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This section is designed for investors seeking to learn more about accounting practices in the oil and gas industry generally and Enauta specifically. The goal of the page is to assist in the understanding of the financial statements and the Company's assets.

Revenue

The company's revenue stems from the production and sales of hydrocarbons, of which approximately 95% are gas and 5% are condensate, all produced at the Manati field. From May 2018, with the start of the production in the Atlanta Field, the Company is also accounting the revenues with the sale of the oil from this asset.

All the gas produced in Manati field is sold to Petrobras, under a long-term contract. The contract sets a minimum annual gas volume to be supplied to Petrobras at a price in reais adjusted on an annual basis, using an index which runs from 2007. The condensate produced in this field is sold to Dax Oil Refino S.A. ("Dax Oil") and its revenue is indexed to Brent oil prices in the international market.

The Company has a crude oil sales agreement with Shell Oil, for all of the Atlanta Field Early Production System (EPS) oil production, which has a discount to Brent price in the commercialization due to the fact that is a heavy oil.

Operational Costs

Operational costs relate to the production at the Manati and Atlanta fields, such as: production costs, government take (royalties, special participation and development), maintenance and the amortization of development assets costs, and provision for decommissioning.

Fixed Assets

Expenses related to the maintenance of production units, such as replacement parts, assembly services, and others, are registered under fixed assets. Maintenance take place every 5 years on average, and the expenses are depreciated until the beginning of the following turnaround and registered under production costs.

Management defined its accounting policies for the recognition of assets in the exploration of mineral reserves in compliance with IFRS 6. The main accounting criteria in use are:

- Rights to exploration concession and signing bonus are registered as intangible assets.

  Drilling expenses for wells where feasibility assessments have not been concluded are capitalized in fixed assets until their completion. Drilling expenses for successful exploration wells linked to economically feasible reserves are capitalized, while those regarded as unsuccessful or "dry holes" are registered directly into the income statement in the account for exploratory expenses for oil and gas extraction. The initial expenses capitalization and its maintenance will be confirmed by ongoing exploration activities and planned by the consortium's operation committee.

- Other exploratory expenses unrelated to the signing bonus are registered in the income statement for exploration expenses in the extraction of oil and gas (costs related to acquisition, seismic data processing and interpretation, drilling campaign planning, licensing assessment, area occupation and retention expenses, environmental impact, and others)

- For farm-in transactions in which the company has been fulfilling contracts to financially support the exploration expenses of the partner that sold their share of the exploration blocks (Farmout) and/or carry: committed expenses are reflected in the accounting records upon the respective progress of future exploration expenses.

Exploration Expenses

The gain and loss obtained from retirement or disposal of fixed assets are determined by the difference between the earned income, if applicable, and the respective residual value of the asset, and it is recognized in the income for the period, in the exploration expenses account.

Generally, these expenses were disbursed in previous periods and have no cash effect when recognized in the statement.

Depreciation/Amortization

The fixed assets represented by exploration, development and production assets are registered at cost value and amortized by the unit-of-production method, consisting of the proportional relation between the annual volume of production and the producing field's total proved reserve. The proved reserves used in this amortization calculation (linking it to the monthly production volume) are estimated by external geologists and petroleum engineers, in compliance with international standards. Proved reserves are revised every year or every time there are indicators of significant alterations. Currently, the expenses being amortized are those related to the Manati and Atlanta fields, as they are currently Enauta's producing asset.

Intangible Assets

The Group substantially discloses, in its intangible asset line, the expenses from the acquisition of exploratory concessions and the signing bonus corresponding to the bids for the acquisition of oil and gas exploration concessions. These expenses are registered by the acquisition cost and adjusted, if applicable, to its recovery value. It will also be amortized by the unit-of-production method in regards to proved reserves.

Impairment Test

(Recovery value of assets)

Management makes annual qualitative assessments of its oil and gas exploration assets with the goal of identifying evidence of impairment. Such evidence can include:

- Concessions for exploration with expired or about-to-expire periods, with no expectation of renewing the concession.
- Representative expenses towards the exploration and assessment of mineral resources in certain areas/blocks not estimated or planned for by the company or partners.
- Efforts for the exploration and assessment of mineral resources that have not generated marketable discoveries and that the Management decided to discontinue in determined areas/specific blocks.
- Enough existing information to indicate that the capitalized costs probably won't be realizable despite the continuity of exploration expenses in certain area/block that reflects future successful development, even its disposal.

When an asset's carrying value exceeds its net sale value, a loss is recognized. The loss can be composed by the accounted values in fixed assets or by intangible assets, and it is recognized in the statement for exploration expenses.

Provision for Abandonment

The future obligation to the decommissioning of the production area is registered upon drilling after a field's declaration of marketability is issued, as soon as there's legal or constructive obligation to the area's dismantling, and also at a point when it is possible to quantify the expenses with reasonable assurance. These expenses will be part of the cost of the related asset (registered as a fixed asset) as counterpart for the provision for abandonment recorded in liabilities, which would fund these future expenses. Management reviews the provision for abandonment every year, and the value of accounted assets and liabilities is then adjusted. Revisions in the expenses' basis of calculation are recognized as part of the fixed asset cost, and recognized exchange rate variations are allocated in the statement for the period. The aforementioned provisions will have no effect on the Company's cash flow until the decommissioning of the wells.

The Company currently holds provisions for abandonment of its producing assets, Manati and Atlanta fields.

Tax Incentives

Due to its location in the SUDENE coverage area, indirect subsidiary Manati, incorporated by QGEP in late 2012, held the right to 75% tax reduction on income and additional profit based on a 10-year exploration profit. The Company has been enjoying this benefit since the year ended in December 31st, 2008. The amount corresponding to this incentive was registered in the statement and later transferred to the profit reserve – tax incentives, in the net worth of indirect controlling shareholder Manati until the dates of its incorporation by QGEP. The transfer of such benefit resulting from the incorporation was homologated in April 2013. According to the terms of Decree 64.241/69, QGEP is eligible to the benefit based on succession resulting from the incorporation of its sole shareholder, Manati.

Royalties

ANP is responsible for the setting of monthly royalty rates payable according to production. Royalties correspond to 5-10% over the oil and gas reference prices, as established in the terms and conditions of the bid and in the concession agreement. When determining the royalty percentage applicable to a particular block, ANP takes two elements into consideration: geological risks and expected production levels. In Brazil, royalties consist in a financial contribution similar to a severance tax

Please find below Enauta's royalty rates as established by ANP:

Concession	Basin	% Royalties
BCAM-40 (Manati Field)	Camamu	7,5%
CAL-M-372	Camamu	10%
BS-4 (Atlanta and Oliva Fields)	Santos	7,8%
ES-M-598	Espírito Santo	10%
ES-M-673	Espírito Santo	10%
CE-M-661	Ceará	10%
PAMA-M-265	Pará-Maranhão	10%
PAMA-M-337	Pará-Maranhão	10%
FZA-M-90	Foz do Amazonas	10%
SEAL-M-351	Sergipe-Alagoas	10%
SEAL-M-428	Sergipe-Alagoas	10%
SEAL-M-430	Sergipe-Alagoas	10%
SEAL-M-501	Sergipe Alagoas	10%
SEAL-M-503	Sergipe Alagoas	10%
SEAL-M-573	Sergipe Alagoas	10%

Special Participation

Special participation will be paid every 3 months beginning on the date of extraordinary production. Payable special participation varies between 0-40% of net income depending on: (i) production volume; (ii) year of production kickoff; (iii) location of the block: offshore, shallow waters or deep waters. According to the Petroleum Law and the applicable regulation edited by ANP, special participation is calculated based on each field's quarterly revenue, based on gross revenue using benchmark prices published by ANP reflecting international prices and exchange rates for the period, except: (i) finalized royalty payments; (ii) exploration investments; (iii) operational costs; (iv) amortization and incident taxes adjusts. The basis for this calculation is described in Decree 2.705, dated from August 3rd, 1998.

Research and Development

Concession contracts for Oil and Gas Exploration, Development, and Production established by ANP include a clause for Investment in Research and Development stating the operator must put in a mandatory contribution of 1% over the field's gross revenue towards qualified research and development, in case such field has Special Participation.

Under this clause, the operator must employ at least 50% of this amount in ANP-qualified expenses for the hiring of Universities and National Research and Development Institutions accredited by the Agency.