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Constellation Oil Services Holding S.A.

Consolidated financial statements and independent auditor’s report No 243F2-001-EN

December 31, 2023

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Independent auditor's report on the consolidated financial statements

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To the
Shareholders, Directors and Management of
Constellation Oil Services Holding S.A.

Opinion

We have audited the consolidated financial statements of Constellation Oil Services Holding S.A. (the Group), which comprise the statement of financial position as of December 31, 2023 and the respective statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and the corresponding explanatory notes, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements issued by the Federal Accounting Council – CFC and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Responsibility of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with the governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we:

- identify and assess the risks of material misstatement of consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group 's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit and, consequently, for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we may have identified during our audit.

Rio de Janeiro, March 15, 2024

Grant Thornton Auditores Independentes Ltda.
CRC 2SP-025.583/F-2

Octavio Zampirollo Neto
Accountant CRC 1SP-289.095/O-3

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2023 AND 2022
(Amounts expressed in thousands of U.S. dollars - US$'000)

ASSETS	Note	December 31, 2023	December 31, 2022
CURRENT ASSETS			
Cash and cash equivalents	6	87,943	59,479
Short-term investments		45	52
Trade and other receivables	8	125,016	76,314
Recoverable taxes	18.a	21,541	22,946
Deferred mobilization costs		8,072	12,765
Assets held for sale	10.a	3,200	-
Other current assets		11,388	16,041
Total current assets		257,205	187,597
NON-CURRENT ASSETS			
Restricted cash	7	1,733	1,733
Deferred tax assets	18.c	20,312	17,823
Deferred mobilization costs		4,380	7,760
Other non-current assets		4,423	1,977
Property, plant and equipment, net	10	2,416,098	2,470,296
Total non-current assets		2,446,946	2,499,589
TOTAL ASSETS		2,704,151	2,687,186

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

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2023 AND 2022
(Amounts expressed in thousands of U.S. dollars - US$'000)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	December 31, 2023	December 31, 2022
CURRENT LIABILITIES			
Loans and financings	11	33,696	4,992
Payroll and related charges		28,655	13,190
Trade and other payables		57,178	65,265
Taxes payables	18.b	4,784	4,434
Deferred revenues		17,184	18,129
Provisions	12	21,405	7,507
Other current liabilities		6,532	7,351
Total current liabilities		169,434	120,868
NON-CURRENT LIABILITIES			
Loans and financings	11	930,520	937,200
Derivatives	20	26,352	44,044
Deferred revenues		17,824	11,453
Provisions	12	15,710	3,611
Total non-current liabilities		990,406	996,308
TOTAL LIABILITIES		1,159,840	1,117,176
SHAREHOLDERS' EQUITY			
Share capital	13.a	4,933	4,933
Warrants	13.a	1,733	1,733
Share premium	13.d	1,567,897	1,567,897
Reserves	13.b/c	(137,000)	(142,208)
Accumulated profit		106,748	137,655
TOTAL SHAREHOLDERS' EQUITY		1,544,311	1,570,010
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,704,151	2,687,186

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

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022
(Amounts expressed in thousands of U.S. dollars - US$'000, except per share amounts)

	Note	Year-ended December 31, 2023	2022
NET OPERATING REVENUE	14	551,824	406,145
COST OF SERVICES	15	(525,711)	(429,672)
GROSS PROFIT / (LOSS)		26,113	(23,527)
General and administrative expenses	15	(30,607)	(52,705)
Other income	16	55,633	1,077,130
Other expenses	16	(30,617)	(7,007)
OPERATING PROFIT		20,522	993,891
Financial income	17	3,193	2,224
Financial expenses	17	(49,410)	(134,614)
Foreign exchange variation income/(expense), net	17	(353)	(83)
FINANCIAL EXPENSES, NET		(46,570)	(132,473)
PROFIT/(LOSS) BEFORE TAXES		(26,048)	861,418
Taxes	18.d	(4,859)	(2,133)
PROFIT/(LOSS) FOR THE YEAR		(30,907)	859,285

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

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2023	2022
PROFIT/(LOSS) FOR THE YEAR		(30,907)	859,285
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments	13.c	5,208	2,879
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		(25,699)	862,164
Comprehensive income attributable to:			
Controlling interests		(25,699)	862,164

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

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022
(Amounts expressed in thousands of U.S. dollars - US$'000)

					Reserves						
	Note	Share capital	Warrant	Share Premium	Legal	Share of investments' other comprehensive income / (loss)	Acquisition of non-controlling interest in subsidiaries	Foreign currency translation adjustments	Total reserves	Accumulated profit	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2021		981,200	-	(9,721)	5,683	(2,436)	(85,555)	(62,779)	(145,087)	(721,630)	104,762
Profit for the year		-	-	-	-	-	-	-	-	859,285	859,285
Other comprehensive expense for the year	13.c	-	-	-	-	-	-	2,879	2,879	-	2,879
Total comprehensive profit for the year		-	-	-	-	-	-	2,879	2,879	859,285	862,164
Reestructuring events:											
Capital decrease		(981,200)	-	981,200	-	-	-	-	-	-	-
Capital increase		4,933	-	(4,933)	-	-	-	-	-	-	-
Advance for future capital increase		-	1,733	(1,733)	-	-	-	-	-	-	-
Share premium arising from debt restructuring	1.1	-	-	603,084	-	-	-	-	-	-	603,084
BALANCE AS OF DECEMBER 31, 2022		4,933	1,733	1,567,897	5,683	(2,436)	(85,555)	(59,900)	(142,208)	137,655	1,570,010
Loss for the year		-	-	-	-	-	-	-	-	(30,907)	(30,907)
Other comprehensive income for the year	13.c	-	-	-	-	-	-	5,208	5,208	-	5,208
Total comprehensive profit for the year		-	-	-	-	-	-	5,208	5,208	(30,907)	(25,699)
BALANCE AS OF DECEMEBER 31, 2023		4,933	1,733	1,567,897	5,683	(2,436)	(85,555)	(54,692)	(137,000)	106,748	1,544,311

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		(30,907)	859,285
Adjustments to reconcile profit/(loss) for the year to net cash provided by operating activities:			
Depreciation of property, plant and equipment	10/15	185,724	148,942
Loss (gain) on disposal of property, plant and equipment, net	10	572	335
Reversal of impairment recognised on property, plant and equipment, net	10	(54,674)	(560,756)
Recognition of deferred mobilization costs		12,658	10,883
Recognition of deferred revenues, net of taxes levied		(20,561)	(14,522)
Financial expenses on loans and financings	11.a/17	64,596	85,465
Debt restructuring	16	-	(513,226)
Provision/ (reversal) of onerous contract, net	16	29,630	(1,671)
Other financial expenses (income), net	17	(335)	2,964
Recognition (reversal) of provisions		60	50
Recognition (reversal) of provisions for lawsuits, net	12	(538)	1,162
Provision / (reversal) of derivatives	17/20	(17,692)	44,044
Provision for loss of receivables		-	442
Taxes	18.d	4,859	2,133
Decrease/(increase) in assets:			
Trade and other receivables		(48,702)	(30,648)
Recoverable taxes		1,405	(8,430)
Deferred taxes		(2,489)	(1,408)
Deferred mobilization costs		(4,585)	(25,686)
Other assets		717	(2,808)
Increase/(decrease) in liabilities:			
Payroll and related charges		15,465	(2,985)
Trade and other payables		(8,087)	10,621
Payables to related parties		-	(193)
Taxes payables		(2,337)	811
Deferred revenues		25,987	32,837
Other liabilities		(593)	4,544
Cash used in operating activities		150,113	42,184
Income tax and social contribution paid		(2,172)	(296)
Adjusted cash (used in) / provided by operating activities		147,941	41,888
CASH FLOWS FROM INVESTING ACTIVITIES			
Short-term investments		7	4,663
Restricted cash		-	15,732
Acquisition of property, plant and equipment	10	(78,936)	(123,559)
Proceeds from disposal of property, plant and equipment	16	675	744
Net cash (used in) / provided by investing activities		(78,254)	(102,420)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on loans and financings	11.a	(36,747)	(5,689)
Proceeds from loans and financings	11.a	-	62,400
Advance for future capital increase	14.a	-	1,733
Repayment of loans and financings	11.a	(5,825)	(17,618)
Net cash (used in)/provided by financing activities		(42,572)	40,826
Increase/(Decrease) in cash and cash equivalents		27,114	(19,706)
Cash and cash equivalents at the beginning of the year	6	59,479	76,306
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,350	2,879
Cash and cash equivalents at the end of the year	6	87,943	59,479

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

CONSTELLATION OIL SERVICES HOLDING S.A.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION AS OF DECEMBER 31, 2023 AND FOR THE YEAR THEN ENDED (Amounts expressed in thousands of U.S. dollars - US$ '000, unless otherwise stated)

1. GENERAL INFORMATION

Constellation Oil Services Holding S.A. (the "Company", or together with its subsidiaries, the "Group") was incorporated in Luxembourg on August 30, 2011, as a "*société anonyme*" (i.e., public company limited by shares). The Company has its registered address at 8-10, Avenue de la Gare, L-1610 Luxembourg.

The Company's objectives are: (i) to hold investments in Luxembourg or foreign countries; (ii) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licenses, and other property, rights and interest in property as deemed necessary, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as deemed necessary, and in particular for shares or securities of any entity purchasing the same; (iii) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding entity, subsidiary, or fellow subsidiary, or any other entity associated in any way with the Company, or the said holding entity, subsidiary or fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance, loans, advances or guarantees; (iv) to borrow and raise funds in any manner and to secure the repayment of any funds borrowed; and (v) to perform any operation that is directly or indirectly related to its purpose. The Company's financial year is from January 1 to December 31.

The Company holds investments in subsidiaries that own, charter and operate offshore drilling rigs for exploration and production companies, most of them operating in Brazil. The Group currently charters its drilling rigs to multinational companies, such as Petróleo Brasileiro S.A. ("Petrobras"), Oil and National Gas Corporation ("ONGC"), an Indian oil and gas exploration and 3R Petroleum ("3R").

a) Fleet of offshore drilling rigs

Offshore drilling units

Drilling units	Type	Start of operations	Contract expected expiration date (current or future)	Customer (current or future)
Atlantic Star	Semi-submersible	1997	January 2025 (Note 1.h)	Petrobras
Olinda Star	Semi-submersible	2009	January 2024 (Note 1.i)	ONGC
Gold Star	Semi-submersible	2010	August 2025 (Note 1.f)	Petrobras
Lone Star	Semi-submersible	2011	September 2025 (Note 1.g)	Petrobras
Alpha Star	Semi-submersible	2011	End 2027 (Note 1.e)	Petrobras
Amaralina Star	Drillship	2012	October 2025 (Notes 1.b)	Petrobras
Laguna Star	Drillship	2012	March 2025 (Note 1.d)	Petrobras
Brava Star	Drillship	2015	End 2026 (Note 1.c)	Petrobras

b) Amaralina Star offshore drilling rig charter and service-rendering agreements

On January 2, 2020, the Group announced that the Amaralina Star drillship had been awarded a contract with the consortiums of BM-S-11, BM-S-11A and Unitization Agreement (*Acordo de Individualização de Produção* - AIP) of Lula field, operated by Petrobras. The contract had an estimated duration of 730 days. Operations started on April 15, 2020 and have been performed offshore the Brazilian coast, in the Santos Basin.

On February 22, 2022, the contract had its first amendment to add additional 19 days to its duration. It was amended again on April 20, 2022, with additional 91 days of backlog, being the new total duration of the contract 840 days. The contract ended on July 28, 2022.

On December 29, 2021, the Company announced a new contract with Petrobras for the drillship Amaralina Star. The contract has a total duration of up to three years, being two years firm and one optional, with operations in water depths of up to 2,400m, including a package of integrated services. The operations for this campaign in the Roncador field, in the Campos Basin, have started on October 18, 2022. In October 2023, Petrobras has exercised its 365 days unilateral option to extend contract duration, keeping the rig under contract up to October 2025.

As of December 31, 2023, the Group has a provision for onerous contract in the total amount of US$2,722 (US$0 as of December 31, 2022), related to the aforementioned contract.

c) Brava Star drillship charter and service-rendering agreements

On January 6, 2021, the Group announced that the Brava Star drillship had been awarded a contract with Petrobras. The contract was signed on December 9, 2020, and has an estimated duration of 810 days (including a clause of termination for convenience after 180 days subject to a demobilization fee, which has not been exercised). The work scope is in water depths of up to 3,048m, and includes a full integrated package of services plus Managed Pressure Drilling ("MPD"). The work was performed offshore Brazil from March, 2021 to October 2023.

On December 13, 2022, the Group announced that the Brava Star drillship had been awarded a contract with Petrobras. This new contract was signed on December 8, 2022, and the operations started on December 19, 2023, with an execution period of 1.095 days. The work scope is in water depths of up to 2,400m and includes several integrated services.

On February 20, 2024, Petrobras and the Group signed an addendum to the contract to provide an innovative operation in shallow water depths of 285 meters for at least 100 meters, using technology that has never been seen before in Brazil. The operation is expected to take place in the fourth quarter of 2024.

d) Laguna Star offshore drilling rig charter and service-rendering agreements

On July 6, 2021, the Group announced that the Laguna Star drillship was awarded a contract with Petrobras. The contract has a 3-year estimated duration and its operation started on March 01, 2022 on the Brazilian coast, including integrated services, as well as the use of the MPD system.

As of December 31, 2023, the Group has a provision for onerous contract in the total amount of US$9,378 (US$0 as of December 31, 2022), related to the aforementioned contract.

e) Alpha Star offshore drilling rig charter and service-rendering agreements

On July 22, 2019, the Group announced that the Alpha Star offshore drilling rig had been awarded a new contract with Petrobras for a 2-year period. The drilling activities were performed offshore the Brazilian coast, in the Campos Basin and operations started on August 16, 2020. The contract ended on September 14, 2022.

As of December 31, 2023, the Group has a provision for onerous contract in the total amount of US$0. As of December 31, 2022, the Group reversed the provision for onerous contract in the total amount of US$1,671 due to the end of the aforementioned contract.

On February 9, 2022, the Group announced that the Alpha Star offshore drilling rig had been awarded a contract with Enauta initially for drilling 1 well, which had a firm term of 60 days, plus an option for 2 additional wells and 1 subsea intervention which added 150 firm days for additional scope. On February 22nd, 2022, options were exercised by Enauta and the total firm period became 210 days. The campaign is taking place at the Atlanta field and the operations have started on October 27, 2022. The contract ended on September 17, 2023.

On June 13, 2023 the Group announced that Alpha Star offshore drilling rig has been awarded a new contract with 3R Petroleum (“3R”). The work will be performed in Papa-Terra and Malombe fields, located in Campos and Espírito Santo basins in Brazil, respectively. The contract has a firm duration of 14 months. The scope of work includes drilling, completion and workover of wells in water depths of up to 1,600 meters. The contract has started on September 17, 2023, immediately after the rig was released by their prior client.

On September 16, 2023 the Group announced that Alpha Star offshore drilling rig had been awarded a new contract with Petrobras for a 3-year period. The scope included drilling, completion and workover activities will be performed in water depths up to 2,400 meters, and operations are expected to commence after the rig is released by 3R Petroleum in its current contract.

f) Gold Star offshore drilling rig charter and service-rendering agreements

On July 22, 2019, the Group announced that the Gold Star offshore drilling rig had been awarded a new contract with Petrobras for a 2-year period. Operations started on February 11, 2020, and the drilling activities were performed offshore the Brazilian coast. The contract ended on March 4, 2022.

On January 5, 2022 the Group announced the achievement of a new contract for the operation of the semi-submersible rig to Petrobras. The contract has a total duration of 3-years (firm) and can be extended for additional 2-years (optional, subject to mutual agreement), providing for operations in ultra-deep waters, in up to 2,400 meters. The campaigns will be carried out in the Brazilian offshore basins and the operations have started on August 9, 2022.

As of December 31, 2023, the Group has a provision for onerous contract in the total amount of US$11,082 (US$0 as of December 31, 2022), related to the aforementioned contract.

g) Lone Star offshore drilling rig charter and service-rendering agreements

On July 22, 2019, the Group announced that the Lone Star offshore drilling rig had been awarded a new contract with Petrobras for a 2-year period. The drilling activities were performed offshore the Brazilian coast and having started on April 24, 2020. The contract ended on April 23, 2022.

On January 5, 2022 the company announced the achievement of a new contract for the operation of the semi-submersible rig to Petrobras. The contract has a total duration of 3-years (firm) and can be extended for additional 2-years (optional, subject to mutual agreement), providing for operations in ultra-deep waters, in up to 2,400 meters. The campaigns will be carried out in the Brazilian offshore basins and its operations have started on September 14, 2022.

As of December 31, 2023, the Group has a provision for onerous contract in the total amount of US$6,448 (US$0 as of December 31, 2022), related to the aforementioned contract.

h) Atlantic Star drilling rig charter and service-rendering agreements

On February 5, 2020, the Group announced that the Atlantic Star offshore anchor-moored drilling rig had been awarded a contract with Petrobras. The contract has a total duration of 3-years (firm) and can be extended for additional 2-years (optional, subject to mutual agreement). Operations are being performed in the Campos Basin, located offshore the Brazilian coast, and started on January 06, 2021.

On November 2023, Petrobras and the Group exercised their mutual option to extend the contract in 389 days, keeping the rig busy up to January 2025. This addendum to the current contract includes new additional services and revised daily rates.

i) Olinda Star drilling rig charter and service-rendering agreements

On February 27, 2021, the contract with ONGC was amended for an additional period of 191 days. In July, 2021 it was amended for an additional period of 38 days. Once again, on November 22, 2021 it was amended for an additional period of 39 days until December 31, 2021, due to zero rate and Force Majeure days occurred during the original contract term. This final extension is due to rig waiting for improvement of weather conditions to be demobilized to Kakinada, when rig will then be de-hired. All other terms and conditions remain unchanged.

On January 7, 2022, the Group announced that the Olinda Star was awarded a new contract with ONGC with a duration of 502 days. The Company started its operations on May 4, 2022 and ended its operations on January 14, 2024.

j) Onshore drilling rigs charter and service-rendering agreements

With the strategic objective of enhancing the Group's global competitiveness, the company opted for a divestment process in its onshore operations, resulting in the sale of its onshore drilling rigs.

k) Going concern considerations

Market fundamentals point to a multi-year recovery in our segment. During last years' downturn, Exploration & Productions companies limited their investments in production, prioritizing deleveraging balance sheets and shareholder return, which resulted in reduced oil inventories. This scenario, jointly with increasing demand post pandemic and geopolitical issues, led to a substantial increase in oil prices, which have been traded above $ 100 per barrel. Besides, over the past few years, low demand for offshore projects boosted rigs' scrapping and brought consolidation to a market with structural problems of oversupply. Going forward, Management believes that rig utilization and day rates will continue their upward progression.

On the Commercial side, we continued to develop our contract backlog, which was at US$1.5 billion as of December 31, 2023, from US$1.3 billion as of December 31, 2022. Note 1 discloses several events related to charter contracts and operating services for offshore drilling rigs that corroborate the above information.

l) Liquidity and financial restructuring aspects

On December 18, 2019, the Group entered into amended and restated credit agreements as well as new credit agreements with its financial creditors and issued new senior secured and senior unsecured notes, pursuant to new indentures (the "RJ Closing").

Commencing July 6, 2021, discussions were initiated with creditors to establish a sustainable capital structure aligned with the Group's operational requirements in the prevailing economic landscape. Subsequently, on March 24, 2022, after thorough negotiations, a Plan Support Agreement and a Restructuring Term-Sheet were signed, leading to the unanimous approval of the "Plan Amendment" by the General Creditors Meeting. The RJ Court and the New York Court confirmed the Plan Amendment on March 28, 2022, and May 3, 2022, respectively.

On June 10, 2022, the Group executed Amended and Restated Credit Agreements (the "Restructuring Documents"), alongside additional arrangements with creditors, resulting in the conversion of a portion of the debt into the Company's equity. This conversion aimed to alleviate debt burdens and optimize the Group's financial position.

Under the Restructuring Documents, the outstanding debt amounting to $1,990,128 underwent restructuring, resulting in $826,000 of convertible debt. Additionally, $92,600 was allocated, comprising $62,400 in newly raised cash and $30,200 in non-convertible debt.

As per the restructuring, the debt was converted into the Company's equity interests as follows:

Type of share	Number of shares	Nomination rights
Class A shares	180,000,000	Have no rights to appoint Board members until the shares are sold to an Acceptable Buyer. Right to appoint a Board Observer
Class B shares	313,333,333	Majority of B Shares (B-1 + B-2) have right to appoint members of the Board
Class B-2 Warrants (Note 13.a)	173,333,333	Majority of B Shares (B-1 + B-2) have right to appoint members of the Board

The Restructuring Documents also provide that upon a future liquidity event, such as mergers or significant asset sales, whereby convertible debt will be converted into shares, and the resulting proceeds will be distributed according to the new equity structure.

The debt restructuring, completed on June 10, 2022, resulted in a gain of $513,226 for the Group, recognized in the second quarter of 2022. This gain was calculated based on a valuation of the equity interests transferred, grossing $603,084, and the extinguished debt totaling $1,116,311.
The breakdown of the share premium amounting to US$ 603,084 is as follows:
(a) B1-shares: US$ 388,287;
(b) B2-shares: US$ 214,797.

On September 2, 2022, the 1st Business Court of the State of Rio de Janeiro determined the termination of the Judicial Reorganization process of Serviços de Petróleo Constellation S.A. and other companies of the Constellation Group, considering that all the obligations of the Judicial Reorganization Plan have been complied with.

m) Commitments

As of December 31, 2023, the Group had the following commitments which it is contractually obligated to fulfill:

- The Group, through its subsidiary Serviços de Petróleo Constellation S.A., has committed to comply with certain governance and compliance policies including keeping and maintaining a robust integrity program. Failure to comply with these commitments may ultimately result in fines limited to a maximum of 20% of the monthly revenue of each services contract with Petrobras.
- The Group, in its service contracts, has commercial, operational, safety and environmental commitments. Non-compliance with these commitments may result in fines levied at the total estimated value of each contract. Non-compliance or irregular compliance with part of the contractual object may result in a compensatory fine of 20% of the daily rate.

As of December 31, 2023 and until the date of the issuance of these Consolidated Financial Statements the Group complies with the aforementioned covenants.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1. New and amended IFRS that are mandatorily effective for the current year

During the year, the Group has adopted a number of new and amended IFRS Standards issued by the International Accounting Standards Board (IASB), which are mandatorily effective for an accounting period that begins on or after January 1, 2023. The following amendments have been applied by the Group, but had no significant impact on its consolidated financial statements:

Standard or interpretation	Description	Effective date
Amendments to IAS 12 *Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The Group has not been significantly impacted by these amendments during the year.	January 1, 2023
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.	January 1, 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements	The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.	January 1, 2023

2.2. New and revised IFRS standards issued but not yet effective

At the date of approval of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective as at December 31, 2023:

New or revised standards and interpretations

Standard or interpretation	Description	Effective date
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.	The effective date of the amendments has yet to be set by the IASB
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.	January 1, 2024
Amendments to IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants	The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).	January 1, 2024
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements	The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.	January 1, 2024
Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback	The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.	January 1, 2024

The Group's Management has conducted an analysis of the impacts arising from the adoption of these new or revised and amended IFRS on its consolidated financial statements. Based on the analysis carried out, the Group's Management has concluded that the adoption of these new or revised and amended IFRS will not significantly impact its consolidated financial statements.

2.3. Brazilian Tax Reform

In December 2023, Constitutional Amendment No. 132/2023 was promulgated by the National Congress, amending the National Tax System. The text that gave rise to this amendment was based on Proposed Constitutional Amendment No. 45/2019, which, in its final version, was approved by the Chamber of Deputies in the same month.

The primary objective is the simplification of the current tax system. The text establishes a ceiling to maintain a consistent tax burden on consumption, with the main effect being the unification of five taxes (ICMS, ISS, IPI, PIS, and COFINS) into charges that will be divided between two levels: i) federal (CBS: Contribution on Goods and Services and IS: Selective Tax) and ii) state (IBS: Tax on Goods and Services). Additionally, the creation of funds for the restoration of fiscal incentives and regional development, as well as the reallocation of taxes such as ITCMD and IPVA, has been proposed.

The transition period to the new tax model will occur gradually and in distinct stages until its completion. For the year 2024, the Company will monitor the publications of Complementary and Ordinary Laws to adapt to the proposed new regulations and assess their impact on its operations.

2.4. Luxembourg Tax Reform

On 20 December 2023, the Luxembourg Parliament adopted the bill of law relating to the European Directive on global minimum taxation rules ("Pillar Two") based on OECD recommendations. The impact of this tax regulation will apply in the fiscal years after December 31, 2023. The Group is still analyzing the impact of this new regulations and expect to finalize its assessment during 2024.

3. MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the preparation of the consolidated financial statements are described below. These policies have been applied consistently for all reporting periods.

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRS, as issued by the IASB.

3.2 Basis of preparation and consolidation

Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are remeasured at fair value.

Consolidation

The consolidated financial statements incorporate the Company and its subsidiaries (Note 5).

All intra-group transactions, balances, income and expenses are eliminated for consolidation purposes.

Continuity as a going concern

The Group's consolidated financial statements were prepared on the going concern basis of accounting. Management assessed the Group's ability to continue as a going concern in light of the assumptions and matters disclosed in Note 1k.

The significant accounting policies are set out below:

3.3 Functional currency and foreign currencies

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates (i.e., the "functional currency"). The Company's functional currency and most part of its subsidiaries is the U.S. dollar, since majority of revenues and costs, debt and capital expenditures are denominated in this currency. The consolidated financial statements are presented in thousands of U.S. dollars, which is also the reporting currency of the Group.

Additionally, the Group has determined that the Brazilian real is the functional currency of Serviços de Petróleo Constellation S.A. ("Serviços de Petróleo") and Serviços de Petróleo Constellation Participações S.A. ("Serviços de Petróleo Participações"), since the majority of their revenues and costs are denominated in Brazilian reais. Consequently, in preparing these consolidated financial statements, Management has translated the financial statements of these subsidiaries into U.S. dollars as follows:

✓ The assets and liabilities for each balance sheet presented are translated at the closing rate on the respective balance sheet date;

✓ Income and expenses for each statement of operations are translated at exchange rates at the dates of the transactions; for this purpose, average monthly exchange rates are used as they approximate to the exchange rates in force on the transaction dates; and

✓ Shareholders' equity accounts are translated using historical exchange rates.

All resulting exchange differences on currency translation adjustments are recognized as a separate component of other comprehensive income (Note 17).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measure at fair value, such as equities classified as available for sale, are included in other comprehensive income.

3.4 Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments, and not for investment or any other purposes. The Group considers as cash and cash equivalents (i) cash on hand; (ii) bank deposits; and (iii) short-term investments promptly convertible into a known amount of cash and subject to a low risk of change in value.

3.5 Trade and other receivables

Trade accounts receivables are initially measured at their fair value, which generally represents the billed amounts, and subsequently at amortized cost and adjusted for allowances for expected and incurred credit losses and impairment, when due necessary.

The allowance for doubtful accounts is recognized considering the individual assessment of receivables, the economic environment analysis and the history of losses recorded in prior years by maturity range, in an amount considered sufficient by Management to cover probable losses on future collections. The carrying amounts represent manly their fair values at the end of the reporting period.

3.6 Prepaid expenses

Refers to financial resources applied in prepaid expenses, such as insurance premiums, whose rights of benefits or services will occur in future periods.

3.7 Leases

The Group as lessor

The Group enters into lease agreements as a lessor with respect to its drilling units.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the lease terms transfer substantially all the risks and ownership benefits to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 - *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component.

3.8 Property, plant and equipment ("PP&E")

All PP&E is carried at cost less accumulated depreciation and impairment, when due necessary. PP&E consists primarily of onshore and offshore drilling rigs, drillships and its related equipment.

Costs related to equipment under construction are recognized as PP&E cost, in accordance with the actual construction costs. A provision for corresponding unbilled costs from suppliers is recorded as an accrued liability.

Borrowing costs (including interest and fair value adjustments) are capitalized on equipment under construction, when applicable (Note 3.15).

Repair and maintenance costs related to periodic overhauls of the drilling rigs and drillships are capitalized, when the economic benefits associated with the item inflows to the Group and the costs can be reliable measured. These costs are depreciated over the period extending to the next periodic overhaul. Related costs are mainly comprised by shipyard costs and the costs of employees directly involved in the related project. All other repair and maintenance costs are charged to profit or loss in the period in which they are incurred.

The carrying amounts of these assets are based on estimates, assumptions and judgments relating to capitalized costs, useful lives and residual values of the drilling rigs and drillships. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas industry conditions and operations. The Group computes depreciation using the straight-line method, considering the respective residual value of the related assets. When significant components of a PP&E item have different useful lives, those components are accounted for as separate PP&E items. Estimated useful lives of PP&E range from 1 to 35 years. At the end of each year, the Group reviews the estimated useful lives and residual values of PP&E.

3.9 Impairment of long-lived assets

Assets that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (i.e., cash generating units). Non-financial assets that have been impaired are reviewed for possible impairment reversal at each balance sheet date.

A reversal of an impairment loss is recognized immediately in profit or loss to the extent that it eliminates the impairment loss that has been recognized for the asset in prior years.

Recoverable amounts are substantially determined based on discounted future cash flows calculations and asset price evaluation, both requiring the use of estimates (Note 4.4).

3.10 Trade and other payables

Trade and other payables are stated at known or estimated amounts, plus corresponding charges and monetary and/or foreign exchange rate variations incurred, when applicable, and represent obligations to pay for goods or services acquired in the normal course of the Group's business activities.

3.11 Loans and financing

Loans and financing are carried at amortized cost subject to monetary and/or foreign exchange rate variations incurred, when applicable, plus interest incurred through the end of the reporting period.

When applicable, borrowing costs incurred are measured at amortized cost and recognized in liabilities as a reduction of loans and financing and allocated to profit or loss over the agreement term.

Interest paid is presented as financing activities in the consolidated statement of cash flows.

3.12 Provisions

Provisions are recognized when (i) the Group has a present obligation (legal or constructive) as a result of a past event; (ii) it is probable that the Group will be required to settle the obligation; and (iii) a reliable estimate of the obligation amount can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. Contingent risks assessed as "possible losses" are disclosed in the consolidated financial statements, but not recorded in a specific liability account.

Whenever the Group enters into a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, an onerous provision is recognized based on the estimated loss of the contract.

The short-term incentive paid to employees, including key management personnel, is based on the achievement of qualitative and financial performance metrics, as well as the individual objectives of employees, which are determined annually. This provision is set on a monthly basis and is remeasured at the year-end based on the best estimate of the achieved objectives as set forth in the annual budget process.

3.13 Current and non-current assets and liabilities

Current and non-current assets and liabilities are stated at their net realizable value and settlement amounts, respectively, and include monetary and/or foreign exchange rate variations incurred, when applicable, plus income earned and expenses incurred, recognized on a pro-rata basis through the balance sheet date.

3.14 Revenue recognition

Charter and service-rendering revenues are recognized when the respective services are rendered based on the contracted day rates and the number of operating days during the period. Some of the charter and service-rendering agreements may include uptime bonus payments, depending on performance criteria set forth in the respective agreements. The Group recognizes bonus revenues in the same period that it meets the contractual criteria, renders the related services for which the specific performance criteria is met, and is preapproved by the client. The Group may also earn revenues for the preparation and equipment mobilization (drilling units) and personnel.

Revenue from services rendered is recognized when all of the following conditions are met (performance obligation satisfied over time):

- ✓ The client simultaneously receives and uses the benefits provided by the Group's performance as the Group performs.
- ✓ The Group's performance creates or enhances an asset (e.g., work in progress) that the client controls as the asset is created or enhanced.
- ✓ The Group's performance does not create an asset with an alternative use for the Group and the Group has an enforceable right to payment for performance completed to date.

Mobilization revenues and costs are deferred and recognized on a straight-line basis over the period that the related charter and drilling services are rendered, which is consistent with the general pace of activity, level of services being provided and day rates being earned over the term of the related agreement.

Revenues are presented net of sales taxes levied on the provision of services, after eliminating intercompany sales, when applicable (Note 14).

3.15 Costs and expenses recognition

Costs and expenses are recognized on an accrual basis, based on corresponding revenues earned. Prepaid expenses related to future periods are deferred according to their respective terms (Note 15).

3.16 Financial income and expenses

Financial income and expenses are mainly represented by interest on cash and cash equivalents and short-term investments and interest on loans and financing, respectively, and are recorded on an accrual basis of accounting (Note 17).

3.17 Current and deferred income tax

The provision for income tax is based on taxable profit for the year. The taxable profit differs from profit before taxes presented in the consolidated statement of operations because it excludes revenues or expenses taxable or deductible in subsequent periods, and excludes non-taxable or non-deductible items. The provision for income tax is calculated for each individual entity of the Group, based on the rates prevailing at year-end according to the respective tax regulation in each jurisdiction.

Deferred taxes are recognized for temporary differences and tax loss carryforwards, when applicable. Deferred taxes are recognized only to the extent that their recoverability is considered probable, taking into account Management's assessment regarding the Group's ability to continue as a going concern (Note 1.k).

3.18 Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial 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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

Financial assets

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.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on their classification.

Impairment of financial assets

The Group recognizes a loss allowance for trade receivables and contract assets. The amount of expected credit losses is remeasured at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the contribution received, net of direct issuance costs.

Classification of financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

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 term of the financial liability, or a shorter period (where appropriate), to the amortized cost of a financial liability.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information regarding the grouping is provided internally on that basis.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.19 Cash flow statement

The cash flow statement is prepared using the indirect method, which separates cash flows from operating activities, investing activities and financing activities and reconciles profit/(loss) for the year to net cash flows to the change in cash and cash equivalents. Investing and financing transactions that do not require the use of cash or cash and cash equivalents have been excluded from the cash flow statement and, when applicable, are disclosed in the consolidated financial statements as "non-cash transactions".

4. CRITICAL ACCOUNTING ESTIMATES

In applying the significant accounting policies described in Note 3, Management must use judgement and develop estimates for the carrying amounts of assets and liabilities, which are not easily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Therefore, future results could differ from those estimates.

The estimates and underlying assumptions are reviewed continuously, and the effects of such reviews are recognized prospectively.

Management has concluded that the most significant judgments and estimates considered during the preparation of these consolidated financial statements are the following:

4.1. Measurement of financial instruments

The Group uses valuation techniques that include the use of inputs that are (or not) based on observable market data to estimate the fair values of certain types of financial instruments. Details of the main assumptions used to measure the fair values of financial instruments are disclosed in Note 19.a (fair value hierarchy).

Management believes that the valuation techniques applied and the assumptions used are appropriate to measure the fair values of its financial instruments.

4.1.1 Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated and are considered as "closely related". The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

The classification of "closely related" requires judgement when interpreting the applicable clauses of the agreements. Management believes that reached the appropriate interpretation in the applicable agreements, accounting for the options identified as embedded derivatives that are closely related to debt instruments.

4.2. Useful lives of PP&E

The carrying amounts of PP&E assets are based on estimates, assumptions and judgments related to capitalized costs and useful lives of the drilling units and its related equipment. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future oil and gas industry conditions and operations. The Group calculates depreciation using the straight-line method.

As described in Note 3.9, at the end of each fiscal year, the Group reviews the estimated useful lives of PP&E.

4.3. Impairment of long-lived assets

The Group evaluates PP&E for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group also evaluates PP&E for impairment reversal if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The Group substantially uses either discounted future cash flow projections (value in use) or fair value less costs to sell (market approach) techniques for determining the recoverable amount of an asset for the purpose of potential impairment loss provision or reversal.

For the value in use calculation, the Group's assumptions and estimates underlying this analysis includes the following, by drilling unit (i.e., cash generating unit): day rate, occupation rate, efficiency rate, daily operating costs (Opex), residual useful life of the drilling units and estimated proceeds that may be received on disposition.

The underlying assumptions are developed based on historical data for each drilling unit, which considers rated water depth and other attributes and the assessment of its future marketability according to the current and forecasted market environment at the time of assessment. Other assumptions, such as operating costs (Opex), are estimated using historical data adjusted for known developments and future events.

The Group prepares a probable scenario for each drilling unit, which results in a discounted cash flow projection for each drilling unit based on expected operational and macroeconomic assumptions (e.g., inflation indexes, foreign exchange rates, among others) and compare such amount to its carrying amount. Discount rates are derived from the Group's internal Weighted Average Cost of Capital ("WACC").

Management's assumptions are necessarily subjective and are an inherent part of the Group's asset impairment evaluation, and the use of different assumptions could produce results that differ from those being disclosed. The Group's methodology generally involves the use of significant unobservable inputs, representative of a "Level 3" fair value measurement (Note 19.a), which may include assumptions related to future dayrate revenues, costs and drilling units utilization, the long-term future performance of the Group's drilling units and future oil and gas industry conditions. Management's assumptions involves uncertainties regarding future demand for the Group's services, dayrates, expenses and other future events, and Management's expectations may not be indicative of future outcomes. Significant unanticipated changes to these assumptions could materially modify the Group's analysis in testing an asset for potential impairment loss provision or reversal.

Other events or circumstances that could affect the Group's assumptions may include, but are not limited to, a further sustained decline in oil and gas prices, cancelations of the Group's charter and service-rendering contracts or contracts of the Group's competitors, contract modifications, costs to comply with new governmental regulations, growth in the global oversupply of oil and geopolitical events, such as lifting sanctions on oil-producing nations and potential impacts arising from the coronavirus pandemic ("COVID-19") and from the Russian invasion of Ukraine. Should actual market conditions in the future differ significantly from those considered in the Group's projections, the Group's impairment assessment would likely be different.

During the years ended December 31, 2023 and 2022, the Group recognized impairment reversals on its drilling units (Notes 10 and 17).

4.4. Provisions for claims and other obligations

Claims against the Group, including unasserted claims or assessments are recognized as a liability and/or are disclosed in these consolidated financial statements, unless the loss probability is considered to be remote. A provision for claim and other obligation is recorded when the loss is probable and the amount can be reliably estimated. Claims and other similar obligations will be settled when one or more future events occur. Normally, the occurrence of such events is not within the Group's control and, therefore, the assessment of these liabilities is subject to varying degrees of legal uncertainty and interpretation and requires significant estimates and judgments to be made by Management.

Certain conditions may exist as of the date of the consolidated financial statements are issued, which may result in a loss to the Group, but which will only be settled when one or more future events occur or fail to occur. The Group's Management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group's legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss will be incurred and the liability amount can be reliably estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, then the nature of the contingent liability is disclosed in the consolidated financial statements.

4.5. Provision for management incentive plan ("MIP")

As informed on note 22.c, MIP consists of three components: a retention pool, a performance unit pool, and a board pool. The retention pool is payable on the second and third anniversary of the restructuring and its provision is recorded on an accrual basis until payment. The performance unit pool and the board pool payments are contingent to the consummation of a qualifying liquidity event, and their value is contingent to the total enterprise value ("TEV") at the time of the liquidity event. Consequently, there are significant uncertainties on whether (i) the liquidity event will occur, (ii) the amount of the TEV at the date of as liquidity event, if any and (iii) the related amount of the payments related to the MIP and such assumptions and its impacts are reviewed quarterly. Based on the current information, we estimated a probable outflow and recognized the liabilities amounting to US$ 1,949 thousands.

4.6. Deferred tax assets

The Group recognizes deferred tax assets arising from tax losses and temporary differences between accounting and taxable profits. Deferred tax assets are recognized to the extent that the Group expects to generate sufficient future taxable income based on projections and forecasts made by Management. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and, if applicable, reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

5. CONSOLIDATED ENTITIES AND INVESTMENTS

		December 31,			
		2023		2022	
Consolidated entities	Country of incorporation	Direct	Indirect	Direct	Indirect
Alaskan & Atlantic Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Alaskan & Atlantic Rigs B.V.	Netherlands	-	100.00	-	100.00
Alpha Star Equities Ltd. (“Alpha”)	British Virgin Islands	-	100.00	-	100.00
Amaralina Star Ltd. (“Amaralina”)	British Virgin Islands	-	100.00	-	100.00
Angra Participações B.V. (“Angra”)	Netherlands	100.00	-	100.00	-
Brava Drilling B.V. (“Brava Drilling”)	Netherlands	-	100.00	-	100.00
Brava Star Ltd. (“Brava”)	British Virgin Islands	-	100.00	-	100.00
Constellation Netherlands B.V.	Netherlands	100.00	-	100.00	-
Constellation Overseas Ltd. (“Constellation Overseas”)	British Virgin Islands	-	100.00	-	100.00
Constellation Panamá Corp.	Panamá	-	100.00	-	100.00
Constellation Services Ltd. (“Constellation Services”)	British Virgin Islands	-	100.00	-	100.00
Domenica S.A. (“Domenica”) (1)	Paraguay	-	100.00	-	100.00
Domenica Argentina S.A. (2)	Argentina	-	100.00	-	100.00
Gold Star Equities Ltd. (“Gold”)	British Virgin Islands	-	100.00	-	100.00
Laguna Star Ltd. (“Laguna”)	British Virgin Islands	-	100.00	-	100.00
London Tower Management B.V.	Netherlands	-	100.00	-	100.00
Lone Star Offshore Ltd. (“Lone”)	British Virgin Islands	-	100.00	-	100.00
Olinda Star Ltd. (“Olinda”)	British Virgin Islands	-	100.00	-	100.00
Palase Management B.V.	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	100.00	-
QGOG Constellation US LLC.	United States of America	-	100.00	-	100.00
Serviços de Petróleo Constellation Participações S.A.	Brazil	-	100.00	-	100.00
QGOG Star GmbH	Switzerland	100.00	-	100.00	-
Serviços de Petróleo Constellation S.A.	Brazil	-	100.00	-	100.00
Serviços de Petróleo Onshore Constellation Ltda. (3)	Brazil		100.00		100.00
Serviços de Petróleo Constellation S.A. (“SPC India”)	India	-	100.00	-	100.00
Star International Drilling Ltd. (“Star”)	Cayman Island	-	100.00	-	100.00

(1) On January 06, 2023, a share purchase agreement was signed between Serviços de Petróleo Constellation Participações S.A., Serviços de Petróleo Constellation S.A. and Serviços de Petróleo Onshore Constellation Ltda. and President Energy Investments (Paraguay) where 100% of the shares from Domenica S.A. were sold, including the onshore rig QG-I.

(2) On March 10, 2023, the liquidation of the company Domenica Argentina S.A. was concluded and the company has ceased to exist.

(3) On May 10, 2023, the incorporation of the company Serviços de Petróleo Onshore Constellation Ltda. was concluded.

6. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
Cash and bank deposits	64,376	20,515
Time deposits (*)	23,567	38,964
Total	87,943	59,479

(*) Time deposits are comprised as follows:

Financial institution	Currency	Average interest rate (per annum)	December 31, 2023	December 31, 2022
Itaú BBA Nassau	U.S. dollar	0.15%	-	24,668
		SOFR - 0.15% bps	-	
Citibank	U.S. dollar			124
Banco Bradesco S.A.	Brazilian real	20%	7,074	6,771
Banco do Brasil S.A.	Brazilian real	90,46% of CDI(i)	16,493	7,401
Total			23,567	38,964

(i) Brazilian Interbank Deposit Certificate (Certificado de Depósito Interbancário - CDI), average remuneration during the year ended December 31, 2023 and December 31, 2022 was 13.26 %p.a. and 12.45% p.a. respectively.

7. RESTRICTED CASH

As part of the restructuring during 2022, the Company issued certain warrants and entered into a warrant exercise agreement, pursuant to which an amount equal to US$ 1,733 as of December 31, 2023 and 2022 is held in an account of the Company for the benefit of the warrant holders. Such amount may only be released by the warrant holder for payment of the exercise price of the warrants.

As part of the restructuring, the balances in the debt service reserve accounts were used to repay ALB loans. The Company made payments of principal for Amaralina Star and Brava Star financing in amount of US$ 17,618 as of December 31, 2022 (Note 11.a).

The amounts in these accounts are comprised by time and bank deposits, as follows:

Financial institution	Type	Average interest rate (per annum)	December 31 2023	December 31, 2022
Signature Bank(i)	Bank deposits	-	1,733	1,733
Total			1,733	1,733

(i) On March 12, 2023, Signature Bank was the subject of an intervention by the New York State Department of Financial Services, which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. In that connection, the FDIC transferred all the deposits and substantially all of the assets of Signature Bank to Signature Bridge Bank, N.A. This means that all deposits, regardless of dollar amount, were transferred to Signature Bridge Bank, N.A. and the total balance in the accounts will be available for transactions. All obligations of the bridge banks are backed by the FDIC and the full faith and credit of the U.S. government. This event does not affect our financial position, results of operations, or cash flows for the current reporting period. On March 20, 2023 FDIC announced that has entered into a purchase and assumption agreement for substantially all deposits and certain loan portfolios of Signature Bridge Bank, National Association, by Flagstar Bank, National Association, Hicksville, New York, a wholly owned subsidiary of New York Community Bancorp, Inc., Westbury, New York.

8. TRADE AND OTHER RECEIVABLES

Trade receivables are related to receivables for charter and service-rendering agreements relating to the drilling units used in the oil and gas exploration in Brazil and India. Historically, there have been no defaults on receivables or delays in collections. The average collection period is of approximately 82 days (68 days on December 31, 2022). Details of financial risk management related to credit risk are disclosed in Note 19.b.

As of the year ended on December 31, 2022, the Group decided to recognize a provision for loss of receivables in the amount of US$ 442 related to deductions imposed to Olinda Star due to activities that occurred during 2020. No provision for loss recognized for the year ended December 31, 2023.

9. RELATED PARTY TRANSACTIONS

As of the years ended as of December 31, 2023 and December 31, 2022, there were no outstanding balances and transactions between the Company and its subsidiaries, that are part of the Group, as the transactions have been eliminated for consolidation purposes.

Key management personnel (i) remuneration for the year ended December 31, 2023 and December 31 2022, is as follows:

	December 31,	
	2023	2022
Short-term benefits (ii)	7,270	5,578

(i) Key management is defined as the statutory officers and directors of the Group.

(ii) Short-term benefits mainly refers to salaries, social security contributions, annual leave, short-term incentive (payable within twelve months from the year-end date). This amount is currently recorded within the group of Payroll and related charges.

Management Incentive Plan (MIP)

The company implemented a Management Incentive Plan (MIP) in May 2023 to reward and retain key personnel while supporting long-term performance goals as it is disclosed on note 22.c.

Severance Plan

The Group´s Employment Contracts (the "Contract") with some of its Executive members provides that if the contract is terminated at the Group's initiative, the member will be entitled to an Exit Fee. A minimum monthly base salary is guaranteed as an Exit Fee, which will only be applied if the Contract is terminated by the Group´s initiative to 12 months from the date of an eventual change of control of the Group. The guaranteed minimum monthly base salary will not be applied following 12 months after the change of control of the Group. In this case, the member will be entitled to an upper case corresponding to a monthly base salary, multiplied for each year of employment by the Group.

10. PROPERTY, PLANT AND EQUIPMENT

	Drillships			Offshore drilling rigs					Onshore drilling rigs, equipment and bases [b]	Corporate	Total
	Brava Star	Amaralina Star	Laguna Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star			
Cost											
Balance as of December 31, 2021	728,687	724,725	719,555	376,780	772,885	605,239	740,160	585,632	120,803	19,912	5,394,378
Additions	2,214	31,677	33,204	1,405	2,057	23,363	25,379	2,762	905	3	122,969
Disposals / write off	-	-	(380)	(39)	-	(176)	(112)	-	(1,805)	-	(2,512)
Currency translation adjustments	-	-	-	-	-	-	-	-	3,150	485	3,635
Balance as of December 31, 2022	730,901	756,402	752,379	378,146	774,942	628,426	765,427	588,394	123,053	20,400	5,518,470
Additions	25,198	10,108	6,530	2,527	14,329	11,684	8,145	172	-	243	78,936
Disposals / write off	(27)	(151)	(57)	-	(88)	-	(65)	-	(394)	(14)	(796)
Reclass to Assets held for sale	-	-	-	-	-	-	-	-	(32,189)	-	(32,189)
Currency translation adjustments	-	-	-	-	-	-	-	-	4,995	3,479	8,474
Balance as of December 31, 2023	756,072	766,359	758,852	380,673	789,183	640,110	773,507	588,566	95,465	24,108	5,572,895
Accumulated depreciation and Impairment											
Balance as of December 31, 2021	(327,181)	(437,048)	(415,790)	(229,902)	(474,142)	(378,003)	(515,239)	(566,790)	(98,219)	(18,503)	(3,460,817)
Depreciation	(23,198)	(25,653)	(26,063)	(19,486)	(18,089)	(15,540)	(15,723)	(1,595)	(3,479)	(116)	(148,942)
Impairment	77,499	121,169	130,427	(5,223)	68,491	67,316	102,006	(929)	-	-	560,756
Disposals / write off	-	-	184	17	-	93	78	-	994	-	1,366
Currency translation adjustments	-	-	-	-	-	-	-	-	(140)	(397)	(537)
Balance as of December 31, 2022	(272,880)	(341,532)	(311,242)	(254,594)	(423,740)	(326,134)	(428,878)	(569,314)	(100,844)	(19,016)	(3,048,174)
Depreciation	(27.051)	(30,888)	(40,366)	(12,862)	(20,164)	(24,005)	(25,418)	(1,624)	(2,274)	(1,072)	(185,724)
Impairment	41,961	13,550	-	15,665	16,879	4,276	(5,993)	(17,628)	(14,036)	-	54,674
Reclass to Assets held for sale	-	-	-	-	-	-	-	-	28,988	-	28,988
Disposals / write off	14	115	17	-	45	-	-	-	19	14	224
Currency translation adjustments	-	-	-	-	-	-	-	-	(4,030)	(2,755)	(6,785)
Balance as of December 31, 2023	(257,956)	(358,755)	(351,591)	(251,791)	(426,980)	(345,863)	(460,289)	(588,566)	(92,177)	(22,829)	(3,156,797)
Property, plant and equipment, net [a]											
December 31, 2022	458,021	414,870	441,137	123,552	351,202	302,292	336,549	19,080	22,209	1,384	2,470,296
December 31, 2023	498,116	407,604	407,261	128,882	362,202	294,247	313,218	-	3,289	1,279	2,416,098
Useful life range (years)	1 – 35	1 - 35	1 – 35	1 - 35	1 - 35	1 - 35	1 - 35	1 - 35	1 – 25	1 – 25	

(a) The Group's assets that are pledged as security for financing agreements are disclosed in Note 11.
(b) As of December 31, 2023 the amounts of US$0 (US$18,593 as of December 31, 2022) refers to the onshore drilling rigs.

Impairment

During the years ended December 31, 2023 and 2022, the Group identified indicators that part of the impairment loss recognized in prior periods of its offshore asset groups may have decreased. Such indicators included recovery in commodity prices and projected day rates.

(a) Onshore drilling rigs

As of December 31, 2022 the Group estimated the recoverable amount of its onshore drilling rigs based on the revaluated historical cost. In calculating the recoverable amount of these drilling units no impairment was recognized.

During 2023 company Management approved the sale of onshore drilling rigs and started an active program to locate a buyer. Negotiations for the sale started during 2023, and the sale was completed on January 19, 2024. Accordingly, Onshore drilling rigs were reclassified to assets held for sale as of December 31, 2023 in the amount of US$ 3,200. The assets held for sale are measured at fair value less costs to sell, therefore an impairment loss of US$ 14,036 was also recognized (resulting in the amount of assets held for sale of US$ 3,200 as of December 31, 2023).

Drilling units	Type	Start of operations	Contract expected expiration date (current or previous)	Customer (current or previous)
QG-I [2]	Onshore drilling rig	1981	June 2018	Zeus ÖL S.A.
QG-II [1]	Onshore drilling rig	1981	August 2018	Ouro Preto Óleo e Gás S.A.
QG-IV [1]	Onshore drilling rig	1996	June 2015	Petrobras
QG-V [1]	Onshore drilling rig	2011	April 2015	Petrobras
QG-VI [1]	Onshore drilling rig	2008	May 2016	Petrobras
QG-VII [1]	Onshore drilling rig	2008	July 2015	Petrobras
QG-VIII [1]	Onshore drilling rig	2011	July 2022	Eneva
QG-IX [1]	Onshore drilling rig	2011	June 2014	HRT O&G Exploração e Produção de Petróleo Ltda.

(1) As of December 31, 2023, these onshore drilling rigs were not hired under charter and service-rendering agreements. The Group made the strategic choice to sell its remaining onshore drilling rigs as part of the divestment process to become even more competitive on the global stage.

(2) On January 06, 2023, a share purchase agreement was signed between Serviços de Petróleo Constellation Participações S.A., Serviços de Petróleo Constellation S.A. and Serviços de Petróleo Onshore Constellation S.A. Ltda. and President Energy Investments (Paraguay) where 100% of the shares from Domenica S.A. were sold, including the onshore rig QG-I. On February 02, 2023 the transfer was concluded, amounting to USD 1,039 and the other installment of USD 1,000 is to be paid on February 02, 2024.

(3) On January 17, 2024, a share purchase agreement was signed between Serviços de Petróleo Constellation S.A. and Empresa Brasileira de Serviços e Perfuração Ltda. where onshore rigs QG-II, QG-IV, QG-V, QG-VI, QG-VII, QG-VIII and QG-IX were sold.

(b) Offshore drilling rigs and drillships

The Group estimated the recoverable amount of each one of its offshore drilling rigs and drillships based on a value in use calculation, which uses a discounted projected net cash flow analysis over the remaining economic useful life of each drilling unit, considering a 11.11% discount rate for all rigs except Atlantic and Olinda that considers 10.86% (12.05% for all rigs except Atlantic and Olinda that considers 11.83% in 2022). The rates reflect 10 and 20 years T.Bonds respectively according to the rig´s lifespan. Our estimates required us to use significant unobservable inputs including assumptions related to the future performance of our contract drilling services, such as projected demand for our services, rig efficiency and day rates. As of December 31, 2023, the Group reversed an impairment for Alpha, Amaralina, Atlantic, Brava and Gold in the amount of US$ 92,331 and accrued an impairment for Lone and Olinda in the amount of US$ 23,621 with a net impact reversal of US$ 68,710 (US$ 560,756 for December 31, 2022) in all offshore drilling rigs and drillships.

11. LOANS AND FINANCING

Financial institution/ Creditor	Funding type	Description	Objective	Beginning period	Maturity	Contractual interest rate (per annum)	Effective interest rate (per annum)	Currency	December 31 2023	December 31, 2022
Bondholders	Senior Secured Notes (“Priority Lien Notes”)	Corporate Bond	Debt Restructuring	Jun/2022	Jun/2025	13.50%	13.50%	U.S. dollar	57,408	62,400
Bondholders	Senior Secured Notes (“First Lien Notes”) (1)(7)	Corporate Bond	Debt Restructuring	Jun/2022	Dec/2026	3.00% (cash) or 4.00% (PIK)	3.00% (cash) or 4.00% (PIK)	U.S. dollar	289,509	284,518
Bondholders	Senior Secured Notes (“Second Lien Notes”) (2)	Corporate Bond	Debt Restructuring	Jun/2022	Dec/2050	0.25%	0.25%	U.S. dollar	1,895	1,892
Bondholders	Senior Unsecured Notes (“2050 Notes”) (3)	Corporate Bond	Debt Restructuring	Jun/2022	Dec/2050	0.25%	0.25%	U.S. dollar	3,124	3,116
							Subtotal – fixed interest rate loans		351,936	351,926
Banco Bradesco S.A.	Loan (“Bradesco Debt”) (4)(7)	Working Capital	Debt restructuring	Jun/2022	Dec/2026	SOFR + 2.00% (cash) or 3.00% (PIK)	SOFR + 2.00% (cash) or 3.00% (PIK)	U.S. dollar	45,642	44,017
							Subtotal – variable interest rate loans		45,642	44,017
Certain Lenders	Financing (“Restructured ALB Debt”) (5)(7)	ALB	Debt restructuring	Jun/2022	Dec/2026	SOFR + 2.00% (cash) or 3.00% (PIK)	SOFR + 2.00% (cash) or 3.00% (PIK)	U.S. dollar	536,438	516,049
Certain Lenders	Financing (“ALB L/C Debt”) (6)	ALB L/C Debt	Debt restructuring	Jun/2022	Dec/2026	SOFR + 3.00%	SOFR + 3.00%	U.S. dollar	30,200	30,200
							Subtotal – variable interest rate financings		566,638	546,249
								Total	964,216	942,192
								Current	33,696	4,992
								Non-current	930,520	937,200

(1) Excess cash sweep obligation, prepayment option without penalty and conversion obligatory to variable number of C-2 shares of the Company in case of a Liquidity Event.

(2) Prepayment option without penalty and conversion obligatory to variable number of C-4 shares of the Company in case of a Liquidity Event.

(3) Prepayment option without penalty and conversion obligatory to variable number of C-4 shares of the Company in case of a Liquidity Event.

(4) Excess cash sweep obligation, prepayment option without penalty and conversion obligatory to variable number of C-3 shares of the Company in case of a Liquidity Event.

(5) Excess cash sweep obligation, prepayment option without penalty and conversion obligatory to variable number of C-1 shares of the Company in case of a Liquidity Event.

(6) Prepayment option without penalty.

(7) Excess cash sweep obligation means the repayment of the debt which ALB Lenders, Bradesco and the holders of the First Lien Notes are entitled to in case the adjusted unrestricted cash is higher than USD 100mm as of the end of each quarter on or after March 31, 2023.

a) Changes in loans and financing

	December 31, 2023	December 31, 2022
Balance as of January 1	942,192	1,933,943
Additions	-	62,400
Principal repayment	(833)	(17,618)
Interest payment	(41,739)	(5,687)
Total payments	(42,572)	(23,305)
Interest charged through profit and loss	64,596	85,465
Financial expenses on loans and financing (Note 17)	64,596	85,465
Debt restructuring	-	(1,116,311)
Balance as of December 31	964,216	942,192

<u>Working capital</u>

On June 10, 2022, the Group: amended and restated its working capital loan agreements with Bradesco to reflect the terms agreed to in the debt restructuring plan, with a final maturity date on December 31, 2026.

<u>Notes</u>

Priority Lien Notes – The Company issued new Senior Secured Notes bearing interest at 13.50% p.a. (the “Priority Lien Notes”), in an aggregate principal amount of payable quarterly in cash, aggregate principal amount of US$62,400. Interest on the Priority Lien Notes is payable in cash on a quarterly basis. The Priority Lien Notes mature on June 30, 2025. The New Priority Lien Notes Indenture (2022) includes a prepayment option at premium as well as a mandatory redemption at the liquidity event with the same conditions of the optional prepayment. If exercised, the prepayment cost will be based on a interest rate at: (i)113.5% after December 31, 2023 and until September 30, 2024; (ii) 106.75% after September 30, 2024 and until and including December 31, 2024; and (iii) thereafter 103.375%.

First Lien Notes – The Company issued Senior Secured Notes bearing interest at either 3.00% p.a. (if the Company elects to pay the interest in cash) or 4.00% p.a. (if the Company elects to capitalize the interest), in an aggregate principal amount of US$278,300. The First Lien Notes mature on December 31, 2026.

Second Lien Notes – The Company issued Senior Secured Notes bearing interest at 0.25% p.a. (the "Second Lien Notes"), payable quarterly as capitalized interest, in an aggregate principal amount of US$1,889. The Second Lien Notes mature on December 31, 2050.

2050 Notes – The Company issued Senior Unsecured Notes bearing interest at 0.25% p.a. (the "2050 Notes"), payable quarterly as capitalized interest, in an aggregate principal amount of US$3,112. The 2050 Notes mature on December 31, 2050.

b) Loans and financing long term amortization schedule

For year ended December 31, 2023	Net amount	PIK (*)	Gross amount
2024	-	36,259	36,259
2025	23,712	3,757	27,469
2026	901,789	205,720	1,107,509
After 2027	5,019	351	5,370
Total	930,520	246,087	1,176,607

(*) Interest capitalized that will be repaid upon maturity of the loans and financing.

c) Covenants

Financial covenants

The loans and certain of the Notes contain a financial covenant (pursuant to which the Company must maintain a minimum liquidity of US$25 million as of the end of each quarter until March 2023 and from then on US$35 million) and is secured by collateral provided to the creditors. As per the financing documentation, liquidity means unrestricted cash plus any undrawn, fully committed revolver availability. Non-compliance with such financial covenants could limit the ability of the Company to make certain payments to related parties and/or lead to an event of default. The Company is currently in compliance with its financial covenants.

d) Guarantees and Collateral

Each of the Priority Lien Notes, First Lien Notes, Second Lien Notes, Bradesco Debt and Restructured ALB Debt benefiting from a customary security package that includes, guarantees such as assignment of the charter receivables (to the extent third-party consent for such assignment is obtained), mortgages over the drilling rigs and drillships, pledges over the shares of the drilling rigs and drillships owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter and service-rendering agreements are required to be paid and assignment of the relevant insurances, corporate guarantees. The Priority Lien Notes also benefit from assets that cross-collateralize the ALB Debt and assets the cross-collateralize the First Lien Notes, the Second Lien Notes and the Bradesco Debt.

In addition, the terms of some of these debt financing instruments restricts the ability of the Company and its subsidiaries to pay dividends, incur additional debt, grant additional liens, sell or dispose assets and enter into certain acquisitions, mergers and consolidations, except as already established in such debt financing instruments.

12. PROVISIONS

	December 31,			
	2023		2022	
	Current	Non-current	Current	Non-current
Provision for Onerous Contract[a]	19,857	9,773	-	-
Contractual Penalties [b]	1,548	-	7,507	
Contingencies and provisions for lawsuits [c]	-	3,570	-	2,797
MIP Retention (Note 22.c)	-	1,949	-	-
Others	-	418	-	814
Total	21,405	15,710	7,507	3,611

(a) Provision for Onerous Contract

During 2023, the expected costs of meeting the obligations of the current contracts of the following rigs exceeded their expected revenue, and a provision for onerous contract has been recorded: Laguna (US$ 9,378), Lone (US$ 6,448), Gold (US$ 11,082) and Amaralina (US$ 2,722). No provision for onerous contract has been recorded for 2022.

(b) Contractual Penalties

In the normal course of its business activities, the Group engages in agreements with third parties that convey contractual obligations. The Group recognizes provisions for contractual fines (delay in beginning of operations) that are more likely than not to be payable with respect to certain of its agreements, for which the Group's Management does not expect the payable amount to materially differ from the estimated amount.

	December 31, 2023	December 31, 2022
Balance as of January 1	795	745
Contractual Penalties accrual/(reversal)	693	6,712
Foreign exchange rate variations	60	50
Balance as of December 31	1,548	7,507

(c) Contingencies and provisions for lawsuits

1. Liabilities assessed as probable losses

During the normal course of its business activities, the Group is exposed to labor, civil and tax claims. Regarding each claim or exposure, Management has assessed the probability that the matter resolution would ultimately result in a financial loss for the Group. As of December 31, 2023, provisions to cover probable losses included in "other non-current liabilities" are mainly related to labor (hardship and retirement) and civil claims.

Changes in loss provision for labor and civil claims are as follows:

	December 31 2023	December 31, 2022
Balance as of January 1	2,797	1,540
Additions	3,202	1,992
Reversals	(2,664)	(830)
Foreign exchange rate variations	235	95
Total	3,570	2,797

2. Contingent liabilities assessed as possible losses

Based on the Group's in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the consolidated financial information and consist of labor lawsuits (mainly comprised by compensation due to work related accidents, overtime and occupational diseases) in the amount of US$21,001 as of December 31, 2023 (US$18,979 as of December 31, 2022), tax lawsuits in the amount of US$46,790 as of December 31, 2023 (US$35,225 as of December 31, 2022) and civil lawsuits in the amount of US$694 as of December 31, 2023 (US$644 as of December 31, 2022).

The main tax lawsuits assessed as possible losses are as follows:

i. On September 15, 2010, Serviços de Petróleo received a Notice of Violation issued by the tax authorities due to the nonpayment of Services Tax ("*Imposto sobre Serviços de Qualquer Natureza* - ISS") in the city of Rio de Janeiro. Serviços de Petróleo argues, on appeal, that the operations were carried out in other municipalities and the taxes were collected under their tax jurisdictions (ISS due to the site of the service provider). As of December 31, 2023, the estimated amount involved is US$9,394 (US$7,233 as of December 31, 2022).

On January 22, 2015, Serviços de Petróleo received a Notice of Violation issued by the Brazilian Internal Revenue Service (*Receita Federal do Brasil* - RFB) related to Social Integration Program ("*Programa de Integração Social* - PIS") and Social Investment Program ("*Contribuição para o Financiamento da Seguridade Social* - COFINS") collected in the years 2010 and 2011. The RFB initiated a Tax Administrative Process, whereby it requires Serviços de Petróleo to make tax payments, due to the fact that the RFB considered that Serviços de Petróleo made use of improper tax credits aiming to reduce its PIS and COFINS obligations. On February 23, 2015, Serviços de Petróleo argued, on appeal, in order to contest RFB's tax assessment. As of December 31, 2023, the estimated amount involved is US$22,052 (US$19,157 as of December 31, 2022).

On December 18, 2020, Serviços de Petróleo received a Notice of Violation issued by the Brazilian Internal Revenue Service (Receita Federal do Brasil - RFB) related to Social Integration Program ("Programa de Integração Social - PIS") and Social Investment Program ("Contribuição para o Financiamento da Seguridade Social - COFINS") collected in the year 2016. The RFB initiated a Tax Administrative Process, whereby it requires Serviços de Petróleo to make tax payments, due to the fact that the RFB considered that Serviços de Petróleo made use of improper tax credits aiming to reduce its PIS and COFINS obligations. On January 19, 2021, Serviços de Petróleo argued, on appeal, in order to contest RFB's tax assessment. As of December 31, 2023 the estimated amount involved is US$4,150 (US$3,850 as of December 31, 2022).

ii. In November 2018, Transocean Offshore Deepwater Drilling Inc. and Transocean Brasil Ltda. (hereinafter together referred to as "Transocean") filed a claim against Serviços de Petróleo Constellation S.A. and Brava Star Ltd., accusing both entities of infringing its dual-activity drilling technology patent. In January 2020, Transocean filed a compensation claim against Serviços de Petróleo Constellation S.A. and Brava Star Ltd. regarding the patent infringement alleged in its 2018 claim.

On June 4, 2020, Constellation filed a motion requesting the suspension of the process until a judgment is reached in the nullity action proposed by Constellation against Transocean's patent. The Judge has granted such suspension on September 11, 2020. Transocean tried to revert such decision, but suspension was maintained again by the Appellate Court in October 2023 until a judgment is reached in the nullity action proposed by Constellation against Transocean's patent. On December 13, 2023, the Appellate Court rejected Transocean's request. Therefore, on February 7, 2024, Transocean filed a special appeal. Constellation shall file its response by the end of March 2024 – it will only be possible to indicate the exact deadline after Constellation being summoned about the special appeal.

3. Tax, labor and social security matters

The Group enters into transactions and operations that may be interpreted by third parties subjectively and/or contrary to its position. Nevertheless, the Group's actions are supported by its in-house legal counsel and external legal advisors' opinion.

4. Other matters

Petrobras withholding taxes

In July 2014, the Group received letters from Petrobras informing that the RFB issued Notices of Violation against Petrobras regarding the absence of withholding income taxes collection from charter agreements remittances in 2008 and 2009, related to the Atlantic Star and Alaskan Star offshore drilling rigs. Petrobras indicated that is currently contesting such Notices of Violation, but if the losses on ongoing appeals are confirmed, Petrobras will seek recoverability of such losses from its contractors, including the Group, plus any penalties, interest and fees that would be required to settle the debt with the RFB. Petrobras has informed that the amount involved related to the work performed by the Group amounts to R$152 million (US$68 million translated at historical rates as of June 30, 2014), excluding penalties, interest and fees. The Group has contested Petrobras' allegations in a response letter stating that Petrobras "has no legal or commercial grounds to seek recoverability of such losses from the Group" and that "will not accept any withholding or deduction of the amounts to be received under the charter agreements". Should Petrobras fail on its appeals and, consequently, the Group receives any future charges aiming at the reimbursement of Petrobras' losses, the Group will contest such charges.

13. SHAREHOLDERS' EQUITY

As disclosed in note 1 l), on June 10, 2022, the Group entered into Amended and Restated Credit Agreements with ALBs Creditors and Bradesco, as well as New 2026 First Lien Notes, New 2050 Second Lien Notes, New Unsecured Notes and New Priority Lien Notes, pursuant to new indentures, and held General Shareholders Meeting to approve the conversion of part of the debt held by such creditors into the share capital of the Company, with the dilution of original shareholders (the "Restructuring Documents"). Under the Restructuring Documents, the creditors agreed to a haircut on the US$1,990,128 outstanding debt, resulting in to $826,000 of convertible debt, with an additional $92,600 comprised of $62,400 in new funds raised through the restructuring and $30,200 in non-convertible debt, for a total debt of 918,600.

Additionally, a portion of the debt, owing to a group of key financial creditors, was converted into the Company's equity, as follows:

Additionally, a portion of the debt, owing to a group of key financial creditors, were converted into the Company's equity interest, as follows:

Pre-restructuring		Restructured Debt		
Amounts in USD thousands	Outstanding Debt	Convertible Debt	Non-convertible Debt	Equity % (*)
ALB Lenders	811,788	500,000	30,200	26%
Former 2024 Participating Notes	823,427	278,300	-	47%
Bradesco	167,071	42,700	-	-
Former 2024 Fourth Lien Notes	72,781	1,888	-	-
Former 2030 Unsecured Notes	115,061	3,112	-	-
New Money	-	-	62,400[1]	-
Incumbent Shareholders ("Legacy shareholders")	-	-	-	27%
Total	**1,990,128**	**826,000**	**92,600**	**100%**

The debt-to-equity conversion resulted in a new shareholder composition, as indicated in the table above. The ALB lenders' group consists of international banks that participated in the second amended and restated senior syndicated credit facility agreements dated December 18, 2019 (as amended, restated, supplemented or otherwise modified from time to time), by and among Amaralina Star and Laguna Star as borrowers and by and among Brava Star as borrower. Part of the ALB Lenders' 26% equity stake was issued through warrants, which, prior to their exercise, will not represent Company's shares. Therefore, until such warrants are exercised, the Company's shareholders are limited to the Incumbent Shareholders and holders of former 2024 Participating Notes. The new shareholding composition resulted in a new Board of Directors, effective on the restructuring Closing Date. The Restructuring Documents also contemplate a future liquidity event, consisting of a sale of a majority of the Company's equity interest (or other similar transactions described in the restructuring documents). In this event, the Convertible Debt will be converted into equity, and the proceeds from this liquidity event will be distributed according to the new equity payment waterfall.

The proceeds in a Liquidity Event must be distributed in accordance with the Payment Waterfall, which is as follows:

a. the repayment of the New Money
b. Any Priority Capex Debt (*)
c. ALB Lenders Letter of Credit (Non-convertible debt)
d. All convertible debt (which will be converted into C-1, C-2, C-3 and C-4 shares)
e. D Shares, which will be entitled to 12% of what exceeds USD 1,350,000 of enterprise value at the liquidity event

The remaining net proceeds will then be paid to the shareholders (A, B-1, and B-2 shares).

The amount of all convertible debt (ALB, 1L Notes, Bradesco, 2L and Unsecured) to be used is the lesser between: (i) the outstanding amount of all convertible debt and (ii) 87% of the Net Proceeds, during 2022.

[1] Includes backstop fee of $2.4M

When compared to the extinguished debt, as detailed in note 1 this transaction resulted in a total gain for Constellation of US$ 513.2 million. This transaction also resulted in an increase of US$ 1,577,618 of share premium, which is the difference between the total equity increase of the restructuring, the share capital reduction and the warrants.

(*) Indebtedness of the Company incurred to make capital expenditures (including any maintenance, upgrade or overhaul, but excluding any acquisition of drilling rigs) on the rigs and not to exceed USD 30,000 in the aggregate.

a) Share capital

On June 10, 2022 there was a decrease on the share capital of the Company by the amount of USD 981,200 represented by 2,852,293,996 class A shares in registered form without nominal value and 36,933,368 class B shares in registered form without nominal value to 0 by cancellation of all classes A and B existing shares. This amount was transferred to share premium. On the same date there was a capital increase, from share premium, in the amount of USD 4,933 by the issuance of 180,000,000 new classes A share each with a nominal value of one cent (USD 0.01) and 313,333,333 new class B-1 shares, each with a nominal value of one cents (USD 0.01).

As of December 31, 2023, and December 31, 2022, the Company's share capital amounts to US$4,933, comprised by 493,333,333 ordinary shares, of one cent per share and with no par value.

Advance for future capital increase/Warrant

As part of the restructuring, in June 2022, the Company received an advance for future capital increase in the total amount of US$1,733, representing 173,333,333 of Class B-2 Warrants, convertible at any time into 173,333,333 of shares.

b) Legal reserve

In accordance with Luxembourg Corporate Law, the Company must allocate 5% of its annual profit of its stand-alone financial information, after deducting of any losses brought forward from previous years, to the minimum legal reserve.

The aforementioned requirement will only cease when the legal reserve reaches an amount equivalent to 10% of the Company's issued share capital. Additionally, this reserve may not be distributed.

c) Other Comprehensive Items (OCI)

Foreign currency translation adjustments reserve

The foreign currency translation adjustments reserve is used to record exchange adjustments arising from the translation of foreign subsidiaries' financial information.

d) Share Premium

Share premium represents the difference between the nominal value of the Company's share versus the total amount that was received for the issued share. As of December 31, 2023 and 2022 the Share Premium is 1,567,897.

14. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements. As of December 31, 2023 and 2022, Petrobras has accounted for 73% and 74%, respectively, of total revenues.

Net operating revenue is presented after the following items:

	December 31,	
	2023	2022
Gross operating revenue	583,548	428,756
Taxes levied on revenue:		
Social Integration Program (PIS) (i)	(3,240)	(2,418)
Social Investment Program (COFINS)(i)	(14,924)	(11,136)
Services Tax (ISS) (i)	(5,022)	(3,681)
Good and Service Tax (GST) (ii)	(8,538)	(5,410)
Other	-	34
Net operating revenue	551,824	406,145

(i) Taxes levied on revenues are applicable only to the revenues generated by Serviços de Petróleo.
(ii) GST refers to the indirect tax in India.

15. COST OF SERVICES AND OPERATING EXPENSES

	December 31,					
	2023			2022		
Costs and expenses by nature	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, related charges and benefits	(141,619)	(19,554)	(161,173)	(103,787)	(16,030)	(119,817)
Depreciation	(185,603)	(121)	(185,724)	(148,808)	(133)	(148,941)
Materials	(62,459)	-	(62,459)	(38,554)	-	(38,554)
Maintenance	(99,911)	-	(99,911)	(106,247)	(17)	(106,264)
Insurance	(4,760)	(799)	(5,559)	(5,416)	(1,390)	(6,806)
Other (1)/(2)	(31,359)	(10,133)	(41,492)	(26,860)	(35,135)	(61,995)
Total	(525,711)	(30,607)	(556,318)	(429,672)	(52,705)	(482,377)

(1) Other cost of services: mainly comprised by rig boarding transportation, lodging and meals, data transmission, among others.

(2) Other general and administrative expenses: mainly comprised by transportation, information technology services, external legal advisors fees, independent auditor fees, advisory services fees, among others.

16. OTHER OPERATING INCOME (EXPENSES)

	December 31,	
	2023	2022
Revenue from sales of PP&E	675	744
Reversal for onerous contract	-	1,671
Reversal of impairment provision, net (Note 10)	54,674	560,756
Gain in restructuring (Note 1.l)		513,226
Other	284	733
Other income	55,633	1,077,130
Contractual Penalties	(699)	(6,727)
Provisions for onerous contract	(29,630)	-
Other	(288)	(280)
Other expenses	(30,617)	(7,007)
Total other income, net	25,016	1,070,123

17. FINANCIAL EXPENSES, NET

	December 31,	
	2023	2022
Interest on short-term investments	2,552	1,085
Other financial income	641	1,139
Financial income	3,193	2,224
Financial expenses on loans and financing (Note 11.a)	(64,596)	(85,465)
(Accrual)/ reversal of derivatives (Note 20)	17,692	(44,044)
Other financial expenses	(2,506)	(5,105)
Financial expenses	(49,410)	(134,614)
Foreign exchange variation gain, net	(353)	(83)
Financial expenses, net	(46,570)	(132,473)

18. TAXES

Most of the Group's entities are located in jurisdictions that are exempt from corporate income tax, except for Serviços de Petróleo and its subsidiary Serviços de Petróleo India, QGOG Constellation UK and QGOG Constellation US, which operate in Brazil, India, UK and USA, respectively. Additionally, certain of the Group entities' operate in the Netherlands, Switzerland and Luxembourg, but none of these entities reported taxable income for the periods presented.

The related taxes and contributions are as follows:

a) Recoverable taxes

	December 31 2023	December 31, 2022
Taxes on revenue (PIS/COFINS)	16,262	16,061
Recoverable Taxes in India - GST(i) and WHT	3,533	4,702
Income tax (IRPJ) and social contribution on net income (CSLL) (ii)	1,526	1,914
Other	221	269
Total	21,541	22,946
Current	21,541	22,946
Non-current	-	-

(i) GST - Goods and Services Tax: Refers to taxes on supply of goods and services in India. The recoverable GST amounts refer to credits on the acquisition of goods and services.
(ii) Mainly refers to withholding taxes on revenues that are compensated with other federal taxes. Social Contribution on net income is a part of the Brazilian Income Tax.

b) Taxes payables

	December 31 2023	December 31, 2022
Goods and Services Tax - GST(i)	811	137
Income tax (IRPJ) and social contribution (CSLL)	2,722	2,787
Service Tax (ISS)	1,062	1,396
State VAT (ICMS)	189	114
Total	4,784	4,434

(i) GST payables refer to taxes levied on services rendered in India.

c) Deferred tax assets

i) Brazil

	December 31 2023	December 31, 2022
Income tax (IRPJ) and social contribution (CSLL) (*)	20,312	17,823

(*) Mainly refers to deferred income arising from taxes losses carryforward and provision for contingencies which are derived from Serviços de Petróleo operations aiming future compensation based on reliable taxable profit estimates. The expectation of compensation of these credits is until 2027. Tax losses do not expire and the compensation is limited to 30% of taxable income for each year.

ii) Luxembourg

Based on the 2023 CIT return, the Company avails of approximately US$ 3,443,758 (3,445,748 as of December 31, 2022) of carry-forward losses for Luxembourg CIT purposes. Such carry-forward losses represent tax credits of US$ 858,873 (US$ 859,369 as of December 31, 2022) that has not been recognized in the balance sheet as they are not expected to be used in the future.

d) Effect of income tax results

The tax rate used for the nine-month period ended December 31, 2023 and 2022 reconciliations below refers to the combined corporate nominal tax rate of 34% in accordance with Brazilian tax legislation, jurisdiction in which Serviços de Petróleo (Brazilian subsidiary) operates, the corporate nominal tax rate of 20% in accordance with British tax legislation, jurisdiction in which QGOG Constellation UK Ltd. Operates and the withholding income tax on Serviços de Petróleo India revenues of 4.326%, in accordance with Indian tax legislation, jurisdiction in which Serviços de Petróleo India operates.

The amounts reported as income tax expense in the consolidated statement of operations are reconciled from the nominal rate to the effective rate as follows:

	December 31,	
	2023	2022
Profit / (Loss) before taxes	(26,048)	861,418
Income tax and social contribution at nominal rate (*)	(4,140)	(1,607)
Adjustments to derive effective tax rate:		
Non-deductible expenses	7,564	(1,106)
Other	(8,283)	580
Income tax expense recognized in profit or loss	(4,859)	(2,133)
Current taxes	(5,793)	(2,498)
Deferred taxes	934	365

(1) Nominal tax rate applied on profits/ (loss) before taxes related to Serviços de Petróleo and on revenues related to Serviços de Petróleo India.

19. FINANCIAL INSTRUMENTS

a) General considerations

Details on the Group's debt restructuring plan and capital management are described in Note 1.

The Group's main financial instruments are as follows:

		December 31, 2023		December 31, 2022	
	Category	Carrying amount	Fair value	Carrying amount	Fair value (*)
Financial assets					
Cash and cash equivalents	FVTPL	87,943	87,943	59,479	59,479
Short-term investments	FVTPL	45	45	52	52
Restricted cash	FVTPL	1,733	1,733	1,733	1,733
Trade and other receivables	Amortized cost	125,016	125,016	76,314	76,314
Financial liabilities					
Loans and financing	Amortized cost	964,216	885,122	942,192	942,192
Trade and other payables	Amortized cost	57,178	57,178	65,265	65,265
Embedded derivatives	FVTPL	26,352	26,352	44,044	44,044

(*) The Company estimates that the fair value of the outstanding loans and financing, as of December 31, 2022, is similar to its carrying amount as (i) the loans and financing has been recently restructured, (ii) the interest rates of significant portion are variable and (iii) the remaining portion that is fixed includes a closely related derivative that approximates the outstanding amount to the fair value.

The carrying amounts of the remaining financial instruments do not significantly differ from their fair value.

Fair value hierarchy

IFRS 13 – *Fair Value Measurement* defines fair value as the value or price that would be received to sell an asset or paid to transfer a liability in a transaction between participants in an ordinary market on the measurement date.

The fair value hierarchy gives greater weight to available market information (i.e., observable data) and less weight to information related to data without transparency (i.e., unobservable data). Additionally, it requires the entity to consider all aspects of non-performance risk, including the entity's own credit to measure the fair value of a liability.

IFRS 13 also establishes a 3-levels hierarchy to be used in order to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of "inputs" significant for its measurement. A description of the 3 hierarchical levels is as follows:

Level 1 - The "inputs" are determined based on prices in an active market for identical assets or liabilities at the measurement date. Additionally, the entity must be able to trade in an active market and the price cannot be adjusted by the entity.

Level 2 - The “inputs” are other than prices as determined by Level 1 that are observable for the asset or liability, directly or indirectly. The “inputs” level includes two prices in an active market for similar assets or liabilities, prices in an inactive market for identical assets or liabilities, or “inputs” that are observable or can corroborate the observation of market data by correlation or other means for substantially every part of the asset or liability.

Level 3 - The “inputs” are those unobservable from minor or no market activity. These “inputs” represent Management’s best estimates as market participants could assign value or price for these assets or liabilities. Generally, the assets and liabilities are measured using Level 3 pricing models, discounted cash flow or similar methods that require significant judgments or estimates, such as the inputs considered in the impairment test of long-lived assets.

The Group measures its short-term investments and restricted cash at fair value through profit or loss. Short-term investments and restricted cash are classified as Level 1, due to the fact that they are measured using market prices for identical instruments. Loans and financing are classified as Level 2, due to the fact that they are measured using similar financial instruments. Derivatives are classified as Level 3, as the fair value is based on a pricing model.

b) Financial risk management

The Group is exposed to liquidity, credit and market risks. Management believes that the Group’s main market risk refers to its exposure to interest rate risk, as discussed below.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for managing the Group’s short and long-term funding and liquidity m
anagement requirements. The Group manages the liquidity risk by combining and maintaining adequate banking and capital markets facilities (Note 11) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group maintains relationships with specific lenders and constantly monitors its funding needs together with such lenders. The Group manages the majority of its long-term financing on a project-by-project basis. Such financing are arranged as required to support the Group’s operations and growth plans. The Group’s liquidity position has been enhanced further through the restructuring in June 2022. The Group kept its improved liquidity position during 2023, as shown on note 19 c).

The following table details the Group’s liquidity analysis for its financial liabilities. The table has been prepared using on the undiscounted contractual cash inflows and outflows for the financial instruments.

December 31, 2023

Period	Trade and other payables	Loans and financing	Total
2024	57,178	86,684	143,862
2025	-	27,469	27,469
2026	-	1,107,509	1,107,509
After 2027	-	5,370	5,370
Total	57,178	1,227,032	1,284,210

December 31, 2022

Period	Trade and other payables	Loans and financing	Total
2023	65,265	21,425	86,690
2024	-	42,531	42,531
2025	-	27,233	27,233
2026	-	1,125,721	1,125,721
After 2027	-	5,370	5,370
Total	65,265	1,222,280	1,287,545

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations, thus resulting in financial losses to the Group. Financial instruments that potentially subject the Group to concentrations of credit risk are primarily cash and cash equivalents, short-term investments, restricted cash and trade and other receivables. The maximum exposure amounts of such financial instruments are those disclosed in Notes 6, 7 and 8, respectively. Petrobras is the main client, and no significant credit risk was identified.

It is the Group's practice to place its cash and cash equivalents in time deposits at financial institutions with high credit ratings or at mutual funds, which invest exclusively in high quality money market instruments. The Group limits the exposure amount to each financial institution individually aiming at minimizing its credit risk exposure.

Market Risk (interest rate risk)

The Group is exposed to interest rate risk due to the fact that its entities borrow funds at both fixed and variable interest rates. The Group manages such risk by maintaining an appropriate mix between fixed and variable rate borrowings and by using interest rate swap instruments, when due necessary. The Group is exposed to fluctuations in US$ LIBOR/SOFR interest rates charged on its loans and financing (Note 11).

Due to the debt restructuring plan, the Group and its creditors agreed to unwind the previous existing swaps due to the new debt structure and new contract terms and conditions. The Group is conducting an effective monitoring of any interest rate exposure, reassessing the respective risks based on the new terms and conditions agreed post debt restructuring.

Currency exchange rate risk

Customer contracts are structured to provide payments both in US Dollars and in local currency (mostly BRL). Revenue received in local currency is substantially used to pay for costs, goods or employees in local currency. Transactions denominated in other currencies other than US Dollar or Brazilian Real are limited, so there is no material exposure related to currency exchange rate risk in the Group.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period and considers the effects of an increase or decrease of outstanding loans and financing further to the effects of either an increase or a decrease of 2% in the interest curve (LIBOR) at the balance sheet date. For variable rate liabilities (US$ LIBOR plus spread), the analysis is prepared assuming that the liability amount outstanding at the end of the reporting period was outstanding for the entire period. A 2% increase or decrease in US$ LIBOR is used when reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonably possible change in interest rates.

Risk: interest rate variation	December 31, 2023	Scenario I [(i)]	Scenario II [(ii)]
		Increase/ (decrease) in P&L	
Variable interest rate loans	45,642	(913)	913
Variable interest rate financing	566,638	(11,333)	11,333
Total	612,280	(12,246)	12,246

(i) Decrease of 2% in interest rate.
(ii) Increase of 2% in interest rate.

c) Capital management

The Group manages its capital structure, consisting of the relation between equity/debt mix in accordance with best market practices, as follows:

	December 31 2023	December 31, 2022
Loans and financing [(a)]	964,216	942,192
Cash transactions [(b)]	(89,721)	(61,264)
Net debt [(c)]	874,495	880,928
Shareholders' equity [(d)]	1,544,311	1,570,010
Net debt on shareholders' equity plus net debt [(c)] ÷ [(c) + (d)]	36%	36%

(a) Consider all loans and financing balances.
(b) Includes cash and cash equivalents, short-term investments and restricted cash balances.
(c) Loans and financing net of cash transactions.
(d) Includes all shareholders' equity accounts.

20. DERIVATIVES

The derivative expense, recognized on December 31, 2022, amounting to US$44,0 million is related to 1,200 Class D warrants issued by the Company and distributed to some Shareholders and Lenders. These warrants could only be exercisable in a liquidity event when the total enterprise value is above a specific threshold, giving them 12% of any value in excess of this threshold. This derivative is measured at fair value, and the related expense and liability was estimated using a Black & Scholes valuation modelling.

As of December 31, 2023 the Group performed a revaluation of the fair value and identified indicators that required an expense reversal of US$ 17,7 million for the year, amounting to US$ 26,4 million.

21. INSURANCE (Unaudited)

As of December 31, 2023 and December 31, 2022, major assets or interests covered by insurance policies and their respective coverage amounts are summarized below:

	December 31, 2023	December 31, 2022
Civil liability	1,952,000	1,760,500
Operating risks	1,559,730	1,524,796
Loss of hire	300,000	-
Operational headquarter and others	14,452	13,722
Total	3,826,182	3,299,018

The Group's practice in relation to its insurance policies is to hire solid insurance companies in the insurance market.

22. PENSION AND RETENTION PLANS AND MANAGEMENT INCENTIVE PLAN

The total amount paid by Constellation Oil Services Holding S.A to the Board of Directors as of December 31, 2023 was US$ 498 (US$ 518 as of December 31, 2022) and no payments were made such as advances and loans to the Board of Directors.

a) Pension Plan

The subsidiary Serviços de Petróleo, offers a private defined contribution pension plan to all employees, including key management personnel. On the Pension plan, employees can elect to contribute from 1% to 12% of the monthly gross salary and Serviços de Petróleo matches the contribution up to 4% of the monthly gross salary to employees and up to 6,5% to executives. Serviços de Petróleo's only obligation to the Pension Plan is to make its specified contributions.

For the year ended on December 31, 2023, contributions payable by Serviços de Petróleo at the rates specified by the plan rules amounts to US$ 1,081 (US$ 672 as of December 31, 2022).

b) Retention Plan

The Group has offered a retention agreement as of December 17, 2020 (the “Agreement”) for the benefit of eligible employees of the Group in connection with the start of a new phase of renegotiation of its indebtedness. The purpose of the Agreement is to provide a retention bonus for those employees that stay 12 months after the completion of the new debt restructuring of the Group. The new debt restructuring was considered concluded with the judicial homologation (“homologação judicial”) of the approval of the Amendment to the Judicial Recovery Plan. The amount of US$1,536 has been paid in January 2021, US$480 was paid in May 2021 and after the completion of the restructuring, the remaining amount of US$ 2,769 was paid in June 2022.

c) Management Incentive Plan (MIP)

The company implemented a Management Incentive Plan (MIP) in May 2023 to reward and retain key personnel while supporting long-term performance goals. The MIP comprises three components aimed at incentivizing offshore employees, key personnel, management, and the Board of Directors to remain engaged with the company and contribute to its long-term objectives.

The first component involves a Retention Pool of USD 2.0 million allocated to offshore employees. This amount will be payable on the second anniversary of the restructuring closing. The restructuring closing was concluded in June, 2022 (note 1.l). Additionally, USD 2.5 million has been allocated for key positions, with payment scheduled for the third anniversary of the restructuring closing.

The second component is a Performance Unit Pool available to management and certain key positions (“eligible employees”). The distribution is contingent upon the realization of the Total Enterprise Value ("TEV") and will be paid out in cash upon the consummation of a Qualifying Liquidity Event. The payout value to the eligible employees varies depending on the TEV, ranging from zero to USD 29 million.

The third component, the Board Pool, is specifically allocated to members of the Board of Directors. Similar to the Performance Unit Pool, the allocation is contingent upon the realization of the TEV and will be paid out in cash upon the consummation of a Qualifying Liquidity Event. The payout value varies depending on the TEV, ranging from zero to USD 12.5 million.

For the year ended December 31, 2023, the Group made accruals as specified by the MIP Retention plan rules amounting to US$ 1,949 (compared to US$ 0 as of December 31, 2022) related to the Retention Pool. No accruals have been recorded for the Performance Unit Pool and Board Pool.

23. OPERATING LEASE RECEIVABLES

Below the undiscounted amounts to be received on an annual basis for the period of the current contracts of the Group's fleet (contract rates).

Amounts receivable under operating leases	December 31 2023	December 31, 2022
2023	-	547,327
2024	653,133	411,909
2025	435,435	234,350
2026	253,985	100,667
After 2027	142,761	-
Total	1,485,314	1,294,253

24. SUBSEQUENT EVENTS

Offshore drilling rigs charter and service rendering agreements

Note 1 – General Information discloses several subsequent events related to charter and services contracts for Brava and Olinda.

Divestment of onshore operations

Note 10 - During 2023 company Management approved the sale of onshore drilling rigs and started an active program to locate a buyer. Negotiations for the sale started during 2023, and the sale was completed on January 19, 2024. Accordingly, Onshore drilling rigs were reclassified to assets held for sale as of December 31, 2023 in the amount of US$ 3,200.

Contingencies and provisions for lawsuits

Note 12.II.ii – Updates related to Transocean's claim.

25. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated financial statements were approved by the Company´s Board of Directors and authorized for issuance on March 15, 2024.