Grant Thornton

Constellation Oil Services Holding S.A.

Consolidated financial statements and independent auditor's report

December 31, 2021

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Independent auditor's report on the consolidated financial statements

Grant Thornton Auditores Independentes Ltda.

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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. ("Company"), which comprise the statement of financial position as of December 31, 2021, and the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and the corresponding explanatory notes, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Constellation Oil Services Holding S.A. as of December 31, 2021, 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 Company and its subsidiaries in accordance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

Subsequent liquidity and financial restructuring aspects

We draw attention to Note 1.l to the consolidated financial statements, which informs that, a Plan Support Agreement, a Restructuring Term-Sheet and other relevant documents were signed on March 24, 2022 and on June 10, 2022, the Group, of which the Company is part, has entered into Amended and Restated Credit Agreements and also into new arrangements with its creditors that involved a conversion of part of the debt held by some creditors into the share capital of the mother Company, with the dilution of original shareholders (the "Restructuring Documents"). Our opinion is not qualified in this matter.

Other matters

Audit of the figures corresponding to the prior year

The consolidated financial statements for the year ended December 31, 2020, presented for comparison purposes, were audited by us, and we issued our audit report dated May 05th, 2021 with a disclaimer of opinion regarding material uncertainty related to the Group's ability to continue as a going concern; are no longer applicable to the current consolidated financial statements.

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), as 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 Company'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 Company or to cease operations, or has no realistic alternative to avoid doing so.

Those charged with the Company's and its subsidiaries' governance are those responsible for overseeing the 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 consolidated 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 override of internal control, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s and its subsidiaries’ 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 Company’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 Company 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.
- 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, July 21, 2022.

Marcio Romulo Pereira
CRC RJ-076.774/O

Grant Thornton Auditores Independentes Ltda.
CRC 2SP-025.583/O-1

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2021
(Amounts expressed in thousands of U.S. dollars - US$'000)

ASSETS	Note	December 31, 2021	December 31, 2020
CURRENT ASSETS			
Cash and cash equivalents	6	76,306	34,927
Short-term investments	7	4,715	18,028
Restricted cash	8	19,198	22,697
Trade and other receivables	9	45,666	32,471
Inventories	10	36,840	48,424
Receivables from related parties	11	-	60
Recoverable taxes	21.a	14,516	11,487
Deferred mobilization costs		4,175	5,818
Other current assets		12,230	7,478
Total current assets		213,646	181,390
NON-CURRENT ASSETS			
Inventories	10	133,801	119,048
Recoverable taxes	21.a	-	102
Deferred tax assets	21.c	16,415	19,929
Deferred mobilization costs		1,547	2,841
Other non-current assets		6,689	4,134
Property, plant and equipment, net	12	1,933,561	1,868,406
Total non-current assets		2,092,013	2,014,460
TOTAL ASSETS		2,305,659	2,195,850

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, 2021
(Amounts expressed in thousands of U.S. dollars - US$'000)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	December 31, 2021	December 31, 2020
CURRENT LIABILITIES			
Loans and financings	13	117,113	75,000
Payroll and related charges		16,175	15,469
Trade and other payables		54,644	54,092
Payables to related parties	11	193	178
Taxes payables	21.b	1,786	3,388
Provisions	14	745	2,729
Deferred revenues		6,963	13,526
Provision for onerous contract		1,671	2,704
Other current liabilities		7,007	7,409
Total current liabilities		206,297	174,495
NON-CURRENT LIABILITIES			
Loans and financings	13	1,816,830	1,734,143
Deferred revenues		4,304	4,220
Provision for onerous contract		-	1,070
Other non-current liabilities		2,825	3,301
Total non-current liabilities		1,823,959	1,742,734
TOTAL LIABILITIES		2,030,256	1,917,229
SHAREHOLDERS' EQUITY			
Share capital	16.a	981,200	981,200
Transaction costs on issuance of shares		(9,721)	(9,721)
Reserves	16.b/d	(145,077)	(139,127)
Accumulated losses		(550,999)	(553,731)
TOTAL SHAREHOLDERS' EQUITY		275,403	278,621
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,305,659	2,195,850

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, 2021
(Amounts expressed in thousands of U.S. dollars - US$'000, except per share amounts)

	Note	Year-ended December 31, 2021	2020
NET OPERATING REVENUE	17	387,037	234,929
COST OF SERVICES	18	(402,848)	(463,490)
GROSS LOSS		(15,811)	(228,561)
General and administrative expenses	18	(42,866)	(30,884)
Other income	19	190,732	115,855
Other expenses	19	(159)	(980,303)
OPERATING PROFIT / (LOSS)		131,896	(1,123,893)
Financial income	20	1,376	1,762
Financial expenses	20	(125,273)	(130,914)
Foreign exchange variation income, net	20	(182)	(868)
FINANCIAL EXPENSES, NET		(124,079)	(130,020)
PROFIT / (LOSS) BEFORE TAXES		7,817	(1,253,913)
Taxes	21.d	(5,085)	8,275
PROFIT / (LOSS) FOR THE YEAR		2,732	(1,245,638)
Loss per share (in U.S. dollars - US$)			
Basic	16.f	-	(0.43)
Diluted	16.f	-	(0.43)

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, 2021
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31,	
		2021	2020
PROFIT / (LOSS) FOR THE YEAR		2,732	(1,245,638)
OTHER COMPREHENSIVE INCOME / (LOSS)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments	16.e	(5,950)	(31,911)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(3,218)	(1,277,549)
Comprehensive income attributable to:			
Controlling interests		(3,218)	(1,277,549)

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, 2021
(Amounts expressed in thousands of U.S. dollars - US$'000)

				Reserves						
	Note	Share capital	Transaction costs on issuance of shares	Legal	Share of investments' other comprehensive income / (loss)	Acquisition of non-controlling interest in subsidiaries	Foreign currency translation adjustments	Total reserves	Accumulated losses	Total shareholders' equity
BALANCE AS OF DECEMBER 31, 2019		981,200	(9,721)	5,683	(2,436)	(85,555)	(24,908)	(107,216)	691,907	1,556,170
Loss for the year		-	-	-	-	-	-	-	(1,245,638)	(1,245,638)
Other comprehensive loss for the year	16.e	-	-	-	-	-	(31,911)	(31,911)	-	(31,911)
Total comprehensive income for the year		-	-	-	-	-	(31,911)	(31,911)	(1,245,638)	(1,277,549)
BALANCE AS OF DECEMBER 31, 2020		981,200	(9,721)	5,683	(2,436)	(85,555)	(56,819)	(139,127)	(553,731)	278,621
Profit for the year		-	-	-	-	-	-	-	2,732	2,732
Other comprehensive loss for the year	16.e	-	-	-	-	-	(5,950)	(5,950)	-	(5,950)
Total comprehensive loss for the year		-	-	-	-	-	(5,950)	(5,950)	2,732	(3,218)
BALANCE AS OF DECEMBER 31, 2021		981,200	(9,721)	5,683	(2,436)	(85,555)	(62,769)	(145,077)	(550,999)	275,403

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

CONSTELLATION OIL SERVICES HOLDING S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2021
(Amounts expressed in thousands of U.S. dollars - US$'000)

	Note	Year-ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) for the year		2,732	(1,245,638)
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation of property, plant and equipment	12/18	149,441	220,955
Loss (gain) on disposal of property, plant and equipment, net	12	472	4,223
Provision / Reversal of impairment recognised on property, plant and equipment, net	12/19	(184,017)	952,246
Inventory write-down		-	21,657
Recognition of deferred mobilization costs		8,715	7,243
Recognition of deferred revenues, net of taxes levied		(11,870)	(9,874)
Financial expenses on loans and financings	13.a/20	124,800	130,398
Provision/ (Reversal) of onerous contract, net	19	(2,103)	(112,158)
Other financial expenses (income), net	20	(721)	(378)
Recognition (reversal) of provisions		(1,984)	1,734
Taxes	21.d	5,085	(8,275)
Decrease/(increase) in assets:			
Trade and other receivables		(12,637)	(2,914)
Receivables from related parties		60	905
Inventories		(3,169)	(7,811)
Recoverable taxes		(2,927)	(3,882)
Deferred taxes		3,514	-
Deferred mobilization costs		(5,778)	(10,716)
Other assets		(7,307)	4,794
Increase/(decrease) in liabilities:			
Payroll and related charges		706	1,180
Trade and other payables		552	11,453
Payables to related parties		15	(543)
Taxes payables		(2,857)	1,049
Deferred revenues		5,391	24,094
Other liabilities		1,143	4,069
Cash used in operating activities		67,256	(16,189)
Income tax and social contribution paid		(3,830)	(2,470)
Adjusted cash (used in) / provided by operating activities		63,426	(18,658)
CASH FLOWS FROM INVESTING ACTIVITIES			
Short-term investments		13,313	(13,748)
Restricted cash		3,499	95,584
Acquisition of property, plant and equipment	10	(33,072)	(107,198)
Proceeds from disposal of property, plant and equipment	17	163	98
Net cash (used in) / provided by investing activities		(16,097)	(25,264)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on loans and financings	11.a	-	(28,644)
Net cash used in financing activities		-	(28,644)
Increase/(Decrease) in cash and cash equivalents		47,329	(72,566)
Cash and cash equivalents at the beginning of the year	3	34,927	127,903
Effects of exchange rate changes on the balance of cash held in foreign currencies		(5,950)	(20,409)
Cash and cash equivalents at the end of the year	3	76,306	34,927

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

CONSTELLATION OIL SERVICES HOLDING S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 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 onshore and 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 production state-owned company and Azulão Geração de Energia S.A. ("Eneva").

a) Fleet of offshore and onshore drilling rigs

Offshore drilling units

Drilling units	Type	Start of operations	Contract expected expiration date (future or current)	Customer (future or current)
Atlantic Star	Semi-submersible	1997	January 2024 (Note 1.h)	Petrobras
Olinda Star	Semi-submersible	2009	September 2023 (Note 1.i)	ONGC
Gold Star	Semi-submersible	2010	Mid 2025 (Note 1.f)	Petrobras
Lone Star	Semi-submersible	2011	Mid 2025 (Note 1.g)	Petrobras
Alpha Star	Semi-submersible	2011	Mid 2023 (Note 1.e)	Petrobras
Amaralina Star	Drillship	2012	August 2022 (Notes 1.b)	Petrobras
Laguna Star	Drillship	2012	March 2025 (Note 1.d)	Petrobras
Brava Star	Drillship	2015	December 2023 (Note 1.c)	Petrobras

Onshore drilling units

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

(*) As of December 31, 2021, these onshore drilling rigs were not hired under charter and service-rendering agreements. The Group is continuously seeking for new customers.

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 Production Individualization Agreement (*Acordo de Individualização de Produção* - AIP) of Lula field, operated by Petrobras. The contract has an estimated duration of 730 days. Operations started on April 15, 2020 and are being performed offshore the Brazilian coast, at 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.

On December 29, 2021 the Company announced a new contract with Petrobras for the drillship Amaralina Star. The contract will have a total duration of up to three years, being two years and one optional, with operations in water depths of up to 2,400m, and includes a package of integrated services. The campaign will be carried out in the Roncador field, in the Campos Basin, with operations expected to start between July and September 2022.

c) Brava Star drillship charter and service-rendering agreements

On June 26, 2020, the Group announced that on June 19, 2020 Shell issued notices of termination for the Brava Star charter and service contracts (the "Contracts"). As advised by Shell, this termination is based on its decision to conclude its drilling program for 2020. The Contracts were in effect under a third extension option exercised by Shell.

On January 6, 2021, the Group announced that the Brava Star drillship has been awarded a contract with Petrobras. The contract was signed on December 9, 2020, has an estimated duration of 810 days and includes a termination for convenience after 180 days subject to a demobilization fee. Work scope is in water depths up to 3,048m, and includes a full integrated package of services plus Managed Pressure Drilling ("MPD"). The work is being performed offshore Brazil and operations started on March 30, 2021.

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

On July 4, 2019, the Group announced that the Laguna Star drillship had been awarded a contract with the consortiums of BM-S-11, BM-S-11A and Production Individualization Agreement (*Acordo de Individualização de Produção* - AIP) of Lula field, operated by Petrobras. The contract has a 2-year estimated duration. Operations started on October 30, 2019, and was performed offshore the Brazilian coast, at the Santos Basin. The contract ended on November 7, 2021.

On July 6, 2021, the Group announced that 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, and includes integrated services, as well as the use of the MPD system.

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 are being performed offshore the Brazilian coast, at the Campos Basin and operations started on August 16, 2020.

As of December 31, 2021, the Group has a provision for onerous contract in the total amount of US$1,671 (US$3,773 as of December 31, 2020), related to the aforementioned contract.

On February 9, 2022, the Group announced that the Alpha Star offshore drilling rig had been awarded a contract with the related party Enauta initially for drilling 1 well, shall have a term of 60 days, with the possibility of extending it for another 150 days for additional wells. The campaign will be held at the Atlanta field, estimated to begin in the 4th quarter of 2022. On February 22nd, 2022, options were exercised by Enauta and the total firm period became 210 days.

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 are being performed offshore the Brazilian coast. The contract ended on March 4, 2022.

On January 5, 2022 the company announced the achievement of a new contract for the operation of our semi-submersible rig Gold Star recently signed with Petrobras. The contract has a total duration of three years and provide for operation in ultra-deep waters, up to 2,400 meters. The campaigns will be carried out in the Brazilian offshore basins, with operations expected to start between April and June 2022.

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 are being performed offshore the Brazilian coast and operations 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 our semi-submersible rig Lone Star recently signed with Petrobras. The contract has a total duration of three years and provide for operation in ultra-deep waters, up to 2,400 meters. The campaigns will be carried out in the Brazilian offshore basins, with operations expected to start between April and June 2022.

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

On February 5, 2020, the Group announced that the Atlantic Star offshore drilling rig had been awarded a contract with Petrobras. The contract has a 3-year estimated duration. Operations are being performed in the Campos Basin, located offshore the Brazilian coast, and operations started on January 06, 2021.

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. On July, 2021 was amended for an additional period of 38 days. Once again, on November 22, 2021 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, Constellation was awarded a new contract in India for Olinda Star, with duration of 502 days. The company started its operations on May 4, 2022.

j) QG-VIII onshore drilling rig charter and service-rendering agreements

On July 26, 2021, the Group announced that the onshore drilling rig QG-VIII had been awarded a contract with Azulão Geração de Energia S.A. (Eneva). On September 15, 2021, the onshore drilling rig QG-VIII started its operations for Eneva S.A for an exploratory campaign in the field of Azulão in Amazonas. The contract has an estimated duration of 12 months.

k) COVID-19 impacts in the Group’s operations, forcast and further going concern considerations

Although 2020 started with recovery signs for the offshore drilling segment, the global economy has faced an unprecedented crisis with the fast-spreading new coronavirus (COVID-19), which has negatively impacted supply chains, travels, and in particular, the financial and oil and gas markets. The Group was not immune to the effects of this global crisis and took all necessary precautions and measures, both in operational and administrative areas.

Actions taken by governmental authorities, non-governmental organizations, businesses and individuals around the world aiming at slowing the COVID-19 pandemic curve and associated consumer behavior have negatively influenced forecasted global economic activity, thereby resulting in lower demand for crude oil. This scenario has created a current and forecasted oversupply, precipitating the recent steep decline in oil prices and an increase in oil price volatility. As a result, the current main customer of the Group (Petrobras) has adopted during 2020 resilience measures comprising reduction of oil production, postponement of cash disbursement and cost restraint measures. These measures directly affected the Group, and after a short negotiations period, the original terms of certain contracts signed during 2019 and 2020 have been subject to changes. The main changes were: (i) delay in the start-up of Alpha Star commencement of operations to August 2020; (ii) deferral of Alpha Star and Atlantic Star first months' charter fee payment to January and February 2021; (iii) deferral of Atlantic Star mobilization payment to January 2021; and (iv) deferral of contractual penalties payments for delay in mobilizing Lone Star and Alpha Star offshore drilling units, if due, for early 2021.

In India, regarding Olinda Star contract, ONGC invoked the Force Majeure clause based on COVID-19 crisis. Force Majeure period was from May 10, 2020 to June 25, 2020. On June 24, 2020, the Group received a notice from ONGC confirming the conditions for resuming the operational activities of the Olinda Star drilling unit. The Group sent a formal acknowledgement to ONGC on June 25, 2020 and the contract was formally amended.

As a result of the items described above and its impacts in the Company's cash flow assessment for the years ending December 31, 2020 and 2021, the Company approached its financial creditors to negotiate certain terms and conditions of the Second Amended and Restated Plan Support Agreement ("PSA"), RJ Plan ("Plan Amendment") and credit agreements. The main new conditions agreed with creditors with respect to the implementation of certain obligations provided in that agreements were the following: (i) payments of cash interest due from April to December 2020 to be made out of restricted cash in connection with Amaralina, Laguna and Brava project finance agreements and (ii) the requirement to maintain certain Unrestricted Cash levels was reduced to US$25 million in 2020, US$60 million in 2021 and US$75million from 2022 onwards.

Market fundamentals point to a multi-year recovery in our segment. During last years' downturn, E&P 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 grow our contract backlog, which was at $1.1 billion as of December 31, 2021, from US$ 759 million as of December 31, 2020. Note 1 discloses several events related to charter contracts and operating services for the onshore and offshore drilling rigs that corroborate the above information.

l) Liquidity and financial restructuring aspects

In connection with its Brazilian restructuring plan commenced by the Brazilian court on December 6, 2018 and confirmed on July 1, 2019, the Group entered into amended and restated credit agreements and new credit agreements with its financial lenders and issued new senior secured and senior unsecured notes pursuant to new indentures on December 18, 2019 (the "2019 RJ Closing").

In March 2020, the Group commenced discussions with its creditors from the 2019 RJ Closing on ways to achieve a sustainable capital structure in line with its operating business given the industry's then-current economic environment. In the context of such negotiations, on July 6, 2021, the Group filed a first version of the Amendment to the RJ Plan ("Plan Amendment").

A Plan Support Agreement, a Restructuring Term-Sheet and other relevant documents were signed on March 24, 2022. On the same day, the General Creditors Meeting approved the Plan Amendment, which was confirmed by the RJ Court on March 28, 2022 and, subsequently, on May 3, 2022 the New York Court granted the full force and relief to the RJ Plan.

On June 10, 2022, the Group has entered into certain new and restructured credit agreements, issued new senior secured and senior unsecured notes, and entered into new arrangements with its creditors, including the conversion of certain of its existing debt into the share capital of the Company, with the dilution of original shareholders (the "Restructuring Documents").

Under the Restructuring Documents, the creditors were given a haircut on the USD 1,990 million of outstanding debt, which was reinstated to $826 million of convertible debt, with an additional USD 92.6 million of non-convertible debt, including USD 62.4 million in new funds raised through the restructuring.

	Pre-restructuring	Restructured Debt	
Amounts in USD millions	Outstanding Debt	Convertible Debt	Non-convertible Debt
Total	1,990.1	826.0	92.6

Additionally, a portion of the debt, owing to a group of key financial creditors, were converted, 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	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, consisting of a sale of a majority of the Company's equity interest (or other similar transactions described in the Restructuring Documents), the convertible debt will be converted into equity of the Company, and the proceeds from this liquidity event will be distributed according to the new equity distribution.

The extinguishment of debt in exchange for the Company's own shares on June 10, 2022 has resulted in an estimated gain of USD 468.4 million for the group to be recognized in the 2nd quarter of 2022. This gain was calculated in accordance with IFRIC 19, based on an estimated valuation of the equity interests transferred of USD 603.1 million, and an extinguished debt of USD 1,071.6 million.

m) Commitments

As of December 31, 2021, the Group had the following commitments which it is contractually obligated to fulfill:

- The Group, through its subsidiary Serviços de Petróleo, 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.

Until the date of the issuance of these Consolidated Financial Statement the Group complies with its 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 applied 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, 2021. The following amendments have been applied by the Group, but had no significant impact on its Consolidated financial statements:

Standard	Description	Effective date
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition	January 1, 2021

2.2. New and revised IFRS in issue 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:

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, 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.	January 1, 2022
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	January 1, 2022
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract)	January 1, 2022
Annual Improvements to IFRS Standards 2018–2020	Makes amendments to the following standards: IFRS 1, IFRS 9, IFRS 16, IAS 41	January 1, 2022
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, 2023

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant 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”), Serviços de Petróleo Constellation Participações S.A. (“Serviços de Petróleo Participações”), Serviços de Petróleo Onshore Constellation Ltda. (“Serviços de Petróleo Onshore”), Tarsus Serviços de Petróleo Ltda. (“Tarsus”) and Manisa Serviços de Petróleo Ltda. (“Manisa”), 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 16.d).

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 income statement.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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 Short-term investments

Short-term investments are held to meet the Group’s short-term commitments and are often settled for this purpose, thus not having a business model for receiving contractual cash flows. Consists primarily of financial investments measured at fair value through profit or loss (“FVTPL”). These financial investments have maturities of more than three months or with no fixed time for redemption.

3.6 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.

3.7 Inventories

Inventories consist of spare parts, materials and supplies to be applied in the drilling units operations, and are stated at the lower of cost incurred and net realizable value. All inventory that will not be consumed within twelve months is reclassified to non-current assets. Inventories' costs are determined by using the average cost method of accounting.

3.8 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.

3.9 Legal deposits

There are situations in which Management argues the legitimacy of certain liabilities or lawsuits filed against the Group. Therefore, by a court order or by Management's own strategy, the amounts in dispute are deposited in escrow without characterizing the settlement of liabilities, but allowing the Group to continue challenging the lawsuits. In these situations, although the deposits are still assets of the Group, the amounts are only released upon receipt of a final court decision favorable to the Group. When applicable, legal deposits are recorded in non-current assets and are considered as operating activities for the purpose of the consolidated statement of cash flows.

3.10 Investments in associates

For investments in associates, the Group applies the equity method of accounting. Under such a method, the investment is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income or loss of the investees. When the Group's share of losses of an investee exceeds its interest in that investee (which includes any long-term interests that, in essence, form part of the Group's net investment), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The requirements of IAS 36 - *Impairment of Assets* are applied to determine whether it is necessary to recognize any impairment losses with respect to the Group’s investees. When deemed necessary, the entire carrying amount of the investee is tested for impairment a single asset by comparing its recoverable amount with its carrying amount, as disclosed in Note 1.l. Any impairment losses recognized forms part of the carrying amount of the investee. The reversal of an impairment loss is recognized to the extent that the recoverable amount of the investee subsequently increases, except when the impairment loss relates to goodwill, in which case reversal is not allowed under IFRS.

When a Group entity transacts with an investee, profit or loss resulting from such transactions are recognized in the Group’s consolidated financial statements only to the extent of interests in the investees that are non-related to the Group.

3.11 Leases

<u>The Group as lessee</u>

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

<u>The Group as lessor</u>

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.
When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

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.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic return rate on the Group’s net investment outstanding in respect of the leases.

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.

3.12 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 3.16).

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 5 to 35 years. At the end of each year, the Group reviews the estimated useful lives and residual values of PP&E.

3.13 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. Any increase in excess of this amount is treated as a revaluation increase.

Recoverable amounts are substantially determined based on discounted future cash flows calculations and asset price evaluation, both requiring the use of estimates (Note 4.5).

3.14 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.

3.15 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.

3.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for its intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.17 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.

3.18 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.

3.19 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 17).

3.20 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 18).

3.21 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 20).

3.22 Current and deferred income tax and social contribution

The provision for income tax and social contribution 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 and social contribution 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.l).

3.23 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.

<u>Financial assets</u>

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.

<u>Classification of financial assets (Note 22.a)</u>

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- ✓ the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- ✓ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income ("FVTOCI"):

- ✓ the financial asset is held within a business model whose objective is achieved by both, collecting contractual cash flows and selling the financial assets; and

- ✓ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and ownership benefits of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and ownership benefits and continues to control the transferred financial asset, the Group recognizes its retained interest in the financial asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and ownership benefits of a transferred financial asset, the Group continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, 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. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

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.

3.24 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 22.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.

4.2 Impairment of trade and other receivables

The Group recognizes a loss allowance for expected credit losses on trade and other receivables. The amount of expected credit losses is remeasured at each balance sheet date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both current and forecasted direction of conditions at the balance sheet date, including time value of money where appropriate. As of December 31, 2021 and 2020, no provision for impairment on trade and other receivables was considered required (Note 9).

4.3 Current and non-current inventory segregation

The Group classifies inventories that are expected to be consumed within a twelve-month period as current assets. The Group considers that no inventory would be consumed during a period in which a drilling unit is not hired under a charter agreement in force. Therefore, when a charter agreement is expected to expire within a twelve-month period, the Group reclassifies all inventory that will not be consumed until the end of such agreement to non-current assets. The amount reclassified is based on an estimate derived from the Group's annual budget process.

4.4 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 3.12, at the end of each financial year, the Group reviews the estimated useful lives of PP&E.

4.5 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 22.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"). 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, 2021 and 2020, the Group recognized impairment losses and/or reversals on its drilling units (Notes 12 and 19).

4.6 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.

4.7 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

		Ownership interest (%)			
		December 31,			
		2021		2020	
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
Alaskan Star Ltd. (“Alaskan”) [2]	British Virgin Islands	-	100.00	-	100.00
Alpha Star Equities Ltd. (“Alpha”) [1]	British Virgin Islands	-	100.00	-	100.00
Amaralina Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Amaralina Star Holdco 1 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Amaralina Star Holdco 2 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Amaralina Star Ltd. (“Amaralina”) [1]	British Virgin Islands	-	100.00	-	100.00
Angra Participações B.V. (“Angra”)	Netherlands	100.00	-	100.00	-
Arazi S.à.r.l. (“Arazi”) [1]	Luxembourg	100.00	-	100.00	-
Becrux B.V.	Netherlands	-	100.00	-	100.00
Brava Drilling B.V. (“Brava Drilling”)	Netherlands	-	100.00	-	100.00
Brava Star Holdco 1 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Brava Star Holdco 2 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Brava Star Ltd. (“Brava”) [1]	British Virgin Islands	-	100.00	-	100.00
Centaurus S.à.r.l. (“Centaurus”)	Luxembourg	100.00	-	100.00	-
Constellation Netherlands B.V.	Netherlands	100.00	-	100.00	-
Constellation Overseas Ltd. (“Constellation Overseas”) [1]	British Virgin Islands	-	100.00	-	100.00
Constellation Panamá Corp.	Panamá	-	100.00	-	100.00
Constellation Services Ltd. (“Constellation Services”) [1]	British Virgin Islands	-	100.00	-	100.00
Domenica S.A. (“Domenica”)	Paraguay	-	100.00	-	100.00
Domenica Argentina S.A.	Argentina	-	100.00	-	100.00
Eiffel Ridge Group C.V.	Netherlands	-	100.00	-	100.00
Gold Star Equities Ltd. (“Gold”) [1]	British Virgin Islands	-	100.00	-	100.00
Hopelake Services Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Laguna Cooperatief U.A.	Netherlands	-	100.00	-	100.00
Laguna Star Holdco 1 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Laguna Star Holdco 2 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Laguna Star Ltd. (“Laguna”)	British Virgin Islands	-	100.00	-	100.00
Lancaster Holdco 1 Ltd. [2]	British Virgin Islands	-	100.00	-	100.00
Lancaster Projects Corp. (“Lancaster”) [1]	British Virgin Islands	-	100.00	-	100.00
London Tower International Drilling C.V.	Netherlands	-	100.00	-	100.00
London Tower Management B.V.	Netherlands	-	100.00	-	100.00
Lone Star Offshore Ltd. (“Lone”) [1]	British Virgin Islands	-	100.00	-	100.00
Manisa Serviços de Petróleo Ltda. [1]	Brazil	-	100.00	-	100.00
Olinda Star Ltd. (“Olinda”)	British Virgin Islands	-	100.00	-	100.00
Palase C.V.	Netherlands	-	100.00	-	100.00
Palase Management B.V.	Netherlands	-	100.00	-	100.00
Podocarpus C.V.	Netherlands	-	100.00	-	100.00
Podocarpus Management B.V.	Netherlands	-	100.00	-	100.00
Positive Investments Management B.V.	Netherlands	100.00	-	100.00	-
Positives Investments C.V.	Netherlands	-	100.00	-	100.00
QGOG Constellation US LLC.	United States of America	-	100.00	-	100.00
QGOG Constellation UK Ltd.	United Kingdom	100.00	-	100.00	-
Serviços de Petróleo Constellation Participações S.A. [1]	Brazil	-	100.00	-	100.00
QGOG Star GmbH	Switzerland	100.00	-	100.00	-
Serviços de Petróleo Constellation S.A. [1]	Brazil		100.00		100.00
Serviços de Petróleo Onshore Constellation Ltda.	Brazil		100.00		100.00
Serviços de Petróleo Constellation S.A. (“SPC India”)	India		100.00		100.00
Snover International Inc. [1] [2]	British Virgin Islands	-	100.00	-	100.00
Star International Drilling Ltd. (“Star”) [1]	Cayman Island	-	100.00	-	100.00
Tarsus Serviços de Petróleo Ltda. [1]	Brazil	-	100.00	-	100.00

(1) – In Judicial Recovery, as disclosed in Note 1.l.

(2) On June 2, 2022, the merger of companies Snover International Inc., Alaskan Star Ltd., Hopelake Services Ltd., Amaralina Star Holdco 1 Ltd., Amaralina Star Holdco 2 Ltd., Laguna Star Holdco 1 Ltd., Laguna Star Holdco 2 Ltd., Brava Star Holdco 1 Ltd., Brava Star Holdco 2 Ltd., Snover International Inc. Aand Lancaster Projects Holdco

1 Ltd. into Constellation Overseas was completed and the aforementioned companies should be disregarded from the corporate structure of the Group.

6. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash and bank deposits	11,046	7,003
Time deposits (*)	65,260	27,924
Total	76,306	34,927

(*) Time deposits are comprised as follows:

Financial institution	Currency	Average interest rate (per annum)	December 31, 2021	December 31, 2020
Itaú BBA Nassau	U.S. dollar	0.30%	49,124	25,745
Citibank	U.S. dollar	1.16%	218	1,696
Banco Bradesco S.A.	Brazilian real	23.75% of CDI(ii)	2,046	80
Banco do Brasil S.A.	Brazilian real	71.02% of CDI(ii)	13,872	403
Total			65,260	27,924

7. SHORT-TERM INVESTMENTS

Financial institution	Type	Currency	Average interest rate (per annum)	December 31, 2021	December 31, 2020
Banco Lafise Panamá	Time deposits (i)	U.S. dollar	2.75%	52	50
Banco do Brasil S.A.	Repurchase agreements (iii)	Brazilian real	98.00% of CDI(ii)	4,663	17,978
Total				4,715	18,028

(i) These investments have original maturities of more than three months, or with no fixed time for redemption.

(ii) Brazilian Interbank Deposit Certificate (*Certificado de Depósito Interbancário - CDI*), average remuneration during the year ended December 31, 2021 and December 31, 2020 was 4.65%p.a. and 3.07% respectively.

(iii) Refers to agreements in which the financial institution commits to repurchase the asset back from the Group in the short-term (i.e., more than ninety days).

8. RESTRICTED CASH

Under certain of the Group's project finance arrangements (Note 11), surplus cash from operations is held in designated reserve accounts, up to a level determined in relation to the future debt servicing requirements of the project finance arrangements.

The following accounts, which deposits have original maturity of less than twelve months, currently refer to (i) the project finance agreements related to the construction of the Amaralina Star and Brava Star drillships (Note 11); (ii) cash collateral related to Bid/Performance Bonds and (iii) cash collateral to make capital expenditures in respect of 2024 notes collateral rigs and operating and maintenance expenses of drilling rigs.

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

Financial institution	Type	Average interest rate (per annum)	December 31, 2021	December 31, 2020
Citibank N.A.	Time deposits	1.00%	2,535	2,535
HSBC	Time deposits	1.00%	15,063	15,063
HSBC	Bank deposits	-	1,600	5,099
Total			19,198	22,697

9. 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 and, consequently, the Group has not recorded an impairment loss provision for trade and other receivables for the years presented. The average collection period is of approximately 42 days. Details of financial risk management related to credit risk are disclosed in Note 22.b.

10. INVENTORIES

Inventories consist of spare parts, materials and supplies to be applied in the drilling units operations. The amounts recognized in the consolidated statement of operations are accounted for as Cost of Services in the sub-account "Materials" (Note 18).

11. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, that are part of the Group, have been eliminated for consolidation purposes and are not disclosed in the table below.

The consolidated intercompany balances as of December 31, 2021 and December 31, 2020, and transactions for the year ended December 31, 2021 and 2020 are as follows:

	December 31,				December 31,	
	2021		2020		2021	2020
	Assets	Liabilities	Assets	Liabilities	Income/ (expenses)	Income/ (expenses)
Queiroz Galvão S.A. [(a)]	-	-	-	-	-	(543)
Queiroz Galvão International S.A. [(a)]	-	168	-	168	-	-
Enauta S.A.	-	25	-	-	37	-
Others	-	-	60	10	-	8
Total	-	193	60	178	37	(535)
Current	-	193	60	178		

(a) As of December 31, 2021 and December 31, 2020 the payable amount referred to a fee charged by Queiroz Galvão S.A. for being the guarantor for importations under the REPETRO tax regime. On March 30, 2020 Constellation Overseas and Queiroz Galvão S.A. entered into a Termination and Release Agreement ("Agreement") which releases the warrants and corporate guarantees provided by Queiroz Galvão S.A. Additionally the remaining financial rights were transferred from Queiroz Galvão S.A. to Queiroz Galvão International Ltd.

Key management personnel (i) remuneration for the year ended December 31, 2021 and December 31, 2020, is as follows:

	December 31,	
	2021	2020
Short-term benefits [(ii)]	5,906	4,918

(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 and profit sharing (payable within twelve months from the year-end date).

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 after 12 months from the change of control of the Group. In this case, the member will be entitled to an exit fee corresponding to a monthly base salary, multiplied for each year of employment by the Group.

12. PROPERTY, PLANT AND EQUIPMENT

	Drillships			Offshore drilling rigs							
	Brava Star	Amaralina Star	Laguna Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star	Onshore drilling rigs, equipment and bases [(b)]	Corporate	Total
Cost											
Balance as of December 31, 2019	700,321	698,857	698,621	352,518	748,392	592,894	716,086	582,030	141,966	22,156	5,253,841
Additions	7,161	20,008	10,933	21,366	19,956	9,993	17,295	176	230	80	107,198
Disposals / write off	(431)	(948)	(1,920)	(637)	(675)	(3,069)	(966)	(1,853)	(140)	(106)	(10,745)
Currency translation adjustments	-	-	-	-	-	-	-	-	(17,194)	(2,299)	(19,493)
Balance as of December 31, 2020	707,051	717,917	707,634	373,247	767,673	599,818	732,415	580,353	124,862	19,831	5,330,801
Additions	13,229	1,755	8,584	895	1,941	1,724	3,732	1,018	57	137	33,072
Disposals / write off	(127)	(73)	(1)	(179)	-	(197)	(20)	-	-	(25)	(622)
Currency translation adjustments	-	-	-	-	-	-	-	-	(4,706)	2,371	(2,325)
Balance as of December 31, 2021	720,153	719,599	716,217	373,963	769,614	601,345	736,127	581,371	120,323	22,314	5,360,916
Accumulated depreciation and Impairment											
Balance as of December 31, 2019	(138,745)	(211,056)	(201,087)	(182,125)	(442,115)	(286,003)	(375,684)	(346,279)	(105,006)	(19,796)	(2,307,896)
Depreciation	(30,375)	(37,490)	(38,065)	(15,373)	(19,448)	(23,135)	(27,574)	(26,723)	(2,415)	(357)	(220,955)
Impairment (provision)/reversal	(187,176)	(173,057)	(171,560)	(2,809)	(45,981)	(56,202)	(107,361)	(208,101)	-	-	(952,247)
Disposals	198	508	971	431	351	2,585	588	750	-	-	6,382
Currency translation adjustments	-	-	-	-	-	-	-	-	10,524	1,796	12,320
Balance as of December 31, 2020	(356,098)	(421,095)	(409,741)	(199,876)	(507,193)	(362,755)	(510,031)	(580,353)	(96,897)	(18,357)	(3,462,396)
Depreciation	(19,393)	(27,544)	(26,229)	(18,854)	(18,746)	(16,074)	(18,980)	-	(3,431)	(190)	(149,441)
Impairment (provision)/reversal	56,799	16,707	23,518	(8,426)	55,068	4,720	17,805	17,826	-	-	184,017
Disposals / write off	45	10	-	69	-	-	1	-	-	25	150
Currency translation adjustments	-	-	-	-	-	-	-	-	2,674	(2,360)	314
Balance as of December 31, 2021	(318,647)	(431,922)	(412,452)	(227,087)	(470,871)	(374,109)	(511,205)	(562,527)	(97,654)	(20,881)	(3,427,356)
Property, plant and equipment, net [(a)]											
December 31, 2020	350,953	296,822	297,893	173,371	260,480	237,063	222,384	-	27,964	1,474	1,868,406
December 31, 2021	401,506	287,677	303,765	146,876	298,743	227,236	224,922	18,844	22,559	1,433	1,933,561
Useful life range (years)	5 – 35	5 – 35	5 - 35	5 - 35	5 – 35	5 - 35	5 - 35	5 - 35	5 – 25	5 – 25	

(a) The Group's assets that are pledged as security for financing agreements are disclosed in Note 11.

(b) As of December 31, 2021, the amounts of US$20,906 (US$25,298 as of December 31, 2020) refers to the onshore drilling rigs.

Impairment

During the year ended December 31, 2020, the Group identified indicators that the carrying amounts of its offshore asset groups may not be recoverable. Such indicators included declines in commodity prices and a reduction of projected day rates.

During the year ended December 31, 2021, 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.

No relevant events occurred during the year ended December 31, 2021 that may have affected the recoverable amounts of the Group's onshore drilling rigs as of December 31, 2021.

(a) Onshore drilling rigs

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 as of December 31, 2020 and 2021 no impairment was recognized.

(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 10.92% discount rate for all rigs except Atlantic and Olinda that considers 10.90% (11.74% in 2020 for all rigs). 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, 2021, the Group reversed an impairment in amount of US$ 184,017 (provision of US$ 952,247 as of December 31, 2020) in all offshore drilling rigs and drillships.

13. 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, 2021	December 31 2020
Bondholders[1]	Senior Secured Notes (“Participating Notes”)	Corporate Bond	Debt Restructuring	Dec/2019	Nov/2024	10.00%	1.00%	U,S, dollar	748,135	678,448
Bondholders[1]	Senior Secured Notes (“Third Lien Notes”)	Corporate Bond	Debt Restructuring	Dec/2019	Nov/2024	10.00%	1.00%	U,S, dollar	42,596	38,628
Bondholders[2]	Senior Secured Notes (“Fourth Lien Notes”)	Corporate Bond	Debt Restructuring	Dec/2019	Nov/2024	10.00%	3.00%	U,S, dollar	69,890	63,380
Bondholders	Senior Unsecured Notes (“2030 Notes”)	Corporate Bond	Debt Restructuring	Dec/2019	Nov/2030	6.25%	6.25%	U,S, dollar	112,153	105,446
Subtotal – fixed interest rate loans									972,774	885,902
Banco Bradesco S.A.[3]	Loan	Working Capital	Debt restructuring	Dec/2019	Nov/2025	Libor+2.00%	4.17%	U,S, dollar	165,324	161,850
Subtotal - variable interest rate loans									165,324	161,850
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”) [4]	Financing	ALB (Amaralina)	Debt restructuring	Dec/2019	Nov/2023	Libor + 3.12% (cash) + 1.50% (PIK)	4.79%	U,S, dollar	178,473	170,140
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”) [4]	Financing	ALB (Laguna)	Debt restructuring	Dec/2019	Nov/2023	Libor + 3.12% (cash) + 1.50% (PIK)	4.79%	U,S, dollar	185,199	176,553
BNP, Citi, ING and DNB and Eksportkreditt Norge (“EKN”) [5]	Financing	ALB (Brava)	Debt restructuring	Dec/2019	Nov/2023	Libor + 2.45% (cash) + 1.50% (PIK)	4.12%	U,S, dollar	432,173	414,699
Subtotal – variable interest rate financing									795,845	761,391
Total									1,933,943	1,809,143
Current									117,113	75,000
Non-current									1,816,830	1,734,143

(1) 10% Payment-in-Kind ("PIK") from December 18, 2019 (the "Effective Date") to, but excluding, November 9, 2021 and 9% cash + 1% PIK from November 9, 2021 until the maturity date.

(2) 10% PIK from the Effective Date to, but excluding, November 9, 2021 and 7% cash + 3% PIK from November 9, 2021 until the maturity date.

(3) Libor + 2.00% to be paid on Maturity Date until January 2021, from this date on 2.75% cash payment plus the difference between Libor + 2.00% minus 2.75%.

(4) 14% PIK from the Effective Date until December 2019 and Libor + 3.12% cash and 1.50% PIK from December 2019 until the Maturity Date

(5) 14% PIK from the Effective Date until December 2019 and Libor + 2.45% cash and 1.50% PIK from December 2019 until the Maturity Date.

a) Changes in loans and financing

	December 31,	
	2021	2020
Balance as of January 1	1,809,143	1,707,389
Interest payment	-	(28,644)
Total payments	-	(28,644)
Interest charged through profit and loss	124,800	130,398
Financial expenses on loans and financing (Note 21)	124,800	130,398
Balance as of December 31,	1,933,943	1,809,143

<u>Working capital</u>

On December 18, 2019, the Group: (i) amended and restated the working capital loan agreements with Bradesco to reflect the terms agreed to in the debt restructuring plan; and (ii) entered into a new credit loan agreement with Bradesco in the amount of US$10 million, in both cases, with a final maturity date on November 30, 2025.

<u>Notes</u>

Participating Notes – The Company issued Senior Secured Notes bearing interest at 10.00% p.a. (the "Participating Notes"), payable semiannually as capitalized interest until the payment date in November 2021 and, thereafter, payable semiannually at a rate of 9.00% p.a. in cash and 1.00% PIK. On the date of issuance, the Participating Notes reflected an aggregate principal amount of US$609,742, comprised of US$27,215 principal amount of a first lien tranche, US$408,219 principal amount of a second lien tranche and US$174,308 principal amount of a third lien tranche.

Third Lien Stub Notes – The Company issued Senior Secured Notes bearing interest at 10.00% p.a. (the "Third Lien Notes"), payable semiannually as capitalized interest until the payment date in November 2021 and, thereafter, payable semiannually at a rate of 9.00% p.a. in cash and 1.00% PIK. On the date of issuance, the Third Lien Notes reflected an aggregate principal amount of US$34,716.

Non Participating Notes– The Company issued Senior Secured Notes bearing interest at 10.00% p.a. (the "Third Lien Notes"), payable semiannually as capitalized interest until the payment date in November 2021 and, thereafter, payable semiannually at a rate of 7.00% p.a. in cash and 3.00% PIK. On the date of issuance, the Fourth Lien Notes reflected an aggregate principal amount of US$57,271.

2030 Notes – The Company issued Senior Unsecured Notes bearing interest at 6.25% p.a. (the "2030 Notes"), with a maturity date on November 9, 2030. The interest is paid as capitalized interest until maturity. On the date of issuance, the 2030 Notes reflected an aggregate principal amount of US$98,927.

b) Loans and financing long term amortization schedule

For the years ended December 31,	Net amount	PIK (*)	Gross amount
2023	719,036	121,959	840,995
2024	838,791	107,602	946,392
2025	146,850	3,546	150,396
2030	112,153	81,248	193,402
Total	1,816,830	314,355	2,131,185

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

c) Covenants

<u>*Financial covenants*</u>

The loans and financing agreements contains financial covenants and securities provided to lenders. Non-compliance with such financial covenants could constitute a Restricted Payment Trigger Event, which would lead in the borrower entity of the Group not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock or make certain payments to related parties.

On March 15 and 16, 2021 the Group was granted a 45 day a waiver by its creditors, which consists of the exemption of certain RJ Plan obligations, including financial debt payments in connection with (i) Amaralina, Laguna and Brava project finances and (ii) Bradesco loan, both originally due at the of March 2021. On April 7, 2021, at the request of the Group, the RJ Court granted the suspension of the RJ Plan's obligations as well as the extension of the RJ Court supervision period for 12 months. On April 9, 2021, the Group filed a request for the NY bankruptcy court relief under New York law following the Brazilian RJ court's grant of a 12-month extension of the Brazilian RJ Proceedings and suspension of the Group's obligations under the credit agreements. The NY court granted the stay in support of the Brazilian RJ Proceedings on May 25, 2021.

d) Guarantees

The financing obtained by the Group in order to finance the construction and operation of the drilling rigs, drillships and for other corporate purposes are usually structured as Project Finance; therefore benefiting from a customary security package that includes guarantees such as assignment of the charter receivables, 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, assignment of the relevant insurances, corporate guarantees, and in particular with Amaralina Star Facility, Laguna Star Facility and Brava Star Facility, cross-collateralization between such facilities.

In addition, the terms of some of these debt financing instruments restricts the ability of project 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.

The aforementioned conditions apply to the Project Financing related to Amaralina Star, Laguna Star and Brava Star drillships.

The Participating Notes, the Third Lien Stub Notes and the *Non Participating Notes* are guaranteed on a senior secured basis by certain subsidiaries of the Company, including but not limited to the guarantor of the Existing Notes, Constellation Overseas, and the entities that own the Alpha Star, Gold Star, Lone Star and Atlantic Star Rigs (the “Unencumbered Drilling Rigs”).

The Participating Notes, the Third Lien Stub Notes and the *Non Participating Notes* are secured by certain assets of the Company, including but not limited to, the Company’s current Unencumbered Drilling Rigs and the insurance receivables related thereto, subject to the terms and conditions of the indenture governing such notes. The Participating Notes, the Third Lien Notes and the Fourth Lien Notes also have a springing collateral package that could consist of additional offshore rigs and drilling vessels as well as their related insurance receivables and charter receivables, subject to the terms and conditions of the indenture governing such notes.

e) Liquidity and financial restructuring aspects

Note 1.l discloses several subsequent events related updated information on the restructuring process of the Group.

14. PROVISIONS

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,	
	2021	2020
Balance as of January 1	2,729	995
(Reversal of) Penalty for delay (Alpha Star, Gold Star, Lone Star and Amaralina Star)	(1,984)	1,734
Balance as of December 31	745	2,729

15. CONTINGENCIES AND PROVISIONS FOR LAWSUITS

a) 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, 2021, 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,	
	2021	2020
Balance as of January 1	1,762	1,832
Additions	241	1,028
Reversals	(345)	(685)
Foreign exchange rate variations	(118)	(413)
Balance as of December 31	1,540	1,762

b) 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 statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount of US$22,410 as of December 31, 2021 (US$24,968 as of December 31, 2020), tax lawsuits in the amount of US$30,537 as of December 31, 2021 (US$26,921 as of December 31, 2020) and no civil lawsuits as of December 31, 2021 (US$10 as of December 31, 2020).

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, 2021, the estimated amount involved is US$6,755 (US$4,026 as of December 31, 2020).

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, 2021, the estimated amount involved is US$16,879 (US$17,672 as of December 31, 2020).

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, 2021, the estimated amount involved is US$3,352 (US$3,600 as of December 31, 2020).

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 and Brava, accusing both entities of infringing its dual-activity drilling technology patent. On November 19, 2018, all preliminary injunctions requested by Transocean were rejected by the Third Business Court of Rio de Janeiro. Transocean appealed solely to carry on an inspection on Brava Star drillship limited to the examination of some pre-determined items related to the dual-activity drilling technology patent and the injunction was granted in this regard. The inspection occurred on January 18, 2019, and on March 20, 2019, the Appellate Court issued its final decision on Transocean's appeal, confirming the injunction previously granted. On April 1, 2019, a mediation and conciliation hearing occurred, but the parties did not reach an agreement. On March 25, 2019, Serviços de Petróleo and Brava filed their responses to Transocean claims, and on October 14, 2019, Transocean filed its rejoinder. 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 filed an appeal against the decision that granted the suspension, which has been dismissed by the Appellate Court on December 09, 2020. On September 20, 2021 Transocean requested that the suspension of the process be lifted, as one year had passed. On September 28, 2021 Constellation replied Transocean's request. Until the issuance of a new decision by the Third Business Court, the claim remains on suspension.

In January 2020, Transocean filed a compensation claim against Serviços de Petróleo and Brava regarding the patent infringement alleged in its 2018 claim. Serviços de Petróleo and Brava Star responses were filled on March 1, 2021.

As of the date of issuance of these consolidated financial statements, the Group's Management cannot reliably estimate the amount involved, and their external legal advisor classifies the chances of winning such claim as possible.

c) 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.

d) 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.

16. SHAREHOLDERS' EQUITY

a) Share capital

As of December 31, 2021 and December 31 2020, the Company's share capital amounts to US$981,200, comprised by 2,889,227,364 ordinary shares, with no par value. The Class A Shares carry voting rights and are entitled to one (1) vote per Share at any general meeting of Shareholder. The Class B Shares are non-voting shares and are only recognized for purposes of voting in accordance with the requirements of the Law.

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.

f) Liquidity and financial restructuring aspects

Note 1.l discloses several subsequent events related updated information on the restructuring process of the Group.

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.

17. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter and service-rendering agreements. As of December 31, 2021 and 2020, Petrobras has accounted for 91% and 78%, respectively, of total revenues.

Net operating revenue is presented after the following items:

	December 31,	
	2021	2020
Gross operating revenue	406,019	247,470
Taxes levied on revenue:		
Social Integration Program (PIS) (i)	(2,084)	(1,096)
Social Investment Program (COFINS) (i)	(9,599)	(5,256)
Services Tax (ISS) (i)	(3,330)	(2,060)
Good and Service Tax (GST) (ii)	(4,001)	(4,095)
Others	32	(34)
Net operating revenue	387,037	234,929

(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.

18. COST OF SERVICES AND OPERATING EXPENSES

	December 31,					
	2021			2020		
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	(95,814)	(11,382)	(107,196)	(87,951)	(9,499)	(97,450)
Depreciation	(149,289)	(152)	(149,441)	(220,769)	(186)	(220,955)
Materials	(53,259)	-	(53,259)	(53,975)	-	(53,975)
Maintenance	(84,857)	(8)	(84,865)	(74,935)	-	(74,935)
Insurance	(4,204)	(1,290)	(5,494)	(6,131)	-	(6,131)
Other (1)/(2)	(15,425)	(30,034)	(45,459)	(19,729)	(21,199)	(40,928)
Total	(402,848)	(42,866)	(445,714)	(463,490)	(32,094)	(494,374)

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

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

19. OTHER OPERATING INCOME (EXPENSES), NET

	December 31,	
	2021	2020
Reversal of provision for onerous contract	2,103	112,158
Reversal of impairment provision, net (Note 12)	184,017	-
Revenue from sales of PP&E	163	98
Other	4,449	3,599
Other income	190,732	115,855
Provision for impairment (Note 12)	-	(952,247)
Inventories write-off (Note 10)	-	(21,657)
Property, plant and equipment write-off	-	(4,223)
Cost of PP&E disposed	(159)	-
Penalties	-	(2,037)
Other	-	(139)
Other expenses	(159)	(980,303)
Total other income, net	190,573	(864,448)

20. FINANCIAL EXPENSES, NET

	December 31, 2021	December 31, 2020
Interest on short-term investments	1,085	1,319
Other financial income	291	443
Financial income	1,376	1,762
Financial expenses on loans and financing (Note 13.a)	(124,800)	(130,398)
Other financial expenses	(473)	(516)
Financial expenses	(125,273)	(130,914)
Foreign exchange variation gain, net	(182)	(868)
Financial expenses, net	(124,079)	(130,020)

21. 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, 2021	December 31, 2020
Taxes on revenue (PIS/COFINS)	9,896	9,098
Goods and Services Tax - GST(i)	-	566
Income tax (IRPJ) and social contribution on net income (CSLL) (ii)	4,383	1,822
Other	237	103
Total	14,516	11,589
Current	14,516	11,487
Non-current	-	102

(i) 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.

b) Taxes payables

	December 31, 2021	December 31, 2020
Goods and Services Tax - GST(i)	138	1,645
Income tax (IRPJ) and social contribution (CSLL)	318	707
Service Tax (ISS)	1,120	991
State VAT (ICMS)	184	45
Taxes on revenue (PIS/COFINS)	26	-
Total	1,786	3,388

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

c) Deferred tax assets

	December 31, 2021	December 31, 2020
Income tax (IRPJ) and social contribution (CSLL) (*)	16,415	19,929

(*) 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.

d) Effect of income tax results

The tax rate used for the years ended December 31, 2021 and 2020 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,	
	2021	2020
Profit / (Loss) before taxes	7,817	(1,253,913)
Income tax and social contribution at nominal rate (*)	(2,869)	14,381
Adjustments to derive effective tax rate:		
Non-deductible expenses	(1,611)	(5,415)
Other	(605)	(692)
Income tax expense recognized in profit or loss	(5,085)	8,275
Current taxes	(2,864)	(2,272)
Deferred taxes	(2,222)	10,547

(*) Nominal tax rate applied on profits/ (loss) before taxes related to Serviços de Petróleo and QGOG Constellation UK Ltd. and on revenues related to Serviços de Petróleo India.

22. 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, 2021		December 31, 2020	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and cash equivalents	FVTPL	76,306	76,306	34,927	34,927
Short-term investments	FVTPL	4,715	4,715	18,028	18,028
Restricted cash	FVTPL	19,198	19,198	22,697	22,697
Trade and other receivables	Amortized cost	45,666	45,666	32,471	32,471
Receivables from related parties	Amortized cost	-	-	60	60
Financial liabilities					
Loans and financing	Amortized cost	1,933,942	1,312,359	1,809,143	1,118,873
Trade and other payables	Amortized cost	54,644	54,644	54,092	54,092
Payables to related parties	Amortized cost	193	193	178	178

Except for loans and financing, 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.

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.

<u>Liquidity risk</u>

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 management requirements. The Group manages the liquidity risk by combining and maintaining adequate banking and capital markets facilities (Note 14) 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 following table details the Group’s liquidity analysis for its financial liabilities. The table has been drawn up based on the undiscounted contractual cash inflows and outflows for the financial instruments.

December 31, 2021

Period	Trade and other payables	Loans and financing	Payables to related parties	Total
2022	54,644	182,185	193	237,022
2023	-	840,995	-	840,995
2024	-	946,392	-	946,392
2025	-	150,396	-	150,396
After 2026	-	193,402	-	193,402
Total	54,644	2,313,370	193	2,368,207

December 31, 2020 Period	Trade and other payables	Loans and financing	Payables to related parties	Total
2020	54,092	28,644	178	82,914
2021	-	101,654	-	101,654
2022	-	179,828	-	179,828
2023	-	760,915	-	760,915
2024	-	946,392	-	946,392
After 2025	-	343,798	-	343,798
Total	54,092	2,361,231	178	2,415,501

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, trade and other receivables and receivables from related parties. The maximum exposure amounts of such financial instruments are those disclosed in Notes 3, 4, 5, 6 and 11, respectively.

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 interest rates charged on its loans and financing (Note 13).

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 will conduct 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 0.1% on outstanding loans and financing and the effects of either an increase or a decrease of 0.1% 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 0.1% 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, 2021	Scenario I (i)	Scenario II (ii)
		Increase/ (decrease) in P&L	
Variable interest rate loans	165,324	(165)	165
Variable interest rate financing	795,845	(796)	796
Total	961,169	(961)	961

(i) Decrease of 0.1% in interest rate.
(ii) Increase of 0.1% 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, 2021	December 31, 2020
Loans and financing (a)	1,933,943	1,809,143
Cash transactions (b)	(100,219)	(75,652)
Net debt (c)	1,833,724	1,733,491
Shareholders' equity (d)	275,403	278,621
Net debt on shareholders' equity plus net debt [(c)] ÷ [(c) + (d)]	87%	86%

(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.

23. INSURANCE (Unaudited)

As of December 31, 2021 and December 31, 2020, major assets or interests covered by insurance policies and their respective coverage amounts are summarized below:

	December 31, 2021	December 31, 2020
Civil liability	1,785,500	1,785,500
Operating risks	1,498,784	1,553,568
Operational headquarter and others	13,512	18,211
Total	3,297,796	3,357,279

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

24. PENSION AND RETENTION PLANS

a) Pension Plan

The Group, through its subsidiary Serviços de Petróleo, offers a private defined contribution pension plan to all employees, including key management personnel. Under the pension plan, up to 12% of the monthly salary is contributed by the employee and up to 6.5% by Serviços de Petróleo, according to the employee's seniority level. Serviços de Petróleo's only obligation to the Pension Plan is to make its specified contributions.

For the the year ended December 31, 2021, contributions payable by Serviços de Petróleo at the rates specified by the plan reversed amounts to US$749 (registered US$81 for December 31, 2020).

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 will be 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.

25. 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, 2021	December 31, 2020
2021	-	428,032
2022	437,549	234,148
2023	383,926	96,335
2024	243,871	922
2025	73,761	-
Total	1,139,106	759,437

26. SUBSEQUENT EVENTS

Restructuring updates and offshore drilling rigs charter and service rendering agreements

Note 1 – General Information discloses several subsequent events related to charter contracts and the provision of operating services for the Amaralina Star, Gold Star, Lone Star, Olinda Star and Alpha Star rigs, as well as updated information on the restructuring process of the Group.

Merger BVI entities

On June 2, 2022, the merger of companies Snover International Inc., Alaskan Star Ltd., Hopelake Services Ltd., Amaralina Star Holdco 1 Ltd., Amaralina Star Holdco 2 Ltd., Laguna Star Holdco 1 Ltd., Laguna Star Holdco 2 Ltd., Brava Star Holdco 1 Ltd., Brava Star Holdco 2 Ltd., Snover International Inc. and Lancaster Projects Holdco 1 Ltd. into Constellation Overseas was completed and the aforementioned companies should be disregarded from the corporate structure of the Group.

27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated financial statements were approved by the Company´s Board of Directors and authorized for issuance on July 21, 2022.