

Alaskan Star Ltd.

*Financial Statements for the Year
Ended December 31, 2011
and Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
Alaskan Star Ltd.
British Virgin Islands

We have audited the accompanying financial statements of Alaskan Star Ltd. (the "Company"), which comprise the statement of financial position as of December 31, 2011, and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards - IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Alaskan Star Ltd. as of December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards - IFRS.

Purpose of report

This report is only for the specific purpose of compliance with the terms of the bank loans.

Rio de Janeiro, Brazil
April 20, 2012



DELOITTE TOUCHE TOHMATSU
Auditores Independentes

ALASKAN STAR LTD.STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2011
(In thousands of U.S. dollars)ASSETS

	<u>Note</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS			
Cash and cash equivalents	5	486	343
Short-term investments	6	3,850	-
Restricted cash	7	-	12,501
Inventories	8	4,286	10,012
Receivables from related parties	9	6,625	7,948
Other current assets		305	76
Total current assets		<u>15,552</u>	<u>30,880</u>
NON-CURRENT ASSETS			
Receivables from related parties	9	11,796	109
Property, plant and equipment	11	327,926	340,310
Total non-current assets		<u>339,722</u>	<u>340,419</u>
TOTAL ASSETS		<u><u>355,274</u></u>	<u><u>371,299</u></u>

LIABILITIES**CURRENT LIABILITIES**

Trade accounts payable		313	3,184
Payables to related parties	9	44,593	143,687
Loans and financing	12	-	40,228
Deficit in joint venture	10	155	-
Total current liabilities		<u>45,061</u>	<u>187,099</u>

NON-CURRENT LIABILITIES

Payables to related parties	9	237,095	-
Loans and financing	12	-	153,043
Total non-current liabilities		<u>237,095</u>	<u>153,043</u>

SHAREHOLDER'S EQUITY

Capital	13	50	50
Retained earnings		73,068	31,107
Total shareholder's equity		<u>73,118</u>	<u>31,157</u>

TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u><u>355,274</u></u>	<u><u>371,299</u></u>
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The accompanying notes are an integral part of these financial statements.

ALASKAN STAR LTD.

STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of U.S. dollars, except for amounts per share)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
NET OPERATING REVENUE		88,187	63,396
COSTS OF SERVICES	14	<u>(26,285)</u>	<u>(19,038)</u>
GROSS PROFIT		61,902	44,358
General and administrative expenses		<u>(52)</u>	<u>(118)</u>
OPERATING PROFIT		61,850	44,240
Financial income	15	10	37
Financial costs	15	<u>(19,719)</u>	<u>(13,295)</u>
FINANCIAL COSTS, NET		(19,709)	(13,258)
Share of results of joint ventures	10	(180)	-
PROFIT FOR THE YEAR (*)		<u>41,961</u>	<u>30,982</u>
Profit (loss) per share			
Basic	13	839.22	619.64
Diluted	13	839.22	619.64

* Comprehensive income for the year is equal to net income.

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

ALASKAN STAR LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of U.S. dollars)

	<u>Note</u>	<u>Capital</u>	<u>Share capital not paid up</u>	<u>Retained earnings</u>	<u>Total</u>
BALANCES AS OF DECEMBER 31, 2009		50	(50)	125	125
Capital increase	13	-	50	-	50
Profit for the year		-	-	30,982	30,982
BALANCES AS OF DECEMBER 31, 2010		50	-	31,107	31,157
Profit for the year		-	-	41,961	41,961
BALANCES AS OF DECEMBER 31, 2011		<u>50</u>	<u>-</u>	<u>73,068</u>	<u>73,118</u>

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

ALASKAN STAR LTD.STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands of U.S. dollars)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		41,961	30,982
Adjustments for:			
Depreciation of property, plant and equipment	14	17,075	15,800
Shares of joint ventures results	10	180	-
Financial charges on loans and financings	15	12,407	11,925
Financial expenses from related parties	15	6,776	1,364
Other interest financial expense, net		526	(31)
(Increase) decrease in working capital:			
Inventories	8	5,726	(5,494)
Restricted cash	7	12,501	(12,501)
Short-term investment	6	(3,850)	-
Receivables from related parties		-	3,297
Other assets		(229)	93
Increase (decrease) in working capital:			
Trade accounts payable		271	(211)
Payables to related parties		-	1,186
Net cash provided by operating activities:		<u>93,344</u>	<u>46,410</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to property, plant and equipment		<u>(84,890)</u>	<u>(63,853)</u>
Net cash used in operating activities		<u>(84,890)</u>	<u>(63,853)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital increase	13	-	50
Repayment of principal on loans and financing	12	(191,303)	(28,696)
Interest and other net financial expenses paid	12	(14,375)	(11,229)
Loans from related parties, net of transactions costs	1	288,445	46,827
Payments to related parties		<u>(91,078)</u>	-
Net cash provided (used) in financing activities		<u>(8,311)</u>	<u>6,952</u>
Decrease in cash and cash equivalents		<u>143</u>	<u>(10,491)</u>
Cash and cash equivalents at beginning of year		343	10,834
Cash and cash equivalents at end of the year		<u>486</u>	<u>343</u>

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

ALASKAN STAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

(Expressed in thousands of US dollars – US\$, unless otherwise stated)

1. OPERATIONS

Alaskan Star Ltd. (“Alaskan Star” or the “Company”) is established in the British Virgin Islands (“BVI”), and operates under the law of the British Virgin Islands as a limited liability Company as from June 2, 2008. The Company is an indirect subsidiary of Constellation Overseas Ltd. (“Constellation”) which is controlled by members of the Queiroz Galvão family. In August 5, 2011, Alaskan Star became a direct subsidiary of Hopelake Services Ltd., a wholly-owned subsidiary of Constellation.

The Company is authorized to engage in the ownership and charter of offshore rigs to Exploration and Production companies. On November 18, 2008, the Company entered into a contract to charter the Alaskan Star Rig to Star International Drilling Ltd., a related party which sub-charters it to Petróleo Brasileiro S.A. (“Petrobras” – the Exploration and Production Company) for operations in the Brazilian offshore area. The contracts involving the Alaskan rig (the charter and sub-charter agreement) have the same principal terms. The period of this contract is for seven years and expires in 2016.

Petrobras has a Service Agreement with Queiroz Galvão Óleo e Gás S.A. (“QGOG”) under which QGOG runs the day-to-day operations of the Alaskan Star rig. QGOG belongs to the same economic group of the Company. Current service contracts with Petrobras expire in the same period as that of the charter contracts.

The charter and drilling services agreements are executed simultaneously with the same customer and have the same term. Consequently, the agreements should be evaluated on a combined basis. These financial statements have been prepared for the purpose of complying with the requirements of the senior notes loan agreements as described below.

The Company’s fleet of drilling-related assets is currently comprised of one offshore drilling rig, the Alaskan Star rig.

Although the Company has long-term contracts, the operations are indirectly dependent upon conditions in the oil and natural gas industry and, specifically, the exploration and production expenditures of oil and natural gas companies. The demand for the contract drilling and related services provided by its customers is influenced by, among other things, oil and natural gas prices, expectations about future prices, the cost of producing and delivering oil and natural gas, government regulations and local and international political and economic conditions.

Alaskan interrupted its operations from July 2010 until November 2010 for upgrade and restarted the operations on December 2010.

The Company operates on an integrated basis with Constellation Overseas Ltd and its subsidiaries (the “Constellation Group”).

Under a Management Agreement, Constellation Services, a sister Company, provides supply services to Alaskan.

Senior secured notes

In July 27, 2011 a US\$700,000 senior secured notes offering was concluded. The secured notes issuer is QGOG Atlantic / Alaskan Rigs Ltd. (“Issuer”) and the Company and Star International Drilling Limited (“Star International”), a related party, are the guarantors of the notes.

The purpose of the notes is the refinancing of two drilling rigs owned by the Company and Star International and general corporate purposes of the Constellation Group. The Offering Price was 99.35% of face value (US\$ 695,450), due 2018, which maturity may be extended for up to two successive six month periods under certain conditions. Interest on the notes will accrue from the date of issuance until the final maturity date of the notes, at the rate of 5.25% per annum (bearing an effective interest rate of 5.55% per annum), payable semi-annually. The offering expenses and commissions incurred by QGOG Atlantic / Alaskan totaled US\$ 10,299.

QGOG Atlantic / Alaskan Rigs Ltd. was a direct subsidiary of Constellation. Following completion of the offer, Star International and the Company each purchased from Constellation 50% of all of the Issuer’s shares at book value (total value of US\$50, being US\$25 for each Company) in August 5, 2011 and, therefore, the Issuer became a jointly controlled by Alaskan Star and Star International.

In addition, all of the outstanding shares of Star International and the Company were transferred at their book value to Hopelake Services Ltd., a wholly-owned subsidiary of Constellation, pursuant to a share transfer agreement.

QGOG Atlantic / Alaskan Rigs Ltd. is a business company limited by shares incorporated in the British Virgin Islands on May 19, 2011 and will not have any operations independent from the Company and Star International. The proceeds of the notes were deposited to the Issuer into a note proceeds account and further lent to Star International and the Company.

Payments of existing financings

In July 2011, upon completion of the offering, Alaskan Star entered into an intercompany loan with the Issuer in the amount of US\$288,445 (net of related transactions costs), and paid in full the obligations under the existing Loans and Financings and related Derivatives, in the amount of US\$181,518.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1. Standards in issue but not yet effective

The Company has not adopted early the following new and revised pronouncements and interpretations that have been issued but are not yet effective:

<u>Pronouncement or interpretation</u>	<u>Description</u>	<u>Application for fiscal years to be started on or after</u>
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2012
IFRS 9	Financial Instruments - Classification and Measurement	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
IFRS 19	Extinguishing Financial Liabilities with Equity Instruments	January 1, 2011
IAS 24	Related Party Disclosures (as revised in 2009)'	January 1, 2011
IAS 27	Separate Financial Statements (2011)	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures (2011)	January 1, 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	January 1, 2014

The amendments to IFRS 7 modifies the information required when financial assets are transferred in order to promote transparency and to facilitate an analysis of how the risks may affect the entity's financial situation.

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. This standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.

IFRS 10 establishes clarifications and new parameters for defining control, as well as the principles for preparing consolidated financial statements that apply to all entities (including special purpose entities or structured entities).

IFRS 11 redefines the concept of joint control, aligning with IFRS 10 and requiring that entities that are part of a joint agreement determine the type of agreement (joint operation or joint business) by evaluating their rights and obligations. The standard eliminates the possibility of proportional consolidation for joint businesses.

IFRS 12 requires certain disclosures that allow for assessing the nature of the stake held in other entities and the risks involved, as well as how these stakes affect the entity's financial situation, financial performance, and cash flows.

IFRS 13 establishes, in a single standard, a framework for assessing the fair value of assets and liabilities, and incorporates new concepts and clarifications for this assessment. It also requires that the entities disclose certain information on the assessment of the fair value of their assets and liabilities.

IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Company's because it is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard. The Company management has not identified any such related parties transaction.

IAS 27 is amended for confirming changes based on the issuance of IFRS 10. The IAS 27 revised in 2011 refers only to separate financial statements.

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The amendments to IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts, the unit of account for applying the offsetting requirements.

IFRIC 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments for the creditor. The interpretation is to be applied retrospectively from the earliest comparative period presented and is effective for annual periods beginning on or after January 1, 2011, although earlier application is permitted.

Company's management is still assessing the impact of these pronouncements and interpretations on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statements of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

3.2. Basis of preparation

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

3.3. Functional currency

The financial statements of Company are measured using the currency of the primary economic environment in which the respective entity operates (the “functional currency”). The functional currency of the Company is the U.S. Dollar since majority of the revenues and costs, debt and capital expenditures are denominated in this currency.

3.4. Revenue recognition

The charter revenues are recognized when the respective service is rendered based on the contracted day rates and the number of operating days during the period. The Company may also earn revenues for mobilization of equipment. Upon completion of charter contracts, any demobilization fees received are reported in income.

As disclosed at Note 1, Star, a related party, entered into a contract to charter the Alaskan Star drilling rig from the Company, and sub-charter it to Petrobras for operations. The amounts collected by Star are passed on to the Company.

3.5. Reportable segments

Management has concluded that the Company operates in a single segment, being oil and gas charter services in only one geographical area, Brazil. Additionally, net revenue is derived from transactions with the related party Star, which sub-leases the Alaskan Star drilling rig to one customer, Petrobras.

3.6. Property, plant and equipment (“PP&E”)

All property, plant and equipment is carried at cost less accumulated depreciation. Property, plant and equipment consist primarily of offshore and onshore drilling rigs and related equipment.

Repair and maintenance costs related to periodic overhauls of drilling units are capitalized, when the economic benefits associate with the item inflow to the Company and the cost can be measured reliable. These costs are depreciated over the period extending to the next overhaul. Related costs are comprised mainly of shipyard costs and the costs of services directly involved in the related project. All other repairs and maintenance are charged to the statement of operations during the financial period in which they are incurred.

The carrying values of these assets are based on estimates, assumptions and judgments relating to capitalized costs, useful lives and residual values of the rigs. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future industry conditions and operations. The Company computes depreciation using the straight-line method, taking into account the respective residual values of the related assets. When significant parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment. At the end of each year, the Company reviews the estimated useful lives and residual values of the assets.

The Company charters its rigs to its clients in connection with charter services contracts. These charter are accounted for as operating leases pursuant to IAS 17 since the agreements: (i) do not transfer ownership of the asset to the lessee at the end of the lease term; (ii) the lessee does not have the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value of the related asset; (iii) the lease term is not for the major part of the economic life of the asset; (iv) at the inception of the lease the present value of the minimum lease payments do not amount to at least substantially all of the fair value of the leased asset; and, (v) the leased assets are not of such a specialized nature that only the current lessee can use them without major modifications. Additionally, the risks and benefits of the drilling rigs remain with the Company which is the legal owner of the rigs.

The Company's revenue recognition policy regarding charter services is described in Note 3.4.

3.7. 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 their 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.

3.8. Impairment of long-lived assets

Assets that are subject to depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount 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 (cash generating units). Non-financial assets other than have been impaired are reviewed for possible reversal of the impairment at each balance sheet date.

Recoverable amounts are determined based on discounted cash flows calculations. These calculations require the use of estimates.

No impairment losses on long-lived assets have been recognized by the Company.

3.9. Cash and cash equivalents

Consists primarily of cash balances and cash investments measured at fair value through profit and loss. These cash investments have original maturities of three months or less with immediate liquidity, and are subject to an insignificant risk of changes in value.

3.10. Short-term investments

Consists of short-term investments classified at fair value through profit and loss. These investments have maturities of more than three months or with no fixed time for redemption.

3.11. Inventories

Inventories refer basically to materials to be used in the operations of the Alaskan Star drilling rig and are recorded at the lower of cost and net realizable value. Costs of inventories are determined using average cost.

3.12. Investments in joint ventures

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

The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's joint venture. When necessary, the entire carrying amount of the joint venture is tested for impairment in accordance with IAS 36 Impairment of Assets, as a single asset by comparing its recoverable amount (higher of value in use, measured by the discounted cash flow, and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the joint ventures. The reversal of an impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the joint ventures subsequently increases, other than where that impairment loss relates to goodwill. No impairment losses have been recognized on the Company's investments in joint ventures.

When the Company transacts with its joint venture, profit and losses resulting from the transactions with the joint venture are recognized in the Company's financial statements only to the extent of interest in the joint venture that are not related to the Company.

3.13. Current and noncurrent assets and liabilities

Current and noncurrent assets and liabilities are stated at realizable value and settlement amounts, respectively, and include inflation adjustments or exchange rate changes, and income earned and charges incurred, when applicable, recognized on a pro rata basis through the balance sheet date.

3.14. Financial instruments

Financial assets and liabilities

The financial assets and liabilities are initially recognized at their fair value plus the costs directly attributable to their purchase or issue. Subsequent to initial recognition, the financial non-derivative assets and liabilities are measured as of each balance sheet date according to their classification, which is defined upon initial recognition based on the purposes for which they were acquired or issued, as described below:

- i. Financial assets measured at fair value through profit and loss: these include financial assets acquired for sale (acquired primarily to be sold in the short term), or designated upon initial recognition at fair value through profit and loss. Interest, monetary restatement, exchange variation and variations resulting from fair value measurement, are recognized in profit or loss as financial revenues or expenses, when incurred. As of December 31, 2011 the Company has short-term investments in this category.
- ii. Financial assets held to maturity: these include non-derivative financial instruments with fixed or determinable payments with defined maturities, for which the Company has the intention and capacity to hold to maturity. After the initial recognition, they are measured at the amortized cost based on the effective interest rate method less losses in recoverable value, when applicable, and the variations are recognized in profit or loss as financial revenues or expenses, when incurred. As of December 31, 2011 the Company has no financial instruments in this category.
- iii. Loans and receivables: these include non-derivative financial assets with fixed or determinable payments that are not quoted on an active market which, after initial recognition are measured based on their amortized cost under the effective interest rate method. The interest, monetary and exchange variation, less losses in recoverable value, when applicable, are recognized in profit or loss as financial revenues or expenses, when incurred. As of December 31, 2011 the Company has cash and cash equivalents, restricted cash, trade accounts receivables, other current assets and receivables from related parties in this category.
- iv. Available for sale: these include non-derivative financial assets that do not match the above categories, measured at their fair value. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses recognized in other comprehensive income in the shareholder's equity until the investment is sold and the cumulative gain or loss previously reported in profit or loss. The Company does not invest in speculative securities. As of December 31, 2011 the Company has no financial assets in this category.

Financial liabilities are classified according to the following categories based on the nature of the financial instruments contracted or issued:

- i. Financial liabilities measured at fair value through profit and loss: these include financial liabilities normally traded prior to maturity, liabilities designated upon initial recognition at fair value, except those designated as hedge instruments. They are remarked to fair value at each balance sheet date. The interest, monetary and exchange variations and variations resulting from the fair value, when applicable, are recognized in profit or loss, when incurred. As of December 31, 2011, the Company has no financial liabilities in this category.
- ii. Financial liabilities not marked at fair value: non-derivative financial liabilities that are not normally traded prior to maturity. After initial recognition they are measured on their amortized cost based on the effective interest rate method. The interest, monetary updating and exchange variation, when applicable, are recognized in profit or loss when incurred. As of December 31, 2011 the Company has trade accounts payable and payables to related parties in this category.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The Company has not recognized impairment losses on financial assets.

Derivative financial instruments

The Company enters into derivative financial instruments, including interest rate swaps, to manage its exposure to interest rate risk. These derivatives are measured at fair value at inception and at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company had no derivatives financial instruments designated for hedge accounting as of December 31, 2011 and 2010.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Financial liabilities are derecognized when the associated obligation has been discharged, cancelled or has expired.

4. CRITICAL ACCOUNTING ESTIMATES

In applying the accounting policies described in Note 3, management must judge and develop estimates for the carrying values of assets and liabilities which are not easily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Future results could differ from those estimates.

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

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

4.1. Useful lives of property, plant and equipment

The carrying values of property, plant and equipment assets are based on estimates, assumptions and judgments related to capitalized costs and useful lives of the rigs. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future industry conditions and operations. The Company calculates depreciation using the straight-line method.

As described at Note 3.6 the end of each year, the Company reviews the estimated useful lives of property, plant and equipment and no significant changes on the financial statements were identified.

4.2. Impairment of Long Lived Assets

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the related asset or cash-generating unit. The value in used calculation requires the Company to estimate the future cash flows expected to arise from the related asset or cash-generating unit and the related discount rate in order calculate the present value. No impairment losses on long-lived assets have been recognized by the Company.

5. CASH AND CASH EQUIVALENTS

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Cash and bank deposits	<u>486</u>	<u>343</u>
Total	<u>486</u>	<u>343</u>

6. SHORT-TERM INVESTMENTS

Short-term investments	Financial Institution	Average interest rate (per annum)	December 31, 2011
Time deposits	Deutsche Bank	0.33%	<u>3,850</u>
Total			<u>3,850</u>

7. RESTRICTED CASH

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Bank deposits	-	<u>12,501</u>
Total	<u>-</u>	<u>12,501</u>

Under certain of the Alaskan's project finance arrangements, which loan agreement was fully paid on July 29 2011, surplus cash from operations (after operating expenditures and servicing or payment of debt) was held in designated reserve accounts, up to a level determined in relation to future debt servicing requirements on that financing arrangement.

Cash in these accounts would be only used for operating expenditure on the related rig or for servicing or payment of debt. Cash generated from operations in excess of the required amount of the reserve account was free from restrictions on use and was presented as cash and cash equivalents.

8. INVENTORIES

Inventories refer basically to materials to be used in the operations of the Alaskan Star drilling rig. The amounts recognized in statement of operations are accounted as cost of services in the account "Maintenance" as disclosed in Note 14.

9. RELATED PARTY TRANSACTIONS

The Company is indirect subsidiary of Constellation Overseas, and is directly or indirectly related to the parties showed below.

The main intercompany balances as of December 31, 2011 and 2010 as well as the intercompany transactions that impacted the results for the periods ended December 31, 2011 and 2010 are as follows:

	December 31,					
	2011			2010		
	Assets	Liabilities	Income/ (expenses)	Assets	Liabilities	Income/ (expenses)
Constellation Overseas (a)	-	575	1,107	-	78,040	(1,364)
Constellation Services (b)	-	4,527	(100)	-	64,461	(100)
Star (c)	18,421	-	88,187	8,057	-	63,396
Queiroz Galvão Óleo e Gás S.A.(d)	-	2,169	-	-	1,186	-
QGOG Atlantic / Alaskan (e)	-	274,417	(7,883)	-	-	-
Total	<u>18,421</u>	<u>281,688</u>	<u>81,311</u>	<u>8,057</u>	<u>143,687</u>	<u>61,932</u>
Current	6,625	44,593	-	7,948	143,687	-
Non current	11,796	237,095	-	109	-	-

- (a) Balances in December 31, 2010 correspond to the outstanding payable regarding the acquisition of Alaskan Star drilling rig. On November 10, 2008, the Company bought the Alaskan Star drilling rig from its parent company, Constellation Overseas for the amount of US\$307,000. The expenses in 2010 regarding to Constellation Overseas refer to a fee charged by the parent company to guarantee the Company's loan agreement. The income presented in 2011 corresponds to a partial reversal of that fee.
- (b) The Company entered into a management agreement with Constellation Services, which set forth the terms and conditions pursuant to which Constellation Services will provide services with respect to the operation, maintenance and repair of, and supply equipment to the drilling rigs, including in order to allow the Company to comply with its obligations under the Charter Agreements and the Bareboat Charter Agreement, as applicable. The Management Agreement is non-exclusive. Pursuant to its terms, Constellation Services receives annual fees as consideration for the performance of the procurement services described above. The Management Agreement expires in November, 2016. Balances on December 31, 2011 refer mainly to reimbursements costs of materials and services paid by Constellation Services.
- (c) Outstanding receivable balances refer to the revenue of the offshore Alaskan Star rig operations. The Company entered into a contract to charter the Alaskan Star rig to Atlantic, a related party which sub-charters it to Petrobras (see Note 1). This amount will be paid by Atlantic as soon as it collects from Petrobras, within 30 days from the issuance of the respective invoice, according to provisions in the charter agreement.
- (d) Refers to payments incurred by Queiroz Galvão Óleo e Gás S.A. on behalf of the Company in relation to operating services or materials.

- (e) As described in Note 1, upon completion of the offering in 2011, the Company entered into an intercompany loan with QGOG Atlantic / Alaskan in the amount of US\$288,445 (net of related transactions costs). The conditions of payment of the intercompany loan follows the conditions of the offering, bearing an effective interest rate of 5.55%p.a. (contractual interest rate of 5.25%p.a.) and the semi-annually amortization until November 2016.

As at December 31, 2011 the Company was in compliance with restrictive clauses related to senior security notes as described in Note 1.

QGOG is an intervening party in the Charter Agreement (see Note 1) and is jointly and severally liable with the Company for all obligations undertaken by Star under the Charter Agreement. Reciprocally, the Company is an intervening party in the Service Agreement (see Note 1) with the same obligations as QGOG.

10. INVESTMENT IN JOINT VENTURE

Investees information

	<u>December 31, 2011</u> QGOG Atlantic/ Alaskan
Number of shares	50
Direct interest	50%
Authorized share capital	50
Shareholder's deficit	(360)
Loss for the year	(360)

As described in Note 9, following completion of the offer of the Senior Notes, Star and the Company each purchased from Constellation Overseas 50% of all of the QGOG Atlantic / Alaskan shares at book value (total value of US\$50, being US\$25 for each Company) in August 5, 2011 and, therefore, the Issuer became jointly controlled by the Company and Star.

Changes in investment in joint venture

	QGOG Atlantic/ Alaskan <u>12/31/2011</u>
Opening balance	-
Acquisition of shares	25
Shares of results	(180)
Total investment	<u>(155)</u>
Closing balance	<u>(155)</u>
Liabilities (Accumulated deficit in joint ventures)	(155)

11. PROPERTY, PLANT AND EQUIPMENT

Alaskan Star drilling rig

	<u>Cost</u>	<u>Depreciation</u>	<u>Net Amounts</u>
Amounts at December 31, 2009	307,023	(17,908)	289,115
Additions (*)	<u>66,995</u>	<u>(15,800)</u>	<u>51,195</u>
Amounts at December 31, 2010	374,018	(33,708)	340,310
Additions	<u>4,691</u>	<u>(17,075)</u>	<u>(12,384)</u>
Amounts at December 31, 2011	<u>378,709</u>	<u>(50,783)</u>	<u>327,926</u>
Average useful life (years)	22		

(*) Additions at cost increased in the year of 2010 due to the upgrade of the Alaskan Star drilling rig.

12. LOANS AND FINANCING

<u>Financial institution</u>	<u>Funding type</u>	<u>Objective</u>	<u>Funding period</u>	<u>Maturity</u>	<u>Contractual interest rate</u>	<u>Effectiveness interest rate</u>	<u>Currency</u>	<u>2011</u>	<u>2010</u>
ING (leader arranger)	Financing	General corporate purposes	Nov, 2008	6 years	Libor + 3.25% p.a.	3.53% p.a.	US dollars	-	<u>193,271</u>
Total								<u>-</u>	<u>193,271</u>
Current								-	40,228
Noncurrent								-	153,043

ING Bank N.V. was the facility leader arranger under this financing and the lenders led by ING Bank N. N. were, NIBC Bank N.V., WestLB AG, New York Branch and Banco Santander (Brasil) S.A., Grand Cayman Branch. The terms of the loan required that the Company enters into Interest Swap arrangements with the same counterparties as for the loan and at terms which match precisely the dates and amounts of outstanding loan principal. This arrangement effectively converted the Libor component of loan interest charges into a fixed interest rate.

Additional information is described in Note 1.

Changes in loans and financings

	<u>For the years ending December 31,</u>	
	<u>2011</u>	<u>2010</u>
Opening balance	193,271	221,271
Repayment of principal	(191,303)	(28,696)
Interest charged through profit and loss	12,407	11,925
Payment of interest and derivatives	<u>(14,375)</u>	<u>(11,229)</u>
Closing balance	<u>=====</u> -	<u>193,271</u>

Guarantees

The Senior Notes is secured by first priority liens on substantially all of the issuer's and the Company's and Star assets, including:

- collateral assignments of the charter agreements with Petrobras;
- assignments of insurance proceeds;
- a mortgage of each drilling rig;
- a pledge of certain accounts of the issuer, Company and Star; and
- a pledge over 100% of the equity interests in the issuer, the Company and Star.

13. SHAREHOLDERS' EQUITY

Capital

The authorized capital of the Company is US\$50 divided into 50,000 authorized redeemable shares of US\$1.00 (One dollar) par value per share, and was authorized as per resolution of the Board of Director's meeting on October 2, 2008. Each redeemable share upon issue is entitled to participate equally in the profits of the respective Class of Shares. Each share in the Company confers upon the shareholders, Hopelake, the right to an equal share in the distribution of the surplus assets of the Company on its liquidation and to an equal share in any dividend paid by the Company.

As described in Note 1, following completion of the offer of the senior secured notes, in August 5, 2011 all of the outstanding shares of the Alaskan Star were transferred at their book value to Hopelake, a wholly-owned subsidiary of Constellation Overseas, pursuant to a share transfer agreement.

As of December 31, 2011, the capital reported in US dollars was as follows:

<u>Shareholders</u>	<u>Common shares</u>	<u>% of participation</u>	<u>Capital</u>
<u>On December 31, 2010</u>			
Constellation Overseas Ltd.	50,000	100	50
<u>On December 31, 2011</u>			
Hopelake Services Ltd.*	50,000	100	50

On March 31, 2010, Constellation integrally paid its capital.

The transferring of the control over the Company is in connection with the transaction described in Note 1. At that time, QGOG Atlantic / Alaskan was a direct subsidiary of Constellation Overseas. Following completion of the offering, both Star and the Company purchased from Constellation Overseas 50%, each one, of all of the issuer's shares at book value (total value of US\$50, being US\$25 for each Company) in August 5, 2011 and, therefore, the issuer became a jointly controlled by the Company and Star.

In addition, all of the outstanding shares of Star and the Company were transferred at their book value to Hopelake, a wholly-owned subsidiary of Constellation Overseas, pursuant to a share transfer agreement.

Profit per share

Basic profit per share amounts are calculated by dividing the profit for the year, all from continuing operations, attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

	For the years ending December 31,	
	<u>2011</u>	<u>2010</u>
Profit for the year	41,961	30,982
Weighted average number of common shares for calculation purposes (thousands of shares)	<u>50</u>	<u>50</u>
Basic and diluted profit per share	<u>839.22</u>	<u>619.64</u>

The Company has no potential dilutive shares.

Dividends

The payment of dividends, if any, will be determined by a resolution of the Company's board of directors if the board of directors is satisfied that, immediately after such distribution or dividend payment: the Company's assets will exceed its liabilities and the Company will be able to pay its indebtedness as it becomes due.

Payment of dividends to the Company's shareholders can be made by cash, shares or other property.

No dividends were approved during the year ended December 31, 2011.

14. COSTS

	<u>2011</u>	<u>2010</u>
Depreciation	(17,075)	(15,800)
Maintenance	(7,783)	(1,466)
Insurance	(1,075)	(1,382)
Other	<u>(352)</u>	<u>(390)</u>
	<u>(26,285)</u>	<u>(19,038)</u>

15. FINANCIAL COSTS, NET

	For the years ending December 31,	
	2011	2010
<u>Financial income</u>		
Short term investments income	10	37
	10	37
<u>Financial costs</u>		
Financial charges on loans and financings	(12,407)	(11,925)
Financial costs from related parties	(6,776)	(1,364)
Other financial costs	(536)	(6)
	<u>(19,719)</u>	<u>(13,295)</u>
Financial costs, net	<u>(19,709)</u>	<u>(13,258)</u>

16. FINANCIAL INSTRUMENTS

a) General considerations

The Company manages its capital to ensure that will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the mix of debt and equity.

The Company's main financial instruments are cash and cash equivalent, short-term investments, restricted cash, trade accounts payable, loans and financings and receivables and payables to related parties, as follows:

	Accounting measurement	December 31			
		2011		2010	
		Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>					
Cash and cash equivalents	Loan and receivables	486	486	343	343
	Fair value through				
Short-term investments	profit loss	3,850	3,850	-	-
Restricted cash	Loan and receivables	-	-	12,501	12,501
Receivables from related parties	Loan and receivables	18,421	18,421	8,057	8,057
<u>Financial liabilities</u>					
Loans and financing	Not measured at fair value	-	-	193,271	193,271
Trade accounts payable	Not measured at fair value	313	313	3,184	3,184
Payables to related parties	Not measured at fair value	281,688	286,238	143,687	143,687

The Company has no forward contracts, options, *swaptions* (swaps with non-exercise options), flexible options, derivatives embedded in other products, structured transactions with derivatives and exotic derivatives. The Company does not conduct derivative transactions for speculative purposes, thus reaffirming its commitment to a policy of conservative management of cash, whether in relation to its financial liabilities or its cash and cash equivalents.

Management believes that there is no significant risk of short term fluctuations in the day-rates on charter services due to the respective contracts being long term.

Management also believes that the carrying amounts of the remaining financial instruments are not significantly different from their fair value as it considers that interest rates on such instruments are not significantly different from market rates.

Additionally, the amounts of accounts receivables and payables reported in these financial statements do not differ significantly from their fair value due to the turnover of these accounts being approximately 30 days.

b) Fair value hierarchy

IFRS 7 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 date of measurement. The standard clarifies that fair value shall be based on assumptions that market participants use when measuring a value or price for an asset or a liability and establishes a hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives greater weight to market information available (ie, observable) and less weight to information related to the data without transparency (ie, unobservable data). Additionally, it requires that the company consider all aspects of nonperformance risk, including the Company's own credit, to measure the fair value of a liability.

IFRS 7 also establishes a hierarchy of three levels to be used to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of "input" significant for its measurement. A description of the three hierarchical levels is shown below:

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

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 include 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 little or no market activity. These "inputs" represent the best estimates of management of the Company 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.

According to IAS 39, the Company measures its cash equivalents, investments and derivative financial instruments at fair value. Cash equivalents, investments and derivative financial instruments are classified as Level 2 as they are measured using market prices for similar instruments.

	2011	
	Fair value	Quoted prices for identical assets or liabilities (Level 1)
<u>Financial assets</u>		
Short-term investments	3,850	3,850
	2010	
	Fair value	Quoted prices for identical assets or liabilities (Level 1)
<u>Financial assets</u>		
Restricted cash	12,501	12,501

Financial instruments fair value measurement

Company assessed the evaluation of financial assets and liabilities in relation to its market values or its effectiveness recoverable amount, using available information and best practices and methodologies of market valuations for each situation. Market data information interpretation about methodologies choice requires a higher level of judgment and establishment of reasonable estimative to achieve the fair value. Consequently, the estimative presented may not indicate, necessarily, the amounts that maybe obtained in current market. The use of different hypothesis to calculation of fair values can result in significant effect in obtained values.

For the intercompany loan based on the securities issued by QGOG Atlantic / Alaskan Rigs Ltd. that has quoted price in active markets, the fair value is equal to its last quoted price at the balance sheet closing date obtained from Bloomberg, multiplied by the number of notes in circulation.

For contracts where the current conditions are similar to those in which they originated or that do not have parameters for quotation or contract, fair values are similar to its carrying amounts. In the evaluation carried out for the purpose of determining the fair value of assets and liabilities measured at amortized cost method, it was not considered the applicability of this adjustment, highlighting the following reasons:

- Trade accounts payable: very short term of maturity; and
- Loans and financing and related parties (other than the comparable transaction with senior notes issued by QGOG Atlantic/Alaskan): the fact that fair value information has not been disclosed for these instruments because fair value cannot be measured reliably.

c) Financial risk management

The Company is exposed to liquidity risk, and credit risk and interest rate risk, as described below:

Liquidity risk

The Company may operate with negative working capital due to its business structure. As of December 31, 2011, the Company presents working capital deficiency in the amount of US\$29,509 (US\$156,219 in 2010). The Company's financing and liquidity position is managed as part of the strategy to maintain a portfolio of financial liabilities instruments held by the Constellation Group. Such instruments are entered into according to the financial position, forecast cash generation and funding requirements of individual companies and of the group as a whole.

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Intra-group funding arrangements are used to manage the liquidity risk exposure of individual group entities such as the Company.

The Company cultivates relationships with specific lenders and continually monitors its funding needs together with these lenders. The Directors maintain a structure cash flow model to ensure that the Company is able to meet its funding needs in an efficient manner.

The following table details the Company's liquidity analysis for its non-derivative financial liabilities and related derivative financial instruments. The table has been drawn up based on the undiscounted contractual cash inflows and outflows for the financial instruments. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period:

	Trade accounts payable	Payables to related parties	Total
2012	313	59,030	59,343
2013	-	53,719	53,719
2014	-	53,997	53,997
2015	-	54,259	54,259
2016	-	53,528	53,528
2017	-	26,772	26,772
After 2017	-	39,398	39,398
Total	<u>313</u>	<u>340,703</u>	<u>341,016</u>

Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Company. Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents. It is the Company's practice to place its cash in bank deposits at commercial banks and time deposits during the period with high credit ratings.

The Company has a concentration of trade receivables with Petrobras, which is the main customer. Management considers that the credit risk arising from this concentration is minimal as Petrobras is rated as Investment Grade by rating agencies, is a government controlled entity with a history of full payment, and of being respectful of contractual rights.

Interest rate risk

The Company uses cash from operations to conduct its daily business activities, as well as to finance part of its investments and growth. As described in Note 1, to supplement its funding to support growth plans, in July 29, 2011, upon completion of the offering, Alaskan Star entered into an intercompany loan with the Issuer, and paid in full the obligations under the existing Loans and Financings and the related Derivatives that used to swap floating rate debt to fixed (Note 12). The conditions of payment of the intercompany loan are equal to the conditions of the offering, with 5.25% per annum fixed interest rate, not subjected to floating rate.

Interest rate sensitivity analysis

The Company uses cash from operations to conduct its daily business activities, as well as to finance part of its investments and growth. To supplement its funding to support growth plans, the Company has obtained loans and financing with major international financial institutions, mainly at long term market interest rates. The Company has eliminated its sensitivity to interest rates due to the interest rate swaps to swap floating rate debt to fixed as discussed in Note 12.

17. RISK AND INSURANCE

As of December 31, 2011 and 2010, major assets or interests covered by insurance and respective amounts are followed below:

	<u>2011</u>	<u>2010</u>
Liability	155,000	150,000
Operating risks	<u>407,926</u>	<u>312,000</u>
Total	<u>562,926</u>	<u>462,000</u>

18. INCOME TAXES

The Company operates in the BVI which is a jurisdiction which does not charge income tax. As a result, the Company has no record of generating taxable income.

19. OPERATING LEASES

As described in Note 3.6, the Company leases out offshore rigs with terms expiring in 2016 with an option to renew the agreements after each contract expiring date, at which time all terms are renegotiated.

At December 31, 2011, the future aggregate minimum lease receipts under non-cancellable operating leases receivable by the Company were as follows:

Not later than one year	98,521
Later than one year but not later than five years	380,088
Total	478,609

20. NON CASH TRANSACTIONS

The Company acquired property, plant and equipment of US\$3,142 in respect of which the respective accounts payable are included in Trade and other payables as at December 31, 2010. As of December 31, 2011 the Company has outstanding balance for accounts payables to suppliers related to acquisition of property, plant and equipment amounting to US\$2,159 and payment of outstanding payable regarding the acquisition of Alaskan Star rig from its parent company, Constellation Overseas Ltd. to US\$78,040

21. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of directors and authorized for issue on April 20, 2012.
