BASSDRILL LTD. & SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

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CONTENTS

UHY LLP
Certified Public Accountants

12 Greenway Plaza, 12th Floor
Houston, Texas 77046

Phone 713-561-6500
Fax 713-968-7128
Web www.uhy-us.com

Independent Auditors' Report

To the Board of Directors of
BassDrill Ltd. & Subsidiaries
Houston, Texas

We have audited the accompanying consolidated balance sheets of BassDrill Ltd. & Subsidiaries (the "Company") as of December 31, 2011, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BassDrill Ltd. & Subsidiaries as of December 31, 2011, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note B to the consolidated financial statements, the Company has sustained recurring losses and negative cash flows from operating and investing activities. For the Company to execute its business plan, the Company will need to successfully obtain funding through additional equity raises or debt facilities to meet working capital requirements, and fund its existing capital commitments (see Note K) and future capital program. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note B. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note D to the consolidated financial statements, the Company changed its method of accounting for an unconsolidated affiliate during the year ended December 31, 2011 and retrospectively adjusted the 2010 and 2009 consolidated financial statements for this change.

UHY LLP

Houston, Texas
April 25, 2012

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010 (as adjusted)	December 31, 2009 (as adjusted)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 5,633,709	$ 140,194	$ 163,514
Accounts receivable	290,427	18,160	698
Accounts receivable - affiliates	110,562	305,953	41,279
Prepaid expenses	34,206	9,700	-
TOTAL CURRENT ASSETS	6,068,904	474,007	205,491
PROPERTY AND EQUIPMENT			
Furniture, equipment and leasehold improvements	411,150	212,609	94,886
Construction in progress	42,590,748	334,683	-
	43,001,898	547,292	94,886
Less: accumulated depreciation and amortization	171,908	96,226	52,228
NET PROPERTY AND EQUIPMENT	42,829,990	451,066	42,658
LOAN TO UNCONSOLIDATED AFFILIATE	2,526,453	-	-
INVESTMENT IN UNCONSOLIDATED AFFILIATE	10,004,494	4,714,820	4,877,578
DEFERRED COMMITMENT AND OTHER RELATED FEES	2,615,006	-	-
GOODWILL	9,753	9,753	-
OTHER ASSETS	8,663	8,663	6,004
TOTAL ASSETS	$ 64,063,263	$ 5,658,309	$ 5,131,731
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	$ 373,382	$ 645,458	$ 10,686
Accounts payable - affiliates	103,622	-	228,000
Accrued liabilities	327,548	654,565	91,907
TOTAL CURRENT LIABILITIES	804,552	1,300,023	330,593
LONG-TERM DEBT	-	5,097,578	6,538,059
TOTAL LIABILITIES	804,552	6,397,601	6,868,652
COMMITMENTS AND CONTINGENCIES (Note K)			
STOCKHOLDERS' EQUITY (DEFICIT)			
Common stock, $1 par value, 45,778,368, 3,298,231 and 1,500 shares authorized, issued and outstanding at December 31, 2011, 2010 and 2009, respectively	45,778,368	3,298,231	1,500
Additional paid-in capital	26,172,712	(54,175)	-
Treasury stock (66,600 shares at cost)	(93,281)	-	-
Subscription receivable	(1,500)	(1,500)	(1,500)
Accumulated deficit	(8,597,588)	(3,981,848)	(1,736,921)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	63,258,711	(739,292)	(1,736,921)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 64,063,263	$ 5,658,309	$ 5,131,731

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2011	2010 (as adjusted)	2009 (as adjusted)
REVENUES			
Management fees	$ 1,686,854	$ 1,615,347	$ 767,885
Reimbursables	96,182	317,733	337,872
Consulting fees	758,127	361,726	459,735
TOTAL REVENUES	2,541,163	2,294,806	1,565,492
OPERATING EXPENSES			
Operating expenses	5,522,594	3,494,429	2,174,223
Depreciation and amortization	75,682	43,998	26,955
TOTAL OPERATING EXPENSES	5,598,276	3,538,427	2,201,178
LOSS FROM OPERATIONS	(3,057,113)	(1,243,621)	(635,686)
OTHER INCOME (EXPENSE)			
Interest income	4	112	-
Interest expense	(231,340)	(388,693)	(427,439)
Gain on waiver of debt	459,417	-	-
Other expense	-	-	(17,644)
Foreign currency exchange (loss) gain	(81,362)	267	81
TOTAL OTHER INCOME (EXPENSE)	146,719	(388,314)	(445,002)
LOSS BEFORE EQUITY IN LOSS OF AFFILIATE	(2,910,394)	(1,631,935)	(1,080,688)
EQUITY IN LOSS OF AFFILIATE	(1,705,346)	(612,992)	(101,595)
NET LOSS	$ (4,615,740)	$ (2,244,927)	$ (1,182,283)
LOSS PER SHARE:			
Basic and diluted	$ (0.13)	$ (0.82)	$ (788.19)
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic and diluted	35,158,334	2,748,776	1,500

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Common Stock		Additional Paid-in	Treasury	Subscription	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Stock	Receivable	Deficit	Equity (Deficit)
Balance at January 1, 2009	1,500	$ 1,500	$ -	$ -	$ (1,500)	$ (533,811)	$ (533,811)
Cumulative adjustment for retrospective application of change in accounting	-	-	-	-	-	(20,827)	(20,827)
Net loss, as adjusted	-	-	-	-	-	(1,182,283)	(1,182,283)
Balance at December 31, 2009, as adjusted	1,500	1,500	-	-	(1,500)	(1,736,921)	(1,736,921)
Conversion of BassInvest Lenders debt to equity	3,296,731	3,296,731	-	-	-	-	3,296,731
Stock issuance costs	-	-	(54,175)	-	-	-	(54,175)
Net loss, as adjusted	-	-	-	-	-	(2,244,927)	(2,244,927)
Balance at December 31, 2010, as adjusted	3,298,231	3,298,231	(54,175)	-	(1,500)	(3,981,848)	(739,292)
Conversion of BassInvest AS debt to equity	1,652,035	1,652,035	-	-	-	-	1,652,035
Common stock issued in recapitalization	38,100,821	38,100,821	26,899,179	-	-	-	65,000,000
Stock issuance costs	-	-	(3,578,323)	-	-	-	(3,578,323)
Issuance of common stock for investment in BDA equity	1,261,865	1,261,865	890,877	-	-	-	2,152,742
Common stock issued to BassInvest AS	1,465,416	1,465,416	1,721,476	-	-	-	3,186,892
Stock compensation expense	-	-	293,678	-	-	-	293,678
Treasury stock acquired	-	-	-	(163,191)	-	-	(163,191)
Treasury stock sold	-	-	-	69,910	-	-	69,910
Net loss	-	-	-	-	-	(4,615,740)	(4,615,740)
Balance at December 31, 2011	45,778,368	$ 45,778,368	$ 26,172,712	$ (93,281)	$ (1,500)	$ (8,597,588)	$ 63,258,711

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2011	2010 (as adjusted)	2009 (as adjusted)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (4,615,740)	$ (2,244,927)	$ (1,182,283)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity in loss of affiliate	1,705,346	612,992	101,595
Depreciation expense	75,682	43,998	26,955
Non-cash interest	231,340	388,693	427,439
Gain on waiver of debt	(459,417)	-	-
Stock compensation expense	293,678	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(272,267)	(17,461)	1,316
Accounts receivable - affiliates	195,391	(264,674)	84,221
Prepaid expenses	(24,506)	(9,700)	-
Accounts payable	(272,076)	604,771	(259,477)
Accounts payable - affiliates	103,622	-	228,000
Other accrued liabilities	(327,017)	310,483	91,907
Deferred revenues	-	-	(120,000)
Other assets	-	(2,659)	-
NET CASH USED IN OPERATING ACTIVITIES	(3,365,964)	(578,484)	(600,327)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for furniture, equipment and leasehold improvements	(198,541)	(117,723)	(6,635)
Cash paid for construction in progress	(40,515,770)	(334,683)	-
Cash paid for BassDrill Beta BV, net	-	(9,753)	-
Cash paid for loan to unconsolidated affiliate	(2,526,453)	-	-
Cash paid for additional investment in affiliate	(4,842,277)	(450,234)	-
NET CASH USED IN INVESTING ACTIVITIES	(48,083,041)	(912,393)	(6,635)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from issuance of common stock	64,608,569	-	-
Cash paid for treasury stock, net	(93,281)	-	-
Cash paid for commitment and other related fees	(3,865,432)	-	-
Proceeds from shareholder loans	560,000	1,967,557	515,436
Payments on shareholder loans	(4,267,336)	(500,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	56,942,520	1,467,557	515,436
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,493,515	(23,320)	(91,526)
CASH AND CASH EQUIVALENTS, beginning of year	140,194	163,514	255,040
CASH AND CASH EQUIVALENTS, end of year	$ 5,633,709	$ 140,194	$ 163,514
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Conversion of long-term debt to equity	$ 1,652,035	$ 3,296,731	$ -
Issuance of common stock for investment in BDA equity	$ 2,152,742	$ -	$ -
Capitalized interest	$ 1,250,426	$ -	$ -
Design fees paid by BassInvest AS	$ 489,870	$ -	$ -

See notes to consolidated financial statements.

NOTE A - ORGANIZATION AND NATURE OF BUSINESS

BassDrill Ltd. ("BassDrill" or the "Company") was incorporated in Bermuda in September 2008 and effective April 29, 2011 was registered on the Norwegian OTC-list. BassDrill is in the business of providing management and contract drilling services for oil and gas wells for the offshore tender assist market and related offshore oilfield services, for both Company-owned and related party vessels. The Company is headquartered in Houston, Texas.

BassDrill has three wholly-owned subsidiaries: BassDrill Management (USA) Inc. ("BDM"), incorporated in the state of Texas in 2007; BassDrill International Ltd. ("BDI") and BassDrill Beta Ltd. ("BDB"), both Bermuda-based entities. BassDrill International Pte Ltd is based in Singapore and is a wholly-owned subsidiary of BDI. BassDrill Beta B.V. ("BDB-BV") is based in Holland and is a wholly-owned subsidiary of BDB. BassDrill Brasil Servicos de Petroleo Ltda. is based in Brazil and is a 99%-owned subsidiary of BDB-BV and a 1%-owned subsidiary of BDM.

The Company's primary assets and liabilities pertain to BDM; the Company's equity investment in BassDrill Alpha Ltd. ("BDA") and the deposits made to Dalian Shipbuilding Industry Corporation ("DSIC") and other construction costs incurred for the construction of a semi-submersible tender assist drilling rig (*BassDrill Beta*), which will be owned by BDB.

As used herein, and unless otherwise required by the context, the term "BassDrill" refers to BassDrill Ltd., and the terms "Company," "we," "our," and words of similar import refer to BassDrill and its subsidiaries. The use herein of such terms as "we," "us," "our" and "its," or references to specific entities, is not intended to be a precise description of corporate relationships.

NOTE B - LIQUIDITY

The Company has sustained recurring losses and negative cash flows from operating and investing activities. Historically, the Company has funded its early-stage activities through a combination of equity and debt financing. Effective April 14, 2011, the Company issued 38,200,821 shares of common stock through a private placement offering to Hitec Vision Asset Solutions ("HVAS") and other investors (the "Recapitalization") for $65 million, which was used to repay existing debt (see Note I), purchase an additional interest in BDA, provide the proceeds for the deposits made to DSIC, and fund day-to-day requirements. This transaction provided the Company sufficient cash to meet its funding requirements through May 2012. As of December 31, 2011, the Company had approximately $5.6 million of unrestricted cash.

In March 2012, the Company issued 2,288,918 shares of common stock to HVAS and other existing shareholders for $5,127,176, which will be used to fund the Company's operations through September 2012. The Company has also announced its plan to issue additional common shares through an initial public offering ("IPO") in the late second quarter of 2012.

In September 2010, BDB signed a 945-day contract with Petrobras for the construction of *BassDrill Beta*. *BassDrill Beta* is being constructed in China for delivery to Petrobras in the second quarter of 2013. See Note K for a description of the commitments the Company has with respect to taking delivery of *BassDrill Beta*.

NOTE B - LIQUIDITY (Continued)

The Company expects that it will continue to raise additional capital to accomplish its business plan over the next several years and expects to obtain additional funding through additional equity raises or debt facilities. There can be no assurance as to the availability or terms upon which such equity or debt funding might be available.

These matters raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the assets and liabilities of BassDrill and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustments in the consolidated financial statements. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of consolidated financial statements. While management believes current estimates are reasonable and appropriate, actual results could differ from those estimates.

Fair Value of Financial Instruments: The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, loan to unconsolidated affiliate, accounts payable, and long-term loans. The carrying amounts of these accounts are representative of their respective fair values due to the short-term maturity of these instruments or their interest rate reflective of current market rates.

Management and Consulting Fees: BDM provides management and consulting services for the offshore tender assist market and related oilfield services to BDA and certain non-related companies. Such fees are day-rate based and are recorded as revenues in the period in which they are provided to the customers.

Reimbursable Income (Expense): Reimbursements received for the purchases of supplies, personnel services and other services provided on behalf of and at the request of our customers in accordance with a contract or agreement are recorded as revenues. The related costs are recorded as reimbursable expenses in the same period. The amounts are recorded in the consolidated statements of operations.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Unconsolidated Affiliate: The Company measures its investment in BDA using the equity method of accounting as the Company has the ability to exercise significant influence over operating and financial affairs (see Notes D and H). Under the equity method of accounting, the Company's proportionate share of the BDA's income or loss is reported in the consolidated statement of operations.

The Company analyzes its equity method investee (BDA) for impairment during each reporting period to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of its investment. The Company records an impairment charge for other-than-temporary declines in fair value when the fair value is not anticipated to recover above cost within a reasonable period after the measurement date, unless there are mitigating factors that indicate impairment may not be required. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until the investee is sold. There were no impairments in 2011, 2010 or 2009.

Cash and Cash Equivalents: The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable are made up of contract receivables recorded at the invoiced amount and do not bear interest.

Earnings are charged with a provision for doubtful accounts based on a current review of the collectability of accounts. Accounts deemed uncollectable are applied against the allowance for doubtful accounts. No allowance for doubtful accounts was recorded by the Company at December 31, 2011, 2010 or 2009.

Concentrations of Credit Risk: The Company's customer concentration may impact its overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions affecting the drilling industry. In 2011, 2010 and 2009, 66%, 62% and 47%, respectively, of the Company's revenues were received from BDA. The Company had receivables from BDA of $110,562, $305,953 and $41,279 at December 31, 2011, 2010 and 2009, respectively.

The Company is subject to concentrations of credit risk with respect to cash and cash equivalents, which the Company attempts to minimize by maintaining cash and cash equivalents with major high credit quality financial institutions. At times cash balances may exceed limits federally insured by the United States Federal Deposit Insurance Corporation. Additionally, certain of the Company's cash balances are maintained in foreign banks, which are not covered by deposit insurance.

Foreign Exchange Transactions: The Company's functional currency is the United States (U.S.) dollar as the Company primarily contracts with contractors, finances capital, and purchases equipment and services using the U.S. dollar. Transactions that are completed in a foreign currency are translated into U.S. dollars, and any gain or loss is recorded in the consolidated statements of operations.

Furniture, Equipment and Leasehold Improvements: Furniture, equipment and leasehold improvements are recorded at historical cost, less accumulated depreciation and amortization, and are depreciated over their estimated remaining useful lives (shorter of the life of the lease or the estimated useful life for leasehold improvements), which is generally between three and five years depending on the type of asset. Depreciation and amortization expense was $75,682, $43,998 and $26,955 in 2011, 2010 and 2009, respectively.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in Progress: The carrying value of the rig under construction (*BassDrill Beta*) represents the accumulated costs at the balance sheet date. Cost components include payments for yard installments and variation orders, construction supervision, equipment, spare parts and capitalized interest. No charge for depreciation will be made until commissioning of *BassDrill Beta* has been completed and is ready for its intended use.

Deferred Commitment and Other Related Fees: On April 29, 2011, the Company paid $2,430,000 to a lender for its commitment to provide post-delivery date financing of up to $125 million for *BassDrill Beta*. Additionally, quarterly commitment fees of approximately $625,000 commenced on July 29, 2011 and will be paid quarterly thereafter until *BassDrill Beta* is delivered. The Company also incurred other related fees associated with the $125 million financing in the amount of $173,508. Amortization of such amounts and other related financing costs during 2011 of $1,250,426 (all of which qualify for capitalization, see *capitalized interest* below) over the originally anticipated commitment period through January 2013 are being capitalized as an additional cost of constructing *BassDrill Beta*.

Capitalized Interest: Interest expenses are capitalized during construction of *BassDrill Beta* based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an accounting period is determined by applying an interest rate (the “capitalization rate”) to the average amount of accumulated expenditures for the asset during the period. The capitalization rate used in an accounting period is based on the rates applicable to borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period. As the average accumulated expenditures for *BassDrill Beta* exceed the amounts of the specific new borrowing associated with the asset (which debt will not be funded until delivery occurs), the capitalization rate applied to such expenditures is a weighted average of the rates applicable to other borrowings of the Company.

Impairment of Long-lived Assets: The carrying values of long-lived assets that are held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposition. If the undiscounted future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset’s carrying value and fair value.

Goodwill: The Company allocates the purchase price of acquired businesses to identifiable tangible and intangible assets and liabilities acquired with any remaining amount being capitalized as goodwill. Goodwill is tested for impairment at least annually. The Company performs the annual test of goodwill impairment using discounted cash flows. No impairment of goodwill has been recorded in 2011. The Company recorded goodwill in connection with its acquisition of Etrusco N.V., which is now BDB-BV.

Income Taxes: The Company is a Bermuda limited liability company. No activities were carried out in Bermuda in 2011; as such, the Company was not taxed by Bermuda. Income taxes have been provided based upon the tax laws and rates in effect in the countries in which operations are conducted and income is earned. The Company was not taxed in any other jurisdictions for the years ended December 31, 2011, 2010 or 2009.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based Compensation: The Company has established an employee share ownership plan under which certain of its officers and board members have been and may be allocated additional options to subscribe for new shares in the ultimate parent, BassDrill Ltd. The compensation cost for stock options is recognized as an expense over the service period based on the fair value of the options granted.

The fair value of the share options issued under the Company's share option plan is determined at grant date taking into account the terms and conditions upon which the options are granted, and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognized as personnel expenses with a corresponding increase in stockholders' equity over the period during which the employees become unconditionally entitled to the options.

Stock compensation expense is initially recognized based upon options expected to vest with appropriate adjustments to reflect actual forfeitures.

Segment Reporting: As of December 31, 2011, the Company has one reportable business segment – management and consulting services. The management and consulting services business segment performs various services related to platform drilling, drilling facility engineering, well intervention, construction management and oilfield services.

Related Parties: Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. All transactions between related parties are based on the principle of arm's length (estimated market value).

Earnings Per Share: Basic earnings per share ("EPS") is calculated based on the income (loss) for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, which for the Company includes share options. The determination of dilutive earnings per share requires the Company to potentially make certain adjustments to net income and for the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

Recent Accounting Pronouncements: *Intangibles-goodwill and other* - Effective January 1, 2012, we will adopt the accounting standards update that amends the goodwill impairment testing requirements by giving an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether the two-step impairment test is required. The update is effective for goodwill impairment tests performed for annual and interim periods beginning after December 15, 2011. We do not expect that our adoption will have a material effect on our consolidated financial statements.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Balance Sheet - Effective January 1, 2013, we will adopt the accounting standards update that expands the disclosure requirements for the offsetting of assets and liabilities related to certain financial instruments and derivative instruments. The update requires disclosures to present both gross information and net information for financial instruments and derivative instruments that are eligible for net presentation due to a right of offset, an enforceable master netting arrangement or similar agreement. The update is effective for interim and annual periods beginning on or after January 1, 2013. We do not expect that our adoption will have a material effect on the disclosures contained in our consolidated balance sheets or notes to consolidated financial statements.

NOTE D - RETROSPECTIVE APPLICATION OF CHANGE IN ACCOUNTING PRINCIPLE

During 2011 the Company acquired additional shares in an unconsolidated affiliate resulting in significant influence being obtained over this unconsolidated affiliate (see Note H). As a result, the Company adopted the equity method of accounting in 2011, and this change in accounting principle requires retrospective application. As such, the Company has recast its 2010 and 2009 consolidated financial statements to reflect this change in accounting. The following sets forth the originally reported and recast amounts of significant items within the consolidated financial statements:

	As of and for the Year Ended December 31, 2010		As of and for the Year Ended December 31, 2009	
	As Originally Reported	As Recast	As Originally Reported	As Recast
Equity in loss of affiliate	$ -	$ (612,992)	$ -	$ (101,595)
Investment in unconsolidated affiliate	$ 5,450,234	$ 4,714,820	$ 5,000,000	$ 4,877,578
Accumulated deficit	$ (3,246,434)	$ (3,981,848)	$ (1,614,499)	$ (1,736,921)

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2011	December 31, 2010	December 31, 2009
Leasehold improvements	$ 97,112	$ 29,493	$ 4,823
Office furniture, fixtures and equipment	117,391	63,350	26,759
Computer hardware and software	196,647	119,766	63,304
	411,150	212,609	94,886
Less: accumulated depreciation	171,908	96,226	52,228
	239,242	116,383	42,658
Construction in progress - *BassDrill Beta*	42,590,748	334,683	-
Total property and equipment	$ 42,829,990	$ 451,066	$ 42,658

NOTE F - INTEREST COST

The Company capitalizes interest cost as a component of construction in progress. The following is a summary of interest cost incurred:

	December 31, 2011	December 31, 2010	December 31, 2009
Interest cost capitalized	$ 1,250,426	$ -	$ -
Interest cost expensed	231,340	388,693	427,439
Total interest cost incurred	$ 1,481,766	$ 388,693	$ 427,439

NOTE G - LOAN TO UNCONSOLIDATED AFFILIATE

In connection with the December 2011 refinancing of BDA's long-term debt and to provide BDA additional working capital, the Company and all other BDA shareholders entered into shareholder loan agreements on a proportional basis to each shareholder's equity interest in BDA totaling $10 million. The Company's loan to unconsolidated affiliate balance was $2,526,453 at December 31, 2011, which reflects its proportionate share of the $10 million. This unsecured loan earns interest at 20% and does not require the payment of principal or interest until the loan matures in June 2014. Accrued interest will be capitalized and added to the loan balance at the end of each calendar quarter, commencing on March 31, 2012.

NOTE H - INVESTMENT IN UNCONSOLIDATED AFFILIATE

In April and August 2011, the Company increased its investment in BDA to 25.26% from 3.98% as of December 31, 2010, in two separate transactions for total consideration of $6,995,019 ($2,152,742 in BassDrill common stock issued to BDA stockholders in exchange for BDA stock and $4,842,277 in cash).

The Company’s investment in BDA as of December 31, 2009 was 17.86%.

BDA is a Bermuda-based vessel owning company in the business of providing offshore tender assist drilling units to the offshore market.

Condensed balance sheet information for BDA is as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Current assets	$ 12,344,408	$ 5,135,136	$ 73,396,083
Property and equipment, net	94,111,703	95,446,077	26,965,058
Other assets	4,255,416	1,018,119	2,059,117
Total assets	$ 110,711,527	$ 101,599,332	$ 102,420,258
Current liabilities	$ 14,356,775	$ 61,431,506	$ 515,606
Long-term liabilities	56,527,718	-	55,000,000
Stockholders’ equity	39,827,034	40,167,826	46,904,652
Total liabilities and stockholders’ equity	$ 110,711,527	$ 101,599,332	$ 102,420,258

Condensed statement of operations information for BDA is as follows:

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Operating revenues	$ 36,788,196	$ 2,456,821	$ -
Costs and expenses	30,035,344	7,895,727	305,808
Income (loss) from operations	6,752,852	(5,438,906)	(305,808)
Other expense, primarily interest	(10,718,753)	(10,644,669)	(263,124)
Loss before income tax expense	(3,965,901)	(16,083,575)	(568,932)
Foreign income tax expense	(2,888,179)	(109,807)	-
Net loss	$ (6,854,080)	$ (16,193,382)	$ (568,932)

NOTE I - LONG-TERM DEBT

Long-term debt is as follows:

	December 31,		
	2011	2010	2009
Amended and Restated Loan Agreement:			
BassInvest Lenders	$ -	$ -	$ 3,296,731
GEC Lenders	-	3,025,665	3,241,328
Subordinated Loan Agreement -			
BassInvest AS	-	2,071,913	-
	$ -	$ 5,097,578	$ 6,538,059

Amended and Restated Loan Agreement

BassDrill entered into an "Amended and Restated Loan Agreement" (the "Loan Facility") with BassInvest AS and five individuals (the "BassInvest Lenders"), and two Global Energy Capital ("GEC") funds (the "GEC Lenders") on December 2, 2008, providing for an unsecured Loan Facility of $6 million (net of accrued interest). The Loan Facility was subsequently amended on March 2, 2009 and again on November 19, 2009 with an effective date of March 23, 2010. As of March 31, 2010, BassInvest Lenders converted its balance of $3,296,731 into common shares at $1 par value. The interest rate on the outstanding balance, including previously accrued interest, was ten percent (10%). Interest was capitalized on a quarterly basis to the loan balance. Total loan balance due the GEC Lenders, inclusive of accrued interest, as of December 31, 2010 and 2009 was $3,025,665 and $3,241,328, respectively. On July 6, 2011, the loan balance due of $3,188,892 (including accrued interest) was repaid in full.

Subordinated Loan Agreement

BassDrill entered into a Subordinated Loan Agreement (the "Subordinated Loan") with BassInvest AS (the "Lender") on July 27, 2010. Under the terms of the unsecured Subordinated Loan, the Lender agreed to lend BassDrill up to $1.5 million for funding of general corporate purposes and working capital and funding of BassDrill's equity undertaking towards BDA up to $545,020. As of December 31, 2010, BassDrill had drawn down $1,967,557 of the Subordinated Loan facility. The interest rate on the outstanding balance, including previously accrued interest, was ten percent (10%). Interest was capitalized on a quarterly basis to the loan balance. Total loan balance due, inclusive of accrued interest, as of December 31, 2010 was $2,071,913. During the first and second quarters of 2011, the Company borrowed an additional $560,000 and accrued an additional $70,113 of interest. On April 14, 2011, $1,652,035 of the loan balance was converted to Company common stock, $459,417 of the loan balance was waived by the Lender, $489,870 of design fees paid by the Lender were added to the loan balance, and $1,010,331 was repaid to the Lender. On June 16, 2011, the remaining loan balance due of $70,113 (including accrued interest) was repaid in full.

NOTE J - LOSS PER SHARE

The components of the numerator and denominator for the calculation of basic and diluted loss per share resulting from continuing operations are as follows:

	Year Ended December 31,		
	2011	2010	2009
		Basic and Diluted	
Numerator for loss per share			
Net loss	$ (4,615,740)	$ (2,244,927)	$ (1,182,283)
Denominator for loss per share			
Weighted-average shares outstanding	35,158,334	2,748,776	1,500
Effect of stock options *	-	-	-
Weighted-average shares for per share calculation	35,158,334	2,748,776	1,500
Per share loss from continuing operations	$ (0.13)	$ (0.82)	$ (788.19)

* For the year ended December 31, 2011, we have excluded 3,613,800 share-based awards from the calculation since the effect would have been anti-dilutive.

NOTE K - COMMITMENTS AND CONTINGENCIES

In June 2010, the Company entered into a turn-key contract with DSIC (the “Builder”) to design, construct and sell a tender support vessel (*BassDrill Beta*). The delivery point is alongside the Builder’s shipyard in Dalian, China for a contract price of $184,388,536 subject to adjustment in accordance with certain provisions. The Company made a 20% installment payment of $36,877,707 in April 2011; the 2nd installment payment of $921,943 was made in July 2011, five working days after steel cutting; the 3rd installment payment of $921,943 is due within five working days after the launching of the vessel; and the 4th and final installment payment of $145,666,943, plus any outstanding increase or minus any decrease due to adjustments, is due upon delivery, which is expected in the first quarter of 2013. Any amounts not paid by due dates bear interest at LIBOR (one month) plus 1.5%. In the event the delivery date is delayed, there are provisions in the agreement that will require the Builder to pay penalties of $30,000 per day escalating to $60,000 if delayed more than 61 days but limited to $10.8 million.

In connection with the construction of *BassDrill Beta*, the Company secured a $125 million Senior Secured Term Loan commitment that became effective on April 29, 2011 with the payment of $2,430,000 in commitment fees. The loan will not be drawn upon until BDB takes possession of *BassDrill Beta* and will be secured by the vessel. Additionally, quarterly commitment fees of $625,000 commenced on July 29, 2011 and will be paid quarterly thereafter until *BassDrill Beta* is delivered. Beginning in April of 2012, BDB will also pay the lenders an annual service fee of $30,000 through the term of the loan. The term of the loan will be for five years after the first payment due date, which will be six months after *BassDrill Beta* is delivered. The loan is repayable in quarterly principal payments ranging from $4.8 million to $8.0 million, plus interest of 3.75% above LIBOR. In addition to security provided to lenders in the form of the pledged asset, *BassDrill Beta*, the Senior Secured Term Loan contains certain financial covenants, the main ones (which do not commence until funding occurs) being as follows:

NOTE K - COMMITMENTS AND CONTINGENCIES (Continued)

- To maintain the book equity of the Company of at least $90 million.
- To maintain total equity to total assets ratio of the Company of at least 30%.
- To maintain an EBITDA to interest expense ratio of at least 2.5:1 for the Company and BDB individually.
- To maintain an EBITDA to debt service (as defined) ratio no greater than 1.0:1 from the commencement to the completion of the Petrobras contract and 1.10:1 thereafter.

In September 2010, the Company entered into a three year lease for administrative offices in Houston, Texas. The monthly lease commitment is $6,500 per month. In June 2011, the Company obtained additional office space contiguous to its existing space, which increased the monthly lease commitment to $9,500 per month. Rent expense was approximately $99,600, $60,700 and $48,300 in 2011, 2010 and 2009, respectively.

The Company may in the future be involved as a party to various legal proceedings that are incidental to the ordinary course of business. The Company regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management and legal counsel, as of December 31, 2011, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated financial statements.

NOTE L - SHARE OPTION PLAN

The fair value of share options granted is recognized as operating expenses, and during 2011, $293,678 was expensed in the consolidated statement of operations. There were no effects on taxes in the consolidated financial statements. However, if the options are exercised, a tax benefit will be recorded, as the gain is recorded as deductible for tax purposes. If the Company has to expense social security taxes related to the benefit of options exercised, such expenses will be recorded at the exercise date.

The BassDrill Share Option Plan permits the Board of Directors, at its discretion, to grant options to acquire shares in the Company to employees of the Company or its subsidiaries. The options granted are not transferable, and the subscription price is set at $1.706 per share adjusted upwards by 12% per annum from the date of grant until the date the option is exercised. Options granted under the plan will vest three years after the date of the grant. The maximum number of shares authorized for awards of equity share options is 4,734,000. Authorized, unissued shares of the Company may be used to satisfy exercised options, or the Company, at its discretion, may satisfy such exercised options in cash.

During 2011, 3,613,890 share options were granted to four key personnel and one director. For accounting purposes, the fair value of the granted share options was estimated on the date of the grant using a Black Scholes option valuation model. For the valuation of the options granted, the following assumptions were applied; risk-free interest rate of 1.41%, share price volatility of 44.5%, dividend yield of 0% and an expected option term of three and a half years.

NOTE L - SHARE OPTION PLAN (Continued)

The risk-free interest rates are estimated using the published United States treasury yield curve in effect at the time of grant for instruments with a similar term. The dividend yield of 0% is used in the valuation model as no dividends are anticipated to be paid during the term of the options. We have assumed that 100% of the options will vest.

Share options issued in 2011 under the BassDrill Plan may be exercised up to five years after the grant date. Options issued under the BassDrill Plan may be exercised at the earlier of a mandatory offer for all the shares of the Company (on certain conditions) or April 13, 2014. As of December 31, 2011, none of the options granted are exercisable, and there were no forfeitures. The weighted average grant-date fair value of options granted during 2011 is $0.362 per share.

As of December 31, 2011, total unrecognized compensation costs related to all unvested share-based awards totaled $1,014,988, which is expected to be recognized as additional expenses of $436,222 in 2012 and 2013, and $142,544 in 2014.

NOTE M - DEFINED CONTRIBUTION RETIREMENT PLAN

In August 2011, the Company introduced a defined contribution plan for all employees based in the United States. Under the plan, the Company contributes to the employee's retirement plan amounts ranging from one to three percent of the employee's annual salary. Such contributions during 2011 totaled $19,690.

NOTE N - RELATED PARTY TRANSACTIONS

The Company transacts business with the following related parties:

- BassInvest
- BDA
- Bassoe Technology AB ("BassTech AB")
- Bassoe Technology AS ("BassTech AS")
- Bassoe Offshore AS ("BassOff AS")
- Bassoe Offshore USA ("BassOff USA")

The Company had agreements with BassInvest for it to provide the Company with consultancy and other advisory services through the end of 2011. Fees for such services were approximately $115,000, $75,000 and $45,000 in 2011, 2010 and 2009, respectively.

BDM has a management services agreement with BDA to provide it management services for the operation of *BassDrill Alpha*. Fees for such services were approximately $1,460,000, $1,434,000 and $720,000 in 2011, 2010 and 2009, respectively. Additionally, BDM also earned a performance bonus of $226,854 in 2011. No such bonus was earned in 2010 or 2009.

NOTE N - RELATED PARTY TRANSACTIONS (Continued)

The Company has agreements with BassTech AB, BassTech AS, BassOff AS and BassOff USA to provide the Company certain design and technology services and reimburse certain costs related to the construction of *BassDrill Beta*. Fees and reimbursements for such services were approximately $1,076,293, $10,173 and $53,310 in 2011, 2010 and 2009, respectively.

At December 31, 2011, 2010 and 2009, the Company was due $110,562, $305,953 and $41,279, respectively, from related parties.

At December 31, 2011, 2010 and 2009, the Company owes $103,622, $0 and $228,000, respectively, to related parties in addition to the related party debt (see Note I).

In December 2011, the Company loaned BDA $2,526,453 (see Note G).

NOTE O - RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

All of our gross earnings from management and consulting fees are receivable in U.S. dollars, and the majority of our other transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. However, the Company has operations and assets in a number of countries worldwide and incurs expenditures in other currencies, causing its results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the U.S. dollar. The Company will also be exposed to changes in interest rates on floating interest rate debt in the future. There is, thus, a risk that currency and interest rate fluctuations will have a negative effect on the value of the Company's cash flows.

Interest Rate Risk Management

The Company's exposure to interest rate risk relates mainly to its future floating interest rate debt and balances of surplus funds placed with financial institutions. The Company's ambition is to obtain the most favorable interest rate borrowings available without increasing its foreign currency exposure. Surplus funds are generally placed in deposits in banks. Such deposits are available daily in order to provide the Company with flexibility to meet all requirements for working capital and capital investments. The extent to which the Company plans to utilize interest rate swaps and other derivatives to manage its interest rate risk will be determined by the net debt exposure and its views on future interest rates.

Foreign Currency Risk Management

The Company does not presently use foreign currency forward contracts and other derivatives to manage its exposure to foreign currency risk on any assets, liabilities or future anticipated transactions as the existing exposure is not deemed significant.

Credit Risk

The Company has financial assets, including cash and cash equivalents and other receivables. These assets expose the Company to credit risk arising from possible default by the counterparty. The Company considers the counterparties to be creditworthy financial institutions and businesses and does not expect any significant loss to result from non-performance by such counterparties. The Company, in the normal course of business, does not demand collateral.