BASSDRILL LTD. & SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 30, 2012 AND 2011

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CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

CONTENTS

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Independent Auditor's Report

To the Stockholders
BassDrill Ltd. & Subsidiaries
Houston, Texas

We have audited the accompanying consolidated financial statements of BassDrill Ltd. & Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BassDrill Ltd. & Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Houston, Texas
April 25, 2013

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 13,293,572	$ 5,633,709
Accounts receivable	968,662	290,427
Accounts receivable - affiliates	17,433	110,562
Prepaid expenses	491,853	34,206
TOTAL CURRENT ASSETS	14,771,520	6,068,904
PROPERTY AND EQUIPMENT		
Furniture, equipment and leasehold improvements	538,709	411,150
Construction in progress	70,553,524	42,590,748
	71,092,233	43,001,898
Less: accumulated depreciation and amortization	291,046	171,908
NET PROPERTY AND EQUIPMENT	70,801,187	42,829,990
LOAN TO UNCONSOLIDATED AFFILIATE	3,098,600	2,526,453
INVESTMENT IN UNCONSOLIDATED AFFILIATE	10,131,044	10,004,494
DEFERRED COMMITMENT AND OTHER RELATED FEES	1,785,948	2,615,006
GOODWILL	9,753	9,753
OTHER ASSETS	25,741	8,663
TOTAL ASSETS	$ 100,623,793	$ 64,063,263
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 923,112	$ 373,382
Accounts payable - affiliates	-	103,622
Other accrued liabilities	962,504	327,548
TOTAL CURRENT LIABILITIES	1,885,616	804,552
COMMITMENTS AND CONTINGENCIES (Note I)		
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 185,778,368 and 45,778,368 shares authorized at December 31, 2012 and 2011, and 73,067,286 and 45,778,368 shares issued and outstanding at December 31, 2012 and 2011, respectively	73,067,286	45,778,368
Additional paid-in capital	38,299,854	26,172,712
Treasury stock (66,600 shares at cost)	-	(93,281)
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(12,627,463)	(8,597,588)
TOTAL STOCKHOLDERS' EQUITY	98,738,177	63,258,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 100,623,793	$ 64,063,263

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2012	2011
REVENUES		
Management fees	$ 1,765,946	$ 1,686,854
Reimbursables	29,191	96,182
Consulting fees	3,525,479	758,127
TOTAL REVENUES	5,320,616	2,541,163
OPERATING EXPENSES		
Operating expenses	9,747,188	5,522,594
Depreciation and amortization	119,138	75,682
TOTAL OPERATING EXPENSES	9,866,326	5,598,276
LOSS FROM OPERATIONS	(4,545,710)	(3,057,113)
OTHER INCOME (EXPENSE)		
Interest income	572,158	4
Interest expense	-	(231,340)
Gain on waiver of debt	-	459,417
Foreign currency exchange gain (loss)	6,553	(81,362)
TOTAL OTHER INCOME (EXPENSE)	578,711	146,719
LOSS BEFORE EQUITY IN INCOME (LOSSES) OF AFFILIATE AND FOREIGN INCOME TAX EXPENSE	(3,966,999)	(2,910,394)
EQUITY IN INCOME (LOSSES) OF AFFILIATE	126,549	(1,705,346)
FOREIGN INCOME TAX EXPENSE	(189,425)	-
NET LOSS	$ (4,029,875)	$ (4,615,740)
LOSS PER SHARE:		
Basic and diluted	$ (0.07)	$ (0.13)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic and diluted	53,987,254	35,158,334

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in	Treasury	Subscription	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Stock	Receivable	Deficit	Equity (Deficit)
Balance at January 1, 2011	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 purchased	-	-	-	(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
Common stock issued	27,288,918	27,288,918	12,838,258	-	-	-	40,127,176
Stock issuance costs	-	-	(1,090,642)	-	-	-	(1,090,642)
Stock compensation expense	-	-	379,526	-	-	-	379,526
Treasury stock sold	-	-	-	93,281	-	-	93,281
Net loss	-	-	-	-	-	(4,029,875)	(4,029,875)
Balance at December 31, 2012	73,067,286	$ 73,067,286	$ 38,299,854	$ -	$ (1,500)	$ (12,627,463)	$ 98,738,177

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2012	Years Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (4,029,875)	$ (4,615,740)
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in (income) losses of affiliate	(126,549)	1,705,346
Depreciation and amortization expense	119,138	75,682
Gain on waiver of debt	-	(459,417)
Stock compensation expense	379,526	293,678
Changes in operating assets and liabilities:		
Accounts receivable	(678,235)	(272,267)
Accounts receivable - affiliates	93,129	195,391
Prepaid expenses	(457,647)	(24,506)
Other assets	(17,078)	-
Accrued interest (income) expense	(572,147)	231,340
Accounts payable	549,730	(272,076)
Accounts payable - affiliates	(103,622)	103,622
Other accrued liabilities	634,956	(327,017)
NET CASH USED IN OPERATING ACTIVITIES	(4,208,674)	(3,365,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for furniture, equipment and leasehold improvements	(127,559)	(198,541)
Cash paid for construction in progress	(24,533,340)	(40,515,769)
Cash paid for loan to unconsolidated affiliate	-	(2,526,453)
Cash paid for additional investment in affiliate	-	(4,842,278)
NET CASH USED IN INVESTING ACTIVITIES	(24,660,899)	(48,083,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from issuance of common stock, net	39,036,534	64,608,569
Cash received for treasury stock, net	93,281	(93,281)
Cash paid for commitment and other related fees	(2,600,379)	(3,865,432)
Proceeds from shareholder loans	-	560,000
Payments on shareholder loans	-	(4,267,336)
NET CASH PROVIDED BY FINANCING ACTIVITIES	36,529,436	56,942,520
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,659,863	5,493,515
CASH AND CASH EQUIVALENTS, beginning of period	5,633,709	140,194
CASH AND CASH EQUIVALENTS, end of period	$ 13,293,572	$ 5,633,709
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Conversion of long-term debt to equity	$ -	$ 1,652,035
Issuance of common stock for investment in BDA equity	$ -	$ 2,152,742
Cash paid for income taxes	$ 189,425	$ 2,960
Capitalized interest	$ 3,429,436	$ 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.

The following entities are wholly-owned subsidiaries of the Company:

- BassDrill Management (USA) Inc. (BDM"), incorporated in the state of Texas
- BassDrill International Ltd. ("BDI"), a Bermuda based entity
- BassDrill Beta Ltd. ("BDB"), a Bermuda based entity
- BassDrill Beta Holding Ltd., a Malta based entity
- BassDrill Beta Ltd., a Malta based entity
- BassDrill Gamma Ltd., a Malta based entity
- BassDrill Delta Ltd., a Malta based entity incorporated subsequent to year end
- BassDrill Beta B.V. ("BDB-BV"), a Holland based entity
- BassDrill Brasil Servicos de Petroleo Ltda., a Brazil based entity

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 two semi-submersible tender assist drilling rigs: *BassDrill Beta* that will be owned by BDB and *BassDrill Gamma* that will be owned by BDG.

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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

<u>Use of Estimates</u>: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, loan to unconsolidated affiliate and accounts payable. 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 and BDI provide 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.

Investment in Unconsolidated Affiliate: The Company accounts for 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 Note G). 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 for the years ended December 31, 2012 or 2011.

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 is 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, 2012 or 2011.

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. For the years ended December 31, 2012 and 2011, 29% and 66%, respectively, of the Company's revenues were received from BDA. The Company had receivables from BDA of $17,433 and $110,562 at December 31, 2012 and 2011, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or other similar government institutions in other countries. Additionally, certain of the Company's cash balances are maintained in foreign banks, which are not covered by deposit insurance.

<u>Foreign Exchange Transactions</u>: 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.

<u>Furniture, Equipment and Leasehold Improvements</u>: 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 $119,138 and $75,682 for the years ended December 31, 2012 and 2011, respectively.

<u>Construction in Progress</u>: The carrying value of the rigs under construction (*BassDrill Beta and BassDrill Gamma*) 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 charges for depreciation will be made until commissioning of *BassDrill Beta* and *BassDrill Gamma* is completed and ready for their intended use.

<u>Deferred Commitment and Other Related Fees</u>: 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 are being paid quarterly thereafter until *BassDrill Beta* is delivered. The Company also incurred certain other related fees associated with the $125 million financing in the amount of $6,177,778. Amortization of such amounts and other related financing costs for the years ended December 31, 2012 and 2011 of $3,429,436 and $1,250,426, respectively, (all of which qualifies for capitalization, see *Capitalized Interest* below) over the revised, anticipated commitment period through September 2013 are being capitalized as an additional cost of constructing *BassDrill Beta*.

<u>Capitalized Interest</u>: 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the years ended December 31, 2012 and 2011, respectively. 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 2012 and 2011; as such, the Company was not taxed by Bermuda. Income taxes have been provided and paid based upon the tax laws and rates in effect in the countries in which operations are conducted and income is earned.

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 within operating 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.

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).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Subsequent Events: The Company evaluated all activity through April 25, 2013, the date the consolidated financial statements were available for issuance, and concluded that no subsequent events, other than those already disclosed, have occurred that would require recognition in the consolidated financial statements or disclosures in the notes to the consolidated financial statements.

Recent Accounting Pronouncements: *Intangibles-goodwill and other* - Effective January 1, 2012, we adopted 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. Our adoption of the update did not have a material effect on our consolidated financial statements.

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 C - STOCKHOLDERS' EQUITY

In March and September 2012, the Company issued 2,288,918 and 25,000,000 shares of common stock, respectively, through private placement offerings for gross proceeds of $5,127,176 and $35,000,000, respectively, for the purposes of funding the Company's operations and making a deposit to DSIC for the construction of *BassDrill Gamma.*

In April 2013, the Company issued 50,000,000 shares of common stock through a private placement for $80 million, which will be used to provide the initial 15% payment for the BassDrill Delta new build; project management and site supervision for BassDrill Beta, BassDrill Gamma and BassDrill Delta; and working capital and general corporate purposes. This transaction will provide the Company sufficient cash to meet its funding requirements through March 2014.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2012	December 31, 2011
Leasehold improvements	$ 100,729	$ 97,112
Office furniture, fixtures and equipment	151,635	117,391
Computer hardware and software	286,345	196,647
	538,709	411,150
Less: accumulated depreciation	291,046	171,908
	247,663	239,242
Construction in progress - *BassDrill Beta and BassDrill Gamma*	70,553,524	42,590,748
Total property and equipment	$ 70,801,187	$ 42,829,990

NOTE E - 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, 2012	December 31, 2011
Interest cost capitalized	$ 3,429,436	$ 1,250,426
Interest cost expensed	-	231,340
Total interest cost incurred	$ 3,429,436	$ 1,481,766

NOTE F - 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 certain 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 $3,098,600 and $2,526,453 at December 31, 2012 and 2011, respectively, which reflects its proportionate share of the total shareholder loans outstanding. 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 is being capitalized and added to the loan balance at the end of each calendar quarter, which capitalization commenced on March 31, 2012.

NOTE G - 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 $4,842,278 in cash).

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, 2012	December 31, 2011
Current assets	$ 10,066,262	$ 12,270,412
Property and equipment, net	90,332,306	94,185,699
Other assets	3,733,980	4,255,416
Total assets	$ 104,132,548	$ 110,711,527
Current liabilities	$ 51,539,899	$ 14,356,775
Long-term liabilities	12,264,626	56,527,718
Stockholders' equity	40,328,023	39,827,034
Total liabilities and stockholders' equity	$ 104,132,548	$ 110,711,527

Condensed statement of operations information for BDA is as follows:

	Years Ended December 31, 2012	Years Ended December 31, 2011
Operating revenues	$ 41,660,822	$ 36,788,196
Costs and expenses	31,034,862	30,035,344
Income from operations	10,625,960	6,752,852
Other expense, primarily interest	(6,387,213)	(10,718,753)
Income before income tax expense	4,238,747	(3,965,901)
Foreign income tax expense	(3,737,758)	(2,888,179)
Net income (loss)	$ 500,989	$ (6,854,080)

NOTE H - 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:

	December 31,	
	2012	2011
	Basic and Diluted	
Numerator for loss per share		
Net loss	$ (4,029,875)	$ (4,915,740)
Denominator for loss per share		
Weighted-average shares outstanding	53,987,254	35,158,334
Effect of stock options *	-	-
Weighted-average shares for per share calculation	53,987,254	35,158,334
Per share loss from operations	$ (0.07)	$ (0.14)

* For the years ended December 31, 2012 and 2011, we have excluded all share-based awards (see Note J) from the calculation since the effect would have been anti-dilutive.

NOTE I - 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 an original contract price of $184,388,536 subject to adjustment in accordance with certain provisions (such adjustments to date include a July 2012 variation order for a $41,454,409 upgrade to the vessel's mooring system and other required enhancements for a revised contract price of $225,842,945). In September 2010, BDB signed a 945-day contract (modified subsequently to a 1,500-day contract) with Petrobras for the construction of *BassDrill Beta*. In July 2012, Petrobras approved the aforementioned upgrade, and a revised delivery date of October 2013 was agreed to between the parties. 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 $187,121,352 ($26.7 million of which will be funded by Petrobras after the acceptance of *BassDrill Beta* in China), plus any outstanding increase or minus any decrease due to any additional adjustments, is due upon delivery. 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.

NOTE I - COMMITMENTS AND CONTINGENCIES (Continued)

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 approximately $625,000 commenced on July 29, 2011 and are being paid quarterly thereafter until *BassDrill Beta* is delivered. Beginning in April of 2012, BDB also began paying 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:

- 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 October 2012, the Company entered into a turn-key contract with DSIC (the "Builder") to design, construct and sell a tender support vessel (*BassDrill Gamma*). The delivery point is alongside the Builder's shipyard in Dalian, China for a contract price of $123,997,500 subject to adjustment in accordance with certain provisions. The Company made a 15% installment payment of $18,599,625 in October 2012; and the 2nd and final installment payment of $105,397,875, plus any outstanding increase or minus any decrease due to adjustments, is due upon delivery, which is expected in the third quarter of 2014. 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 $5,000 per day escalating to $42,500 if delayed more than 61 days but limited to $6.0 million.

In March 2013, the Company was awarded a contract for a 17-well program estimated to last 44 months with Total for operation of a new tender semi, *BassDrill Delta*, for operations in off-shore West Africa. The anticipated delivery for *BassDrill Delta* is the second quarter of 2015 but the Company has not yet executed a construction contract for *BassDrill Delta*.

In October 2012, the Company renegotiated its existing office space when it entered into a five-year lease for administrative offices in Houston, Texas. The monthly lease commitment ranges from $12,180 to $21,156 per month. Rent expense was $129,197 and $99,600 for the years ended December 31, 2012 and 2011, 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, 2012, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated financial statements.

NOTE J - SHARE OPTION PLAN

The fair value of share options granted is recognized as operating expenses. During the years ended December 31, 2012 and 2011, $379,526 and $293,678, respectively, 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 if the gain is recorded as deductible in any jurisdiction 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 and a half 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 2012, 333,334 share options were granted to one key member of executive management. For the valuation of the options granted, the following assumptions were applied; risk-free interest rate of 0.54%, share price volatility of 45.5%, dividend yield of 0% and an expected option term of three and a half years.

During 2011, 3,613,890 share options were granted to four key personnel and one board member. For the valuation of the options granted, the following assumptions were applied; risk-free interest rate of 1.41% to 0.56%, share price volatility of 44.5% to 45.0%, dividend yield of 0% and an expected option term of three and a half years.

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. 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 2012 and 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 three and a half years after the grant date. As of December 31, 2012, none of the options granted are exercisable, and there were no forfeitures. The weighted average grant-date fair value of options granted during 2012 and 2011 is $0.362 per share.

As of December 31, 2012, total unrecognized compensation costs related to all unvested share-based awards totaled $756,014, which is expected to be recognized as additional expenses of $408,347 in 2013, $322,492 in 2014 and $25,175 in 2015.

NOTE K - 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 four percent of the employee's annual salary. Such contributions for the years ended December 31, 2012 and 2011 were $109,612 and $19,690, respectively.

NOTE L - 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 in 2011.

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 $1,464,000 and $1,460,000 in 2012 and 2011, respectively. Additionally, BDM also earned a performance bonus of $301,946 and $226,854 in 2012 and 2011, respectively.

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 $1,117,403 and $1,076,293 in 2012 and 2011, respectively.

At December 31, 2012 and 2011, the Company was due $17,433 and $110,562, respectively, from related parties.

At December 31, 2012 and 2011, the Company owed $0 and $103,622, respectively, to related parties.

At December 31, 2012 and 2011, the Company had loaned BDA $3,098,600 and $2,526,453, respectively (see Note F).

NOTE M - 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.

NOTE N – SUBSEQUENT EVENT

In April 2013, the Company raised an additional $75 million via a Second Lien Bond Issue for the purpose of financing the remaining portion of delivery installments to DSIC for the *BassDrill Beta.* Proceeds from the Bond Issue will also be used to fund the Issuer's (BassDrill Beta, Ltd.) bond debt service fund as well as working capital for operations. The status of these Bonds shall be *pari passu* with all other senior obligations of the Company and shall be secured with a combination of the 2nd lien on the *BassDrill Beta*, shares in BassDrill Beta Ltd., future earnings, warranties and insurance. The term of the Bonds will be for five years with the first interest payment due in October 2013. The interest on the

Bonds will be 8.5% per annum. The Bonds shall be subject to financial covenants including Minimum Liquidity, Current Ratio and Asset Coverage Ratio that will be tested on a semi-annual basis and are defined as follows:

- Asset Coverage Ratio – the market value of the *BassDrill Beta* will exceed 120% of the aggregated outstanding amount under the Senior Bank Facility and Bond Issue;
- Liquidity: The Company, on a consolidated basis, will have access to free and available cash in excess of $15 million; and
- Current Ratio: At the Charterer level, (BassDrill Servicios Petroleo Ltda,) a minimum Current Ratio of 1:1 will be maintained at all times.