

**BASSDRILL LTD. & SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE QUARTER ENDED**  
**MARCH 31, 2013**

BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED MARCH 31, 2013

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BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	March 31, 2013	December 31, 2012
	(Unaudited)	(Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,793,424	\$ 13,293,572
Accounts receivable	3,390,447	968,662
Accounts receivable - affiliates	-	17,433
Prepaid expenses	669,457	491,853
<b>TOTAL CURRENT ASSETS</b>	<b>11,853,328</b>	<b>14,771,520</b>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, equipment and leasehold improvements	894,993	538,709
Construction in progress	74,108,689	70,553,524
	75,003,682	71,092,233
Less: accumulated depreciation and amortization	322,736	291,046
<b>NET PROPERTY AND EQUIPMENT</b>	<b>74,680,946</b>	<b>70,801,187</b>
<b>LOAN TO UNCONSOLIDATED AFFILIATE AND ACCRUED INTEREST</b>	<b>3,253,530</b>	<b>3,098,600</b>
<b>INVESTMENT IN UNCONSOLIDATED AFFILIATE</b>	<b>10,379,170</b>	<b>10,131,044</b>
<b>DEFERRED COMMITMENT AND OTHER RELATED FEES</b>	<b>2,230,809</b>	<b>1,785,948</b>
<b>GOODWILL</b>	<b>9,753</b>	<b>9,753</b>
<b>OTHER ASSETS</b>	<b>15,421</b>	<b>25,741</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 102,422,957</u></b>	<b><u>\$ 100,623,793</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,641,200	\$ 923,112
Other accrued liabilities	536,663	962,504
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,177,863</b>	<b>1,885,616</b>
<b>COMMITMENTS AND CONTINGENCIES (Note H)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value, 55,778,368 and 45,778,368 shares authorized at March 31, 2013 and December 31, 2012, and 48,067,286 and 45,778,368 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	73,067,286	73,067,286
Additional paid-in capital	38,401,940	38,299,854
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(13,222,632)	(12,627,463)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>98,245,094</b>	<b>98,738,177</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 102,422,957</u></b>	<b><u>\$ 100,623,793</u></b>

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	(Unaudited)
<b>REVENUES</b>		
Management fees	\$ 2,173,575	\$ 449,036
Reimbursables	1,735,148	21,697
Consulting fees	90,567	483,797
<b>TOTAL REVENUES</b>	<b>3,999,290</b>	<b>954,530</b>
<b>OPERATING EXPENSES</b>		
Operating expenses	4,787,414	2,094,712
Depreciation and amortization	31,690	25,801
<b>TOTAL OPERATING EXPENSES</b>	<b>4,819,104</b>	<b>2,120,513</b>
<b>LOSS FROM OPERATIONS</b>	<b>(819,814)</b>	<b>(1,165,983)</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	154,948	143,165
Foreign currency exchange loss	(8,829)	(869)
<b>TOTAL OTHER INCOME</b>	<b>146,119</b>	<b>142,296</b>
<b>LOSS BEFORE EQUITY IN EARNINGS OF AFFILIATE AND FOREIGN INCOME TAX EXPENSE</b>	<b>(673,695)</b>	<b>(1,023,687)</b>
<b>EQUITY IN EARNINGS OF AFFILIATE</b>	<b>248,126</b>	<b>49,976</b>
<b>FOREIGN INCOME TAX EXPENSE</b>	<b>(169,600)</b>	<b>(25,000)</b>
<b>NET LOSS</b>	<b>\$ (595,169)</b>	<b>\$ (998,711)</b>
<b>LOSS PER SHARE:</b>		
Basic and diluted	\$ (0.01)	\$ (0.02)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>		
Basic and diluted	<u>73,067,286</u>	<u>46,541,341</u>

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (595,169)	\$ (998,711)
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in earnings of affiliate	(248,126)	(49,976)
Depreciation and amortization expense	31,690	25,801
Non-cash interest	(154,930)	(143,166)
Stock compensation expense	109,053	109,056
Changes in operating assets and liabilities:		
Accounts receivable	(2,421,785)	60,571
Accounts receivable - affiliates	17,433	(28,038)
Prepaid expenses	(177,604)	(8,668)
Accounts payable	2,718,088	67,312
Accounts payable - affiliates	-	(38,472)
Other accrued liabilities	(425,841)	117,554
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,147,191)</b>	<b>(886,737)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for furniture, equipment and leasehold improvements	(356,284)	(32,033)
Cash paid for construction in progress	(2,742,716)	(985,141)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,099,000)</b>	<b>(1,017,174)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from issuance of common stock	(6,967)	5,053,486
Cash received for treasury stock	10,320	93,281
Cash paid for commitment and other related fees	(1,257,310)	(674,778)
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(1,253,957)</b>	<b>4,471,989</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(5,500,148)</b>	<b>2,568,078</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>13,293,572</b>	<b>5,633,709</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 7,793,424</b>	<b>\$ 8,201,787</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Capitalized interest	\$ 812,449	\$ 716,745
Cash paid for income taxes	\$ 169,600	\$ 25,000

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
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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 other vessels. The Company is headquartered in Houston, Texas.

BassDrill has four 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 Gamma Ltd. (“BDG”) and BassDrill Delta Ltd. (BDD), both Malta-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 two semi-submersible tender assist drilling rigs and one tender barge: *BassDrill Beta* that will be owned by BDB, *BassDrill Delta* that will be owned by BDD 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.

The unaudited interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim period on a basis consistent with the annual consolidated financial statements. All such adjustments are of a normal recurring nature.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The operating results for the interim periods are not necessarily indicative of the results to be expected for the full year.

NOTE B - 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.

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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 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 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 Note F). 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 three months ended March 31, 2013 or 2012.

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.

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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 March 31, 2013 or December 31, 2012.

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 three months ended March 31, 2013 and 2012, 11% and 43%, respectively, of the Company's revenues were received from BDA. The Company had receivables from BDA of \$633,812 and \$563,157 at March 31, 2012 and December 31, 2012 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 \$31,690 and \$25,801 for the three months ended March 31, 2013 and 2012, respectively.

Construction in Progress: The carrying value of the rigs under construction (*BassDrill Beta*, *BassDrill Gamma*, and *BassDrill Delta*) 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 the respective rigs is completed and ready for their 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 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 three months ended March 31, 2013 and 2012 of \$3,429,437 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*.

Capitalized Interest: 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



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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 three months ended March 31, 2013 and 2012 of \$3,429,437 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*.

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 three months ended March 31, 2013 and 2012, 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 the three months ended March 31, 2013 and 2012 respectively; 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 subject to a 3.5% withholding tax in Myanmar for work on the Daewoo project for the three months ended March 31, 2013 and was not taxed in any other jurisdictions for the three months ended March 31, 2012.

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.

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Segment Reporting: As of March 31, 2013, 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.

*Balance Sheet* - Effective January 1, 2013, we adopted 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. Our adoption did not have a material effect on the disclosures contained in our consolidated balance sheets or notes to consolidated financial statements.

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NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	March 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)
Leasehold improvements	\$ 109,999	\$ 100,729
Office furniture, fixtures and equipment	157,346	157,346
Computer hardware and software	627,648	506,831
	894,993	764,906
Less: accumulated depreciation	322,736	291,046
	572,257	473,860
Construction in progress	74,108,689	70,327,327
Total property and equipment	<u>\$ 74,680,946</u>	<u>\$ 70,801,187</u>

NOTE D - INTEREST COST

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

	Three Months Ended March 31, 2013 (Unaudited)	2012 (Unaudited)
Interest cost capitalized	\$ 812,449	\$ 716,745
Interest cost expensed	-	-
Total interest cost incurred	<u>\$ 812,449</u>	<u>\$ 716,745</u>

NOTE E - 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 \$3,253,530 and \$3,098,600 at March 31, 2013 and 2012, respectively, 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 is being capitalized and added to the loan balance at the end of each calendar quarter, commencing on March 31, 2012.

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NOTE F - 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, 2011, 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).

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:

	March 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)
Current assets	\$ 11,733,709	\$ 10,430,561
Property and equipment, net	88,866,477	89,968,006
Other assets	2,734,197	3,733,980
<b>Total assets</b>	<b>\$ 103,334,383</b>	<b>\$ 104,132,547</b>
Current liabilities	\$ 49,140,914	\$ 51,539,899
Long-term liabilities	12,877,857	12,264,625
Stockholders' equity	41,315,612	40,328,023
<b>Total liabilities and stockholders' equity</b>	<b>\$ 103,334,383</b>	<b>\$ 104,132,547</b>

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Condensed statement of operations information for BDA is as follows:

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	(Unaudited)
Operating revenues	\$ 10,959,763	\$ 10,710,623
Costs and expenses	7,369,384	7,789,412
Income from operations	3,590,379	2,921,211
Other expense, primarily interest	(1,576,175)	(1,486,148)
Income before income tax expense	2,014,204	1,435,063
Foreign income tax expense	(1,026,615)	(1,039,368)
Net income	\$ <u>987,589</u>	\$ <u>395,695</u>

NOTE G - 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:

	Three Months Ended March 31,	
	2013	2012
	Basic and Diluted (Unaudited)	
Numerator for loss per share		
Net loss	\$ (595,169)	\$ (998,711)
Denominator for loss per share		
Weighted-average shares outstanding	73,067,286	46,482,651
Effect of stock options *	-	-
Weighted-average shares for per share calculation	73,067,286	46,482,651
Per share loss from continuing operations	\$ <u>(0.01)</u>	\$ <u>(0.02)</u>

\* For the three months ended March 31, 2012, we have excluded all share-based awards (see Note I) from the calculation since the effect would have been anti-dilutive.

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NOTE H - 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 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 2<sup>nd</sup> installment payment of \$921,943 was made in July 2011, five working days after steel cutting; the 3<sup>rd</sup> installment payment of \$921,967 was paid in April 2013, five working days after the launching of the vessel; and the 4<sup>th</sup> 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.

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:

- 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 March 2013 the Company amended its \$125 million Senior Secured Term Loan to modify selected terms and definitions of the loan facility to be consistent with the Company’s reporting standards and processes. In April 2013, the Company replaced the existing \$125 million financing and recorded an expense of \$1,903,978.07 related to the write-off of the unamortized deferred financing charges. Additional detail on the new Senior Secured Term Loan facility is described in Note M – Subsequent Events.

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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 2<sup>nd</sup> 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 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 \$12,780 to \$17,179 per month. Rent expense was \$60,614 and \$30,128 for the three months ended March 31, 2013 and 2012, respectively.

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. In May 2013, the Company executed a construction contract for *BassDrill Delta*.

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 March 31, 2013, there were no threatened or pending legal matters that would have a material impact on the Company’s consolidated financial statements.

#### NOTE I - SHARE OPTION PLAN

The fair value of share options granted is recognized as operating expenses and \$109,053 was expensed during the three months ended March 31, 2013 and 2012, respectively. 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 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.

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During 2011, 3,613,890 share options were granted to four key personnel and one board member. 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.

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 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 March 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 March 31, 2013, total unrecognized compensation costs related to all unvested share-based awards totaled \$646,961, which is expected to be recognized as additional expenses of \$436,214 in 2013 and \$322,492 in 2014.

#### NOTE J - 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 for the three months ended March 31, 2013 were \$34,529 and \$24,271, respectively.

#### NOTE K - 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")

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 \$360,000 and \$364,000 for the three months ended March 31, 2013 and 2012, respectively. Additionally, BDM also earned a performance bonus of \$97,305 and \$85,036 for the three months ended March 31, 2013 and 2012, respectively.



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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 \$71,823 and \$4,990 for the three months ended March 31, 2013 and 2012, respectively.

At March 31, 2013 and December 31, 2012, the Company was due \$0 and \$17,433, respectively, from related parties.

At March 31, 2013 and December 31, 2012, the Company had loaned BDA \$3,253,530 and \$3,098,600, respectively (see Note E).

NOTE L - 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.

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*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 M – SUBSEQUENT EVENTS

In April 2013, the Company issued 50,000,000 shares of common stock through a private placement offering to Hitec Vision Asset Solutions (“HVAS”) and other investors (the “Recapitalization”) for gross proceeds of \$80 million. The main use of these proceeds was to pay the initial installment on the *BassDrill Delta*, and additional funds will be used in conjunction with the take out financing of the *BassDrill Beta* and to fund day-to-day requirements. This transaction provides the Company sufficient cash to meet its funding requirements into the second quarter of 2014.

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 2<sup>nd</sup> 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.

Also in April 2013, the company secured a \$125 million Senior Secured Term Loan facility for the purpose of applying the funds to finance the purchase price of *BassDrill Beta*, with a payment of \$2,212,500 in commitment fees. The Company shall repay the Loan in with quarterly installments of \$4,136,000, commencing six months after the Drawdown Date. A final balloon payment of \$54,688,000 will be due on the Maturity Date of 30 June 2018. 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 at the Borrower’s level including the following:

- An interest coverage ratio of not less than 2.5 to 1.0;
- A Debt Service Coverage Ratio of not less than 1.1 to 1.0;
- A Leverage Ratio not exceeding 0.75 to 1.0; and
- A minimum Book equity of \$70,000,000

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There are additional financial covenants at the Ultimate Parent level, including:

- An interest coverage ratio of not less than 2.5 to 1.0;
- A minimum Book equity \$90,000,000 to be increase by:
  - \$40,000,000 following delivery of the tender barge, *BassDrill Gamma*
  - \$65,000,000 following the delivery of the semi-submersible tender rig, *BassDrill Delta*
- An Equity Ratio of minimum 0.3 to 1.0.