BASSDRILL LTD. & SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED JUNE 30, 2012

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CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED JUNE 30, 2012

C O N T E N T S

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,077,681	$ 5,633,709
Accounts receivable	432,297	290,427
Accounts receivable - affiliates	47,978	110,562
Prepaid expenses	44,029	34,206
TOTAL CURRENT ASSETS	5,601,985	6,068,904
PROPERTY AND EQUIPMENT		
Furniture, equipment and leasehold improvements	443,680	411,150
Construction in progress	46,795,464	42,590,748
	47,239,144	43,001,898
Less: accumulated depreciation and amortization	223,747	171,908
NET PROPERTY AND EQUIPMENT	47,015,397	42,829,990
LOAN TO UNCONSOLIDATED AFFILIATE	2,804,584	2,526,454
INVESTMENT IN UNCONSOLIDATED AFFILIATE	10,067,273	10,004,493
DEFERRED COMMITMENT AND OTHER RELATED FEES	2,305,462	2,615,006
GOODWILL	9,753	9,753
OTHER ASSETS	141,957	8,663
TOTAL ASSETS	$ 67,946,411	$ 64,063,263
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,408,400	$ 373,382
Accounts payable - affiliates	-	103,622
Other accrued liabilities	373,965	327,548
TOTAL CURRENT LIABILITIES	1,782,365	804,552
COMMITMENTS AND CONTINGENCIES (Note I)		
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 55,778,368 and 45,778,368 shares authorized at June 30, 2012 and December 31, 2011, and 48,067,286 and 45,778,368 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	48,067,286	45,778,368
	29,002,982	26,172,712
Treasury stock (66,600 shares at cost) at December 31, 2011	-	(93,281)
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(10,904,722)	(8,597,588)
TOTAL STOCKHOLDERS' EQUITY	66,164,046	63,258,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 67,946,411	$ 64,063,263

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
REVENUES				
Management fees	$ 438,016	$ 364,000	$ 887,051	$ 723,999
Reimbursables	50,243	(9,456)	29,191	(37,523)
Consulting fees	595,057	239,756	1,078,855	283,324
TOTAL REVENUES	1,083,316	594,300	1,995,097	969,800
OPERATING EXPENSES				
Operating expenses	2,476,198	1,097,337	4,515,265	1,975,559
Depreciation and amortization	26,038	13,875	51,839	24,659
TOTAL OPERATING EXPENSES	2,502,236	1,111,212	4,567,104	2,000,218
LOSS FROM OPERATIONS	(1,418,920)	(516,912)	(2,572,007)	(1,030,418)
OTHER INCOME (EXPENSE)				
Interest income	134,964	-	278,130	5
Interest expense	-	(90,376)	-	(225,962)
Gain on waiver of debt	-	459,417	-	459,417
Foreign currency exchange loss	(181)	(79,761)	(1,050)	(80,367)
TOTAL OTHER INCOME (EXPENSE)	134,783	289,280	277,080	153,093
LOSS BEFORE EQUITY IN EARNINGS OF AFFILIATE AND FOREIGN INCOME TAX EXPENSE	(1,284,137)	(227,632)	(2,294,927)	(877,325)
EQUITY IN EARNINGS (LOSSES) OF AFFILIATE	12,803	(510,052)	62,780	(506,365)
FOREIGN INCOME TAX EXPENSE	(37,089)	-	(74,987)	-
NET LOSS	$ (1,308,423)	$ (737,684)	$ (2,307,134)	$ (1,383,690)
LOSS PER SHARE:				
Basic and diluted	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.06)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic and diluted	48,067,286	45,778,368	46,922,827	22,889,934

See notes to consolidated financial statements.

BASSDRILL LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Additional	Treasury	Subscription	Accumulated	Total
	Shares	Amount	Paid-in Capital	Stock	Receivable	Deficit	Stockholders' Equity (Deficit)
Balance at December 31, 2010	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	-	(3,183,014)	-	61,816,986
Stock issuance costs	-	-	(3,506,488)	-	-	-	(3,506,488)
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	-	-	133,230	-	-	-	133,230
Net loss	-	-	-	-	-	(1,383,690)	(1,383,690)
Balance at June 30, 2011	45,778,368	$ 45,778,368	$ 26,084,099	$ -	$ (3,184,514)	$ (5,365,538)	$ 63,312,415
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	2,288,918	2,288,918	2,838,258	-	-	-	5,127,176
Stock issuance costs	-	-	(218,000)	-	-	-	(218,000)
Stock compensation expense	-	-	210,012	-	-	-	210,012
Treasury stock sold	-	-	-	93,281	-	-	93,281
Net loss	-	-	-	-	-	(2,307,134)	(2,307,134)
Balance at June 30, 2012	48,067,286	$ 48,067,286	$ 29,002,982	$ -	$ (1,500)	$ (10,904,722)	$ 66,164,046

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$ (1,308,423)	$ (737,684)	$ (2,307,134)	$ (1,383,690)
Adjustments to reconcile net loss to net cash used in operating activities:				
Equity in (earnings) losses of affiliate	(12,803)	510,052	(62,780)	506,365
Depreciation and amortization expense	26,038	13,875	51,839	24,659
Non-cash interest	(134,965)	90,376	(278,130)	225,962
Gain on waiver of debt	-	(459,417)	-	(459,417)
Stock compensation expense	100,956	133,230	210,012	133,230
Write off of other assets	267,074	-	267,074	-
Changes in operating assets and liabilities:				
Accounts receivable	(202,441)	(92,983)	(141,870)	(102,657)
Accounts receivable - affiliates	90,622	-	62,584	305,953
Prepaid expenses	(1,155)	(4,681)	(9,823)	(9,955)
Accounts payable	967,706	(377,440)	1,035,018	9,998
Accounts payable - affiliates	(65,150)	-	(103,622)	-
Other accrued liabilities	(71,137)	62,245	46,417	(523,549)
NET CASH USED IN OPERATING ACTIVITIES	(343,678)	(862,427)	(1,230,415)	(1,273,101)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash paid for furniture, equipment and leasehold improvements	(497)	(36,381)	(32,530)	(42,369)
Cash paid for construction in progress	(1,580,253)	(38,158,578)	(2,572,572)	(38,283,627)
Cash paid for additional investment in affiliate	-	(3,580,664)	-	(3,580,664)
NET CASH USED IN INVESTING ACTIVITIES	(1,580,750)	(41,775,623)	(2,605,102)	(41,906,660)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash received from issuance of common stock, net	(144,310)	61,498,890	4,909,176	61,498,890
Cash received for treasury stock, net	-	-	93,281	-
Cash paid for commitment and other related fees	(655,000)	(2,569,008)	(1,322,600)	(2,569,008)
Cash paid for other assets	(400,368)	-	(400,368)	-
Proceeds from shareholder loans	-	180,000	-	560,000
Payments on shareholder loans	-	(1,080,444)	-	(1,080,444)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,199,678)	58,029,438	3,279,489	58,409,438
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,124,106)	15,391,388	(556,028)	15,229,677
CASH AND CASH EQUIVALENTS, beginning of period	8,201,787	(21,517)	5,633,709	140,194
CASH AND CASH EQUIVALENTS, end of period	$ 5,077,681	$ 15,369,871	$ 5,077,681	$ 15,369,871
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Conversion of long-term debt to equity	$ -	$ 1,652,035	$ -	$ 1,652,035
Issuance of common stock for investment in BDA equity	$ -	$ 2,152,742	$ -	$ 2,152,742
Cash paid for income taxes	$ 37,089	$ -	$ 74,987	$ -
Capitalized interest	$ 749,647	$ 374,246	$ 1,632,144	$ 374,246
Design fees paid by BassInvest AS	$ -	$ 489,870	$ -	$ 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.

The unaudited interim consolidated financial statements 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 - 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 38,100,821 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 H), 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.

NOTE B - LIQUIDITY (Continued)

In March 2012, the Company issued 2,288,918 shares of common stock through a rights offering for gross proceeds of $5,127,176, for the purpose of funding the Company's operations through September 2012. The Company had announced its plan to issue additional common shares through an initial public offering ("IPO") in the late second quarter of 2012. By late May 2012, however, it was evident that the market for new equity issues and IPOs was neither sufficiently strong nor sound. Hence, the Company withdrew its application for listing its shares on the Oslo Stock Exchange. The Company retains its ambition to seek a listing if and when public equity market conditions improve. Meanwhile, the Company will work to fund its capital and working capital requirements through one or more private equity issues, pending Board resolutions. As of June 30, 2012, the Company had approximately $5.1 million of unrestricted cash.

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 I for a description of the commitments the Company has with respect to taking delivery of *BassDrill Beta*.

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

<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.

<u>Fair Value of Financial Instruments</u>: 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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Management and Consulting Fees</u>: 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.

<u>Reimbursable Income (Expense)</u>: 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.

<u>Investment in Unconsolidated Affiliate</u>: 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 three and six months ended June 30, 2012 or 2011.

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

<u>Accounts Receivable and Allowance for Doubtful Accounts</u>: 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 June 30, 2012 or December 31, 2011.

<u>Concentrations of Credit Risk</u>: 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 June 30, 2012 and 2011, 40% and 61%, respectively, of the Company's revenues were received from BDA. For the six months ended June 30, 2012 and 2011, 44% and 75%, respectively, of the Company's revenues were received from BDA. The Company had receivables from BDA of $47,978 and $110,562 at June 30, 2012 and December 31, 2011, 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 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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $26,038 and $13,875 for the three months ended June 30, 2012 and 2011, respectively. Depreciation and amortization expense was $51,839 and $24,659 for the six months ended June 30, 2012 and 2011, respectively.

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 certain other related fees associated with the $125 million financing. Amortization of such amounts and other related financing costs for the three months ended June 30, 2012 and 2011 of $749,647 and $374,246, respectively, (all of which qualifies 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*. Amortization of such amounts and other related financing costs for the six months ended June 30, 2012 and 2011 of $1,632,144 and $374,246, respectively, (all of which qualifies 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.

NOTE C - 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 three and six months ended June 30, 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 the six months ended June 30, 2012 and 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 three and six months ended June 30, 2012 and 2011, respectively.

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 June 30, 2012, 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).

NOTE C - 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.

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 D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Leasehold improvements	$ 97,112	$ 97,112
Office furniture, fixtures and equipment	117,391	117,391
Computer hardware and software	229,177	196,647
	443,680	411,150
Less: accumulated depreciation	223,747	171,908
	219,933	239,242
Construction in progress - *BassDrill Beta*	46,795,464	42,590,748
Total property and equipment	$ 47,015,397	$ 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:

	Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest cost capitalized	$ 749,647	$ 374,246	$ 1,632,144	$ 374,246
Interest cost expensed	-	90,376	-	225,962
Total interest cost incurred	$ 749,647	$ 464,622	$ 1,632,144	$ 600,208

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 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 $2,804,584 and $2,526,453 at June 30, 2012 and December 31, 2011, 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, 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, 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 ($3,580,664 during the three months ended June 30, 2011)).

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

NOTE G - INVESTMENT IN UNCONSOLIDATED AFFILIATE (Continued)

Condensed balance sheet information for BDA is as follows:

	June 30, 2012 (Unaudited)	December 31, 2011
Current assets	$ 8,991,133	$ 12,344,408
Property and equipment, net	92,075,719	94,111,703
Other assets	4,108,016	4,255,416
Total assets	$ 105,174,868	$ 110,711,527
Current liabilities	$ 10,709,862	$ 14,356,775
Long-term liabilities	54,144,151	56,527,718
Stockholders' equity	40,320,855	39,827,034
Total liabilities and stockholders' equity	$ 105,174,868	$ 110,711,527

Condensed statement of operations information for BDA is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
Operating revenues	$ 9,826,251	$ 8,427,693	$ 20,536,874	$ 19,876,290
Costs and expenses	7,274,433	7,551,845	14,889,910	15,276,552
Income from operations	2,551,818	875,848	5,646,964	4,599,738
Other expense, primarily interest	(1,533,292)	(2,630,538)	(3,193,375)	(5,336,036)
Income before income tax expense	1,018,526	(1,754,690)	2,453,589	(736,298)
Foreign income tax expense	(920,400)	(647,771)	(1,959,768)	(1,349,508)
Net income (loss)	$ 98,126	$ (2,402,461)	$ 493,821	$ (2,085,806)

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	Basic and Diluted (Unaudited)		Basic and Diluted (Unaudited)	
Numerator for loss per share				
Net loss	$ (1,308,423)	$ (737,684)	$ (2,307,134)	$ (1,383,690)
Denominator for loss per share				
Weighted-average shares outstanding	48,067,286	45,778,368	46,922,827	22,889,934
Effect of stock options *	-	-	-	-
Weighted-average shares for per share calculation	48,067,286	45,778,368	46,922,827	22,889,934
Per share loss from continuing operations	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.06)

* For the three and six months ended June 30, 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 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 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

NOTE I – COMMITMENTS AND CONTINGENCIES (Continued)

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 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 $29,614 and $19,758 for the three months ended June 30, 2012 and 2011, respectively. Rent expense was $59,742 and $42,551 for the six months ended June 30, 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 June 30, 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 three months ended June 30, 2012 and 2011, $100,956 and $133,230, respectively, was expensed in the consolidated statement of operations. During the six months ended June 30, 2012 and 2011, $210,012 and $133,230, 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 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.

NOTE J - SHARE OPTION PLAN (Continued)

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 years after the grant date. As of June 30, 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 June 30, 2012, total unrecognized compensation costs related to all unvested share-based awards totaled $925,525, which is expected to be recognized as additional expenses of $169,511 in 2012, $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 three and six months ended June 30, 2012 were $31,459 and $47,280, 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”)

NOTE L - RELATED PARTY TRANSACTIONS (Continued)

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 $37,000 and $52,000 for the three and six months ended June 30, 2011, 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 $438,000 and $364,000 for the three months ended June 30, 2012 and 2011, respectively. Fees for such services were approximately $887,000 and $724,000 for the six months ended June 30, 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 $636,000 and $644,000 for the three months ended June 30, 2012 and 2011, respectively. Fees and reimbursements for such services were approximately $777,000 and $887,000 for the six months ended June 30, 2012 and 2011, respectively.

At June 30, 2012 and December 31, 2011, the Company was due $47,978 and $110,562, respectively, from related parties.

At June 30, 2012 and December 31, 2011, the Company owed $0 and $103,622, respectively, to related parties.

At June 30, 2012 and December 31, 2011, the Company had loaned BDA $2,804,584 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.

NOTE M - RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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.