

**BASSDRILL LTD.**

**QUARTERLY REPORT**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2011**



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QUARTERLY REPORT  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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## Operations

BassDrill Ltd. (the "Company") was incorporated in 2008. The Company is registered in Bermuda and is in good standing. The Company's goal is the construction, ownership and operations of Tender Assist Drilling Rigs (the "Unit(s)") for the provision of services to major international independent and national oil and gas companies worldwide. The Company has a Management Agreement with BassDrill Alpha Ltd. ("BDA"), a 25.26% owned subsidiary of BassDrill Ltd., for the management and marketing of its flat-bottom tender assist drilling unit, *BassDrill Alpha*.

The Company's operations are managed by BassDrill Management (USA), Inc. with its main headquarters in Houston, Texas, which is fully staffed to operate multiple units, undertake innovative engineering opportunities and market its services worldwide.

*BassDrill Alpha* is a state-of-the-art flat bottom Tender Assist Drilling Unit incorporating all of the latest technical, safety, maritime and drilling technologies, built on a proprietary design developed and owned by Basso Technology AB, Sweden. The design is the only one available in the market, offering its main crane on the bow of the vessel as opposed to the mid-ship design of the competitors' fleets. The Unit is designed with the bow-mounted crane offering a quicker and cost effective anchoring and rig up/rig down cycle to the customer. This configuration allows the Unit to be positioned once for assembly, operations and disassembly.

*BassDrill Alpha* has been operating offshore the Republic of Congo since Q4 2010. On September 15, 2011, BassDrill Alpha Ltd. entered into a contract with Total E&P Congo for a six well drilling contract, with extension provisions for up to six wells, with commencement in October 2011.

In September 2010, the Company entered into an agreement with Petrobras for the provision of a Semi Submersible Tender Assist unit, *BassDrill Beta*, for commencement of operations offshore Brazil in Q1 2013 for a 945 day drilling contract. *BassDrill Beta* is currently under construction in Dalian, China under a contract with Dalian Shipyard Industry Offshore Co. Inc. ("DSIC"). *BassDrill Beta* incorporates all the latest in operational, safety and environmental features and will be the first of its kind working alongside a Tension Leg Platform offshore Brazil. The vessel itself with the marine equipment is being fabricated in China; whereas, all drilling equipment and components will be designed, fabricated and assembled in Louisiana (USA). The modular drilling package is being designed and fabricated in the USA. First steel was cut in July 2011 in China and all major components are on order. We anticipate a delivery of early Q1 2013.

In April 2011, the Company secured incremental equity funding of USD 65 Million to provide the down payment for the construction of *BassDrill Beta*, as well as working capital for the construction management and administration of the Company. After the equity raise the largest shareholder in the Company is HiTec Vision Asset Solutions LP, through its fund HVAS Invest Zeta AS, owning 51.22% of the Company.

On August 25, 2011 the Company's Board of Directors agreed to purchase 4,500,000 additional shares of BassDrill Alpha Ltd. at 14 cents per share for an aggregate value of USD 630,000. After the purchase of the additional shares, BassDrill Ltd.'s share of BassDrill Alpha Ltd. increased to 25.26%.

On August 19, 2011 BassDrill Alpha Ltd. resolved to raise USD 2,500,000 of new equity by issuing 10,869,565 new shares to prepare for the contract with Total E&P Congo. BassDrill Ltd.'s Board of Directors authorized the subscription of its pro-rata shares (25.26%). The Company's subscription obligation of USD 631,613 was fulfilled in September 2011.

A Unanimous Written Resolution was signed on September 2, 2011 by the Company's Board of Directors appointing Mr. Ståle Rød as a Director of the Company. Following the acceptance by Mr. Rød as Director of the Company, the Company's Board of Directors are:

- Helge Haakonsen, Chairman
- Pål Reiulf Olsen, Deputy Chairman
- Erland P. Bassøe
- Roy O. Hallås
- Ståle Rød
- Ola Sætre

Gunnar Halvorsen, Alternate Director to all Directors

The Company's total shares outstanding at September 30, 2011 are 45,778,368 (par value 1.00 USD per share).

On September 21, 2011 the Company issued 300,000 share options to the Chairman of the Board.

At September 30, 2011 there are 3,613,800 share options issued in aggregate.

Due to the present prevailing turmoil in the financial markets, the Company's Board of Directors have decided to defer the planned Initial Public Offering (IPO) until the first half of 2012, providing the financial markets at that time is more favorable for an IPO to be executed.

Please refer to the attached Unaudited Consolidated Financial Statements and accompanying Consolidated Notes to the Financial Statements for the nine-month period ended September 30, 2011.

### **Market Outlook**

The market for tender assists has shown considerable improvement over the past 12 – 18 months and indications point toward sustained improvement going forward. The tender market has expanded into new regions such as Brazil and the Caribbean.

The increase in demand for tender assists is partially due to major operators desiring more cost effective units incorporating the latest safety, efficiency and operational features. This in itself will drive fleet replacement and will have a considerable impact on the development of the tender assist fleet, a high percentage of which are beyond 25 years of age.

Hamilton, Bermuda November 7, 2011

The Board of Directors of BassDrill Ltd

BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	SEPTEMBER 30, 2011	DECEMBER 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,667,158	\$ 140,194
Accounts receivable	356,128	324,113
Other current assets	54,806	9,800
	<hr/>	<hr/>
Total current assets	11,078,092	474,107
PROPERTY AND EQUIPMENT		
Furniture, equipment and leasehold improvements	246,453	116,383
Construction in progress	41,986,971	288,463
	<hr/>	<hr/>
Total property and equipment	42,233,424	404,846
OTHER ASSETS		
Goodwill	9,753	9,753
Investment in BDA	10,543,562	4,714,821
Deferred commitment and other related fees	1,691,095	-
Other assets	10,163	10,163
	<hr/>	<hr/>
Total other assets	12,254,573	4,734,737
	<hr/>	<hr/>
Total assets	\$ 65,566,089	\$ 5,613,690
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BASSDRILL LTD. & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	SEPTEMBER 30, 2011	DECEMBER 31, 2010
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 550,181	\$ 1,185,265
Other accrued liabilities	190,911	68,539
	<hr/>	
Total current liabilities	741,092	1,253,804
	<hr/>	
<b>LONG-TERM LIABILITIES</b>		
Loan - BassInvest A/S	-	2,071,913
GEC Lenders	-	3,025,665
	<hr/>	
Total long-term liabilities	-	5,097,578
	<hr/>	
Total liabilities	741,092	6,351,382
	<hr/>	
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common stock	45,778,368	2,903,745
Additional paid in capital	25,400,347	-
Treasury stock (66,600 shares, cost \$1.3988 per share)	(93,281)	-
Accumulated deficit	(6,260,437)	(3,641,437)
	<hr/>	
Total stockholders' equity (deficit)	64,824,997	(737,692)
	<hr/>	
Total liabilities and stockholders' equity	\$ 65,566,089	\$ 5,613,690
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The accompanying footnotes to the financial statements are an integral part of these statements.

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

	FOR THE NINE MONTH PERIODS ENDED	
	SEPTEMBER 30, 2011	SEPTEMBER 30, 2010
REVENUES		
Management fees	\$ 1,713,126	\$ 1,205,273
Reimbursable Income / (Expense)	(16,226)	272,916
Engineering Fees	-	351,150
Total revenues	<u>1,696,900</u>	<u>1,829,339</u>
EXPENSES		
Salaries, wages, benefits and burdens	2,115,271	1,751,147
Travel	240,948	232,636
Communications	44,528	43,572
Professional fees	777,465	428,703
Office	320,350	140,225
Insurance	54,941	6,480
Depreciation	44,254	25,583
Net Interest Expense	231,336	269,814
Equity in losses of subsidiary	943,264	445,057
Gain on waiver of debt	(459,417)	-
Foreign income taxes	2,960	-
Total expenses	<u>4,315,900</u>	<u>3,343,217</u>
Net loss	<u>\$ (2,619,000)</u>	<u>\$ (1,513,878)</u>

The accompanying footnotes to the financial statements are an integral part of these statements.

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

	FOR THE NINE MONTH PERIODS ENDED	
	SEPTEMBER 30, 2011	SEPTEMBER 30, 2010
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (2,619,000)	\$ (1,513,878)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation	44,254	25,583
Equity in losses of subsidiary	943,264	445,057
Gain on waiver of debt	(459,417)	-
Changes in:		
Accounts receivable	(32,015)	(7,337)
Other current assets	(45,006)	(219,729)
Accounts payable	(635,084)	291,864
Other accrued liabilities	122,372	202,278
Cash flows from operating activities	<u>(2,680,632)</u>	<u>(776,162)</u>
<b>INVESTING ACTIVITIES</b>		
Cash paid for furniture, equipment and leasehold improvements	(174,324)	(62,577)
Cash paid for construction in progress	(40,490,602)	-
Cash paid for additional investment in BDA	(6,772,005)	(473,012)
Cash flows from investing activities	<u>(47,436,931)</u>	<u>(535,589)</u>
<b>FINANCING ACTIVITIES</b>		
Cash received from issuance of common stock	68,274,970	100
Cash paid for treasury stock, net	(93,281)	-
Cash paid for commitment and other related fees	(2,899,001)	-
Cash (paid for) received from shareholder loans and advances	(4,638,161)	1,231,386
Cash flows from financing activities	<u>60,644,527</u>	<u>1,231,486</u>
Net increase in cash and cash equivalents	10,526,964	(80,265)
Cash at beginning of period	<u>140,194</u>	<u>176,367</u>
Cash at end of period	<u>\$ 10,667,158</u>	<u>\$ 96,102</u>

The accompanying footnotes to the financial statements are an integral part of these statements.



BASSDRILL LTD. & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011  
(Unaudited)

**1) Nature of Operations and Significant Accounting Policies**

BassDrill Ltd. ("BassDrill" or the "Company") was incorporated in Bermuda in September 2008 and immediately acquired all of the assets and liabilities of BassDrill Ltd. (Cyprus). The Company's primary assets and liabilities pertain to BassDrill Management (USA) Inc. (BDM), incorporated in the state of Texas in 2007; the investment in BassDrill Alpha Ltd. ("BDA"); and the deposit made to DSIC for the construction of a Semi Submersible Tender Assist Drilling Rig (*BassDrill Beta*), which is expected to be delivered in Q1 2013. BassDrill is in the business of providing management services for the offshore tender assist market and related offshore oilfield services. BassDrill carries out these services through its wholly owned subsidiary, BDM, headquartered in Houston, Texas. Through the acquisition of BassDrill Ltd.'s (Cyprus) assets and liabilities, and following the financing of the vessel for delivery upon completion, BassDrill obtained its original interest in BDA, which is a vessel owning company based in Bermuda, with a tender assist barge, *BassDrill Alpha*, which was delivered in January 2010.

BDA signed a contract with CMS Nomeco Congo, Inc. on June 25, 2010 for the provision of drilling services in the Republic of the Congo. *BassDrill Alpha* was mobilized to the Republic of the Congo in September 2010, was operating under contract on September 30, 2011, and completed its contractual commitment in early October 2011. In September 2011, the Company executed a contract with Total for a six well drilling program in the Congo. This contract will keep *BassDrill Alpha* under contract through at least July 2012 and contains extensions at the customer's option that could keep *BassDrill Alpha* under contract through April 2013. In September 2010, BassDrill Ltd. signed a 945 day contract with Petrobras for the provision of *BassDrill Beta*. *BassDrill Beta* is being constructed in China for delivery to Petrobras in Q1 2013.

**a) Basis of Presentation**

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and all disclosures are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the nine months ended September 30, 2011 included in these Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated balance sheet as of December 31, 2010 has been derived from the unaudited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the unaudited consolidated financial statements and notes thereto.

**b) Cash and Cash Equivalents**

The Company considers cash on hand and cash in banks to be cash equivalents.

**c) Property, Equipment and Depreciation**

Property and equipment are capitalized and depreciated over their estimated useful lives. The property and equipment are reported at cost. Improvements or betterments are capitalized. Expenses for maintenance or repairs are expensed as incurred. Depreciation and amortization of property are provided using the straight line basis (using the half year convention in the year of acquisition) over the estimated useful lives ranging from three (3) to thirty (30) years.

The useful lives on property and equipment are as follows:

- a) Furniture and fixtures: Five (5) Years
- b) Computers and peripherals: Three (3) Years
- c) Leasehold improvements: Three (3) Years
- d) Marine equipment: Thirty (30) Years
- e) Drilling equipment: Fifteen (15) Years

**d) Investment in BDA**

Investment in BDA represents a 25.26% interest at September 30, 2011 and a 3.69% interest at December 31, 2010, respectively. The Company had initially accounted for this investment on the cost method of accounting through April 14, 2011, and on the equity method of accounting thereafter. As required by US GAAP, a reduction of the investment in BDA of \$731,727 was recorded to reflect the Company's share of the losses as if the Company had recorded its share of the losses on the equity method of accounting since inception, and this reduction was retrospectively applied to the 2010 financial statements presented herein.

As part of the Subscription Agreement entered into by BDA on August 23, 2011, the subscribing shareholders of BDA agreed to subscribe to 10.870 million new shares at \$0.23 per share, \$2.5 million in aggregate. The Company's obligations under the subscription agreement was for 2.746 million new shares, or \$632 thousand in aggregate, which was paid by the Company on September 1, 2011.

**e) Intangible Assets**

Intangible assets with a definite useful life are amortized over the estimated useful lives of the asset. Goodwill associated with the acquisition of BassDrill Beta BV in September 2010 is carried at its book value and is not amortized as it has an indeterminate useful life. When intangible assets are deemed to be impaired, the Company writes down those assets. There is no assurance that future impairment will not result in a charge to earnings.

**f) Deposit at DSIC**

The Company's deposit of \$36,877,707 at DSIC is included in construction in progress and was made as an initial down payment on the construction of *BassDrill Beta*. On July 15, 2011, an additional payment of \$921,943 was made to the shipbuilder. The total contract price is \$184,388,536 in four installments, 20% down, and two 1/2% installments upon achieving certain milestones, and 79% on delivery. In addition, DSIC is entitled to a \$2,000,000 bonus for on time delivery.

**g) Deferred Commitment and Other Related Fees**

On April 29, 2011, the Company paid \$2,430,000 to a lender for that lender's commitment to provide post-delivery debt financing of up to \$125 million for *BassDrill Beta*. Amortization of such amounts and other related financing costs of \$139,008 are being capitalized as an additional cost of constructing *BassDrill Beta*.

#### **h) Income Taxes**

Income taxes are recognized when paid. Estimated income taxes due in 2011 for US Federal Income Taxes or Texas Franchise Taxes by BDM on its 2010 taxable income are \$15,450. No income taxes are due by other BassDrill entities as of September 30, 2011 or December 31, 2010.

#### **i) Foreign Currency Translation**

The Company recognizes foreign currency gains or losses when incurred.

#### **j) Revenue Recognition**

The Company recognizes income when invoiced. The Company earns revenues from management fees, currently from BDA, design engineering fees (from Daewoo and ExxonMobil) and design fees pursuant for the construction of the MTB and BT 3500.

### **2) Restated and Amended Loan Agreement (the "Loan Facility")**

BassDrill Ltd. entered into an "Amended and Restated Loan Agreement" (the "Loan Facility") on December 2, 2008 providing for a Loan Facility of \$6 million (net of accrued interest). The Loan Facility was subsequently amended on March 2, 2009 and again on November 19, 2009 with an effective date of March 23, 2010.

- a) As of July 31, 2009, the \$6 Million Facility had been fully drawn down.
- b) As of March 31, 2010, the BassInvest Lenders converted their balance into common shares at \$1 par value.
- c) The interest rate on the outstanding balance, including previously accrued interest, was ten percent (10%).
  - i. Interest was capitalized on a quarterly basis to the loan balance.
  - ii. Total loan balance due inclusive of accrued interest as of December 31, 2010 was \$3,025,665.
- d) On July 6, 2011, the loan balance due of \$3,188,892 (including accrued interest) was repaid in full (see Note 5).

### **3) Subordinated Loan Agreement (the "Subordinated Loan")**

BassDrill entered into a Subordinated Loan Agreement (the "Subordinated Loan") with BassInvest AS (the "Lender") on July 27, 2010. Under the terms of the Subordinated Loan, the Lender agreed to lend BassDrill up to \$1,500,000 for funding of general corporate purposes and working capital and funding of BassDrill's equity undertaking towards BDA up to \$545,020.

- a) As of April 14, 2011 and December 31, 2010, BassDrill had drawn down \$2,527,557 and \$1,967,557, respectively, of the Subordinated Loan facility. In connection with the Equity Offering (see Note 5), BassDrill repaid \$1,010,331 of the loan balance, converted \$1,652,035 of the loan balance to common stock, waived \$459,417 of the loan balance, and added \$489,870 to the loan balance for the repayment of design fees initially
- b) The interest rate on the outstanding balance, including previously accrued interest, was ten percent (10%).
  - i. Interest was capitalized on a quarterly basis to the loan balance.
  - ii. Total loan balance due inclusive of accrued interest as of December 31, 2010 was \$2,071,913.
- c) On June 16, 2011, the loan balance due of \$70,113 (including accrued interest) was repaid in full.

### **4) Long Term Leases**

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 space contiguous to its existing space, which additional space increased the monthly lease commitment to \$9,500 per month.

On April 14, 2011, BassDrill successfully completed an Equity Offering of \$65 million by issuing 38,100,821 shares at \$ 1.706 per share.

Proceeds of the common stock offering were used as follows:

- \$20.7 million was received in cash by BassDrill for working capital, operating purposes and the payment of the commitment fees (see Note 1).
- \$36.9 million was deposited with DSIC for the construction of *BassDrill Beta*.
- \$3.2 million was paid to the Managers of the Equity Offering.
- \$1.0 million was used to repay a portion of the Subordinated Loan (see Note 3).
- \$3.2 million was used to obtain additional shares in BDA.

In connection with the Equity Offering, BassInvest undertook to pay the amount due GEC under the Loan Facility (see Note 2) in return for additional equity in BDL. Additionally, \$1.7 million of the Subordinated Loan was converted to equity. On July 6, 2011, BassInvest fulfilled GEC's subscription receivable for additional equity in BDL, and BDL repaid the amount due GEC under the Loan Facility.

As a result of the Equity Offering and the acquisition of additional shares in BDA through both a cash and share swap arrangements, BassDrill now owns 25.26% of BDA and, as a result, has changed its accounting for this investment to the equity method of accounting.

#### **6) Treasury Stock**

On August 16, 2011, the Company acquired 116,660 shares of its common stock at \$1.3988 per share. On September 22, 2011, the Company's Chairman of the Board purchased 50,000 shares of the Company's treasury stock at \$1.3988 per share.

#### **7) Commitments and Contingencies**

In connection with the construction of *BassDrill Beta*, BassDrill Beta Ltd. ("BDB"), the Company's wholly owned subsidiary (and the Company, as Guarantor), secured a \$125 million Senior Secured Term Loan Facility Agreement 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 this vessel. Additionally, quarterly commitment fees of \$625,000 are due beginning on July 29, 2011 and have been/will be paid quarterly thereafter until *BassDrill Beta* is delivered to BDB, which is expected in Q1 2013. 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.