ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED

SEPTEMBER 30, 2014

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ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	Decmeber 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,047,081	$ 57,927,336
Restricted cash	9,759,612	8,962,930
Accounts receivable	21,718,252	1,557,190
Accounts receivable - affiliates	1,215,049	622,665
Prepaid expenses	890,607	913,290
TOTAL CURRENT ASSETS	48,630,601	69,983,411
PROPERTY AND EQUIPMENT		
Drilling unit	292,804,820	-
Furniture, equipment and leasehold imporvements	1,020,934	748,022
Construction in progress	64,026,074	328,856,887
	357,851,828	329,604,909
Less: accumulated depreciation and amortization	7,340,965	434,596
NET PROPERTY AND EQUIPMENT	350,510,863	329,170,313
INVESTMENT IN UNCONSOLIDATED AFFILIATE	5,285,210	4,654,599
DEBT ISSUANCE COSTS	12,784,130	5,445,885
OTHER ASSETS	65,378,766	25,175
TOTAL ASSETS	$ 482,589,570	$ 409,279,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,774,787	$ 8,873,440
Accounts payable - related party	-	12,232
Other accrued liabilities	4,394,750	3,734,636
Current portion of long-term debt	4,416,666	12,408,000
Deferred revenue - current	3,818,997	4,582,796
TOTAL CURRENT LIABILITIES	14,405,200	29,611,104
LONG TERM LIABILITIES		
Deferred revenue - non-current	38,085,318	20,877,183
Long-term debt	262,311,334	187,592,000
TOTAL LONG-TERM LIABILITIES	300,396,652	208,469,183
TOTAL LIABILITIES	314,801,852	238,080,287
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 185,778,368 authorized at September 30, 2014 and December 31, 2013 and 123,067,286 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	123,067,286	123,067,286
Additional paid-in capital	67,302,181	67,073,189
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(22,580,249)	(18,939,879)
TOTAL STOCKHOLDERS' EQUITY	167,787,718	171,199,096
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 482,589,570	$ 409,279,383

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
REVENUES				
Contract drilling revenue	$ 20,299,130	$ 1,734,931	$ 38,107,709	$ 9,554,105
Management fees	567,045	544,868	1,680,527	2,899,422
Reimbursables	-	(222,569)	2,509,011	13,156
Amortization of deferred revenue	3,083,378	-	6,512,761	-
Other income/consulting fees	2,168	563	2,168	91,130
TOTAL REVENUES	23,951,721	2,057,793	48,812,176	12,557,813
OPERATING EXPENSES				
Operating expenses	14,344,945	4,461,521	39,062,780	15,815,309
Depreciation and amortization expense	2,800,188	29,707	6,906,369	97,080
TOTAL OPERATING EXPENSES	17,145,133	4,491,228	45,969,149	15,912,389
INCOME (LOSS) FROM OPERATIONS	6,806,588	(2,433,435)	2,843,027	(3,354,576)
OTHER INCOME (EXPENSE)				
Interest income	275	22,787	1,346	342,219
Interest expense	(2,233,787)	-	(5,380,742)	(1,903,978)
Foreign currency exchange gain (loss)	4,859	(42,389)	(22,828)	(58,428)
TOTAL OTHER EXPENSE	(2,228,653)	(19,602)	(5,402,224)	(1,620,187)
INCOME (LOSS) BEFORE EQUITY IN EARNINGS (LOSSES) OF AFFILIATE AND FOREIGN INCOME TAX EXPENSE	4,577,935	(2,453,037)	(2,559,197)	(4,974,763)
EQUITY IN EARNINGS (LOSSES) OF AFFILIATE	237,217	(80,551)	630,611	274,219
FOREIGN INCOME TAX EXPENSE	(647,456)	(39,898)	(1,711,784)	(346,375)
NET INCOME (LOSS)	$ 4,167,696	$ (2,573,485)	$ (3,640,370)	$ (5,046,919)
INCOME (LOSS) PER SHARE:				
Basic and diluted	$ 0.03	$ (0.02)	$ (0.03)	$ (0.05)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic and diluted	127,544,510	123,067,286	123,067,286	108,252,471

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY QUARTER ENDED SEPTEMBER 30, 2014
(UNAUDITED)

	Common Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at December 31, 2012	73,067,286	$ 73,067,286	$ 38,299,854	$ (1,500)	$ (12,627,463)	$ 98,738,177
Common stock issued	50,000,000	50,000,000	30,000,000	-	-	80,000,000
Stock issuance costs	-	-	(1,673,968)	-	-	(1,673,968)
Stock compensation expense	-	-	447,303	-	-	447,303
Net loss	-	-	-	-	(6,312,416)	(6,312,416)
Balance at December 31, 2013	123,067,286	123,067,286	67,073,189	(1,500)	(18,939,879)	171,199,096
Stock compensation expense	-	-	228,992	-	-	228,992
Net loss	-	-	-	-	(3,640,370)	(3,640,370)
Balance at September 30, 2014	123,067,286	$ 123,067,286	$ 67,302,181	$ (1,500)	$ (22,580,249)	$ 167,787,718

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$ 4,167,696	$ (2,573,484)	$ (3,640,370)	$ (5,046,919)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Equity in (earnings) losses of affiliate	(237,217)	80,551	(630,611)	(274,219)
Depreciation and amortization expense	2,800,188	29,707	6,906,369	97,080
Stock compensation expense	67,289	109,054	228,992	383,846
Amortization of debt issue costs	172,783	-	499,996	-
Changes in operating assets and liabilities:				
Accounts receivable	(5,814,157)	2,077,199	(13,755,062)	(1,742,659)
Accounts receivable - affiliates	-	-	(104,089)	-
Prepaid expenses and other assets	(583,505)	382,405	(144,450)	363,623
Accounts payable	323,810	5,774,236	(7,098,653)	7,767,871
Accounts payable - related parties	(556,527)	-	(500,527)	-
Other accrued liabilities	4,415,400	1,615,083	660,114	2,488,947
Deferred revenue	(3,009,639)	-	16,444,336	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,746,121	7,494,751	(1,133,955)	4,037,570
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash (paid) received for furniture, equipment and leasehold improvements	(104,718)	250,228	(272,912)	108,959
Cash (paid) transferred for construction in progress	(10,501,763)	(13,951,696)	(33,863,481)	(56,208,704)
Cash received for return of equity	-	5,305,429	-	5,305,430
Cash received for investment in affiliate	-	3,418,014	-	3,098,600
Cash received for other assets	-	-	-	10,318
Change in restricted cash	(63,688,769)	-	(65,983,140)	(73,500,000)
NET CASH USED IN INVESTING ACTIVITIES	(74,295,250)	(4,978,025)	(100,119,533)	(121,185,397)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash received from issuance of common stock	22,798	(58,007)	-	78,326,032
Cash received from issuance of bonds payable	75,000,000	-	75,000,000	75,000,000
Cash paid for long term note	(4,136,000)	-	(8,272,000)	(2,343,508)
Cash paid for commitment and other debt related fees	(7,779,356)	(237,060)	(8,354,767)	-
NET CASH PROVIDED BY (USED) IN FINANCING ACTIVITIES	63,107,442	(295,067)	58,373,233	150,982,524
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,441,687)	2,221,659	(42,880,255)	33,834,697
CASH AND CASH EQUIVALENTS, beginning of period	24,488,768	44,906,610	57,927,336	13,293,572
CASH AND CASH EQUIVALENTS, end of period	$ 15,047,081	$ 47,128,269	$ 15,047,081	$ 47,128,269
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Capitalized interest	$ 881,213	$ 1,629,167	$ 7,343,013	$ 4,335,310
Cash paid for interest	$ 1,367,450	$ 39,898	$ 7,390,588	$ 346,375
Cash paid for income taxes	$ 647,456	$ -	$ 1,711,784	$ -

NOTE A - ORGANIZATION AND NATURE OF BUSINESS

Atlantica Tender Drilling Ltd. ("Atlantica" or the "Company") was incorporated in Bermuda in September 2008 and effective April 29, 2011 became registered on the Norwegian OTC-list under the symbol "ATDL." Atlantica 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 affiliated vessels. The Company is headquartered in Houston, Texas.

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

- Atlantica Management (USA) Inc. ("AM"), incorporated in the state of Texas
- Atlantica International Ltd. ("AI"), a Bermuda-based entity
- Atlantica Beta Ltd. ("AB"), a Bermuda-based entity
- BassDrill Beta Ltd. ("BDB"), a Malta-based entity
- BassDrill Beta B.V. ("BDB-BV"), a Holland-based entity
- BassDrill Brasil Servicos de Petroleo Ltda. ("BBB"), a Brazil-based entity
- Atlantica International B.V. ("AI-BV"), a Holland-based entity
- Atlantica (Malta) Holding Ltd., (AMH), a Malta-based entity
- Atlantica Gamma Ltd. (AG), a Malta-based entity
- Atlantica Delta Ltd. (AD), a Malta-based entity

The name changes for the former BassDrill companies was part of the larger rebranding efforts initiated in July 2013.

The Company's primary assets and liabilities pertain to *BassDrill Beta,* owned by BDB, which the Company took delivery of from Dalian Shipbuilding Industry Corporation ("DSIC ") in November 2013 and was placed into service on a drilling contract with Petrobras in March 2014; AM; the Company's 25.26% equity investment in BassDrill Alpha Ltd. ("BDA") and the deposits made to DSIC and other construction costs incurred for the construction of two tender assist drilling rigs: *Atlantica Gamma*, a flat bottom barge that will be owned by AG and *Atlantica Delta*, a semi-submersible, that will be owned by AD.

As used herein, and unless otherwise required by the context, the term "Atlantica" refers to Atlantica Tender Drilling Ltd., and the terms "Company," "we," "our," and words of similar import refer to Atlantica 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 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 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 Atlantica and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with 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.

Fair Value of Financial Instruments: The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt. 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.

Revenue: Revenue is recognized as services are performed based on contracted day-rates and the number of operating days during the period.

AM and AI provide management and consulting services for the offshore tender assist market and related oilfield services to BDA. Such fees are day-rate based and are recorded as revenues in the period in which they are provided to the customers. 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.

In connection with a customer contract, the Company may receive lump-sum fees for the mobilization of equipment and personnel. Mobilization fees and costs incurred to mobilize a rig from one geographic market to another are deferred and recognized on a straight-line basis over the initial term of such contract, excluding any option periods. Costs incurred to mobilize a rig without a contract are expensed as incurred. Fees or lump-sum payments received for capital improvements to rigs are deferred and amortized to income over the term of the related drilling contract. The costs of such capital improvements are capitalized and depreciated over the useful lives of the assets.

At September 30, 2014 and December 31, 2013, the Company received or recorded as accounts receivable $49,462,251 and $26,662,251, respectively, in deferred revenue related to mobilization fees and amortized $3,083,379 and $6,512,761 of deferred revenue for the three and nine-month periods ended September 30, 2014, respectively. On March 19, 2014, *BassDrill Beta* went under contract with Petrobras at a special holding rate given that the Petrobras TLP was not yet ready to commence drilling operations. Concurrent with Petrobras accepting the rig as substantially ready for service, pending only the rig up and acceptance on the TLP, commencing the Holding Rate, and as a result of the extended delay of the then unknown duration before Petrobras was ready to receive the rig for final assembly and rig up, the Company opted to place the drilling rig into service effective March 19, 2014 instead of continuing to defer and capitalize the costs associated with the initial rig up of *BassDrill Beta*.

Investment in Unconsolidated Affiliate: The Company accounts for its investment in BDA using the

equity method of accounting as the Company has the ability to exercise significant influence over operating and financial affairs (see Note F). Under the equity method of accounting, the Company's proportionate share of BDA's income or loss is reported in the consolidated statement of operations.

The Company analyzes 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 or nine-month periods ended September 30, 2014 or 2013.

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.

Restricted Cash: The Senior Secured Term Loan (see Note G) requires the Company to maintain a debt service reserve account equal to three months of interest and one installment payment.

The Senior Secured Bonds (see Note G) requires the Company to maintain a debt service account for the purpose of covering the semiannual interest payments.

The proceeds from the additional $75.0 million Senior Secured Bonds (see Note G) are designated for the repayment of the Senior Secured Term Loan and are classified as restricted cash in Other Assets in the Consolidated Balance Sheet.

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

Earnings are charged with a provision for doubtful accounts based on a current review of the collectability of accounts. No allowance for doubtful accounts was recorded by the Company at September 30, 2014.

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-month periods ended September 30, 2014 and 2013, 2.4% and 26.5%, respectively, of the Company's revenues were received from BDA. For the nine-month periods ended September 30, 2014 and 2013, 3.4% and 11.8%, respectively, of the Company's revenues were received from BDA. The Company had receivables from BDA of $726,754 and $622,665 at September 30, 2014 and December 2013, respectively. With the commencement of the Petrobras contract, 84.8% and 78.1% of the Company's revenues were received from Petrobras for the three and nine-month periods ended September 30, 2014, 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.

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.

Property and Equipment: Property and equipment is carried at cost less accumulated depreciation. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets. The method of depreciation does not change when equipment becomes idle. Depreciation and amortization expense was $2,800,188, and $29,707, for the three-month periods ended September 30, 2014 and, 2013, respectively. Depreciation and amortization expense was $6,906,369, and $97,080, for the nine-month periods ended September 30, 2014 and, 2013, respectively. The estimated useful lives, in years, are defined below:

Barge and related marine equipment	30 years
Mast equipment package, spare parts, and related equipment	4 - 15 years
Office furniture, fixtures, vehicles and equipment	3 years
Computer hardware and software	3 years

Construction in Progress: The carrying value of the rigs under construction (*Atlantica Gamma* and *Atlantica 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 *Atlantica Gamma* and *Atlantica Delta* is completed, and the vessels are ready for their intended use.

Deferred Financing Costs: In April 2011, the Company paid $2,430,000 to a lender for its commitment to provide post-delivery date financing of up to $125,000,000 for *BassDrill Beta*. Additionally, quarterly commitment fees of approximately $625,000 commenced on July 29, 2011 and were paid quarterly through April 2013 when the commitment was canceled and replaced by the Senior Secured Bonds and Senior Secured Term Loan. Amortization of such amounts and other related financing costs for the nine-month period ended September 30, 2013 totaled $1,189,749 (all of which qualified for capitalization, see *Capitalized Interest* below, over the revised, anticipated commitment period through termination of the facility in April 2013) was capitalized as an additional cost of constructing *Atlantica Beta*.

In April 2013, the Company, through its wholly owned subsidiary BassDrill Beta Ltd., issued $75 million in Senior Secured Bonds (see Note G). In connection with the bond issuance, the Company paid $2,647,949 in debt issuance costs. In September 2014, the Company amended the existing $75 million Senior Secured Bonds and issued an additional $75 million of Senior Secured Bonds (see Note G). In connection with the amendment and the supplemental bond issuance, the Company incurred an additional $7,614,623 in debt issuance costs. Amortization of such amounts and other related financing costs for the three-month periods ended September 30, 2014 and 2013 totaled $129,898 and $108,639, respectively, and for the nine-month periods ended September 30, 2014 and 2013 totaled $443,272 and $173,288, respectively ($225,651 of which qualified for capitalization in the nine-month period ended September 30 2014, and all of which qualified for capitalization in the nine-month period ended September 30, 2013, and see *Capitalized Interest* below).

In November 2013, the Company undertook a $125 million Senior Secured Term Loan Facility Agreement (see Note G). In connection therewith the Company incurred $3,411,758 in debt issuance costs. Amortization of such amounts and other related financing costs for the three and nine-month periods ended September 30, 2014 totaled $201,018 and $573,251, respectively ($290,874 of which qualified for capitalization in the nine-month period ended September 30 2014, see *Capitalized Interest* below).

Capitalized Interest: Interest expenses were and are capitalized during construction of *BassDrill Beta*, *Atlantica Gamma* and *Atlantica Delta* 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*, *Atlantica Gamma* and *Atlantica Delta* exceed the amounts of the specific new borrowing associated with the asset (which debt was not/will not be funded until delivery occurs), the capitalization rate applied to such expenditures is a weighted average of the rates applicable to other borrowings of the Company.

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

Income Taxes: We are a Bermuda limited liability company. Bermuda does not impose corporate income taxes unless activities are carried out in Bermuda. No activities were carried out in Bermuda in the nine-month periods ended September 30, 2014 and 2013. Consequently, we have provided income taxes based on the laws and rates in effect in the countries in which operations are conducted, or in which we and/or our subsidiaries are considered resident for income tax purposes. We operate in multiple countries under different legal forms. As a result, we are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Our operations in these different jurisdictions are taxed on various bases including, (i) actual income before taxes, (ii) deemed profits (which are generally determined by applying a tax rate to revenues rather than profits) and (iii) withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each tax jurisdiction could have an impact upon the amount of income taxes that we provide during any given year.

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 acquire shares in the ultimate parent, Atlantica Tender Drilling Ltd. The compensation cost for stock options is recognized as an expense over the service period based on the fair value of the options granted.

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

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

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

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 the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	September 30, 2014 (Unaudited)	December 31, 2013
Drilling rig and equipment	$ 299,210,820	$ -
Leasehold Improvements	109,999	109,999
Office furniture, fixtures, and equipment	157,821	151,635
Computer hardware and software	571,853	371,214
Vehicles	181,261	115,174
	300,231,754	748,022
Less: accumulated depreciation	7,340,965	434,596
	292,890,789	313,426
Construction in progress	64,026,074	328,856,887
Total property and equipment	$ 356,916,863	$ 329,170,313

The Drilling rig and equipment consists of the *BassDrill Beta* rig currently operating in Brazil. The Construction in progress relates to two tender assist drilling rigs, the *Atlantica Gamma*, a flat bottom barge, and the *Atlantica Delta*, a semi-submersible.

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Interest cost capitalized	$ 881,213	$ 1,629,167	$ 7,343,013	$ 4,335,310
Interest cost expensed	2,233,787	-	5,380,742	-
Total interest cost incurred	$ 3,115,000	$ 1,629,167	$ 12,723,755	$ 4,335,310

NOTE E - LOAN TO UNCONSOLIDATED AFFILIATE

In connection with the December 2011 refinancing of BDA's long-term debt, for the purpose of providing BDA additional working capital, the Company and certain other BDA shareholders entered into shareholder loan agreements on a proportional basis to each shareholder's equity interest in BDA totaling $10,000,000. This unsecured loan earned interest at 20% and did not require the payment of principal or interest until repayment of the loan in its entirety. The loan and accrued interest was repaid in its entirety in July 2013.

NOTE F - INVESTMENT IN UNCONSOLIDATED AFFILIATE

The Company's investment in BDA is 25.26%. In July 2013, the Company received a pro-rata share of a capital distribution from BDA in the amount of $5,305,430.

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:

	September 30, 2014	December 31, 2013
	(Unaudited)	
Current assets	$ 19,137,561	$ 21,253,049
Property and equipment, net	82,871,000	86,019,104
Other assets	6,970,863	2,366,936
Total assets	$ 108,979,424	$ 109,639,089
Current liabilities	$ 11,609,597	$ 10,522,603
Long-term liabilities	76,306,250	80,465,000
Stockholders' equity	21,063,577	18,651,486
Total liabilities and stockholders' equity	$ 108,979,424	$ 109,639,089

Condensed statement of operations information for BDA is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Operating revenues	$ 11,483,990	$ 10,359,676	$ 34,468,107	$ 32,230,194
Costs and expenses	7,642,091	7,361,451	23,018,656	23,108,160
Income from operations	3,841,899	2,998,225	11,449,451	9,122,034
Other expense, primarily interest	(1,901,193)	(2,326,958)	(5,732,713)	(4,998,316)
Income before income tax expense	1,940,706	671,267	5,716,738	4,123,718
Foreign income tax expense	(1,085,993)	(990,153)	(3,304,646)	(3,054,184)
Net income (loss)	$ 854,713	$ (318,886)	$ 2,412,092	$ 1,069,534

NOTE G - FINANCING ARRANGEMENTS

Senior Secured Term Loan

In May 2013, the Company, through its wholly owned subsidiary BDB, entered into a $125,000,000 Senior Secured Term Loan ("Loan"), maturing in June 2018, collateralized by all credit rights arising from the *BassDrill Beta's* drilling contract, respective credit rights against the Brazilian bank and rights in connection with the investments made with amounts deposited in the debt service reserve account (see *Restricted Cash* in Note B). The Loan bears interest at 4.25% plus LIBOR, payable quarterly commencing February 2014. BDB has entered into a swap agreement fixing LIBOR at 0.845% for $100,000,000 of the $125,000,000, for a period of three years that commenced November 2013. The Loan requires quarterly principal payments of $4,136,000 commencing May 2014 with a balloon payment of $54,688,000 at final maturity. The Loan (with a balance of $116,728,000 and $125,000,000 at September 30, 2014 and December 31, 2013, respectively) further requires the Company to comply with certain financial covenants at the Borrower (as defined below) and Parent levels as noted below. These covenants are required to be tested and reported semi-annually:

- Borrower (BDB, BDB-BV, and BBB, collectively, the "Beta Obligated Group"):
  - Interest coverage ratio of not less than 2.5 : 1.0
  - Debt service coverage ratio of not less than 1.1 : 1.0
  - Leverage ratio not exceeding 0.75 : 1.0
  - Book equity minimum of $70,000,000 from delivery date
  - The market value of the rig is at least 135% of the Loan during the period which *BassDrill Beta* is operating under its drilling contract with Petrobras and 150% of the Facility after completion of the drilling contract with Petrobras.

- Parent (Atlantica):
  - Interest coverage ratio of not less than 2.5 : 1.0
  - Book equity minimum of $90,000,000
  - Increased by $40,000,000 following delivery of *BassDrill Gamma*
  - Increased by $65,000,000 following delivery of *BassDrill Delta*
  - Equity ratio of minimum 0.3 : 1.0
  - The market value of the rig is at least 135% of the Loan during the period which *BassDrill Beta* is operating under its drilling contract with Petrobras and 150% of the Loan after completion of the drilling contract with Petrobras.

On October 6, 2014, BDB repaid the Senior Secured Term Loan with the proceeds from the issuance of an additional $75,000,000 of Senior Secured Bonds (see *Senior Secured Bonds* below) and an initial drawdown of $53,000,000 on a new $350,000,000 Senior Secured Term Loan ("New Loan") the Company undertook in order to refinance this facility and to provide the debt funding for the delivery of *Atlantica Gamma* and *Atlantica Delta* (see Note N).

Senior Secured Bonds

In April 2013, the Company issued, through its wholly owned subsidiary BDB, $75,000,000 of Senior Secured Bonds ("Bonds"), originally maturing in April 2018 that was collateralized by *BassDrill Beta*. The Bonds were subordinated to the Loan and bore interest at 8.5%, with semiannual interest payments that commenced October 24, 2013 with principal due at maturity.

On September 23, 2014, the Company issued an additional $75 million of Senior Secured Bonds ("New Bonds"), maturing in September 2019 that is collateralized by *BassDrill Beta*, *Atlantica Gamma* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit rights arising from their drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account (see *Restricted Cash* in Note B). Concurrent with

the issuance of these New Bonds, the bondholders of the Bonds agreed to amend the bond agreement to the bond agreement of the New Bonds. The New Bonds bear interest at 8.0%, with quarterly interest payments commencing December 23, 2014, and principal due at maturity. The New Bonds are subordinated to the Loan and will be subordinated to the New Loan. The New Bonds further require the Company to comply with certain financial covenants as noted below. These covenants are required to be tested and reported quarterly, beginning December 31, 2014:

- Interest coverage ratio of not less than 2.5 : 1.0
- Debt service coverage ratio of not less than 1.1 : 1.0
- Book equity minimum of $90,000,000, increased by $40,000,000 following delivery of *Atlantica Gamma,* and increased by $65,000,000 following delivery of *Atlantica Delta*
- Equity ratio of minimum 0.3 : 1.0
- Liquidity, measured as freely available and unencumbered cash, of $15.0 million following the initial drawdown, $20.0 million following the drawdown of either the Gamma or the Delta tranche under the New Loan as discussed in Note N, and the higher of $30.0 million and 6% of outstanding interest bearing debt tranches
- The market value of the vessels is at least 140% of the aggregated outstanding amount of the New Loan through October 2016 and 150% of the aggregated outstanding amount of the New Loan thereafter.

Future Maturities of Long-term Debt

The above financing arrangements for the New Loan for the Beta tranche (see Note N) and the New Bonds are payable in future years as follows:

Televe Months Ending September 30,	
2015	4,416,666
2016	5,888,888
2017	7,138,888
2018	10,888,888
2019	159,416,666
October 1, 2019 and later	15,250,004
	$ 203,000,000

NOTE H – INCOME (LOSS) PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	Basic and Diluted (Unaudited)		Basic and Diluted (Unaudited)	
Numerator for income (loss) per share				
Net income (loss)	$ 4,167,696	$ (2,573,485)	$ (3,640,370)	$ (5,046,919)
Denominator for income (loss) per share				
Weighted-average shares outstanding	123,067,286	123,067,286	123,067,286	108,252,471
Effect of stock options *	4,477,224	-	-	-
Weighted-average shares for per share calculation	127,544,510	123,067,286	123,067,286	108,252,471
Per share income (loss) from continuing operations	$ 0.03	$ (0.02)	$ (0.03)	$ (0.05)

* For the three month period ended September 30, 2013 and the nine-month periods ended September 30, 2014 and 2013, 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 October 2012, the Company entered into a turn-key contract with DSIC (the "Builder") to design and construct a tender support barge (*Atlantica Gamma*). The delivery point is alongside the Builder's shipyard in Dalian, China for a contract price of $123,997,500 subject to adjustment in accordance with certain provisions. The Company made a 15% installment payment of $18,599,625 in October 2012; and the 2nd and final installment payment of $105,397,875, plus any outstanding increase or minus any decrease due to adjustments, is due upon delivery, which is expected early in the third quarter of 2015 but may be delayed at the Company's discretion until the first quarter of 2016. 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 no more than $6,000,000.

In March 2013, the Company was awarded a contract for a 17-well program estimated to last 44 months with Total E&P Congo for a new tender support semi for operations in off-shore West Africa. In April 2013, the Company entered into a turn-key contract with DSIC to design and construct a tender support semi (*Atlantica Delta*). The delivery point is alongside the Builder's shipyard in Dalian, China for a contract price of $212,000,000 subject to adjustment with certain provisions. The Company made a 15% installment payment of $31,800,000 in April 2013 and the 2nd and final installment payment of $180,200,000, plus any outstanding increase or minus any decrease due to adjustments, is due upon delivery, which is expected in the third quarter of 2015. 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 no more than $9,000,000.

In October 2012, the Company renegotiated its existing office space when it entered into a five-year lease for administrative offices in Houston, Texas. The monthly lease commitment ranges from $12,180 to $21,156 per month. In April 2013, the Company entered into an office lease in Brazil in preparation for the Beta Operations which began in January 2014, with monthly commitments of $6,856. Rent expense was $84,846 and $79,903 for the three-month periods ended September 30, 2014 and 2013, respectively. Rent expense was $249,070 and $205,002 for the nine-month periods ended September 30, 2014 and 2013, respectively.

Future minimum non-cancelable lease payments are as follows:

Year Ending December 31		
2014	$	287,061
2015		315,833
2016		325,988
2017		336,143
2018		23,995
	$	1,289,020

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. As of September 30, 2014, 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 over the vesting period. During the three-month periods ended September 30, 2014 and 2013, $90,087 and $109,054, respectively, was expensed in the consolidated statements of operations. During the nine-month periods ended September 30, 2014 and 2013, $228,992 and $383,846, respectively, was expensed in the consolidated statements of operations. There was no effect on income taxes in the consolidated financial statements related to the options. 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 Atlantica Share Option Plan permits the Board of Directors, at its discretion, to grant options to acquire shares in the Company to employees of the Company or its subsidiaries. The options granted are not transferable, and the subscription price is set at $1.706 per share adjusted upwards by 12% per annum from the date of grant until the date the option is exercised. Options granted under the plan will vest three and a half years after the date of the grant. The maximum number of shares authorized for awards of equity share options is 4,734,000. Authorized, unissued shares of the Company may be used to satisfy exercised options, or the Company, at its discretion, may satisfy such exercised options in cash.

During 2014, the Company has not issued any share options.

During 2013, 530,000 share options were granted to four key employees. For the valuation of the options granted, the following assumptions were applied; risk-free interest rate of 0.51%, share price volatility of 44.9%, dividend yield of 0% and an expected option term of three and a half years.

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.

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 2013 and 2012 under the Atlantica Plan may be exercised up to five years after the grant date. Options issued under the Atlantica Plan may be exercised at the earlier of a mandatory offer for all the shares of the Company (on certain conditions) or three and a half years after the grant date. As of September 30, 2014, no options granted are exercisable and there were no forfeitures.

As of September 30, 2014, total unrecognized compensation costs related to all unvested share-based awards totaled $253,414, which is expected to be recognized as additional expenses of $112,889 in 2014, $84,315 in 2015 and $56,210 thereafter.

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-month periods ended September 30, 2014 and 2013 were $39,762 and $39,332, respectively. Such contributions for the nine-month periods ended September 30, 2014 and 2013 were $135,312 and $104,042, respectively.

NOTE L - RELATED PARTY TRANSACTIONS

The Company transacts business with the following related parties:

- BassInvest AS
- BDA
- AXON Energy Products ("AXON")
- Bassoe Offshore AS ("BassOff AS")
- Bassoe Offshore USA ("BassOff USA")

AM has a management services agreement with BDA to provide it management services for the operation of *BassDrill Alpha*. Fees for such services were $422,000 and $414,000 for the three-month periods ended September 30, 2014 and 2013, respectively. Fees for such services were approximately $1,236,500 and $1,153,000 for the nine-month periods ended September 30, 2014 and 2013, respectively. Additionally, AM earned a performance bonus of $153,279 and $130,588 for the three-month periods ended September 30, 2014 and 2013, respectively, and $452,027 and $326,406 for the nine-month periods ended September 30, 2014 and 2013, respectively.

The Company has agreements with BassInvest 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, Atlantica Gamma* and *Atlantica Delta*. There were no fees and reimbursements for such services for the three-month periods ended September 30, 2014 and 2013, respectively. Fees and reimbursements for such services were approximately $334,356 and $518,000 for the nine-month periods ended September 30, 2014 and 2013, respectively.

In October 2013, the Company loaned AXON, a Company with common ownership, $1,394,372 to assist AXON with completion of the mast equipment package (MEP) needed for construction of Beta. This loan earns interest at 0.5% and matures three days after Axon receives payment in full from DSIC for the guideline winch skid Axon constructed for the *BassDrill Beta*. In November 2014, the Company and AXON agreed to terminate this loan and replace it with a non-interest bearing loan for $2,150,000. This loan matures the earlier of when AXON receives final payment of at least $2 million under its contract with DSIC for construction of the MEP for *Atlantica Gamma* or December 30, 2015.

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 intention 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.

The objective of the undesignated interest rate swaps is to manage interest rate risk exposure on the Senior Secured Term Loan (see Note G). The interest rate swap agreements effectively modify the Company's exposure to interest rate risk by converting a portion of the variable-rate Senior Secured Term Loan to a fixed rate of approximately 5.09% through May 2017, thus reducing the impact of the interest-rate changes on future interest expense. The Company has not designated these interest rate swaps as hedges due to future, unquantifiable differences between the notional and recorded debt caused by uncertain, mandatory prepayments in the future; therefore, the Company does not apply hedge accounting to its interest rate derivative instruments. At September 30, 2014, the Company valued the interest rate swaps as a liability of approximately $145,907. In connection with the November 2014 refinancing referred to in Note G and as described in Note N, BDB settled all outstanding interest rate swaps and the Company received a termination settlement of $198,700.

Foreign Currency Risk Management

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

Credit Risk

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

NOTE N – SUBSEQUENT EVENTS

Senior Secured Term Loan

In October 2014, the Company entered into a $350,000,000 Senior Secured Term Loan ("New Loan"), maturing in October 2019, collateralized by a first mortgage on *BassDrill Beta*, *Atlantica Gamma* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit

rights arising from their drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account. The New Loan amount will be available for drawdown independently in up to three disbursements/tranches until March 31, 2016. The initial refinancing trance of $53.0 million was drawn down on 6 October 2014; the second drawdown (the "Gamma tranche) of $120.0 million upon delivery of the Gamma, and the third drawdown (the Delta tranche) of $177.0 million upon delivery of the Delta. The New Loan tranches bear interest at 3.25% to 3.75% plus LIBOR, payable quarterly commencing February 2015. The Company has entered into a swap agreement fixing LIBOR at 1.36% for $53.0 million of the outstanding loan amount for a period of four years that commenced November 2014. The New Loan requires quarterly principal payments ranging from $1,472,222 to $10,972,222 commencing February 2015 with a balloon payment of $180,027,777 at final maturity. The New Loan further requires the Company to comply with certain financial covenants as noted below. These covenants are required to be tested and reported quarterly:

- Interest coverage ratio of not less than 2.5 : 1.0
- Debt service coverage ratio of not less than 1.1 : 1.0
- Book equity minimum of $90,000,000, increased by $40,000,000 following delivery of *Atlantica Gamma,* increased by $65,000,000 following delivery of *Atlantica Delta*
- Equity ratio of minimum 0.3 : 1.0
- Liquidity, measured as freely available and unencumbered cash, of $15.0 million following the initial drawdown, $20.0 million following the drawdown of either the Gamma or the Delta tranche, and the higher of $30.0 million and 6% of outstanding interest bearing debt

Atlantica Gamma Deferred and Flexible Delivery

Atlantica has negotiated with builder DSIC a deferred delivery of the heavy tender barge Atlantica Gamma which will permit Atlantica to take delivery of the unit anytime – entirely at the Company's discretion – between July of 2015 and March of 2016. This agreement will permit the company both flexibility and additional time to secure a suitable charter contract for the Gamma. The agreement follows the delay in the original delivery date owing to the modular mast equipment package under construction in the US falling well behind the original schedule.

Rights Issue

On 22 December 4,922,691 new shares in the Company were issued following the completion of a rights issue. The issue price was $2.0 per share. Post issuance of the new shares the total number of shares outstanding in the Company is 127,989,977.