

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED

MARCH 31, 2015

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QUARTER ENDED MARCH 31, 2015

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ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2015 <u>(Unaudited)</u>	December 31, 2014 <u></u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,888,642	\$ 40,093,073
Restricted cash	1,643,914	2,035,207
Accounts receivable - trade	5,337,453	421,994
Accounts receivable - accrued	1,532,636	6,591,352
Accounts receivable - related parties	1,279,106	1,112,591
Note receivable - related parties	2,144,372	2,144,372
Prepaid expenses	2,129,661	1,683,833
TOTAL CURRENT ASSETS	<u>42,955,784</u>	<u>54,082,422</u>
PROPERTY AND EQUIPMENT		
Drilling rig and equipment	299,677,838	298,486,570
Furniture, equipment and leasehold improvements	1,183,267	1,046,756
Construction in progress	78,968,975	73,260,282
	<u>379,830,080</u>	<u>372,793,608</u>
Less: accumulated depreciation and amortization	14,234,193	10,970,120
NET PROPERTY AND EQUIPMENT	<u>365,595,887</u>	<u>361,823,488</u>
EQUITY INVESTMENT IN AFFILIATE	5,949,524	5,615,249
DEBT ISSUANCE COSTS, net	14,789,625	15,302,718
OTHER ASSETS	<u>182,255</u>	<u>194,855</u>
TOTAL ASSETS	<u>\$ 429,473,075</u>	<u>\$ 437,018,732</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,983,558	\$ 7,425,729
Accounts payable - related parties	124,467	-
Other accrued liabilities	4,537,775	6,874,506
Current portion of long-term debt	5,888,888	5,888,888
Deferred revenue - current	12,242,497	12,209,048
TOTAL CURRENT LIABILITIES	<u>27,777,185</u>	<u>32,398,171</u>
LONG TERM LIABILITIES		
Deferred revenue - non-current	25,321,231	28,365,130
Long-term debt	195,638,890	197,111,112
TOTAL LONG-TERM LIABILITIES	<u>220,960,121</u>	<u>225,476,242</u>
TOTAL LIABILITIES	<u>248,737,306</u>	<u>257,874,413</u>
COMMITMENTS AND CONTINGENCIES (Note J)		
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value, 185,778,368 authorized at March 31, 2015 and December 31, 2014, and 127,989,977 shares issued and outstanding at March 31, 2015 and December 31, 2014	127,989,977	127,989,977
Additional paid-in capital	71,939,889	71,918,468
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(19,192,597)	(20,762,626)
TOTAL STOCKHOLDERS' EQUITY	<u>180,735,769</u>	<u>179,144,319</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 429,473,075</u>	<u>\$ 437,018,732</u>

See Notes to Consolidated Financial Statements.

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
REVENUES		
Contract drilling	\$ 16,276,155	\$ 697,916
Mobilization	3,010,450	428,673
Management fees	519,986	546,204
TOTAL REVENUES	<u>19,806,591</u>	<u>1,672,793</u>
OPERATING EXPENSES		
Operating expenses	11,354,141	6,416,450
Depreciation and amortization expense	3,264,073	540,363
TOTAL OPERATING EXPENSES	<u>14,618,214</u>	<u>6,956,813</u>
INCOME (LOSS) FROM OPERATIONS	5,188,377	(5,284,020)
OTHER INCOME (EXPENSE)		
Interest income	15	797
Interest expense	(3,106,554)	(537,725)
Foreign currency exchange loss	(172,463)	(16,919)
TOTAL OTHER EXPENSE	<u>(3,279,002)</u>	<u>(553,847)</u>
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF AFFILIATE AND FOREIGN INCOME TAX EXPENSE	1,909,375	(5,837,867)
EQUITY IN EARNINGS OF AFFILIATE	334,275	158,164
FOREIGN INCOME TAX EXPENSE	<u>(673,621)</u>	<u>(5,671)</u>
NET INCOME (LOSS)	<u>\$ 1,570,029</u>	<u>\$ (5,685,374)</u>
INCOME (LOSS) PER SHARE:		
Basic and diluted	<u>\$ 0.01</u>	<u>\$ (0.05)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic and diluted	<u>127,989,977</u>	<u>123,067,286</u>

See Notes to Consolidated Financial Statements.

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at January 1, 2014	123,067,286	\$ 123,067,286	\$ 67,073,189	\$ (1,500)	\$ (18,939,879)	\$ 171,199,096
Common stock issued	4,922,691	4,922,691	4,922,691	-	-	9,845,382
Stock issuance costs	-	-	(315,969)	-	-	(315,969)
Stock compensation expense	-	-	238,557	-	-	238,557
Net loss	-	-	-	-	(1,822,747)	(1,822,747)
Balance at December 31, 2014	127,989,977	127,989,977	71,918,468	(1,500)	(20,762,626)	179,144,319
Stock compensation expense	-	-	21,421	-	-	21,421
Net income	-	-	-	-	1,570,029	1,570,029
Balance at March 31, 2015	<u>127,989,977</u>	<u>\$ 127,989,977</u>	<u>\$ 71,939,889</u>	<u>\$ (1,500)</u>	<u>\$ (19,192,597)</u>	<u>\$ 180,735,769</u>

See Notes to Consolidated Financial Statements.

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

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 1,570,029	\$ (5,685,374)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in earnings of affiliate	(334,275)	(158,164)
Depreciation and amortization expense	3,264,073	540,363
Stock compensation expense	21,421	109,053
Amortization of debt issue costs	513,848	537,725
Changes in operating assets and liabilities:		
Accounts receivable	(23,258)	(24,202,750)
Prepaid expenses and other assets	(433,228)	(895,141)
Accounts payable	(2,317,704)	(4,582,187)
Other accrued liabilities	(2,336,731)	(3,381,742)
Deferred revenue	(3,010,450)	22,381,747
NET CASH USED IN OPERATING ACTIVITIES	<u>(3,086,275)</u>	<u>(15,336,470)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for construction in progress	(5,409,944)	(19,357,311)
Cash paid for capital expenditures related to drilling rig and equipment	(1,191,268)	-
Cash paid for furniture, equipment and leasehold improvements	(136,511)	(122,031)
Change in restricted cash	391,293	(3,300,475)
NET CASH USED IN INVESTING ACTIVITIES	<u>(6,346,430)</u>	<u>(22,779,817)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from issuance of common stock, net of issuance costs	-	(22,798)
Cash paid for retirement of debt	(1,472,222)	-
Cash (paid) recieved for commitment and other debt related fees	(299,504)	173,052
Cash paid for other assets	-	(612,920)
NET CASH USED IN FINANCING ACTIVITIES	<u>(1,771,726)</u>	<u>(462,666)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,204,431)	(38,578,953)
CASH AND CASH EQUIVALENTS, beginning of period	<u>40,093,073</u>	<u>57,927,336</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 28,888,642</u>	<u>\$ 19,348,383</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 3,469,362</u>	<u>\$ 537,725</u>
Cash paid for income taxes	<u>\$ 673,621</u>	<u>\$ 5,671</u>

See Notes to Consolidated Financial Statements.

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED MARCH 31, 2015

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 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 Petróleo Brasileiro S.A. (“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 drilling rig, 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. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2014 and 2013.

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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, except for the Senior Secured Bonds, 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. The fair value of the Senior Secured Bonds at March 31, 2015 was approximately \$111.8 million based on quoted market prices.

Revenue: Contract drilling revenue is recognized as services are performed based on contracted day-rates and the number of operating days during the period. On March 19, 2014, *BassDrill Beta* went under contract with Petrobras at a waiting rate given that the Petrobras Tension Leg Platform ("TLP") was not yet ready to commence drilling operations. In December 2014, the TLP was completed and the *BassDrill Beta* began billing at the operating rate.

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. The costs of such capital improvements are capitalized and depreciated over the useful lives of the assets.

For the three months ended March 31, 2015 and the year ended December 31, 2014, the Company received \$0 and \$24.5 million, respectively, in deferred revenue related to mobilization fees, and recognized \$3.0 million and \$0.4 million of mobilization revenue for the three months ended March 31, 2015 and 2014, respectively.

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.

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 E). 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

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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 was no impairment for the three months ended March 31, 2015 or 2014.

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 \$350.0 Million Senior Secured Term Loan (see Note F) requires the Company to maintain a debt service account, into which one-third of the next quarterly interest and installment payment is to be paid each month.

The Senior Secured Bonds, whose terms were amended and restated in September 2014 (see Note F), requires the Company to maintain a debt service account into which one-third of the next quarterly interest payment is to be paid each month.

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable - trade 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. During the three months ended March 31, 2015 and 2014, the Company recorded no bad debt expense. No allowance for doubtful accounts was recorded by the Company at March 31, 2015 and December 31, 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 months ended March 31, 2015 and 2014, 97% and 67%, respectively, of the Company's revenues were generated from Petrobras.

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 statement of operations.

Property and Equipment: Property and equipment is carried at cost less accumulated depreciation. The Company capitalizes expenditures for renewals, replacements and improvements, and expenses costs of maintenance and repairs as incurred. 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 \$3.3 million and \$0.5 million, for the three months ended March 31, 2015 and 2014, 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 - 5 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

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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 2013, the Company, through its wholly-owned subsidiary BassDrill Beta Ltd., issued \$75 million in Senior Secured Bonds (see Note F). In connection with the bond issuance, the Company paid \$2.6 million in debt issuance costs. In September 2014, the Company amended and restated the terms of the existing \$75 million Senior Secured Bonds and issued an additional \$75 million of Senior Secured Bonds (see Note F). In connection with the amendment and the supplemental bond issuance, the Company incurred an additional \$8.1 million in debt issuance costs in 2014. Amortization of such amounts and other related financing costs for the three months ended March 31, 2015 and 2014 totaled \$0.5 million and \$0.1 million, respectively, (\$0.2 million and \$0.1 million of which qualified for capitalization for the three months ended March 31, 2015 and 2014, respectively, see *Capitalized Interest* below).

In November 2013, the Company entered into a \$125 million Senior Secured Term Loan Facility Agreement (see Note G). In connection therewith the Company incurred \$3.5 million in debt issuance costs. Amortization of such amounts and other related financing costs for the three months ended March 31, 2014 totaled \$0.2 million (\$0.1 million of which qualified for capitalization for the three months ended March 31, 2014, see *Capitalized Interest* below). In October 2014, this loan was repaid with the proceeds from the additional \$75 million of Senior Secured Bonds (discussed above and in Note F) and proceeds from the new \$350 million Senior Secured Term Loan (discussed below and in Note F).

In November 2014, the Company entered into a \$350.0 million Senior Secured Term Loan Facility Agreement (see Note F). In connection therewith the Company incurred \$6.5 million in debt issuance costs. Amortization of such amounts and other related financing costs for the three months ended March 31, 2015 totaled \$0.3 million (\$0.1 million of which qualified for capitalization for the three months ended March 31, 2015).

Capitalized Interest: Interest expenses, excluding commitment fees, 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, the capitalization rate applied to such expenditures is a weighted average of the rates applicable to other borrowings of the Company.

Commitment fees associated with the Gamma and Delta Tranches for the \$350.0 Million Senior Term Loan (discussed below in Note F) are considered exclusively related to the *Atlantica Gamma* and *Atlantica Delta* and fully capitalized to each asset. For the three months ended March 31, 2015, the Company capitalized \$1.0 million for commitment fees directly associated with the *Atlantica Gamma* and *Atlantica Delta* assets.

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. The Company recorded no impairment for the three months ended March 31, 2015 and 2014.

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Income Taxes: The Company is 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 three months ended March 31, 2015 and 2014. Consequently, the Company has provided income taxes based on the laws and rates in effect in the countries in which operations are conducted, or in which the Company and/or its subsidiaries are considered resident for income tax purposes. The Company operates in multiple countries under different legal forms. As a result, the Company is subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. The Company's 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 the Company's level of operations or profitability in each tax jurisdiction could have an impact upon the amount of income taxes that the Company provides 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.

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.

Reclassifications: Certain reclassifications have been made to prior period consolidated financial statements to conform current period presentations. These reclassifications had no effect on the Company's consolidated financial position, results of operations or cash flows.

Subsequent Events: The Company evaluated all activity through June 12, 2015, the date the consolidated financial statements were available for issuance, and concluded that no subsequent events, other than those already disclosed, have occurred that would require recognition on the consolidated financial statements or disclosures in the notes to the consolidated financial statements.

ATLANTICA TENDER DRILLING LTD. & SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	(Unaudited)	
Drilling rig and equipment	\$ 299,677,838	\$ 298,486,570
Leasehold Improvements	125,849	109,999
Office furniture, fixtures, and equipment	157,821	157,821
Computer hardware and software	718,336	597,675
Vehicles	181,261	181,261
	<u>300,861,105</u>	<u>299,533,326</u>
Less: accumulated depreciation	<u>14,234,193</u>	<u>10,970,120</u>
	286,626,912	288,563,206
Construction in progress	<u>78,968,975</u>	<u>73,260,282</u>
Total property and equipment	<u>\$ 365,595,887</u>	<u>\$ 361,823,488</u>

In March 2014, the commissioning of *BassDrill Beta* was completed and operations of the rig commenced offshore Brazil. Accordingly, the related *BassDrill Beta* costs in construction in progress were transferred to drilling rig and equipment, and the asset was subject to depreciation expense. The Company, however, is still incurring costs on *BassDrill Beta* to complete work that was not completed prior to leaving the shipyard. At March 31, 2015 and December 31, 2014, construction in progress related to two tender assist drilling rigs, *Atlantica Gamma*, a flat bottom barge, and *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:

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Interest cost capitalized	\$ 2,504,906	\$ 5,297,293
Interest cost expensed	<u>3,106,554</u>	<u>537,725</u>
Total interest cost incurred	<u>\$ 5,611,460</u>	<u>\$ 5,835,018</u>

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NOTE E – EQUITY INVESTMENT IN AFFILIATE

The Company's ownership share in BDA is 25.26%. BDA is a Bermuda-based vessel owning company in the business of providing offshore tender assist drilling units to the offshore market.

Condensed balance sheet information for BDA is as follows:

	March 31, 2015	December 31, 2014
Current assets	\$ 11,638,029	\$ 19,138,987
Property and equipment, net	82,206,386	82,351,753
Other assets	<u>14,864,950</u>	<u>7,116,721</u>
Total assets	<u>\$ 108,709,365</u>	<u>\$ 108,607,461</u>
Current liabilities	\$ 11,398,085	\$ 11,231,679
Long-term liabilities	73,533,750	74,921,250
Stockholders' equity	<u>23,777,530</u>	<u>22,454,532</u>
Total liabilities and stockholders' equity	<u>\$ 108,709,365</u>	<u>\$ 108,607,461</u>

Condensed statement of operations information for BDA is as follows:

	Three Months Ended March 31,	
	2015	2014
Operating revenues	\$ 10,916,944	\$ 10,993,435
Costs and expenses	<u>(6,822,730)</u>	<u>(7,431,841)</u>
Income from operations	4,094,214	3,561,594
Other expense, primarily interest	<u>(1,772,155)</u>	<u>(1,874,465)</u>
Income before income tax expense	2,322,059	1,687,129
Foreign income tax expense	<u>(999,061)</u>	<u>(1,060,987)</u>
Net income	<u>\$ 1,322,998</u>	<u>\$ 626,142</u>

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NOTE F - FINANCING ARRANGEMENTS

\$350.0 Million Senior Secured Term Loan

In October 2014, the Company entered into a \$350.0 million Senior Secured Term Loan (“New Loan”), maturing in October 2019, collateralized by a first lien 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 tranches until March 31, 2016. The initial refinancing tranche of \$53.0 million (the “Beta Tranche”) was drawn down on October 6, 2014; the second tranche (the “Gamma Tranche”) of \$120.0 million is available upon delivery of Atlantica Gamma, and the third tranche (the “Delta Tranche”) of \$177.0 million will be available upon delivery of Atlantica Delta. The New Loan tranches bear interest at 3.25% (Beta and Delta Tranches) and 3.75% (Gamma Tranche) plus LIBOR, payable quarterly commencing January 2015. The Company 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 \$1.5 million to \$11.0 million commencing February 2015 with a balloon payment of \$180.0 million at final maturity, assuming all tranches are drawn. 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, increased by \$5.0 million following drawdown of the Gamma Tranche, increased by \$10.0 million following drawdown of the Delta Tranche and the higher \$30.0 million or 6% of the outstanding interest bearing debt if all tranches are drawn.

At March 31, 2015, the Company was in compliance with all financial covenants.

\$125.0 Million Senior Secured Term Loan

In May 2013, the Company, through its wholly-owned subsidiary BDB, entered into a \$125.0 million Senior Secured Term Loan (“Loan”), that was to mature in June 2018, collateralized by all credit rights arising from *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. The Loan bore interest at 4.25% plus LIBOR, payable quarterly commencing February 2014. BDB entered into a swap agreement fixing LIBOR at 0.845% for \$100.0 million, for a period of three years that commenced November 2013. The Loan required quarterly principal payments of \$4.1 million commencing May 2014 with a balloon payment of \$54.7 million at final maturity.

On October 6, 2014, BDB repaid the Loan with the proceeds from the issuance of an additional \$75.0 million of Senior Secured Bonds (see *Senior Secured Bonds* below) and an initial drawdown of \$53.0 million on the New Loan as discussed above.

Senior Secured Bonds

In April 2013, the Company issued \$75.0 million 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.

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On September 23, 2014, the Company issued an additional \$75.0 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 holders of the Bonds agreed to amend and restate the bond agreement to be consistent with the bond agreement of the New Bonds. The New Bonds bear interest at 8.0%, with quarterly interest payments that commenced December 23, 2014, and principal due at maturity. The New Bonds are 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, increased by \$5.0 million following drawdown of the Gamma tranche, increased by \$10.0 million following drawdown of the Delta tranche, and the higher of \$30.0 million or 6% of the outstanding interest bearing debt if all tranches are drawn
- 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.

At March 31, 2015, the Company was in compliance with all financial covenants.

NOTE G – STOCKHOLDERS’ EQUITY

In November 2014, the Company issued 4,922,691 shares of common stock through a private placement for \$9,529,413, net of stock issuance costs, for the purposes of funding working capital and general corporate purposes.

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NOTE H – INCOME (LOSS) PER SHARE

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

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Numerator for income (loss) per share		
Net income (loss)	\$ 1,570,029	\$ (5,685,374)
Denominator for income (loss) per share		
Weighted-average shares outstanding	127,989,977	123,067,286
Effect of stock options *	<u>-</u>	<u>-</u>
Weighted-average shares for per share calculation	<u>127,989,977</u>	<u>123,067,286</u>
Per share income (loss) - basic and diluted	<u>\$ 0.01</u>	<u>\$ (0.05)</u>

* For the three months ended March 31, 2015 and 2014, 6,077,134 and 4,477,134 share based awards (see Note J), respectively, were excluded from the calculation since the effect would have been anti-dilutive.

NOTE I - COMMITMENTS AND CONTINGENCIES

Construction Obligations

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 \$124.0 million subject to adjustment in accordance with certain provisions. The Company made a 15% installment payment of \$18.6 million in October 2012; and the 2nd and final installment payment of \$105.4 million, plus any outstanding increase or minus any decrease due to adjustments, is due upon delivery, which is expected late 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 \$6.0 million.

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 \$212.0 million subject to adjustment with certain provisions. The Company made a 15% installment payment of \$31.8 million in April 2013 and the 2nd and final installment payment of \$180.2 million 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 \$9.0 million.

Other Commitments and Contingencies

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 December 31, 2015, there were no threatened or pending legal matters that would have a material impact on the Company’s consolidated financial statements.

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NOTE J - SHARE OPTION PLAN

The Atlantica Share Option Plan (the “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 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 and may be exercised up to five years after the grant date. The maximum number of shares authorized for awards of equity to share options was amended in 2015 to 6,484,000. The Company, at its discretion, may buy shares on the open market or use treasury shares to satisfy such exercised options, or it may settle the exercised options in a cash settlement.

The fair value of share options granted is recognized as operating expenses over the vesting period. During the three months ended March 31, 2015 and 2014, approximately \$21,000 and \$86,000, 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 following is an analysis of stock options issued and outstanding as of March 31, 2015:

	Number of Options	Weighted average exercise price per share
Outstanding at January 1, 2015	4,327,134	\$ 2.59
Granted	1,750,000	3.53
Outstanding at March 31, 2015	<u>6,077,134</u>	<u>\$ 2.88</u>

For accounting purposes, the fair value of the granted share options was estimated on the date of the grant using the Black Scholes option valuation model with the following weighted average assumptions:

	Three Months Ended <u>March 31, 2015</u>
Dividend yield	0.00%
Expected price volatility	27.92%
Risk-free interest rate	1.47%
Expected life of options (years)	5.00
Weighted average fair value of options granted	\$ 0.190

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 three months ended March 31, 2015 and 2014 were approximately \$49,000 and \$53,000, respectively.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 \$0.4 million for each of the three months ended March 31, 2015 and 2014, respectively. Additionally, AM earned a performance bonus of approximately \$0.1 million for each of the three months ended March 31, 2015 and 2014, 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*. In addition, the Company pays a commission of 1.25% of the revenue received from Petrobras. Fees and reimbursements for such services were approximately \$0.2 million and \$0.1 million for the three months ended March 31, 2015 and 2014, respectively.

The Company had the following receivable and payable balances with related parties:

	March 31, 2015	December 31, 2014
BDA	\$ 1,170,078	\$ 990,491
Employee receivable	109,028	122,100
Accounts receivable - related parties	<u>\$ 1,279,106</u>	<u>\$ 1,112,591</u>

	March 31, 2015	December 31, 2014
AXON Energy Products	\$ 139,121	\$ -
BassOff AS	(20,801)	-
BassInvest	6,147	-
Accounts payable - related parties	<u>\$ 124,467</u>	<u>\$ -</u>

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 *BassDrill Beta*. This loan earned interest at 0.5% and was to mature three days after AXON received payment in full from DSIC for the guideline winch skid AXON constructed for *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.

During 2015, the Company purchased products for the *BassDrill Beta* from AXON for \$0.5 million.

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NOTE M - RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

All of the Company's gross earnings from management and consulting fees are receivable in U.S. dollars, and the majority of its 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 is also exposed to changes in interest rates on floating interest rate debt. 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 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 interest rate swaps is to manage interest rate risk exposure on variable interest rate debt arrangements such as the New Loan and Loan debt arrangements (see Note F). The interest rate swap agreements effectively modify the Company's exposure to interest rate risk by converting a portion of the variable-rate debt to a fixed rate, thus reducing the impact of the interest rate changes on future interest expense. The Company has not designated these interest rate swaps as hedges and does not apply hedge accounting to its interest rate derivative instruments. At March 31, 2015 and December 31, 2014, the Company had an interest rate swap with a notional amount of \$53.0 million that effectively fixed the variable rate on the New Loan to approximately 1.36% through November 2018. At March 31, 2015 and December 31, 2014, the Company valued the interest rate swap as a liability of approximately \$96,000 and \$114,000, respectively.

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.