Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2015 and 2014

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ATLANTICA

From the Board of Directors:

Operations

Atlantica Tender Drilling Ltd. (“Atlantica” or the “Company”) was incorporated in Bermuda in 2008. The Company changed its name from BassDrill Ltd. in 2013. The Company’s objective is the construction, marketing, ownership and operations of Tender Assist Drilling Rigs (the “Unit(s)”) for the provision of services to major international independent and national oil and gas companies worldwide.

The Company’s operations are managed by Atlantica Management (USA), Inc., headquartered in Houston, Texas, and fully staffed to operate multiple units, undertake innovative engineering opportunities and market its services worldwide. Currently, the Company’s primary assets are the Units *BassDrill Beta* and *Atlantica Delta*. The Company has a management agreement with BassDrill Alpha Ltd. (“BDA”), a 25.26% owned unconsolidated affiliate of Atlantica Tender Drilling Ltd., for the management, marketing and operation of their flat-bottom tender assist drilling unit, *BassDrill Alpha*.

BassDrill Beta Unit. In September 2010, the Company entered into an agreement with Petróleo Brasileiro S.A. (“Petrobras”) for the provision of a state-of-the-art semi-submersible tender assist unit, *BassDrill Beta*, for commencement of operations offshore Brazil in late Q1 2013, originally for a 945 day drilling contract. In Q1 2012 Petrobras approached the Company with a request for a Variation Order which via an amendment to the Contract with Petrobras, required significant upgrades to the Unit at a cost of approximately $47 million and several months of additional construction time, moving the anticipated delivery of the Unit from the Shipyard to late August 2013. As part of the amendment, the duration of the contract was extended to 1,500 days.

BassDrill Beta was delivered by the builder, Dalian Shipyard Industry Offshore Co. Inc. (“DSIOC”) in Dalian, China, in November 2013. *BassDrill Beta* incorporates all the latest operational, safety and environmental features and was the first of its kind working alongside a Tension Leg Platform (“TLP”) offshore Brazil. After undertaking some remedial work to its mast at the quay side in Rio de Janeiro, the rig commenced the Petrobras contract on March 19, 2014. Due to technical issues with the TLP and delays in the lifting and assembly process due to metocean conditions in the South Atlantic, the *BassDrill Beta* did not commence well operations until December 8, 2014.

During the startup and early drilling phase, *BassDrill Beta* incurred higher than expected costs and lower than planned utilization rates due to operational adjustments and remedial work. However, in the second half of 2015, and particularly from Q4 onwards, revenue operating efficiencies and operating expenses were steady and in line with expectations.

Recently Petrobras advised the Company that it will undertake a detail reservoir study of the Papa-Terra field, as the oil production has been below expectations. Petrobras intends to suspend drilling for six to nine months to perform a reservoir study of the field, and thereafter, conceivably, also re-evaluate and adjust its drilling strategy in accordance with any findings and determinations from the reservoir study. Petrobras has proposed that the rig essentially be warm-stacked offshore in its current location near the TLP and operate under a stand-by rate until the reservoir remodeling and its impact to the drilling program are complete. The Company expects a final agreement to be in place in mid-2016 with reduction in revenue rates offset by reductions in operating expenses during the re-evaluation period.

Atlantica Delta Unit. In April 2013 the Company's wholly-owned subsidiary, Atlantica Delta Ltd., entered into a contract with Total E&P Congo ("Total") for the provision of a new build semi-submersible tender assist rig for a 17 well contract offshore of the Republic of Congo. This development project will be undertaken in a deep water environment with the mast equipment package ("MEP") being positioned on a newly constructed TLP. This project is similar in nature to the *BassDrill Beta* project with Petrobras and has a primary duration of approximately 44 months and five extension options for an estimated additional 25 months. For this purpose, the Company entered into a turnkey contract with DSIOC in China for the construction of the rig *Atlantica Delta*. The *Atlantica Delta* is a sister vessel to the *BassDrill Beta,* however, with increased power generation, more accommodation capacity, as well as other safety and operational enhancements. The operator, Total, has elected to upgrade the mooring system as well as initiate other enhancements which they have deemed necessary to their drilling program. It should be noted that the MEP for Delta is particular to Total's requirements due to the design of the TLP. The *Atlantica Delta* was delivered on schedule in China in December 2015 and arrived in the Congo in January 2016. At the end of January, the rig was deemed operational and commenced earning the standby rate under the contract while it awaits the completion of Total's TLP, which is expected to occur mid-year 2016.

Atlantica Gamma Unit. In October 2012 the Company's wholly-owned subsidiary, Atlantica Gamma Ltd., entered into a contract with Dalian Shipbuilding Industry Offshore Co. Ltd. and Dalian Shipbuilding Industry Corporation (together "DSIC") for the construction of a flat bottom heavy tender assist unit, the *Atlantica Gamma*, for delivery in Q2 2014. The *Atlantica Gamma* was to be a state-of-the-art tender barge with approximately 30% more drilling capacity than the *BassDrill Alpha*. It was designed for deep and extended reach well operations and included a number of safety and efficiency enhancements attractive to most operators.

In Q4 2014, due to the delay in the delivery of the MEP from the United States, the Company negotiated with DSIC a deferred delivery of the *Atlantica Gamma,* which permitted the Company, following technical acceptance, to take delivery of the completed unit anytime – entirely at the Company's discretion – between July 2015 and the end of March 2016.

In January 2016, the Company submitted a notice to cancel *Atlantica Gamma* and submitted a claim requesting the refund of the $18.6 million down payment made to the shipyard in 2012. In March 2016, DSIC cancelled the *Atlantica Gamma* construction contract citing breach of contract by the Company. The Company expects the matter to be settled in arbitration as required by the construction contract terms.

BassDrill Alpha Unit. *BassDrill Alpha* is a medium depth tender barge delivered in early 2010 with contemporary features and attributes. The *BassDrill Alpha* was built by Lamprell in the United Arab Emirates on a proprietary design developed and owned by Bassoe Technology AB, Sweden. The *BassDrill Alpha* offers a unique configuration with its main crane on the bow of the vessel as opposed to the mid-ship design of the competitors' fleets. The bow-mounted crane offers a more cost-effective anchoring and rig up/rig down cycle to the customer.

BassDrill Alpha operated offshore the Republic of Congo from Q4 2010 to Q2 2015 under contracts with Perenco and Total. Due to the deteriorating market development worldwide for oil and gas, Total elected to terminate the contract in May 2015. Currently, the rig is warm stacked offshore the Congo while it is being marketed both in the area and to operators worldwide.

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Financing

In September and October of 2014, the Company completed a refinancing that included (i) the amendment of the Senior Secured Bonds to, among other things, lower the interest rate from 8.5% to 8.0%, extend the maturity until September 2019, and change the collateralized assets; (ii) the issuance of an additional $75.0 million in Senior Secured Bonds for the refinancing of the *BassDrill Beta* rig; (iii) the issuance of the $350.0 million Senior Secured Loan (the "Loan") to provide a $53.0 million refinancing of the *BassDrill Beta* rig, provide future financing of $120.0 million for the *Atlantica Gamma* rig, and provide future financing of $177.0 million for the *Atlantica Delta* rig; and (iv) the retirement of the $125.0 million Senior Secured Term Loan. In December 2015, the Company drew down the $177.0 million on the Loan for the delivery of the *Atlantica Delta* rig. In January 2016, the Company cancelled the *Atlantica Gamma* rig, which, i.a., also cancelled the availability of the $120 million Gamma tranche of the Senior Secured Loan. The financing of all current rigs is complete.

In September 2015, to accommodate further equity injection in the Company, the Company increased the number of authorized shares to 310,000,000 shares and reduced the par value of its common stock to $0.10 per share.

In September 2015, the Company fully subscribed an equity raise through a private placement of 13,333,332 shares of common stock with proceeds of $39.2 million, net of issuance costs, for the purpose of partially financing the take-out of *Atlantica Delta* from the shipyard, strengthening the Company's working capital and for general corporate purposes. Post issuance of the new shares, the largest shareholder in the Company remains HitecVision Asset Solutions LP, through its fund HVAS Invest Zeta AS, with ownership of 63.9% of the Company's outstanding shares.

Currently, the Company's Board of Directors is comprised of:

- Helge Haakonsen, Chairman
- Pål Reiulf Olsen, Deputy Chairman
- Erland P. Bassøe

The Company's total number of shares outstanding at December 31, 2015 is 261,323,309 (par value $0.10 per share).

Please refer to the attached audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

Market Outlook

The overriding depressed market sentiment is expected to prevail throughout 2016 following a well-publicized reduction in E & P capital spending for both majors and independents. Growth in opportunities for deep water drilling contracts is expected to be limited and slow to develop from any immediate oil price recovery. However, the Company's rigs are under long-term contracts through the Q2 2018 and beginning of 2020 with an option to extend. Over the next few years as the industry recovers and the Company's rigs become available for new contracts, it is expected that growth will be from short cycle investment projects like shallow water drilling in new formations and in work over and re-drilling projects in existing fields. The Company believes that the tender assist drilling segment will reap the benefits in the earlier stages of the industry recovery as E & P companies focus on development drilling. Furthermore, the Company's rigs are less than six years old and utilization for units less than 10 years old is presently 90%. In addition, fleet replacement in the barge portion of the market remains a requirement as operators look for the most modern, safe and efficient units possible. There are four barges with an age of 30 years or more, of which three have been slated for scrapping. Unlike other rig sectors, the tender market is not overbuilt or over supplied with new builds on speculation.

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Following the mobilization of *BassDrill Beta* to Brazil, we envision a geographical expansion of the semi-submersible tender market outside of the traditional equatorial waters (10 degrees either side of the equator). This could well lead to a measurable increase in demand for semi-submersible tenders for use with both bottom supported (fixed) platforms as well as deep water development using spars and TLP. The *BassDrill Beta* and *Atlantica Delta* are designed to work in more challenging metocean conditions compared to the existing semi-submersible tenders in use today. This will also promote the broader use of a new generation of semi-submersible tenders.

Hamilton, Bermuda May 19, 2016

The Board of Directors of Atlantica Tender Drilling Ltd.

H. Haakonsen

H. HAAKONSEN
CHAIRMAN

Contents

	Page
Independent Auditor's Report	3
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2015 and 2014	5 - 6
Consolidated Statements of Operations for the Years Ended December 31, 2015 and 2014	7
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2015 and 2014	8
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015 and 2014	9
Notes to Consolidated Financial Statements	10 - 27

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Independent Auditor's Report

To the Stockholders of
Atlantica Tender Drilling Ltd. & Subsidiaries
Bermuda

We have audited the accompanying consolidated financial statements of Atlantica Tender Drilling Ltd. & Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantica Tender Drilling Ltd. & Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the presentation of debt issuance costs as of December 31, 2015 due to the early adoption of Accounting Standards Update (ASU) 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.

BDO USA, LLP

May 20, 2016

Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 31,552,914	$ 40,093,073
Restricted cash	1,657,014	2,035,207
Accounts receivable	38,054,827	7,013,346
Accounts receivable - related parties	633,988	1,112,591
Note receivable - related parties	1,150,158	2,144,372
Prepaid and other current assets	3,879,210	1,683,833
Total Current Assets	76,928,111	54,082,422
Property and Equipment, Net	543,703,734	361,823,488
Equity Investment	6,069,757	5,615,249
Other Assets	18,733,627	194,855
Total Assets	$ 645,435,229	$ 421,716,014

See Notes to Consolidated Financial Statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,	2015	2014
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 5,698,824	$ 7,321,164
Accounts payable - related party	288,237	255,410
Accrued liabilities	13,570,070	6,723,661
Current portion of long-term debt	20,638,888	5,888,888
Deferred revenue - current	19,231,335	12,209,048
Total Current Liabilities	59,427,354	32,398,171
Long-Term Liabilities		
Deferred revenue - non-current	39,543,561	28,365,130
Long-term debt, net	341,520,848	181,808,394
Total Long-Term Liabilities	381,064,409	210,173,524
Total Liabilities	440,491,763	242,571,695
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock, $0.10 par value, 310,000,000 and 185,778,368 shares authorized at December 31, 2015 and 2014, respectively; and 261,323,309 and 127,989,977 shares issued and outstanding at December 31, 2015 and 2014, respectively	26,132,331	12,798,998
Additional paid-in capital	213,122,668	187,109,447
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(34,310,033)	(20,762,626)
Total Stockholders' Equity	204,943,466	179,144,319
Total Liabilities and Stockholders' Equity	$ 645,435,229	$ 421,716,014

See Notes to Consolidated Financial Statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Income

Year Ended December 31,	2015	2014
Revenues		
Contract drilling	$ 66,033,410	$ 57,629,360
Mobilization	12,209,048	9,349,870
Management fees	2,054,801	2,271,244
Total Revenues	80,297,259	69,250,474
Operating Expenses		
Operating	45,350,526	48,744,853
Depreciation and amortization	13,069,609	10,535,524
Loss on cancellation of construction contract	22,286,619	-
Total Operating Expenses	80,706,754	59,280,377
Income (Loss) from Operations	(409,495)	9,970,097
Other Income (Expense)		
Interest income	5,800	200,732
Interest expense	(10,681,395)	(8,462,563)
Loss on early extinguishment of debt	-	(2,796,828)
Foreign currency exchange gain (loss)	(478,555)	21,697
Total Other Expense	(11,154,150)	(11,036,962)
Loss Before Equity in Earnings of Affiliate and Foreign Income Tax Expense	(11,563,645)	(1,066,865)
Equity in Earnings of Affiliate	454,508	960,650
Foreign Income Tax Expense	(2,438,270)	(1,716,532)
Net Loss	$ (13,547,407)	$ (1,822,747)
Loss Per Share		
Basic and diluted	$ (0.08)	$ (0.01)
Weighted Average Shares Outstanding		
Basic and diluted	161,962,579	123,202,154

See Notes to Consolidated Financial Statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional			Total
	Shares	Amount	Paid-in Capital	Subscription Receivable	Accumulated Deficit	Stockholders' Equity
Balance at January 1, 2014	123,067,286	$ 12,306,729	$ 177,833,746	$ (1,500)	$ (18,939,879)	$ 171,199,096
Common stock issued	4,922,691	492,269	9,353,113	-	-	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	12,798,998	187,109,447	(1,500)	(20,762,626)	179,144,319
Common stock issued	133,333,332	13,333,333	26,666,667	-	-	40,000,000
Stock issuance costs	-	-	(800,089)	-	-	(800,089)
Stock compensation expense	-	-	146,643	-	-	146,643
Net loss	-	-	-	-	(13,547,407)	(13,547,407)
Balance at December 31, 2015	261,323,309	$ 26,132,331	$ 213,122,668	$ (1,500)	$ (34,310,033)	$ 204,943,466

See Notes to Consolidated Financial Statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	2015	2014
Cash Flows From Operating Activities		
Net loss	$ (13,547,407)	$ (1,822,747)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Equity in earnings of affiliate	(454,508)	(960,650)
Depreciation and amortization	13,069,609	10,535,524
Loss on cancellation of construction contract	22,286,619	-
Stock compensation expense	146,643	238,557
Amortization of debt issue costs	2,115,002	1,208,797
Loss on early extinguishment of debt	-	2,796,828
Changes in operating assets and liabilities:		
Accounts receivable	(1,184,219)	(6,849,918)
Accounts receivable - related parties	478,603	(490,536)
Prepaid expenses and other assets	(2,227,151)	(940,223)
Accounts payable	(1,622,340)	(1,447,711)
Accounts payable - related party	32,827	138,613
Accrued liabilities	6,846,409	2,989,025
Deferred revenue	(12,209,048)	15,114,199
Net Cash Provided By Operating Activities	13,731,039	20,509,758
Cash Flows From Investing Activities		
Capital expenditures for construction in progress	(228,333,784)	(40,918,800)
Capital expenditures for drilling rig and equipment, furniture, office equipment and leasehold improvements	(5,278,931)	(1,511,706)
Note receivable - affiliate	994,214	(750,000)
Net Cash Used In Investing Activities	(232,618,501)	(43,180,506)
Cash Flows from Financing Activities		
Cash received from issuance of common stock, net of issuance costs	39,199,911	9,529,413
Proceeds from long term debt	177,000,000	128,000,000
Payments on long term debt	(5,888,889)	(125,000,000)
Change in restricted cash	378,193	6,927,723
Debt issuance costs	(341,912)	(14,620,651)
Net Cash Provided By Financing Activities	210,347,303	4,836,485
Net Decrease In Cash and Cash Equivalents	(8,540,159)	(17,834,263)
Cash and Cash Equivalents - Beginning of Year	40,093,073	57,927,336
Cash and Cash Equivalents - End of Year	$ 31,552,914	$ 40,093,073
Supplemental Cash Flow Information		
Cash paid for interest	$ 17,963,220	$ 13,736,884
Cash paid for income taxes	2,396,446	1,716,532
Supplemental Non Cash Information		
Capitalization of interest to property and equipment	$ 11,797,401	$ 7,359,289
Deferred revenue billed and included in accounts receivable	30,409,766	-
Reclass from property and equipment to other assets for the refund from contract cancellation	18,599,625	-

See Notes to Consolidated Financial Statements.

1. Organization and Nature of Operations

Atlantica Tender Drilling Ltd. ("Atlantica" or the "Company") was incorporated in Bermuda in September 2008 and in April 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 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 in November 2013 and was placed into service on a drilling contract with Petróleo Brasileiro S.A. ("Petrobras") in March 2014; *Atlantica Delta*, owned by AD, which the Company took delivery in December 2015 and was placed into service on a drilling contract with Total Congo E&P ("Total") in January 2016; AM; and the Company's 25.26% equity investment in BassDrill Alpha Ltd. ("BDA").

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.

2. 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 the 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, liabilities, revenues and expenses and requires management to disclose contingent assets and liabilities at the date of the financial statements. While management believes current estimates are reasonable and appropriate, actual results could differ from those estimates.

Fair Value of Financial Instruments

Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*, establishes a common definition for fair value to be applied to existing GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

> *Level 1* – Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.
>
> *Level 2* - Other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
>
> *Level 3* – Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

The Company's fair value of financial instruments disclosure is based upon information available to management as of December 31, 2015 and 2014. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company's financial instruments consist mainly of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, interest rate swaps and long-term debt. The carrying values for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value, principally due to the short-term nature of these instruments. The carrying value of the Senior Secured Term Loan approximates fair value as the interest rate is re-determined regularly based on current interest rates. The fair value of the Senior Secured Bonds at December 31, 2015 was approximately $97.5 million based on quoted market prices, a Level 1 in the fair value hierarchy.

Revenue

Contract Drilling: Contract drilling revenue is recognized as services are performed based on contracted day-rates and the number of operating days during the period. These revenues are netted for commissions based on a percentage of the contract drilling revenue.

Mobilization: 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 capital improvements are capitalized and depreciated over the useful lives of the assets.

Management Fees: 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.

Equity Investment

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, but not control of BDA's operations and financial affairs (see Note 5). Under the equity method of accounting, the Company's proportionate share of BDA's income or loss is reported in the consolidated statements of operations.

The Company analyzes its investment in 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 years ended December 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 Senior Secured Term Loan and Senior Secured Bonds (see Note 6) 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.

Accounts Receivable and Allowance for Doubtful Accounts

The Company's revenue and related customer receivables are generated from services to international oil companies and government-owned or government-controlled companies. The Company does not require collateral or other security to support customer receivables.

The Company establishes an allowance for doubtful accounts on a specific identification method, considering changes in the financial position of a customer, when the Company believes the payment of a receivable is unlikely to occur. There was no allowance for doubtful accounts at December 31, 2015 and 2014.

Accounts receivable also includes accrued receivables which are estimates of the Company's contract drilling revenue for the period but unbilled at period end. At December 31, 2015 and 2014, accounts receivable included $1.5 million and $6.6 million, respectively, of accrued receivables.

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 years ended December 31, 2015 and 2014, 98% and 96%, 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 and cash equivalents 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 and cash equivalents balances are maintained in foreign banks, which are not covered by deposit insurance. The Company has not experienced any losses on its cash and cash equivalents.

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 and amortization. The Company capitalizes expenditures for renewals, replacements and improvements, and expenses costs of maintenance and repairs as incurred. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense was $13.1 million and $10.5 million for the years ended December 31, 2015 and, 2014, respectively. The estimated useful lives, in years, are defined below:

Drilling rigs and equipment:	
Barge and related marine equipment	30 years
Mast equipment package, spare parts and related equipment	4 - 15 years
Leasehold improvements	Remaining life of lease
Furniture and office equipment	3 - 5 years
Computer hardware and software	3 years
Vehicles	5 years

Construction in Progress and Capital Spares

The carrying value of the rigs under construction (*Atlantica Delta* at December 31, 2015 and *Atlantica Gamma* and *Atlantica Delta* at December 31, 2014) 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 is completed, and the vessel is ready for its intended use.

Capital spares are not subject to depreciation until put into use on the rig.

Capitalized Interest

Interest expenses, excluding commitment fees, are capitalized during construction of the rigs 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 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 tranches for *Atlantica Gamma* and *Atlantica Delta* under the Senior Term Loan (discussed below in Note 6) are considered exclusively related to *Atlantica Gamma* and *Atlantica Delta* and fully capitalized to each asset. For the years ended December 31, 2015 and 2014, the Company capitalized $4.0 million and $1.1 million, respectively, for commitment fees directly associated *Atlantica Gamma* and *Atlantica Delta*.

Impairment of Long-lived Assets

Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset in accordance with ASC 360, *Property, Plant and Equipment*. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including undiscounted cash flow models, quoted market values and third party appraisals, as considered necessary. Due to declining oil and gas prices during 2015 and 2014, the Company assessed the recoverability of the carrying value of *BassDrill Beta* and *Atlantica Delta*, and determined that no impairment was required for the years ended December 31, 2015 and 2014.

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 years ended December 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 and or/or its subsidiaries 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, actual income before taxes, deemed profits (which are generally determined by applying a tax rate to revenues rather than profits) and 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.

The Company's subsidiary, AM, is a U.S. tax paying entity and has cumulative net operating losses ("NOL") of $0.2 million and $0.6 million at December 31, 2015 and 2014, respectively, which expire in 2033. Management has provided a full valuation against these NOLs as it is uncertain that the Company will realize the deferred tax asset in future years.

The Company follows guidance issued by the Financial Accounting Standards Board which clarifies accounting for uncertainty in income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

The Company believes that it has no uncertain income tax positions and that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within the next twelve months.

In accordance with this guidance, the Company will record income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no amounts recognized for income tax related interest and penalties in the statements of income for the years ended December 31, 2015 and 2014.

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 options to acquire shares in 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 vested.

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.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs,* which requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying value of the related debt liability. In 2015, the Company early adopted ASU 2015-03 and applied the new standard retrospectively for all periods presented. The effect of the reclassification of debt issuance costs on the consolidated balance sheet as of December 31, 2014 is presented below:

	Select Consolidated Balance Sheet Line Items December 31, 2014		
	Original Presentation	**Adopting Adjustment**	**Revised Presentation**
Deferred debt issue costs	$ 15,302,718	$ (15,302,718)	$ -
Total Assets	437,018,732	(15,302,718)	421,716,014
Long-term debt	197,111,112	(15,302,718)	181,808,394
Total Liabilities	257,874,413	(15,302,718)	242,571,695
Total Liabilities and Stockholders' Equity	437,018,732	(15,302,718)	421,716,014

3. Property and Equipment

Property and equipment consisted of the following:

December 31,	2015	2014
Drilling rig and equipment	$ 299,739,754	$ 298,486,570
Leasehold improvements	170,876	109,999
Furniture and office equipment	157,821	157,821
Computer hardware and software	785,897	597,675
Vehicles	181,261	181,261
	301,035,609	299,533,326
Less: accumulated depreciation and amortization	24,039,729	10,970,120
	276,995,880	288,563,206
Construction in progress	263,399,095	73,260,282
Inventory - capital spares	3,308,759	-
Property and equipment, net	$ 543,703,734	$ 361,823,488

Construction in Progress – *Atlantica Delta*. At December 31, 2015 and 2014, construction in progress included costs relating to *Atlantica Delta*, a semi-submersible rig, of $263.4 million and $42.9 million, respectively. In December 2015, the Company took delivery of the rig and paid the final installment payment of $183.5 million. As of December 31, 2015, the rig was in transit on a heavy-lift vessel to offshore Congo to commence a 17-well contract with Total. The rig arrived in the Congo and was deemed operational at the end of January 2016. The Company will commence depreciation of *Atlantica Delta* in the first quarter of 2016.

Construction in Progress – *Atlantica Gamma*. At December 31, 2015 and 2014, construction in progress included costs relating to *Atlantica Gamma*, a flat bottom barge, of $-0- million and $30.4 million, respectively. In October 2012, AG entered into a turn-key contract with Dalian Shipbuilding Industry Offshore Co. Ltd. and Dalian Shipbuilding Industry Corporation (together "DSIC" or the "Builder") for the construction of the tender support barge *Atlantica Gamma*. In January 2016, the Company cancelled the *Atlantica Gamma* construction contract with DSIC and submitted a request for the refund of the initial down payment associated with the rig. Prior to cancellation, the Company had total assets associated with the construction of *Atlantica Gamma* of $43.2 million. As a result of the cancellation, the Company impaired $22.3 million of construction in progress costs and reclassed $18.6 million to other assets for the refund of the down payment paid to DSIC, and reclassed $2.3 million of drillpipe to inventory – capital spares to be used in future operations.

4. Interest Cost

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

Year Ended December 31,	2015	2014
Interest cost capitalized	$ 11,797,401	$ 7,359,289
Interest cost expensed	10,681,395	8,462,563
Total interest cost incurred	$ 22,478,796	$ 15,821,852

5. Equity Investment

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. The BDA tender assist barge, *BassDrill Alpha*, was operating under a contract in West Africa. In May 2015, the contract was terminated early, and *BassDrill Alpha* is currently stacked while the Company markets the unit to other operators in West-Africa and Southeast Asia. As a result of the early termination, BDA recognized an early termination fee of $11.5 million in its operating revenues in the second quarter of 2015.

Condensed balance sheets for BDA are as follows:

December 31,	2015	2014
Current assets	$ 8,819,366	$ 19,138,987
Property and equipment, net	80,014,927	82,351,753
Other assets	5,362,649	5,278,570
Total assets	$ 94,196,942	$ 106,769,310
Current liabilities	$ 69,943,086	$ 11,231,679
Long-term liabilities	-	73,083,099
Stockholders' equity	24,253,856	22,454,532
Total liabilities and stockholders' equity	$ 94,196,942	$ 106,769,310

Condensed statements of income for BDA are as follows:

Year Ended December 31,	2015	2014
Operating revenues	$ 28,398,098	$ 45,240,767
Costs and expenses	19,543,067	29,412,837
Income from operations	8,855,031	15,827,930
Other expense, primarily interest	(4,411,429)	(7,571,809)
Income before income tax expense	4,443,602	8,256,121
Foreign income tax expense	(2,644,278)	(4,453,075)
Net income	$ 1,799,324	$ 3,803,046

6. Long-Term Debt

Long-term debt consisted of the following:

December 31,	2015	2014
$350.0 Million Senior Secured Term Loan	$ 224,111,111	$ 53,000,000
Senior Secured Bonds	150,000,000	150,000,000
Debt Issuance Costs	(11,951,375)	(15,302,718)
Total Long-Term Debt	362,159,736	187,697,282
Less Current Portion	(20,638,888)	(5,888,888)
Long-term debt, net	$ 341,520,848	$ 181,808,394

$350.0 Million 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 lien mortgage on *BassDrill Beta* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit rights arising from the Company's drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account. The New Loan amount was available for drawdown independently in up to three tranches up 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 was void upon the cancellation of the *Atlantica Gamma* in January 2016; and the third tranche (the "Delta tranche") of $177.0 million was drawn down on December 8, 2015 with the delivery of the *Atlantica Delta*. The New Loan tranches bear interest at 3.25% plus LIBOR, payable quarterly commencing January 2015.

In May 2016, the New Loan agreement was amended to, among other things, reflect the cancellation of the *Atlantica Gamma*, include a mandatory prepayment up to $9.3 million upon any refund of the down payment associated with the *Atlantica Gamma* and amend minimum liquidity and equity requirements as described below.

The Company entered into (i) a swap agreement fixing LIBOR at 1.36% for the Beta tranche of $53.0 million for a period of four years that commenced November 2014 and (ii) a swap agreement fixing LIBOR at 1.31% for $130.0 million of the Delta tranche for a period of seven years commencing February 2016. The New Loan requires quarterly principal payments ranging from $1,472,222 to $7,638,888 that commenced February 2015, with a balloon payment of $123,194,454 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 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 initially, and increased to $155,000,000 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 to the higher of $25.0 million or 6% of the outstanding interest bearing debt until the early payment of the New Loan upon any settlement of the down payment associated with the *Atlantica Gamma*, and thereafter the higher of $20.0 million or 6% of the outstanding interest bearing debt.

At December 31, 2015, the Company was in compliance with all financial covenants, except the interest cover ratio which the Company received a waiver of compliance from the lenders.

Senior Secured Bonds

In September 2014, the Company issued $75.0 million of Senior Secured Bonds (“Bonds”) maturing in April 2018 and collateralized by *BassDrill Beta*. The Bonds were subordinated to the Loan, discussed above, 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 $75.0 million of Senior Secured Bonds (“New Bonds”), maturing in September 2019 that is collateralized by *BassDrill Beta* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit rights arising from the Company’s drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account (see Restricted Cash in Note 2). Concurrent with the issuance of these New Bonds, the bondholders 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,initially, and increased to $130,000,000 following delivery of *Atlantica Delta* in December 2015
- Equity ratio of minimum 0.3 : 1.0

- Liquidity, measured as freely available and unencumbered cash, of $15.0 million following the initial drawdown, and increased to $20.0 million following drawdown of the Delta tranche under the New Loan
- 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 December 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 $125,000,000 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 (see Restricted Cash in Note 2). 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 $100,000,000, for a period of three years that commenced November 2013. The Loan required quarterly principal payments of $4,136,000 commencing May 2014.

On October 6, 2014, BDB repaid the Loan with the proceeds from the issuance of an additional $75.0 million of New Bonds as discussed above, and an initial drawdown of $53.0 million on the New Loan as discussed above. As a result, the Company recognized a loss on the early extinguishment of debt of $2.8 million for the year ended December 31, 2014, primarily associated with the balance of the debt issuance and other financing costs.

Deferred Financing Costs

In connection with the issuance of debt, the Company incurred $0.3 million and $14.5 million in debt issuance costs for the years ended December 31, 2015 and 2014, respectively. Amortization of such amounts and other related financing costs for the years ended December 31, 2015 and 2014 totaled $3.7 million and $2.0 million, respectively, ($1.6 million and $0.8 million of which qualified for capitalization in the years ended December 31, 2015 and 2014, respectively, see Capitalized Interest in Note 2).

Future Maturities of Long-term Debt

The above financing arrangements are payable in future years as follows:

Year Ending December 31,	
2016	$ 20,638,888
2017	26,805,554
2018	30,555,552
2019	296,111,117
	$ 374,111,111

7. Stockholders' Equity

In September 2015, to accommodate further equity injection in the Company, the Company increased the number of authorized shares to 310,000,000 shares and reduced the par value of its common stock to $0.10 per share. The change in par value was applied retrospectively to January 1, 2014 in the consolidated financial statements.

In September 2015, the Company fully subscribed an equity raise through a private placement of 13,333,332 shares of common stock with proceeds of $39.2 million, net of issuance costs, for the purpose of partially financing the take-out of *Atlantica Delta* from the shipyard, strengthening the Company's working capital and for general corporate purposes.

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.

8. Loss Per Share

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

Year Ended December 31,	2015	2014
Numerator for loss per share		
Net loss	$ (13,547,407)	$ (1,822,747)
Denominator for loss per share		
Weighted-average shares outstanding	161,962,579	123,202,154
Effect of stock options *	-	-
Weighted-average shares for per share calculation	161,962,579	123,202,154
Per share loss - basic and diluted	$ (0.08)	$ (0.01)

* For the years ended December 31, 2015 and 2014, all share based awards (see Note 10) were excluded from the calculation since the effect would have been anti-dilutive.

9. Commitments and Contingencies

Construction Obligations

In October 2012, AG entered into a turn-key contract with DSIC to design, engineer and construct a tender support barge (*Atlantica Gamma*) for a contract price of $124.0 million subject to adjustment in accordance with certain provisions. AG made a refundable 15% installment payment of $18.6 million in October 2012 with the final installment payment of $105.4 million, plus any adjustments, due upon delivery. The *Atlantica Gamma* was to be delivered on or before July 15, 2015 (the "Delivery Date"), and if the delivery was delayed beyond 180 days from the Delivery Date, absent any permissible delays as defined in the construction contract, AG was inter alia entitled to terminate the contract.

In January 2016, AG cancelled the contract and submitted a claim requesting the refund of the $18.6 million down payment made to the shipyard in 2012. DSIC refuted AG's cancellation of the contract and in March 2016 cancelled the construction contract citing breach of contract by the Company. The Company expects the matter to be settled in arbitration as required by the construction contract terms.

The Company believes AG had the right to cancel the construction contract and is entitled to the refund of $18.6 million for the down payment. However, there is the possibility that arbitration proceedings could favor the position of DSIC and that AG could lose its claim to the $18.6 million down payment and incur claims for damages representing the further loss alleged to have been suffered by DSIC on account of the cancellation of the construction contract.

As a result of the cancellation, the Company wrote-off construction in progress of $22.3 million and reclassified the 15% installment payment of $18.6 million from construction in progress to other assets on the consolidated balance sheets.

Lease Obligations

The Company has non-cancelable lease obligations, principally for office space in Houston and Brazil, office equipment, and real estate in Brazil. The lease obligations originally ranged from two to five years and expire at various dates between 2016 and 2018. Rent expense, including leases with terms of less than one year, was approximately $1.0 and $2.0 million for the years ended December 31, 2015 and 2014, respectively.

Future minimum non-cancelable lease payments are as follows:

Year Ending December 31,	
2016	$ 414,031
2017	349,464
2018	23,593
	$ 787,088

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.

10. 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 set at $1.706 per share adjusted upwards by 12% per annum from the date of grant until the date the option is exercised. Options granted under the plan will vest three years after the date of the grant and may be exercised up to five years after the grant date. The maximum number of shares authorized for awards of equity 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 years ended December 31, 2015 and 2014, $0.1 million and $0.2 million, 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 December 31, 2015 and 2014:

	Number of Options	Weighted Average Exercise Price Per Share *	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2014	4,477,134	$ 2.63	
Forfeited	(150,000)	2.87	
Outstanding at December 31, 2014	4,327,134	2.62	
Granted	1,750,000	3.53	
Outstanding at December 31, 2015	6,077,134	$ 2.88	
Vested and Exercisable at December 31, 2015	3,313,800	$ 2.54	0.3

* Stock options were granted with an exercise price based on a 12% escalation each year. The exercise prices presented in the table are based on the expected exercise price.

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 with the following weighted-average assumptions:

Year Ended December 31,		2015
Dividend yield		0.00%
Expected price volatility		27.92%
Risk-free interest rate		1.47%
Expected life of options (years)		5.0
Weighted average fair value of options granted	$	0.19

As of December 31, 2015, total unrecognized compensation costs related to all unvested share-based awards totaled $0.5 million, which is expected to be recognized as additional expense of $0.1 million each year from 2016 to 2019.

11. 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 years ended December 31, 2015 and 2014 were $0.2 million each period.

12. Related Party Transactions

The Company transacts business with the following related parties:

- BassInvest AS
- BDA
- AXON Energy Products, AXON Drilling Products, AXON Pressure Products ("AXON")
- HitecVision Advisory AS ("Hitec")
- Bassoe Offshore AS ("BassOff AS")
- Bassoe Offshore USA ("BassOff USA")

Management Fees. AM has a management services agreement with BDA to provide management services for the operation of BassDrill Alpha based on a daily rate. Additionally, AM is eligible for a performance bonus based upon BDA's earnings. Fees for such services were $2.1 million and $2.3 million for the years ended December 31, 2015 and 2014, respectively.

Congo Shared Services. AD has a shared services agreement with BDA in regards to certain shore-based costs in the Congo. For the year ended December 31, 2015 and 2014 fees for shared, shore-based costs billed from BDA to AD were $0.6 million and $-0- million, respectively.

Commission Fees. The Company pays a commission of 1.25% of the revenue received from Petrobras to Bassoe entities. Fees and reimbursements for such services were approximately $0.9 million and $0.8 million for the years ended December 31, 2015 and 2014, respectively.

Rig Services and Products. The Company received consulting services for the *Atlantica Delta* from Hitec of $33,000 and $42,000 for the years ended December 31, 2015 and 2014, respectively. The Company received products and services from AXON for the *BassDrill Beta* of $0.6 million and $0.2 million for the year ended December 31, 2015 and 2014, respectively.

AXON Note Receivable. In October 2013, the Company loaned AXON, a Company with common ownership, $1.4 million 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 Dalian Shipbuilding Industry Corporation 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 $2.2 million due December 31, 2015. In December 2015, AXON repaid approximately $1.0 million of the loan. Subsequent to this payment, the note was amended to bear interest of 5.0% per annum and extend the final payment of $1.2 no later than December 30, 2016.

Accounts Receivable and Accounts Payable. The Company had the following receivable and payable balances with related parties:

December 31,		**2015**		**2014**
BDA	$	506,479	$	990,491
Employees receivables		127,509		122,100
Accounts receivable - related parties	$	633,988	$	1,112,591

December 31,		**2015**		**2014**
AXON	$	68,344	$	104,565
Bassoe		216,026		150,845
Other		3,867		-
Accounts payable - related parties	$	288,237	$	255,410

13. 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 6). 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 December 31, 2015 and 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 December 31, 2015 and 2014, the Company valued the interest rate swap as a liability of approximately $132,000 and $114,000, respectively. The Company determined the fair value of the interest rate swap based on indirect market prices, and accordingly classified such fair value measurement as Level 2. Prior to the execution of the New Loan, the Company had an interest rate swap with a notional amount of $100,000,000 that effectively fixed the variable rate on the Loan to approximately 5.09%. In connection with the November 2014 refinancing referred to in Note 6, BDB settled this outstanding interest rate swap and the Company received a termination settlement of $198,700 as interest income in the Company's statement of operations for the year ended December 31, 2014.

14. Subsequent Events

The Company evaluated all activity through May 20, 2016, 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.

In April 2016, Mr. Kjell-Erik Østdahl resigned from the Board of Directors. The Company is currently evaluating candidates for his replacement.