Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

For the Years Ended December 31, 2016 and 2015

ATLANTICA

From the Board of Directors:

Operations

Atlantica Tender Drilling Ltd. ("Atlantica" or the "Company") was incorporated in Bermuda in 2008. The Company owns and operates a fleet 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 is headquartered in Houston, Texas. Currently, the Company's primary assets are the Units *BassDrill Beta* and *Atlantica Delta*, sister vessels designed to work in more challenging metocean conditions compared to the existing semi-submersible tender fleet. The Company has a management agreement with BassDrill Alpha Ltd. ("BDA"), a 51.8% indirectly-owned unconsolidated affiliate of the Company, for the management, marketing and operation of their flat-bottom tender assist drilling unit, *BassDrill Alpha*.

BassDrill Beta Unit. Delivered by Dalian Shipyard Industry Offshore Co. Inc. ("DSIOC") 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. *BassDrill Beta* is currently operating under a 1500 day contract - commencing March 19, 2014 - with Petróleo Brasileiro S.A. ("Petrobras"). During the latter part of 2016, *BassDrill Beta* operated under a special standby rate, a negotiated rate affording the client to benefit from lower costs incurred by *BassDrill Beta* whilst hibernating. At the time of writing *BassDrill Beta* is in the process of reconnecting to the TLP. The hibernation period is expected to continue until circa mid-year 2017 whereupon the *BassDrill Beta* will mobilize in anticipation of recommencing drilling operations.

Atlantica Delta Unit. *Atlantica Delta* commenced a contract with Total E&P Congo ("Total") January 31 2016, shortly following delivery in China. The contract has a primary duration of approximately 44 months and five extension options for an estimated additional 25 months. For the better part of 2016 *Atlantica Delta* operated on a standby rate, effectively acting as a supply vessel whilst awaiting delivery, completion and installation of Total's TLP. In mid-December, the *Atlantica Delta* commenced ordinary drilling operations. The *Atlantica Delta* has achieved high uptime and revenue efficiency since acceptance.

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. In January 2016, the Company submitted a notice to cancel *Atlantica Gamma* contract due to late delivery, and submitted a claim for the refund of the $18.6 million down payment made to the shipyard. In March 2016 DSIC cancelled the *Gamma* construction contract, citing breach of contract by the Company.

The dispute is currently in arbitration. A final hearing is scheduled for February 2018.

BassDrill Alpha Unit. *BassDrill Alpha* is a medium depth tender barge delivered from Lamprell in the UAE early 2010 with contemporary features and attributes. *BassDrill Alpha* operated offshore the Republic of Congo from Q4 2010 to Q2 2015 under contracts with Perenco and Total. Due to the deteriorating markets worldwide for oil and gas, Total elected to early terminate the contract in May 2015. The rig is currently warm stacked offshore the Congo while it is being marketed both in the area and to operators worldwide.

Financing

The financing of all current rigs is complete.

ATLANTICA

In late 2016 and early 2017, as part of the Company's ambition to continuously maximize shareholder value and returns, the Company resolved to act on market opportunities to acquire 9,124,045 shares of its own stock for $2.3 million and purchase $11.0 million (face value) of its own bonds for $7.2 million.

The Company's total number of shares outstanding at December 31, 2016 is 261,323,309 (par value $0.10 per share). The Company's largest shareholder is HitecVision Asset Solutions LP, through its fund HVAS Invest Zeta AS, owning 63.9% of the outstanding shares.

Please refer to the attached audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements for the years ended December 31, 2016 and 2015.

Market Outlook

While oil and gas prices recovered somewhat during 2016, volatility persists. Consequently, majors and independents have proven conservative in committing to new projects. The Company expects new opportunities for deep water drilling contracts to remain limited and slow to develop in response to continued oil price volatility.

However, the Company's rigs are under long-term contracts through Q2 2018 (*BassDrill Beta*) and early 2020 with an option to extend (*Atlantica Delta*). Atlantica expects that near-term growth will come 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 is likely to benefit in the earlier stages of any industry recovery as E&P companies focus on development drilling.

In an improved market, and in part following the deployment of *BassDrill Beta* to Brazil, the Company continues to 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 lead to a continual 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.

Hamilton, Bermuda May 15, 2017

H Haakonsen

The Board of Directors of Atlantica Tender Drilling Ltd.

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

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

For the Years Ended
December 31, 2016 and 2015

Atlantica Tender Drilling Ltd. & Subsidiaries

Contents

	Page
Independent Auditor's Report	3
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2016 and 2015	5 - 6
Consolidated Statements of Operations for the Years Ended December 31, 2016 and 2015	7
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2016 and 2015	8
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015	9 - 10
Notes to Consolidated Financial Statements	11 -28

Tel: 713-960-1706
Fax: 713-960-9549
www.bdo.com

2929 Allen Parkway, 20th Floor
Houston, TX 77019

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, 2016 and 2015, and the related consolidated statements of operations, changes in 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, 2016 and 2015, 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.

BDO USA, LLP

May 18, 2017

Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,		2016		2015
Assets				
Current Assets				
Cash and cash equivalents	$	33,274,144	$	31,552,914
Restricted cash		9,282,789		1,657,014
Accounts receivable		15,359,134		38,054,827
Accounts receivable - related parties		372,290		633,988
Note receivable, net - related party		800,000		1,150,158
Prepaid and other current assets		1,273,991		3,879,210
Total Current Assets		60,362,348		76,928,111
Property and Equipment, Net		544,794,487		543,703,734
Equity Method Investment		-		6,069,757
Long Term Deposits		18,599,625		18,599,625
Derivative		3,317,371		-
Other Assets		198,289		134,002
Total Assets	$	627,272,120	$	645,435,229

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,	2016	2015
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 6,020,590	$ 5,698,824
Accounts payable - related party	208,086	288,237
Accrued liabilities	10,527,654	13,438,070
Derivative	251,938	132,000
Current portion of long-term debt	26,805,556	20,638,888
Deferred revenue - current	20,112,714	19,231,335
Total Current Liabilities	63,926,538	59,427,354
Long-Term Liabilities		
Deferred revenue - non-current	21,887,712	39,543,561
Long-term debt, net	310,767,373	341,520,848
Other long-term liabilities	45,239	-
Total Long-Term Liabilities	332,700,324	381,064,409
Total Liabilities	396,626,862	440,491,763
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock, $0.10 par value, 310,000,000 shares authorized at December 31, 2016 and 2015, 261,323,309 shares issued at December 31, 2016 and 2015, and 252,199,264 and 261,323,309 shares outstanding at December 31, 2016 and 2015, respectively	26,132,331	26,132,331
Additional paid-in capital	213,203,452	213,122,668
Treasury stock (9,124,045 shares at cost)	(2,297,539)	-
Subscription receivable	(1,500)	(1,500)
Accumulated deficit	(6,391,486)	(34,310,033)
Total Stockholders' Equity	230,645,258	204,943,466
Total Liabilities and Stockholders' Equity	$ 627,272,120	$ 645,435,229

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Operations

Year Ended December 31,	2016	2015
Revenues		
Contract drilling	$ 131,872,675	$ 66,033,410
Amortization of deferred revenue	19,746,829	12,209,048
Management fees	1,098,122	2,054,801
Total Revenues	152,717,626	80,297,259
Operating Expenses		
Operating	66,067,697	45,350,526
Depreciation and amortization	25,794,811	13,069,609
Loss on cancellation of construction contract	174,207	22,286,619
Total Operating Expenses	92,036,715	80,706,754
Income (Loss) from Operations	60,680,911	(409,495)
Other Income (Expense)		
Interest income	200,643	5,800
Interest expense	(20,679,412)	(10,681,395)
Gain on reacquisition of debt	2,509,840	-
Bad debt expense - note receivable	(407,658)	-
Earnings/(Losses) of equity method investment	(2,315,849)	454,508
Impairment of equity method investment	(3,889,636)	-
Foreign currency loss	(196,600)	(478,555)
Other income	22,621	-
Total Other Expense	(24,756,051)	(10,699,642)
Income (Loss) Before Income Tax Expense	35,924,860	(11,109,137)
Income Tax Expense	(8,006,313)	(2,438,270)
Net Income (Loss)	$ 27,918,547	$ (13,547,407)
Net Income (Loss) Per Share		
Basic and diluted	$ 0.11	$ (0.08)
Weighted Average Common Shares Outstanding		
Basic and diluted	259,362,490	161,962,579

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Treasury Stock	Subscription Receivable	Accumulated Deficit	Total Stockholders' Equity
	Shares Issued	Amount					
Balance at January 1, 2015	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
Stock compensation expense	-	-	80,784		-	-	80,784
Acquisition of treasury stock	-	-	-	(2,297,539)	-	-	(2,297,539)
Net income	-	-	-		-	27,918,547	27,918,547
Balance at December 31, 2016	261,323,309	$ 26,132,331	$ 213,203,452	$ (2,297,539)	$ (1,500)	$ (6,391,486)	$ 230,645,258

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	2016	2015
Cash Flows From Operating Activities		
Net income (loss)	$ 27,918,547	$ (13,547,407)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in (earnings)/losses of affiliate	2,315,849	(454,508)
Impairment if equity investment	3,889,636	-
Depreciation and amortization	25,794,811	13,069,609
Loss on cancellation of construction contract	174,207	22,286,619
Stock compensation expense	80,784	146,643
Bad debt expense - note receivable	407,658	-
Gain on reacquisition of debt	(2,509,840)	-
Noncash interest expense, net	48,561	2,115,002
Other non-cash income	(22,621)	-
Amortization of deferred revenue	(19,746,829)	(12,209,048)
Changes in operating assets and liabilities:		
Accounts receivable	(5,751,968)	(1,184,219)
Accounts and note receivable - related parties	261,698	478,603
Prepaid expenses and other assets	2,516,725	(2,227,151)
Accounts payable	321,766	(1,622,340)
Accounts payable - related party	(80,151)	32,827
Accrued liabilities	(4,204,212)	6,846,409
Deferred revenue	32,584,545	-
Net Cash Provided By Operating Activities	63,999,166	13,731,039
Cash Flows From Investing Activities		
Capital expenditures for construction in progress	(5,148,769)	(228,333,784)
Capital expenditures for drilling rig and equipment, furniture, office equipment and leasehold improvements	(21,533,628)	(5,278,931)
Note receivable - affiliate	-	994,214
Net Cash Used In Investing Activities	(26,682,397)	(232,618,501)
Cash Flows from Financing Activities		
Proceeds from long term debt	-	177,000,000
Payments on long term debt	(20,638,889)	(5,888,889)
Repurchase of bonds	(4,700,000)	-
Proceeds from common stock issuance	-	39,199,911
Change in restricted cash	(7,625,775)	378,193
Acquisition of treasury stock	(2,297,539)	-
Debt issuance costs	(333,336)	(341,912)
Net Cash (Used In) Provided By Financing Activities	(35,595,539)	210,347,303

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	2016	2015
Net Increase (Decrease) In Cash and Cash Equivalents	1,721,230	(8,540,159)
Cash and Cash Equivalents - Beginning of Year	31,552,914	40,093,073
Cash and Cash Equivalents - End of Year	$ 33,274,144	$ 31,552,914
Supplemental Cash Flow Information		
Cash paid for interest	$ 20,246,809	$ 17,963,220
Cash paid for income taxes	7,111,848	2,396,446
Supplemental Non Cash Information		
Capitalization of interest for property and equipment	$ 1,322,895	$ 11,797,401
Deferred revenue billed and included in accounts receivable	1,962,104	30,409,766
Reclass from property and equipment to other assets for the refund from contract cancellation	-	18,599,625
Contribution of management services to equity method investment	135,728	-
Liquidated damages stipulated in the Beta contract	1,314,526	-

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
- 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
- Atlantica BDA Ltd. ("ABDA"), a Bermuda-based entity
- Atlantica (Holding) B.V. ("ABV"), a Holland-based entity

The Company's primary assets and liabilities currently pertain to *BassDrill Beta*, owned by BDB, which the Company took delivery of in November 2013 and placed into service under a drilling contract with Petróleo Brasileiro S.A. ("Petrobras") in March 2014; and *Atlantica Delta*, owned by AD, which the Company took delivery in December of 2015 and placed into service under a drilling contract with Total Congo E&P ("Total") in January 2016; AM; and the Company's 51.8% indirect ownership stake in Bass Drill Alpha ("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 consolidated 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, 2016 and 2015. 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, note receivable, accounts payable, accrued liabilities, interest rate swaps and long-term debt. The carrying values for cash and cash equivalents, restricted cash, accounts receivable, note 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, 2016 was approximately $99.8 million based on quoted market prices, 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.

Amortization of Deferred Revenue: In connection with a customer contract, the Company may receive lump-sum fees for the mobilization of equipment offset by any liquidated damages incurred due to late delivery of the rig. 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. For the years ended December 31, 2016 and 2015, the Company recognized mobilization revenue related to the BassDrill Beta of approximately $12.2 million in each year. For the years ended December 31, 2016 and 2015, the Company recognized mobilization revenue related to the Atlantica Delta of approximately $7.5 million and $0, respectively.

Management Fees: AM provides management and consulting services to BassDrill Alpha Ltd. ("BDA"). Such fees are day-rate based and are recorded as revenues in the period in which they are provided to BDA.

Investment

Cost Basis: The Company evaluates its investments in unconsolidated companies under ASC 325-20, *Cost Method Investments*. Investments in which fair value is not readily determinable and with less than 20% of voting rights, the initial investment is measured at cost. Dividends from a cost basis investment are recognized as dividend income when received. The Company reviews its investments at cost for impairment whenever events and circumstances indicate a loss in investment value is other than a temporary decline.

Equity Method: The Company evaluates its investments in unconsolidated companies under ASC 323, *Investments – Equity Method and Joint Ventures*. Investments in which the Company has significant influence, but not a controlling interest, are accounted for under the equity method of accounting. Under the equity method, equity investments are increased by additional investments and equity in earnings and losses less dividends received or may be carried at fair value. The Company reviews its equity investments for impairment whenever events and circumstances indicate a loss in investment value is other than a temporary decline. If an impairment charge is recorded, subsequent recoveries in fair value are not reflected in earnings until the investee is sold. The Company recognized an impairment of its investment in BDA of $3.9 million in 2016. No such impairment was recognized for the year ended December 31, 2015. See Note 5 for further discussion.

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) require the Company to maintain a debt service account, into which one-third of the next quarterly interest and installment payments are 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, 2016 and 2015.

Accounts receivable also include estimates of the Company's contract drilling revenue earned during the year, but unbilled at year end. At December 31, 2016 and 2015, accounts receivable included $1.7 million and $1.5 million, respectively, of accrued revenues.

Concentrations of Credit Risk

The Company's customer concentration may impact its overall credit risk, either positively or negatively, in that customers may be similarly and concurrently affected by changes in economic or other conditions affecting the drilling industry. The Company's percent of revenue by major customer is as follows:

Year Ended December 31,	2016	2015
Petrobras	59%	98%
Total	41%	0%

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 $25.8 million and $13.1 million for the years ended December 31, 2016 and, 2015, respectively.

The estimated useful lives are defined below:

Drilling rigs and equipment:

Barge and related marine equipment	30 years
Mast equipment package, spare parts and related equipment	3 - 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) 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 are 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 rigs.

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 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.

Commitment fees associated with the tranches for *Atlantica Gamma* and *Atlantica Delta* under the Senior Term Loan (discussed below in Note 6) were considered exclusively related to *Atlantica Gamma* and *Atlantica Delta* and fully capitalized to each asset. The Company capitalized commitment fees directly associated with *Atlantica Gamma* and *Atlantica Delta* of $-0- and $4.0 million for the years ended December 31, 2016 and 2015, respectively.

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.

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, 2016 and 2015. Consequently, the Company has provided for 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 operate 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 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 consolidated 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 consolidated statements of operations for the years ended December 31, 2016 and 2015.

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, result of operations or cash flows.

3. Property and Equipment

Property and equipment consisted of the following:

December 31,	2016	2015
Drilling rigs and equipment	$ 588,933,688	$ 299,739,754
Leasehold improvements	172,576	170,876
Furniture and office equipment	165,702	157,821
Computer hardware and software	824,398	785,897
Vehicles	181,261	181,261
	590,277,625	301,035,609
Less: accumulated depreciation	49,834,540	24,039,729
	540,443,085	276,995,880
Construction in progress	-	263,399,095
Inventory - capital spares	4,351,402	3,308,759
Property and equipment, net	$ 544,794,487	$ 543,703,734

Construction in Progress

At December 31, 2015, construction in progress included costs relating to *Atlantica Delta*. In December 2015, the Company took delivery of the rig and the rig commenced operating under contract at the end of January 2016.

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,	2016	2015
Interest cost capitalized a)	$ 1,322,895	$ 11,797,401
Interest cost expensed	20,679,412	10,681,395
Total interest cost incurred	$ 22,002,307	$ 22,478,796

a) Includes amortization of deferred financing costs of $0.2 million and $1.6 million for the years ended December 31, 2016 and 2015, respectively.

5. Investment

The Company holds an indirect investment in BDA.

BDA is a Bermuda-based vessel owning company in the business of providing offshore tender assist drilling services to the offshore market. The BDA tender assist barge, *BassDrill Alpha*, was operating under a contract in West Africa until May 2015 when the contract was terminated early. *BassDrill Alpha* is currently warm stacked while the Company markets the unit to other operators in West Africa and Southeast Asia. During 2016, in order to address its liquidity needs, BDA completed two restructuring transactions which affected the Company's ownership interest, investment opportunities and requirements in BDA.

Prior to July 20, 2016, the Company's ownership interest in BDA was a direct interest of 25.26% and was accounted for using the equity method.

In July 2016, the bondholders and shareholders of BDA completed a capital restructuring agreement. The restructuring resulted in the bondholders receiving an 85% indirect interest in BDA and the original BDA shareholders receiving a 15% indirect interest. Consequently, the Company's effective ownership share in BDA was reduced to an indirect ownership of 3.8% and the Company changed the method of accounting for the BDA investment to the cost method. As result of the restructuring and the corresponding reduction in ownership of BDA, the Company recorded an impairment on its investment in BDA of approximately $3.9 million for the year ended December 31, 2016.

In November 2016, the Company agreed to temporarily waive the monthly management fee under the BDA management contract (see Note 12 for discussion of management fees) up to the earlier of (i) two years (August 2018) or (ii) the date *BassDrill Alpha* begins to operate under a contract. In exchange for waiving the management fee, the Company received an additional 49.9% indirect ownership in BDA. As a result of this transaction, the Company's combined indirect ownership increased from 3.8% to 51.8% effective November 11, 2016. Despite having a majority interest, the Company accounts for the investment under the equity method effective November 11, 2016.

During 2016, the Company's proportionate share of BDA's losses exceeded the Company's carrying value and hence the Company did not recognize $0.6 million of equity losses.

As part of the BDA second restructuring agreement in November 2016, the Company received options to acquire additional ownership interests in BDA that, if exercised, would lead to control of BDA's Board of Directors. In addition, the Company agreed to subscribe, in proportion to the Company's ownership interest, to BDA's Super Senior Bonds, up to $5.0 million of which can be issued by September 30, 2018.

Condensed balance sheets for BDA are as follows:

December 31,		2016		2015
Current assets	$	2,762,641	$	8,819,366
Property and equipment, net		75,689,105		80,014,927
Other assets		1,632,218		5,362,649
Total assets	$	80,083,964	$	94,196,942
Current liabilities	$	616,756	$	69,943,086
Long-term liabilities		69,397,053		-
Stockholders' equity		10,070,155		24,253,856
Total liabilities and stockholders' equity	$	80,083,964	$	94,196,942

Condensed statements of operations for BDA are as follows:

Year Ended December 31,		2016		2015
Operating revenues	$	-	$	28,398,098
Costs and expenses		(10,683,471)		(19,543,067)
Income (loss) from operations		(10,683,471)		8,855,031
Other expense, primarily interest		(3,683,364)		(4,411,429)
Income (loss) before income tax expense		(14,366,835)		4,443,602
Foreign income tax expense		-		(2,644,278)
Net income (loss)	$	(14,366,835)	$	1,799,324

6. Long-Term Debt

Long-term debt consisted of the following:

December 31,	2016	2015
Senior Secured Term Loan	$ 203,472,223	$ 224,111,111
Senior Secured Bonds	142,500,000	150,000,000
Debt Issuance Costs	(8,399,294)	(11,951,375)
Total Long-Term Debt	337,572,929	362,159,736
Less: Current Portion	(26,805,556)	(20,638,888)
Long-term debt, net	$ 310,767,373	$ 341,520,848

Senior Secured Term Loan

In October 2014, the Company entered into a $350,000,000 Senior Secured Term Loan ("Term 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 Term 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 voided upon the cancellation of *Atlantica Gamma* in January 2016 (see Note 9); and the third tranche (the "Delta tranche") of $177.0 million was drawn down on December 8, 2015 with the delivery of *Atlantica Delta*. The Term Loan tranches bear interest at 3.25% plus LIBOR, payable quarterly commencing January 2015 (4.5% at December 31, 2016).

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

The Company entered into (i) a swap agreement with LIBOR fixed at 1.36% for the Beta tranche initially for $53.0 million for a period of four years that commenced November 2014, (ii) a swap agreement with LIBOR fixed at 1.31% initially for $130.0 million of the Delta tranche for a period of seven years that commenced February 2016 and (iii) a swap agreement with LIBOR fixed at 1.11% initially for $33.4 million of the Delta tranche for a period of seven years commencing July 2016. The Term Loan requires quarterly principal payments ranging from $1.5 million to $7.6 million that commenced February 2015, with a balloon payment of $123.2 million at final maturity. The Term 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 $155.0 million
- Equity ratio of minimum 0.3 : 1.0
- Liquidity, measured as freely available and unencumbered cash, the higher of $25.0 million or 6% of the outstanding interest bearing debt until the early payment of the Term Loan upon any settlement of the down payment associated with *Atlantica Gamma*, and thereafter the higher of $20.0 million or 6% of the outstanding interest bearing debt.
- The market value of the vessels is at least 140% of the aggregated outstanding amount of the Term Loan through October 2016 and 150% of the aggregated outstanding amount of the Term Loan thereafter.

At December 31, 2016, the Company was in compliance with all financial covenants.

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 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 holders of the Bonds agreed to amend and restate the bond agreement to be consistent with the bond agreement of the New Bonds. The Bonds and New Bonds, now totaling $150.0 million, 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 Term Loan.

During 2016, the Company acquired $7.5 million of the New Bonds for $4.7 million, resulting in a $2.5 million gain on acquisition of debt, net of $0.3 million related to deferred financing costs.

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:

- 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 $155.0 million
- Equity ratio of minimum 0.3 : 1.0
- Liquidity, measured as freely available and unencumbered cash, of $20.0 million
- The market value of the vessels is at least 140% of the aggregated outstanding amount of the Term Loan through October 2016 and 150% of the aggregated outstanding amount of the Term Loan thereafter.

At December 31, 2016, the Company was in compliance with all financial covenants.

Deferred Financing Costs

In connection with the issuance of debt, the Company incurred $0.3 million in additional debt issuance costs for each of the years ended December 31, 2016 and 2015. Amortization of such amounts and other related financing costs for the years ended December 31, 2016 and 2015 totaled $3.6 million and $3.7 million, respectively, ($0.2 million and $1.6 million of which was capitalized in the years ended December 31, 2016 and 2015, respectively).

Future Maturities of Long-term Debt

The following summarizes future maturities of the Company's long term debt at December 31, 2016:

Year Ending December 31,	
2017	$ 26,805,554
2018	30,555,552
2019	288,611,117
	$ 345,972,223

7. Stockholders' Equity

During November 2016, the Company acquired 9,124,045 shares of its common stock for approximately $2.3 million. At December 31, 2016, these shares were held as treasury stock.

In September 2015, the Company fully subscribed an equity raise through a private placement of 133,333,332 shares of common stock with proceeds of $39.2 million, net of issuance costs, for the purpose of partially financing the delivery of *Atlantica Delta* from the shipyard, strengthening the Company's working capital and for general corporate purposes.

8. Earnings Per Share

The components of the numerator and denominator for the calculation of basic and diluted earnings per share are as follows:

Year Ended December 31,	2016	2015
Numerator:		
Net income (loss)	$ 27,918,547	$ (13,547,407)
Denominator:		
Weighted-average shares outstanding	259,362,490	161,962,579
Effect of stock options *	-	-
Weighted-average shares for per share calculation	259,362,490	161,962,579
Earnings (loss) per share - basic and diluted	$ 0.11	$ (0.08)

* For the years ended December 31, 2016 and 2015, all share based awards (see Note 10) were excluded from the calculation since the effect would have been anti-dilutive under the treasury stock method.

9. Commitments and Contingencies

Construction Obligations

In October 2012, AG entered into a turn-key contract with Dalian Shipyard Building Industry Co.; and Dalian Shipbuilding Industry Offshore Co.; Ltd (together (“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. *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 for 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 dispute is in arbitration as required by the construction contract terms. In 2016, the Company and DSIC appointed arbitrators and completed initial submissions to the tribunal. A final hearing is currently scheduled for early 2018.

The Company believes AG had the right to cancel the construction contract and is entitled to the refund of $18.6 million down payment. However, there is the possibility that arbitration proceedings could favor the position of DSIC and that AG could lose a portion or all of 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 recognized a loss on the cancellation of the construction contract of $22.3 million during the year ended December 31, 2015 and reclassified the down payment of $18.6 million from construction in progress to long term deposits on the consolidated balance sheet as of December 31, 2016.

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 one to five years and expire at various dates between 2017 and 2019. Rent expense, including leases with terms of less than one year, was approximately $1.6 and $1.0 million for the years ended December 31, 2016 and 2015, respectively.

Future minimum non-cancelable lease payments as of December 31, 2016 are as follows:

Year Ending December 31,		
2017	$	484,527
2018		65,767
2019		26,247
	$	576,541

Contingencies

The Company may in the future be 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, 2016, 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 and directors 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 each of the years ended December 31, 2016 and 2015, $0.1 million 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, 2016 and 2015:

	Number of Options	Weighted Average Exercise Price Per Share *	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2015	4,327,134	$ 2.62	
Granted	1,750,000	3.53	
Outstanding at December 31, 2015	6,077,134	2.88	
Expired	(3,313,800)	2.54	
Outstanding at December 31, 2016	2,763,334	$ 3.28	
Vested and Exerciseable at December 31, 2016	$ 1,013,334	$ 2.87	1.2

* 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.

As of December 31, 2016, total unrecognized compensation costs related to all unvested share-based awards totaled $0.2 million, which is expected to be recognized as additional expense of $66,000 each year from 2017 to 2019, and $6,000 in 2020.

11. Defined Contribution Retirement Plan

The Company maintains 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 between one and four percent of the employee's annual salary. Such contributions for the years ended December 31, 2016 and 2015 were $0.1 million and $0.2 million, respectively.

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 ("HitecVision")
- 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 $1.1 million and $2.1 million for the years ended December 31, 2016 and 2015, respectively.

In November 2016, the Company agreed to temporarily suspend the management fees in exchange for an indirect 49.9% ownership interest in BDA (see Note 5). As a result of this transaction, the Company recognized deferred revenue of $136,000 which will be amortized over 24 months. For the year ended December 31, 2016, the Company recognized income of $23,000 in the consolidated statement of operations relating to their deferred management fees.

Congo Shared Services

AD has a shared services arrangement with BDA in regards to certain shore-based costs in the Republic of Congo. Fees for shared, shore-based costs billed between BDA and AD were $0.4 million and $0.6 million for the years ended December 31, 2016 and 2015, respectively.

Commission Fees

The Company pays a commission of 1.25% of the revenue received from Petrobras to various Bassoe entities. Fees and reimbursements for such services were approximately $1.0 million and $0.9 million for years ended December 31, 2016 and 2015, respectively.

Rig Services and Products

The Company received consulting services for the *Atlantica Delta* from HitecVision of $6,000 and $33,000 during the years ended December 31, 2016 and 2015, respectively. The Company received products and services from AXON for the *BassDrill Beta* of $74,000 and $590,000 during the years ended December 31, 2016 and 2015, 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 the 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 $2.2 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 extended the final payment of $1.2 million to no later than December 31, 2016. The Company continues to negotiate the collection of the full outstanding balance, but Axon is currently experiencing financial difficulties. Because of this, the Company recorded an allowance against the note receivable and recognized $0.4 million in bad debt expense in 2016.

For the years ended December 31, 2016 and 2015, the Company recorded $58,000 and $-0-, respectively of interest income associated with the AXON note receivable.

Accounts Receivable and Accounts Payable

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

December 31,		**2016**		**2015**
BDA	$	294,208	$	506,479
Employees receivables		78,082		127,509
Accounts receivable - related parties	$	372,290	$	633,988

December 31,		**2016**		**2015**
AXON	$	68,344	$	68,344
Bassoe		134,005		216,026
Other		5,737		3,867
Accounts payable - related parties	$	208,086	$	288,237

13. Risk Management and Financial Instruments

All of the Company's gross earnings from management and consulting fees are due 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 Term Loan debt arrangement (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, 2016, the Company had interest rate swaps associated with the Term Loan with a notional amount of $203.5 million that effectively fixed the variable rate on the Term Loan between 1.11% and 1.36%. At December 31, 2015, the Company had an interest rate swap with a notional amount of $47.1 million for the Beta tranche that effectively fixed the variable rate on the Term Loan to approximately 1.36%.

At December 31, 2016 and 2015, the Company valued the interest rate swaps as a net asset of $3.1 million and a net liability of $132,000, respectively. The Company determined the fair value of the interest rate swaps based on indirect market prices, and accordingly classified such fair value measurement as Level 2.

14. Subsequent Events

The Company evaluated all activity through May 18, 2017, 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 January 2017, the Company bought $3.5 million of its Senior Secured Bonds for approximately $2.5 million.