Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

For the Quarter Ended September 30, 2017

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Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
		(Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 33,453,090	$ 33,274,144
Restricted cash	10,708,076	9,282,789
Accounts receivable	15,508,879	15,359,134
Accounts receivable - related parties	255,111	372,290
Note receivable, net - related party	800,000	800,000
Derivative	431,700	-
Prepaid and other current assets	1,158,843	1,273,991
Total Current Assets	62,315,699	60,362,348
Property and Equipment, Net	526,531,640	544,794,487
Long Term Deposits	18,599,625	18,599,625
Derivative	2,384,160	3,317,371
Long Term Loan - Related Party	2,497,497	-
Other Assets	147,401	198,289
Total Assets	$ 612,476,022	$ 627,272,120

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
		(Audited)
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 3,393,907	$ 6,020,590
Accounts payable - related parties	357,227	208,086
Accrued liabilities	8,412,235	10,527,654
Derivative	-	251,938
Current portion of long-term debt	30,555,552	26,805,556
Deferred revenue - current	15,077,598	20,112,714
Total Current Liabilities	57,796,519	63,926,538
Long-Term Liabilities		
Deferred revenue - non-current	11,573,829	21,887,712
Long-term debt, net	284,783,173	310,767,373
Other long-term liabilities	-	45,239
Total Long-Term Liabilities	296,357,002	332,700,324
Total Liabilities	354,153,521	396,626,862
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock, $0.10 par value, 310,000,000 shares authorized at September 30, 2017 and December 31, 2016; 261,323,309 shares issued at September 30, 2017 and December 31, 2016; and 252,199,264 shares outstanding at September 30, 2017 and December 31, 2016	26,132,331	26,132,331
Additional paid-in capital	213,246,204	213,203,452
Treasury stock (9,124,045 shares at cost)	(2,297,539)	(2,297,539)
Subscription receivable	(1,500)	(1,500)
Retained earnings (Accumulated deficit)	21,243,005	(6,391,486)
Total Stockholders' Equity	258,322,501	230,645,258
Total Liabilities and Stockholders' Equity	$ 612,476,022	$ 627,272,120

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Income

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues				
Contract drilling	$ 38,509,111	$ 31,507,677	$ 108,310,038	$ 97,592,525
Amortization of deferred revenue	5,008,395	5,183,777	15,012,847	14,523,020
Management fees	92	414,000	273	1,233,000
Total Revenues	43,517,598	37,105,454	123,323,158	113,348,545
Operating Expenses				
Operating	17,718,999	17,394,082	50,789,645	48,752,098
Depreciation and amortization	6,973,721	6,847,787	20,679,085	18,911,631
(Gain)/loss on cancellation of construction contract	-	(49,363)	-	174,207
Total Operating Expenses	24,692,720	24,192,506	71,468,730	67,837,936
Income from Operations	18,824,878	12,912,948	51,854,428	45,510,609
Other Income (Expense)				
Interest income	291,269	21,078	721,631	85,615
Interest expense	(5,803,568)	(5,036,859)	(18,660,147)	(18,687,374)
Gain on reacquisition of debt	558,746	-	1,472,169	-
Losses of equity method investment	-	(204,452)	-	(2,374,115)
Impairment of equity method investment	-	-	-	(3,054,624)
Foreign currency loss	(162,003)	(27,031)	(399,647)	(166,448)
Other	84,824	-	50,894	-
Total Other Expense	(5,030,732)	(5,247,264)	(16,815,100)	(24,196,946)
Income Before Income Tax Expense	13,794,146	7,665,684	35,039,328	21,313,663
Income Tax Expense	(2,570,518)	(2,117,754)	(7,404,837)	(5,776,247)
Net Income	$ 11,223,628	$ 5,547,930	$ 27,634,491	$ 15,537,416
Net Income Per Share				
Basic and diluted	$ 0.04	$ 0.02	$ 0.11	$ 0.06
Weighted Average Common Shares Outstanding				
Basic and diluted	252,199,264	261,147,722	252,199,264	261,264,353

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	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares Issued	Amount					
Balance at January 1, 2016	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
Stock compensation expense	-	-	42,752	-	-	-	42,752
Net income	-	-	-	-	-	27,634,491	27,634,491
Balance at September 30, 2017	261,323,309	$ 26,132,331	$ 213,246,204	$ (2,297,539)	$ (1,500)	$ 21,243,005	$ 258,322,501

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash Flows From Operating Activities				
Net income	$ 11,223,628	$ 5,547,930	$ 27,634,491	$ 15,537,416
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in losses of affiliate	-	204,452	-	2,374,115
Depreciation and amortization	6,973,721	6,847,787	20,679,085	18,911,631
(Gain)/loss on cancellation of construction contract	-	(49,363)	-	174,207
Stock compensation expense	14,250	16,626	42,752	64,158
Impairment of equity method investment	-	-	-	3,054,624
Gain on reacquisition of debt	(558,746)	-	(1,472,169)	-
Noncash interest (income) expense, net	665,576	(495,484)	2,948,729	3,461,873
Amortization of deferred revenue	(5,008,395)	(5,183,777)	(15,012,847)	(14,523,020)
Other non-cash income	(84,824)	-	(50,894)	-
Changes in operating assets and liabilities:				
Accounts receivable	(1,938,644)	(4,185,282)	(4,631,580)	(10,108,683)
Accounts and note receivable - related parties	102,094	158,719	117,179	342,482
Prepaid expenses and other assets	102,543	302,298	166,036	1,750,227
Accounts payable	(854,998)	(252,867)	(2,626,683)	(1,696,029)
Accounts payable - related parties	150,184	(1,329)	149,141	172,439
Accrued liabilities	1,313,405	(283,048)	250,110	(5,037,587)
Deferred revenue	-	1,236,510	1,565,221	33,526,700
Net Cash Provided By Operating Activities	12,099,794	3,863,172	29,758,571	48,004,553
Cash Flows From Investing Activities				
Capital expenditures for construction in progress and capital spares	67,763	-	(1,906,426)	(7,421,878)
Capital expenditures for drilling rig and equipment, furniture, office equipment and leasehold improvements	(53,601)	(3,319,625)	(509,813)	(13,451,218)
Loan to related party	-	-	(2,497,497)	-
Net Cash Provided By (Used In) Investing Activities	14,162	(3,319,625)	(4,913,736)	(20,873,096)
Cash Flows from Financing Activities				
Payments on long term debt	(6,388,889)	(6,388,889)	(19,166,667)	(14,250,000)
Repurchase of bonds	(1,584,000)	-	(4,051,500)	-
Change in restricted cash	(449,510)	834,331	(1,425,287)	(7,556,686)
Acquisition of treasury stock, net	-	(773,620)	-	(773,620)
Debt issuance costs	(6,042)	-	(22,435)	(312,858)
Net Cash Used In Financing Activities	(8,428,441)	(6,328,178)	(24,665,889)	(22,893,164)
Net Increase/(Decrease) In Cash and Cash Equivalents	3,685,515	(5,784,631)	178,946	4,238,293
Cash and Cash Equivalents - Beginning of Period	29,767,575	41,575,838	33,274,144	31,552,914
Cash and Cash Equivalents - End of Period	$ 33,453,090	$ 35,791,207	$ 33,453,090	$ 35,791,207
Supplemental Cash Flow Information				
Cash paid for interest	$ 5,187,652	$ 6,065,020	$ 15,783,772	$ 15,386,322
Cash paid for income taxes	3,159,340	2,196,103	7,444,111	4,719,435
Supplemental Non Cash Information				
Capitalization of interest for property and equipment	$ -	$ -	$ -	$ 1,322,895

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; *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 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

The unaudited interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim period on a basis consistent with the annual consolidated financial statements. All such adjustments are of a normal recurring nature.

The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the years December 31, 2016 and 2015.

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 September 30, 2017 and December 31, 2016. 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, long term loan, 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 September 30, 2017 was approximately $95.8 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. The Company recognized mobilization revenue as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
BassDrill Beta	$ 2,826,444	$ 3,077,349	$ 8,387,165	$ 9,165,148
Atlantica Delta	2,181,951	2,106,428	6,625,682	5,357,872
Total	$ 5,008,395	$ 5,183,777	$ 15,012,847	$ 14,523,020

Management Fees: AM provides management and consulting services to 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. No such impairment was recognized for the three and nine months ended September 30, 2017. The Company recognized an impairment of $-0- million and $3.1 million for the three and nine months ended September 30, 2016. 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 September 30, 2017 and December 31, 2016.

Accounts receivable also include estimates of the Company's contract drilling revenue earned during the period, but unbilled at the end of the period. At September 30, 2017 and December 31, 2016, accounts receivable included $8.6 million and $1.7 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Petrobras	48%	61%	46%	60%
Total	52%	39%	54%	40%

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 income.

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 $7.0 million and $6.8 million for the three months ended September 30, 2017 and, 2016, respectively, and $20.7 million and $18.9 million for the nine months ended September 30, 2017 and 2016, 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

Construction in progress (*BassDrill Beta* at September 30, 2017) includes costs for upgrades and improvements made to the rig. No charges for depreciation are made until improvement and upgrade projects are completed.

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.

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 three and nine months ended September 30, 2017 and 2016. 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 income for the three and nine months ended September 30, 2017 and 2016.

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:

	September 30, 2017	December 31, 2016
Drilling rigs and equipment	$ 589,433,012	$ 588,933,688
Leasehold improvements	172,576	172,576
Furniture and office equipment	165,702	165,702
Computer hardware and software	834,886	824,398
Vehicles	181,261	181,261
	590,787,437	590,277,625
Less: accumulated depreciation	70,513,625	49,834,540
	520,273,812	540,443,085
Construction in progress	1,831,116	-
Inventory - capital spares	4,426,712	4,351,402
Property and equipment, net	$ 526,531,640	$ 544,794,487

4. Interest Cost

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest cost capitalized [1]	$ -	$ -	$ -	$ 1,322,895
Interest cost expensed	5,803,568	5,036,859	18,660,147	18,687,374
Total interest cost incurred	$ 5,803,568	$ 5,036,859	$ 18,660,147	$ 20,010,269

[1] Includes amortization of deferred financing costs of $0.2 million for the nine months ended September 30, 2016.

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 $-0- million and $3.1 million for the three and nine months ended September 30, 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.

For the three and nine months ended September 30, 2017, the Company's proportionate share of BDA's losses exceeded the Company's carrying value; therefore the Company did not recognize $1.3 million and $3.4 million of equity in BDA's losses for the three and nine months ended September 30, 2017, respectively. For the three and nine months ended September 30, 2016, the Company recognized $0.2 million and $2.4 million of equity in BDA's losses, respectively.

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 June 2017, the Company subscribed, in proportion to the Company's ownership interest, to $2.5 million of BDA's Super Senior Bonds (see Note 12).

Condensed balance sheets for BDA are as follows:

	September 30, 2017	December 31, 2016
Current assets	$ 4,489,559	$ 2,762,641
Property and equipment, net	72,557,892	75,689,105
Other assets	1,632,218	1,632,218
Total assets	$ 78,679,669	$ 80,083,964
Current liabilities	$ 70,819,674	$ 616,756
Long-term liabilities	5,000,000	69,397,053
Stockholders' equity	2,859,995	10,070,155
Total liabilities and stockholders' equity	$ 78,679,669	$ 80,083,964

Condensed statements of operations for BDA are as follows:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Costs and expenses	$ (2,189,615)	$ (3,076,225)	$ (6,319,768)	$ (8,615,011)
Loss from operations	(2,189,615)	(3,076,225)	(6,319,768)	(8,615,011)
Other expense, primarily interest	(322,051)	(342,436)	(864,094)	(3,396,340)
Loss before income tax expense	(2,511,666)	(3,418,661)	(7,183,862)	(12,011,351)
Foreign income tax expense	-	-	(26,296)	-
Net loss	$ (2,511,666)	$ (3,418,661)	$ (7,210,158)	$ (12,011,351)

6. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2017	December 31, 2016
Senior Secured Term Loan	$ 184,305,555	$ 203,472,223
Senior Secured Bonds	136,800,000	142,500,000
Debt Issuance Costs	(5,766,830)	(8,399,294)
Total Long-Term Debt	$ 315,338,725	$ 337,572,929
Less Current Portion	(30,555,552)	(26,805,556)
Long-Term Debt, Net	$ 284,783,173	$ 310,767,373

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 September 30, 2017).

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 (see Note 9), 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 September 30, 2017, 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") originally 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 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.

In January 2017, the Company acquired $3.5 million of the New Bonds for $2.5 million, resulting in a $0.9 million gain on acquisition of debt, net of $0.1 million related to deferred financing costs.

In September 2017, the Company acquired $2.2 million of the New Bonds for $1.6 million, resulting in a $0.6 million gain on acquisition of debt, net of $0.1 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 September 30, 2017, the Company was in compliance with all financial covenants.

Deferred Financing Costs

In connection with the issuance of debt, the Company incurred $6,000 and $0.0 million in additional debt issuance costs for the three months ended September 30, 2017 and 2016, respectively, and $22,000 and $0.3 million for the nine months ended September 30, 2017 and 2016, respectively. Amortization of such amounts and other related financing costs for the three months ended September 30, 2017 and 2016 totaled $0.8 million and $0.9 million, respectively, and $2.5 million and $2.7 million for the nine months ended September 30, 2017 and 2016, respectively.

7. Stockholders' Equity

During November 2016, the Company acquired 9,124,045 shares of its common stock for approximately $2.3 million. At September 30, 2017 and December 31, 2016, these shares were held as treasury stock.

8. Earnings Per Share

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Numerator:				
Net income	$ 11,223,628	$ 5,547,930	$ 27,634,491	$ 15,537,416
Denominator:				
Weighted-average shares outstanding	252,199,264	261,147,722	252,199,264	261,264,353
Effect of stock options *	-	-	-	-
Weighted-average shares for per share calculation	252,199,264	261,147,722	252,199,264	261,264,353
Earnings per share - basic and diluted	$ 0.04	$ 0.02	$ 0.11	$ 0.06

* For the three and nine months ended September 30, 2017 and 2016, 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 reclassified the down payment of $18.6 million from construction in progress to long term deposits on the consolidated balance sheet as of September 30, 2017 and December 31, 2016.

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 September 30, 2017, 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 the three months ended September 30, 2017 and 2016, $14,000 and $17,000, respectively, was expensed in the consolidated statements of income. During the nine months ended September 30, 2017 and 2016, $43,000 and $64,000, respectively, was expensed in the consolidated statements of income. 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 September 30, 2017 and December 31, 2016:

	Number of Options	Weighted Average Exercise Price Per Share *	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2016	6,077,134	$ 2.88	
Expired	(3,313,800)	2.54	
Outstanding at December 31, 2016	2,763,334	3.28	
Cancelled	(580,000)	3.15	
Outstanding at September 30, 2017	2,183,334	$ 3.32	1.7
Vested and Excersiable at September 30, 2017	683,334	$ 2.87	0.4

* 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.

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 five percent of the employee's annual salary effective January 1, 2017, and between one and four percent of the employee's annual salary prior to January 1, 2017. Such contributions for the three months ended September 30, 2017 and 2016 were $27,000 and $31,000, respectively, and $95,000 and $115,000 for the nine months ended September 30, 2017 and 2016, 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 $92 and $0.4 million for the three months ended September 30, 2017 and 2016, respectively, and $273 and $1.2 million for the nine months ended September 30, 2017 and 2016, respectively.

In November 2016, the Company agreed to temporarily reduce the management fees in exchange for an additional 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 three and nine months ended September 30, 2017, the Company recognized income of $85,000 and $51,000, respectively, in the statements of income related to the 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 $0.1 million billed to BDA and $0.1 million billed from BDA for the three months ended September 30, 2017 and 2016, respectively, and $0.3 million billed to BDA and $0.5 million billed from BDA for the nine months ended September 30, 2017, 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 $0.3 million for each of the three months ended September 30, 2017 and 2016, and $0.7 million and $0.8 million for the nine months ended September 30, 2017 and 2016, respectively.

Rig Services and Products

The Company received consulting services for the *Atlantica Delta* from HitecVision of $-0- for the three months ended September 30, 2016 and 2017, and $-0- and $6,000 during the nine months ended

September 30, 2017 and 2016, respectively. The Company received products and services from AXON for the *BassDrill Beta* of $52,000 and $-0- during the three months ended September 30, 2017 and 2016, respectively, and $109,000 and $51,000 for the nine months ended September 30, 2017 and 2016, 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 the fourth quarter of 2016.

For the three and nine months ended September 30, 2017, the Company recognized $-0- of interest income associated with the AXON note receivable. For the three and nine months ended September 30,2016, the Company recorded $14,000 and $43,000, respectively, of interest income associated with the AXON note receivable.

Long Term Loan

In June 2017, the Company subscribed to $2.5 million of BDA's Super Senior Bonds as required by the November 2016 BDA restructure agreement (see Note 5). The Super Senior Bonds bear interest at 7% per annum payable annually (beginning June 2018) and are due in June 2019. The Company recorded approximately $22,000 and $25,000 of interest income associated with the Super Senior Bonds for the three and nine months ended September 30, 2017.

Accounts Receivable and Accounts Payable

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

	September 30, 2017	December 31, 2016
BDA	$ 202,781	$ 294,208
Employees receivables	52,330	78,082
Accounts receivable - related parties	$ 255,111	$ 372,290

	September 30, 2017	December 31, 2016
AXON	$ 119,960	$ 68,344
Bassoe	237,267	134,005
Other	-	5,737
Accounts payable - related parties	$ 357,227	$ 208,086

13. Risk Management and Financial Instruments

All 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 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 September 30, 2017 and December 31, 2016, the Company had interest rate swaps with total notional amounts of $184.3

and $203.5 million, respectively, that fixed the variable rate on the Term Loan to approximately between 1.11% and 1.36%.

At September 30, 2017 and December 31, 2016, the Company valued the interest rate swaps as a net asset of $2.8 million and $3.1 million, 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 November 9, 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 October 2017, the Company acquired $1.2 million of the New Bonds for $0.9 million.