Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

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 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. 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.

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. Since March 2014 *BassDrill Beta* has been contracted to Petróleo Brasileiro S.A. ("Petrobras"). The 1500 day contract was set to expire by the end of April 2018, but was recently extended to last through June 2018. For the bulk of 2017 *BassDrill Beta* operated under a special standby rate following Petrobras' decision in December 2016 to pause drilling. Through the third quarter of 2017 *BassDrill Beta* mobilized to recommencing drilling operations, and the special standby period concluded at the end of October. At the time of writing, discussions are still ongoing with Petrobras regarding a further extension of *BassDrill Beta's* engagement in direct continuation of the current contract.

Atlantica Delta Unit. *Atlantica Delta* commenced a contract with Total E&P Congo ("Total") in January 2016, shortly following delivery in China. Initially, *Atlantica Delta* operated as a service unit as Total completed preparations of their TLP. The contract has a primary duration of approximately 44 months, plus five extension options (for 2 wells each) for an estimated additional 25 months. The *Atlantica Delta* has consistently achieved high uptime and revenue efficiency since January 2017.

Atlantica Gamma Unit. In early 2016, the Company submitted a notice to cancel the construction contract (held by the Company's wholly owned subsidiary Atlantica Gamma Ltd.) with Dalian Shipbuilding Industry Offshore Co. Ltd. and Dalian Shipbuilding Industry Corporation (together "DSIC") for the *Atlantica Gamma* due to late delivery, and submitted a claim for the refund of the $18.6 million down payment made to the shipyard. Shortly thereafter DSIC in turn cancelled the *Gamma* construction contract, citing breach of contract by the Company. In February 2018 an arbitration hearing on the dispute took place in London (UK), and a final decision is expected by May / June 2018.

Financing

In 2014 the Company established a fleet debt structure comprised of senior secured bank debt and a bond loan. Both loans mature in Q3, 2019. The Company has remained in full compliance with all debt service obligations and covenant requirements through 2017.

The Company's total number of shares outstanding at December 31, 2017 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, 2017 and 2016.

Market Outlook

While world markets for oil and gas continued to improve through 2017 and into 2018, rig utilization rates across most industry sectors remain relatively low following the substantial newbuild activity preceding the market downturn in 2014 and 2015. Even though investment in new projects is forecast to increase from the very low level of the recent cyclical downturn, and even as the Company has registered increased activity in the form of inquiries and tenders, the Company expects new opportunities for deep water drilling contracts to remain limited also in 2018.

The Atlantica Delta remains on a long-term contract through mid-2020, plus extension options. At the time of writing the Company continues to discuss with Petrobras the possibility to extend BassDrill Beta's deployment on the Papa Terra field offshore Brazil. The Company expects this will to a considerable extent depend on the result of the test well currently being drilled. Thus far only 3 of the planned 13 wells from the TLP have been drilled.

Beyond the short-term, Atlantica expects that further growth in the Company's markets will come from short cycle investment projects like shallow water drilling in new formations and work-over and re-drilling projects in existing fields. The Company believes 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 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 10, 2018

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

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Atlantica Tender Drilling Ltd. & Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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, 2017 and 2016, 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 10, 2018

Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,		2017		2016
Assets				
Current Assets				
Cash and cash equivalents	$	31,783,098	$	33,274,144
Restricted cash		8,373,443		9,282,789
Accounts receivable		15,457,583		15,359,134
Accounts receivable - related parties		167,142		372,290
Note receivable, net - related party		360,040		800,000
Derivative instruments		1,065,550		-
Prepaid and other current assets		788,527		1,273,991
Total Current Assets		57,995,383		60,362,348
Property and Equipment, Net		520,239,709		544,794,487
Long Term Deposits		18,599,625		18,599,625
Derivative instruments		2,678,706		3,317,371
Other Assets		112,320		198,289
Total Assets	$	599,625,743	$	627,272,120

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,		2017		2016
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$	3,294,152	$	6,020,590
Accounts payable - related parties		143,567		208,086
Accrued liabilities		8,733,523		10,527,654
Derivative instruments		-		251,938
Current portion of long-term debt		30,555,552		26,805,556
Deferred revenue - current		12,251,154		20,112,714
Total Current Liabilities		54,977,948		63,926,538
Long-Term Liabilities				
Deferred revenue - non-current		9,391,878		21,887,712
Long-term debt, net		276,765,011		310,767,373
Deferred income taxes, net		3,745,774		-
Other long-term liabilities		-		45,239
Total Long-Term Liabilities		289,902,663		332,700,324
Total Liabilities		344,880,611		396,626,862
Commitments and Contingencies (Note 9)				
Stockholders' Equity				
Common stock, $0.10 par value, 310,000,000 shares authorized at December 31, 2017 and 2016; 261,323,309 shares issued at December 31, 2017 and 2016; and 252,199,264 shares outstanding at December 31, 2017 and 2016		26,132,331		26,132,331
Additional paid-in capital		213,254,754		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)		17,657,086		(6,391,486)
Total Stockholders' Equity		254,745,132		230,645,258
Total Liabilities and Stockholders' Equity	$	599,625,743	$	627,272,120

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Income

Year Ended December 31,	2017	2016
Revenues		
Contract drilling	$ 140,579,230	$ 131,872,675
Amortization of deferred revenue	20,021,242	19,746,829
Management fees	365	1,098,122
Total Revenues	160,600,837	152,717,626
Operating Expenses		
Operating	71,096,849	66,067,697
Depreciation and amortization	27,669,155	25,794,811
Loss on cancellation of construction contract	-	174,207
Total Operating Expenses	98,766,004	92,036,715
Income from Operations	61,834,833	60,680,911
Other Income (Expense)		
Interest income	1,032,261	200,643
Interest expense	(23,625,561)	(20,679,412)
Gain on reacquisition of debt	1,766,640	2,509,840
Bad debt expense - note receivable	(320,000)	(407,658)
Losses of equity method investment	(2,497,497)	(2,315,849)
Impairment of equity method investment	-	(3,889,636)
Foreign currency loss	(366,668)	(196,600)
Other	67,859	22,621
Total Other Expense	(23,942,966)	(24,756,051)
Income Before Income Tax Expense	37,891,867	35,924,860
Income Tax Expense, Net	(13,843,295)	(8,006,313)
Net Income	$ 24,048,572	$ 27,918,547
Net Income Per Share		
Basic and diluted	$ 0.10	$ 0.11
Weighted Average Common Shares Outstanding		
Basic and diluted	252,199,264	259,362,490

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional			Retained Earnings	Total
	Shares Outstanding	Amount	Paid-in Capital	Treasury Stock	Subscription Receivable	(Accumulated Deficit)	Stockholders' Equity
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	(9,124,045)	-	-	(2,297,539)	-	-	(2,297,539)
Net income	-	-	-	-	-	27,918,547	27,918,547
Balance at December 31, 2016	252,199,264	26,132,331	213,203,452	(2,297,539)	(1,500)	(6,391,486)	230,645,258
Stock compensation expense	-	-	51,302	-	-	-	51,302
Net income	-	-	-	-	-	24,048,572	24,048,572
Balance at December 31, 2017	252,199,264	$ 26,132,331	$ 213,254,754	$ (2,297,539)	$ (1,500)	$ 17,657,086	$ 254,745,132

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	2017	2016
Cash Flows From Operating Activities		
Net income	$ 24,048,572	$ 27,918,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in losses of affiliate	2,497,497	2,315,849
Depreciation and amortization	27,669,155	25,794,811
Loss on cancellation of construction contract	-	174,207
Stock compensation expense	51,302	80,784
Impairment of equity method investment	-	3,889,636
Bad debt expense - note receivable	320,000	407,658
Gain on reacquisition of debt	(1,766,640)	(2,509,840)
Noncash interest expense, net	2,811,532	48,561
Amortization of deferred revenue	(20,021,242)	(19,746,829)
Deferred income tax expense	3,745,774	-
Other non-cash income	(67,859)	(22,621)
Changes in operating assets and liabilities:		
Accounts receivable	(4,580,284)	(5,751,968)
Accounts and note receivable - related parties	205,148	261,698
Prepaid expenses and other assets	571,433	2,516,725
Accounts payable	(2,726,438)	321,766
Accounts payable - related parties	55,441	(80,151)
Accrued liabilities	588,361	(4,204,212)
Deferred revenue	1,565,221	32,584,545
Net Cash Provided By Operating Activities	34,966,973	63,999,166
Cash Flows From Investing Activities		
Capital expenditures for construction in progress and capital spares	(241,882)	(5,148,769)
Capital expenditures for drilling rig and equipment and other	(2,872,496)	(21,533,628)
Purchase of Super Senior Bonds	(2,497,497)	-
Net Cash Used In Investing Activities	(5,611,875)	(26,682,397)
Cash Flows from Financing Activities		
Payments on long term debt	(26,805,555)	(20,638,889)
Repurchase of bonds	(4,927,500)	(4,700,000)
Change in restricted cash	909,346	(7,625,775)
Acquisition of treasury stock	-	(2,297,539)
Debt issuance costs	(22,435)	(333,336)
Net Cash Used In Financing Activities	(30,846,144)	(35,595,539)
Net Increase (Decrease) In Cash and Cash Equivalents	(1,491,046)	1,721,230
Cash and Cash Equivalents - Beginning of Period	33,274,144	31,552,914
Cash and Cash Equivalents - End of Period	$ 31,783,098	$ 33,274,144
Supplemental Cash Flow Information		
Cash paid for interest	$ 20,854,534	$ 20,246,809
Cash paid for income taxes	9,531,107	7,111,848
Supplemental Non Cash Information		
Capitalization of interest for property and equipment	$ -	$ 1,322,895
Deferred revenue billed and included in accounts receivable	(1,227,184)	1,962,104
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; *Atlantica Delta*, owned by AD, which the Company took delivery of in December of 2015 and placed into service under a drilling contract with Total Congo E&P ("Total") in January 2016; and AM.

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 (“FASB”) 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, 2017 and 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 December 31, 2017 and 2016 was approximately $94.9 million and $99.8 million, respectively, 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 year ended December 31, 2017 and 2016, the Company recognized mobilization revenue related to the *BassDrill Beta* of approximately $11.2 million and $12.2 million, respectively. For the years ended December 31, 2017 and 2016, the Company recognized mobilization revenue related to the *Atlantica Delta* of approximately $8.8 million and $7.5 million, respectively.

Investments

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 decreased by equity losses and 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 year ended December 31, 2017. The Company recognized an impairment of $3.9 million for the year ended December 31, 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 December 31, 2017 and 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 December 31, 2017 and 2016, accounts receivable included \$6.8 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:

Year Ended December 31,	2017	2016
Petrobras	44%	59%
Total	56%	41%

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 \$27.7 million and \$25.8 million for the years ended December 31, 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 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 during the years ended December 31, 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.

Below are the components of the Company's income tax expense for the years ended December 31, 2017 and 2016:

December 31,		**2017**		**2016**
Current	$	10,097,521	$	8,006,313
Deferred		3,745,774		-
Income Tax Expense, net	$	13,843,295	$	8,006,313

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences. Deferred tax assets and liabilities are based on temporary differences that arise between the carrying value of the financial statements and tax bases of assets and liabilities. At December 31, 2017, the deferred tax liability of $3.7 million represents the tax effect of the temporary difference related to assets owned by subsidiaries in Malta based on tax rates due on distributable earnings.

The Company follows guidance issued by the FASB 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 years ended December 31, 2017 and 2016.

Correction of an Error

During 2017, the Company identified a misstatement related to the failure to recognize the effect of deferred income taxes in prior years. The impact on prior years was not material, so the Company has corrected the misstatement in 2017, which resulted in an increase in deferred tax expense and a decrease in net income of approximately $2.8 million representing the cumulative impact of the misstatement through December 31, 2016, $0.9 million of which related to the year ended December 31, 2016 and the difference to prior years.

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.

3. Property and Equipment

Property and equipment consisted of the following:

December 31,	**2017**	**2016**
Drilling rigs and equipment	$ 591,795,695	$ 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
	593,150,120	590,277,625
Less: accumulated depreciation	77,503,695	49,834,540
	515,646,425	540,443,085
Inventory - capital spares	4,593,284	4,351,402
Property and Equipment, net	$ 520,239,709	$ 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:

Year Ended December 31,		2017		2016
Interest cost capitalized	$	-	$	1,322,895
Interest cost expensed		23,625,561		20,679,412
Total interest cost incurred	$	23,625,561	$	22,002,307

Capitalized interest includes amortization of deferred financing costs of $0.2 million for the year ended December 31, 2016.

5. Investments

The Company holds an indirect investment in BassDrill Alpha Ltd. ("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 during 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 123 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 in sum, the Company does not control BDA's Board of Directors and as such, accounts for the investment under the equity method effective November 11, 2016.

During the year ended December 31, 2016, the Company's share of BDA's losses exceeded the Company's carrying value of the equity investment in BDA and therefore, the Company suspended the recognition of $0.6 million of its share of BDA's losses.

In June 2017, the Company subscribed, in proportion to its ownership interest in BDA, and acquired $2.5 million of BDA's Super Senior Bonds (see Note 12). The Company did not receive any additional ownership interest in BDA in connection with the investment in bonds and is not committed to providing any further financial support to BDA. Accordingly, in accordance with ASC 323 – *Equity Method – Recognition of losses in excess of Investment*, the Company recognized its share of previously suspended losses up to the amount of the additional investment. The Company's proportionate share of BDA's losses during 2017 exceeded its equity and debt interests in BDA and therefore, the Company suspended recognition of $2.5 million of its share of BDA's 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. No such exercise has occurred at December 31, 2017.

6. Long-Term Debt

Long-term debt consisted of the following:

December 31,	**2017**	**2016**
Senior Secured Term Loan	$ 176,666,669	$ 203,472,223
Senior Secured Bonds, Net	135,600,000	142,500,000
Debt Issuance Costs, Net	(4,946,106)	(8,399,294)
Total Long-Term Debt	307,320,563	337,572,929
Less: Current Portion	(30,555,552)	(26,805,556)
Long-Term Debt, net	**$ 276,765,011**	**$ 310,767,373**

Senior Secured Bonds are presented net of $14.4 million and $7.5 million bonds repurchased by the Company as of December 31, 2017 and 2016, respectively.

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 (see Restricted Cash in Note 2). The Term Loan amount was available for drawdown independently in up to three tranches up until March 31, 2016. The first tranche of $53.0 million was drawn down on October 6, 2014; the second tranche of $177.0 million was drawn down December 8, 2015 with the delivery of *Atlantica Delta*; whereas the remaining $120.0 million tranche was voided upon the cancellation of *Atlantica Gamma* in January 2016 (see Note 9). The Term Loan tranches bear interest at 3.25% plus LIBOR, payable quarterly (4.5% at December 31, 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 $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 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 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 150% of the aggregated outstanding amount of the Term Loan.

At December 31, 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.

During 2017, the Company acquired $6.9 million of the New Bonds for $4.9 million, resulting in a $1.8 million gain on acquisition of debt, net of $0.2 million related to deferred financing costs.

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, 2017, the Company was in compliance with all financial covenants.

Deferred Financing Costs

In connection with the issuance of debt, the Company incurred $22,000 and $0.3 million in additional debt issuance costs for the years ended December 31, 2017 and 2016, respectively. Amortization of such amounts and other related financing costs for the years ended December 31, 2017 and 2016 totaled $3.3 million and $3.6 million, respectively, ($-0- and $0.2 million of which was capitalized in the years ended December 31, 2017 and 2016, respectively).

Future Maturities of Long Term Debt

The following summarizes future maturities of the Company's long term debt at December 31, 2017:

Year Ending December 31,		
2018	$	30,555,552
2019		281,711,117
	$	312,266,669

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, 2017 and 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:

Year Ended December 31,		**2017**		**2016**
Numerator:				
Net income	$	24,048,572	$	27,918,547
Denominator:				
Weighted-average shares outstanding		252,199,264		259,362,490
Effect of stock options		-		-
Weighted-average shares for per share calculation		252,199,264		259,362,490
Earnings per share - basic and diluted	$	0.10	$	0.11

For the years ended December 31, 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 was conducted in February 2018, and a final decision is expected by mid-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 sheets as of December 31, 2017 and 2016.

Lease Obligations

The Company has non-cancelable lease obligations, principally for office space in Houston. The lease obligations originally ranged from one to five years and expire at various dates between 2018 and 2022. Rent expense, including leases with terms of less than one year, was approximately $1.7 and $1.6 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum non-cancelable lease payments are as follows:

Year Ending December 31,		
2018	$	183,037
2019		293,490
2020		212,567
2021		199,285
2022		332,751
	$	1,221,130

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, 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 years ended December 31, 2017 and 2016, $51,000 and $81,000, 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 December 31, 2017 and 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	(730,000)		3.23	
Outstanding at December 31, 2017	2,033,334	$	3.30	1.4
Vested and Exercisable at December 31, 2017	683,334	$	2.87	0.2

* 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.

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 years ended December 31, 2017 and 2016 were $0.1 million for each year.

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 $365 and $1.1 million for the years ended December 31, 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 is being amortized over 24 months. For the year ended December 31, 2017, the Company recognized income of $68,000 in the consolidated 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 $0.3 million billed to BDA and $0.4 million billed from BDA for the years ended December 31, 2017 and 2016, 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 $0.8 million and $1.0 million for the years ended December 31, 2017 and 2016, respectively.

Rig Services and Products

The Company received consulting services for the *Atlantica Delta* from HitecVision of $-0- and $6,000 for the years ended December 31, 2017 and 2016, respectively. The Company received products and services from AXON for the *BassDrill Beta* of $109,000 and $74,000 for the years ended December 31, 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 equipment 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. Axon is currently in bankruptcy. Because of this, the Company recorded an allowance against the note receivable and recognized $0.4 million in bad debt expense in 2016. In early 2018, the Company agreed on a final settlement of this note receivable. The settlement included (i) delivery of inventory and equipment to the Company with an estimated fair value of $0.3 million and (ii) forgiveness of payable balances due to Axon of $0.1 million. As a result, the Company recorded an allowance against the note receivable and recognized an additional $0.3 million in bad debt expense in the fourth quarter of 2017.

For the year ended December 31, 2017 2016, the Company recorded $-0- and $58,000, respectively, of interest income associated with the AXON note receivable.

Super Senior Bonds

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 $47,000 of interest income associated with the Super Senior Bonds for the year ended December 31, 2017. The Super Senior Bonds were carried at $-0- at December 31, 2017 due to additional equity losses recorded in 2017 (see Note 5).

Accounts Receivable and Accounts Payable

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

December 31,		**2017**		**2016**
BDA	$	119,929	$	294,208
Employees receivables		47,213		78,082
Accounts Receivable - Related Parties	$	167,142	$	372,290

December 31,		**2017**		**2016**
AXON	$	-	$	68,344
Bassoe		143,567		134,005
Other		-		5,737
Accounts Payable - Related Parties	$	143,567	$	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 December 31, 2017 and 2016, the Company had interest rate swaps with total notional amounts of $177.3 and $203.5 million, respectively, that fixed the variable rate on the Term Loan to approximately between 1.11% and 1.36%.

At December 31, 2017 and 2016, the Company valued the interest rate swaps as a net asset of $3.7 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. For the years ended December 31, 2017 and 2016, the Company recognized interest income associated with the mark to market on its derivatives of $0.4 million and $3.3 million, respectively.

14. Subsequent Events

The Company evaluated all activity through May 10, 2018, 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 March 2018, Petrobras exercised their right to utilize a clause in the charter contract for *BassDrill Beta* which permits extending the primary term of the contract by the sum of accumulated downtime incurred during the original 1500-day term. This extends the term of the contract to the end of June, 2018. The same contract provision entitles Petrobras to further extend the contract through August, 2018. The Company is currently in discussions with Petrobras concerning a further extension of *BassDrill Beta's* engagement in direct continuation of the current contract.