

**Atlantica Tender Drilling Ltd. &  
Subsidiaries**

Consolidated Financial Statements

For the Quarter Ended March 31, 2018

# Atlantica Tender Drilling Ltd. & Subsidiaries

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## **Consolidated Financial Statements**

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# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Balance Sheets

	March 31, 2018	December 31, 2017
		(Audited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 25,701,694	\$ 31,783,098
Restricted cash	9,862,736	8,373,443
Accounts receivable	18,000,162	15,457,583
Accounts receivable - related parties	155,938	167,142
Note receivable, net - related party	-	360,040
Derivative instruments	1,389,742	1,065,550
Prepaid and other current assets	1,367,093	788,527
<b>Total Current Assets</b>	<b>56,477,365</b>	<b>57,995,383</b>
<b>Property and Equipment, Net</b>	<b>513,515,024</b>	<b>520,239,709</b>
<b>Long Term Deposits</b>	<b>-</b>	<b>18,599,625</b>
<b>Derivative instruments</b>	<b>3,918,830</b>	<b>2,678,706</b>
<b>Other Assets</b>	<b>90,486</b>	<b>112,320</b>
<b>Total Assets</b>	<b>\$ 574,001,705</b>	<b>\$ 599,625,743</b>

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Balance Sheets

	March 31, 2018	December 31, 2017
		(Audited)
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 4,350,757	\$ 3,294,152
Accounts payable - related parties	252,594	143,567
Accrued liabilities	9,481,742	8,733,523
Current portion of long-term debt	30,555,552	30,555,552
Deferred revenue - current	9,486,155	12,251,154
<b>Total Current Liabilities</b>	<b>54,126,800</b>	<b>54,977,948</b>
<b>Long-Term Liabilities</b>		
Deferred revenue - non-current	7,257,360	9,391,878
Long-term debt, net	269,885,509	276,765,011
Deferred income taxes, net	3,745,774	3,745,774
<b>Total Long-Term Liabilities</b>	<b>280,888,643</b>	<b>289,902,663</b>
<b>Total Liabilities</b>	<b>335,015,443</b>	<b>344,880,611</b>
<b>Commitments and Contingencies (Note 8)</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.10 par value, 310,000,000 shares authorized at March 31, 2018 and December 31, 2017; 261,323,309 shares issued at March 31, 2018 and December 31, 2017; and 252,199,264 shares outstanding at March 31, 2018 and December 31, 2017	26,132,331	26,132,331
Additional paid-in capital	213,267,579	213,254,754
Treasury stock (9,124,045 shares at cost)	(2,297,539)	(2,297,539)
Subscription receivable	(1,500)	(1,500)
Retained earnings	1,885,391	17,657,086
<b>Total Stockholders' Equity</b>	<b>238,986,262</b>	<b>254,745,132</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 574,001,705</b>	<b>\$ 599,625,743</b>

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Statements of Operations

	Three Months Ended March 31,	
	2018	2017
<b>Revenues</b>		
Contract drilling	\$ 31,685,743	\$ 34,672,695
Amortization of deferred revenue	4,899,517	4,938,453
Management fees	90	90
<b>Total Revenues</b>	36,585,350	39,611,238
<b>Operating Expenses</b>		
Operating	19,927,492	16,365,928
Depreciation and amortization	6,839,755	6,812,610
Loss on cancellation of construction contract	18,599,625	-
<b>Total Operating Expenses</b>	45,366,872	23,178,538
<b>Income (Loss) from Operations</b>	(8,781,522)	16,432,700
<b>Other Income (Expense)</b>		
Interest income	260,672	206,959
Interest expense	(4,305,926)	(5,865,206)
Gain on reacquisition of debt	-	913,423
Foreign currency loss	(236,879)	(78,658)
Bad debt expense - note receivable	(31,144)	-
Other	16,965	-
<b>Total Other Expense</b>	(4,296,312)	(4,823,482)
<b>Income (Loss) Before Income Tax Expense</b>	(13,077,834)	11,609,218
<b>Income Tax Expense, Net</b>	(2,693,861)	(2,342,483)
<b>Net Income (Loss)</b>	\$ (15,771,695)	\$ 9,266,735
<b>Net Income (Loss) Per Share</b>		
Basic and diluted	\$ (0.06)	\$ 0.04
<b>Weighted Average Common Shares Outstanding</b>		
Basic and diluted	252,199,264	252,199,264

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 Outstanding	Amount					
<b>Balance at January 1, 2017</b>	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
<b>Balance at December 31, 2017</b>	252,199,264	\$ 26,132,331	\$ 213,254,754	\$ (2,297,539)	\$ (1,500)	\$ 17,657,086	\$ 254,745,132
Stock compensation expense	-	-	12,825	-	-	-	12,825
Net loss	-	-	-	-	-	(15,771,695)	(15,771,695)
<b>Balance at March 31, 2018</b>	252,199,264	\$ 26,132,331	\$ 213,267,579	\$ (2,297,539)	\$ (1,500)	\$ 1,885,391	\$ 238,986,262

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2018	2017
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ (15,771,695)	\$ 9,266,735
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss on cancellation of construction contract	18,599,625	-
Depreciation and amortization	6,839,755	6,812,610
Stock compensation expense	12,825	16,626
Bad debt expense - note receivable	31,144	-
Gain on reacquisition of debt	-	(913,423)
Noncash interest (income) expense, net	(804,930)	629,144
Amortization of deferred revenue	(4,899,517)	(4,938,453)
Other non-cash expense	186,896	-
Changes in operating assets and liabilities:		
Accounts receivable	(2,542,579)	(7,670,653)
Accounts and note receivable - related parties	11,204	133,456
Prepaid expenses and other assets	(556,732)	(514,359)
Accounts payable	1,056,605	(1,299,591)
Accounts payable - related parties	109,027	(3,020)
Accrued liabilities	748,219	517,962
Deferred revenue	-	1,530,419
<b>Net Cash Provided By Operating Activities</b>	<b>3,019,847</b>	<b>3,567,453</b>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures for construction in progress and capital spares	-	(636,748)
Capital expenditures for drilling rig and equipment and other	26,930	(235,677)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>26,930</b>	<b>(872,425)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on long term debt	(7,638,888)	(6,388,889)
Repurchase of bonds	-	(2,467,500)
Change in restricted cash	(1,489,293)	(19,456)
<b>Net Cash Used In Financing Activities</b>	<b>(9,128,181)</b>	<b>(8,875,845)</b>
<b>Net Decrease In Cash and Cash Equivalents</b>	<b>(6,081,404)</b>	<b>(6,180,817)</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>31,783,098</b>	<b>33,274,144</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 25,701,694</b>	<b>\$ 27,093,327</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 5,093,386	\$ 5,359,977
Cash paid for income taxes	3,492,611	1,720,682
<b>Supplemental Non Cash Information</b>		
Deferred revenue billed and included in accounts receivable	\$ -	\$ 1,259,053

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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### 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

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, 2017 and 2016.

#### *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.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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### *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 March 31, 2018 and December 31, 2017. 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 March 31, 2018 and December 31, 2017 was approximately \$94.9 million, based on quoted market prices, Level 1 in the fair value hierarchy.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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### **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 three months ended March 31, 2018 and 2017, the Company recognized mobilization revenue related to the *BassDrill Beta* of approximately \$2.8 million each period. For the three months ended March 31, 2018 and 2017, the Company recognized mobilization revenue related to the *Atlantica Delta* of approximately \$2.1 million and \$2.2 million, respectively.

### **Equity Method Investment**

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 three months ended March 31, 2018 and 2017.

### **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 5) 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 March 31, 2018 and December 31, 2017.

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 March 31, 2018 and December 31, 2017, accounts receivable included \$10.8 million and \$6.8 million, respectively, of accrued revenues.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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### *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 March 31,	
	2018	2017
<b>Total</b>	60%	55%
<b>Petrobras</b>	40%	45%

The Company is subject to concentrations of credit risk with respect to cash and cash equivalents, which the Company attempts to minimize by maintaining cash and cash equivalents with major high credit quality financial institutions. At times cash and cash equivalents balances may exceed limits federally insured by the United States Federal Deposit Insurance Corporation or other similar government institutions in other countries. Additionally, certain of the Company's cash and cash equivalents balances are maintained in foreign banks, which are not covered by deposit insurance. The Company has not experienced any losses on its cash and cash equivalents.

### *Foreign Exchange Transactions*

The Company's functional currency is the United States (U.S.) dollar as the Company primarily contracts with contractors, finances capital, and purchases equipment and services using the U.S. dollar. Transactions that are completed in a foreign currency are translated into U.S. dollars, and any gain or loss is recorded in the consolidated statements of operations.

### *Property and Equipment*

Property and equipment is carried at cost less accumulated depreciation and amortization. The Company capitalizes expenditures for renewals, replacements and improvements, and expenses costs of maintenance and repairs as incurred. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense was \$6.8 million for each of ~~the three~~ the three months ended March 31, 2018 and 2017.

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

### *Capital Spares*

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

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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### *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 three months ended March 31, 2018 and 2017. 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 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 three months ended March 31, 2018 and 2017:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Current income tax expense</b>	\$ 2,693,861	\$ 2,342,483
<b>Deferred income tax benefit</b>	-	-
<b>Income tax expense, net</b>	<u>\$ 2,693,861</u>	<u>\$ 2,342,483</u>

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 March 31, 2018 and 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

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

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

In accordance with this guidance, the Company will record income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no amounts recognized for income tax related interest and penalties in the consolidated statements of operations for the three months ended March 31, 2018 and 2017.

### *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.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

### 3. Property and Equipment

Property and equipment consisted of the following:

	March 31, 2018	December 31, 2017
Drilling rigs and equipment	\$ 591,747,703	\$ 591,795,695
Leasehold improvements	172,576	172,576
Furniture and office equipment	186,765	165,702
Computer hardware and software	834,886	834,886
Vehicles	181,261	181,261
	593,123,191	593,150,120
Less: accumulated depreciation	84,343,451	77,503,695
	508,779,740	515,646,425
Inventory - capital spares	4,735,284	4,593,284
<b>Property and equipment, net</b>	<b>\$ 513,515,024</b>	<b>\$ 520,239,709</b>

### 4. Investments

The Company holds an indirect investment in BassDrill Alpha Ltd. (“BDA”) which is accounted for under the equity method of accounting.

After an extended period in which the BDA’s tender assist barge (BDA’s sole material asset) was warm stacked in the Congo, the stakeholders of BDA entered into an agreement to sell the barge for approximately \$1.0 million. The sale was completed in June 2018.

### 5. Long-Term Debt

Long-term debt consisted of the following:

<i>December 31,</i>	March 31, 2018	December 31, 2017
Senior Secured Term Loan	\$ 169,027,781	\$ 176,666,669
Senior Secured Bonds, Net	135,600,000	135,600,000
Debt Issuance Costs, Net	(4,186,720)	(4,946,106)
Total Long-Term Debt	\$ 300,441,061	\$ 307,320,563
Less Current Portion	(30,555,552)	(30,555,552)
Long-Term Debt, Net	\$ 269,885,509	\$ 276,765,011

Senior Secured Bonds are presented net of \$14.4 million bonds repurchased by the Company as of March 31, 2018 and December 31, 2017.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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### **Senior Secured Term Loan**

In October 2014, the Company entered into 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 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*. The Term Loan tranches bear interest at 3.25% plus LIBOR, payable quarterly (4.5% at March 31, 2018).

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.
- The market value of the vessels is at least 150% of the aggregated outstanding amount of the Term Loan.

At March 31, 2018, 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.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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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.

The Company has acquired a total of \$14.4 million of the New Bonds at March 31, 2018 and December 31, 2017.

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 March 31, 2018, the Company was in compliance with all financial covenants.

### ***Deferred Financing Costs***

Amortization of debt issuance costs and other related financing costs for the three months ended March 31, 2018 and 2017 totaled \$0.8 million for each period.

## **6. 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.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

### 7. Earnings (Loss) 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 March 31,	
	2018	2017
Numerator:		
Net income	\$ (15,771,695)	\$ 9,266,735
Denominator:		
Weighted-average shares outstanding	252,199,264	252,199,264
Effect of stock options	-	-
Weighted-average shares for per share calculation	252,199,264	252,199,264
<b>Earnings per share - basic and diluted</b>	<b>\$ (0.06)</b>	<b>\$ 0.04</b>

For the three months ended March 31, 2018 and 2017, all share-based awards (see Note 9) were excluded from the calculation since the effect would have been anti-dilutive under the treasury stock method.

### 8. Commitments and Contingencies

#### *Construction Obligations*

In October 2012, AG entered into a turn-key construction contract with Dalian Shipyard Building Industry Co.; and Dalian Shipbuilding Industry Offshore Co.; Ltd for a tender support barge (*Atlantica Gamma*). AG made a refundable 15% installment payment of \$18.6 million in October 2012. *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. As required by the construction contract terms, the dispute was heard by an arbitration tribunal in London (UK) in February / March this year. In May 2018, the arbitration tribunal's award fell in favor of DSIC, ruling that AG did not have the right to cancel the construction contract and was not entitled to the refund of the \$18.6 million down payment. Accordingly, the Company recognized \$18.6 million as a loss on cancellation of construction contract in the consolidated statement of operations for the three months ended March 31, 2018. At December 31, 2017, the \$18.6 million down payment was presented as long term deposits in the consolidated balance sheet.

#### *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 March 31,

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## Notes to Consolidated Financial Statements

2018, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated financial statements.

### 9. 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 March 31, 2018 and 2017, \$13,000 and \$17,000, respectively, was expensed in the consolidated statements of operations. There was no effect on income taxes in the consolidated financial statements related to the options. However, if the options are exercised, a tax benefit will be recorded if the gain is recorded as deductible in any jurisdiction for tax purposes. If the Company has to expense social security taxes related to the benefit of options exercised, such expenses will be recorded at the exercise date.

The following is an analysis of stock options issued and outstanding as of March 31, 2018 and December 31, 2017:

	Number of Options	Weighted Average Exercise Price Per Share *	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2017	2,763,334	\$ 3.28	
Expired	(730,000)	3.23	
Outstanding at December 31, 2017	2,033,334	3.30	
Expired	(683,334)	2.87	
Outstanding at March 31, 2018	1,350,000	\$ 3.52	1.8
Vested and Exercisable at March 31, 2018	1,350,000	\$ 3.52	1.8

\* 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.

### 10. 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

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## Notes to Consolidated Financial Statements

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one and five percent of the employee's annual salary. Such contributions for the three months ended March 31, 2018 and 2017 were \$28,000 and \$35,000, respectively.

### 11. 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. Fees for such services were \$90 for each of the three months ended March 31, 2018 and 2017.

In November 2016, the Company agreed to temporarily reduce the management fees in exchange for an additional indirect 49.9% ownership interest in BDA. As a result of this transaction, the Company recognized deferred revenue of \$136,000 which is being amortized over 24 months. For the three months ended March 31, 2018 and 2017, the Company recognized income of \$17,000 and \$-0-, respectively, in the consolidated statements of operations 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 for each of the three months ended March 31, 2018 and 2017.

#### *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 \$0.2 million for the each of the three months ended March 31, 2018 and 2017.

#### *Rig Services and Products*

The Company received products and services from AXON for the *BassDrill Beta* of \$306,000 and \$11,000 for the three months ended March 31, 2018 and 2017, 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 in 2016

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## Notes to Consolidated Financial Statements

and 2017. 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. In the first quarter of 2018, the Company finalized the settlement of the note receivable and recorded an additional \$31,000 in bad debt expense.

### *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. 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 \$-0- of interest income associated with the Super Senior Bonds for the three months ended March 31, 2018 and 2017, respectively. The Super Senior Bonds were carried at \$-0- at March 31, 2018 and December 31, 2017 due to additional equity losses recorded in 2017.

### *Accounts Receivable and Accounts Payable*

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

	March 31, 2018	December 31, 2017
BDA	\$ 114,032	\$ 119,929
Employees receivables	41,906	47,213
<b>Accounts receivable - related parties</b>	<b>\$ 155,938</b>	<b>\$ 167,142</b>

  

	March 31, 2018	December 31, 2017
AXON	\$ 23,101	\$ -
Bassoe	220,031	143,567
Other	9,462	-
<b>Accounts payable - related parties</b>	<b>\$ 252,594</b>	<b>\$ 143,567</b>

## 12. 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

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Notes to Consolidated Financial Statements

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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 5). The interest rate swap agreements effectively modify the Company's exposure to interest rate risk by converting a portion of the variable-rate debt to a fixed rate, thus reducing the impact of the interest rate changes on future interest expense. The Company has not designated these interest rate swaps as hedges and does not apply hedge accounting to its interest rate derivative instruments. At March 31, 2018 and December 31, 2017, the Company had interest rate swaps with total notional amounts of \$170.3 and \$177.3 million, respectively, that fixed the variable rate on the Term Loan to approximately between 1.11% and 1.36%.

At March 31, 2018 and December 31, 2017, the Company valued the interest rate swaps as a net asset of \$5.3 million and \$3.7 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 three months ended March 31, 2018 and 2017, the Company recognized a reduction of interest expense associated with the mark to market on its derivatives of \$1.6 million and \$0.2 million, respectively.

### 13. Subsequent Events

The Company evaluated all activity through June 25, 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 May 2018, Petrobras again exercised its right to utilize a clause in the charter contract for *BassDrill Beta*, which clause 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 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.