Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

For the Quarter Ended June 30, 2018

Atlantica Tender Drilling Ltd. & Subsidiaries

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Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

		June 30, 2018		December 31, 2017
				(Audited)
Assets				
Current Assets				
Cash and cash equivalents	$	19,324,879	$	31,783,098
Restricted cash		5,552,466		8,373,443
Accounts receivable		32,046,092		15,457,583
Accounts receivable - related parties		194,162		167,142
Note receivable, net - related party		-		360,040
Derivative instruments		1,614,345		1,065,550
Prepaid and other current assets		1,223,493		788,527
Total Current Assets		59,955,437		57,995,383
Property and Equipment, Net		506,820,731		520,239,709
Long Term Deposits		-		18,599,625
Derivative instruments		4,057,924		2,678,706
Other Assets		77,510		112,320
Total Assets	$	570,911,602	$	599,625,743

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

	June 30, 2018	December 31, 2017 (Audited)
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 4,993,299	$ 3,294,152
Accounts payable - related parties	324,261	143,567
Accrued liabilities	8,454,391	8,733,523
Current portion of long-term debt	30,555,552	30,555,552
Deferred revenue - current	8,656,656	12,251,154
Total Current Liabilities	52,984,159	54,977,948
Long-Term Liabilities		
Deferred revenue - non-current	5,099,125	9,391,878
Long-term debt, net	262,993,697	276,765,011
Deferred income taxes, net	3,745,774	3,745,774
Total Long-Term Liabilities	271,838,596	289,902,663
Total Liabilities	324,822,755	344,880,611
Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Common stock, $0.10 par value, 310,000,000 shares authorized at June 30, 2018 and December 31, 2017; 261,323,309 shares issued at June 30, 2018 and December 31, 2017; and 252,199,264 shares outstanding at June 30, 2018 and December 31, 2017	26,132,331	26,132,331
Additional paid-in capital	213,280,404	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	8,975,151	17,657,086
Total Stockholders' Equity	246,088,847	254,745,132
Total Liabilities and Stockholders' Equity	$ 570,911,602	$ 599,625,743

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Operations

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues				
Contract drilling	$ 37,813,687	$ 35,128,232	$ 69,499,430	$ 69,800,927
Amortization of deferred revenue	2,987,734	5,065,999	7,887,251	10,004,452
Management fees	91	91	181	181
Total Revenues	40,801,512	40,194,322	77,386,862	79,805,560
Operating Expenses				
Operating	18,627,253	16,704,718	38,554,745	33,070,646
Depreciation and amortization	6,755,976	6,892,754	13,595,731	13,705,364
Loss on cancellation of construction contract	-	-	18,599,625	-
Total Operating Expenses	25,383,229	23,597,472	70,750,101	46,776,010
Income from Operations	15,418,283	16,596,850	6,636,761	33,029,550
Other Income (Expense)				
Interest income	310,361	223,403	571,033	430,362
Interest expense	(5,396,591)	(6,991,373)	(9,702,517)	(12,856,579)
Gain on reacquisition of debt	-	-	-	913,423
Foreign currency loss	(318,710)	(158,986)	(555,589)	(237,644)
Bad debt expense - note receivable	-	-	(31,144)	-
Other	16,965	(33,930)	33,930	(33,930)
Total Other Expense	(5,387,975)	(6,960,886)	(9,684,287)	(11,784,368)
Income (Loss) Before Income Tax Expense	10,030,308	9,635,964	(3,047,526)	21,245,182
Income Tax Expense, Net	(2,940,548)	(2,491,836)	(5,634,409)	(4,834,319)
Net Income (Loss)	$ 7,089,760	$ 7,144,128	$ (8,681,935)	$ 16,410,863
Net Income (Loss) Per Share				
Basic and diluted	$ 0.03	$ 0.03	$ (0.03)	$ 0.07

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in	Treasury	Subscription	Retained Earnings (Accumulated	Total Stockholders'
	Shares Outstanding	Amount	Capital	Stock	Receivable	Deficit)	Equity
Balance at January 1, 2017	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
Stock compensation expense	-	-	25,650	-	-	-	25,650
Net loss	-	-	-	-	-	(8,681,935)	(8,681,935)
Balance at June 30, 2018	**252,199,264**	**$ 26,132,331**	**$ 213,280,404**	**$ (2,297,539)**	**$ (1,500)**	**$ 8,975,151**	**$ 246,088,847**

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash Flows From Operating Activities				
Net income (loss)	$ 7,089,760	$ 7,144,128	$ (8,681,935)	$ 16,410,863
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	6,755,976	6,892,754	13,595,731	13,705,364
Stock compensation expense	12,825	11,876	25,650	28,502
Bad debt expense - note receivable	-	-	31,144	-
Gain on reacquisition of debt	-	-	-	(913,423)
Noncash interest (income) expense, net	383,379	1,654,009	(421,551)	2,283,153
Amortization of deferred revenue	(2,987,734)	(5,065,999)	(7,887,251)	(10,004,452)
Other non-cash expense	33,930	33,930	220,826	33,930
Changes in operating assets and liabilities:				
Accounts receivable	(14,045,930)	4,977,717	(16,588,509)	(2,692,936)
Accounts and note receivable - related parties	(38,224)	(118,371)	(27,020)	15,085
Prepaid expenses and other assets	156,576	577,852	(400,156)	63,493
Accounts payable	642,542	(472,094)	1,699,147	(1,771,685)
Accounts payable - related parties	71,667	1,977	180,694	(1,043)
Accrued liabilities	(1,061,281)	(1,581,257)	(313,062)	(1,063,295)
Deferred revenue	-	34,802	-	1,565,221
Net Cash Provided By (Used In) Operating Activities	(2,986,514)	14,091,324	33,333	17,658,777
Cash Flows From Investing Activities				
Capital expenditures for construction in progress and capital spares	-	(1,337,441)	-	(1,974,189)
Capital expenditures for drilling rig and equipment and other	(61,683)	(220,535)	(34,753)	(456,212)
Purchase of Super Senior Bonds	-	(2,497,497)	-	(2,497,497)
Net Cash Used In Investing Activities	(61,683)	(4,055,473)	(34,753)	(4,927,898)
Cash Flows from Financing Activities				
Payments on long term debt	(7,638,888)	(6,388,889)	(15,277,776)	(12,777,778)
Repurchase of bonds	-	-	-	(2,467,500)
Debt issuance costs	-	(16,393)	-	(16,393)
Change in restricted cash	4,310,270	(956,321)	2,820,977	(975,777)
Net Cash Used In Financing Activities	(3,328,618)	(7,361,603)	(12,456,799)	(16,237,448)
Net Increase (Decrease) In Cash and Cash Equivalents	(6,376,815)	2,674,248	(12,458,219)	(3,506,569)
Cash and Cash Equivalents - Beginning of Period	25,701,694	27,093,327	31,783,098	33,274,144
Cash and Cash Equivalents - End of Period	$ 19,324,879	$ 29,767,575	$ 19,324,879	$ 29,767,575
Supplemental Cash Flow Information				
Cash paid for interest	$ 4,873,826	$ 5,236,143	$ 9,967,212	$ 10,596,120
Cash paid for income taxes	2,326,008	2,564,089	5,818,619	4,284,771

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.

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.

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 June 30, 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, accounts payable, accrued liabilities, interest rate swaps and long-term debt. The carrying values for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value, principally due to the short-term nature of these instruments. The carrying value of the Senior Secured Term Loan approximates fair value as the interest rate is re-determined regularly based on current interest rates. The fair value of the Senior Secured Bonds at June 30, 2018 and December 31, 2017 was approximately $94.9 million, based on quoted market prices, Level 1 in the fair value hierarchy.

Revenue

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

Amortization of Deferred Revenue: In connection with a customer contract, the Company may receive lump-sum fees for the mobilization of equipment offset by any liquidated damages incurred due to late delivery of the rig. Mobilization fees and costs incurred to mobilize a rig from one geographic market to another are deferred and recognized on a straight-line basis over the initial term of such contract, excluding any option periods. Costs incurred to mobilize a rig without a contract are expensed as incurred. The costs of capital improvements are capitalized and depreciated over the useful lives of the assets. The Company recognized mobilization revenue related to the *BassDrill Beta* of approximately $0.8 million and $2.8 million for the three months ended June 30, 2018 and 2017, respectively, and $3.6 million and $5.6 million for the six months ended June 30, 2018 and 2017, respectively. The Company recognized mobilization revenue related to the *Atlantica Delta* of approximately $2.2 million and $2.3 million for the three months ended June 30, 2018 and 2017, respectively, and $4.3 million and $4.4 million for the six months ended June 30, 2018 and 2017, 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 and six months ended June 30, 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 June 30, 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 June 30, 2018 and December 31, 2017, accounts receivable included $7.6 million and $6.8 million, respectively, of accrued revenues.

Concentrations of Credit Risk

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Total	55%	55%	58%	44%
Petrobras	45%	45%	42%	56%

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 and $6.9 million for the three months ended June 30, 2018 and 2017, respectively, and $13.6 million and $13.7 million for the six months ended June 30, 2018 and 2018, 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

Capital Spares

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

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 and six months ended June 30, 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/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 and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Current income tax expense	$ 2,940,548	$ 2,491,836	$ 5,634,409	$ 4,834,319
Deferred income tax benefit	-	-	-	-
Income tax expense, net	$ 2,940,548	$ 2,491,836	$ 5,634,409	$ 4,834,319

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 June 30, 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 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 and six months ended June 30, 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.

3. Property and Equipment

Property and equipment consisted of the following:

	June 30, 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	896,568	834,886
Vehicles	181,261	181,261
	593,184,873	593,150,120
Less: accumulated depreciation	91,099,426	77,503,695
	502,085,447	515,646,425
Inventory - capital spares	4,735,284	4,593,284
Property and equipment, net	$ 506,820,731	$ 520,239,709

4. Investments

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

In June 2017, the Company subscribed, in proportion to the Company’s ownership interest, to $2.5 million of BDA’s Super Senior Bonds (see Note 11). In accordance with ASC 323 – *Equity Method – Recognition of losses in excess of Investment*, the Company recognized its share of previously suspended loss of BDA up to the amount of this additional investment. Accordingly, the Company reflected $-0- on it balance sheet for the Super Senior Bonds at June 30, 2017 and December 31, 2017.

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:

	June 30, 2018	December 31, 2017
Senior Secured Term Loan	$ 161,388,893	$ 176,666,669
Senior Secured Bonds, Net	135,600,000	135,600,000
Debt Issuance Costs, Net	(3,439,644)	(4,946,106)
Total Long-Term Debt	$ 293,549,249	$ 307,320,563
Less Current Portion	(30,555,552)	(30,555,552)
Long-Term Debt, Net	$ 262,993,697	$ 276,765,011

Senior Secured Bonds are presented net of $14.4 million bonds repurchased by the Company as of June 30, 2018 and December 31, 2017.

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 June 30, 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 million 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 June 30, 2018, the Company was in compliance with all financial covenants except the minimum liquidity requirement, for which the Company has received a waiver from the lenders.

Senior Secured Bonds

In September 2014, the Company issued $75.0 million of Senior Secured Bonds ("Bonds") originally maturing in April 2018 and collateralized by *BassDrill Beta*. The Bonds bore interest at 8.5%, with semiannual interest payments that commenced October 24, 2013, with principal due at maturity.

On September 23, 2014, the Company issued an additional $75.0 million of Senior Secured Bonds ("New Bonds"), maturing in September 2019 that is collateralized by *BassDrill Beta* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit rights arising from the Company's drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account (see Restricted Cash in Note 2). Concurrent with the issuance of these New Bonds, the holders of the Bonds agreed to amend and restate the bond agreement to be consistent with the bond agreement of the New Bonds. The Bonds and New Bonds bear interest at 8.0%, with quarterly interest payments that commenced December 23, 2014, and principal due at maturity. The New Bonds are subordinated to the Term Loan.

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

The Company has acquired a total of $14.4 million of the New Bonds at June 30, 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 June 30, 2018, the Company was in compliance with all financial covenants except the minimum liquidity requirement, which the Company remedied shortly after June 30, 2018.

Deferred Financing Costs

Amortization of debt issuance costs and other related financing costs totaled $0.7 million and $0.8 million for the three months ended June 30, 2018 and 2017, respectively, and $1.5 million and $1.7 million for the six months ended June 30, 2017 and 2017, respectively.

6. Stockholders' Equity

At June 30, 2018 and December 31, 2017, 9,124,045 shares of the Company's common stock at a cost of approximately $2.3 million were held as treasury stock.

7. Earnings (Loss) Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss)	$ 7,089,760	$ 7,144,128	$ (8,681,935)	$ 16,410,863
Denominator:				
Weighted-average shares outstanding	252,199,264	252,199,264	252,199,264	252,199,264
Effect of stock options	-	-	-	-
Weighted-average shares for per share calculation	252,199,264	252,199,264	252,199,264	252,199,264
Earnings (loss) per share - basic and diluted	$ 0.03	$ 0.03	$ (0.03)	$ 0.07

For the three and six months ended June 30, 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 of 2018. 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 six months ended June 30, 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 June 30, 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. The Company recognized stock compensation expense of $13,000 and $12,000 for the three months ended June 30, 2018 and 2017, respectively, and $26,000 and $29,000 for the six months ended June 30, 2018 and 2017, respectively. 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 June 30, 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 June 30, 2018	1,350,000	$ 3.52	1.6
Vested and Exercisable at June 30, 2018	1,350,000	$ 3.52	1.6

* 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 one and five percent of the employee's annual salary. Such contributions were $36,000 and $32,000 for the three months ended June 30, 2018 and 2017, respectively, and $64,000 and $67,000 for the six months ended June 30, 2018 and 2017, 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 $91 for each of the three months ended June 30, 2018 and 2017 and $181 for each of the six months ended June 30, 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 was being amortized over 24 months. For the three and six months ended June 30, 2018, the Company recognized income of $17,000 and $34,000, respectively, in the consolidated statements of operations related to the deferred management fees.

In June 2018, BDA sold its only asset and is in the process of winding down operations. Upon dissolution of the BDA entity, the management services agreement will terminate.

Congo Shared Services

AD had 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 June 30, 2018 and 2017, and $0.2 million billed to BDA for each of the six months ended June 30, 2018 and 2017. After the sale of BDA's sole asset in the Republic of Congo in June 2018, this shared services agreement ended.

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 June 30, 2018 and 2017, and $0.4 million for each of the six months ended June 30, 2018 and 2017.

Rig Services and Products

The Company received products and services from AXON for the *BassDrill Beta* of $26,000 and $46,000 for the three months ended June 30, 2018 and 2017, respectively, and $332,000 and $58,000 for the six months ended June 30, 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 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 $3,000 of interest income associated with the Super Senior Bonds for the three months ended June 30, 2018 and 2017, respectively, and $44,000 and $3,000 for the six months ended June 30, 2018 and 2017, respectively. The Super Senior Bonds were carried at $-0- at June 30, 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:

	June 30, 2018	December 31, 2017
BDA	$ 163,575	$ 119,929
Employees receivables	30,587	47,213
Accounts receivable - related parties	$ 194,162	$ 167,142

	June 30, 2018	December 31, 2017
AXON	$ 25,773	$ -
Bassoe	288,768	143,567
HitecVision	9,720	-
Accounts payable - related parties	$ 324,261	$ 143,567

12. Risk Management and Financial Instruments

The majority of the Company's revenue 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 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 June 30, 2018 and December 31, 2017, the Company had interest rate swaps with total notional amounts of $163.3 and $177.3 million, respectively, that fixed the variable rate on the Term Loan to approximately between 1.11% and 1.36%.

At June 30, 2018 and December 31, 2017, the Company valued the interest rate swaps as a net asset of $5.7 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 and six months ended June 30, 2018, the Company recognized a reduction of interest expense associated with the mark to market on its derivatives of $1.5 million and $0.1 million, respectively. For the three and six months ended June 30, 2017, the Company recognized an increase of interest expense associated with the mark to market on its derivatives of $0.8 million and $0.6 million, respectively.

13. Subsequent Events

The Company evaluated all activity through August 27, 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.

Effective August 24, 2018, the Company and Petrobras agreed to extend the term of the existing contract for *BassDrill Beta* by 386 days with options.