Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

As of and for the Years Ended December 31, 2019 and 2018

ATLANTICA

From the Board of Directors:

Atlantica Tender Drilling Ltd. ("Atlantica" or the "Company") was incorporated in Bermuda in 2008. The Company owns and operates tender assist drilling rigs (the "Unit(s)") for the provision of services to major international independent and national oil and gas companies worldwide.

The Company is headquartered in Houston, Texas. The Company's primary assets are the Units *Beta* and *Delta*, sister vessels designed to work in more challenging, metocean conditions compared to the existing semi-submersible tender fleet.

Operations

Beta Unit. Delivered by Dalian Shipyard Industry Offshore Co. Inc. ("DSIOC") in November 2013, *Beta* incorporates all the latest operational, safety and environmental features and was the first of its kind working alongside a Tension Leg Platform ("TLP") offshore Brazil. Since March 2014 *Beta* has been under contract to Petróleo Brasileiro S.A. ("Petrobras"). The 1,500-day contract was set to expire by the end of August 2018 but has been extended to last through March 2021. During the first part of 2018, *Beta* recommenced drilling operations after a Petrobras-requested drilling pause for much of 2017. From second half of 2018 through May of 2020, the rig has operated with high uptime. In 2019, the rig completed its five-year certification program (SPS). In April 2020, the rig surpassed 5 years without a lost time injury. In June 2020, Petrobras suspended operations and placed the *Beta* on a long-term special standby rate for an indefinite period of time. Even under a special standby rate, the *Beta* is expected to generate positive cash flow as the reduced rate, 88% of normal operating rate, will be offset by reduced operational expenses. We expect the standby period will extend for a number of months and possibly to the end of this year. Petrobras will have to either exercise the current single one-year option this November or end the contract. All indications point towards a contract extension and a resumption of drilling. During the standby period a number of maintenance and inspection activities will take place. Preventative measures have been implemented to protect the *Beta* team members to the greatest extent possible from COVID-19. These measures include quarantining and testing along with other measures.

Delta Unit. *Delta* commenced a contract with Total E&P Congo ("Total") in January 2016, shortly following delivery in China. The contract was for a 17 well development program on Moho Nord field offshore the Republic of Congo, Brazzaville, and included multiple options to drill up to 10 additional wells. In early 2020, Total elected to forgo drilling the final 17th well and to not exercise any options under the contract. Due to the travel restrictions during the COVID-19 pandemic, the rig went on a negotiated special standby rate in April and May 2020. Demobilization from Total's TLP commenced in June 2020 and is expected to be finished by August 2020. At that time, the Company intends to reposition the *Delta* for stacking until a new opportunity can be secured.

Financing

In 2014 the Company established a fleet debt structure comprised of senior secured bank debt and a second lien bond loan, which was to mature in Q3 2019. During 2019, the Company explored different possibilities for refinancing its debt, but was unsuccessful. In September and October 2019, the senior secured bank debt and bond loan were extended to mature in Q3 2020 and amended for an increase in the interest rate and other term requirements. In connection with the debt amendment and extension, the Company completed an equity raise of $5.0M with the issuance of new shares and sale of treasury shares in October 2019. In March 2020, with unknown impacts of COVID-19, the collapse of oil prices, and *Delta* coming off contract, the Company took measures to preserve cash and suspended all debt principal and interest payments. The Company is under a standstill agreement with its senior creditors subject to agreement by the bondholders. Talks continue for a solution to resolve the company's debt and operational cash flow requirements.

The Company's total number of shares outstanding at December 31, 2019 is 302,199,264 (par value $0.10 per share). The Company's largest shareholder is HitecVision Asset Solutions LP, through its fund, HVAS Invest Zeta AS, owning 69.2% of the outstanding shares.

Please refer to the attached audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018.

Merger

In April 2019, the Company signed a Letter of Intent to merge with Energy Drilling Ptd. Ltd. ("Energy Drilling") through a stock-for-stock transaction in which Atlantica would have been the acquiring organization. While shareholder and lending groups were receptive to the merger, the opportunity to obtain longer term financing to support a combined company was difficult given the market conditions. As a result, the Company has postponed the merger indefinitely.

Market Outlook

In March 2020, the World Health Organization ("WHO") classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally and the risks posed to the international community. In response, governments around the world imposed travel restrictions and stay at home orders to mitigate the risks of the pandemic. This has caused a significant decline in global economic activity and a materially reduced demand for oil and gas.

In March and April 2020, oil production negotiations between Russia and Saudi Arabia were unsuccessful resulting in a price war and leading to a massive oversupply of oil, which flooded the global markets.

The simultaneous decrease in demand for oil and increase in production has led to volatile oil prices with unprecedented drops in oil prices. As a result, companies have drastically reduced or delayed drilling programs. While oil prices have partially recovered, oil prices are expected to be volatile due to continued COVID-19 outbreaks, high oil inventories and depressed global economic activity in the near term. The Company expects new opportunities for deep water drilling contracts to remain limited through 2021.

Beyond the short-term, Atlantica expects that further growth in the Company's markets will come from short-cycle drilling programs such as shallow water drilling on fixed platforms and work-over and re-drilling projects in brown fields. The Company believes the tender assist drilling segment is likely to benefit in the earlier stages of any industry recovery as E&P companies focus on development drilling. In an improved market the Company continues to envision a geographical expansion of the semi-submersible tender market outside of the traditional equatorial waters (10 degrees either side of the equator) to, for example the Gulf of Mexico. This could lead to a resumption in demand for semi-submersible tenders for use with both bottom-supported (fixed) platforms as well as deep-water development using spars and TLPs.

Hamilton, Bermuda June 30, 2020

Pål Reiulf Olsen, Deputy Chairman on behalf of the Board

The Board of Directors of Atlantica Tender Drilling Ltd.

- Erling Lind, Chairman
- Pål Reiulf Olsen, Deputy Chairman
- Alf Thorkildsen
- Kristan Bodden

Atlantica Tender Drilling Ltd. & Subsidiaries

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Atlantica Tender Drilling Ltd. and its subsidiaries (collectively the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantica Tender Drilling Ltd. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Company has significant obligations and commitments coming due in the near term that raises substantial doubt about its ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding New Accounting Pronouncement

As discussed in Note 4, to the consolidated financial statements, on January 1, 2019, the Company adopted Accounting Standards Update 2016-18 "Restricted Cash". Our opinion is not modified with respect to this matter.
Houston, Texas

Emphasis of Matter Regarding Change in Estimate

As described in Note 4, to the consolidated financial statements, effective January 1, 2019, the Company revised its estimates of the useful lives and residual values of its Mast Equipment Packages. This revision primarily reflects a change in conditions and not a change in accounting principles. As a result of this revision, net loss for the year ended December 31, 2019, was increased by $38,847,260. Our opinion is not modified with respect to this matter.

BDO USA, LLP

Houston, Texas
June 30, 2020

Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,		2019		2018
Assets				
Current Assets				
Cash and cash equivalents	$	22,617,723	$	36,170,146
Restricted cash		12,735,683		9,864,523
Accounts receivable		21,266,038		18,890,102
Accounts receivable - related parties		-		70,965
Derivative instruments - interest swaps		278,634		1,515,253
Derivative instruments - foreign currency		153,133		-
Inventory, net		19,776,428		20,320,505
Prepaid and other current assets		1,987,781		1,775,097
Total Current Assets		78,815,420		88,606,591
Property and Equipment, Net		208,637,045		484,432,804
Derivative Instruments - interest swaps		346,984		2,538,220
Other Assets		1,100,061		7,065,398
Total Assets	$	288,899,510	$	582,643,013

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets (Continued)

December 31,		2019		2018
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$	3,267,237	$	3,295,884
Accounts payable - related parties		72,095		39,163
Accrued liabilities		8,006,667		8,345,319
Derivative instruments - currency swaps		-		488,098
Current portion of long-term debt		226,960,912		279,723,628
Deferred revenue - current		740,210		8,715,381
Total Current Liabilities		239,047,121		300,607,473
Long-Term Liabilities				
Deferred revenue - non-current		-		740,210
Deferred income taxes, net		-		3,955,794
Total Long-Term Liabilities		-		4,696,004
Total Liabilities		239,047,121		305,303,477
Commitments and Contingencies (Note 11)				
Stockholders' Equity				
Common stock, $0.10 par value, 310,000,000 shares authorized at December 31, 2019 and 2018; 302,199,264 and 261,323,309 shares issued at December 31, 2019 and 2018; and 302,199,264 and 252,199,264 shares oustanding at December 31, 2019 and 2018		30,219,926		26,132,331
Additional paid-in capital		213,206,053		213,306,053
Treasury stock (9,124,045 shares at cost)		-		(2,297,539)
Subscription receivable		(1,500)		(1,500)
Retained earnings		(193,572,090)		40,200,191
Total Stockholders' Equity		49,852,389		277,339,536
Total Liabilities and Stockholders' Equity	$	288,899,510	$	582,643,013

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Operations

Year Ended December 31,	2019	2018
Revenues		
Contract drilling	$ 150,504,038	$ 155,465,329
Mobilization and demobilization revenue	8,965,381	12,521,160
Total Revenues	159,469,419	167,986,489
Operating Expenses		
Operating	75,483,167	76,747,382
Depreciation and amortization	65,396,838	26,936,658
Impairment on long-lived assets	215,045,094	-
Loss on cancellation of construction contract	-	18,599,625
Loss on disposal of assets	2,072,319	1,089,314
Total Operating Expenses	357,997,418	123,372,979
Income (loss) from Operations	(198,527,999)	44,613,510
Other Income (Expense)		
Interest expense, net	(25,398,682)	(21,212,134)
Foreign currency loss	(1,062,946)	(1,497,624)
Gain on Super Senior Bonds	-	700,000
Other	(16,357)	14,097
Total Other Expense	(26,477,985)	(21,995,661)
Income (loss) Before Income Tax Expense	(225,005,984)	22,617,849
Income Tax Expense	(7,381,163)	(11,812,689)
Net Income (Loss)	$ (232,387,147)	$ 10,805,160
Net Income (Loss) Per Share		
Basic and diluted	$ (0.89)	$ 0.04
Weighted Average Common Shares Outstanding		
Basic and diluted	260,418,442	252,199,264

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock												
	Shares Outstanding		Amount		Additional Paid-in Capital		Treasury Stock		Subscription Receivable		Retained Earnings		Total Stockholders' Equity
Balance at January 1, 2018	252,199,264	$	26,132,331	$	213,254,754	$	(2,297,539)	$	(1,500)	$	17,657,086	$	254,745,132
Effect of Adoption of ASC 606 (Note 4)	-		-		-		-		-		479,167		479,167
Other	-		-		51,299		-		-		-		51,299
Net income	-		-		-		-		-		10,805,160		10,805,160
Change in accounting principle - inventory (Note 3)	-		-		-		-		-		11,258,778		11,258,778
Balance at December 31, 2018	**252,199,264**	**$**	**26,132,331**	**$**	**213,306,053**	**$**	**(2,297,539)**	**$**	**(1,500)**	**$**	**40,200,191**	**$**	**277,339,536**
Common stock issued	50,000,000		4,087,595		-		2,297,539		-		(1,385,134)		5,000,000
Stock issuance costs	-		-		(100,000)		-		-		-		(100,000)
Net loss	-		-		-		-		-		(232,387,147)		(232,387,147)
Balance at December 31, 2019	**302,199,264**	**$**	**30,219,926**	**$**	**213,206,053**	**$**	**-**	**$**	**(1,500)**	**$**	**(193,572,090)**	**$**	**49,852,389**

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	2019	2018
Cash Flows From Operating Activities		
Net income (loss)	$ (232,387,147)	$ 10,805,160
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairment on long-lived assets	215,045,094	-
Loss on disposal of assets	2,072,319	1,089,314
Loss on cancellation of construction contract	-	18,599,625
Gain on Super Senior Bonds	-	(700,000)
Depreciation and amortization	65,396,838	26,936,658
Noncash interest expense, net	7,233,691	2,649,402
Noncash mobilization and demobilization revenue	(8,965,381)	(12,515,953)
Deferred income tax expense	(3,955,794)	271,602
Other non-cash expense	616,313	600,605
Changes in operating assets and liabilities:		
Accounts receivable	(2,375,936)	(3,354,002)
Accounts and note receivable - related parties	70,965	96,177
Prepaid expenses and other assets	4,251,947	(6,323,587)
Accounts payable	(28,647)	(75,828)
Accounts payable - related parties	32,932	(26,844)
Accrued liabilities	(297,009)	(342,963)
Net Cash Provided By Operating Activities	46,710,185	37,709,366
Cash Flows From Investing Activities		
Capital expenditures for drilling rig, equipment and capital spares	(6,437,211)	(1,275,686)
Settlement of Super Senior Bonds	714,315	-
Net Cash Used In Investing Activities	(5,722,896)	(1,275,686)
Cash Flows from Financing Activities		
Payments on long term debt	(52,211,115)	(30,555,552)
Issuance of common stock, net	4,900,000	-
Debt issuance costs	(4,357,437)	-
Net Cash Used In Financing Activities	(51,668,552)	(30,555,552)
Net (Decrease) Increase In Unrestricted and Restricted Cash and Cash Equivalents	(10,681,263)	5,878,128
Unrestricted and restricted Cash and Cash Equivalents - Beginning of Year	46,034,669	40,156,541
Unrestricted and Restricted Cash and Cash Equivalents - End of Year	$ 35,353,406	$ 46,034,669
Supplemental Cash Flow Information		
Cash paid for interest	$ 19,095,542	$ 19,647,979
Cash paid for income taxes	11,424,370	12,190,359
Supplemental Non Cash Information		
Settlement of Axon note receivable with inventory and equipment	$ -	$ 328,896
Deferred revenue billed and included in accounts receivable	-	78,517
Effects from Change in Account Principle		
Movement from Property & Equipment to Inventory	-	9,123,309
Movement from Retained Earnings to Inventory	-	11,258,778
Movement from Deferred Income Taxes to Inventory	-	(61,582)

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 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 Malta-based entity
- Atlantica (Holding) B.V. (“ABV”), a Holland-based entity
- Atlantica Financing B.V. (“AF-BV”), a Holland-based entity

The Company’s primary assets and liabilities currently pertain to *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; *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. Liquidity

These consolidated financial statements have been prepared in accordance with the applicability of a going concern assumption, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for an extended period of time. The Company’s existing debt agreements, as amended and extended in September 2019 (see Note 7), mature in the third and fourth quarters of 2020. The Company’s existing liquid assets do not meet the needs for this debt repayment obligation; however, the Company plans to restructure its debt obligations and expects a resolution prior to the maturity dates. Consequently, this situation raises substantial doubt about the Company’s ability to continue as a going concern within one year after the date the accompanying consolidated financial statements are available to be issued.

Management's belief is that the refinancing will be successful and that the new financing, together with forecasted operating cash flow, will be sufficient to enable the Company to meet its obligations as they become due in the ordinary course of business for 12 months following the date these financial statements are issued. This assumes, among other things, that the Company will continue to be successful in implementing its business strategy and that there will be no material adverse developments in its business, liquidity or capital requirements. If one or more of these factors do not occur as expected, it could cause a default under one or both of the existing agreements governing the Company's indebtedness leading to potential insolvency proceedings in Bermuda or the filing for bankruptcy protection in the U.S.

Following the end of the *Delta* contract with Total and unprecedented situation involving the global COVID 19 pandemic, the Company suspended bond coupon payments and the payments of interest and amortization under the senior bank facility in March 2020. While formal standstill arrangements with the bondholders and senior lenders have expired, the Company remains in dialogue with its financial creditors regarding the way forward and is hopeful that a positive resolution can be found in the near future.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

3. Change in Accounting Principle

The Company changed its accounting treatment for inventory effective December 31, 2018. Prior to the effective date, the Company accounted for its inventory as part of property and equipment subject to depreciation. Effective December 31, 2018, the Company began accounting for its inventory as prescribed under Accounting Standard Codification 330, *Inventory* ("ASC 330"). Inventory is carried at the weighted average purchase price less an allowance for obsolescence. The allowance for obsolescence is based on historical experience and expectations for future use.

Accounting for inventory as prescribed by ASC 330 is a preferable method because it is a better reflection of the Company's assets and a more accurate allocation of costs of physical assets to periods in which the assets are consumed. Because procedures around inventory were not fully implemented until 2018, the Company could not produce inventory reports prior to December 31, 2018. Due to this impracticability, the Company adopted the change in accounting principle effective December 31, 2018. For the year ended December 31, 2019, the Company decreased operating expenses for $0.2 million, net, related to the change in accounting for inventory.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the assets and liabilities of Atlantica and its subsidiaries (as described in Note 1). All intercompany balances and transactions have been eliminated in consolidation.

Reclassification

Certain previously reported amounts have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the consolidated net income or cash flows.

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 ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*, establishes a common definition for fair value to be applied to existing GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

> **Level 1** – Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.
>
> **Level 2** - Other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
>
> **Level 3** – Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

The Company's fair value of financial instruments disclosure is based upon information available to management as of December 31, 2019 and 2018. 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, foreign currency exchange 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 December 31, 2019 and 2018 was approximately $119.3 million and $136.5 million, respectively, based on quoted market prices, Level 1 in the fair value hierarchy. The fair value of the interest rate swaps and foreign currency exchange rate swaps are recorded at fair value at each reporting period based on indirect market prices, Level 2 in the fair value hierarchy (see Note 14).

In 2019, the Company impaired its rigs to fair value. The Company relied on various valuation techniques, including discounted cash flows, industry analysis and third party appraisals. Each of these methodologies include assumptions and inputs that are indirectly observable and are considered a Level 3.

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 7) 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.

Concentrations of Credit Risk

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

Year Ended December 31,	2019	2018
Total	60%	56%
Petrobras	40%	44%

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 re-measured into U.S. dollars, and any gain or loss is recorded in the consolidated statements of operations.

Inventory

Inventory is carried at the weighted average purchase price less an allowance for obsolescence which is representative of the lower of cost or net realizable value. The allowance for obsolescence is based on historical experience and expectations for future use of inventory. At December 31, 2019 and 2018, the allowance for obsolescence was $5.5 million and $4.3 million, respectively.

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 $65.4 million and $26.9 million for the years ended December 31, 2019 and 2018, respectively.

In January 2019, the Company reviewed the estimated useful life and salvage value of its mast equipment package ("MEP") on the rigs. The MEPs have a high degree of customization under current contracts that will not be useful for future operations when the contract is completed. The *Delta* MEP does have a salvage value at the expected end of the current contract. Effective January 1, 2019, the Company decreased the useful lives of the MEPs and increased the salvage values used in its MEP deprecation estimate. For the year ended December 31, 2019, the Company incurred an additional $38.9 million in depreciation expense due to this change in estimate.

The estimated useful lives are defined below:

Drilling rigs and equipment:	
Barge and related marine equipment	30 years
Mast equipment package	5 - 7 years
Other (drill string, engine overhauls, etc.)	2 - 5 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.

Rig Certifications

The Company is required to obtain certificates from various regulatory bodies in order to operate its drilling rigs. The costs incurred to obtain and maintain these certifications (inspections, tests, surveys, etc.) are capitalized in other assets and amortized over the corresponding certification period with amortization recorded as a component of operating expense.

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 to 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 discounted cash flow models, quoted market values and third party appraisals, as considered necessary.

Due to the continued suppressed oil and gas market and the short time frame of the remaining period under the current contracts, the Company tested the rigs for impairment at December 31, 2019. The carrying value of the rigs exceeded the future undiscounted cash flows which indicated an impairment. For the year ended December 31, 2019, the Company recorded an impairment of $215.0 million associated with its drilling rigs.

Income Taxes

The Company is a Bermuda limited liability company. Bermuda does not impose corporate income taxes unless activities are carried out in Bermuda. No activities were carried out in Bermuda during the years ended December 31, 2019 and 2018. 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 years ended December 31, 2019 and 2018:

Year Ended December 31,		**2019**		**2018**
Current income tax expense	$	11,336,957	$	11,541,087
Deferred income tax expense		(3,955,794)		271,602
Income tax expense	$	7,381,163	$	11,812,689

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences. Deferred tax assets and liabilities are based on temporary differences that arise between the carrying value of the financial statements and tax bases of assets and liabilities. At December 31, 2018, the Company recorded a deferred tax liability of $4.0 million. At December 31, 2019, the Company recorded a $1.3 million deferred tax asset with a full valuation allowance for a net $-0- million deferred tax position. The Company recorded a full valuation allowance due to the Company's inability to realize the asset under a going concern (see Note 2). The deferred tax position 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 years ended December 31, 2019 and 2018.

Earnings Per Share

Basic earnings per share ("EPS") is calculated based on the income or 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. 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.

Recently Adopted Accounting Standard

The Company adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (ASC 230): Restricted Cash*, effective January 1, 2019. The standard requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and end of period amounts presented in the statement of cash flows. The Company applied it retrospectively as required. The presentation and classification within the Company's statements of cash flows were revised.

The Company elected to adopt ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), effective January 1, 2018. Under the new accounting guidelines in ASC 606, demobilization fees are not distinct within the context of the contract and are amortized over the initial term of the contract as the demobilization fees. The Company used a modified retrospective approach upon adoption of ASC 606 and increased retained earnings by $0.5 million at January 1, 2018 for prior period recording of demobilization revenue.

Recently Issued Accounting Standard

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASC 842"), to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is evaluating the impacts of this ASU on its financial statements.

5. Property and Equipment

Property and equipment consisted of the following:

December 31,	2019	2018
Drilling rigs and equipment	$ 582,372,290	$ 582,284,176
Leasehold improvements	-	172,576
Furniture and office equipment	188,318	188,318
Computer hardware and software	897,471	896,723
Vehicles	181,261	181,261
	583,639,340	583,723,054
Less: accumulated depreciation	168,145,313	103,557,261
accumulated impairments	215,045,094	-
	200,448,933	480,165,793
Inventory - capital spares	8,188,112	4,267,011
Property and equipment, net	$ 208,637,045	$ 484,432,804

For the year ended December 31, 2019, the Company recorded an impairment of $215 million associated with its drilling rigs.

6. Investments

In June 2017, the Company subscribed to $2.5 million of Super Senior Bonds in BassDrill Alpha Ltd. ("BDA") (see Note 13).

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.

The Company recognized $0.7 million as a gain on the Super Senior Bonds in 2018. Upon the settlement of the liquidation of BDA in 2019, the Company received $0.7 million of its investment in BDA's Super Senior Bonds.

7. Long-Term Debt

Long-term debt consisted of the following:

December 31,	2019	2018
Senior Secured Term Loan	$ 93,900,000	$ 146,111,116
Senior Secured Bonds	135,600,000	135,600,000
Debt Issuance Costs, Net	(3,313,945)	(1,987,488)
Bond Premium	774,857	-
Total Long-Term Debt	$ 226,960,912	$ 279,723,628
Less Current Portion	(226,960,912)	(279,723,628)
Long-Term Debt, Net	$ -	$ -

Senior Secured Bonds as of December 31, 2018 are presented net of $14.4 million bonds repurchased by the Company. These bonds were discharged by the Company in September 2019.

Senior Secured Term Loan

In October 2014, the Company entered into a Senior Secured Term Loan ("Term Loan"), originally maturing in August 2019 and bore interest at 3.25% plus LIBOR, payable quarterly. In September 2019, the Term Loan was amended and extended to mature in September 2020 and (effective September 19, 2019) bears interest at 4.75% plus LIBOR for the first six months of the extension and increasing 0.5% every six months thereafter. At December 31, 2019, the interest on the Term Loan was approximately 6.8%. The Term Loan is collateralized by a first lien mortgage on *Beta* and *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 4). The Term Loan requires quarterly principal payments of $7.5 million that commenced October 2019, with a balloon payment of $71.4 million at final maturity.

In connection with the September 2019 amendment and extension, the Company made an immediate principal payment of $21.8 million. As amended, the Term Loan requires sweep repayments if the Company's free and unencumbered cash balance, exclusive of the minimum free cash requirement, exceeds $10.0 million, and requires a prepayment of the loan for any amounts received upon the receipt of the Petrobras rate adjustment associated with the withholding income tax change (see Note 11).

In order to minimize its exposure to the floating interest rate on the Term Loan, the Company entered into interest rate swaps to effectively obtain a fixed rate on a portion of the Term Loan. At December 31, 2019, the Company hedged $70.4 million, or 75%, of the Term Loan balance with an effective fixed LIBOR of 1.25%.

At December 31, 2019, the Term Loan further required the Company to comply with certain financial covenants as noted below. These covenants are required to be tested and reported quarterly (except as noted):

- 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 $10.0 million or 5% of the outstanding interest-bearing debt ($11.5 million at December 31, 2019)
- Positive working capital, excluding the minimum liquidity requirement discussed above
- The combined market value of the vessels is at least 200% of the aggregated outstanding amount of the Term Loan (reporting required semi-annually).

At December 31, 2019, the Company was in compliance with all financial covenants, except the minimum book equity and equity ratio. The Company is in dialogue with the creditors to restructure the Term Loan and Bonds (see Note 15).

Senior Secured Bonds

In April 2013, the Company issued $75.0 million of Senior Secured Bonds ("Original Bonds"), originally maturing in April 2018 and collateralized by *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"), originally maturing in September 2019. Concurrent with the issuance of these New Bonds, the holders of the Original Bonds agreed to amend and restate the bond agreement to be consistent with the bond agreement of the New Bonds. The Original Bonds and New Bonds, (together the "Bonds") bore interest at 8.0%.

In September 2019, the Bonds were amended and extended to mature in October 2020 and (effective September 24, 2019) bear interest at 12%, with quarterly interest payments. The Bonds require repayment at 102% of par value upon maturity, or at premium ranging between 101% to 101.25% for early settlement. The Bonds are collateralized by *Beta* and *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 4). The Bonds are subordinated to the Term Loan.

At December 31, 2019, the Bonds further required the Company to comply with certain financial covenants as noted below. These covenants, are required to be tested and reported quarterly (except as noted):

- 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 $10.0 million or 5% of the outstanding interest-bearing debt ($11.5 million at December 31, 2019)
- Positive working capital, excluding the minimum liquidity requirement discussed above
- The combined market value of the vessels is at least 200% of the aggregated outstanding amount of the Term Loan (reporting required semi-annually).

At December 31, 2019, the Company was in compliance with all financial covenants, except the minimum book equity and equity ratio. The Company is in dialogue with the creditors to restructure the Term Loan and Bonds (see Note 15).

Deferred Financing Costs

In relation to the debt refinancing, the Company paid $4.4 million of financing costs for the year ended December 31, 2019; all such costs were recorded as debt issuance costs. Amortization of debt issuance costs and other related financing costs, included within interest expense, totaled $3.8 million and $3.0 million for the years ended December 31, 2019 and 2018, respectively.

Accretion of Bond Premium

As discussed above, the Bonds will be settled at a premium under the terms of the September 2019 bond amendment. The Company recorded additional interest expense of $0.8 million associated with this premium for the year ended December 31, 2019.

8. Stockholders' Equity

As a condition of the September 2019 Bond amendment and extension (see Note 7), the Company completed an equity raise of $4.9 million, net in October 2019. The proceeds were used to fund a Senior Secured Bond interest escrow account to cover additional interest expense on the bonds through June 2020 and for general corporate purposes.

9. Revenue from Contracts with Customers

The Company's revenue derives from drilling contract activities that include (i) providing and operating tender assist drilling rig, (ii) moving the rig to (mobilization) and off (demobilization) location and (iii) reimbursement of certain supplies, equipment and personnel services requested by the customer. These services are deemed to be a single performance obligation under the contract and satisfied over a series of service periods.

Contract Drilling

Contract drilling revenue is based on contracted day-rates and the number of operating days during the period. As part of the single performance obligation of the contract, this day-rate consideration is recognized as services are performed.

The Company receives reimbursement from customers for the purchase of supplies, equipment, personnel services and other services requested by the customer. The Company is considered a principal in these transactions and records revenues and the corresponding costs as goods and services are rendered.

Mobilization and Demobilization 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. This performance obligation is part of the single performance obligation identified in the contract and is allocated to the overall single performance obligation. Accordingly, 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.

The Company may also receive lump-sum fees for demobilization of equipment and personnel upon completion or termination of the contract. This performance obligation is part of the single performance obligation identified in the contract and is allocated to the overall single performance obligation. Demobilization fees are recorded as revenue over the initial term of the contract.

The Company recognized amortization of mobilization revenue related to *Beta* of $-0- million and $3.6 million for the years ended December 31, 2019 and 2018, respectively. The Company recognized amortization of mobilization and demobilization revenue related to *Delta* of $9.0 million and $8.9 million for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Company had a total deferred revenue liability of $0.7 million and $9.5 million, respectively, for collected fees associated with mobilization. At December 31, 2019 and 2018, the Company had a current asset of $1.0 million and a non-current asset of $0.7 million, respectively, related to the amortization of demobilization revenue.

Accounts Receivable

The Company's 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's customers include a large international oil and gas operator and a national oil company. The Company's drilling contracts provide for monthly billings, and payment is usually made within 30 – 60 days. 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 December 31, 2019 and 2018.

Accounts receivable also include estimates of the Company's contract drilling revenue earned during the period, but unbilled at the end of the period. At December 31, 2019 and 2018, accounts receivable included $7.5 million of accrued revenues. At December 31, 2019, the Company included $8.4 million in accrued receivables related to the Petrobras rate adjustment for tax law changes (see Note 11).

10. 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 for the years ended December 31, 2019 and 2018:

Year Ended December 31,	2019	2018
Numerator:		
Net income (loss)	$ (232,387,147)	$ 10,805,160
Denominator:		
Weighted-average shares outstanding - basic and diluted	260,418,442	252,199,264
Earnings (loss) per share - basic and diluted	$ (0.89)	$ 0.04

11. Commitments and Contingencies

Petrobras Rate Adjustment for Tax Law Changes

In September 2010, the Company entered into the Petrobras contract in which the payments made by Petrobras to the Company were subject to withholding income tax ("WHT") at a zero rate. Subsequently, the Brazil tax regime changed such that 15% of Petrobras payments are now subject to WHT. The Petrobras contract includes a clause that states if a change in taxes causes an increase in the burden of the Company, then the original contract rate shall be increased proportionally to cover the additional tax burden. The Company has demonstrated the increased burden. As required by the contract, the Company sent a notice of dispute to Petrobras in February 2019 informing Petrobras that it would submit the dispute to arbitration in order to recover the sum of approximately $6.0 million. The Company subsequently filed for arbitration in April 2019. Based on the Company's interpretation of the contract language, the recent favorable court rulings in Brazil with similar circumstances and the advice of legal counsel, the Company recorded a $6.0 million accrued receivable in Other Assets at December 31, 2018. The Company recorded the WHT settlement of $8.4 million in Accounts Receivable at December 31, 2019. In 2020, Petrobras agreed to a settlement of $8.4 million related to the WHT, and due to COVID-19 concerns, it will be paid in January 2021.

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 (together "DSIC") 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 a result of the cancellation, the Company reclassified the down payment of $18.6 million from construction in progress to long-term deposits on the consolidated balances sheet as of December 31, 2017. 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 has recognized $18.6 million as a loss on cancellation of construction contract in the consolidated statement of operations for the year ended December 31, 2018.

In the fourth quarter of 2018, DSIC filed an additional claim in arbitration against AG for an additional $82.7 million related to the cancelled *Atlantica Gamma* construction contract. AG is a special purpose entity that is in the process of being voluntarily liquidated and has no significant assets to pay any such claim. Neither the Company or any of its subsidiaries have issued any guarantee to DSIC or any other company in relation to the AG construction contract, and as a result, the Company, based upon the advice of legal counsel, does not believe that this claim will have a material adverse effect on the financial condition or results of operations of the Company.

Lease Obligations

The Company has non-cancellable lease obligations, principally office space in Houston, Texas. The lease obligations originally ranged from one to five years and expire at various dates between 2020 and 2023. Rent expense, including leases with terms of less than one year, was approximately $2.2 million and $2.1 million for the years ended December 31, 2019 and 2018, respectively.

Future minimum non-cancellable lease payments are as follows:

Year Ending December 31,		
2020	$	255,182
2021		259,285
2022		263,389
2023		166,862
	$	944,718

Contingencies

The Company may in the future be party to various legal proceedings that are incidental to the ordinary course of business. The Company regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. As of December 31, 2019, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated financial statements.

12. 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 six percent of the employee's annual salary. Such contributions were $0.2 million and $0.1 million for the years ended December 31, 2019 and 2018, respectively.

13. Related Party Transactions

The Company transacts business with the following related parties:

- BDA
- HitecVision Advisory AS ("HitecVision")
- Bassoe Offshore AS/Bassoe Offshore USA ("Bassoe")
- BassDrill Alpha Two (Cyrus) Limited ("BDA2")

Management Fees

AM had a management services agreement with BDA to provide management services for the operation of *BassDrill* Alpha based on a daily rate. The agreement ended upon the sale of the *BassDrill Alpha* in June 2018 (see Note 6). Fees for such services were $181 for the year ended December 31, 2018.

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 a deferred gain of $136,000 which was being amortized over 24 months. With the sale of *BassDrill Alpha* in 2018, the Company wrote off the remainder of the deferred gain. For the year ended December 31, 2018, the Company recognized income of $45,000 related to the deferred gain as other income in the consolidated statement of operations.

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 $0.2 million billed to BDA for the year ended December 31, 2018. After the sale of BDA's sole asset in June 2018, this shared services agreement ended.

BassDrill Alpha Sale

In June 2018, BDA sold its tender assist barge to BDA2, which is owned by a major shareholder in and member of the Board of Directors of the Company, for $1.0 million. For the year ended December 31, 2018, the Company billed BDA2 for $129,000 related to rig personnel and certain operating expenses associated with sale of *BassDrill Alpha*.

Commission Fees

The Company paid a commission of 1.25% of the revenue received from Petrobras to Bassoe. In June 2019, the Company and Bassoe terminated the commission fee arrangement for a lump sum payment of $750,000. Fees and reimbursements for such services were approximately $0.8 million and $0.5 million for the years ended December 31, 2019 and 2018, respectively.

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 bore interest at 7% per annum payable annually (beginning June 2018) and were due in June 2019. BDA began liquidation proceedings in April 2019.

In 2018, the $47,000 previously recognized accrued interest income was written-off.

At December 31, 2018, the Super Senior Bonds were carried at $0.7 million due to the estimated proceeds expected to be collected for the Super Senior Bonds upon final liquidation of BDA (see Note 6). The Company received $0.7 million in 2019 for the settlement of the Super Senior Bonds.

Accounts Receivable and Accounts Payable

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

December 31,	2019	2018
BDA2	$ -	$ 70,965
Accounts receivable - related parties	$ -	$ 70,965

December 31,	2019	2018
HitecVision	$ 64,479	$ 25,804
Other	7,616	13,359
Accounts payable - related parties	$ 72,095	$ 39,163

14. 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. Surplus funds are generally placed in deposits in banks. Such deposits are available daily in order to provide the Company with flexibility to meet all requirements for working capital and capital investments. The extent to which the Company plans to utilize interest rate swaps and other derivatives to manage its interest rate risk will be determined by the net debt exposure and its views on future interest rates.

The objective of the interest rate swaps is to manage interest rate risk exposure on variable interest rate debt arrangements such as the Term Loan debt arrangement (see Note 6). The interest rate swap agreements effectively modify the Company's exposure to interest rate risk by converting a portion of the variable-rate debt to a fixed rate, thus reducing the impact of the interest rate changes on future interest expense. The Company has not designated these interest rate swaps as hedges and does not apply hedge accounting to its interest rate derivative instruments. At December 31, 2019 and 2018, the Company had interest rate swaps with total notional amounts of $70.4 million and $119.8 million, respectively, that fixed the variable rate on the Term Loan between 1.11% and 1.31%.

At December 31, 2019 and 2018, the Company valued the interest rate swaps as a net asset of $0.6 million and $4.1 million, respectively. The Company determined the fair value of the interest rate swaps based on indirect market prices and, accordingly classified such fair value measurement as Level 2. For the years ended December 31, 2019 and 2018, the Company recognized $3.2 million and $31,000 of interest expense, respectively, associated with the mark to market on its interest rate derivatives.

Foreign Currency Rate Risk Management

The Company entered into foreign currency exchange rate hedges to manage foreign currency rate risk exposure on its transactions incurred in Brazilian Reals. In December 2019, the Company entered into a one year put agreement to effectively limit the Brazilian Reals exchange rate to BRL3.90 per USD1.00 on BRL4.0 million per month. In October 2018, the Company entered into a one year foreign currency exchange rate swaps that effectively locked in the foreign exchange rate of BRL 5,000,000 each month through mid-September 2019 at an average exchange rate of BRL3.76 per USD1.00. At December 31, 2019 and 2018, the Company valued the foreign currency hedges as a current asset of $0.2 million and a current liability of $0.5 million, respectively. For the years ended December 31, 2019 and 2018, the Company recognized $0.4 million of foreign currency gains and $0.5 million of foreign currency losses, respectively, associated with the mark to market on its foreign currency exchange rate hedges. The Company determined the fair value of the foreign currency exchange rate swaps based on indirect market prices and, accordingly, classified such fair value measurement as Level 2.

15. Subsequent Events

The Company has evaluated events subsequent to December 31, 2019 through June 30, 2020, the date these consolidated financial statement were available for issuance, and identified no events to be recognize or disclosed in the accompany consolidated financial statements other than those disclosed herein.

In March 2020, the World Health Organization ("WHO") classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally and the risks posed to the international community. In response, governments around the world imposed travel restrictions and stay at home orders to mitigate the risks of the pandemic. Government action to impose travel bans, quarantines and entry restrictions have caused difficulties getting personnel to and from the rigs. The *Delta* was under a reduced standby rate in April and May 2020 and has started demobilization under the Total contract. The *Beta* operations have been suspended under a long-term standby rate for an indefinite period of time starting in June 2020. The Company considered the effect of COVID-19 in the preparation of these audited consolidated financial statements and determined that there were no material adverse effects on the Company's results of operations and financial position at December 31, 2019 due to the aforementioned events.

Due to the uncertainties of the impacts of COVID-19, the Company has taken measures to preserve its liquidity position. The Company entered into stand-still agreements for the Term Loan and the Bonds that expired May 31, 2020. Under the stand-still agreements, interest and principal payments were suspended for both the Term Loan and Bonds. The Company continues to act under the expired stand-still agreement while discussions continue with the creditors to find an acceptable solution. If an agreement cannot be reached, it is possible that the Company may be required to seek creditor protection via insolvency proceedings in Bermuda or the filing for bankruptcy protection in the U.S.

Due to concerns around COVID-19, Petrobras delayed the final payment of the WHT settlement until January 2021 (see Note 11).

The duration of the COVID-19 pandemic and its impact to the global economy cannot be predicted. Therefore, the Company can give no assurances that the spread of COVID-19 will not have a material adverse effect on its financial position or results of operations in 2020 and beyond.

In March 2020 the “Coronavirus Aid, Relief, and Economic Security (CARES) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

The Company will continue to examine the impact that the CARES Act may have on the business. Currently, management is unable to determine the impact that the CARES Act will have on the financial condition, results of operations, or liquidity.