Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

As of and for the Three Months Ended
March 31, 2021 and 2020

Atlantica Tender Drilling Ltd. & Subsidiaries

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Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

	March 31, 2021	December 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	$ 35,573,326	$ 26,284,327
Accounts receivable	6,216,996	7,203,360
Inventory	9,863,419	10,219,094
Prepaid and other current assets	2,086,656	1,592,437
Total Current Assets	53,740,397	45,299,218
Property and Equipment, Net	178,250,422	181,925,788
Other Assets	807,944	897,543
Total Assets	$ 232,798,763	$ 228,122,549

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

		March 31, 2021		December 31, 2020
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$	1,346,893	$	1,109,123
Accounts payable - related parties		88,070		25,496
Accrued liabilities		6,020,887		5,565,033
Current portion of long-term debt		194,087,899		190,933,099
Total Current Liabilities		201,543,749		197,632,751
Total Long-Term Liabilities		-		-
Total Liabilities		201,543,749		197,632,751
Commitments and Contingencies (Note 8)				
Stockholders' Equity				
Common stock, $0.10 par value, 310,000,000 shares authorized at March 31, 2021 and December 31, 2020; 302,199,264 shares issued and oustanding at March 31, 2021 and December 31, 2020		30,219,926		30,219,926
Additional paid-in capital		213,206,053		213,206,053
Accumulated deficit		(212,170,965)		(212,936,181)
Total Stockholders' Equity		31,255,014		30,489,798
Total Liabilities and Stockholders' Equity	$	232,798,763	$	228,122,549

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Operations

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
Revenues				
Contract drilling	$	17,249,957	$	38,739,511
Mobilization and demobilization revenue		-		761,043
Total Revenues		17,249,957		39,500,554
Operating Expenses				
Operating		7,596,332		16,400,939
Depreciation and amortization		3,652,218		9,070,361
Total Operating Expenses		11,248,550		25,471,300
Income from Operations		6,001,407		14,029,254
Other Expense				
Interest expense, net		(4,859,262)		(8,288,882)
Foreign currency loss		(143,605)		(541,331)
Other		(2,952)		(1,500)
Total Other Expense		(5,005,819)		(8,831,713)
Income Before Income Tax Expense		995,588		5,197,541
Income Tax Expense		(230,372)		(2,076,984)
Net Income	$	765,216	$	3,120,557
Net Income Per Share				
Basic and diluted	$	0.00	$	0.01
Weighted Average Common Shares Outstanding				
Basic and diluted		302,199,264		302,199,264

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in	Subscription	Accumulated	Total Stockholders'
	Shares Outstanding	Amount	Capital	Receivable	Deficit	Equity
Balance at January 1, 2020	**302,199,264**	**$ 30,219,926**	**$ 213,206,053**	**$ (1,500)**	**$ (193,572,090)**	**$ 49,852,389**
Uncollectable write-off	-	-	-	1,500	-	1,500
Net loss	-	-	-	-	(19,364,091)	(19,364,091)
Balance at December 31, 2020	**302,199,264**	**$ 30,219,926**	**$ 213,206,053**	**$ -**	**$ (212,936,181)**	**$ 30,489,798**
Net income	-	-	-	-	765,216	765,216
Balance at March 31, 2021	**302,199,264**	**$ 30,219,926**	**$ 213,206,053**	**$ -**	**$ (212,170,965)**	**$ 31,255,014**

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2021	2020
Cash Flows From Operating Activities		
Net income	$ 765,216	$ 3,120,557
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,652,218	9,070,361
Noncash interest expense, net	3,154,800	2,844,580
Noncash mobilization and demobilization revenue	-	(740,210)
Other non-cash items	8,202	(16,391)
Changes in operating assets and liabilities:		
Accounts receivable	986,364	(6,436,956)
Accounts and note receivable - related parties	-	(6,263)
Prepaid expenses and other assets	(33,999)	(739,539)
Accounts payable	237,769	(1,679,953)
Accounts payable - related parties	62,575	(61,385)
Accrued liabilities	455,854	4,219,441
Net Cash Provided By Operating Activities	9,288,999	9,574,242
Cash Flows From Investing Activities		
Capital expenditures for drilling rig, equipment and capital spares	-	(92,642)
Net Cash Used In Investing Activities	-	(92,642)
Cash Flows from Financing Activities		
Payments on long term debt	-	(7,500,000)
Debt issuance costs	-	(73,991)
Net Cash Used In Financing Activities	-	(7,573,991)
Net Decrease In Cash and Cash Equivalents	9,288,999	1,907,609
Unrestricted and Restricted Cash and Cash Equivalents - Beginning of Period	26,284,327	35,353,406
Unrestricted and Restricted Cash and Cash Equivalents - End of Period	$ 35,573,326	$ 37,261,015
Supplemental Cash Flow Information		
Cash paid for interest	$ -	$ 1,471,175
Cash paid for income taxes	230,372	2,822,961
Supplemental Non Cash Information		
Paid-in-kind interest	$ 3,154,800	$ -

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 (liquidated in 2020)
- 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 (in the process of liquidation)
- Atlantica Delta Ltd. (“AD”), a Malta-based entity
- Atlantica BDA Ltd. (“ABDA”), a Malta-based entity (in the process of liquidation)
- Atlantica (Holding) B.V. (“ABV”), a Holland-based entity
- Atlantica Financing B.V. (“AF-BV”), a Holland-based entity (in the process of liquidation)

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 and is expected to demobilize in Q3 2021; *Delta*, owned by AD, which the Company took delivery of in December of 2015, placed into service under a drilling contract with Total Congo E&P (“Total”) in January 2016 and has been warm-stacked in the Canary Islands since the latter part of 2020; 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 cash generating assets are not under long-term contracts and the Company’s existing debt agreements, as amended and extended in October 2020 (see Note 5), mature in the third and fourth quarters of 2021. The Company’s existing liquid assets do not meet the needs for the debt repayment obligation. The 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 a future restructuring will be successful and that such financing, together with forecasted operating cash flow from Beta through demobilization operations, 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 be successful in implementing a restructuring, executing its business strategy and that there will be no further material adverse developments in its business, liquidity or capital requirements. If one or more of these factors do not occur as expected, it could lead to potential insolvency proceedings in Bermuda and / or the filing for bankruptcy protection in the U.S.

Upon notification from Petrobras that it would not extend the *Beta* contract beyond the current 2021 term, the Company suspended bond coupon payments and the payments of interest and amortization under the senior bank facility. On April 9, 2021, the Company was issued with a notice of default under the Term Loan and a notice of protective cash sweep under the finance documents. The security agent on behalf of the lenders has executed a sweep of funds from ATDL to an account held by the security agent in the amount of USD 28 million. Post the cash sweep, ATDL expects to have approximately USD 7 million in liquidity. Subsequently on April 13, 2021, the senior lenders notified the Bond Trustee of their intention to enforce on one or more of the security documents thereby triggering a 90 day standstill period during which the bondholders have the right to settle the outstanding Term Loan. Despite these actions, the Company remains in dialogue with its financial creditors regarding the way forward.

The consolidated 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. 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, 2020 and 2019.

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.

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 March 31, 2021 and December 31, 2020. 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, accounts receivable, accounts payable, accrued liabilities 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 March 31, 2021 and December 31, 2020 was approximately $12 million and $24 million, respectively, based on quoted market prices, Level 1 in the fair value hierarchy.

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.

Concentrations of Credit Risk

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

	Three Months Ended March 31,	
	2021	**2020**
Petrobras	100%	44%
Total	0%	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 (USD) 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. The allowance for obsolescence is based on historical experience and expectations for future use of inventory. At March 31, 2021 and December 31, 2020, the allowance for obsolescence was $15.6 million.

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 $3.7 million and $9.1 million for the three months ended March 31, 2021 and 2020, respectively.

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.

Income Taxes

The Company is a Bermuda limited liability company. Bermuda does not impose corporate income taxes unless activities are carried out in Bermuda. No activities were carried out in Bermuda during the three months ended March 31, 2021 and 2020. 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 (Malta, Norway, Brazil, US and Netherlands), as well as to tax agreements and treaties among these governments. The Company's operations in these different jurisdictions are taxed on various bases including, actual income before taxes, deemed profits (which are generally determined by applying a tax rate to revenues rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or the Company's level of operations or profitability in each tax jurisdiction could have an impact upon the amount of income taxes that the Company provides during any given year.

Below are the components of the Company's income tax expense for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	2020
Current income tax expense	$ 230,372	$ 2,076,984
Deferred income tax expense	-	-
Income tax expense	$ 230,372	$ 2,076,984

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences. Deferred tax assets and liabilities are based on temporary differences that arise between the carrying value of the financial statements and tax bases of assets and liabilities. At March 31, 2021 and December 31, 2020, the Company recorded a $0.7 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 income for the three months ended March 31, 2021 and 2020.

Earnings (Loss) Per Share

Basic earnings (loss) 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. 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 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 early adoption is permitted. The Company is evaluating the impacts of this ASU on its consolidated financial statements.

4. Property and Equipment

Property and equipment consisted of the following:

March 31, 2021	Beta Rig	Delta Rig	Other	Total
Gross Costs	$ 298,314,026	$ 283,914,304	$ 540,836	$ 582,769,166
Less: Accumulated depreciation	(99,975,314)	(96,455,905)	-	(196,431,218)
Accumulated impairments	(107,513,414)	(106,885,995)	-	(214,399,409)
	90,825,298	80,572,404	540,836	171,938,538
Inventory - Capital Spares	2,451,940	1,162,980	2,696,964	6,311,884
Property and equipment, net	$ 93,277,238	$ 81,735,384	$ 3,237,800	178,250,422

December 31, 2020	Beta Rig	Delta Rig	Other	Total
Gross Costs	$ 298,314,026	$ 283,914,304	$ 1,759,759	$ 583,988,089
Less: Accumulated depreciation	(97,039,263)	(95,755,820)	(1,203,564)	(193,998,647)
Accumulated impairments	(107,513,414)	(106,885,995)	-	(214,399,409)
	93,761,349	81,272,489	556,195	175,590,033
Inventory - Capital Spares	2,475,811	1,162,980	2,696,964	6,335,755
Property and equipment, net	$ 96,237,160	$ 82,435,469	$ 3,253,159	$ 181,925,788

5. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2021	December 31, 2020
Senior Secured Term Loan	$ 53,717,111	$ 53,483,122
Senior Secured Bonds	137,658,788	134,737,977
Bond Premium	2,712,000	2,712,000
Total Long-Term Debt	$ 194,087,899	$ 190,933,099
Less Current Portion	(194,087,899)	(190,933,099)
Long-Term Debt, Net	$ -	$ -

In December 2020 the Company received notification from Petrobras to terminate the Beta contract in 2021. Due to uncertainties of future cash inflows, the Company took measures to preserve its liquidity position and ceased payments on its debt obligations. On April 9, 2021, the Company was issued with a notice of default under the Term Loan and a notice of protective cash sweep under the finance documents. The security agent on behalf of the lenders has executed a sweep of funds from ATDL to an account held by the security agent in the amount of USD 28 million. Post the cash sweep, ATDL expects to have approximately USD 7 million in liquidity. Subsequently on April 13, 2021, the senior lenders notified the Bond Trustee of their intention to enforce on one or more of the security documents thereby triggering a 90 day standstill period during which the bondholders have the right to settle the outstanding Term Loan. Despite these actions, the Company remains in dialogue with its financial creditors regarding the way forward.

At March 31, 2021 and December 31, 2020, the Company included accrued interest of $0.9 million and $0.3 million, respectively, for the Senior Secured Term Loan and $2.0 million and $0.8 million, respectively, for the Senior Secured Bonds in Accrued liabilities.

Senior Secured Term Loan

In October 2014, the Company entered into a Senior Secured Term Loan (“Term Loan”), originally maturing in August 2019. In September 2019, the Term Loan was amended and extended to mature in September 2020 and (effective September 19, 2019) bore interest at 4.75% plus LIBOR and then increased to 5.25% plus LIBOR in March 2020. In October 2020, the Term Loan was amended to, among other things, extend the maturity date to September 2021 and allocate interest between cash interest of LIBOR plus 3.5% and paid-in-kind (“PIK”) interest of 1.75% (effective October 30, 2020). The Company incurred $0.2 million of PIK interest for the three months ended March 31, 2021. At March 31, 2021, the interest rate on the Term Loan was approximately 5.4%.

The Term Loan is collateralized by a first lien mortgage on *Beta* and *Delta*; the shares of BDB, BDB-BV, BBB AD, AMH, and ABV; the AM management agreements; and all credit rights arising from the Company’s drilling contracts.

The Term Loan required quarterly principal payments of $7.5 million that commenced October 2019. As amended in October 2020, the Term Loan requires quarterly principal payments of $1.0 million beginning December 31, 2020 with a balloon payment due at final maturity.

The Term Loan requires sweep repayments monthly, effective March 31, 2021, if the Company’s free and unencumbered cash balance exceeds $12.5 million, provided that (i) the Beta is engaged under the Petrobras contract and (ii) no new contract for the Delta is secured. Cumulative repayments under the sweep mechanism shall not exceed $10 million.

Through October 30, 2020, the Company entered into interest rate swaps to effectively obtain a fixed rate on a portion of the Term Loan. These interest rate swaps were terminated in October 2020 in conjunction with the October 2020 amendment of the Term Loan.

As part of the October 2020 amendment, the Company made an immediate principal payment of $27.5 million and a repayment for interest through October 30, 2020 of $4.5 million. The Company also made a $5.6 million principal repayment from the proceeds received from Petrobras for the rate adjustment associated with the withholding income tax change (see Note 8). In connection with the amendment of the Term Loan, the Company made a final payment of $0.8 million to settle its interest rate swap agreements.

At March 31, 2021, 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 1.0 : 1.0
- Debt service coverage ratio of not less than 1.0 : 1.0
- Book equity minimum of $10.0 million
- Liquidity, measured as freely available and unencumbered cash, of $12.5 million
- 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 March 31, 2021, the Company was in compliance with all financial covenants but was not in compliance with the interest and amortization payments required under the Term Loan. As fully discussed above, the Company is in default under the debt agreements but is in dialogue with the creditors to restructure the Term Loan and Bonds.

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*.

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) to bear interest at 12%, with quarterly interest payments. In October 2020, the Bonds' maturity date was extended to October 2021 and interest was amended for cash interest of 3.5% and PIK interest of 8.5%. For the three months ended March 31, 2021, the Company incurred $2.9 million of PIK interest.

The Bonds require repayment at 102% of par value upon maturity. The Bonds are collateralized by *Beta* and *Delta*; the shares of BDB, BDB-BV, BBB AD, AMH, and ABV; the AM management agreements; and all credit rights arising from the Company's drilling contracts. The Bonds are subordinated to the Term Loan.

In conjunction with the October 2020 amendment, the Company made an immediate payment for interest through October 30, 2020 of $13.9 million and used a portion of the proceeds from the settlement from Petrobras for the rate adjustment associated with the withholding income tax change (see Note 8) to paydown $2.8 million on the Bonds.

At March 31, 2021, 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 1.0 : 1.0
- Debt service coverage ratio of not less than 1.0 : 1.0
- Book equity minimum of $10.0 million
- Liquidity, measured as freely available and unencumbered cash, of $12.5 million
- Positive working capital, excluding the minimum liquidity requirement discussed above

At March 31, 2021, the Company was in compliance with all financial covenants but was not in compliance with the interest payments required under the Bond agreement. As fully discussed above, the Company is in default under the debt agreements but is in dialogue with the creditors to restructure the Term Loan and Bonds.

Deferred Financing Costs

Amortization of debt issuance costs and other related financing costs, included within interest expense, totaled $1.0 million for the three months ended March 31, 2020.

6. 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 and demobilization revenue related to *Atlantica Delta* of $0.8 million for the three months ended March 31, 2020.

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 at March 31, 2021 and December 31, 2020.

Accounts receivable also include estimates of the Company's contract drilling revenue earned during the period, but unbilled at the end of the period. At March 31, 2021 and December 31, 2020, accounts receivable included $6.5 million and $6.6 million of accrued revenues, respectively.

7. Earnings Per Share

The components of the numerator and denominator for the calculation of basic and diluted loss per share are as follows for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Numerator:		
Net income	$ 765,216	$ 3,120,557
Denominator:		
Weighted-average shares outstanding - basic and diluted	302,199,264	302,199,264
Earnings per share - basic and diluted	$ 0.00	$ 0.01

8. 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. In 2020, Petrobras agreed to a settlement of $8.4 million related to the WHT and final payment was received in September 2020.

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 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.

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.

Contingencies

The Company may in the future be party to various legal proceedings that are incidental to the ordinary course of business. The Company regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. As of March 31, 2021, there were no threatened or pending legal matters that would have a material impact on the Company’s consolidated financial statements.

9. 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 $32,000 and $73,000 for the three months ended March 31, 2021 and 2020, respectively.

10. Related Party Transactions

The Company transacted business with the following related parties:

- Offshore Merchant Partners ("OMP")

Consulting Fees

The Company received consulting services primarily related to the refinancing from OMP, a firm managed by the same group as the Company's main shareholder. For the three months ended March 31, 2021, the Company incurred $75,000 in professional fees from OMP.

Accounts Payable

The Company had the following payable balances with related parties:

	March 31, 2021	December 31, 2020
HitecVision	$ 11,583	$ -
OMP	75,000	25,000
Other	1,487	496
Accounts payable - related parties	$ 88,070	$ 25,496

11. 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.

Up through October 30, 2020, the Company utilized interest rate swaps to manage interest rate risk exposure on the variable interest of the Term Loan debt arrangement (see Note 5). The interest rate swap agreements effectively modified 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 did not designate these interest rate swaps as hedges and did not apply hedge accounting to its interest rate derivative instruments.

For the three months ended March 31, 2020, the Company recognized $1.2 million of interest expense associated with the mark to market on its interest rate derivatives.

In conjunction with the October 2020 Term Loan amendment discussed in Note 5, the Company made a final payment of $0.8 million to settle its interest rate swap agreements in October 2020.

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 and the Euro. 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 February 2020, the Company entered into an eight-month put agreement to effectively limit the Euro to USD$0.87 per EUR1.00 which expired in September 2020. For the three months ended March 31, 2020, the Company recognized $0.1 million of foreign currency associated with the mark to market on its foreign currency exchange rate hedges.

12. Risks and Uncertainties

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 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 2021 and beyond.

13. Subsequent Events

The Company has evaluated events subsequent at March 31, 2021 through April 30, 2021, the date these consolidated financial statement were available for issuance, and identified no events to be recognized or disclosed in the accompanying consolidated financial statements other than those disclosed herein.