Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2018 and 2017

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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 *BassDrill Beta* and *Atlantica Delta*, sister vessels designed to work in more challenging, metocean conditions compared to the existing semi-submersible tender fleet.

Proposed 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 will be the acquiring entity. Energy Drilling is a leading owner and operator of barge tender assist drilling rigs operating offshore South-East Asia and has a newbuild semi-submersible tender drilling rig ready for delivery. The contemplated transaction will create a stronger company with improved capabilities and geographical presence, providing a starting point for further growth and consolidation in the tender drilling industry. The proposed transaction has received support from majority of the shareholders in both companies and is expected to be completed early in the third quarter of 2019.

Operations

BassDrill Beta Unit. Delivered by Dalian Shipyard Industry Offshore Co. Ltd. ("DSIOC") in November 2013, *BassDrill Beta* incorporates all the latest operational, safety and environmental features and was the first of its kind working alongside a Tension Leg Platform ("TLP") offshore Brazil. Since March 2014 *BassDrill Beta* has been contracted to Petróleo Brasileiro S.A. ("Petrobras"). The 1,500-day contract was set to expire by the end of August 2018 but has been extended to last through March 2020. During the first part of 2018, *BassDrill Beta* recommenced drilling operations after a Petrobras-requested drilling pause for much of 2017. For the second half of 2018 and the first quarter of 2019, the rig has operated at high uptime, earning the contract incentive rate. In 2019, the rig will complete its five-year certification program (SPS). It should be noted that the latest, newly configured well drilled by *BassDrill Beta* yielded results above expectations; therefore, the Company envisions that Petrobras will be required to extend the *BassDrill Beta* for a number of years beyond March of 2020.

Atlantica Delta Unit. *Atlantica Delta* commenced a contract with Total E&P Congo ("Total") in January 2016, shortly following delivery in China. Initially, *Atlantica Delta* operated as a service unit as Total completed preparations of their TLP. The contract with Total is a number-of-wells contract, with 17 primary wells, currently expected to last into the first half of 2021. The contract also includes five extension options (for 2 wells each) for an estimated additional 25-30 months. The *Atlantica Delta* has consistently achieved high uptime and revenue efficiency since January 2017.

Atlantica Gamma Unit. In early 2016, Atlantica Gamma Ltd. ("AG") submitted a notice to cancel the construction contract with Dalian Shipbuilding Industry Offshore Co. Ltd. and Dalian Shipbuilding Industry Corporation (together "DSIC") for the *Atlantica Gamma* due to delay in delivery and submitted a claim for the refund of the $18.6 million down payment made to the shipyard. Shortly thereafter, DSIC in turn cancelled the *Atlantica Gamma* construction contract, citing breach of contract by AG. In 2018, the dispute for the cancellation of the *Atlantica Gamma* construction contract was settled in arbitration where the tribunal ruled in favor of DSIC, and AG forfeited the $18.6 million down payment. DSIC subsequently filed an additional claim in arbitration against AG for $82.7 million. Neither the Company nor any of its other subsidiaries have issued any guarantee to DSIC in relation to the AG construction contract. AG has no significant assets. Consequently, the Company believes any further arbitration settlements or additional legal actions by DSIC will not impact the Company.

ATLANTICA

Financing

In 2014 the Company established a fleet debt structure comprised of senior secured bank debt and a bond loan, which mature in Q3 2019. The Company has received conditional approval from a banking syndicate for $100 million of financing and is in the process of raising an additional $140 million in the bond markets. Alternative financing is also being negotiated. We are confident to have completed our refinancing by the maturity dates of our existing debt. Despite this plan of refinancing that is well underway, all debt appearing in the attached consolidated financial statements has been presented within current liabilities as required by US GAAP. As a result, in the unlikely event that the refinancing does not occur and due solely to this matter, we have also stated in the notes to the financial statements that "this situation raises substantial doubt about our ability to continue as a going concern."

The Company's total number of shares outstanding at December 31, 2018 is 261,323,309 (par value $0.10 per share). The Company's largest shareholder is HitecVision Asset Solutions LP, through its fund, HVAS Invest Zeta AS, owning 63.9% of the outstanding shares.

Please refer to the attached audited consolidated financial statements and accompanying Notes to consolidated financial statements for the years ended December 31, 2018 and 2017.

Market Outlook

While world markets for oil and gas continued to improve through 2018, rig utilization rates across most industry sectors remain relatively low following the substantial newbuild activity preceding the market downturn from 2014 through 2017. Even though investment in new projects is forecast to increase from the very low level of the recent cyclical downturn, and even as the Company has registered increased activity in the form of inquiries and tenders and fixtures, the Company expects new opportunities for deep water drilling contracts to remain limited through 2019.

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

Hamilton, Bermuda May 27, 2019

The Board of Directors of Atlantica Tender Drilling Ltd.

- Helge Haakonsen, Chairman
- Pål Reiulf Olsen, Deputy Chairman
- Erland P. Bassøe
- Simen Skaare Eriksen

Contents

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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 (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017 and the related consolidated statements of income, 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, 2018 and 2017, 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 Change in Accounting Principle

As described in Note 3 to the consolidated financial statements, effective December 31, 2018 the Company changed the manner in which it accounted for its inventory. As a result, the Company recorded Inventory from amounts previously recorded in Property and Equipment and Stockholders' Equity in the accompanying consolidated financial statements. Our opinion is not modified with respect to this matter.

BDO USA, LLP

Houston, Texas
May 27, 2019

Consolidated Financial Statements

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 36,170,146	$ 31,783,098
Restricted cash	9,864,523	8,373,443
Accounts receivable	18,890,102	15,457,583
Accounts receivable - related parties	70,965	167,142
Note receivable, net - related party	-	360,040
Derivative instruments - interest swaps	1,515,253	1,065,550
Inventory, net	20,320,505	-
Prepaid and other current assets	1,775,097	788,527
Total Current Assets	88,606,591	57,995,383
Property and Equipment, Net	484,432,804	520,239,709
Long Term Deposits	-	18,599,625
Derivative Instruments - Interest Swaps	2,538,220	2,678,706
Other Assets	7,065,398	112,320
Total Assets	$ 582,643,013	$ 599,625,743

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Balance Sheets

December 31,	2018	2017
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 3,218,324	$ 3,294,152
Accounts payable - related parties	116,723	143,567
Accrued liabilities	8,345,319	8,733,523
Derivative instruments - currency swaps	488,098	-
Current portion of long-term debt, net	279,723,628	30,555,552
Deferred revenue - current	8,715,381	12,251,154
Total Current Liabilities	300,607,473	54,977,948
Long-Term Liabilities		
Deferred revenue - non-current	740,210	9,391,878
Long-term debt, net	-	276,765,011
Deferred income taxes, net	3,955,794	3,745,774
Total Long-Term Liabilities	4,696,004	289,902,663
Total Liabilities	305,303,477	344,880,611
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Common stock, $0.10 par value, 310,000,000 shares authorized at December 31, 2018 and 2017; 261,323,309 shares issued at December 31, 2018 and 2017; and 252,199,264 shares outstanding at and December 31, 2018 and 2017	26,132,331	26,132,331
Additional paid-in capital	213,306,053	213,254,754
Treasury stock (9,124,045 shares at cost)	(2,297,539)	(2,297,539)
Subscription receivable	(1,500)	(1,500)
Retained earnings	40,200,191	17,657,086
Total Stockholders' Equity	277,339,536	254,745,132
Total Liabilities and Stockholders' Equity	$ 582,643,013	$ 599,625,743

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Income

Year Ended December 31,	2018	2017
Revenues		
Contract drilling	$ 155,465,329	$ 140,579,230
Mobilization and demobilization revenue	12,515,953	20,021,242
Management and other fees	5,207	365
Total Revenues	167,986,489	160,600,837
Operating Expenses		
Operating	76,747,382	71,096,849
Depreciation and amortization	26,936,658	27,669,155
Loss on cancellation of construction contract	18,599,625	-
Impairment of long-lived assets	1,089,314	-
Total Operating Expenses	123,372,979	98,766,004
Income from Operations	44,613,510	61,834,833
Other Income (Expense)		
Interest expense, net	(21,212,134)	(22,593,300)
Gain on reacquisition of debt	-	1,766,640
Bad debt expense - note receivable	(31,144)	(320,000)
Foreign currency loss	(1,497,624)	(366,668)
Losses of equity method investment	-	(2,497,497)
Gain on Super Senior Bonds	700,000	-
Other	45,241	67,859
Total Other Expense	(21,995,661)	(23,942,966)
Income Before Income Tax Expense	22,617,849	37,891,867
Income Tax Expense	(11,812,689)	(13,843,295)
Net Income	$ 10,805,160	$ 24,048,572
Net Income Per Share		
Basic	$ 0.04	$ 0.10
Diluted	$ 0.04	$ 0.10
Weighted Average Common Shares Outstanding		
Basic	252,199,264	252,199,264
Diluted	253,549,264	254,232,598

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional			Retained Earnings	Total
	Shares Outstanding	Amount	Paid-in Capital	Treasury Stock	Subscription Receivable	(Accumulated Deficit)	Stockholders' Equity
Balance at January 1, 2017	252,199,264	$ 26,132,331	$ 213,203,452	$ (2,297,539)	$ (1,500)	$ (6,391,486)	$ 230,645,258
Stock compensation expense	-	-	51,302	-	-	-	51,302
Net income	-	-	-	-	-	24,048,572	24,048,572
Balance at December 31, 2017	252,199,264	26,132,331	213,254,754	(2,297,539)	(1,500)	17,657,086	254,745,132
Effect of Adoption of ASC 606 - (Note 4)	-	-	-	-	-	479,167	479,167
Stock compensation expense	-	-	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

See notes to consolidated financial statements.

Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,		2018		2017
Cash Flows From Operating Activities				
Net income	$	10,805,160	$	24,048,572
Adjustments to reconcile net income to net cash provided by operating activities:				
Impairment of long-lived assets		1,089,314		-
Loss on cancellation of construction contract		18,599,625		-
Gain on Super Senior Bonds		(700,000)		-
Equity in losses of affiliate		-		2,497,497
Depreciation and amortization		26,936,658		27,669,155
Stock compensation expense		51,299		51,302
Bad debt expense - note receivable		31,144		320,000
Gain on reacquisition of debt		-		(1,766,640)
Noncash interest expense, net		2,649,402		2,811,532
Noncash mobilization and demobilization revenue		(12,515,953)		(20,021,242)
Deferred income tax expense		271,602		3,745,774
Other non-cash expense		518,162		(67,859)
Changes in operating assets and liabilities:				
Accounts receivable		(3,354,002)		(4,580,284)
Accounts and note receivable - related parties		96,177		205,148
Prepaid expenses and other assets		(6,323,587)		571,433
Accounts payable		(75,828)		(2,726,438)
Accounts payable - related parties		(26,844)		55,441
Accrued liabilities		(342,963)		588,361
Deferred revenue		-		1,565,221
Net Cash Provided by Operating Activities		37,709,366		34,966,973
Cash Flows From Investing Activities				
Capital expenditures for construction in progress and capital spares		(696,350)		(241,882)
Capital expenditures for drilling rig and equipment and other		(579,336)		(2,872,496)
Purchase of Super Senior Bonds		-		(2,497,497)
Net Cash Used in Investing Activities		(1,275,686)		(5,611,875)
Cash Flows from Financing Activities				
Payments on long term debt		(30,555,552)		(26,805,555)
Repurchase of bonds		-		(4,927,500)
Debt issuance costs		-		(22,435)
Change in restricted cash		(1,491,080)		909,346
Net Cash Used in Financing Activities		(32,046,632)		(30,846,144)
Net Increase (Decrease) in Cash and Cash Equivalents		4,387,048		(1,491,046)
Cash and Cash Equivalents - Beginning of Year		31,783,098		33,274,144
Cash and Cash Equivalents - End of Year	$	36,170,146	$	31,783,098
Supplemental Cash Flow Information				
Cash paid for interest	$	19,647,979	$	20,854,534
Cash paid for income taxes		12,190,359		9,531,107
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	$	(1,227,184)
Effects from Change in Account Principle				
Movement from Propery & 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

The Company's primary assets and liabilities currently pertain to *BassDrill Beta*, owned by BDB, which the Company took delivery of in November 2013 and placed into service under a drilling contract with Petróleo Brasileiro S.A. ("Petrobras") in March 2014; *Atlantica Delta*, owned by AD, which the Company took delivery of in December of 2015 and placed into service under a drilling contract with Total Congo E&P ("Total") in January 2016; and AM.

As used herein, and unless otherwise required by the context, the term "Atlantica" refers to Atlantica Tender Drilling Ltd., and the terms "Company," "we," "our," and words of similar import refer to Atlantica and its subsidiaries. The use herein of such terms as "we," "us," "our" and "its," or references to specific entities, is not intended to be a precise description of corporate relationships.

2. 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 mature in the third quarter of 2019. The Company's existing liquid assets do not meet the needs for this debt repayment obligation; however, the Company is in the process of refinancing its existing indebtedness. Management is confident the refinancing will occur as the Company has successfully refinanced in the past, maintained consistent compliance with its debt covenants for the periods presented, continues to be profitable, has drilling contracts in place and is not highly leveraged. Nevertheless, we have not yet completed our refinancing, and our ability to do so is not solely within our control. Consequently, this situation raises substantial doubt about our ability to continue as a going concern within one year after the date the accompanying consolidated financial statements are available to be issued.

Thus far, the Company has received conditional approval from a banking syndicate for $100 million of financing, and by the end of the second quarter, we plan to raise the remaining $140 million required to refinance our existing debt in the Nordic high-yield bond market (see Note 7).

While management is in the process of refinancing the Company's existing debt agreements, there is no assurance that this debt will be refinanced in a timely manner, in amounts that are sufficient to meet the Company's debt that is due in the third quarter of 2019, or on terms acceptable to the Company, or at all. The Company's ability to meet its debt that is due in the third quarter of 2019 will depend on its continued ability to achieve forecasted results and its ability to refinance its existing debt maturing in the third quarter of 2019.

Management's belief that its existing debt will be refinanced and that such refinancing, 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 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.

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 cannot produce inventory reports prior to December 31, 2018. Due to this impracticability, the Company has adopted the change in accounting principle effective December 31, 2018.

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, 2018 and 2017. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company's financial instruments consist mainly of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, interest rate swaps, 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, 2018 and 2017 was approximately $136.5 million and $105.0 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).

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,	**2018**	**2017**
Petrobras	44%	44%
Total	56%	56%

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

Foreign Exchange Transactions

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

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 December 31, 2018, the allowance for obsolescence was $4.3 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 $26.9 million and $27.7 million for the years ended December 31, 2018 and 2017, respectively.

The estimated useful lives are defined below:

Drilling rigs and equipment:	
Barge and related marine equipment	30 years
Mast equipment package	15 years
Leasehold improvements	Remaining life of lease
Furniture and office equipment	3 - 5 years
Computer hardware and software	3 years
Vehicles	5 years

Capital Spares

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

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 be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset in accordance with ASC 360, *Property, Plant and Equipment*. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including undiscounted cash flow models, quoted market values and third party appraisals, as considered necessary.

Income Taxes

The Company is a Bermuda limited liability company. Bermuda does not impose corporate income taxes unless activities are carried out in Bermuda. No activities were carried out in Bermuda during the years ended December 31, 2018 and 2017. Consequently, the Company has provided for income taxes based on the laws and rates in effect in the countries in which operations are conducted, or in which the Company and/or its subsidiaries are considered resident for income tax purposes. The Company and or/or its subsidiaries operate in multiple countries under different legal forms. As a result, the Company is subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. The Company's operations in these different jurisdictions are taxed on various bases including, actual income before taxes, deemed profits (which are generally determined by applying a tax rate to revenues rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or the Company's level of operations or profitability in each tax jurisdiction could have an impact upon the amount of income taxes that the Company provides during any given year.

Below are the components of the Company's income tax expense for the years ended December 31, 2018 and 2017:

Year Ended December 31,	**2018**	**2017**
Current income tax expense	$ 11,541,087	$ 10,097,521
Deferred income tax expense	271,602	3,745,774
Income tax expense	$ 11,812,689	$ 13,843,295

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 and 2017, the deferred tax liability of $4.0 million and $3.7 million, respectively, 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 statement of income for the years ended December 31, 2018 and 2017.

Share-Based Compensation

The Company has established an employee share ownership plan under which certain of its officers and board members have been and may be allocated options to acquire shares in Atlantica Tender Drilling Ltd. The compensation cost for stock options is recognized as an expense over the service period based on the fair value of the options granted.

The fair value of the share options issued under the Company's share option plan is determined at grant date taking into account the terms and conditions upon which the options are granted, and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognized as personnel expenses within operating expenses with a corresponding increase in stockholders' equity over the period during which the employees become vested. Stock compensation expense is initially recognized based upon options expected to vest with appropriate adjustments to reflect actual forfeitures.

Earnings Per Share

Basic earnings per share ("EPS") is calculated based on the income for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, which for the Company includes share options. The determination of dilutive earnings per share requires the Company to potentially make certain adjustments to the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

Recently Adopted Accounting Standard

The Company elected to adopt Accounting Standards Update (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. For the year ended December 31, 2018, the Company recorded $0.3 million of additional revenue associated with demobilization fees.

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, 2019, and early adoption is permitted. 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,	2018	2017
Drilling rigs and equipment	$ 582,284,176	$ 591,795,695
Leasehold improvements	172,576	172,576
Furniture and office equipment	188,318	165,702
Computer hardware and software	896,723	834,886
Vehicles	181,261	181,261
	583,723,054	593,150,120
Less: accumulated depreciation	103,557,261	77,503,695
	480,165,793	515,646,425
Inventory - capital spares	4,267,011	4,593,284
Property and equipment, net	$ 484,432,804	$ 520,239,709

In 2018, the Company impaired $1.1 million of capital spares as they were deemed unusable in current operations.

6. Investments

In June 2017, the Company subscribed to $2.5 million of Super Senior Bonds in BassDrill Alpha Ltd. (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.

In April 2019, BDA began liquidation proceedings. Upon the settlement of the liquidation of BDA, the Company will recover $0.7 million of its investment in BDA's Super Senior Bonds. Accordingly, the Company recognized $0.7 million as a gain on the Super Senior Bonds in 2018.

7. Long-Term Debt

Long-term debt consisted of the following:

December 31,	2018	2017
Senior Secured Term Loan	$ 146,111,116	$ 176,666,669
Senior Secured Bonds, Net	135,600,000	135,600,000
Debt Issuance Costs, Net	(1,987,488)	(4,946,106)
Total Long-Term Debt	279,723,628	307,320,563
Less Current Portion	(279,723,628)	(30,555,552)
Long-Term Debt, net	$ -	$ 276,765,011

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

The Senior Secured Term Loan and the Senior Secured Bonds, as discussed below, are due in full in - August and September of 2019, respectively. Accordingly, the Company classified the entire debt balance as a current liability at December 31, 2018. While the Company currently does not have the liquid funds to meet this obligation, the Company is confident that a new financing arrangement will be in place prior to August 2019 (see Note 2).

Senior Secured Term Loan

In October 2014, the Company entered into a Senior Secured Term Loan ("Term Loan"), maturing in August 2019, collateralized by a first lien mortgage on *BassDrill Beta* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit rights arising from the Company's drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account (see Restricted Cash in Note 4). The Term Loan tranches bear interest at 3.25% plus LIBOR, payable quarterly (5.7% at December 31, 2018).

The Company entered into (i) a swap agreement with LIBOR fixed at 1.36% for $53.0 million for a period of four years that commenced November 2014, (ii) a swap agreement with LIBOR fixed at 1.31% initially for $130.0 million for a period of seven years that commenced February 2016 and (iii) a swap agreement with LIBOR fixed at 1.11% initially for $33.4 million for a period of seven years commencing July 2016. The Term Loan requires quarterly principal payments ranging from $1.5 million to $7.6

million that commenced February 2015, with a balloon payment of $123.2 million at final maturity. The Term Loan further requires the Company to comply with certain financial covenants as noted below. These covenants are required to be tested and reported quarterly:

- Interest coverage ratio of not less than 2.5 : 1.0
- Debt service coverage ratio of not less than 1.1 : 1.0
- Book equity minimum of $155.0 million
- Equity ratio of minimum 0.3 : 1.0
- Liquidity, measured as freely available and unencumbered cash, the higher of $25.0 million or 6% of the outstanding interest-bearing debt
- The market value of the vessels is at least 150% of the aggregated outstanding amount of the Term Loan.

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

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 *BassDrill Beta*. The Bonds bore interest at 8.5%, with semiannual interest payments that commenced October 24, 2013, with principal due at maturity.

On September 23, 2014, the Company issued an additional $75.0 million of Senior Secured Bonds (“New Bonds”), maturing in September 2019 that is collateralized by *BassDrill Beta* and *Atlantica Delta*; the shares of BDB, BDB-BV, BBB, AG and AD; the AM management agreements; all credit rights arising from the Company’s drilling contracts; and rights in connection with the investments made with amounts deposited in the debt service reserve account (see Restricted Cash in Note 4). 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”) bear interest at 8.0%, with quarterly interest payments that commenced December 23, 2014, and principal due at maturity. The Bonds are subordinated to the Term Loan.

The Company held $14.4 million of the Bonds at December 31, 2018 and 2017.

The Bonds further require the Company to comply with certain financial covenants as noted below. These covenants are required to be tested and reported quarterly:

- Interest coverage ratio of not less than 2.5 : 1.0
- Debt service coverage ratio of not less than 1.1 : 1.0
- Book equity minimum of $155.0 million
- Equity ratio of minimum 0.3 : 1.0
- Liquidity, measured as freely available and unencumbered cash, of $20.0 million
- The market value of the vessels is at least 150% of the aggregated outstanding amount of the Term Loan.

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

Deferred Financing Costs

Amortization of debt issuance costs and other related financing costs, included within interest expense, totaled $3.0 million $3.3 million for the years ended December 31, 2018 and 2017, respectively.

8. 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. Effective January 1, 2018, demobilization fees are recorded as revenue over the initial term of the contract. See *Recently Adopted Accounting Standard* in Note 4.

The Company recognized amortization of mobilization revenue related to *BassDrill Beta* of approximately $3.6 million and $11.2 million for the years ended December 31, 2018 and 2017, respectively. The Company recognized amortization of mobilization and demobilization revenue related to *Atlantica Delta* of $8.9 million and $8.8 million for the years ended December 31, 2018 and 2017, respectively.

For the years ended December 31, 2018 and 2017, the Company had a total deferred revenue liability of $9.5 million and $21.6 million, respectively, for collected fees associated with mobilization. At December 31, 2018, the Company had an asset of $0.7 million related to the amortization of demobilization revenue included in Other Assets.

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 December 31, 2018 and 2017.

Accounts receivable also include estimates of the Company's contract drilling revenue earned during the period, but unbilled at the end of the period. At December 31, 2018 and 2017, accounts receivable included $7.5 million and $6.5 million, respectively, of accrued revenues.

9. Earnings Per Share

The components of the numerator and denominator for the calculation of basic and diluted earnings per share are as follows for the years ended December 31, 2018 and 2017:

Year Ended December 31,	**2018**	**2017**
Numerator:		
Net income	$ 10,805,160	$ 24,048,572
Denominator:		
Weighted-average shares outstanding - Basic	252,199,264	252,199,264
Weighted-average shares outstanding	252,199,264	252,199,264
Effect of stock options	1,350,000	2,033,334
Weighted-average shares for per share calculation - Dilutive	253,549,264	254,232,598
Earnings per share - basic	$ 0.04	$ 0.10
Earnings per share - diluted	$ 0.04	$ 0.10

10. 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.

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 income 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-cancelable lease obligations, principally office space in Houston, Texas. The lease obligations originally ranged from one to five years and expire at various dates between 2019 and 2023. Rent expense, including leases with terms of less than one year, was approximately $2.1 million and $1.7 million for the years ended December 31, 2018 and 2017, respectively.

Future minimum non-cancelable lease payments are as follows:

Year Ending December 31,		
2019	$	776,725
2020		332,643
2021		199,285
2022		203,389
2023		129,362
	$	1,641,404

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

11. Share Option Plan

The Atlantica Share Option Plan (the "Plan") permits the Board of Directors, at its discretion, to grant options to acquire shares in the Company to employees and directors of the Company or its subsidiaries. The options granted are not transferable, and the subscription price is set at $1.706 per share adjusted upwards by 12% per annum from the date of grant until the date the option is exercised. Options granted under the plan will vest three years after the date of the grant and may be exercised up to five years after the grant date. The maximum number of shares authorized for awards of equity share options was amended in 2015 to 6,484,000. The Company, at its discretion, may buy shares on the open market or use treasury shares to satisfy such exercised options, or it may settle the exercised options in a cash settlement.

The fair value of share options granted is recognized as operating expenses over the vesting period. The Company recognized stock compensation expense of approximately $51,000 for the years ended December 31, 2018 and 2017. There was no effect on income taxes in the consolidated financial statements related to the options. However, if the options are exercised, a tax benefit will be recorded if the gain is recorded as deductible in any jurisdiction for tax purposes. If the Company has to expense social security taxes related to the benefit of options exercised, such expenses will be recorded at the exercise date.

Stock options issued and outstanding as of December 31, 2018 and 2017 are as follows:

	Number of Options	Weighted Average Exercise Price Per Share *	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2017	2,763,334	$ 3.28	
Cancelled	(730,000)	3.23	
Outstanding at December 31, 2017	2,033,334	3.30	1.4
Expired	(683,334)	2.87	
Outstanding at December 31, 2018	1,350,000	$ 3.52	1.1
Vested and Exercisable at December 31, 2018	1,350,000	$ 3.52	1.1

* Stock options were granted with an exercise price based on a 12% escalation each year. The exercise prices presented in the table are based on the expected exercise price.

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 five percent of the employee's annual salary. Such contributions were $0.1 million for the years ended December 31, 2018 and 2017.

13. Related Party Transactions

The Company transacts business with the following related parties:

- BassInvest AS
- BDA
- AXON Energy Products, AXON Drilling Products, AXON Pressure Products ("AXON")
- HitecVision Advisory AS ("HitecVision")
- Bassoe Offshore AS/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 $181,000 and $365 for the years ended December 31, 2018 and 2017, respectively.
In November 2016, the Company agreed to temporarily reduce the management fees in exchange for an additional indirect 49.9% ownership interest in BDA. 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 years ended December 31, 2018 and 2017, the Company recognized income of $45,000 and $68,000, respectively, related to the deferred gain as other income in the consolidated statement of income.

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 and $0.3 million billed to BDA for the years ended December 31, 2018 and 2017, respectively. 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 various Bassoe entities. Fees and reimbursements for such services were approximately $0.5 million and $0.8 million for the years ended December 31, 2018 and 2017, respectively.

Rig Services and Products

The Company received products and services from AXON for *BassDrill Beta* of $0.5 million for the year ended December 31, 2018.

AXON Note Receivable

In October 2013, the Company loaned AXON, a company with common ownership, $1.4 million to assist AXON with completion of the mast equipment package (MEP) needed for the construction of *BassDrill Beta*. This loan earned interest at 0.5% and was to mature three days after AXON received payment in full from DSIC for the equipment AXON constructed for *BassDrill Beta*. In November 2014, the Company and AXON agreed to terminate this loan and replace it with a non-interest bearing loan for $2.2 million due December 31, 2015. In December 2015, AXON repaid approximately $1.0 million of the loan. Subsequent to this payment, the note was amended to bear interest of 5.0% per annum and extended the final payment of $1.2 million to no later than December 31, 2016. Starting in 2016, AXON faced financial difficulties. Because of this, the Company recorded an allowance against the note receivable in 2016 and 2017. In early 2018, the Company agreed on a final settlement of this note receivable. The settlement included (i) delivery of inventory and equipment to the Company with an estimated fair value of $0.3 million and (ii) forgiveness of payable balances due to Axon of $0.1 million. For the years ended December 31, 2018 and 2017, the Company recognized $31,000 and $0.3 million, respectively, in bad debt expense for settlement of the note receivable.

Super Senior Bonds

In June 2017, the Company subscribed to $2.5 million of BDA's Super Senior Bonds as required by the November 2016 BDA restructure agreement. The Super Senior Bonds bore interest at 7% per annum payable annually (beginning June 2018) and are due in June 2019. BDA began liquidation proceedings in April 2019.

The Company recorded approximately $47,000 of accrued interest income associated with the Super Senior Bonds in 2017. 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).

Accounts Receivable and Accounts Payable

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

December 31,		2018		2017
BDA2	$	70,965	$	-
BDA		-		119,929
Employee receivables		-		47,213
Accounts receivable - related parties	$	70,965	$	167,142

December 31,		2018		2017
AXON	$	77,560	$	-
Bassoe		-		143,567
Other		39,163		-
Accounts payable - related parties	$	116,723	$	143,567

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 7). 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, 2018 and 2017, the Company had interest rate swaps with total notional amounts of $119.8 million and $177.3 million, respectively that fixed the variable rate on the Term Loan to approximately between 1.11% and 1.31%.

At December 31, 2018 and 2017, the Company valued the interest rate swaps as a net asset of $4.1 million and $3.7 million, respectively. The Company determined the fair value of the interest rate swaps based on indirect market prices and, accordingly classified such fair value measurement as Level 2. For the years ended December 31, 2018 and 2017, the Company recognized $31,000 of interest expense and interest income of $0.4 million, respectively, associated with the mark to market on its interest rate derivatives.

Foreign Currency Rate Risk Management

In October 2018, the Company entered into foreign currency exchange rate swaps to manage foreign currency rate risk exposure on its transactions incurred in Brazilian Reals. The foreign currency rate swap agreement effectively locks 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, 2018, the Company valued the foreign currency exchange rate swap as a current liability of $0.5 million and recognized $0.5 million of foreign currency loss in 2018 associated with the mark to market on its foreign currency exchange rate swaps. 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

In April 2019, the Company signed a non-binding Letter of Intent ("LOI") to acquire the outstanding common shares of Energy Drilling Pte. Ltd., a company with common ownership, through the issuance of additional Company shares. The transaction is expected to be completed early in the third quarter of 2019, dependent upon the satisfaction of conditions in the LOI, including among other things, the refinancing of the Company's existing credit facilities.