# Atlantica Tender Drilling Ltd. & Subsidiaries

Consolidated Financial Statements

For the Quarter Ended September 30, 2020

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# Consolidated Financial Statements

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Balance Sheets

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 64,915,382 | $ 22,617,723 |
| Restricted cash | 11,445,896 | 12,735,683 |
| Accounts receivable | 9,202,928 | 21,266,038 |
| Accounts receivable - related parties | 5,274 | - |
| Derivative instruments - interest swaps | - | 278,634 |
| Derivative instruments - foreign currency | - | 153,133 |
| Inventory | 14,156,034 | 19,776,428 |
| Prepaid and other current assets | 1,535,939 | 1,987,781 |
| **Total Current Assets** | 101,261,453 | 78,815,420 |
| **Property and Equipment, Net** | 188,485,201 | 208,637,045 |
| **Derivative Instruments - interest swaps** | - | 346,984 |
| **Other Assets** | 1,003,600 | 1,100,061 |
| **Total Assets** | $ 290,750,254 | $ 288,899,510 |

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Balance Sheets

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **Liabilities and Stockholders' Equity** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 1,676,071 | $ 3,267,237 |
| Accounts payable - related parties | 17,180 | 72,095 |
| Accrued liabilities | 20,890,962 | 8,006,667 |
| Derivative instruments - interest swaps | 221,814 | - |
| Current portion of long-term debt | 224,173,939 | 226,960,912 |
| Deferred revenue - current | - | 740,210 |
| **Total Current Liabilities** | 246,979,966 | 239,047,121 |
| **Long-Term Liabilities** | | |
| Derivative instruments - interest swaps | 524,737 | - |
| **Total Long-Term Liabilities** | 524,737 | - |
| **Total Liabilities** | 247,504,703 | 239,047,121 |
| **Commitments and Contingencies (Note 9)** | | |
| **Stockholders' Equity** | | |
| Common stock, $0.10 par value, 310,000,000 shares authorized at September 30, 2020 and December 31, 2019; 302,199,264 shares issued and oustanding at September 30, 2020 and December 31, 2019 | 30,219,926 | 30,219,926 |
| Additional paid-in capital | 213,206,053 | 213,206,053 |
| Subscription receivable | - | (1,500) |
| Retained earnings | (200,180,428) | (193,572,090) |
| **Total Stockholders' Equity** | 43,245,551 | 49,852,389 |
| **Total Liabilities and Stockholders' Equity** | $ 290,750,254 | $ 288,899,510 |

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Statements of Operations

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Contract drilling | $ 28,683,473 | $ 36,834,743 | $ 93,524,187 | $ 110,584,484 |
| Mobilization and demobilization revenue | - | 2,259,254 | 761,043 | 6,706,128 |
| **Total Revenues** | 28,683,473 | 39,093,997 | 94,285,230 | 117,290,612 |
| **Operating Expenses** | | | | |
| Operating | 16,702,551 | 17,559,796 | 52,718,537 | 56,142,777 |
| Depreciation and amortization | 6,351,702 | 6,663,031 | 19,636,979 | 19,903,535 |
| Loss on disposal of assets | 633,518 | - | 633,518 | 1,172,015 |
| **Total Operating Expenses** | 23,687,771 | 24,222,827 | 72,989,034 | 77,218,327 |
| **Income from Operations** | 4,995,702 | 14,871,170 | 21,296,196 | 40,072,285 |
| **Other Income (Expense)** | | | | |
| Interest expense, net | (6,907,471) | (5,980,310) | (22,566,608) | (18,556,896) |
| Foreign currency loss | (165,738) | (544,939) | (856,291) | (958,546) |
| Other | - | 50,000 | (1,500) | 64,315 |
| **Total Other Expense** | (7,073,209) | (6,475,249) | (23,424,399) | (19,451,127) |
| **Income (Loss) Before Income Tax Expense** | (2,077,507) | 8,395,921 | (2,128,203) | 20,621,158 |
| **Income Tax Expense** | (1,266,014) | (2,949,700) | (4,480,135) | (9,212,800) |
| **Net Income (Loss)** | $ (3,343,521) | $ 5,446,221 | $ (6,608,338) | $ 11,408,358 |
| **Net Income (Loss) Per Share** | | | | |
| Basic and diluted | $ (0.01) | $ 0.02 | $ (0.02) | $ 0.05 |
| **Weighted Average Common Shares Outstanding** | | | | |
| Basic and diluted | 302,199,264 | 252,199,264 | 302,199,264 | 252,199,264 |

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Statements of Stockholders' Equity

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | Subscription Receivable | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares Outstanding | Amount | | | | | |
| **Balance at January 1, 2019** | **252,199,264** | **$ 26,132,331** | **$ 213,306,053** | **$ (2,297,539)** | **$ (1,500)** | **$ 40,200,191** | **$ 277,339,536** |
| Common stock issued | 50,000,000 | 4,087,595 | - | 2,297,539 | - | (1,385,134) | 5,000,000 |
| Stock issuance costs | - | - | (100,000) | - | - | - | (100,000) |
| Net loss | - | - | - | - | - | (232,387,147) | (232,387,147) |
| **Balance at December 31, 2019** | **302,199,264** | **$ 30,219,926** | **$ 213,206,053** | **$ -** | **$ (1,500)** | **$ (193,572,090)** | **$ 49,852,389** |
| Write-off | | | | | 1,500 | | 1,500 |
| Net loss | - | - | - | - | - | (6,608,338) | (6,608,338) |
| **Balance at September 30, 2020** | **302,199,264** | **$ 30,219,926** | **$ 213,206,053** | **$ -** | **$ -** | **$ (200,180,428)** | **$ 43,245,551** |

See notes to consolidated financial statements.

# Atlantica Tender Drilling Ltd. & Subsidiaries

## Consolidated Statements of Cash Flows

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | |
| Net income (loss) | $ (3,343,521) | $ 5,446,221 | $ (6,608,338) | $ 11,408,358 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 6,351,702 | 6,663,031 | 19,636,979 | 19,903,535 |
| Loss on disposal of assets | 633,518 | - | 633,518 | 1,172,015 |
| Noncash interest expense, net | 1,495,088 | 1,768,123 | 6,159,187 | 5,723,279 |
| Noncash mobilization and demobilization revenue | - | (2,259,254) | (761,043) | (6,706,128) |
| Other non-cash items | (54,282) | 1,417,691 | 6,400,221 | 1,682,946 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | 12,165,962 | (1,354,225) | 12,063,110 | 4,225,253 |
| Accounts and note receivable - related parties | 989 | 83,620 | (5,274) | 70,965 |
| Prepaid expenses and other assets | 410,825 | (171,213) | (39,767) | (2,442,584) |
| Accounts payable | 537,940 | (609,130) | (1,591,166) | (391,117) |
| Accounts payable - related parties | 5,597 | (1,143,840) | (54,915) | 33,759 |
| Accrued liabilities | 3,659,345 | (1,205,447) | 12,888,031 | (2,498,381) |
| **Net Cash Provided By Operating Activities** | 21,863,163 | 8,635,577 | 48,720,543 | 32,181,900 |
| **Cash Flows From Investing Activities** | | | | |
| Capital expenditures for drilling rig, equipment and capital spares | 204,249 | (2,088,304) | (138,680) | (5,440,297) |
| Settlement of Super Senior Bonds | - | - | - | 714,315 |
| **Net Cash Provided By / (Used In) Investing Activities** | 204,249 | (2,088,304) | (138,680) | (4,725,982) |
| **Cash Flows from Financing Activities** | | | | |
| Payments on long term debt | - | (29,433,339) | (7,500,000) | (44,711,115) |
| Debt issuance costs | - | (3,936,934) | (73,991) | (3,936,934) |
| **Net Cash Used In Financing Activities** | - | (33,370,273) | (7,573,991) | (48,648,049) |
| **Net Increase / (Decrease) In Cash and Cash Equivalents** | 22,067,412 | (26,823,000) | 41,007,872 | (21,192,131) |
| **Unrestricted and Restricted Cash and Cash Equivalents - Beginning of Period** | 54,293,866 | 51,665,538 | 35,353,406 | 46,034,669 |
| **Unrestricted and Restricted Cash and Cash Equivalents - End of Period** | $ 76,361,278 | $ 24,842,538 | $ 76,361,278 | $ 24,842,538 |
| **Supplemental Cash Flow Information** | | | | |
| Cash paid for interest | $ - | $ 4,529,484 | $ 1,471,175 | $ 13,931,727 |
| Cash paid for income taxes | 1,938,516 | 3,615,942 | 5,710,364 | 9,781,804 |

See notes to consolidated financial statements.

## 1. Organization and Nature of Operations

Atlantica Tender Drilling Ltd. ("Atlantica" or the "Company") was incorporated in Bermuda in September 2008 and in April 2011 became registered on the Norwegian OTC-list under the symbol "ATDL." Atlantica is in the business of providing contract drilling services for oil and gas wells for the offshore tender assist market and related offshore oilfield services.

The following entities are wholly-owned subsidiaries of the Company:

- Atlantica Management (USA) Inc. ("AM"), incorporated in the state of Texas
- Atlantica International Ltd. ("AI"), a Bermuda-based entity
- BassDrill Beta Ltd. ("BDB"), a Malta-based entity
- BassDrill Beta B.V. ("BDB-BV"), a Holland-based entity
- BassDrill Brasil Servicos de Petroleo Ltda. ("BBB"), a Brazil-based entity
- Atlantica International B.V. ("AI-BV"), a Holland-based entity
- Atlantica (Malta) Holding Ltd. ("AMH"), a Malta-based entity
- Atlantica Gamma Ltd. ("AG"), a Malta-based entity
- Atlantica Delta Ltd. ("AD"), a Malta-based entity
- Atlantica BDA Ltd. ("ABDA"), a Malta-based entity
- Atlantica (Holding) B.V. ("ABV"), a Holland-based entity
- Atlantica Financing B.V. ("AF-BV"), a Holland-based entity

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

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

## 2. Liquidity

These consolidated financial statements have been prepared in accordance with the applicability of a going concern assumption, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for an extended period of time. The Company's existing debt agreements, as amended and extended in 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 this debt repayment obligation; however, the Company plans to either refinance or restructure its debt obligations and expects a resolution prior to the maturity dates. 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 refinancing or restructuring will be successful and that the new financing, together with forecasted operating cash flow, will be sufficient to enable the Company to meet its obligations as they become due in the ordinary course of business for 12 months following

the date these financial statements are issued. This assumes, among other things, that the Company will continue to be successful in implementing its business strategy and that there will be no material adverse developments in its business, liquidity or capital requirements. If one or more of these factors do not occur as expected, it could cause a default under one or both of the existing agreements governing the Company's indebtedness leading to potential insolvency proceedings in Bermuda or the filing for bankruptcy protection in the U.S.

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. 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, 2019 and 2018.

### *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 September 30, 2020 and December 31, 2019. 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 September 30, 2020 and December 31, 2019 was approximately $30.5 million and $119.3 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 12).

*Cash and Cash Equivalents*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

*Restricted Cash*

The Senior Secured Term Loan and Senior Secured Bonds (see Note 5) require the Company to maintain a debt service account, into which one-third of the next quarterly interest and installment payments are to be paid each month. As discussed in Note 7, the Term Loan and Senior Secured Bonds were amended in October 2020 to remove the requirement for the Company to maintain a debt service account.

*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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Total | 43% | 59% | 46% | 61% |
| Petrobras | 57% | 41% | 54% | 39% |

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

### *Foreign Exchange Transactions*

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

### *Inventory*

Inventory is carried at the weighted average purchase price less an allowance for obsolescence. The allowance for obsolescence is based on historical experience and expectations for future use of inventory. At September 30, 2020 and December 31, 2019, the allowance for obsolescence was $11.8 million and $5.5 million, respectively.

### *Property and Equipment*

Property and equipment is carried at cost less accumulated depreciation and amortization. The Company capitalizes expenditures for renewals, replacements and improvements, and expenses costs of maintenance and repairs as incurred. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense was $6.4 million and $6.7 million for the three months ended September 30, 2020 and 2019, respectively, and $19.6 million and $19.9 million for the nine months ended September 30, 2020 and 2019, 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 and nine months ended September 30, 2020 and 2019. 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 and nine months ended September 30, 2020 and 2019:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Current income tax expense | $ 1,266,014 | $ 2,832,584 | $ 4,480,135 | $ 8,390,684 |
| Deferred income tax expense | - | 117,116 | - | 822,116 |
| Income tax expense | $ 1,266,014 | $ 2,949,700 | $ 4,480,135 | $ 9,212,800 |

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 September 30, 2020 and December 31, 2019, the Company recorded a $1.3 million deferred tax asset with a full valuation allowance for a net $-0- million deferred tax position. The Company recorded a full valuation allowance due to the Company's inability to realize the asset under a going concern (see Note 2). The deferred tax position represents the tax effect of the temporary difference related to assets owned by subsidiaries in Malta based on tax rates due on distributable earnings.

The Company follows guidance issued by the FASB which clarifies accounting for uncertainty in income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

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

In accordance with this guidance, the Company will record income tax related interest and penalties, if applicable, as a component of the provision for income tax expense. However, there were no amounts recognized for income tax related interest and penalties in the consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019.

### *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, 2020, and early adoption is permitted. The Company is evaluating the impacts of this ASU on its financial statements.

## 4. Property and Equipment

Property and equipment consisted of the following:

| September 30,2020 | Beta Rig | Delta Rig | Other | Total |
|---|---|---|---|---|
| Gross Costs | $ 298,314,026 | $ 283,914,304 | $ 1,795,585 | $ 584,023,917 |
| Less: Accumulated depreciation | (92,295,786) | (92,295,786) | (1,213,439) | (187,451,191) |
| Accumulated impairments | (107,513,414) | (106,885,995) | - | (214,399,409) |
| | 98,504,826 | 84,732,523 | 582,146 | 182,173,317 |
| Inventory - Capital Spares | 2,234,929 | 1,379,991 | 2,696,964 | 6,311,884 |
| Property and equipment, net | $ 100,739,755 | $ 86,112,514 | $ 3,279,110 | 188,485,201 |

| December 31, 2019 | Beta Rig | Delta Rig | Other | Total |
|---|---|---|---|---|
| Gross Costs | $ 298,125,062 | $ 283,854,679 | $ 1,659,599 | $ 583,639,340 |
| Less: Accumulated depreciation | (84,965,962) | (81,968,684) | (1,210,666) | (168,145,313) |
| Accumulated impairments | (108,159,100) | (106,885,994) | - | (215,045,094) |
| | 105,000,000 | 95,000,000 | 448,933 | 200,448,933 |
| Inventory - Capital Spares | 4,051,532 | 1,439,616 | 2,696,964 | 8,188,112 |
| Property and equipment, net | $ 109,051,532 | $ 96,439,616 | $ 3,145,897 | 208,637,045 |

In December 2019, the Company recorded an impairment of $215.0 million associated with its drilling rigs.

## 5. Long-Term Debt

Long-term debt consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Senior Secured Term Loan | $ 86,400,000 | $ 93,900,000 |
| Senior Secured Bonds | 135,600,000 | 135,600,000 |
| Debt Issuance Costs, Net | (344,347) | (3,313,945) |
| Bond Premium | 2,518,286 | 774,857 |
| Total Long-Term Debt | $ 224,173,939 | $ 226,960,912 |
| Less Current Portion | (224,173,939) | (226,960,912) |
| Long-Term Debt, Net | $ - | $ - |

In March 2020, due to the uncertainties of the impacts of COVID-19, the Company took measures to preserve its liquidity position. The Company entered into stand-still agreements for the Term Loan and the Bonds that expired May 31, 2020. Under the stand-still agreements, interest and principal

payments were suspended for both the Senior Secured Term Loan and Senior Secured Bonds. In October 2020, the Company amended and extended its Term Loan and Bonds for one year and settled outstanding interest and principal payments (see below for further discussion).

At September 30, 2020, the Company included accrued interest of $4.1 million for the Senior Secured Term Loan and $12.8 million 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 and bore interest at 3.25% plus LIBOR, payable quarterly. In September 2019, the Term Loan was amended and extended to mature in September 2020 and (effective September 19, 2019) 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). At September 30, 2020, the interest on the Term Loan was approximately 5.6%. 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; 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 3). 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.

As amended in 2020, 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.

In order to minimize its exposure to the floating interest rate on the Term Loan, the Company entered into interest rate swaps to effectively obtain a fixed rate on a portion of the Term Loan. At September 30, 2020, the Company hedged $55.3 million, or 64%, of the Term Loan balance with an effective fixed LIBOR of 1.25%. These interest rate swaps were terminated in October 2020 in conjunction with the October 2020 amendment of the Term Loan.

In conjunction with 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. In addition the $8.4 million received from Petrobras for the rate adjustment associated with the withholding income tax change (see Note 9) was used to repay $5.6 million on the Term Loan and $2.8 million on the Bonds. 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 September 30, 2020, the Term Loan further required the Company to comply with certain financial covenants as noted below. These covenants were 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 September 30, 2020, 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 *Beta*. The Bonds bore interest at 8.5%, with semiannual interest payments that commenced October 24, 2013, with principal due at maturity.

On September 23, 2014, the Company issued an additional $75.0 million of Senior Secured Bonds ("New Bonds"), originally maturing in September 2019. Concurrent with the issuance of these New Bonds, the holders of the Original Bonds agreed to amend and restate the bond agreement to be consistent with the bond agreement of the New Bonds. The Original Bonds and New Bonds, (together the "Bonds") bore interest at 8.0%.

In September 2019, the Bonds were amended and extended to mature in October 2020 and (effective September 24, 2019) bear interest at 12%, with quarterly interest payments. In October 2020, the Bonds were amended to, among other things, extend the maturity date to October 2021 and allocate interest between cash interest of 3.5% and PIK of 8.5%. 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; 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 3). 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 9) to paydown $2.8 million on the Bonds.

At September 30, 2020, the Bonds further required the Company to comply with certain financial covenants as noted below. These covenants, were 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 September 30, 2020, 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 $1.0 million and $0.7 million for the three months ended September 30, 2020 and 2019, respectively, and $3.0 million and $2.3 million for the nine months ended September 30, 2020 and 2019, respectively.

*Accretion of Bond Premium*

*As discussed* above, the Bonds will be settled at a premium under the terms of the September 2019 bond amendment. The Company recorded additional interest expense of $0.6 million and $0.2 million for the three months ended September 30, 2020 and 2019, respectively, and $1.7 million and $0.2 million for the nine months ended September 30, 2020 and 2019, respectively, associated with this premium

## 6. Stockholders' Equity

As a condition of the September 2019 Bond amendment and extension (see Note 5), the Company completed an equity raise of $4.9 million, net in October 2019. The proceeds were used to fund a Senior Secured Bond interest escrow account to cover additional interest expense on the bonds through June 2020 and for general corporate purposes. In conjunction with the October 2020 Bond amendment (see Note 5), the Senior Secured Bond interest escrow account will be closed and proceeds in the account have been used to pay bondholder interest.

## 7. 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- and $2.3 million for the three months ended September 30, 2020 and 2019, respectively, and $0.8 million and $6.7 million for the nine months ended September 30, 2020 and 2019, respectively.

As of September 30, 2020 and December 31, 2019, the Company had a total deferred revenue liability of $-0- million and $0.7 million, respectively, for collected fees associated with mobilization. At September 30, 2020 and December 31, 2019, the Company had an asset of $1.0 million in other current assets related to the amortization of demobilization revenue.

*Accounts Receivable*

The Company's receivables are generated from services to international oil companies and government-owned or government-controlled companies. The Company does not require collateral or other security to support customer receivables.

The Company's customers include a large international oil and gas operator and a national oil company. The Company's drilling contracts provide for monthly billings, and payment is usually made within 30 – 60 days. The Company establishes an allowance for doubtful accounts on a specific identification method, considering changes in the financial position of a customer, when the Company believes the payment of a receivable is unlikely to occur. There was no allowance for doubtful accounts at September 30, 2020 and December 31, 2019.

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 September 30, 2020 and December 31, 2019, accounts receivable included $7.3 million and $7.5 million of accrued revenues, respectively.

## 8. Earnings (Loss) Per Share

The components of the numerator and denominator for the calculation of basic and diluted earnings (loss) per share are as follows for the three and nine months ended September 30, 2020 and 2019:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net income (loss) | $ (3,343,521) | $ 5,446,221 | $ (6,608,338) | $ 11,408,358 |
| Denominator: | | | | |
| Weighted-average shares outstanding - basic and diluted | 302,199,264 | 252,199,264 | 302,199,264 | 252,199,264 |
| Earnings (loss) per share - basic and diluted | $ (0.01) | $ 0.02 | $ (0.02) | $ 0.05 |

## 9. 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. The Company recorded the WHT settlement of $8.4 million in Accounts Receivable at December 31, 2019.

### *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.

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 September 30, 2020, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated financial statements.

## 10. Defined Contribution Retirement Plan

The Company maintains a defined contribution plan for all employees based in the United States. Under the plan, the Company contributes to the employee's retirement plan amounts ranging between one and six percent of the employee's annual salary. Such contributions were $33,000 and $48,000 for the three months ended September 30, 2020 and 2019, respectively, and $144,000 and $146,000 for the nine months ended September 30, 2020 and 2019, respectively.

## 11. Related Party Transactions

The Company transacted business with the following related parties:

- HitecVision Advisory AS ("HitecVision")
- Bassoe Offshore AS/Bassoe Offshore USA ("Bassoe") (related party through September 30, 2019)

*Commission Fees*

The Company paid a commission of 1.25% of the revenue received from Petrobras to Bassoe. In June 2019, the Company and Bassoe terminated the commission fee arrangement for a lump sum payment of $750,000.

*Accounts Receivable and Accounts Payable*

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Employee receivable | $ 5,274 | $ - |
| **Accounts receivable - related parties** | **$ 5,274** | **$ -** |

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| HitecVision | $ 17,180 | $ 64,479 |
| Other | - | 7,616 |
| **Accounts payable - related parties** | **$ 17,180** | **$ 72,095** |

## 12. Risk Management and Financial Instruments

The majority of the Company's revenue transactions, assets and liabilities are denominated in U.S. dollars, the functional currency of the Company. However, the Company has operations and assets in a number of countries worldwide and incurs expenditures in other currencies, causing its results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the U.S. dollar. The Company is also exposed to changes in interest rates on floating interest rate debt. There is, thus, a risk that currency and interest rate fluctuations will have a negative effect on the value of the Company's cash flows.

*Interest Rate Risk Management*

The Company's exposure to interest rate risk relates mainly to its floating interest rate debt and balances of surplus funds placed with financial institutions. The Company's intention is to obtain the most favorable interest rate available. Surplus funds are generally placed in deposits in banks. Such deposits are available daily in order to provide the Company with flexibility to meet all requirements for working capital and capital investments. The extent to which the Company plans to utilize interest rate swaps and other derivatives to manage its interest rate risk will be determined by the net debt exposure and its views on future interest rates.

The objective of the interest rate swaps is to manage interest rate risk exposure on variable interest rate debt arrangements such as the Term Loan debt arrangement (see Note 5). The interest rate swap agreements effectively modify the Company's exposure to interest rate risk by converting a portion of the variable-rate debt to a fixed rate, thus reducing the impact of the interest rate changes on future interest expense. The Company has not designated these interest rate swaps as hedges and does not apply hedge accounting to its interest rate derivative instruments. At September 30, 2020 and December 31, 2019, the Company had interest rate swaps with total notional amounts of $55.3 million and $70.4 million, respectively, that fixed the variable rate on the Term Loan between 1.11% and 1.31%.

At September 30, 2020 and December 31, 2019, the Company valued the interest rate swaps as a net liability of $0.7 million and a net asset of $0.6 million, respectively. The Company determined the fair value of the interest rate swaps based on indirect market prices and accordingly classified such fair value measurement as Level 2. For the three months ended September 30, 2020 and 2019, the Company recognized $0.2 million of interest income and $0.8 million of interest expense, respectively, and $1.2 million and $3.4 million of interest expense for the nine months ended September 30, 2020 and 2019, respectively, 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 October 2018, the Company entered into a one-year foreign currency exchange rate swaps that effectively locked in the foreign exchange rate of BRL 5,000,000 each month through mid-September 2019 at an average exchange rate of BRL3.76 per USD1.00. 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. At December 31, 2019, the Company valued the foreign currency hedges as a current asset of $0.2 million. In the third quarter of 2020, the Company exercised its options on the Euro and realized $0.1 million in foreign exchange gains. For the three months ended September 30, 2020 and 2019, the Company recognized $41,000 of foreign currency losses and $0.4 million of foreign currency gains, respectively, associated with the mark to market on its foreign currency exchange rate hedges. For the nine months ended September 30, 2020 and 2019, the Company recognized $0.2 million of foreign currency losses and $0.5 million of foreign currency gains, respectively, associated with the mark to market on its foreign currency exchange rate hedges. The Company determined the fair value of the foreign currency exchange rate swaps based on indirect market prices and, accordingly, classified such fair value measurement as Level 2.

## 13. Subsequent Events

The Company has evaluated events subsequent to September 30, 2020 through November 20, 2020, 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.

In September 2020, the Company executed a leadership change with the retirement of its Chief Executive Officer ("CEO"), Kerry Kunz and appointed its current Chief Operating Officer ("COO"), Mike Cadigan, as CEO and COO and also appointed its current Chief Financial Officer ("CFO"), Reese McNeel, as CFO and Deputy CEO.

In March 2020, the World Health Organization ("WHO") classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally and the risks posed to the international community. In response, governments around the world imposed travel restrictions and stay at home orders to mitigate the risks of the pandemic. Government action to impose travel bans, quarantines and entry restrictions have caused difficulties getting personnel to and from the rigs. The *Delta* was under a reduced standby rate in April and May 2020, completed demobilization under the Total contract in September 2020, and is now warm-stacked in the Canary Islands, Spain. The *Beta* operations have been suspended under a long-term standby rate for an indefinite period of time effective June 2020. The Company considered the effect of COVID-19 on the assumptions and estimates used in the preparation of these unaudited consolidated financial statements and determined that there were no material adverse effects on the Company's results of operations and financial position at September 30, 2020 due to the aforementioned events.

Due to the uncertainties of the impacts of COVID-19, the Company suspended bond coupon payments and the payments of interest and amortization under the senior bank facility in March 2020. In October 2020 the Company amended and extended its debt agreements and settled outstanding principal and interest payments as discussed in Note 5.

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

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

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