# Archer Limited (ARCHER) Third Quarter 2015 Results

**Third Quarter 2015 highlights**

- Third quarter revenue from continuing operations was $376.2 million
- Third quarter EBITDA was $20.1 million including $2.5 million of restructuring costs
- Net loss for the quarter of $52.6 million
- Third quarter cash flow used by operations was $9.0 million
- Net interest-bearing debt of $794.6 million as of September 30, 2015
- Completed restructuring of share capital

**Financial Statements**

*Comparison of the Three Months Ended September 30, 2015 to the Three Month Ended June 30, 2015*

Revenue for the third quarter 2015 was $376.2 million compared to $388.9 million for the second quarter 2015, a reduction of $12.7 million or 3.3%. Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA, were $20.1 million, an improvement of $22 million over the second quarter 2015. We continued to focus on our cost structure to adapt to the extreme market conditions and recorded additional restructuring and other one-time costs of $2.5 million in the third quarter 2015. The Company's headcount as of September 30, 2015 was approximately 6,900 compared to 7,150 at the end of the second quarter 2015.

Net Financial Items were a net expense of $33.7 million in the third quarter 2015 compared to an expense of $13.9 million in the second quarter 2015. Interest expenses amounted to $13.2 million compared to $13.0 million in the second quarter 2015 and other financial items amounted to $20.5 million expense compared to $0.9 million expense in the previous quarter. Other financial items during the quarter represent predominantly foreign exchange losses.

*Comparison of the Three Months Ended September 30, 2015 to the Three Months Ended September 30, 2014*

Third quarter 2015 revenue of $376.2 million compared to $593.1 million for the third quarter 2014, down $216.9 million or 36.6%. EBITDA of $20.1 million for the same period decreased by $50 million or 71.3% compared to the third quarter 2014.

Attached to this quarterly report is an appendix with the reconciliation between US GAAP results and non-US GAAP measures, as well as the EBITDA by segment for the last six quarters.

*Cash Flow*

Cash and cash equivalents, excluding restricted cash, amounted to $44.6 million as of September 30, 2015 compared to $27.4 million at June 30, 2015.

Cash flow used by operations for the three months ended September 30, 2015 was $9.0 million, which is comprised primarily of the net loss of $52.6 million, add back for depreciation and amortization of $37.4 million, expenses for share based compensation of $1.0 million, $5.8 million relating to a decrease of inventory, and $21.9 of foreign exchange losses, offset by a deduction of $22.5 million mainly due to a decrease in accounts payable.

Capital expenditures during the quarter amounted to $16.7 million, representing predominantly maintenance related spending.

As of September 30, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. However as a result of the difficult market conditions and the impact on our earnings, we expect to exceed the leverage ratio we have agreed upon with our lenders at the end of 2015. The Company continues to evaluate more comprehensive options to remedy this potential breach of covenants in order to find a longer term solution, which will provide the Company the necessary stability in this difficult market environment to build its business going forward. These options include, among others, negotiations with lenders to seek further modifications or waivers in respect of the revolving multicurrency credit facility, refinancing of all or part of our debt, the sale of assets or obtaining additional equity financing through the support of our primary shareholders. During the third quarter we had constructive discussions with our lenders and we expect to conclude on the way forward shortly.

Total net interest-bearing debt at September 30, 2015 was $794.6 million compared to $793.9 million as of June 30, 2015.

*Share Capital*

At the Annual General Meeting held on September 18, 2015, the shareholders approved the consolidation or reverse split of shares in the proportion of 10:1 and a reduction of the issued and paid-up share capital of the Company, with the par value of each of the issued shares of the Company being reduced by US$9.99, from US$10.00 to US$0.01. After these actions the total number of issued and fully paid shares of par value of $0.01 outstanding at September 30, 2015 were 57,915,716. A total of 3,155,520 options and RSUs were outstanding as of September 30, 2015.

**Third Quarter 2015 Operating Results by Area**

The operational comments for the third quarter 2015 are presented by Area below.

| *(In millions)* | Revenues | | | EBITDA | | |
|---|---|---|---|---|---|---|
| | Q3 2015 | Q2 2015 | Variance | Q3 2015 | Q2 2015 | Variance |
| North America | $ 57.7 | $ 73.0 | $ (15.3) | $ (10.6) | $ (11.1) | $ 0.5 |
| Latin America | 172.3 | 160.8 | 11.5 | 10.5 | (1.3) | 11.8 |
| North Sea | 107.3 | 114.5 | (7.2) | 13.4 | 5.5 | 7.9 |
| Emerging Markets | 38.9 | 40.6 | (1.7) | 6.8 | 5.0 | 1.8 |
| | $ 376.2 | $ 388.9 | $ (12.7) | $ 20.1 | $ (1.9) | $ 22.0 |

*North America*

Revenue in the third quarter 2015 amounted to $57.7 million, a reduction of $15.3 million, or 21% as a consequence of continued decline in drilling and completion activity in the US Land market, resulting in a further decline in demand for all of our services combined with continued pressure on pricing. Despite lower revenue, EBITDA loss for third quarter 2015 improved marginally by $0.5 million with realisation of costs savings following various restructuring initiatives undertaken over the last three quarters partially offset by the effect from lower revenue as well as $0.5 million increased spending on restructuring initiatives.

The average United States land-based rig count of 833 for the third quarter 2015 was a reduction of 43 rigs or 5% compared to the second quarter 2015 and a reduction of 1,009 or 55% as compared to third quarter 2014. The average rig count directed towards natural gas for the third quarter 2015 decreased by 14 rigs or 7% sequentially and reduced by 110 rigs, or 36% year on year.

In Pressure Pumping we fracked a total of 541 stages in the third quarter 2015 compared to 1,028 stages during second quarter 2015. Due to the changes in job mix, revenue per stage increased by 16% in third quarter 2015 compared to second quarter 2015. However as a result of the reduction in stages pumped, total revenue in the third quarter 2015 reduced by $7.4 million or 38.6% compared to second quarter 2015. Despite the reduction in revenue, EBITDA was flat as cost savings more than offset the effect of the reduced revenue as well as exceptional costs incurred during the third quarter 2015. Compared to the third quarter 2014, Pressure Pumping revenue decreased by $57.2 million or 83% with only 2 fleets operating compared to 4 fleets throughout the same period last year. As a consequence overall fleet utilization reduced from 82.9% to 45.9%. The number of stages fracked, declined from 2,644 in the third quarter 2014 to 541 in the third quarter 2015. In addition to lower activity levels pricing has been continuously under pressure with revenue per stage declining by 15%. As a result, EBITDA decreased by $15.8 million or 159.4% year over year as a result of the lower utilization combined with lower pricing partially offset by costs savings.

Pressure Control revenue for third quarter 2015 decreased by $2.9 million or 14.1%, with lower utilization and lower pricing for Snubbing services and lower pricing for Coiled Tubing services. Third quarter EBITDA decreased by $0.4 million or 18.6% as a result of reduced revenue partly offset by additional cost savings realised during the quarter. Compared to the same period last year, revenue decreased by $29 million or 62% due to significantly reduced utilization combined with substantially lower pricing for both Coiled Tubing and Snubbing services. EBITDA for the same period decreased by $12.3 million or 124.1% as a result of the decline in revenue and was only partially offset by reduced costs.

Third quarter 2015 revenue in Directional Drilling increased by $0.6 million or 6.8%, mainly as a result of increased "lost in hole" revenue partly offset by minor reduction in both activity and pricing. EBITDA for the same period improved by $3.6 million resulting from the release of a provision related to certain indirect taxes as well as the margin related to the "lost in hole" revenue. Compared to the third quarter 2014, revenue decreased by $15.5 million or 61.5%, with reduced pricing, a large reduction in the number of jobs per day following the decline in rig count and the shutdown of our operations in the Northeast. In comparison to the same period last year, the number of jobs per day reduced by 58% in line with the reduction in rig count and the average pricing reduced between approximately 20% - 25%. Despite the significant reduction in revenue EBITDA for the same period remained flat benefitting from the release of a provision for indirect taxes and significant cost savings realised.

Compared to the previous quarter, revenue in our Frac Valve division decreased by $1.8 million or 35.2%, with lower after sales service activity as well as reduction in pricing. EBITDA for the same period was $1.4 million lower, as a result of the lower activity and pricing levels as well as a provision related to a customer dispute. Compared to the third quarter 2014, revenue decreased by $13.9 million or 80.8%, reflecting the substantial decrease of new valves sold, a reduction in pricing as well as lower aftersales activities. As a result EBITDA for the same period decreased by $5.4 million or 136.2%.

Third quarter 2015 revenue for our US Wireline Division decreased by $4.1 million or 21.4% reflecting a 16% reduction in volume for pump down services and an approximate 10% reduction in price. As a result of the continuous decline in activity we have idled an additional 4 trucks during the quarter. EBITDA for the same period decreased by $0.6 million or 58.5% as a result of the lower revenue combined with additional costs related to a medical insurance claim and increased workmen's compensation. Compared to third quarter 2014 revenue decreased by $15 million or 49.9%, as a result of significantly lower pricing combined with lower volume caused by the rapid decline in drilling and completion activity. Consequentially EBITDA for the same period declined by $3.4 million or 188%.

Given the current state of the market, visibility, both short and medium term, remains very poor. In addition to the overall uncertainty induced by the price of hydrocarbons, several operators are evaluating a further reduction in activity at year end, although these plans have in many cases not yet been finalized. As a result it is not viable to forecast revenue and margins with a degree of confidence at this point in time.

*Latin America*

Revenue in the third quarter 2015 amounted to $172.3 million, an increase of $11.5 million or 7.2% compared to the previous quarter. This increase was mainly due to higher billings for reimbursable expenses, higher revenue generated from the new rigs working in the Neuquén region partially offset by lower activity in Bolivia, increased number of idle rigs and continued pricing pressure from a customer in Argentina. As a result of the increased number of idle rigs during the quarter, the overall rig utilization decreased from 78.3 % during second quarter 2015 to 72.1% in the third quarter. EBITDA for the same period increased by $11.8 million sequentially, with the absence of the significant downtime and repair costs related to inspections, lower severance costs, a reimbursement of insurance costs and a favourable revenue mix.

Compared to third quarter 2014, revenue increased by $19.5 million or 12.7% with higher rig activity in Argentina, resulting from an operation and management contract for a major customer and higher reimbursable billings. This was partly offset by lower activity in Bolivia, price reductions in Argentina, the shut down of the Land Drilling operations in Brazil and an overall lower rig utilization with 72.1% in the third quarter 2015 compared to 87% for the same period last year. Despite the increase in revenue, EBITDA in third quarter 2015 was flat compared to the same period last year as price concessions combined with higher cost levels for the operations and management contract as well as a lower utilization offset the positive effect from the margins generated by the new rigs in their first months of operations.

Our investment in six new drilling rigs is now complete, with the last of the new rigs finishing preparations to begin operations in November. However we expect fourth quarter 2015 revenue for Latin America to be down, as operators are considering an extended shut down of drilling and workover operations during the year-end holiday period. We also expect further restructuring costs in the fourth quarter as a result of the recent and possible future reductions in activity. While the exact conditions have not been agreed, we expect EBITDA in the fourth quarter to be significantly lower than in the third quarter.

*North Sea*

Third quarter 2015 revenue was $107.3 million, a decrease of $7.2 million or 6.3% compared to previous quarter following generally lower level of demand for all services except for the Modular Rig and revenue for the Survey and Inspection business, which was transferred from our Emerging Markets & Technologies segment in the third quarter. Despite the lower revenue, EBITDA improved by $7.9 million or 143.6% with $1.7 million lower restructuring costs as well as increased operating margins on the Modular Rig with excellent operational performance combined with cost savings achieved during the quarter.

Revenue for our Platform Drilling services reduced by $10.8 million or 11% reflecting lower drilling activity combined with lower reimbursable revenue partially offset by revenue for additional personnel provided on several platforms, which are not currently performing drilling operations. Despite lower revenue EBITDA for the same period increased by $3.7 million or 59.7% million, with better personnel utilization, additional margins from incremental personnel provided and the absence of restructuring costs recognised during second quarter 2015. Compared to third quarter 2014, revenue decreased by $65.6 million or 42.9%, mainly due to reduction in operational activity and adverse foreign exchange impact. Compared to the same period last year EBITDA decreased by $5 million or 33.5% as a result of the reduced drilling activity in both Norway and the UK.

Revenue for our Modular Rig business for third quarter 2015 increased by $2.1 million or 25.2% sequentially, mainly due to improved drilling performance related to Archer Topaz. EBITDA for the same period increased by $2.2 million or 98.4% as a result of the increased revenue combined with lower operating costs. Compared to the third quarter 2014, revenue decreased by $8.1 million or 43.8%, with the absence of activity for the Archer Emerald and adverse currency effects partially offset by a full quarter of operating activity for Archer Topaz. EBITDA for the same period decreased by $3.5 million or 44%, driven by overall lower activity levels.

Third quarter revenue for Engineering services decreased by $1.3 million or 15.5% sequentially following lower reimbursable billing and lower personnel utilization. Despite lower revenue, EBITDA for the same period increased by $0.9 million or 48.8%, reflecting lower operating costs following the implementation of the restructuring plan and lower one-time restructuring costs incurred in the previous quarter. Compared to the third quarter 2014, revenue deteriorated by $22.4 million or 76.5%, as a consequence of the difficult market situation for engineering services. As a result of the sharp reduction in revenue compared to the same period last year, EBITDA decreased by $2.4 million or 161%.

In order to build on the synergies and the experience of the Platform Drilling and Engineering organizations, we decided to transfer our Survey and Inspection business from Emerging Markets & Technologies to our North Sea segment, where we will report this business from the third quarter 2015 forward. Compared to the previous quarter, revenue for third quarter 2015 was slightly down as a result of lower activity in Asia, as several projects were cancelled as a result of the continued deterioration of the utilization in the offshore floater market. Despite the reduction in revenue EBITDA for third quarter 2015 improved slightly, benefitting from a lower cost structure. Compared to the third quarter 2014, revenue decreased more significantly as the demand for survey and inspection services decreased in line with the general reduction in offshore activity, while EBITDA remained flat as a result of reduced operating costs.

Although we continue to experience a high level of uncertainty, we believe that our North Sea activity levels in the fourth quarter will remain broadly in line with the third quarter.

*Emerging Markets & Technologies*

Revenue in the third quarter 2015 was $38.9 million, $1.7 million or 4.2% lower compared to the previous quarter with the transfer of management and reporting responsibility for Survey and Inspection services to the North Sea segment, partially offset by increased activity in our International Wireline and Oiltools divisions. EBITDA for the same period increased by $1.8 million or 36% as a result of the higher revenue in both International Wirleine and Oiltools as well as lower operating costs following several restructuring initiatives to align the cost base with lower activity levels.

Revenue in International Wireline increased marginally compared to the second quarter 2015, primarily due to increased activity levels in Norway. EBITDA for the same period improved as a result of the higher revenue combined with lower operating costs following headcount reductions completed in the second quarter 2015. Year on year revenue decreased by $3.3 million or 14.8% mainly as a result of adverse exchange rate effects. Despite lower revenue, EBITDA for the same period improved as a result of lower operating costs and a favourable job mix.

Compared to the second quarter 2015, revenue in Oiltools increased slightly, with higher sales in the UK and West Africa, partly offset by lower activity levels in Australia, Norway and the United States. EBITDA for the same period improved in line with the increase in revenue and in addition due to incremental margins stemming from a favourable products mix. Year over year revenue decreased by $5.7 million or 22.2% as a result of the unfavourable evolution in exchange rates, lower pricing in Norway, lower Cflex™ activity in the United States and lower drilling activity in Australia. This was partly compensated for by increased revenue for tubing conveyed perforating services combined with our Perfwash™ technology and higher LOCK™ sales and installations in West Africa. EBITDA for the same period decreased by $3.9 million or 49.4% as a result of the reduced revenue, an unfavourable product mix, partially offset by lower compensation costs following the reduction in headcount.

We expect the fourth quarter 2015 to be slightly below our third quarter 2015 performance mainly due to a seasonal effect and a further reduction in drilling activity in Norway.

**Summary Outlook**

The U.S. land market continued to experience a decline in activity with pricing and activity levels being extremely challenged. The North Sea Drilling activity has also been significantly curtailed by many operators, which have extended their plans to keep platforms in maintenance or idle mode. Further reductions in spending have also impacted Argentina and Bolivia; where global and local customers are reducing their spend in order to preserve cash flow.

In line with this reduction in activity, the Company has reduced its headcount by another 236 positions during the third quarter 2015, with the total reduction in headcount of about 21% compared to the headcount at the end of December 2014.

We do not expect overall activity levels or pricing to improve during the fourth quarter or the first half of 2016, as a result of the low commodity price environment as well as the impact of an extended holiday period in certain parts of our business. In addition we are experiencing a higher level of uncertainty impacting future activity levels in Argentina, as some operators are evaluating investment decisions based on the potential changes should the subsidies for the local production of hydrocarbons be reduced or eliminated.

As such we continue to focus our efforts on controlling our costs, developing new business opportunities in target countries and with key customers currently not being served and generating cash flow. For 2015 we estimate capital expenditures for the entire year to total $110 million, a reduction of 33% compared to $165 million guidance given at the beginning of the year. Although we have not yet finalized our budgets for 2016, capital expenditures next year will be significantly lower representing expenditures for critical maintenance projects only.

**Cautionary Statement Regarding Forward-Looking Statements**

In addition to historical information, this press release contains statements relating to our future business and/or results. These statements include certain projections and business trends that are "forward-looking." All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including statements preceded by, followed by or that include the words "estimate," "plan," project," "forecast," "intend," "expect," "predict," "anticipate," "believe," "think," "view," "seek," "target," "goal" or similar expressions; any projections of earnings, revenues, expenses, synergies, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations, including integration and any potential restructuring plans; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the year ending December 31, 2014. These forward-looking statements are made only as of the date of this press release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies, which are impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

# ARCHER LIMITED

## INDEX TO UNAUDITED THIRD QUARTER FINANCIAL STATEMENTS

# ARCHER LIMITED
## Consolidated Statements of Operations
## (Unaudited)

| *(In millions, except per share data)* | Note | Three Months Ended September 30 2015 | Three Months Ended September 30 2014 | Nine Months Ended September 30 2015 | Nine Months Ended September 30 2014 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Operating revenues | | $ 358.5 | $ 557.9 | $1,202.9 | $ 1,561.0 |
| Reimbursable revenues | | 17.7 | 35.2 | 63.8 | 88.9 |
| **Total revenues** | | **376.2** | **593.1** | **1,266.7** | **1,649.9** |
| **Expenses** | | | | | |
| Operating expenses | | 325.0 | 468.5 | 1,083.5 | 1,341.0 |
| Reimbursable expenses | | 15.8 | 33.8 | *58.7* | 85.1 |
| Depreciation and amortization | | 37.4 | 36.8 | 112.7 | 110.6 |
| Loss / (Gain) on sale of fixed assets | | 0.4 | (2.9) | (3.7) | (2.5) |
| Impairments | | - | - | - | 1.5 |
| General and administrative expenses | | 15.3 | 20.7 | 48.2 | 60.9 |
| **Total expenses** | | **393.9** | **556.9** | **1,299.4** | **1,596.6** |
| **Operating (loss) / income** | | **(17.7)** | **36.2** | **(32.7)** | **53.3** |
| **Financial items** | | | | | |
| Interest income | | 0.6 | 0.6 | 1.8 | 2.1 |
| Interest expenses | | (13.2) | (11.3) | (38.7) | (35.7) |
| Share of results in associated company | | 1.9 | (0.5) | (0.2) | (1.2) |
| Other financial items | 2 | (23.0) | (9.7) | (46.6) | (13.8) |
| **Total financial items** | | **(33.7)** | **(20.9)** | **(83.7)** | **(48.6)** |
| **(Loss) / income from continuing operations before income taxes** | | **(51.4)** | **15.3** | **(116.4)** | **4.7** |
| Income tax (expense) / benefit | 3 | (1.2) | (1.6) | 1.2 | (9.9) |
| **(Loss) / income from continuing operations** | | **(52.6)** | **13.7** | **(115.2)** | **(5.2)** |
| Loss from discontinued operations, net of tax | | - | (0.4) | - | (1.0) |
| **Net (loss) / income** | | **$ (52.6)** | **$ 13.3** | **$ (115.2)** | **$ (6.2)** |
| **(Loss) / income per share-basic (Restated)** | | | | | |
| (Loss) / income from continuing operations | | $ (0.91) | $ 0.23 | $ (1.99) | $ (0.11) |
| Loss from discontinued operations | | - | (0.01) | - | (0.02) |
| (Loss) / income per share | | $ (0.91) | $0.22 | $ (1.99) | $ (0.13) |
| **(Loss) / income per share-diluted (Restated)** | | | | | |
| (Loss) / income from continuing operations | | $ (0.91) | $ 0.23 | $ (1.99) | $ (0.11) |
| Loss from discontinued operations | | - | (0.01) | - | (0.02) |
| (Loss) / income per share | | $ (0.91) | $ 0.22 | $ (1.99) | $ (0.13) |
| **Weighted average number of shares outstanding** | | | | | |
| Basic (Restated) | 4 | 57.9 | 57.9 | 57.9 | 57.9 |
| Diluted (Restated) | 4 | 57.9 | 58.6 | 57.9 | 57.9 |

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

# ARCHER LIMITED

Consolidated Statements of Comprehensive (Loss)/Income
(Unaudited)

| *(In millions)* | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Net (loss) / income)** | **$(52.6)** | **$ 13.3** | **$(115.2)** | **$ (6.2)** |
| **Other comprehensive income / (loss)** | | | | |
| Currency exchange differences | 1.8 | (3.0) | 8.1 | 2.4 |
| **Total comprehensive (loss) / income** | **$(50.8)** | **$ 10.3** | **$(107.1)** | **$ (3.8)** |

## Accumulated Other Comprehensive (Loss) / Income

(Unaudited)

| *(In millions)* | **Pension – Unrecognized Losses** | **Currency Exchange Differences** | **Total** |
|---|---|---|---|
| **Balance at December 31, 2014** | **$ (25.9)** | **$ 8.8** | **$ (17.1)** |
| Currency translation differences | **-** | 8.1 | **8.1** |
| Actuarial loss relating to pension | - | - | - |
| **Balance at September 30, 2015** | **$ (25.9)** | **$ 16.9** | **$ (9.0)** |

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

# ARCHER LIMITED
## Consolidated Balance Sheets

| *(In millions)* | Note | September 30 2015 (Unaudited) | December 31 2014 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 44.6 | $ 28.9 |
| Restricted cash | | 5.8 | 15.8 |
| Accounts receivables | | 273.7 | 386.2 |
| Inventories | 5 | 100.6 | 97.5 |
| Deferred income taxes | | 17.0 | 9.2 |
| Other current assets | | 81.6 | 97.0 |
| **Total current assets** | | **523.3** | **634.6** |
| **Noncurrent assets** | | | |
| Investments in associates | | - | 0.2 |
| Loans to associates | | 8.7 | 6.1 |
| Property plant and equipment, net | | 847.2 | 870.3 |
| Deferred income taxes | | 12.6 | 12.6 |
| Goodwill | 6 | 185.3 | 207.8 |
| Other intangible assets, net | 7 | 45.8 | 53.9 |
| Deferred charges | | 9.4 | 15.1 |
| **Total noncurrent assets** | | **1,109.0** | **1,166.0** |
| **Total assets** | | **$ 1,632.3** | **$ 1,800.6** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Current portion of interest-bearing debt | 8 | $ 98.4 | $ 64.2 |
| Accounts payable | | 102.5 | 137.5 |
| Other current liabilities | | 208.3 | 243.6 |
| **Total current liabilities** | | **409.2** | **445.3** |
| **Noncurrent liabilities** | | | |
| Long-term interest-bearing debt | 8 | 690.8 | 697.2 |
| Subordinated related party loan | 8 | 50.0 | 50.0 |
| Deferred taxes | | 2.8 | 11.4 |
| Other noncurrent liabilities | | 41.9 | 53.9 |
| **Total noncurrent liabilities** | | **785.5** | **812.5** |
| **Commitments and contingencies** | | | |
| **Shareholders' equity** | | | |
| Common shares of par value $0.01 per share: 1.0 billion shares authorized: 57,915,716 outstanding shares at September 30, 2015 (December 31, 2014: 579,159,787) | 15 | 0.6 | 579.2 |
| Additional paid in capital | | 823.0 | 821.1 |
| Accumulated deficit | | (1,117.1) | (1,001.9) |
| Accumulated other comprehensive loss | | (9.0) | (17.1) |
| Contributed surplus | | 740.1 | 161.5 |
| **Total shareholders' equity** | | **437.6** | **542.8** |
| **Total liabilities and shareholders' equity** | | **$ 1,632.3** | **$ 1,800.6** |

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

# ARCHER LIMITED
## Consolidated Statements of Cash Flow
## (Unaudited)

| *(In millions)* | Nine Months Ended September 30 | |
|---|---|---|
| | **2015** | **2014** |
| **Cash Flows from Operating Activities** | | |
| Net loss | $ (115.2) | $ (6.2) |
| Adjustment to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 112.7 | 110.6 |
| Share-based compensation expenses | 2.4 | 3.7 |
| Impairment charges | - | 1.5 |
| Gain on property, plant and equipment disposals | (3.7) | (2.5) |
| Equity in loss of unconsolidated affiliates | - | 0.7 |
| Amortization of loan fees | 2.4 | 4.8 |
| Deferred income taxes | (4.9) | (3.5) |
| Foreign currency loss | 43.3 | 14.9 |
| *Changes in operating assets and liabilities, net of acquisitions* | | |
| Decrease / (increase) in accounts receivable and other receivables | 111.7 | (41.9) |
| Increase in inventories | (6.6) | (26.4) |
| (Decrease) / increase in accounts payable and other liabilities | (80.5) | 57.2 |
| Other, net | (22.5) | (6.3) |
| **Net cash provided by operating activities** | **39.3** | **106.6** |
| **Cash Flows from Investing Activities** | | |
| Capital expenditures | (99.5) | (173.7) |
| Proceeds from disposal of property, plant and equipment | 12.2 | 13.0 |
| Loans to associates | (3.6) | (5.9) |
| Net change in restricted cash | 8.9 | 2.4 |
| **Net cash used by investing activities** | **(82.0)** | **(164.2)** |
| **Cash Flows from Financing Activities** | | |
| Net proceeds/(repayments) under revolving facilities | 65.1 | 3.4 |
| Proceeds from long-term debt | 4.2 | 56.5 |
| Repayment of long-term debt | (17.2) | (13.2) |
| Debt issuance costs | - | (1.9) |
| **Net cash provided by financing activities** | **52.1** | **44.8** |
| Effect of exchange rate changes on cash and cash equivalents | 6.3 | 4.3 |
| **Net decrease in cash and cash equivalents** | **15.7** | **(8.5)** |
| Cash and cash equivalents at beginning of the period | 28.9 | 49.5 |
| **Cash and cash equivalents at the end of the period** | **$ 44.6** | **$ 41.0** |
| Interest paid | $ 28.6 | $ 28.9 |
| Taxes paid | $ 13.1 | $ 8.3 |

*See accompanying notes that are an integral part of these Consolidated Financial Statements.*

# ARCHER LIMITED
## Consolidated Statement of Changes in Shareholders’ Equity
## (Unaudited)

| *(In millions)* | Share Capital | Additional Paid In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Contributed (Deficit)/ Surplus | Total Shareholders’ Equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2014** | **$ 579.2** | **$ 821.1** | **$(1,001.9)** | **$ (17.1)** | **$ 161.5** | **$ 542.8** |
| Translation differences | — | — | — | 8.1 | — | 8.1 |
| Adjustment to nominal value of shares | (578.6) | — | — | — | 578.6 | — |
| Cost of shares purchased for RSUs | — | (0.5) | — | — | — | (0.5) |
| Share based compensation | — | 2.4 | — | — | — | 2.4 |
| Net loss | — | — | (115.2) | — | — | (115.2) |
| **Balance at September 30, 2015** | **$ 0.6** | **$ 823.0** | **$(1,117.1)** | **$ (9.0)** | **$ 740.1** | **$ 437.6** |

*See accompanying notes that are an integral part of these Consolidated Financial Statements*.

# ARCHER LIMITED
## Notes to Unaudited Consolidated Financial Statements

*Description of business*

Archer Limited is an international oilfield service company providing a variety of oilfield products and services through its Area organization. Services include platform drilling, land drilling, directional drilling, modular rigs, engineering services, equipment rentals, wireline services, pressure control, pressure pumping, production monitoring, well imaging and integrity management tools.

As used herein, unless otherwise required by the context, the term "Archer" refers to Archer Limited and the terms "Company," "we," "Group," "our" and words of similar import refer to Archer and its consolidated subsidiaries. The use herein of such terms as “group”, “organization”, “we”, “us”, “our” and “its” or references to specific entities is not intended to be a precise description of corporate relationships.

We employed approximately 6,900 skilled and experienced people as of September 30, 2015.

Archer was incorporated in Bermuda on August 31, 2007 and conducted operations as Seawell Ltd. until May 16, 2011 when shareholders approved a resolution to change the name to Archer Limited.

*Basis of presentation*

The unaudited third quarter 2015 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited third quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These third quarter 2015 financial statements should be read in conjunction with our financial statements as of December 31, 2014. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

*Use of estimates*

In accordance with accounting principles generally accepted in the United States of America, the preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be perceived with certainty. Accordingly, our accounting estimates require the exercise of judgment. While management believes that the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts, recoverability of long-lived assets, goodwill and intangibles, useful lives used in depreciation and amortization, income taxes, valuation allowances and purchase price allocations. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

*Significant accounting policies*

The accounting policies utilized in the preparation of the unaudited third quarter financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2014. For ease of reference we have stated some specific policies, which have a significant impact on our financial statements.

*Goodwill*

We allocate the cost of acquired businesses to the identifiable tangible and intangible assets and liabilities acquired, with any remaining amount being capitalized as goodwill. Goodwill is not amortized but is tested for impairment at least annually. We test goodwill, by reporting unit, for impairment on an annual basis, and between annual tests if an event occurs, or circumstances change, that would more likely than not, reduce the fair value of a reporting unit below its carrying amount. The reporting units have been identified in accordance with Accounting Standards codification 350-20 "Intangible Assets – Goodwill" as the business components one level below the reporting segments each of which we identified as

- constituting a business,
- for which discrete financial information is available, and
- whose operating results are reviewed regularly by segment management

We aggregated components with similar economic characteristics.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if a reporting unit's fair value is less than its carrying value, an impairment of goodwill may exist, requiring a second step to measure the amount of impairment loss.

We estimate the fair value of each reporting unit using the income approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value. Cash flow projections are based on management's estimates of economic and market conditions that drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The discount rate is based on our specific risk characteristics, our weighted average cost of capital and our underlying forecasts. Once a base case has been established following the above principles, the cash flow model is then altered based on different macroeconomic and operational assumptions and a fair value of the business is calculated based on management's estimate of the most likely outcome. There are inherent risks and uncertainties involved in the estimation process, such as determining growth and discount rates.

*Impairment of long-lived assets and intangible assets*

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment at least once per year during the fourth quarter. We assess recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

*Reclassifications*

We have made certain reclassifications to prior period amounts to conform with the current period's presentation, including certain reclassifications to present discontinued operations. Other reclassifications did not have a material effect on our consolidated financial statements.

*Recently issued accounting pronouncements*

Since December 31, 2014, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

**ASU 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)** Issued January 2015 simplifies Income Statement presentation by eliminating the concept of Extraordinary Items. Significant unusual and infrequently occurring items continue to be reported as a separate component of income from continuing operations or, alternatively, disclosed in the notes to the financial statements. Guidance is given in 225-20 as to the definition of unusual and infrequent. ASU 2015-01 is effective for accounting periods beginning after December 15, 2015 and early adoption is permitted. We do not expect the provisions of ASU 2015 to have a material effect on our consolidated financial statements.

**ASU 2015-02 Consolidation (Topic 810)**, issued February 2015, alters existing codification contained in Topic 810- Consolidation and is intended to improve targeted areas of consolidation. ASU 2015-02:

- Eliminates the presumption that a general partner should consolidated a limited partner,
- Clarifies when fees paid to a decision maker (such as an asset manager) should be a factor in assessment of variable interest entities (VIEs), and puts greater emphasis on the risk of loss,
- Amends guidance for assessing how relationships (such as affiliates) affect the consolidation analysis of VIEs.
- Reduces the number of VIE consolidation models from two to one by eliminating the indefinite deferral for certain investment funds
- Scopes our certain money funds out of the consolidation guidance.

ASU 2015-02 is effective for accounting periods beginning after December 15, 2015 and early adoption is permitted. We do not expect the provisions of ASU 2015-02 to have a material effect on our consolidated financial statements, as the entities which we consolidate which may be affected by the new guidance do not represent a material part of our business, and we do not expect our consolidation analysis and conclusion to be changed by the new guidance.

**ASU 2015-03 Interest – Imputation of Interest (Subtopic 835-30),** issued in April 2015, changes existing guidance that Debt issuance costs are reported in the balance sheet under assets, and requires that debt issuance costs related to a recognised debt liability be presented as a direct deduction from the carrying amount of that debt, consistent with debt discounts. The update for accounting periods beginning after December 15, 2015 and early adoption is permitted. The guidance is to be applied on a retrospective basis and upon transition we shall comply with the applicable disclosures for a change in accounting policy. We intend to adopt the new accounting treatment in our financial statements for the year ended December 31, 2015.

**ASU 2015-05 – Goodwill and Other – Internal use Software (Subtopic 350-40),** issued in April 2015, provides guidance about whether a cloud computing arrangement includes any software licences. If a cloud computing arrangement contains a software licence element, that element it will be accounted for consistently with other software licences, otherwise fees paid under a cloud computing arrangement will be accounted for as a service contract.  ASU 2015-4 is effective for accounting periods beginning after December 15, 2015 and early adoption is permitted. We do not have any material cloud computing arrangements and we shall adopt ASU 2015-05 on a prospective basis.

## Note 2 – Other Financial Items

| | **Three Months Ended September 30** | | **Nine Months Ended September 30** | |
|---|---|---|---|---|
| *(In millions)* | **2015** | **2014** | **2015** | **2014** |
| Foreign exchange differences | $ (21.9) | $ (12.1) | $(43.3) | $(14.9) |
| Other items | (1.1) | 2.4 | (3.3) | 1.1 |
| **Total other financial items** | **$ (23.0)** | **$ (9.7)** | **$(46.6)** | **$(13.8)** |

Other financial items represent predominantly foreign exchange losses on an intercompany loan balance denominated in Norwegian Kroner following the continuing weakening of the Norwegian Kroner against USD. The intercompany loan receivable is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of retranslating the entity with Norwegian Kroner functional currency is classified as other comprehensive income.

Other items comprise other costs in connection with financing including bank charges and fees and legal costs.

**Note 3 – Income Taxes**

Tax expense (benefit) can be split in the following geographical areas:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(In millions)* | **2015** | **2014** | **2015** | **2014** |
| United States | $ 0.1 | $ (0.4) | $ 0.1 | $ 0.1 |
| South America | (1.9) | 0.5 | (8.2) | 1.5 |
| Europe | 2.8 | 2.1 | 5.3 | 8.7 |
| Others | 0.2 | (0.6) | 1.6 | (0.4) |
| **Total** | **$ 1.2** | **$ 1.6** | **$ (1.2)** | **$ 9.9** |

Archer is operating in many jurisdictions and our income tax expense is generated by earnings, which are taxed at the respective country's corporate income tax rate.

The Group's net tax position is a benefit $ (1.2) million for the nine month period ending September 30, 2015, primarily in South America, with a net tax benefit $(8.2) million relating to losses in Argentina. Tax expenses incurred in Europe amounted to $ 5.3 million of which $ 3.9 million are incurred in the United Kingdom. The $1.6 million, reported under Others consists mainly of corporate income taxes in Australia, which amounted to $1.0 million.

There are significant tax assets in the United States totalling $367 million, out of which $166 million relate to federal net operating losses carry forward and $107 million related to timing differences in the recognition of tax deductible items. We are precluded from recognising the benefits of these tax assets in United States, as we do not anticipate utilizing them within the foreseeable future.

## Note 4 – Earnings Per Share

During the third quarter we have executed a re-organisation of our share capital, involving a consolidation of shares and a change to the nominal value of our authorised and issued shares. This is described in more detail Note 15. The computation of basic EPS is based on the weighted average number of shares outstanding during the period which we have adjusted to take account of the capital re-organisation. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments. The denominator used for the computation of basic and diluted earnings was computed as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(In thousands)* | **2015** | **2014** | **2015** | **2014** |
| | | (Restated) | | (Restated) |
| **Denominator** | | | | |
| Weighted-average common shares outstanding | 57,916 | 57,916 | 57,916 | 53,946 |
| Effect of potentially dilutive share-based compensation shares | — | — | — | — |
| Weighted-average common shares outstanding and assumed conversions | 57,916 | 57,916 | 57,916 | 53,946 |

Share-based compensation of approximately 41,997 and 130,395 shares were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2015, and 462,380 shares were excluded from the computation of diluted earnings per share for the nine months ended September 30, 2014, respectively, as the effect would have been antidilutive due to the net loss for the period

## Note 5 – Inventories

| | September 30 | December 31 |
|---|---|---|
| *(In millions)* | **2015** | **2014** |
| Manufactured | | |
| Finished goods | $ 27.9 | $ 12.3 |
| Work in progress | 0.8 | 4.6 |
| Raw materials | 2.4 | 10.7 |
| Total manufactured | 31.1 | 27.6 |
| Drilling supplies | 31.1 | 28.6 |
| Chemicals | 9.8 | 13.8 |
| Other items and spares | 28.6 | 27.5 |
| **Total inventories** | **$ 100.6** | **$ 97.5** |

**Note 6 – Goodwill**

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired.

| *(In millions)* | |
|---|---|
| **Net book balance at December 31, 2014** | **$ 207.8** |
| Goodwill disposed during the period | - |
| Impairment | - |
| Currency adjustments | (22.5) |
| **Net book balance at September 30, 2015** | **$ 185.3** |

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The testing of the valuation of goodwill involves significant judgement and assumptions to be made in connection with the future performance of the various components of our business operations.

In response to the difficult market situation, the Company is currently reviewing its structure in order to further optimize its cost base. Once the revised structure has been approved by the Board of Directors, the Company will prepare its annual impairment test in the fourth quarter, which will incorporate the financial effects of any potential structural change in the valuation of the business. Depending on the expected impact in each Division, we may impair goodwill, intangible assets and potentially property plant and equipment in one or more reporting segments

**Note 7 – Other Intangible Assets**

| *(In millions)* | **Cost** | **Accumulated Amortization** | **Net** |
|---|---|---|---|
| **Balance at December 31, 2014** | **$ 111.4** | **$ (57.5)** | **$ 53.9** |
| Amortization | — | (7.4) | (7.4) |
| Currency adjustments | (2.9) | 2.2 | (0.7) |
| **Balance at September 30, 2015** | **$ 108.5** | **$ (62.7)** | **$ 45.8** |

The net book value at September 30, 2015, consisted of customer relationships of $40.4 million, identified technology of $1.8 million, trademarks of $1.5 million and patents of $2.1 million.

### Note 8 – Long-term, Interest-Bearing Debt

| *(In millions)* | September 30 2015 | December 31 2014 |
|---|---|---|
| Multicurrency term and revolving facility | $ 642.7 | $ 629.6 |
| Related party subordinated loan | 50.0 | 50.0 |
| Hermes-covered term loans | 52.5 | 69.9 |
| Other loans and capital lease liability | 94.0 | 61.9 |
| **Total loans and capital lease liability** | **839.2** | **811.4** |
| Less: current portion | (98.4) | (64.2) |
| **Long-term portion of interest bearing debt** | **$ 740.8** | **$ 747.2** |

*Multicurrency term and revolving facility*

On November 12, 2014, we signed a fourth amendment and re-statement multicurrency revolving facility agreement, and extended the term of the facility, which now matures in May 2018.

The total amount available under the multicurrency revolving facility is $750 million. No instalments are due until May 2017, when quarterly instalments of $25 million commence. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA.

As of September 30, 2015, a total of $642.7 million was drawn under the revolving facility. The facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of $250 million in favour of the lenders under the revolving facility and the lenders of the overdraft facilities, securing our obligations under these facilities. Our entities that fall under the laws of the United States of America and are party to the revolving facility have executed general security agreements in respect of their assets as further security. The revolving facility contains certain financial covenants, including, among others:

- Our total consolidated net interest bearing debt shall not exceed 5.0x of the last twelve months EBITDA as of September 30, 2015. This leverage ratio increases to 5.25x as of December 31, 2015 and 5.5x as of March 31, 2016. Thereafter it reduces to 4.75x in June 2016 and has subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- Our minimum ratio of equity, including subordinated debt and adjusted for certain revaluation effect related to exchange rate movements, to total assets of at least 30.0%.
- We are to maintain the higher of $30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- We shall ensure that the capital expenditures, on a consolidated basis, shall not exceed $120 million for the financial year 2015, and not exceed $100 million each financial year thereafter, plus any capital expenditure under specific carved out arrangements.

The revolving facility contains events of default which include payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor's assets, appropriation of an obligor's assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation. In addition there are cross default clauses in the event of the obligor defaulting on other issued debt.

As of September 30, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. However as a result of the difficult market conditions and the impact on our earnings, we expect to exceed the leverage ratio, we have agreed upon with our lenders, at the end of 2015. The Company continues to evaluate more comprehensive options to remedy this potential breach of covenants in order to find a longer term solution, which will provide the Company the necessary stability in this difficult market environment to build its business going forward. These options include, among others, negotiations with lenders to seek further modifications or waivers in respect of the revolving multicurrency credit facility, refinancing of all or part of our debt, the sale of assets or obtaining additional equity financing through the support of our primary shareholders. During the third quarter we had constructive discussions with our lenders and we expect to conclude on the way forward shortly.

*Related party subordinated loan*

On October 24, 2014, Archer entered into a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to $50.0 million. The loan was drawn in full as at December 31, 2014 and is repayable in full at the maturity date. Interest of 7.5% per year, is being accrued over the term of the loan and is payable on the maturity date. The loan matures on June 30, 2018.

On March 6, 2015 Metrogas Holdings Inc. transferred the $50 million facility to Seadrill Limited. All terms and conditions under the facility remain unchanged.

*Hermes-covered term loans*

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At September 30, the equivalent of $42.6 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the modular rig, Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.30% above EURIBOR. At September 30, 2015, the equivalent of $9.9 million was outstanding under this facility. As at 30 September 2015 we have been granted a waiver in respect of the covenants attached to of this loan, in order to be compliant at the quarter end.

*Other loans and capital leases*

We have two $50.0 million cash overdraft facilities and at September 30, 2015, net borrowings under these facilities were $46.1 million. In addition we have borrowed $29.8 million under short term facilities in Argentina as at September 30, 2015. We also have capital leases covering both real property and equipment. At September 30, 2015, the net balance due under these arrangements was $16.4 million.

*Interest rate swap agreement*

We have two NOK interest rate swap agreements, securing the interest rate on NOK 300 million until October 2015 and NOK 500 million until May 2019. We also have two USD interest rate swap agreements securing the interest rate on $150 million until October 2015 and $150 million until October 2017. The fair value of the swaps as at September 30, 2015 was a liability of $4.6 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

*Capitalized Interest*

During the three months ended March 31, 2015, we capitalized approximately $0.2 million of interest costs related to the construction of the new-build land rigs being constructed for deployment in Argentina. No further interest has been capitalised as the construction of the rigs has been completed.
For the three and six month periods ended June 30, 2014 we capitalised interest of $0.5 and $0.2 million respectively in respect of our second modular, which was completed by September 30, 2014.

**Note 9 – Segment Information**

We have determined that our operational performance aligned with the following four segments:

- North America (NAM)
- Latin America (LAM)
- North Sea (NRS)
- Emerging Markets & Technologies (EMT)

The split of our organization and aggregation of our business into four segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure. The accounting principles for the segments are the same as for our consolidated financial statements. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment after treating our North America Rental business, our North America Underbalanced business and our Rental and Tubular business in Latin America as discontinued operations and not as part of our continuing operations by segment.

| (In millions) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Revenues from external customers** | | | | |
| North America | $ 57.7 | $ 188.2 | $ 246.5 | $ 508.9 |
| Latin America | 172.3 | 152.9 | 497.9 | 417.6 |
| North Sea | 107.3 | 200.5 | 400.3 | 565.6 |
| Emerging Markets & Technologies | 38.9 | 51.5 | 122.0 | 157.8 |
| **Total** | **$ 376.2** | **$ 593.1** | **$ 1,266.7** | **$ 1,649.9** |
| **Depreciation and amortization** | | | | |
| North America | $ 18.2 | $ 18.6 | $ 55.4 | $ 60.6 |
| Latin America | 10.3 | 6.3 | 29.5 | 21.3 |
| North Sea | 4.7 | 4.6 | 14.4 | 13.0 |
| Emerging Markets & Technologies | 4.2 | 4.4 | 13.4 | 14.7 |
| **Total** | **$ 37.4** | **$ 33.9** | **$ 112.7** | **$ 109.6** |

| (In millions) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Operating (loss) / income** | | | | |
| North America | $ (28.7) | $ 8.8 | $ (83.9) | $ (18.2) |
| Latin America | 0.3 | 4.9 | (4.8) | 13.3 |
| North Sea | 8.9 | 19.9 | 53.6 | 46.5 |
| Emerging Markets & Technologies | 2.8 | 4.1 | 4.8 | 15.4 |
| Stock compensation costs | (1.0) | (1.5) | (2.4) | (3.7) |
| **Operating (loss) / income** | **(17.7)** | **36.2** | **(32.7)** | **53.3** |
| Total financial items | (33.7) | (20.9) | (83.7) | (48.6) |
| Income taxes | (1.2) | (1.6) | 1.2 | (9.9) |
| Discontinued operations, net of taxes | - | (0.4) | - | (1.0) |
| **Net (loss) / income** | **$ (52.6)** | **$ 13.3** | **$(115.2)** | **$ (6.2)** |
| | | | | |
| **Capital expenditures** | | | | |
| North America | $ 7.2 | $ 14.9 | $ 16.5 | $ 21.4 |
| Latin America | 4.9 | 35.2 | 71.5 | 74.2 |
| North Sea | 2.8 | 22.9 | 8.0 | 56.0 |
| Emerging Markets & Technologies | 1.8 | 10.1 | 3.5 | 22.1 |
| **Total** | **$ 16.7** | **$ 83.1** | **$ 99.5** | **$ 173.7** |

| *(In millions)*<br>**Goodwill** | North America | Latin America | North Sea | Emerging Markets & Technologies | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2014** | **$ 5.5** | **$ —** | **$ 111.8** | **$ 90.5** | **$ 207.8** |
| Currency adjustments | — | — | (10.4) | (12.1) | (22.5) |
| **Balance at September 30, 2015** | **$ 5.5** | **$ —** | **$ 101.4** | **$ 78.4** | **$ 185.3** |

| | September 30 | December 31 |
|---|---|---|
| *(In millions)* | 2015 | 2014 |
| **Total assets** | | |
| North America | $ 361.8 | $ 487.6 |
| Latin America | 654.0 | 594.3 |
| North Sea | 371.5 | 449.3 |
| Emerging Markets & Technologies | 245.0 | 269.4 |
| **Total** | **$ 1,632.3** | **$ 1,800.6** |

## Note 12 – Fair Value of Financial Instruments

The estimated fair value and the carrying value of our financial instruments are as follows:

| | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(In millions)* | **Fair Value** | **Carrying Value** | **Fair Value** | **Carrying Value** |
| ***Non-derivatives*** | | | | |
| Cash and cash equivalents | $ 44.6 | $ 44.6 | $ 28.9 | $ 28.9 |
| Restricted cash | 5.8 | 5.8 | 15.8 | 15.8 |
| Current portion of long-term debt | 98.4 | 98.4 | 64.2 | 64.2 |
| Long-term, interest-bearing debt | 740.8 | 740.8 | 747.2 | 747.2 |
| ***Derivatives*** | | | | |
| Interest rate swap agreements | (4.6) | (4.6) | (4.0) | (4.0) |

The aforementioned financial assets are measured at fair value on a recurring basis as follows:

| | September 30, 2015 | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| *(In millions)* | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| ***Assets*** | | | | |
| Cash and cash equivalents | $ 44.6 | $ 44.6 | — | — |
| Restricted cash | 5.8 | 5.8 | — | — |
| Interest rate swap agreements | (4.6) | — | (4.6) | — |
| ***Liabilities*** | | | | |
| Multicurrency term and revolving facility, excluding current portion | 645.7 | — | 645.7 | — |
| Other loans and capital leases, excluding current portion | 98.1 | — | 98.1 | — |

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments. For certain instruments, including cash and cash equivalents, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair values of interest rate swaps are calculated using well-established independent market valuation techniques applied to contracted cash flows and NIBOR interest rates.

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months. The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis. This debt is not freely tradable and we cannot purchase them at prices other than the outstanding balance plus accrued interest.

**Note 13 – Legal Proceedings**

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of September 30, 2015, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

The Company's subsidiaries have resolved the previously reported class actions lawsuits alleging violations of the U.S. FLSA relating to non-payment of overtime pay. Any remaining FLSA claims pending at this time are not individually or collectively material to the Company.

Two of our subsidiaries are the plaintiffs in the case of Archer Drilling LLC and Rig Inspection Services (US) LLC vs. Buccaneer Energy Limited et al., wherein we claim $8.0 million from the defendants for the defendants' failure to pay for services provided. In response, the defendants raised counterclaims alleging that they are owed more than the amount we claimed in damages. On May 31, 2014, all but one of the defendants filed for Chapter 11 bankruptcy and in August 2014, the Archer parties removed the case to U.S. Bankruptcy Court where the claims are currently stayed pending further action by the court. Litigation is inherently uncertain and while we cannot determine the amount of our ultimate recovery or loss, we believe in the merits of the claim and that the alleged counterclaims are highly defensible.

One of our U.S. subsidiaries is a defendant in a case filed in 2012 by a customer seeking to recover more than $20 million from a gas well blow-out in Louisiana in early 2011. At the time of the event, our subsidiary was on location providing coil-tubing services. The Company is insured under multiple policies issued by National Union Fire and the insurer is providing for our defense. Following an unsuccessful mediation this August, mainly due to lack of sufficient settlement funds from our insurer, we asserted claims directly against our insurer to enforce the policies issued. We continue to maintain the Company's exposure is minimal as the case should be fully insured with National Union Fire.

The Company's subsidiaries in Norway are members of the Shipowner's Association. At Oslo District Court, the Association has previously prevailed on claims made by our employees' Union seeking additional pension benefits and the Union appealed. The Court of Appeal ruled in favor of the Union and there is now an expected appeal to the Supreme Court. The Association believes the Supreme Court should accept the case and reverse the Court of Appeals, nonetheless we report a potential exposure of approximately $6 million for the Company should the Association fail in its appeal.

Other than the above, we are not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had in the recent past, significant effects on our financial position or profitability.

**Note 14 – Related Parties**

In the normal course of business we transact business with related parties conducted at arm's length.

Transactions with Seadrill;

We were established at the end of the third quarter of 2007, as a spin-off of Seadrill Limited's Well Service division. We acquired the shares in the Seadrill Well Service division entities on October 1, 2007 for $449.1 million. The acquisition was accounted for as a common control transaction with the assets and liabilities acquired recorded by us at the historical carrying value of Seadrill Limited, or Seadrill. The excess consideration over the net assets and liabilities acquired was recorded as adjustment to equity of $205.1 million. Seadrill currently owns 39.9% of our stock.

During the nine months ended September 30, 2015, we supplied Seadrill Limited and affiliates with services amounting to $3.4 million, including reimbursable material. This amount has been included in operating revenues. At September 30, 2015, Seadrill owed us $0.2 million in respect of these services.

On October 24, 2014, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to $50 million. In March 2015 the loan, and any accrued interest/fees, was sold to Seadrill Limited. The loan balance as at September 30, 2015 was $50 million. Accrued interest of 7.5% is payable on the loan, and will be accumulated and paid on the maturity date. The loan matures on June 30, 2018.

Seadrill has provided a guarantee of €38 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 8). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

Seadrill also provided a guarantee of $250.0 million to the lenders of our revolving facility (see Note 9). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

Seadrill has also provided a guarantee in favour of DNB for Archer Norge AS's guarantee facility agreement totalling $16.2 million as at September 30, 2015.

As of September 30, 2015, we have accrued total guarantee fees of $8.8 million which are due at the end of the guarantee period. The guarantee fees are being accrued over the guarantee period, and the cost of the fees are reported within Other Financial Items.

<u>Transactions with C6 Technologies AS:</u>
We own 50% of C6 Technologies AS, an Oilfield Technology Company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010. During 2014 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner. The settlement of the purchase price was through a loan agreement amounting to 10 million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the of tools being developed by C6 Technologies AS.

As at September 30, 2015 we have loaned a total of $8.7 million to C6, under an interest bearing loan agreement.

<u>Transactions with Rawabi Allis-Chalmers Company Limited:</u>
We own 50% of Rawabi Allis-Chalmers Company Limited "Rawabi", a Saudi Arabia based joint venture that provides rental of oilfield products. During the nine months ended September 30, 2015, we supplied Rawabi with services amounting to $0.7 million. At September 30, 2015, Rawabi owed us $0.2 million related to these services.

<u>Transactions with other related parties</u>
The following are related parties, being companies in which Archer's principal shareholders, Seadrill, Lime Rock Partners LLP and or Hemen Holding Ltd have a significant interest:

- Frontline Management (Bermuda) Limited, or Frontline
- North Atlantic Drilling Ltd, or NADL
- Sevan Marine Servicos de Perfuracao Ltda "Sevan"
- Geodynamics

Frontline provides management support and administrative services to us, and we have recorded fees of $0.5 million for these services in the nine months ended September 30, 2015. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At September 30, 2015, Archer owed Frontline $0.1 million related to these services.

During the nine months ended September 30, 2015, we supplied NADL with services amounting to $1.8 million, including reimbursable material. This amount has been included in operating revenues. At September 30, 2015, NADL owed us $0.6 million related to these services.

During the nine months ended September 30, 2015, we supplied Sevan with services amounting to $0.4 million, including reimbursable material. This amount was paid in full and has been included in operating revenues.

Geodynamics provided products and services to the company totalling $0.4m for the nine months ended September 30, 2015. As of September 30, 2015, Archer had fully paid Geodynamics any funds due in relation to these services. These amounts were included in operating expenses.

Also during the nine months ended September 30, 2015, we supplied Sheridan Resources, a company in which the Archer CEO has a directorship, with services amounting to $0.9 million, including reimbursable material. At September 30, 2015, Sheridan Resources owed us $0.2 million related to these services.

**Note 15 Equity**

At the Company's Annual General Meeting on September 18, 2015, the shareholders approved the following reorganisation of the Company's capital:

- the consolidation of the authorised share capital and issued share capital of the Company so that 10 shares of par value US$1.00 each became 1 share of par value US$10.00 each
- the reduction of the issued and paid-up share capital of the Company by reducing the paid-up capital of the Company by US$9.99 on each of the issued shares of the Company such that the par value of each such issued share be reduced from US$10.00 to US$0.01 ("**Capital Reduction**");
- upon the Capital Reduction taking effect, each of the authorised, but unissued, shares of par value US$10.00 each in the capital of the Company being sub-divided into 1,000 shares of par value US$0.01 each;
- the authorised share capital of the Company being reduced from $1,200,000,000 to $10,000,000, consisting of 1,000,000,000 shares of par value US$0.01 each, of which 57,915,978 shares of par value US$0.01 each would be in issue and fully paid or credited as fully paid;

The capital re-organisation, became effective September 25, 2015, after which, with adjustments for fractional shares, as at 30 September 2015;

- the total number of issued and fully paid shares of par value of $0.01 outstanding were 57,915,716,
- a total of 3,155,520 options and RSUs were outstanding, and
- $578.6 million of nominal share capital was reclassified as contributed surplus.

**Note 16 – Subsequent Events**

None

**Appendix to Archer Third Quarter Report 2015**

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follow for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended September 30, 2015, June 30, 2015, March 31, 2015, December 31, 2014, September 30, 2014 and June 30 2014. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

# ARCHER LIMITED
## Condensed Consolidated Statements of Operations
## (Unaudited)

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| *(In millions)* | September 30 2015 | June 30 2015 | March 31 2015 | December 31 2014 | September 30 2014 | June 30 2014 |
| **Revenue** | 376.2 | 388.9 | 501.6 | 603.7 | 593.1 | 552.0 |
| **Cost and expenses** | | | | | | |
| Operational costs | (373.9) | (428.5) | (477.0) | (572.2) | (556.9) | (535.9) |
| Impairments | — | — | — | (58.9) | — | (1.5) |
| Net financial items | (33.7) | (13.9) | (36.1) | (56.9) | (20.9) | (20.4) |
| **(Loss) / income from continuing operations before income taxes** | **(51.4)** | **(53.5)** | **(11.5)** | **(84.3)** | **15.3** | **(5.8)** |
| Income tax (expense) benefit | (1.2) | 5.8 | (3.4) | (7.6) | (1.6) | (5.0) |
| **Loss) / income from continuing operations** | **(52.6)** | **(47.7)** | **(14.9)** | **(91.9)** | **13.7** | **(10.8)** |
| Loss from discontinued operations, net of tax | - | - | - | (1.6) | (0.4) | (0.2) |
| **Net income / (loss)** | **(52.6)** | **(47.7)** | **(14.9)** | **(93.5)** | **13.3** | **(11.0)** |

# ARCHER LIMITED
## Reconciliation of GAAP to non-GAAP Measures
## (Unaudited)

| *(In millions)* | Three Months Ended<br>September 30 2015 | June 30 2015 | March 31 2015 | December 31 2014 | September 30 2014 | June 30 2014 |
|---|---|---|---|---|---|---|
| Net (loss) / income | (52.7) | (47.7) | (14.9) | (93.5) | 13.3 | (11.0) |
| Depreciation, amortization and impairments* | 37.8 | 37.7 | 33.5 | 96.7 | 33.9 | 38.7 |
| Net financial items | 33.7 | 13.9 | 36.1 | 56.9 | 20.9 | 20.4 |
| Taxes on income | 1.3 | (5.8) | 3.4 | 7.6 | 1.6 | 5.0 |
| Loss/(income) from discontinued operations, net of tax | - | - | - | 1.6 | 0.4 | 0.2 |
| **EBITDA** | **20.1** | **(1.9)** | **58.1** | **69.3** | **70.1** | **53.3** |

* Including any gain/loss on sale of assets

# ARCHER LIMITED
## EBITDA by Geographic and Strategic Areas
## (Unaudited)

| *(In millions)* | Three Months Ended<br>September 30 2015 | June 30 2015 | March 31 2015 | December 31 2014 | September 30 2014 | June 30 2014 |
|---|---|---|---|---|---|---|
| North America (NAM) | (10.6) | (11.1) | (8.0) | 19.3 | 26.7 | 13.7 |
| Latin America (LAM) | 10.5 | (1.3) | 11.8 | 22.4 | 10.8 | 11.2 |
| North Sea (NRS) | 13.4 | 5.5 | 48.3 | 16.0 | 24.2 | 17.7 |
| Emerging Markets & Technologies (EMT) | 6.8 | 5.0 | 6.0 | 11.6 | 8.4 | 10.7 |
| **EBITDA** | **20.1** | **(1.9)** | **58.1** | **69.3** | **70.1** | **53.3** |