Archer

Archer Limited (ARCHER) Fourth Quarter and Preliminary 2015 Results

Fourth Quarter 2015 highlights

- Fourth quarter revenue from continuing operations was $282.5 million
- Fourth quarter EBITDA from continuing operations of $11.7 million including $9.1 million of restructuring costs
- Fourth quarter impairment charge from continuing operations of $50.2 million
- Fourth quarter impairment charge from discontinuing operations of $127.3 million
- Net loss for the quarter of $244.1 million
- Fourth quarter operational cash flow of $19.2 million
- Net interest-bearing debt of $782.1 million at December 31, 2015
- Amended credit facilities to provide sufficient flexibility up to and including Q1 2017
- Completed the transaction to combine the North American Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions with Quintana Energy Services LP.

Financial Statements

The following discussions are based on a continuing operations basis. The results of the divested North American business, which have previously been reported in our North America Area, have been reclassified to discontinued operations for all periods presented and previously announced results have also been restated.

Comparison of the Three Months Ended December 31, 2015 to the Three Months ended September 30, 2015

Revenue for fourth quarter 2015 was $282.5 million compared to $322 million for the third quarter 2015, a reduction of $39.5 million or 12.3%. Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA, were $11.7 million, a decrease of $16 million or 57.8% compared to third quarter 2015. As market conditions continued to deteriorate during the quarter, we recorded an additional restructuring and other one-time costs of $9.1 million aimed at reducing our cost structure. The Company’s headcount as of December 31, 2015 was approximately 5,900 compared to 6,100 at the end of the third quarter 2015.

As a consequence of the continuing difficult market environment, which, after a short recovery in early 2015, saw prices for oil and gas drop below breakeven levels, many customers significantly cut back their expenditures with a direct impact on the demand for our services. As a result the company recorded impairment charges from continuing operations totalling $50.2 million related to goodwill and fixed assets. These non-cash charges were the result of the annual goodwill and long lived asset impairment testing required under the company’s accounting policies and US GAAP. This charge has not impacted the company's liquidity or its cash flow from operations or led to a breach of financial covenants under the company's credit facilities.

Net Financial Items were a net expense of $24.1 million in the fourth quarter 2015 compared to an expense of $33.7 million in the third quarter 2015. Interest expenses amounted to $12.2 million compared to $13.1 million in the third quarter 2015. Other financial items amounted to $7.2 million expense compared to $23.0 million expense in the third quarter 2015. Other financial items represent predominantly foreign exchange losses on an intercompany loan denominated in Norwegian Kroner following the continued weakening of the Norwegian Kroner against USD.

On December 31, 2015 the Company closed the transaction to combine its North American Pressure Pumping, Directional Drilling, Pressure Control and Wireline divisions with Quintana Energy Services LP, an unrelated thrid party, and as a consequence all results related to these businesses are presented as discontinued operations. During the quarter and before the divestiture, we tested the long lived assets related to these businesses for impairment as required under the company's accounting policies and US GAAP. Consequentially we recorded impairment charges totalling $127.3 million, including $91.6 million related to fixed assets and $35.1 million related to intangible assets. In addition we recorded an operational loss of $30.1 million during the quarter and we recorded a total loss related to the transaction of $0.5 million.

Comparison of the Three Months Ended December 31, 2015 to the Three Months Ended December 31, 2014

Revenue for the three months ended December 31, 2015 was $282.5 million compared to $420.5 million for the fourth quarter 2014, down $138 million or 32.8%. EBITDA of $11.7 million for the three months ended December 31, 2015 decreased $40.4 million or 77.5% compared to $52.1 million for the fourth quarter 2014.

Comparison of the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014

Revenue for the year ended December 31, 2015 was $1.3 billion, $276.6 million or 17.3% lower compared to the revenue for 2014. EBITDA for full year 2015 was $112.7 million compared to $176.2 million for 2014, a decrease of $63.7 million or 36.1% as a result of the lower activity, continued pricing pressure, adverse movements in exchange rates as well as $13 million higher restructuring costs, to align our cost base with lower activity levels. This was partly offset by a one-time credit of $34.2 million for early termination fees related to Archer Emerald in the first quarter of 2015.

Revenue in our North Sea Area decreased by 30.1% with significant reductions in number of operating rigs adversely impacting the demand for our services combined with an unfavourable evolution of exchange rates versus the US Dollar. This was partially offset by the $34.2 million one-time receipt of early termination fees for Emerald. EBITDA for 2015 improved by 6.2% mainly due to the one-time termination fees as well as costs savings as a result of continued cost reductions to bring our cost structure in line with the lower activity levels, partly offset by lost margin due to the decrease in activity as well as lower pricing for our services.

Revenue in Emerging Markets and Technology decreased by 30.4% compared to 2014 primarily driven by adverse currency movements as well as lower activity levels and a significant reduction in pricing as a result of the difficult market conditions. EBITDA for the full year 2015 reduced by 38.5% as a result of lower activity levels, continued pressure on pricing and unfavourable currency movements partly offset by cost reductions as a result of the restructuring initiatives completed during the year.

Revenue in Latin America increased by 8.1% with the start-up of 5 new rigs throughout the year, increased billings for inflation adjustments related to compensation and other costs. This was partly offset by several rigs being idled by our customers, considerably reduced rates following a customer requested vacation plan in the South of Argentina at the end of the year 2015, downtime related to a higher level of inspection and repair on a number of rigs and significant pricing concessions provided on a number of contracts. EBITDA for the full year 2015 declined by 68.2% compared to 2014, with increased costs related to severance and early retirement as we adjusted our workforce. Costs to maintain the workforce despite rigs being idled during the year as well as during the extended shutdown period at the end of the year had a significant negative impact on results. Price reductions and reductions in rig activity without the ability to reduce the cost structure correspondingly further impacted EBITDA negatively.

Revenue in the remaining North American Frac Valves business decreased 63.4% compared to last year in line with the overall decline of activity levels in the North American shale leading to a significant reduction in the number of valves sold. Furthermore revenue was adversely impacted by pricing pressure and an unfavourable change in product mix combined with lower revenue related to aftersales services. Compared to last year full year EBITDA decreased significantly as a result of the lower revenue, but also due to increased restructuring costs partly offset by costs savings achieved.

Revenue in the North American Discontinued operations decreased by 57.8% as a consequence of the rapid deterioration of the price for oil and natural gas over the year, which rendered many customer projects uneconomical. This resulted in a sharp reduction in activity and in strong pricing pressure in a significantly oversupplied market. Consequentially EBITDA declined by 170.6%, as margins from decreasing revenue could not be offset by the large reduction in the cost base achieved during the year.

Attached to this quarterly report is an appendix with the reconciliation between GAAP results and non-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 $20.5 million at December 31, 2015 compared to $44.6 million at September 30, 2015.

Cash flow from operations for the three months ended December 31, 2015 was $19.2 million, which is comprised primarily of the net loss from continuing operations of $86.2 million, add back impairment charges of $50.2 million, add back for depreciation and amortization from continuing operations of $19.7 million, add back foreign exchange losses of $6.2 million, add back a loss on sale of assets of $1.0 million, add back expenses for share based compensation of $0.3 million. For working capital we add back $5.5 million relating to the decrease in inventory and add back $24.5 million due to the decrease in accounts receivable and other assets, offset by decrease in accounts payable.

Capital expenditures for continuing operations during the quarter amounted to $8.3 million, representing predominantly capital spend necessary to maintain or enhance our existing assets.

On December 23, 2015 the Company announced that it had signed an amendment of its multicurrency revolving facility agreement and as of December 31, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility.

Total net interest-bearing debt at December 31, 2015 was $782.1 million compared to $794.6 million as of September 30, 2015.

Share Capital

The total number of issued and fully paid shares of par value $0.01 outstanding at December 31, 2015 was 57,915,716. A total of 2,751,885 options and restricted stock units, or “RSU”s were outstanding as of December 31, 2015.

Fourth Quarter 2015 Operating Results by Area

The management discussions and analysis below is aimed at continued operations only. After completion of the transaction to combine our North America’s Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions with Quintana Energy Services LLP comparative results for these businesses have been reported under discontinued operations. Following this transaction and different from previous quarters, we decided to report our Corporate costs separately and not to allocate them to the Areas. This change is also reflected in all sequential comparisons and comments below in order to show the results by Area on a comparable basis.

(In millions)	Revenues			EBITDA		
	Q4 2015	Q3 2015	Variance	Q4 2015	Q3 2015	Variance
North Sea	$ 110.2	$ 107.4	$ 2.8	$ 13.8	$ 14.6	$ (0.8)
Emerging Markets	31.5	39.0	(7.5)	7.9	7.4	0.5
Latin America	137.6	172.3	(34.7)	(4.4)	11.6	(16.0)
North America	3.2	3.3	(0.1)	(2.1)	(2.1)	0.0
Corporate	-	-	-	(3.5)	(3.8)	0.3
	$ 282.5	$ 322.0	$ (39.5)	$ 11.7	$ 27.7	$(16.0)

Note: The above numbers have been restated to exclude numbers for North American Well Services entities Pressure Pumping, Pressure Control, Directional Drilling and Wireline, which have been combined with Quintana Energy Services LLP and are reported under discontinued operations.

North Sea

Fourth quarter 2015 revenue was $110.2 million, an increase of $2.8 million or 2.6% sequentially, mainly following the award of new Platform Drilling contracts in the UK. However, fourth quarter 2015 EBITDA decreased by $0.8 million or 5.5% predominantly due to higher personnel costs and the absence of one-time benefits for the Modular Rig partially offset by lower operating costs in our Engineering business.

Compared to the third quarter 2015, revenue for our Platform Drilling services increased by $2.7 million or 3.1%, due to higher activity in the UK partly offset by adverse exchange rate effects and lower reimbursable revenue. EBITDA for the same period remained flat, with income from incremental revenue offset by higher personnel costs resulting from the expiry of special employment terms for offshore employees in Norway. Compared to the fourth quarter 2014, revenue decreased by $47.4 million or 34.5%, due to a combination of a reduction in drilling activities and adverse currency movements. EBITDA for the same period decreased $4.2 million or 29.9% primarily as a consequence of the lower revenue partly offset by the absence of restructuring costs incurred during the fourth quarter 2014.

Modular Rig revenue for fourth quarter 2015 increased by $0.2 million or 2.1% due to increased reimbursable revenue partially offset by lower operating revenue with the rig being on standby rate for a number of days. Despite higher revenue, EBITDA for the same period decreased by $0.4 million or 10.2% as a result of certain non-recurring costs accounted for during the fourth quarter 2015. Compared to fourth quarter 2014, revenue decreased by $6.4 million or 37.8%, mainly due to the absence of activity for Archer Emerald as well as adverse currency effects for Archer Topaz. Despite the reduction in revenue, EBITDA for the same period increased by $1.0 million or 35.3% with the absence of demobilization costs for Emerald incurred in the fourth quarter 2014 partially offset by the reduction in margins in line with the lower revenue.

Fourth quarter 2015 revenue for Engineering services increased by $0.6 million or 8.7% sequentially due to increased activity and improved personnel utilization. EBITDA for the same period increased by $0.9 million or 101.9% mainly reflecting cost benefits derived from restructuring initiatives undertaken during first half of 2015 as well as positive effect of higher personnel utilization. Compared to the fourth quarter 2014, revenue decreased by $13.5 million or 64.2%, as a consequence of the difficult market environment for engineering services resulting in the cancellation of a number of large projects. Despite the substantial reduction in activity levels compared to same period last year, EBITDA increased by $0.1 million or 120% mainly due to absence of restructuring costs incurred in fourth quarter 2014 and costs savings realised in 2015.

We expect first quarter 2016 revenue to be down between 15% - 20% as a result of lower activity in Norway and Brazil combined with an expected continuous deterioration of several currencies versus the US Dollar. We will continue to reduce our cost structure in line with reduced activity levels.

Emerging Markets & Technologies

Revenue in the fourth quarter 2015 was $31.5 million, $7.5 million or 19.2% lower compared to last quarter mainly driven by lower activity levels in most markets combined with sustained pricing pressure. Despite lower revenue, EBITDA for fourth quarter 2015 improved by $0.5 million or 6.8% mainly due to

cost savings associated with headcount reductions, partly offset by lower margins caused by the reduction in activity levels.

Revenue in International Wireline decreased marginally by $0.4 million or 2.3% compared to third quarter 2015, primarily due to lower activity in Norway and Asia partially offset by increased activity levels in Denmark. Despite lower revenue, EBITDA for the same period increased by $1.2 million or 36.9% benefitting from realized costs savings as a result of the headcount reductions partly offset by lower contribution margin from a reduced revenue base. Compared to the fourth quarter 2014, revenue decreased by $5.6 million or 23.5%, as several currencies weakened compared to the US Dollar. Despite lower revenue, EBITDA improved by $0.1 million or 3.1% with costs savings realised following headcount reductions as well as lower operating costs benefitting from currency rate movements.

Compared to third quarter 2015, revenue in Oiltools decreased by $6.9 million or 34.6%, primarily due to lower offshore activity in the European markets and lower Cflex™ activity in West Africa, Asia and the Gulf of Mexico. EBITDA for the same period decreased by $0.5 million or 11.9%, resulting from lower margins as revenue declined. Compared to the fourth quarter 2014, revenue decreased by $9.8 million or 42.7%, with an unfavourable evolution of exchange rates, lower LOCK™ activity and reduced pricing, lower Cflex™ activity in both the US and Norway partly offset by increased sales related to Wellbore clean-up equipment in the Middle East. EBITDA for the same period decreased by $4.3 million or 55.1%, following lower activity and pricing levels partially offset by lower compensation costs resulting from headcount reductions in a number of key markets.

We expect first quarter 2016 revenue to be between 5%-10% lower reflecting the typical seasonality as well as the non-recurrence of the sale of Wellbore clean-up equipment in the fourth quarter.

Latin America

As a result of the overall market pressure we experienced a further reduction in drilling activity in Argentina as two additional rigs were idled during the quarter and an extended vacation period in the South of Argentina negatively impacted rig utilization. This was partly compensated by the start-up of a rig in Bolivia late in the quarter and the start-up of a rig in the Neuquén area. Consequentially the drilling rig utilisation during the fourth quarter 2015 was 65.9% compared to 72.1% during the third quarter 2015 and 87% during the fourth quarter 2014.

Revenue for the fourth quarter 2015 was $137.6 million, a decrease of $34.7 million or 20.1% compared to the previous quarter. This reduction is primarily driven by a customer requested vacation plan resulting in 35 drilling and workover rigs, equivalent to 866 days of lost operating time, being idle during the majority of the month of December at low rate specifically negotiated for this event. Additionally revenue was negatively impacted by the currency devaluation in Argentina on December 17, lower activity for Fluid Services in line with overall reduced drilling activity as well as customer efforts to reduce costs relating to fluids and solids control and lower reimbursable revenue. EBITDA for fourth quarter 2015 amounted to negative $4.4 million, a reduction of $16 million or 137.9% compared to last quarter, resulting from the lost margins on a lower revenue base coupled with higher severance costs as we reduced the workforce predominantly in the South of Argentina by an additional 100 personnel during the quarter. These shortfalls were partially offset by the positive impact resulting from the devaluation of the currency.

Compared to the fourth quarter 2014, revenue decreased by $32.7 million or 19.2%. This was mainly due to the previously mentioned customer requested exceptional vacation plan and lower drilling activity in Argentina and Bolivia, causing the overall drilling rig utilization to fall to 65.9% compared to 87% during the fourth quarter 2014. Revenue was also negatively impacted by the devaluation of the Argentine Peso and the absence of one-time rate increases positively impacting the fourth quarter 2014. These adverse changes were partially offset by a full quarter's activity for five of our newly commissioned drilling rigs and higher recharges for cost inflation related to compensation and certain other costs. EBITDA compared to fourth quarter 2014 deteriorated by $27.5 million following lower activity levels, a reduction in pricing and increased restructuring costs.

We expect first quarter 2016 revenue to be significantly lower as a consequence of the lower exchange rate impacting the full first quarter 2016 compared to 14 days in the fourth quarter 2015. In addition the vacation plan mentioned above will extend into the first quarter 2016, impacting 35 drilling and workover rigs with a total of 359 days of lost operating time. After that time the rigs will be charged at the contractual standby rate of 66%.

During the month of January an agreement was reached between the federal government of Argentina, the province of Chubut, the labour unions and oil exporting producers operating in the South of Argentina, This agreement guarantees a $10 subsidy per barrel for exporting oil producers for a period of 6 months. A similar agreement had been reached earlier with oil companies producing for internal consumption in Argentina. Based on these agreements, activity levels for drilling and workover activity in Argentina will reduce between 15%-20% in the first quarter 2016, as we expect to lay up 2 drilling rigs, 7 workover rigs and 6 pulling units in the South of Argentina as well as 2 drilling rigs and 1 workover rig in the North of Argentina. In addition we expect that the O&M contract with a major customer in the South of Argentina, covering 4 Drilling Rigs will be terminated during the first quarter.

Based on the above we estimate first quarter 2016 total revenue to decrease between 30%-35% compared to the fourth quarter 2015. We are working with our customers and the unions to adjust our workforce to reflect the changes in activity

North America – Continued Operations Frac Valves Services

North American continued operations comprises of the Frac Valves business where fourth quarter 2015 revenue of $3.2 million was flat quarter on quarter, following lower parts sales and lower activity in the service centres fully offsetting an increased number of new valves sold. Despite lower revenue EBITDA loss of $2.1 million remained flat mainly due to lower restructuring costs combined with cost savings realised partly offset by the effect of lower revenue. Compared to the same period 2014, revenue decreased by $19.3 million or 85.8%, reflecting the decrease in the number of new valves sold, a reduction in pricing, an unfavourable change in product mix as well as lower part sales and repair activities. EBITDA for the same period decreased by $5.1 million or 170% as a result of the significant reduction in activity levels partially offset by costs savings realised from restructuring initiatives completed during the year.

First quarter 2016 revenue from Frac Valves business is expected to remain flat compared to fourth quarter 2015.

Corporate Costs

Corporate costs include costs for the corporate management team, director fees, corporate audit fees, stock-based compensation costs and other related costs which are centrally managed and that are not allocated to the Areas, In the fourth quarter 2015 corporate costs totalled $3.5 million, which was $0.3 million below the third quarter 2015 and the fourth quarter 2014 mainly due to lower costs for stock option.

North America – Discontinued Operations Pressure Pumping, Pressure Control, Directional Drilling and Wireline

With the continued reduction in drilling activity following a significant drop in oil prices the average United States land-based rig count of 724 for the fourth quarter 2015 was 109 rigs or 13% below the third quarter 2015 and year over year rig count reduced by 1,132 or 61%. The average rig count directed towards natural gas for the fourth quarter 2015 decreased by 19 rigs or 9% sequentially and reduced by 147 rigs, or 45% year on year.

Total fourth quarter 2015 revenue for the divisions treated as discontinued operations, decreased by $5.7 million or 10.5% sequentially to $48.6 million, reflecting the continued contraction in demand for these services in the US Land market. Fourth quarter 2015 EBITDA decreased by $4.7 million or 60.6% as a result of the decline in revenue as well as one-time costs related to the downsizing of the various businesses. Compared to the fourth quarter 2014, revenue decreased by $134.6 million or 73.5%, due to a combination of lower activity in line with the reduced rig count and a significant reduction in pricing across all businesses. Despite all efforts to reduce the cost structure in line with the lower activity levels EBITDA declined by $28.7 million or 177.1% mainly suffering from the effects of the low pricing across all services.

Summary Outlook

During the fourth quarter we continued to experience a significant decline in market activity and pricing, as global commodity prices remained under severe pressure with oil prices hitting a 12 year low in December 2015. The uncertainty in Latin America related to subsidies for the local production of hydrocarbons continued to negatively impact the investment decisions of our customers and consequentially our activity levels.

We continued to reduce our overall cost structure in line with the reduction in activity levels, with a further decrease in headcount by another 158 positions during the fourth quarter 2015.

With the divestiture of our well service entities in North America, we are streamlining our organization into two new reporting units; Eastern Hemisphere and Western Hemisphere. This will allow us to increase our focus on each of the business units and to further optimize our support structure.

With the unbroken pressure on the price of oil we do not expect a positive turn in market activity in the short and medium term. As a result activity levels and pressure on pricing will impact all of our activities and geographies. We will continue to take all necessary steps to further reduce our costs and investments and focus on positive cash flow to minimize the impact.

Capital expenditures for 2016 are estimated between $20 - $30 million compared to $88.7 million in 2015, representing mainly expenditures to replace or extend the life of our existing assets as well as some investments depending on the award of new contracts.

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 fourth 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.

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Consolidated Statements of Operations

(In millions, except per share data)	Note	Three Months Ended December 31 2015 (Unaudited)	Three Months Ended December 31 2014 (Unaudited)	Years Ended December 31 2015 (Unaudited)	Years Ended December 31 2014 (Audited)
Revenues					
Operating revenues		$ 258.4	$ 389.8	$ 1,233.2	$ 1,478.1
Reimbursable revenues		24.1	30.7	87.9	119.6
Total revenues		**282.5**	**420.5**	**1,321.1**	**1,597.7**
Expenses					
Operating expenses		235.7	319.2	1,074.1	1,230.1
Reimbursable expenses		20.5	29.4	79.2	114.5
Depreciation and amortization		19.7	18.6	79.2	72.1
Net loss on sale of assets		(1.0)	(0.3)	(4.2)	(2.8)
Impairments	2	50.2	22.9	50.2	22.8
General and administrative expenses		14.6	19.8	55.1	76.6
Total expenses		**339.7**	**409.6**	**1,333.6**	**1,513.3**
Operating (loss) / income		**(57.2)**	**10.9**	**(12.5)**	**84.4**
Financial items					
Interest income		0.7	0.9	2.5	3.0
Interest expense		(12.2)	(10.4)	(50.2)	(45.7)
Share of results in associated company		(5.4)	(6.4)	(5.6)	(7.6)
Other financial items	3	(7.2)	(41.0)	(53.7)	(54.8)
Total financial items		**(24.1)**	**(56.9)**	**(107.0)**	**(105.1)**
Loss from continuing operations before income taxes		**(81.3)**	**(46.0)**	**(119.5)**	**(20.7)**
Income tax benefit / (expense)	4	(4.9)	(7.6)	(3.7)	(17.5)
Loss from continuing operations		**(86.2)**	**(53.6)**	**(123.2)**	**(38.2)**
Loss from discontinued operations, net of tax	5	(157.9)	(39.9)	(236.1)	(61.5)
Net loss		**$(244.1)**	**$ (93.5)**	**$ (359.3)**	**$ (99.7)**
Loss per share-basic					
Loss from continuing operations		$ (1.48)	$ (0.92)	$ (2.12)	$ (0.66)
Loss from discontinued operations		(2.73)	(0.69)	(4.08)	(1.06)
Loss per share		$ (4.21)	$ (1.61)	$ (6.20)	$ (1.72)
Loss per share-diluted					
Loss from continuing operations		$ (1.48)	$ (0.92)	$ (2.12)	$ (0.66)
Loss from discontinued operations		(2.73)	(0.69)	(4.08)	(1.06)
Loss per share		$ (4.21)	$ (1.61)	$ (6.20)	$ (1.72)
Weighted average number of shares outstanding					
Basic	6	57.9	57.9	57.9	57.9
Diluted	6	57.9	57.9	57.9	57.9

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

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Consolidated Statements of Comprehensive (Loss)/Income

(In millions)	Three Months Ended December 31		Year Ended December 31	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Audited)
Net loss	**$(244.1)**	**$(93.5)**	**$(359.3)**	**$(99.7)**
Other comprehensive income / (loss)				
Actuarial gain / (loss) relating to pension	2.8	(3.2)	2.8	(3.2)
Currency exchange differences	0.7	3.7	8.8	6.1
Other comprehensive income	3.5	0.5	11.6	2.9
Total comprehensive loss	**$(240.6)**	**$(93.0)**	**$(347.7)**	**$(96.8)**

Accumulated Other Comprehensive Income/(Loss)

(Unaudited)

(In millions)	Pension – Unrecognized Losses	Currency Exchange Differences	Total
Balance at December 31, 2014	**$ (25.9)**	**$ 8.8**	**$ (17.1)**
Currency translation differences	-	8.8	**8.8**
Actuarial gain relating to pension	2.8	-	2.8
Balance at December 31, 2015	**$ (23.1)**	**$ 17.6**	**$ (5.5)**

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

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Consolidated Balance Sheets

(In millions)	Note	December 31 2015 (Unaudited)	December 31 2014 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 20.5	$ 28.9
Restricted cash		8.0	15.8
Accounts receivables		193.3	386.2
Inventories	7	83.5	97.5
Deferred income taxes		-	9.2
Other current assets		57.6	93.8
Total current assets		**362.9**	**631.4**
Noncurrent assets			
Investments in associates		148.1	0.2
Loans to associates		4.7	6.1
Property plant and equipment, net		554.5	870.3
Deferred income taxes		13.3	12.6
Goodwill	8	174.2	207.8
Other intangible assets, net	9	4.8	53.9
Deferred charges		4.9	7.7
Total noncurrent assets		**904.5**	**1,158.6**
Total assets		**$ 1,267.4**	**$ 1,790.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	10	$ 95.0	$ 61.0
Accounts payable		59.1	137.5
Other current liabilities		165.2	243.6
Total current liabilities		**319.3**	**443.1**
Noncurrent liabilities			
Long-term interest-bearing debt	10	657.6	689.8
Loan from related party		50.0	50.0
Deferred taxes		9.3	11.4
Other noncurrent liabilities		33.9	53.9
Total noncurrent liabilities		**750.8**	**805.1**
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 57,915,716 outstanding shares at December 31, 2014 (December 31, 2014: 579,159,787)		0.6	579.2
Additional paid in capital		823.3	821.1
Accumulated deficit		(1,361.2)	(1,001.9)
Accumulated other comprehensive loss		(5.5)	(17.1)
Contributed surplus		740.1	161.5
Total shareholders' equity		**197.3**	**542.8**
Total liabilities and shareholders' equity		**$ 1,267.4**	**$ 1,790.0**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow

	Year ended December 31,	
	2015	**2014**
Cash Flows from Operating Activities	(Unaudited)	(Audited)
Net loss	$ (359.3)	$ (99.7)
Net loss from discontinued activities	236.1	61.5
Net loss from continuing activities	$ (123.2)	$ (38.2)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	79.2	72.1
Share-based compensation expenses	2.7	4.3
Impairment charges	50.2	22.8
Gain on property, plant and equipment disposals	(4.2)	(2.4)
Equity in loss of unconsolidated affiliates	5.6	7.6
Amortization of loan fees	3.3	5.9
Deferred income taxes	(0.6)	(18.0)
Foreign currency loss	49.4	57.4
Changes in operating assets and liabilities, net of acquisitions		
Decrease / (increase) in accounts receivable and other receivables	97.2	(60.4)
Increase in inventories	(3.6)	(31.6)
(Decrease) / increase in accounts payable and other liabilities	(85.2)	73.6
Other, net (mainly translation adjustments re assets and liabilities of foreign subsidiaries)	(23.1)	(25.0)
Cash (used in) / provided by operating activities of discontinued operations	(8.3)	70.1
Net cash provided by operating activities	**39.4**	**137.4**
Cash Flows from Investing Activities		
Capital expenditures	(88.7)	(214.6)
Proceeds from disposal of property, plant and equipment	11.0	12.9
Loans to associates	(4.6)	(7.3)
Net change in restricted cash	6.4	(1.4)
Cash used in investing activities of discontinued operations	(12.8)	(35.5)
Net cash used by investing activities	**(88.7)**	**(245.9)**
Cash Flows from Financing Activities		
Net proceeds from revolving facilities	54.4	(4.9)
Proceeds of subordinated related party debt	-	50.0
Proceeds from long-term debt	4.1	58.4
Repayment of long-term debt	(24.3)	(21.0)
Debt issuance costs	(1.1)	(6.2)
Cash used in financing activities of continuing operations	(0.2)	(0.5)
Net cash provided by financing activities	**32.9**	**75.8**
Effect of exchange rate changes on cash and cash equivalents	8.0	12.1
Net decrease in cash and cash equivalents	**(8.4)**	**(20.6)**
Cash and cash equivalents at beginning of the period	28.9	49.5
Cash and cash equivalents at the end of the period	**$20.5**	**$28.9**
Interest paid	$ 40.0	$ 35.0
Taxes paid	$ 15.7	$ 9.3

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	—	—	—	8.8	—	8.8
Change in pension liability	—	—	—	2.8	—	2.8
Adjustment to nominal value of shares	(578.6)	—	—	—	578.6	—
Cost of shares purchased for RSUs	—	(0.5)	—	—	—	(0.5)
Share based compensation	—	2.7	—	—	—	2.7
Net Loss	—	—	(359.3)	—	—	(359.3)
Balance at December 31, 2015	**$ 0.6**	**$ 823.3**	**$(1,361.2)**	**$ (5.5)**	**$ 740.1**	**$ 197.3**

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

ARCHER LIMITED
Notes to Unaudited Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

Archer Limited is an international oilfield service company providing a variety of oilfield products and services through its global organization. Services include platform drilling, land drilling, modular rigs, engineering services, equipment rentals, wireline services, 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 5,900 skilled and experienced people at December 31, 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 fourth quarter interim consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited fourth quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These fourth 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.

The results of operations from our Pressure Pumping, Pressure control, Directional Drilling and Archer Wireline businesses in North America have been reclassified to discontinued operations for all periods presented.

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 fourth 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 this quarters result.

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. 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 a year during the fourth quarter. As prescribed by USGAAP, for step one of the impairment test, we assess our major assets/asset groups for 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 is required. We use various methods to estimate the fair value of our assets, using all and best available relevant data, including estimated discounted cashfow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment 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 have adopted 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 – Impairments

The continued decline in oil prices, has forced our customers to significantly reduce their expenditures in the exploration and development of their oil & gas assets, resulting in a reduction in demand for our services predominantly in North America, but also in the North Sea and to a lesser extent in other parts of the world and has led to the further depression of our share price. In addition, the above underlying condition has also led to the downward revisions of cash flow expectations underlying the valuation of our Company. As a consequence, we prepared a comprehensive impairment test for long lived assets, including intangibles and goodwill, which resulted total impairment charges of $177.5 million being recognised in the fourth quarter of 2015, of which $50.2 million is recognised in continuing operations, comprising;

- $5.5 million of goodwill,
- $4.0 million of intangible assets, predominantly customer relationships,
- $39.2 million of fixed assets, the majority of which, ($33.3 million), related to our two modular rigs, and
- $1.5 million of obsolete inventory.

In addition, the following impairment charges are reported within the results of discontinued operations:

- $35.1 million impairments of intangible assets
- $91.7 million impairments of fixed assets, and
- $0.5 million impairment of inventory stock

As stated in our policy noted above, we use various methods to estimate the fair value of our assets, each of which involves significant judgement. The current economic climate is adding to uncertainties in the assumptions involved in valuations based on future performance of assets. We have used the most relevant data available, including specific independent valuations for each of our land rigs. The key inputs and assumptions used in the various valuations included future market growth rates, EBITDA margins, discount factors and asset lives. Reasonable variations in these assumptions could give rise to additional impairment, particularly in relation to the discontinued North American businesses, the North Sea modular rigs and the LAM drilling rigs. Whilst acknowledging the uncertainty and the level of judgment involved in our estimates of value, we believe our determination of impairment charges to be reasonable and prudent.

Note 3 – Other Financial Items

	Three Months Ended December 31		**Year Ended December 31**	
(In millions)	**2015**	**2014**	**2015**	**2014**
Foreign exchange differences	$ (6.2)	$ (42.5)	$(49.4)	$(57.4)
Other items	(1.0)	1.5	(4.3)	2.6
Total other financial items	**$ (7.2)**	**$ (41.0)**	**$(53.7)**	**$(54.8)**

Other financial items represent predominantly foreign exchange losses on an intercompany loan balance denominated in Norwegian Kroner following the weakening of the Norwegian Kroner against USD, especially in the first and third quarters of 2015. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the entity with Norwegian Kroner functional currency is classified as other comprehensive income.

Note 4 – Income Taxes

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

	Three Months Ended December 31		Year Ended December 31	
(In millions)	**2015**	**2014**	**2015**	**2014**
United States	$ (0.7)	$ 0.3	$ (0.6)	$ 0.4
South America	8.6	3.6	0.4	5.1
Europe	(2.2)	3.9	3.1	12.6
Others	(0.8)	(0.2)	0.8	(0.6)
Total	**$ 4.9**	**$ 7.6**	**$ 3.7**	**$17.5**

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 an expense $ 3.7 million for the year 2015. Tax expense in Europe amounted to $ 3.1 million of which $ 2.0 million was incurred in the United Kingdom and $ 0.9 million incurred in Norway. Others represent mainly adjustments of previous years in Indonesia and Malaysia.

Fourth quarter 2015 tax expenses in South America of $8.6 million relate to a valuation allowance on deferred tax assets in Argentina.

There are significant deferred tax assets in the United States totalling $408 million, out of which $186 million relate to net operating losses carried forward and $124 million result from timing differences on assets contributed to Quintana Energy Services LP ("QES"). We are precluded from recognising the benefits of these tax assets in United States, as we do not anticipate that we are not able to utilize them within the foreseeable future.

Note 5 – Discontinued Operations

On December 31, 2015, we completed a contribution agreement with Quintana Energy Services LP ("QES") to contribute our Pressure Pumping, Directional Drilling, Pressure Control and Wireline divisions ("Well Services Entities") which have previously been reported within our North American (NAM) segment.

The aggregate consideration paid by QES in exchange for the contribution of the Well Services Entities consists of QES Common Units constituting 42% of the total Common Units in QES pursuant to closing of the transaction on a fully diluted basis.

From 2016 onwards, our interest in the combined company will be reported as an equity investment with our share of QES results being reported within share of results of affiliates. This investment, as well as the North American Frac Valve division will be reported under a new reporting segment, Western Hemisphere as discussed in Note 15, Subsequent events.

The summarized results of operations included in income from discontinued operations were as follows:

	Three Months Ended December 31		Year Ended December 31	
(In millions)	**2015**	**2014**	**2015**	**2014**
Revenues	$ 48.5	$ 183.2	$276.6	$655.9
Operating expenses	(59.0)	(165.8)	(304.1)	(595.9)
Selling general and administration	(1.9)	(1.8)	(9.5)	(6.9)
Impairments	(127.3)	(36.0)	(127.3)	(37.6)
Depreciation and amortization	(16.9)	(20.2)	(70.2)	(77.3)
(Loss) /gain on sale of assets	(0.5)	0.7	-	0.7
Interest expense	(0.3)	—	(1.0)	(0.4)
Other financial items	—	—	(0.1)	—
Gain on sale of discontinued operations, net	(0.5)	—	(0.5)	—
Loss from discontinued operations before income tax expense	(157.9)	(39.9)	(236.1)	(61.5)
Income tax expense	—	—	—	—
Loss from discontinued operations, net of tax	**$ (157.9)**	**$ (39.9)**	**$(236.1)**	**$ (61.5)**

The Well Service Entities were deconsolidated at December 31, 2015, the date of their disposition, and as such their assets and liabilities are not included within the balance sheet as at December 31, 2015. As of December 31, 2014, the carrying amounts of the major classes of assets and liabilities associated with our discontinued operations were classified as follows:

(*in millions*)	December 31, 2014
Accounts receivable	$100.9
Inventory	$ 11.1
Other current assets	$ 9.1
Property plant & equipment	$265.8
Intangible assets	$ 42.0
Accounts payable	$ 43.7
Other current liabilities	$ 25.4
Capital lease obligations	$ 4.9

Note 6 – Earnings Per Share

The computation of basic EPS is based on the weighted average number of shares outstanding during the period. 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 December 31		Year Ended December 31	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Denominator				
Weighted-average common shares outstanding	57,916	57,916	57,916	57,916
Effect of potentially dilutive share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	57,916	57,916	57,916	57,916

Share-based compensation of approximately 110,294 and 729,314 shares were excluded from the computation of diluted earnings per share for the three months and the year ended December 31, 2015 respectively, and 233,957 and 473,338 shares were excluded from the computation of diluted earnings per share for the three months and year ended December 31, 2014, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 7 – Inventories

(In millions)	December 31 2015	December 31 2014
Manufactured		
Finished goods	$ 22.8	$ 12.3
Work in progress	0.8	4.6
Raw materials	2.2	10.7
Total manufactured	25.8	27.6
Drilling supplies	27.3	28.6
Chemicals	7.5	13.8
Other items and spares	22.9	27.5
Total inventories	**$ 83.5**	**$ 97.5**

Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. Following the impairment charge during the fourth quarter 2015, the remaining goodwill relates entirely to our North Sea and Emerging Markets & Technologies Area.

(In millions)	
Net book balance at December 31, 2014	**$ 207.8**
Impairment	(5.5)
Currency adjustments	(28.1)
Net book balance at December 31, 2015	**$ 174.2**

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, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to future a material non-cash impairment charge of in relation to our remaining goodwill.

The impairment recognised in Q4, which related to our North America Segment, follows the continuing decline in oil prices, which has forced our customers to significantly reduce their expenditures in the exploration and development of their oil & gas assets, resulting in a reduction in demand for our services predominantly in North America, but also in the North Sea and to a lesser extent in other parts of the world.

Note 9 – Other Intangible Assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2014	**$ 111.4**	**$ (57.5)**	**$ 53.9**
Amortisation	—	(9.2)	(9.2)
Impairment	—	(39.1)	(39.1)
Currency adjustments	(3.6)	2.8	(0.8)
Balance at December 31, 2015	**$ 107.8**	**$(103.0)**	**$ 4.8**

The net book value at December 31, 2015, consisted of customer relationships of $1.3 million, identified technology of $1.5 million, and patents of $2.0 million.

As part of our annual review of all our major assets for impairments, we have tested the carrying values of our intangible assets. We reviewed our customer relationships as at December 31 2015 compared to relationships evaluated at acquisition dates, and overall we have reviewed the recoverability of these assets using undiscounted cash-flows, using similar assumptions to those used in our testing of our goodwill for impairment. In the fourth quarter of 2015 we have impaired carrying values of $37.6 million in respect of customer relationships, and $1.5 million relating to the remaining carrying value of trademarks.

The judgment and assumptions employed in the testing of our intangible assets are subject to similar uncertainties as those involved in the testing of goodwill tested above.

Note 10 – Long-term, Interest-Bearing Debt

(In millions)	December 31 2015			December 31 2014		
	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs
Multicurrency term and revolving facility	638.7	(6.8)	631.9	629.6	(8.3)	621.3
Related party subordinated loan	50.0	-	50.0	50.0	-	50.0
Hermes-covered term loans	46.0	(1.5)	44.5	69.9	(2.3)	67.6
Other loans and capital lease liability	76.2	-	76.2	61.9	-	61.9
Total loans and capital lease liability	**810.9**	**(8.3)**	**802.6**	**811.4**	**(10.6)**	**800.8**
Less: current portion	(99.7)	4.7	(95.0)	(64.2)	3.2	(61.0)
Long-term portion of interest bearing debt	**711.2**	**(3.6)**	**707.6**	**747.2**	**(7.4)**	**739.8**

At December 31,2015 we have adopted ASU 2015-03 which required that debt issuance costs are deducted from the carrying value of the financial liability and not recorded as separate assets. We have therefore reclassified $10.6 million of unamortised debt issuance fees, which were reported as assets in our 2014 financial statements.

Multicurrency term and revolving facility

On December 22, 2015, we signed a fifth amendment and restatement agreement relating to our multicurrency revolving facility agreement, which matures in May 2018.

The total amount available under the multicurrency revolving facility is $687.5 million. The amount available under the facility will be reduced to $625 million on or before May 30, 2016. In May 2017 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 December 31, 2015, a total of $638.7 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. Seadrill Limited has furthermore agreed to provide new financing to Archer in an aggregate amount of up to USD 75 million in the event that Archer will not have sufficient funds for the repayment and cancellation of the commitments under the facilities by April 30, 2016.

The revolving facility contains certain financial covenants, including, among others:

- We shall ensure that the 12 months rolling EBITDA of the group is at least USD 30 million for the financial quarters up to and including Q2 2016 and USD 45 million thereafter up to and including Q1 2017. The ratio of net interest bearing debt to 12 months rolling EBITDA shall not exceed 3.75x as of June 30, 2017 with subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- We shall ensure that the total equity of the group at all time is at least $100 million for the financial quarters up to and including Q1 2017. For the financial quarter Q2 2017 and onwards, we shall ensure that the ratio of equity, including subordinated debt and adjusted for certain revaluation effects related to exchange rate movements, to total assets is 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 $70 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 December 31, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility.

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 December 31, 2015 the equivalent of $36.3 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 1.55% above EURIBOR. At December 31, 2015, the equivalent of $9.7 million was outstanding under this facility. We have reached an agreement with the lenders under this facility to align the financial covenants with the financial covenants under our multicurrency revolving facility agreement.

Other loans and capital leases

We have two $45.8 million overdraft facilities and at December 31, 2015, net borrowings under these facilities amounted to a total of $44.7 million. As agreed with our lenders as part of the fifth amendment

and restatement agreement, the credit limit on each of these facilities will be reduced to $41.7 million on or before May 31, 2016.

We have borrowed $20.6 million under short term facilities in Argentina as at December 31, 2015. We also have capital leases relating to equipment leased by the Oil Tools division. At December 31, 2015, the net balance due under these arrangements was $10.5 million

Interest rate swap agreement

We have two interest rate swap agreements, one securing the interest rate on NOK 500 million until May 2019, and a USD interest rate swap agreement securing the interest rate on $150 million until October 2017. The fair value of the swaps as at December 31, 2015 was a liability of $3.4 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. During 2014 we capitalised interest of $0.5 and $0.2 million respectively in respect of our second modular rig, which was completed by September 30, 2014.

Note 11 – Segment Information

Up until December 31, 2015 we determined that our operational performance aligned with the following four segments or areas:

- 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 American Pressure Pumping, Pressure Control, Directional Drilling and Wireline businesses as discontinued operations and not as part of our continuing operations by segment.

Following the deconsolidation of the majority of the NAM business units we have re-organised our management structure and from January 1, 2016 onwards, we shall be presenting our results under two reporting segments – see note 15 Subsequent events.

(In millions)	Three Months Ended December 31		Year Ended December 31	
	2015	2014	2015	2014
Revenues from external customers				
North America	$ 3.2	$ 22.5	$ 21.5	$ 58.7
Latin America	137.6	170.3	635.5	587.9
North Sea	110.2	175.2	517.7	740.8
Emerging Markets & Technologies	31.5	52.5	146.4	210.3
Total	**$ 282.5**	**$ 420.5**	**$ 1,321.1**	**$ 1,597.7**
Depreciation & amortization				
North America	$ 0.7	$ -	$ 3.0	$ 1.9
Latin America	9.9	8.4	39.3	32.7
North Sea	5.8	5.4	20.2	18.2
Emerging Markets & Technologies	3.3	4.8	16.7	19.3
Total	**$ 19.7**	**$ 18.6**	**$ 79.2**	**$ 72.1**
Operating income/(loss) – net loss				
North America	$ (13.0)	$ 2.2	$ (17.8)	$ 7.4
Latin America	(19.2)	13.3	(21.7)	29.3
North Sea	(25.4)	12.0	32.1	62.4
Emerging Markets & Technologies	3.9	(12.8)	9.7	4.2
Corporate costs	(3.2)	(2.5)	(12.1)	(13.9)
Stock compensation costs	(0.3)	(1.3)	(2.7)	(5.0)
Operating (loss) / income	**(57.2)**	**10.9**	**(12.5)**	**84.4**
Total financial items	(24.1)	(56.9)	(107.0)	(105.1)
Income taxes	(4.9)	(7.6)	(3.7)	(17.5)
Discontinued operations, net of taxes	(157.9)	(39.9)	(236.1)	(61.5)
Net loss	**$(244.1)**	**$ (93.5)**	**$(359.3)**	**$ (99.7)**
Capital expenditures				
North America	$ -	$ 1.0	$ 0.8	$ 4.3
Latin America	3.6	46.1	75.1	120.4
North Sea	-	5.3	8.0	60.6
Emerging Markets & Technologies	1.3	6.5	4.8	28.0
Discontinued operations	2.0	23.5	17.7	43.0
Total	**$ 6.9**	**$ 82.4**	**$ 106.4**	**$ 256.3**

Goodwill (In millions)	North America	Latin America	North Sea	Emerging Markets & Technologies	Total
Balance at December 31, 2014	**$ 5.5**	**$ —**	**$ 111.8**	**$ 90.5**	**$ 207.8**
Impairments	(5.5)	—	—	—	(5.5)
Currency adjustments	—	—	(13.2)	(14.9)	(28.1)
Balance at December 31, 2015	**$ —**	**$ —**	**$ 98.6**	**$ 75.6**	**$ 174.2**

(In millions)	December 31 2015	December 31 2014
Total assets		
North America	$ 185.6	$ 484.9
Latin America	605.1	588.7
North Sea	334.5	447.0
Emerging Markets & Technologies	142.2	269.4
Total	**$ 1,267.4**	**$ 1,790.0**

Note 12 – Fair Value of Financial Instruments

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

	December 31, 2015		December 31, 2014	
(In millions)	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 20.5	$ 20.5	$ 28.9	$ 28.9
Restricted cash	8.0	8.0	15.8	15.8
Current portion of long-term debt	95.0	95.0	64.2	64.2
Long-term, interest-bearing debt	707.6	707.6	747.2	747.2
Derivatives				
Interest rate swap agreements	(3.4)	(3.4)	(4.0)	(4.0)

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

	December 31, 2015	Fair Value Measurements at Reporting Date Using		
(In millions)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 20.5	$ 20.5	—	—
Restricted cash	8.0	8.0	—	—
Liabilities				
Revolving credit facility, excluding current portion	621.9	—	621.9	—
Other loans and capital leases, excluding current portion	85.7	—	85.7	—
Interest rate swap agreements	3.4	—	3.4	—

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 market 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 December 31, 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.

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.

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 favour of the Union and there is now an appeal to the Supreme Court. The Association believes the Supreme Court should 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. We have not made any accrual for this contingent liability in our financial statements as at December 31, 2015 as, based on available precedent, we do not believe the Unions case has sufficient merit to prevail.

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 has been 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 has been recorded as adjustment to equity of $205.1 million. Seadrill currently owns 39.9% of our stock.

During the twelve months ended December 31, 2015, we supplied Seadrill Limited and affiliates with services amounting to $3.6 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 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 was drawn in full as at December 31, 2015. 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 €33 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 9). 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.

A further guarantee totalling $16.2 million was provided to various insurance companies on behalf of Archer Well Company Inc.

As of December 31, 2015, we have accrued total guarantee fees of $9.9 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.

Transactions with C6 Technologies AS:
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 tools being developed by C6 Technologies AS.

As at December 31, 2015 we have a receivable balance of $4.7 million due from C6 under an interest bearing loan agreement.

Transactions with Rawabi Archer Limited:
We own 50% of Rawabi Archer Limited “Rawabi”, a Saudi Arabia based joint venture that provides rental of oilfield products. During the twelve months ended December 31, 2015, we supplied Rawabi with services amounting to $2.3 million. As at December 31, 2015 we have a total outstanding trading balance of $2.1million due from Rawabi. In addition we have an outstanding investor loan receivable from Rawabi equivalent to $4.0 million.

Transactions with other related parties
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”
- EnerMech Mechanical Services Inc.

Frontline provides management support and administrative services to us, and we have recorded fees of $0.6 million for these services in the twelve months ended December 31, 2015. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At December 31, 2015, Archer owed Frontline $0.1 million related to these services.

During the twelve months ended December 31, 2015, we supplied NADL with services amounting to $2.1 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2015, NADL owed us $0.3 million related to these services.

During the twelve months ended December 31, 2015, we supplied Sevan with services amounting to $0.5 million, including reimbursable material. At December 31, 2015, Sevan owed us $0.1 million related to these services.

EnerMech provided products and services to the company totalling $0.5m for the twelve month ended December 31, 2015. At December 31, 2015, Archer had paid the balance due to EnerMech in full.

Note 15 – Subsequent Events

Following the disposition of or North American Well Service entities, on January 4, 2016 we announced the reorganisation of our remaining business lines into two reporting segments, Eastern Hemisphere and Western Hemisphere. The reorganisation is to improve focus on the business in the respective geographic areas, and to create opportunities for further synergies.

Eastern Hemisphere will include the Drilling Facilities Engineering and Platform Drilling business components, reported within our NRS segment up to December 31, 2015, and Oiltools and International Wireline, which previously were reported within the EMT segment.

Western Hemisphere will comprise AWC Frac Valves which is the remaining continuing business unit in the NAM segment at 31 December, Land Drilling, previously reported in the LAM segment, and the ownership participation of Quintana Energy Services LP.

Appendix to Archer Fourth Quarter Report 2015

We report our financial results in accordance with generally accepted accounting principles adopted by the U.S Securities and Exchange Commission (USGAAP). However, Archer's management believes that certain non-USGAAP 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-USGAAP 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 USGAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with USGAAP. See the table that follow for supplemental financial data and corresponding reconciliations to USGAAP financial measures for the three months ended December 31, 2015, September 30, 2015, June 30, 2015, March 31, 2015, December 31, 2014, and September 30, 2014. Non-USGAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with USGAAP. These figures have been adjusted to exclude the Well Service Entities contributed to QES on December 31, 2015.

ARCHER LIMITED
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014	September 30 2014
Revenue	282.5	321.9	320.8	395.8	420.5	422.1
Cost and expenses						
Operational costs	(289.5)	(314.3)	(344.0)	(345.6)	(386.7)	(391.8)
Impairments	(50.2)	—	—	—	(22.9)	—
Net financial items	(24.1)	(33.4)	(13.6)	(35.9)	(56.9)	(20.8)
(Loss) / income from continuing operations before income taxes	**(81.3)**	**(28.8)**	**(26.7)**	**14.3**	**(46.0)**	**9.5**
Income tax (expense) benefit	(4.9)	(1.2)	5.8	(3.4)	(7.6)	(1.6)
(Loss) / income from continuing operations	**(86.2)**	**(27.0)**	**(20.9)**	**10.9**	**(53.6)**	**7.9**
(Loss)/income from discontinued operations, net of tax	(157.9)	(25.6)	(26.8)	(25.8)	(39.9)	5.4
Net (loss) / income	**(244.1)**	**(52.6)**	**(47.7)**	**(14.9)**	**(93.5)**	**13.3**

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

	Three Months Ended					
(In millions)	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014	September 30 2014
Net (loss) / income	(244.1)	(52.6)	(47.7)	(14.9)	(93.5)	13.3
Depreciation, amortization* and impairments	68.9	20.1	21.2	15.0	41.2	15.9
Net financial items	24.1	33.4	13.6	35.9	56.9	20.8
Taxes on income	4.9	1.2	(5.8)	3.4	7.6	1.6
Loss/(income) from discontinued operations, net of tax	157.9	25.6	26.8	25.8	39.9	(5.4)
EBITDA	**11.7**	**27.7**	**8.1**	**65.2**	**52.1**	**46.2**

* Including any gain/loss on sale of assets

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014	September 30 2014
North America (NAM)	(2.1)	(2.1)	(0.4)	(0.1)	3.0	3.9
Latin America (LAM)	(4.4)	11.6	(0.6)	12.6	23.1	11.5
North Sea (NRS)	13.8	14.6	7.1	50.3	17.3	24.8
Emerging Markets & Technologies (EMT)	7.9	7.4	5.8	6.1	12.5	8.9
Corporate costs	(3.5)	(3.8)	(3.8)	(3.7)	(3.8)	(2.9)
EBITDA	**11.7**	**27.7**	**8.1**	**65.2**	**52.1**	**46.2**