Archer

First Quarter 2016 highlights

- First Quarter revenue from continuing operations was $229.2 million
- First Quarter EBITDA from continuing operations of $19.9 million including $8.7 million of restructuring costs
- Net loss for the Quarter of $27.8 million
- First Quarter operating cash flow of $ 6.4 million
- Net interest-bearing debt of $809.0 million at March 31, 2016
- Business was realigned into two reporting segments; Eastern Hemisphere and Western Hemisphere

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 March 31, 2016 to the Three Months ended December 31, 2015

Revenue for First Quarter 2016 was $229.2 million compared to $282.5 million for the Fourth Quarter 2015, a reduction of $53.3 million or 18.9%. Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA, were $19.9 million, an increase of $8.2 million or 70% compared to Fourth Quarter 2015 with Latin America being the main contributor. As market conditions continued to deteriorate during the Quarter, we recorded additional restructuring costs of $8.7 million, representing severance and early retirement costs for approximately 550 employees in order to align our employee base with the lower activity levels. The Company's headcount as of March 31, 2016 was approximately 5,300 compared to 5,900 at the end of the Fourth Quarter 2015.

Net Financial Items were a net expense of $20.3 million in the First Quarter 2016 compared to an expense of $24.1 million in the Fourth Quarter 2015. Interest expenses amounted to $15.1 million compared to $12.2 million in the Fourth Quarter 2015. Losses derived from results in associated companies amounted to $19.5 million in the First Quarter 2016 compared to $1.2 million in the Fourth Quarter 2015 and represent predominantly the results of our 42% ownership interest in Quintana Energy Services LP, which suffered significant losses due to the continued weakening of the North American Land market combined with one-time costs to integrate the businesses and to reduce the cost structure. This was partly offset by other financial items amounting to $13.6 million income compared to $7.2 million expense in the Fourth Quarter 2015 as a result of the strengthening of the Norwegian Kroner compared to the US Dollar at the end of the First Quarter 2016 compared to the Fourth Quarter 2015.

Comparison of the Three Months Ended March 31, 2016 to the Three Months Ended March 31, 2015.

Revenue for the first quarter 2016 was $229.2 million compared to $395.8 million for the First Quarter 2015, down $166.6 million or 42.1%. EBITDA of $19.9 million for the first quarter 2016 decreased $45.3 million or 69.5% compared to $65.2 million for the First Quarter 2015. Excluding the effect related to the cancelation of the Archer Emerald contract in the First Quarter 2015, amounting to $35.6 million, Revenue decreased by $131.0 million or 36% and EBITDA decreased by $9.7 million or 33%.

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 $23.1 million at March 31, 2016 compared to $20.5 million at December 31, 2015.

Cash flow from operations for the three months ended March 31, 2016 was $6.4 million, which is comprised primarily of the net loss from continuing operations of $26.6 million, add back share of losses in associated companies of $19.5 million, inventory write down of $5.5 million and depreciation and amortization from continuing operations of $17.9 million, deduct foreign exchange gains of $14.3 million and gain on sale of assets of $0.1 million, and add back expenses for share based compensation of $0.4 million. For changes in working capital and other sundry items we added back $4.1 million.

Capital expenditures for continuing operations during the quarter amounted to $1.8 million, representing predominantly capital spend necessary to replace or extend the life of our existing assets.

Total net interest-bearing debt at March 31, 2016 was $809.0 million compared to $782.1 million as of December 31, 2015.

As agreed with our lenders in December 2015, the amount available under our multicurrency revolving facility will be reduced to $625 million on or before May 30, 2016. To accommodate this reduction, Seadrill Limited will provide new financing to Archer amounting to $ 75 million, which is expected to be contributed in form of subordinated debt during May 2016.

Share Capital

The total number of issued and fully paid shares of par value $0.01 outstanding at March 31, 2016 was 58,164,966. A total of 2,220,235 options and restricted stock units, or “RSU”s were outstanding as of March 31, 2016.

First Quarter 2016 Operating Results by Area

The management discussions and analysis below represents results from continuing operations and excludes the divested North America Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions, which starting in the First Quarter 2016 are reported as part of our investment in Quintana Energy Services LP and as results in associated companies. Following this divestiture and starting on January 1, 2016, we reorganized our remaining business lines into two reporting segments; Eastern Hemisphere and Western Hemisphere and all operational comments are presented in line with this new organization below unless stated otherwise.

Eastern Hemisphere includes Drilling Facilities, Engineering and the Platform Drilling business, previously reported under our North Sea Segment as well as Oiltools and Wireline, which were previously reported within the Emerging Markets & Technologies Segment. Western Hemisphere comprises of Frac Valves, previously reported in the NAM segment, as well as Land Drilling, which was previously reported in the Latin America Segment.

(In millions)	Revenues			EBITDA		
	Q1 2016	Q4 2015	Variance	Q1 2016	Q4 2015	Variance
Eastern Hemisphere	$ 126.1	$ 141.7	$ (15.6)	$ 14.0	$ 21.7	$ (7.7)
Western Hemisphere	103.1	140.8	(37.7)	8.8	(6.5)	15.3
Corporate				(2.9)	(3.5)	0.6
	$ 229.2	$ 282.5	$ (53.3)	$ 19.9	$ 11.7	$ 8.2

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 and have been restated in line with the new organization.

Eastern Hemisphere

First Quarter 2016 revenue was $126.1 million, a decrease of $15.6 million or 11% sequentially as a result of continued reductions in demand for oilfield services as our customers have further reduced their spend for both CAPEX and operating expenses as a consequence of current market conditions. Compared to the Fourth Quarter 2015, EBITDA decreased by $7.7 million or 35.5% as a result of the lower revenue as well as increased restructuring costs to adjust our cost base in line with the lower activity levels.

Compared to the Fourth Quarter 2015, Platform Drilling revenue for First Quarter 2016 decreased by $14.2 million or 14.1% as customers continued to curtail drilling activity in all the markets we operate in. For the same period EBITDA decreased by $3.9 million or 28.7%, reflecting the reduced revenue combined with increased restructuring costs to further align our cost structure in line with the lower activity levels.

Compared to the First Quarter 2015 Platform Drilling revenue decreased by $79.8 million or 48% reflecting the absence of the early contract termination fees for Archer Emerald received in First Quarter 2015 of $35.6 million and lower activity levels with all customers and across all geographies. Year on year EBITDA reduced by $39.8 million or 80.2%, mainly resulting from the absence of the cancellation fees for Archer Emerald and lost margins due to lower activity levels combined with additional one-time costs related to restructuring initiatives.

First Quarter 2016 revenue for Engineering services decreased by $1.7 million or 17.1% sequentially, due to lower activity levels mainly in Norway, lower pricing and adverse currency movements of the British Pound versus the US Dollar. Despite lower revenue, quarter-on-quarter EBITDA improved by $0.4 million mainly as a result of improved personnel utilization and costs savings, partially offset by lower margins from lower revenue. Compared to the Fourth Quarter 2015, revenue decreased by $8.4 million or 51.2% reflecting the challenging market conditions for Engineering services leading to an absence of larger projects as well as generally lower activity levels. Despite lower revenue, EBITDA for the same period improved by $0.2 million mainly resulting from cost savings achieved partially offset by lower margins from the lower revenue base.

Wireline revenue for First Quarter 2016 decreased by $1.4 million or 7.6% primarily due to lower logging and conveyance activity in the European markets, combined with seasonally lower revenue in Asia, partially offset by increased logging activity in North Africa. EBITDA for the same period decreased by $3.2 million or 69.6% following lower activity levels, as well as start-up costs for a joint venture in Saudi Arabia and the absence of provision releases accounted for during Fourth Quarter 2015. Year on year revenue increased by $0.5 million or 3%, mainly as a result of higher reimbursable billings. EBITDA for the same period increased by $0.3 million or 29.7% as a result of the various costs savings implemented over the course of 2015.

Compared to Fourth Quarter 2015, Oiltools revenue increased by $1.5 million or 11.6% primarily driven by an increased number of LOCK™ installations and higher revenue for tubing conveyed perforating, partially offset by lower sales for Wellbore Clean-up equipment. Despite the higher revenue quarter on quarter, EBITDA decreased by $1.8 million or 50.2% as a result of an unfavourable product mix, increased facility costs, the absence of a release of provisions accounted for in the Fourth Quarter 2015, partially offset by lower compensation and other costs. Year on year revenue decreased by $7.2 million or 33% with lower activity in the Gulf of Mexico and Australia and an overall reduction in drilling related product sales combined with adverse currency effects related to the Norwegian Kroner and the British Pound versus the US Dollar. This was partly offset by increased activity related to plug and abandonment mainly in the UK sector of the North Sea with several tubing conveyed perforating and PWT™ jobs performed during the quarter. EBITDA for the same period decreased by $3.3 million or 65.5% reflecting the lower revenue base including pricing pressure for all products and services, as well as higher facility costs partially offset by lower compensation and other costs.

Overall we expect Second Quarter 2016 revenue to be further down by approximately 10% to 15%, with the demobilisation of Archer Topaz during the Second Quarter 2016 as well as a continued reduction in drilling activities in all geographies combined with the planned shutdown of several platforms for routine maintenance work impacting our Wireline business. As a result of this reduction in activity, we will continue to reduce our cost structure.

Western Hemisphere

First Quarter 2016 revenue of $103.1 million decreased by $37.7 million or 26.8% sequentially, mainly related to Land Drilling services in Latin America, which experienced a significant impact due to the currency devaluation of the Argentinian Peso. Despite the reduced revenue quarter on quarter, EBITDA improved by $14.9 million, reflecting lower restructuring and lower third party costs.

Land Drilling revenue for the First Quarter 2016 was $100.8 million, $36.8 million or 26.8% below the Fourth Quarter 2015. The reduction is primarily driven by the devaluation of the Argentinian Peso versus the US Dollar, impacting First Quarter revenue by approximately $31.1 million. Revenue was further negatively impacted by lower activity levels mainly in the South of Argentina combined with lower pricing. These unfavourable variances were partially offset by reimbursable billings related to severance costs and higher activity in Bolivia. Despite the lower revenue, EBITDA for the same period increased by $15.1 million, mainly as a result of lower restructuring costs, improved margins from higher activity in Bolivia combined with lower third party costs in the South of Argentina as activity levels were very low. Compared to the same period last year, First Quarter 2016 revenue was $64.1 million or 38.9% lower, reflecting equally the devaluation of the Argentinian Peso versus the US Dollar and a reduction in activity in the South of Argentina as well as in the Neuquén area, as customers reduced drilling activity and idled predominantly older rigs. This was partially offset by incremental revenue from our newly commissioned rigs with all new rigs now working. Compared to the First Quarter 2015, EBITDA decreased by $2 million or 15.5%, mainly as a result of the lower activity and pricing levels combined with significant restructuring costs to adjust the workforce in line with the reduced activity levels. This was partially offset by margins earned from the newly commissioned rigs in the Neuquén area as well as the absence of operating losses related to an operations and management contract with a major customer, incurred during First Quarter 2015.

Revenue for Frac Valves in the First Quarter 2016 was lower by $0.8 million or 25.3% following lower volume of new Valves sold as well as reduced aftersales services as customers continue to reduce spending levels. Consequentially EBITDA for the same period dropped by $0.2 million or 15.7%. Year on year revenue for Frac Valves services decreased by $7.6 million or 76.6% as a result of the challenging market conditions in the United States land market with a significant reduction of new valves sold, lower pricing combined with a reduction in aftersales services, resulting in a $1.8 million lower EBITDA for the same period. As a consequence of the deterioration in the US Land market and the negative impact on our Frac Valve business with a significant downward pressure on the pricing of our products, we recorded a one-off write-down of inventory stock relating to this business totalling $5.5 million.

Overall we expect Second Quarter 2016 revenue to be broadly flat compared to the First Quarter 2016. Despite flat revenue, EBITDA in the Second Quarter is expected to be lower mainly due to lower pricing and increased costs, as most of rigs previously on standby in the South of Argentina are returning to work and are expected to incur start-up costs during the quarter.

Corporate Costs

Corporate costs of $2.9 million during the First Quarter 2016 was $0.6 million below the Fourth Quarter 2015, reflecting lower costs for long term incentive plans, lower bonus costs as well as lower legal and consulting fees. Compared to the First Quarter 2015 Corporate costs were $0.4 million lower as a result of lower cost for employee bonuses and long term incentive plans.

Summary Outlook

As global commodity prices remained under severe pressure and the price for oil hit a 12 year low in February 2016, many of our customers decided to further reduce their spending levels for the year 2016. We expect that these reductions in activity and the continued pressure on pricing will impact our business at least over the remainder of 2016 and into 2017.

In line with the expected further reduction in activity levels, mainly in the Argentina, Norway and the UK, we plan to further reduce the headcount by approximately 8%-10% in the second quarter.

We continue to review our capital expenditures carefully and we expect spending levels for 2016 to be between $20 - $30 million, representing mainly expenditures to replace or extend the life of our existing assets as well as some investments required to comply with requirements related to new contracts awards.

Depending whether the market will rebalance towards the end of 2016, we might see a slight recovery in activities which do not require significant investments and are enabling customers to take advantage of the low cost environment. As a consequence we will focus on items we can control in line with our values, which are to provide safe operations with a superior service quality and a high level of integrity. In addition we will continue to focus on our cost structure and work with our customers to find ways to reduce the overall cost of operation. The recent contract wins in the North Sea are a testament to our ability to provide an innovative approach with a high level of service quality and customer focus.

As mentioned above, the amounts available under the revolving multicurrency credit facility will be reduced to $625 million on or before May 30, 2016 and we expect that Seadrill Limited will provide new financing to Archer amounting USD 75 million, which will be contributed in form of subordinated debt in the month of May 2016.

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, 2015. 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 FIRST QUARTER FINANCIAL STATEMENTS

ARCHER LIMITED

Consolidated Statement of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended March 31 2016	2015
Revenues			
Operating revenues		$ 210.9	$ 374.5
Reimbursable revenues		18.3	21.3
Total revenues		**229.2**	**395.8**
Expenses			
Operating expenses		182.4	293.3
Reimbursable expenses		15.7	20.9
Depreciation and amortization		17.9	19.4
Gain on sale of assets		(0.1)	(4.5)
Write down on inventory		5.5	-
General and administrative expenses		11.2	16.4
Total expenses		**232.6**	**345.5**
Operating (loss) / profit		**(3.4)**	**50.3**
Financial items			
Interest income		0.7	0.6
Interest expenses		(15.1)	(12.3)
Share of results in associated company	7	(19.5)	(1.2)
Other financial items	2	13.6	(23.1)
Total financial items		**(20.3)**	**(36.0)**
(Loss) / profit from continuing operations before income taxes		**(23.7)**	**14.3**
Income tax expense	3	**(2.9)**	(3.4)
(Loss) / profit from continuing operations		**(26.6)**	**10.9**
Loss from discontinued operations, net of tax		(1.2)	(25.8)
Net loss		**$ (27.8)**	**$ (14.9)**
Loss per share-basic			
Loss from continuing operations		$ (0.46)	$ 0.19
Loss from discontinued operations		(0.02)	(0.45)
Loss per share		$ (0.48)	$ (0.26)
Loss per share-diluted			
Loss from continuing operations		$ (0.46)	$ 0.19
Loss from discontinued operations		(0.02)	(0.45)
Loss per share		$ (0.48)	$ (0.26)
Weighted average number of shares outstanding			
Basic		58.0	57.9
Diluted		58.0	57.9

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

ARCHER LIMITED

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

(In millions)	Three Months Ended March 31 2016	2015
Net loss	**$ (27.8)**	**$ (14.9)**
Other comprehensive income/(loss)		
Translation differences	(0.1)	(0.1)
Actuarial gain/ (loss) relating to pension	-	-
Other comprehensive (loss) / Income	(0.1)	(0.1)
Total comprehensive loss	**$ (27.9)**	**$ (15.0)**

Accumulated Other Comprehensive (Loss) / Income
(Unaudited)

(In millions)	Pension – Unrecognized Losses	Currency Exchange Differences	Total
Balance at December 31, 2015	**$ (23.1)**	**$ 17.6**	**$ (5.5)**
Currency exchange differences	-	(12.5)	**(12.5)**
Actuarial loss relating to pension	-	-	**-**
Balance at March 31, 2016	**$ (23.1)**	**$ 5.1**	**$ (18.0)**

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

ARCHER LIMITED
Consolidated Balance Sheet

(In millions)	Note	March 31 2016 (Unaudited)	December 31 2015 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 23.1	$ 20.5
Restricted cash		17.6	8.0
Accounts receivables		176.4	193.3
Inventories	6	77.0	83.5
Other current assets		59.0	57.6
Total current assets		**353.1**	**362.9**
Noncurrent assets			
Investments in associates	7	130.5	148.1
Loans to associates	7	4.5	4.7
Property plant and equipment, net		543.4	554.5
Deferred income tax asset		11.8	13.3
Goodwill	8	181.8	174.2
Other intangible assets, net	9	4.7	4.8
Other noncurrent assets		2.7	4.9
Total noncurrent assets		**879.4**	**904.5**
Total assets		**$1,232.5**	**$1,267.4**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	10	$ 128.3	$ 95.0
Accounts payable		47.3	59.1
Other current liabilities		148.8	165.2
Total current liabilities		**324.4**	**319.3**
Noncurrent liabilities			
Long-term interest-bearing debt	10	653.8	657.6
Subordinated related party Loan		50.0	50.0
Deferred taxes		10.2	9.3
Other noncurrent liabilities		36.7	33.9
Total noncurrent liabilities		**750.7**	**750.8**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 58,164,966 outstanding shares at March 31, 2016 (December 31, 2015: 57,915,716)		0.6	0.6
Additional paid in capital		823.7	823.3
Accumulated deficit		(1,389.0)	(1,361.2)
Accumulated other comprehensive loss		(18.0)	(5.5)
Contributed surplus		740.1	740.1
Total shareholders' equity		**157.4**	**197.3**
Total liabilities and shareholders' equity		**$ 1,232.5**	**$ 1,267.4**

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

ARCHER LIMITED
Consolidated Statement of Cash Flow
(Unaudited)

(In millions)	Three months ended March 31	
	2016	**2015**
Cash Flows from Operating Activities		
Net loss	$ (27.8)	$ (14.9)
Net loss from discontinued operations	1.2	25.8
Net profit from continuing operations	(26.6)	10.9
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	17.9	19.4
Write-down of inventory	5.5	-
Share-based compensation expenses	0.4	0.7
Gain on property, plant and equipment disposals	(0.1)	(4.5)
Interest capitalised	-	(0.2)
Share of losses of unconsolidated affiliates	19.5	1.2
Amortization of loan fees and senior note premium	2.1	0.8
Deferred income taxes	1.2	(0.5)
Foreign currency (gain) / loss	(14.3)	21.4
Changes in operating assets and liabilities, net of acquisitions		
Decrease/(Increase) in accounts receivable and other current assets	21.8	(13.7)
Decrease/(Increase) in inventories	1.2	(2.6)
Decrease in accounts payable and other current liabilities	(14.2)	(19.4)
Other, net	(6.8)	(10.0)
Net cash used in discontinued operations	(1.2)	15.9
Net cash provided by operating activities	**6.4**	**19.4**
Cash Flows from Investing Activities		
Capital expenditures	(1.8)	(62.0)
Proceeds from disposal of property, plant and equipment	0.2	5.9
Loans to associates	(1.4)	(1.3)
Net change in restricted cash	9.2	2.6
Cash used in investing activities of discontinued operations	-	(1.5)
Net cash used by investing activities	**(12.2)**	**(56.3)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities	156.8	24.8
Repayments under revolving facilities	(130.4)	-
Proceeds from long-term debt	-	10.0
Repayment of long-term debt	(4.6)	(3.6)
Debt issuance costs	(2.0)	-
Cash used in financing activities of discontinued operations	-	(0.1)
Net cash provided by financing activities	**19.8**	**31.1**
Effect of exchange rate changes on cash and cash equivalents	(11.4)	5.3
Net increase / (decrease) in cash and cash equivalents	**2.6**	**(0.5)**
Cash and cash equivalents at beginning of the period	20.5	28.9
Cash and cash equivalents at the end of the period	**$23.1**	**$28.4**
Interest paid	$ 12.2	$ 10.5
Taxes paid	$ 1.0	$ 2.2

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 Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2015	**$ 0.6**	**$ 823.3**	**$(1,361.2)**	**$ (5.5)**	**$ 740.1**	**$ 197.3**
Translation differences	—	—	—	(12.5)	—	(12.5)
Net loss	—	—	(27.8)	—	—	(27.8)
Share based compensation	—	0.4	—	—	—	0.4
Balance at March 31, 2016	**$ 0.6**	**$ 823.7**	**$(1,389.0)**	**$ (18.0)**	**$ 740.1**	**$ 157.4**

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 Area 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 5,300 skilled and experienced people at March 31, 2016.

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 first quarter 2016 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited first quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These first quarter financial statements should be read in conjunction with our financial statements as of December 31, 2015. 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 first 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, 2015. 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, 2015, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

ASU 2016-02 Leases (Topic 842) This update creates new topic 842, containing new guidance for lease accounting which is effective for fiscal years beginning after December 15, 2018. Early application is permitted. The new GAAP requires the recognition of lease assets and liabilities by lessees, for leases previously classified as operating leases.

For leases for a period of 12 months or less, an election is available by class of underlying asset, not to recognise lease assets and liabilities. Instead, a lease expense may be recognised, generally on a straight line basis, over the lease term.

The distinction between finance and operating leases is maintained under the new GAAP, and the effect of leases in the statement of comprehensive income and statement of cash flows is largely unchanged from previous GAAP.

Under the new GAAP a lease is defined as a contract (or part of a contract) that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

We expect that the application of the new GAAP will bring some additional assets and liabilities on to our future balance sheets. We have not yet analysed and quantified the amounts involved.

ASU 2016-08 Revenue from contracts with customers (Topic 606) Principal versus Agent considerations. The update clarifies the guidance on whether revenues should be recognised gross or net, in cases where a third party intermediary is involved in the transaction. The provisions are more directly relevant to intermediaries involved in some of our sales, however we shall apply the provisions to ensure our revenues are recorded correctly. We do not expect this update to have a material effect on our financial statements.

ASU 2016-09 Stock compensation (Topic 718) – Improvements to employee share based payment accounting. The update is part of the FASB's simplification initiative. We do not expect the provisions in the is guidance to have a material effect on our financial statements.

ASU 2016-10 revenue from Contracts with customers (Topic 606) Identifying performance obligations and Licensing. The new revenue recognition guidance (Topic 606) is applicable for fiscal periods beginning after December 15, 2017. We are still assessing the impact of the new provisions on our financial statements.

Note 2 – Other Financial Items

	Three Months Ended March 31	
(In millions)	**2016**	**2015**
Foreign exchange gains / (losses)	$ 14.3	$ (21.4)
Other items	(0.7)	(1.7)
Total other financial items	**$ 13.6**	**$ (23.1)**

Other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner. 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 3 – Income Taxes

Tax expense can be split in the following geographical areas:

(In millions)	Three Months Ended March 31 2016	Three Months Ended March 31 2015
United States	$ 0.3	$ -
South America	0.6	(0.5)
Europe	1.6	2.9
Others	0.4	1.0
Total	**$ 2.9**	**$ 3.4**

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 for the first quarter 2016 is an expense $2.9 million. Tax expense in Europe amounted to $1.6 million of which $0.8 million was incurred in the United Kingdom and $ 0.5 million incurred in Norway. Others represent mainly adjustments of previous years in Australia.

First quarter 2016 tax expenses in South America of $0.6 million relate to a gain resulting from an internal restructuring following a sale of shares of an entity operating in Argentina to another Group company.

There are significant deferred tax assets in the United States of which $191 million relate to net operating losses carried forward and $130 million result from timing differences on partnership investment 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 4 – 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.

Our interest in the combined company is 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 the new reporting segment, Western Hemisphere as discussed in Note 10, Segmental information.

During the first quarter 2016 we have reported costs of $1.2 million as discontinued operations. These costs relate to the closure of an office facility which previously serviced the business contributed to QES.

Note 5 – 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 March 31	
(In thousands)	**2016**	**2015**
Denominator		
Weighted-average common shares outstanding	57,990	57,916
Effect of potentially dilutive common shares	—	—
Share-based compensation shares	—	—
Weighted-average common shares outstanding and assumed conversions	57,990	57,916

Share-based compensation of approximately 165,533 and 137,496 shares were excluded from the computation of diluted earnings per share for the three ended March, 31 2016 and 2015 respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 6 – Inventories

	March 31	December 31
(In millions)	**2016**	**2015**
Manufactured		
Finished goods	$ 18.1	$ 22.8
Work in progress	1.2	0.8
Raw materials	-	2.2
Total manufactured	19.3	25.8
Drilling supplies	28.2	27.3
Chemicals	6.6	7.5
Other items and spares	22.9	22.9
Total inventories	**$ 77.0**	**$ 83.5**

As a consequence of the further deterioration in the US Land market and the negative impact on our Frac Valve business with a significant downward pressure on the pricing of our products, we recorded a one-off write-down of inventory held in this business within finished goods totalling $5.5 million.

Note 7 — Investments in Associates

We have the following participation in investments that are recorded using the equity method:

	March 31, 2016	December 31, 2015
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.00%	50.00%
Quintana Energy Services LP	42.00%	42.00%

The carrying amounts of our investments in our equity method investment are as follows:

(in millions)	**March 31, 2016**	**December 31, 2015**
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	130.5	148.1

The components of investments in associates are as follows:

($ in millions)		**2016**			**2015**	
	QES	**C6**	**Rawabi**	**QES**	**C6**	**Rawabi**
Net book balance at beginning of year	148.1	-	-	-	-	-
Additional capital investment	-	1.9	-	148.1	2.0	-
Share in results of associates	(17.6)	(1.9)	-	-	(2.0)	-
Currency adjustment	-	-	-	-	-	-
Net book balance at March 31, / December 31	130.5	-	-	148.1	**—**	-

Quoted market prices for C6 Technologies AS, Rawabi Archer Company and Quintana Energy Services LP are not available because the shares are not publicly traded.

In addition to our capital investment, we have also made additional investment in C6 by way of a loan which, at March 31, 2016, amounted to $4.5 million (2015 $4.7 million) and is repayable in 2021 when we expect the developed technology to have generated sufficient funds. We have applied our share of the expenses incurred by C6 as a reduction on the value of our loan due from the entity.

The share in results related to our investment in QES reflects our 42% portion of the total losses estimated by the entity for the First Quarter 2016. The loss is a result of the deterioration of the North American land market during the first quarter, combined with one-time costs incurred to adjust the cost structure and to integrate Archer's North American Well Service entities into QES. At March 31, 2016 we do not consider that there is a permanent reduction in the carrying value of this investment as we expect the market to improve in the medium term, but we will continue to closely monitor the value of our investment, and should we determine that any losses in value have become other than temporary we shall record an impairment.

Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. All of our remaining goodwill relates to our Eastern Hemisphere reporting segment – see also note 11.

(In millions)	
Net book balance at December 31, 2015	**$ 174.2**
Currency adjustments	7.6
Net book balance at March 31, 2016	**$181.8**

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.

Note 9 – Other Intangible Assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2015	**$ 107.8**	**$ (103.0)**	**$ 4.8**
Eliminated on contribution of business to QES	(82.3)	82.3	-
Amortization	-	(0.4)	(0.4)
Currency adjustments	(1.1)	(0.8)	(0.6)
Balance at March 31, 2016	**$ 26.6**	**$ (21.9)**	**$ 4.7**

The net book value at March 31, 2016, consisted of customer relationships of $1.2 million, identified technology of $1.4 million, and patents of $2.1 million.

Note 10 – Long-term, Interest-Bearing Debt

	March 31, 2016			**December 31 2015**		
(In millions)	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	650.0	(6.9)	643.1	638.7	(6.8)	631.9
Related party subordinated loan	50.0	-	50.0	50.0	-	50.0
Hermes-covered term loans	44.3	(1.4)	42.9	46.0	(1.5)	44.5
Other loans and capital lease liability	96.1	-	96.1	76.2	-	76.2
Total loans and capital lease liability	**840.4**	**(8.3)**	**832.1**	**810.9**	**(8.3)**	**802.6**
Less: current portion	(132.0)	3.7	(128.3)	(99.7)	4.7	(95.0)
Long-term portion of interest bearing debt	**708.4**	**(4.6)**	**703.8**	**711.2**	**(3.6)**	**707.6**

At December 31,2015 we 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.

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 March 31, 2016, a total of $650.0 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, which will be contributed in form of subordinated debt in the month of May 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 $30 million for the financial quarters up to and including Q2 2016 and $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 $70 million in the year ended December 31, 2016 and 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 March 31, 2016, 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 March 31, 2016 the equivalent of $37.6 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 1.55% above EURIBOR. At March 31, 2016, the equivalent of $6.8 million was outstanding under this facility. During the quarter we have agreed with the lender to align the covenants on this loan facility with the covenants under our multicurrency facility.

Other loans and capital leases

We have two $45.8 million overdraft facilities and at March 31, 2016, net borrowings under these facilities amounted to a total of $70.3 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 $15.6 million under short term facilities in Argentina as at March 31, 2016. We also have capital leases relating to equipment leased by the Oil Tools division. At March 31, 2016, the net balance due under these arrangements was $10.2 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 March 31, 2016 was a liability of $4.5 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.

Note 11 – Segment Information

The split of our organization and aggregation of our business into 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.

Following the contribution of our North American well services businesses to QES on December 31, 2015, and a re-organisation of our management and reporting structure, with effect from January 1, 2016, we are presenting our business under two reporting segments;

- Eastern Hemisphere
- Western Hemisphere

Western Hemisphere comprises our operations previously reported under Latin America, being land drilling operations in Latin America, plus our Frac. Valve producing facility in North America and our 42% interest in QES.

The Eastern Hemisphere segment contains the business previously reported under North Sea, plus our global Oil Tools and Wireline Service divisions (previously reported within the Emerging Markets & Technologies segment). In addition we report corporate costs, and assets as separate line items.

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 divested North

America well service businesses, as discontinued operations and not as part of our continuing operations by segment.

(In millions)	Three Months Ended March 31 2016	2015
Revenues from external customers		
Eastern Hemisphere	$ 126.1	$ 221.0
Western Hemisphere	103.1	174.8
Total	**$ 229.2**	**$ 395.8**
Depreciation and amortization		
Eastern Hemisphere	$ 7.9	$ 10.0
Western Hemisphere	10.0	9.4
Total	**$ 17.9**	**$ 19.4**
Operating income / (loss) – net loss		
Eastern Hemisphere	$ 6.1	$ 47.7
Western Hemisphere	(6.5)	6.3
Corporate Costs	(3.0)	(3.7)
Operating (loss)/income	**(3.4)**	**50.3**
Total financial items	(20.3)	(36.0)
Income taxes	(2.9)	(3.4)
Discontinued operations, net of taxes	(1.2)	(25.8)
Net loss	**$ (27.8)**	**$ (14.9)**
Capital expenditures		
Eastern Hemisphere	$ 0.6	$ 2.9
Western Hemisphere	1.2	59.0
Total	**$ 1.8**	**$ 61.9**

(In millions)	**Eastern Hemisphere**	**Western Hemisphere**	**Total**
Goodwill			
Balance at December 31, 2015	**$ 174.2**	**$ —**	**$ 174.2**
Currency adjustments	7.6	—	7.6
Balance at March 31, 2016	**$181.8**	**$ —**	**$181.8**

(In millions)	March 31 2016	December 31 2015
Total assets		
Eastern Hemisphere	**$ 530.3**	$ 513.9
Western Hemisphere	**700.0**	750.4
Corporate	**2.2**	3.1
Total	**$ 1,232.5**	**$ 1,267,4**

Note 12 – Fair Value of Financial Instruments

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

(In millions)	March 31, 2016 Fair Value	March 31, 2016 Carrying Value	December 31, 2015 Fair Value	December 31, 2015 Carrying Value
Nonderivatives				
Cash and cash equivalents	$ 23.1	$ 23.1	$ 20.5	$ 20.5
Restricted cash	17.6	17.6	0.8	0.8
Current portion of long-term debt	128.3	128.3	95.0	95.0
Long-term, interest-bearing debt	703.8	703.8	707.6	707.6
Derivatives				
Interest rate swap agreements	(4.5)	(4.5)	(3.4)	(3.4)

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

(In millions)	March 31, 2016 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 23.1	$ 23.1	—	—
Restricted cash	17.6	17.6	—	—
Liabilities				
Multicurrency term and revolving facility, excluding current portion	671.1	—	671.1	—
Other loans and capital leases, excluding current portion	32.7	—	32.7	—
Interest rate swap agreements	4.5	—	4.5	—

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 March 31, 2016, 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, 2015, all but one of the defendants filed for Chapter 11 bankruptcy and in August 2015, 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.

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.

<u>Transactions with Seadrill;</u>
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 three months ended March 31, 2016, we supplied Seadrill Limited and affiliates with services amounting to $0.4 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2016, Seadrill owed us $0.1 million in respect of these services.

On October 24, 2015, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to $50 million. In March 2016 the loan, and any accrued interest/fees, was sold to Seadrill Limited. The loan was drawn in full as at March 31, 2016. 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 €33.0 million (or $37.4 million) to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 10). 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 10). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

A NOK 66 million (equivalent to $ 7.9 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS.

In addition, Seadrill provided Archer Norge AS with a guarantee of a maximum of $20 million to support Archer Norge AS's guarantee facility. As at March 31, 2016 a total of USD 17.8m of guarantees was issued under the guarantee facility. The guarantee fee is 1.25% per annum of the guaranteed amount.

As of March 31, 2016, we have accrued total guarantee fees of $9.8 million which are due to be paid to Seadrill 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. This entity is included in our consolidated financial statements using the equity method of accounting.

Our total investment in C6 as at March 31, 2016 is $4.5 million in the form of an interest bearing loan to the venture.

Transactions with Rawabi Allis-Chalmers Company Limited:
We own 50% of Rawabi Allis-Chalmers Company Limited “Rawabi”, a Saudi Arabia based joint venture that provides rental of oilfield products. As at March 31, 2016 Rawabi owes us $0.1 million relating to services provided in 2015, and $1.0 million in respect of a shareholder loan.

Transactions with Quintana Energy Services LP:
On December 31, 2015 we contributed our North American Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions with Quintana Energy Services LP “QES”, an unrelated third party in exchange for 42% of the combined entity’s share capital. As at March 31, 2016 we were owed $1.1m from QES relating to unsettled intercompany balances.

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
- Seatankers Management AS, or Seatankers
- North Atlantic Drilling Ltd, or NADL
- Sevan Marine Servicos de Perfuracao Ltda “Sevan”
- Enermech

Frontline and Seatankers provide management support and administrative services to us, and we have recorded combined fees of $0.2 million for these services in the three months ended March 31, 2016. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At March 31, 2016, we have accrued $0.2 million as payable in relation to these services.

During the three months ended March 31, 2016, we supplied NADL with services amounting to $0.5 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2016, NADL owed us $0.4 million related to these services.

During the three months ended March 31, 2016, we supplied Sevan with services amounting to $0.2 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2016, Sevan owed Archer $0.1 million related to these services

EnerMech provided products and services to the company totalling $0.1m for the three month ended March 31, 2016. At March 31, 2016, Archer had paid the balance due to EnerMech in full.

Note 15 – Subsequent Events

Subsequent events have been incorporated into related notes where appropriate. Other subsequent events are disclosed in this Note.

On April 19, 2016, the Company announced that Mr. Skindlo will replace Christoph Bausch, who has been Archer's Executive Vice President and CFO since May 2011. Mr. Bausch has decided to leave his position in Archer Limited with effect from April 30, 2016.

Appendix to Archer First Quarter Report 2016

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 follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, March 31, 2015, and December 31, 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)	March 31 2016	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Revenue	229.2	282.5	321.9	320.8	395.8	420.5
Cost and expenses						
Operational costs	(232.6)	(289.5)	(314.3)	(334.0)	(345.5)	(386.7)
Impairments	—	(50.2)	—	—	—	(22.9)
Net financial items	(20.3)	(24.1)	(33.4)	(13.6)	(36.0)	(56.9)
(Loss)/ Income from continuing operations before income taxes	**(23.7)**	**(81.3)**	**(25.8)**	**(26.7)**	**14.3**	**(46.0)**
Income tax (expense) benefit	(2.9)	(4.9)	(1.2)	5.8	(3.4)	(7.6)
(Loss) / Income from continuing operations	(26.6)	**(86.2)**	**(27.0)**	**(20.9)**	**10.9**	**(53.6)**
(Loss)/ Income from discontinued operations, net of tax	(1.2)	(157.9)	(25.6)	(26.8)	(25.8)	(39.9)
Net (loss) / Income	**(27.8)**	**(244.1)**	**(52.6)**	**(47.7)**	**(14.9)**	**(93.5)**

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

(In millions)	Three Months Ended March 31 2016	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Net (loss) / Income	(27.8)	(244.1)	(52.6)	(47.7)	(14.9)	(93.5)
Depreciation, amortization and impairments (net of gains/losses on sale of assets)	23.3	68.9	20.1	21.2	15.0	41.2
Net financial items	20.3	24.1	33.4	13.6	35.9	56.9
Taxes on income	2.9	4.9	1.2	(5.8)	3.4	7.6
Loss from discontinued operations, net of tax	1.2	157.9	25.6	26.8	25.8	39.9
EBITDA	**19.9**	**11.7**	**27.7**	**8.1**	**65.2**	**52.1**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

(In millions)	Three Months Ended March 31 2016	December 31 2015	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Eastern Hemisphere	14.0	21.7	22.0	12.9	56.4	30.1
Western Hemisphere	8.8	(6.5)	9.5	(1.0)	12.5	26.0
Corporate costs	(2.9)	(3.5)	(3.8)	(3.8)	(3.7)	(4.0)
EBITDA	**19.9**	**11.7**	**27.7**	**8.1**	**65.2**	**52.1**