Archer

Fourth quarter 2016 highlights

− Archer has today 28th of February separately announced a comprehensive refinancing solution, which will significantly improve the balance sheet and provide sufficient liquidity to develop the business. The refinancing agreements are contingent on a minimum capital raise of $60 million.

− Fourth quarter revenue was $221.4 million.

− Fourth quarter underlying EBITDA was reported at $18.8 million, excluding restructuring cost of $4.8 million.

− Fourth quarter cash generated from underlying operations to financing activities and servicing of debt was $32.8 million.

− Net interest bearing debt was $795.9 million at the end of 2016.

− Quintana Energy Services (QES) completed its financial restructuring in December 2016 with sufficient liquidity to support ongoing operation and growth.

− Archer's Norwegian Platform Drilling operation commenced work under an extended contract with Statoil on October 1st 2016 and thereby added five rigs to the portfolio.

Key Developments

Eastern Hemisphere's Platform Drilling division has strengthened its contract backlog by securing new contracts during the year. At the end of 2016, Platform Drilling had a contract backlog of $644 million, up from $531 million at the end of 2015.

Platform Drilling had an average of 39 rigs in 2016 under contract of which an average 10 rigs were in active drilling operation. The remaining platforms on contracts were in maintenance or idle mode. In 2015, an average of 13 of the 33 rigs under contract were in active operations. We expect the number of active operating rigs to increase in 2017 based on current activity level and client information.

Western Hemisphere's Land Drilling division experienced significant activity reduction during 2016, especially for our business in the San Jorge Golf basin in the southern part of Argentina ("Land Drilling South"). Land Drilling South had an average of 40 active units during 2016, compared to an average of 56 active units in 2015.

For the operation in the northwest of Argentina and in Bolivia ("Land Drilling North"), we had in average 16.7 active rigs in 2016 compared to 15.7 active rigs in 2015.

Our AWC (frac valve) segment experienced a significant increase in activity towards the end of 2016. We see a change in market sentiment and we therefore expect a significant increase in AWC's activity for 2017 compared to 2016. The development is expected to be driven by the increase of US land rig count.

Archer proprietary technology demonstration trials were successfully run in Saudi Arabia by Oiltools Rawabi JV and for TAQA-Archer Wireline JV in support of future commercial deployments. The Wireline C6 JV released ComTrac units for field test deployments in Norway and Saudi Arabia, while testing of the C6 tractor and mechanical services platform are on schedule for release to field trials in 2017.

In December 2016 and in January 2017, Archer provided a 2nd lien loan amounting to 25% of a total $40 million new funding to QES. Included in the terms of the arrangement, Archer received penny warrants for 8.5% of the shares in QES (in total, QES issued warrants for 34% of the shares), which implies that fully diluted Archer's ownership in QES will be reduced from 42% to approximately 36%

following exercise of the penny warrants. QES has seen significantly increased business activity in the second half of 2016 which has continued into 2017.

Financial Statements

The following discussions are based on a continuing operations basis.

Comparison of the Three Months Ended December 31, 2016 to the Three Months ended September 30, 2016

Revenue for fourth quarter 2016 was $221.4 million compared to $214.4 million for the third quarter 2016, an increase of $7 million or 3.3%.

The improved operating conditions in the fourth quarter resulted in a reported EBITDA before restructuring cost ("underlying EBITDA") of $18.8 million (8.5%). Overall we reported one-time restructuring costs of $4.8 million during fourth quarter, mainly relating to non-working personnel in the Land Drilling South operations in Argentina.

EBITDA after restructuring of $14.0 million was down $2.9 million or 17.1% mainly on account of absence of the one-off pension credit of $5 million included in third quarter results, partially offset by fall through from additional revenue in Q4.

Fourth quarter cash generated from underlying operations to financing activities and servicing of debt was $32.8 million on strong underlying EBITDA and improvement in working capital.

Net Financial Items were a net expense of $51.2 million in the fourth quarter 2016 compared to an expense of $26.2 million in the third quarter 2016. Interest expenses amounted to $16.6 million compared to $18.0 million in the third quarter 2016. Losses derived from results in associated companies amounted to $20.1 million in the fourth quarter 2016 compared to $15.8 million in the third quarter 2016 and represent predominantly the results of our 42% ownership interest in Quintana Energy Services LLP, which is starting to see increasing activity based on the restructuring performed during 2016 and the general increase in market activity. This was partly offset by other financial items, the majority of which were exchange losses, amounting to $14.8 million, compared to a $7.2 million gain in the third quarter 2016.

Comparison of the Year Ended December 31, 2016 compared to the Year Ended December 31, 2015.

Revenue for the year 2016 was $884 million compared to $1.3 billion for 2015, a reduction of $437 million or 33%. Underlying EBITDA was $84 million, a decrease of $47 million or 36% compared to 2015. 2015 revenue included a $35.6 million one-off contract cancellation fee for Archer's Emerald MDR.

Eastern Hemisphere revenue was down 33% as a number of key customers curtailed their spending, adversely impacting demand and pricing for all our products and services, particularly for Platform Drilling. Underlying EBITDA was down 54% with lost margin from reduction in activity and impact of pricing pressure partially offset by costs savings realised in a number of divisions. Cost savings were realized through restructuring initiatives like headcount reductions, facilities mergers/closures and amendments to employee benefit plans. Prior year revenue included the $35.6 million one-off contract cancellation fees for the Archer Emerald MDR. Excluding the cancellation fees revenue decreased by 29%. Underlying EBITDA excluding the one-off contract cancellation fee was down 33%. The reported EBITDA margin before restructuring for 2016 ended at 12.1%.

Western Hemisphere revenue decreased 33% in comparison with 2015 reflecting significant reduction in land drilling activity in Argentina. Our AWC frac valve division revenue was adversely affected by reduced fracking activity onshore US, with a significant reduction in number of valves sold. Despite reduced revenue in Western Hemisphere, underlying EBITDA was up with costs savings achieved from restructuring initiatives, partially offset by lost margin from reduction in activity and impact of pricing pressure.

As oil prices continued to be under pressure and adversely impacted our activity levels during 2016, we have taken significant actions to align the cost base. These actions included employee terminations, facility closures and changes to employee benefit plans. The net costs of these one-time projects were $35 million during 2016. Our employee headcount was 5,097 at the end of 2016 compared to 6,732 employees at the end of 2015.

Archer was largely able to improve its underlying EBITDA margin while the revenue fell by 33% from 2015 to 2016. Excluding the one-time cancellation fee for Emerald in 2015, the EBITDA margin before restructuring improved from 7.4% in 2015 to 9.5% in 2016.

Full year capital expenditure spending of $6.6 million was restrained significantly in line with decreasing activity levels and was just 0.7% of our full year revenue.

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 $27.3 million at December 31, 2016 compared to $17.5 million at September 30, 2016.

Cash generated from underlying operations to financing activities and servicing of debt for fourth quarter was $32.8 million. Cash generated from underlying operations to financing activities and servicing of debt is calculated to be the EBITDA adjusted for changes in working capital and tax payments.

Archer generated $30 million in positive cash flow before financing activities and investment in associates in 2016, a significant improvement from the negative cash flow in 2015 of $45 million.

We continued to be disciplined in our capital expenditures spending and recorded $2.1 million for the quarter, which is less than 1% of revenue for the quarter.

Total net interest-bearing debt at December 31, 2016 was $795.9 million compared to $814.9 million as of September 30, 2016.

Total cash and committed undrawn credits lines amounted to $78.8 million as at December 31, 2016.

Share Capital

The total number of issued and fully paid shares of par value $0.01 outstanding at December 31, 2016 was 58,164,966. A total of 1,302,633 options and restricted stock units, or “RSU”s were outstanding as of December 31, 2016.

Fourth Quarter 2016 Operating Results by Area

The management discussions and analysis below represents results from continuing operations. Archer business lines are separated into two reporting segments; Eastern Hemisphere and Western Hemisphere and all operational comments are presented in line with this organization below unless stated otherwise.

(In millions)	Revenues			Underlying EBITDA		
	Q4 2016	Q3 2016	Variance	Q4 2016	Q3 2016	Variance
Eastern Hemisphere	$ 109.9	$ 96.0	$ 13.9	$ 12.4	$ 14.3	$ (1.9)
Western Hemisphere	111.5	118.4	(6.9)	8.3	9.1	(0.8)
Corporate	0.0	0.0	0.0	(1.9)	(1.9)	(0.0)
	$ 221.4	$ 214.4	$ 7.0	$ 18.8	$ 21.5	$ (2.7)

Note: The Underlying EBITDA numbers shown above are before net restructuring costs; restructuring costs incurred during fourth quarter 2016 were $4.8 million as compared to $4.6 million during third quarter 2016

Eastern Hemisphere

Fourth quarter 2016 revenue was $109.9 million, an increase of $13.9 million or 14.4% sequentially, primarily driven by increased rig activity in the North Sea. Despite higher revenue, reported EBITDA decreased by $1.9 million primarily due to absence of the one–time credit adjustments related to settlement of the Norwegian pension benefit plan for offshore employees recorded in the third quarter.

Platform Drilling revenue for fourth quarter 2016 increased by $12.1 million or 19% mainly due to the start-up of contracts for additional rigs in North Sea, higher reimbursable and increased uptime bonus incentives, partially offset by adverse currency exchange impacts. For the same period underlying EBITDA increased by $.0.2 million, reflecting fall through from increased operating revenue.

Fourth quarter 2016 revenue for Engineering services increased by $0.3 million or 3.6% sequentially, with higher level of reimbursable billing partially offset by lower contract activity. Quarter-on-quarter EBITDA increased by $0.2 million or 53.4% following cost savings achieved from down-sizing initiatives completed earlier.

Wireline revenue for fourth quarter 2016 increased by $1 million or 9% compared to the third quarter, primarily due to increased logging and mechanical activity in the European markets and increased activity in the Middle East. Underlying EBITDA for the same period increased by $2.8 million with margin from incremental revenue and costs savings realised from restructuring projects completed in the earlier periods.

Compared to third quarter 2016, Oiltools revenue increased by $0.4 million or 3.3% primarily driven by higher LOCK™ and TCP installations in the European markets; increased C-Flex™ and Tornar™, activity in the US, and higher X-it™ revenue in the Middle East. These upsides were partially offset by lower LOCK™ rental in the US, lower activity for Stronghold™ in the Asian markets, and lower C-Flex™ activity in Europe. Quarter-on-quarter Underlying EBITDA increased by $1.5 million or 95.3% due to fall through from incremental revenue, improved margins from a more favourable product mix and lower operating costs.

We expect first quarter 2017 revenue to be down by approximately 5% lower compared to fourth quarter 2016 primarily in Platform Drilling as a result of adverse currency impact and lower reimbursable billings.

Western Hemisphere

Fourth quarter 2016 revenue was $111.5 million, a decrease of $6.9 million or 5.8 %, compared to the third quarter. The reduction in revenue was primarily driven by lower Land Drilling activity in Latin America, partially offset by over 52% growth in revenue in AWC. Quarter-on-quarter EBITDA reduced by $0.8 million or 8.9% with reductions in Land Drilling revenue partially offset by margin from incremental revenue for AWC services.

Land Drilling revenue for the fourth quarter 2016 was $107.4 million, $8.3 million or 7.2% lower than the third quarter, driven by the reduction in number of operating rigs. Quarter-on-quarter underlying EBITDA decreased by $1.6 million or 15.5% due to lost margin on lower revenue partially offset by reduction in the overall cost base before restructuring and idle personnel costs. Land Drilling utilization for the fourth quarter 2016 was 61% compared to 64.2% during third quarter 2016.

Revenue for AWC in the fourth quarter 2016 increased by $1.4 million or 52.5% following increased new Valves sold, as well as higher parts sales and repairs activity. Underlying EBITDA for the same period improved by $0.8 million or 66.2% reflecting fall through from incremental revenue as well as improved margins from a more favourable product mix.

We experience lower activity in our Land Drilling South operations in Argentina. We are working closely with our clients in order to find appropriate solutions for operational requirements. Under the assumption that we find a solution, we still believe that first quarter 2017 revenue to be around 10% below the reported revenue for the fourth quarter 2016. EBITDA in the first quarter is expected to be lower, mainly as a fall through from reduced revenue.

Summary Outlook

Global commodity prices remained under severe pressure during 2016 and our customers reduced their spending throughout the year. However, we see signs of improvement with a stabilisation of oil price and a more positive outlook on relevant commodity prices in both the near and longer term. The main driver for Archer's activity level is our customer's capital expenditure and activity levels, which in turn are driven by the oil price and sentiment. The cost level for our industry has been reduced significantly over the last years, and combined with a stable oil price we believe that in the short to medium term, this will results in increased activity for our business. Archer has a solid contract backlog and is well positioned in diverse segments of the oil service industry. We expect first quarter 2017 to be somewhat lower than fourth quarter 2016, but expect that 2017 overall largely will be in line with 2016 before restructuring. As most of the businesses have been right sized, we expect significant less restructuring cost in 2017.

We have kept our capital expenditures under control and we will continue to be selective in our capital expenditures in 2017 as we expect our total spending for 2017 to be approximately 2-3% of revenue. The capital spending will be a combination of necessary maintenance capex for our equipment and investment in new products and technology, predominantly in our proprietary technologies.

Risks and uncertainties

Our largest uncertainty remains the activity related to drilling operations in the South of Argentina, which is heavily influenced by the government and level of subsidies for the industry, clients and union relationships. However, we are currently in negotiations for a new four year contract with our main customer.

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 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.

Archer

ARCHER LIMITED

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ARCHER LIMITED
Consolidated Statements of Operations

(In millions, except per share data)	Note	Three Months Ended December 31 2016 (unaudited)	Three Months Ended December 31 2015 (unaudited)	Twelve months Ended December 31 2016 (unaudited)	Twelve months Ended December 31 2015 (Audited)
Revenues					
Operating revenues		$ 207.6	$ 258.4	$ 817.6	$ 1,233.2
Reimbursable revenues		13.8	24.1	66.2	87.9
Total revenues		221.4	282.5	883.8	1,321.1
Expenses					
Operating expenses		186.9	235.7	737.5	1,074.1
Reimbursable expenses		12.7	20.5	58.7	79.2
Depreciation and amortization		18.1	19.7	72.6	79.2
Impairments		-	50.2	17.7	50.2
Gain on sale of assets		(1.7)	(1.0)	(0.2)	(4.2)
General and administrative expenses		7.8	14.6	38.5	55.1
Total expenses		223.8	339.7	924.8	**1,333.6**
Operating loss		(2.4)	(57.2)	(41.0)	(12.5)
Financial items					
Interest income		0.3	0.7	1.9	2.5
Interest expenses		(16.6)	(12.2)	(63.0)	(50.2)
Share of results in associated company		(20.1)	(5.4)	(68.7)	(5.6)
Other financial items	3	(14.8)	(7.2)	9.2	(53.7)
Total financial items		(51.2)	(24.1)	(120.6)	(107.0)
Loss from continuing operations before income taxes		(53.6)	(81.3)	(161.6)	(119.5)
Income tax (expense) / benefit	4	5.1	(4.9)	(0.9)	(3.7)
Loss from continuing operations		(48.5)	(86.2)	(162.5)	(123.2)
Loss from discontinued operations, net of tax		(1.6)	(157.9)	(3.4)	(236.1)
Net loss		$ (50.1)	$(244.1)	$ (165.9)	$ (359.3)
Loss per share-basic					
Loss from continuing operations		$ (0.83)	$ (1.48)	$ (2.80)	$ (2.12)
Loss from discontinued operations		(0.03)	(2.73)	(0.06)	(4.08)
Loss per share		$ (0.86)	$ (4.21)	$ (2.86)	$ (6.20)
Loss per share-diluted					
Loss from continuing operations		$ (0.83)	$ (1.48)	$ (2.80)	$ (2.12)
Loss from discontinued operations		(0.03)	(2.73)	(0.06)	(4.08)
Loss per share		$ (0.86)	$ (4.21)	$ (2.86)	$ (6.20)
Weighted average number of shares outstanding					
Basic	5	58.2	57.9	58.1	57.9
Diluted	5	58.2	57.9	58.1	57.9

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

ARCHER LIMITED
Consolidated Statements of Comprehensive (Loss)
(Unaudited)

(In millions)	Three Months Ended December 31		Twelve months Ended December 31	
	2016	2015	2016	2015
Net loss	$(50.1)	$(244.1)	$(165.9)	$(359.3)
Other comprehensive income /(loss)				
Currency translation differences	(3.5)	0.7	(25.2)	8.8
Change in pension liability	-	2.8	23.1	2.8
Other comprehensive income	(3.5)	3.5	(2.1)	11.6
Total comprehensive loss	$(53.6)	$(240.6)	$(168.0)	$(347.7)

Accumulated Other Comprehensive Loss
(Unaudited)

(In millions)	Pension – Unrecognized Losses	Currency Exchange Differences	Total
Balance at December 31, 2015	$ (23.1)	$ 17.6	$ (5.5)
Currency exchange differences	-	(25.3)	(25.3)
Change in pension liability	23.1	-	23.1
Balance at December 31, 2016	$ -	$ (7.7)	$ (7.7)

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	December 31 2016 (Unaudited)	December 31 2015 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 27.3	$ 20.5
Restricted cash		7.6	8.0
Accounts receivables		150.5	193.3
Inventories	7	61.8	83.5
Other current assets		39.9	57.6
Total current assets		287.1	362.9
Noncurrent assets			
Investments in associates	8	94.9	148.1
Loans to associates	8	11.0	4.7
Property plant and equipment, net		476.4	554.5
Deferred income tax asset		12.2	13.3
Goodwill	9	172.6	174.2
Other intangible assets, net	10	3.3	4.8
Deferred charges and other assets		2.8	4.9
Total noncurrent assets		773.2	904.5
Total assets		$ 1,060.3	$1,267.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	11	$ 131.1	$ 95.0
Accounts payable		52.0	59.1
Other current liabilities		130.0	165.2
Total current liabilities		313.1	319.3
Noncurrent liabilities			
Long-term interest-bearing debt	11	567.1	657.6
Subordinated related party loan		125.0	50.0
Deferred taxes		9.7	9.3
Other noncurrent liabilities		15.8	33.9
Total noncurrent liabilities		717.6	750.8
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 58,164,966 outstanding shares at December 31, 2016 (December 31, 2015: 57,915,716)		0.6	0.6
Additional paid in capital		823.7	823.3
Accumulated deficit		(1,527.1)	(1,361.2)
Accumulated other comprehensive loss		(7.7)	(5.5)
Contributed surplus		740.1	740.1
Total shareholders' equity		29.6	197.3
Total liabilities and shareholders' equity		$ 1,060.3	$ 1,267.4

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Twelve months Ended December 31	
	2016	2015
Cash Flows from Operating Activities		
Net loss	$ (165.9)	$ (359.3)
Net loss from discontinued operations	3.4	236.1
Net loss from continuing operations	(162.5)	(123.2)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	72.6	79.2
Impairments & Write-down of inventory	17.7	50.2
Share-based compensation expenses	0.4	2.7
Loss/(Gain) on property, plant and equipment disposals	(0.2)	(4.2)
Share of losses of unconsolidated affiliates	68.7	5.6
Amortization of loan fees	4.6	3.3
Deferred income taxes	(6.5)	(0.6)
Foreign currency (gain) / loss	(11.6)	49.4
Changes in operating assets and liabilities		
Decrease in accounts receivable and other current assets	63.3	97.2
Decrease / (Increase) in inventories	13.5	(3.6)
Decrease in accounts payable and other current liabilities	(24.9)	(85.2)
Other, net	2.4	(23.1)
Net cash used in discontinued operations	(3.4)	(8.3)
	34.1	39.4
Cash Flows from Investing Activities		
Capital expenditures	(6.5)	(88.7)
Proceeds from disposal of property, plant and equipment	1.8	11.0
Loans to / investment in associates	(21.4)	(4.6)
Net change in restricted cash	0.7	6.4
Net cash used in investing activities of discontinued operations	-	(12.8)
Net cash used investing activities	(25.4)	(88.7)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	148.2	77.3
Repayments under revolving facilities	(189.6)	(22.9)
Proceeds from related party subordinated debt	75.0	-
Proceeds from long-term debt	-	4.1
Repayment of long-term debt	(20.9)	(24.3)
Debt issuance costs	(2.0)	(1.1)
Cash used in financing activities of discontinued operations	-	(0.2)
Net cash provided by financing activities	10.7	32.9
Effect of exchange rate changes on cash and cash equivalents	(12.6)	8.0
Net increase/(decrease) in cash and cash equivalents	6.8	(8.4)
Cash and cash equivalents at beginning of the period	20.5	28.9
Cash and cash equivalents at the end of the period	27.3	20.5
Interest paid	$ 47.4	$ 40.0
Taxes paid	$ 10.6	$ 15.7

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 Surplus	Total Shareholders' Equity
Balance at December 31, 2015	$ 0.6	$ 823.3	$ (1,361.2)	$ (5.5)	$ 740.1	$ 197.3
Net loss	—	—	(165.9)	—	—	(165.9)
Reversal of actuarial gain relating to settlement of pension plan	—	—	—	23.1	—	23.1
Share based compensation	—	0.4	—	—	—	0.4
Translation differences	—	—	—	(25.3)	—	(25.3)
Balance at December 31, 2016	$ 0.6	$ 823.7	$ (1,527.1)	$ (7.7)	$ 740.1	$ 29.6

See accompanying notes that are an integral part of these 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, directional drilling, modular rigs, engineering services, equipment rentals, wireline services, pressure control, pressure pumping, production monitoring, well imaging and integrity management tools.

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

We employed approximately 5,097 skilled and experienced people at December 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 fourth quarter 2016 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 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 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, 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.

If an initial qualitative review of the carrying value of our goodwill indicates that an impairment is probable, we apply the testing mechanism prescribed in USGAAP which 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, 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 cash flow 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 to 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 this 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 – Impairments

With the continued economic challenges within the Oilfield sector during 2016, which is reflected in reduced results and forecasts, we have been closely monitoring the carrying values of our assets and we conducted a comprehensive impairment test for long lived assets during the third quarter. During 2016 we have recognised an impairment loss of $5.5 million in respect of obsolete inventory within our Frac Valves division, our review during the third quarter has resulted in the recognition of further impairments in relating to rigs and land drilling equipment in in our South American business of $12.2 million.

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. 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		Twelve months Ended December 31	
(In millions)	2016	2015	2016	2015
Foreign exchange (losses) / gains	$ (16.3)	$ (6.2)	$ 11.6	$(49.4)
Other items	1.5	(1.0)	(2.4)	(4.3)
Total other financial items	$ (14.8)	$ (7.2)	$ 9.2	$(53.7)

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.

Other items include interest and penalties paid in relation to the settlement of a tax case in Bolivia.

Note 4 – Income Taxes

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

	Three Months Ended December 31		Twelve months Ended December 31	
(In millions)	2016	2015	2016	2015
United States	$ 0.1	$ (0.7)	$ 0.4	$ (0.6)
South America	(2.6)	8.6	(3.9)	0.4
Europe	(1.2)	(2.2)	4.4	3.1
Other taxes	(1.4)	(0.8)	0.0	0.8
Total	$ (5.1)	$ 4.9	$ 0.9	$ 3.7

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, and withholding taxes applied to some cross-border settlements.

The Group's net tax expense for 2016 is $ 0.9 million.

For the year ended December 31, 2016 we have recognised a net tax benefit of $3.9 million relating to our South American operations. This comprises a tax expense of $0.6 million relating to a gain on an internal sale of shares in a subsidiary company, recorded as part of a restructuring of our Land Drilling division, off-set by a tax credit recorded in respect of operational losses of $4.5 million in our Argentinian operations.

Our operations in Europe resulted in a net tax cost of $4.4 million. The main elements of this figure are a tax cost of $5.1 million relating to profits arising in the United Kingdom, and $0.9 million in tax credits reported by our Norwegian entities.

We have not recognised any deferred tax asset in relation to operational losses from our North American operations.

As at 31 December we have total deferred tax assets in Argentina of $26.0 million, against which we have made a valuation allowance $20.5 million. In addition we have net deferred tax assets of $6.1 million recorded in our Norwegian entities.

Note 5 – Discontinued Operations

On December 31, 2015, we completed a contribution agreement with Quintana Energy Services LLP (“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

During 2016 we have reported costs of $3.4 million as discontinued operations. These costs relate to the closure of an office facility which previously serviced the business contributed to QES, and the provision of transition services to QES. Costs increased in Q4 as a result of a true-up of the estimates net costs of the vacated leased office facility.

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		Twelve months Ended December 31	
(In thousands)	2016	2015	2016	2015
Denominator				
Weighted-average common shares outstanding	58,165	57,916	58,121	57,916
Effect of potentially dilutive common shares	—	—	—	—
Share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	58,165	57,916	58,121	57,916

Share-based compensation of approximately 111,445 and 123,496 shares were excluded from the computation of diluted earnings per share for the three and twelve months ended December 31, 2016, and 110,294 and 729,314 shares were excluded from the computation of diluted earnings per share for the three and twelve months ended December 31, 2015, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 7 – Inventories

(In millions)	December 31 2016	December 31 2015
Manufactured		
Finished goods	$ 16.6	$ 22.8
Work in progress	1.2	0.8
Raw materials	-	2.2
Total manufactured	17.8	25.8
Drilling supplies	24.4	27.3
Chemicals	6.1	7.5
Other items and spares	13.5	22.9
Total inventories	$ 61.8	$ 83.5

Note 8 — Investments in Associates

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

	December 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 LLP	42.00%	42.00%
TAQA Archer Services LLC	51.00%	-

We invested $12.2 million into TAQA Archer Services LLC, ("TAQA"), a Saudi resident joint venture entity, which was registered during the second quarter 2016, together with TAQA Industrialisation & Energy Services Company, ("TAQA Co"). The joint venture is governed by a shareholders agreement between Archer and TAQA Co. We have determined that the shareholders agreement provides TAQA Co, with substantive participating rights in the joint venture, by virtue of their representation on the board of the joint venture. Unanimous resolution by the board is required for some decisions which we consider have a significant influence on the financial and operational activities of the joint venture.

Although we own a majority of the voting shares of the joint venture, as a result of the above evaluation, we are not fully consolidating the entity. Instead we are accounting for the joint venture using the equity method of accounting.

The carrying amounts of our investments accounted for under the equity method are as follows:

(in millions)	December 31, 2016	December 31, 2015
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LLP	85.1	148.1
TAQA Energy Services LLC	9.8	—

The components of investments in associates are as follows:

	2016				2015		
($ in millions)	QES	C6	Rawabi	TAQA	QES	C6	Rawabi
Net book balance at beginning of year	148.1	-	-	-	-	-	-
Additional capital investment*	-	3.3	-	12.2	148.1	2.0	-
Share in results of associates	(62.9)	(3.3)	-	(2.5)	-	(2.0)	-
Rounding adjustment	(0.1)	-		0.1	-	-	-
Carrying value of investment at December 31	85.1	-	-	9.8	148.1	-	-
Carrying value of Loan balance at December 31	5.0	6.0	-	-	-	4.7	-

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

*In addition to our capital investment in C6, we have made additional investment by way of a loan which, at December 31, 2016, has a carrying value of $6.0 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 in 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 twelve months to December 31, 2016. The loss is a result of the deterioration of the North American land market, combined with one-time costs incurred to adjust the cost structure and to integrate Archer's North American Well Service entities into QES.

In December 2016 and in January 2017, Archer provided 25% of a total of $40 million in funding to QES. Included in the terms of the arrangement, Archer received penny warrants for 8.5% of the shares in QES which implies that fully diluted Archer's ownership in QES will be reduced from currently 42% to approximately 36% following this transaction. QES issued warrants for 34% of the shares in exchange for the total $40 million 2nd lien loans provided.

We have continued to closely monitor the performance and estimated valuation of our investment.

At December 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 continue improving in the medium term. We continue to monitor this investment and we shall record impairment immediately if we determine that any losses in value have become other than temporary.

Note 9 – 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 12.

(In millions)	
Net book balance at December 31, 2015	$ 174.2
Currency adjustments	(1.6)
Net book balance at December 31, 2016	$172.6

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 10 – Other Intangible Assets

(In millions)	Cost	Accumulated Amortization	Net
Balance at December 31, 2015	$ 25.5	$ (20.7)	$ 4.8
Amortization	-	(1.3)	(1.3)
Currency adjustments	(0.3)	0.1	(0.2)
Balance at December 31, 2016	$ 25.2	$ (21.9)	$ 3.3

The net book value at December 31, 2016, consisted of customer relationships of $0.7 million, identified technology of $1.6 million, and patents of $1.0 million.

Note 11 – Long-term, Interest-Bearing Debt

	December 31, 2016			December 31 2015		
(In millions)	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs
Multicurrency term and revolving facility	625.0	(4.5)	620.5	638.7	(6.8)	631.9
Related party subordinated loan	125.0	-	125.0	50.0	-	50.0
Hermes-covered term loans	28.0	(0.8)	27.2	46.0	(1.5)	44.5
Other loans and capital lease liability	50.5	-	50.5	76.2	-	76.2
Total loans and capital lease liability	828.5	(5.3)	823.2	810.9	(8.3)	802.6

Less: current portion	(134.7)	3.6	(131.1)	(99.7)	4.7	(95.0)
Long-term portion of interest bearing debt	693.8	(1.7)	692.1	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 $625 million. 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, 2016, a total of $625.0 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 Archer's obligations under these facilities.

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

- Archer will ensure that the 12 months rolling EBITDA of the group is at least $45 million up to and including Q1 2017. The ratio of net interest bearing debt to 12 months rolling EBITDA shall not exceed 3.7x as of June 30, 2017 with subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- Archer will ensure that the adjusted total equity of the group, including subordinated debt and adjusted for certain revaluation effects related to exchange rate movements, at all times 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%.
- Archer is to maintain the higher of $30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- Archer will ensure that the capital expenditures, on a consolidated basis, shall not exceed $70 million per year.

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, 2016, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. However as a result of the difficult market conditions and the impact on our earnings, we project that we will be in breach of certain financial covenant during the second quarter 2017. As a result of this, Archer has today 28th of February separately announced a comprehensive refinancing solution, which will significantly improve the balance sheet and provide sufficient liquidity to develop the business. The refinancing agreements are contingent on a minimum capital raise of $60 million.

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 $50.0 million. The loan was drawn 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.

In May 2016, Seadrill Limited provided new financing to Archer of $ 75 million, which was contributed in form of subordinated debt. The loan was drawn as at May 31, 2016 and is repayable in full at the maturity date. Interest of 10% 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.

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 financing of 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, 2016 the equivalent of $25.0 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 financing of 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, 2016, the equivalent of $3.1 million was outstanding under this facility.

Other loans and capital leases

We have two $41.7 million overdraft facilities and at December 31, 2016, net borrowings under these facilities amounted to a total of $28.7 million.

We have borrowed $10.4 million in Argentina and $4.0 million in Bolivia under local short term facilities as at December 31, 2016. We also have capital leases relating to equipment leased by the Oiltools division. At December 31, 2016, the net balance due under these arrangements was $7.2 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 December 31, 2016 was a liability of $2.0 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 12 – 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 December 31		Twelve months Ended December 31	
	2016	2015	2016	2015
Revenues from external customers				
Eastern Hemisphere	$ 109.9	$ 141.7	$ 445.1	$ 664.1
Western Hemisphere	111.5	140.8	438.7	657.0
Total	$ 221.4	$ 282.5	$ 883.8	$ 1,321.1
Depreciation and amortization				
Eastern Hemisphere	$ 7.9	$ 9.8	$ 31.3	$ 37.6
Western Hemisphere	10.2	9.9	41.3	41.6
Total	$ 18.1	$ 19.7	$ 72.6	$ 79.2

Net operating loss				
Eastern Hemisphere	$ 5.4	$ (21.5)	$ 19.2	$ 49.1
Western Hemisphere	(5.3)	(32.2)	(49.2)	(39.6)
Corporate costs	(2.1)	(3.2)	(10.6)	(12.1)
Stock compensation costs	(0.4)	(0.3)	(0.4)	(2.7)
Operating loss	(2.4)	(57.2)	(41.0)	(12.5)
Total financial items	(51.2)	(24.1)	(120.6)	(107.0)
Income taxes	5.1	(4.9)	(0.9)	(3.7)
Discontinued operations, net of taxes	(1.6)	(157.9)	(3.4)	(236.1)
Net loss	$ (50.1)	$(244.1)	$(165.9)	$(359.3)
Capital expenditures				
Eastern Hemisphere	$ 0.2	$ 1.4	$ 1.9	$ 12.7
Western Hemisphere	1.9	5.5	4.7	93.7
Total	**$ 2.1**	**$ 6.9**	**$ 6.6**	**$ 106.7**

(In millions) **Goodwill**	**Eastern Hemisphere**	**Western Hemisphere**	**Total**
Balance at December 31, 2015	**$ 174.2**	**$ -**	**$ 174.2**
Currency adjustments	(1.6)	-	(1.6)
Balance at December 31, 2016	**$ 172.6**	**$ -**	**$ 172.6**

(In millions)	**December 31 2016**	**December 31 2015**
Total assets		
Eastern Hemisphere	$ 493.4	$ 507.7
Western Hemisphere	564.0	754.5
Corporate	2.9	5.2
Total	**$ 1, 060.3**	**$ 1,267.4**

Note 13 – Fair Value of Financial Instruments

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

	December 31, 2016		**December 31, 2015**	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Non-derivatives				
Cash and cash equivalents	$ 27.3	$ 27.3	$ 20.5	$ 20.5
Restricted cash	7.6	7.6	0.8	0.8
Current portion of long-term debt	131.1	131.1	95.0	95.0
Long-term, interest-bearing debt	692.1	692.1	707.6	707.6
Derivatives				
Interest rate swap agreements	(2.0)	(2.0)	(3.4)	(3.4)

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

	December 31, 2016	Fair Value Measurements at Reporting Date Using		
(In millions)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 27.3	$ 27.3	—	—
Restricted cash	7.6	7.6	—	—
Liabilities				
Interest rate swap agreements	2.0	—	2.0	—
Multicurrency term and revolving facility, excluding current portion	548.7	—	548.7	—
Other loans and capital leases, excluding current portion	143.4	—	143.4	—

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable 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 14 – 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, 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. In December 2016, the Archer parties and the defendants settled all

claims on a confidential basis. The Archer parties have no liability under the settlement and will receive a confidential sum from the bankruptcy estate.

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 15– Related Parties

In the normal course of business we transact business with related parties conducted at arm's length. All material transactions with related parties are detailed below.

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.

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 December 31, 2016. Interest of 7.5% per annum on the $50 million principle amount, is being accrued and added to the outstanding balance, and will paid when the loan matures on December 31, 2018.

In May 2016, Seadrill Limited provided new financing to Archer in an aggregate amount of up to $ 75 million, which was contributed in form of subordinated debt. The loan was drawn in full as at May 31, 2016 as is repayable in full at the maturity date. Interest of 10% per year is being accrued over the term of the loan and is payable on the maturity date. The loan matures on December 31 2018.

Seadrill has provided a guarantee of €23.7 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 11). 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 11). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

A NOK 66 million (equivalent to $7.6 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 December 31, 2016 a total of $2.9 million of guarantees was issued under the guarantee facility. The guarantee fee is 1.25% per annum of the guaranteed amount.

As of December 31, 2016, we have accrued total guarantee fees of $12.1 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 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 2015 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner. The settlement of the purchase price was through a loan agreement amounting to 10 million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the of tools being developed by C6 Technologies AS.

In 2012, we have purchased two ComTrac units from C6 for a total of NOK 20 million (approximately $2.3 million). The ComTrac units are newly developed equipment kits for use in well intervention.

In the twelve months ended December 31, 2016 we have advanced $4.1 million as additional loan to C6.

Transactions with TAQA:
TAQA, a new joint venture in which we hold a 51% shareholding began operations in 2016. The carrying value of our investment has been reduced, under the equity method of accounting, by our share of the entity's start-up costs. In 2016 we sold one of the two ComTrac units, purchased from C6 to TAQA for of NOK 18.2 million ($2.1 million), resulting in a net gain of $0.5 million being reported in gain on sale of assets.

Transactions with QES:
Since our acquisition of our 42% holding in QES in return for the contribution of our North American pressure pumping and Wireline businesses, we have been providing transitional services to QES. In addition we have invoiced QES for items which we have paid on their behalf following the sale, such as benefits and insurance claims. We have invoiced QES a total of $2.3 million. This amount is reported as a receivable balance in our trade accounts receivable at as December 31. 2016.

During the fourth quarter we signed a refinancing agreement with QES under which we have provided loan finance of $5 million to QES in December 2016, and a further $5 million has been provided during January 2017.

Note 16 – Subsequent Events

Archer has today 28th of February separately announced a comprehensive refinancing solution, which will significantly improve the balance sheet and provide sufficient liquidity to develop the business. The refinancing agreements are contingent on a minimum capital raise of $60 million.

Appendix to Archer Fourth 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 December 31, 2016, September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015. 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)	December 31 2016	September 30 2016	June 30 2016	March 31 2016	December 31 2015	September 30 2015
Revenue	221.4	214.4	218.8	229.2	282.5	321.9
Cost and expenses						
Operational costs	(223.8)	(215.1)	(241.3)	(232.6)	(289.5)	(314.3)
Impairments	—	(12.0)	—	—	(50.2)	—
Net financial items	(51.2)	(26.2)	(22.9)	(20.3)	(24.1)	(33.4)
(Loss)/income from continuing operations before income taxes	**(53.6)**	**(38.9)**	**(45.4)**	**(23.7)**	**(81.3)**	**(25.8)**
Income tax Benefit / (expense)	5.1	(3.1)	—	(2.9)	(4.9)	(1.2)
Loss from continuing operations	**(48.5)**	**(42.0)**	**(45.4)**	(26.6)	**(86.2)**	**(27.0)**
(Loss) / income from discontinued operations, net of tax	(1.6)	(0.8)	0.2	(1.2)	(157.9)	(25.6)
Net loss	**(50.1)**	**(42.8)**	**(45.2)**	**(27.8)**	**(244.1)**	**(52.6)**

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

(In millions)	Three Months Ended December 31 2016	September 30 2016	June 30 2016	March 31 2016	December 31 2015	September 30 2015
Net loss	(50.1)	(42.8)	(47.6)	(27.8)	(244.1)	(52.6)
Depreciation, amortization and impairments	16.4	29.6	20.8	23.3	68.9	20.1
Net financial items	51.2	26.2	25.3	20.3	24.1	33.4
Taxes on income	(5.1)	3.1	-	2.9	4.9	1.2
Income/(loss) from discontinued operations, net of tax	1.6	0.8	(0.2)	1.2	157.9	25.6
EBITDA	**14.0**	**16.9**	**(1.7)**	**19.9**	**11.7**	**27.7**
Restructuring costs	4.8	4.6	19.1	6.5	9.1	2.4
EBITDA before restructuring costs	**18.8**	**21.5**	**17.4**	**26.4**	**20.8**	**30.1**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

(In millions)	Three Months Ended December 31 2016	September 30 2016	June 30 2016	March 31 2016	December 31 2015	September 30 2015
Eastern Hemisphere	11.6	12.5	12.1	14.0	21.7	22.0
Western Hemisphere	4.8	6.8	(10.6)	8.8	(6.5)	9.5
Corporate costs and stock compensation costs	(2.4)	(2.4)	(3.2)	(2.9)	(3.5)	(3.8)
EBITDA	**14.0**	**16.9**	**(1.7)**	**19.9**	**11.7**	**27.7**