



## Archer Limited (ARCHER) Fourth Quarter and Preliminary 2014 Results

### Fourth Quarter 2014 highlights

- Fourth quarter revenue from continuing operations of \$603.7 million.
- Fourth quarter EBITDA from continuing operations at \$69.3 million.
- Fourth quarter impairment charge of \$58.9 million.
- Net loss for the quarter of \$90.2 million.
- Fourth quarter operational cash flow of \$30.9 million.
- Net interest-bearing debt of \$782.5 million at December 31, 2014.

### Financial Statements

The following discussions are based on a continuing operations basis. The results of the divested North American Rental and Tubular business, which have previously been reported in both our Latin and North America Areas, as well as the results of the North American Underbalanced assets, previously reported under North America, have been reclassified to discontinued operations for all periods presented and previously announced results have also been adjusted.

#### *Comparison of the Three Months Ended December 31, 2014 to the Three Months Ended September 30, 2014*

Revenue for the fourth quarter 2014 was \$603.7 million compared to \$593.1 million for the third quarter 2014, an increase of \$10.6 million or 1.8%. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, were \$69.3 million, 1.1% lower compared to the third quarter 2014. Total restructuring and other one-time costs in the fourth quarter 2014 amounted to \$2.8 million representing severance costs and early retirement benefits for 101 employees and consultants as well as other one-time costs related to the closure of an Engineering centre for our Engineering services.

As a result of the adverse market environment, with a sudden and significant drop in the price of oil, which has an impact on the demand and pricing for our services, the company recorded impairment charges totalling \$58.9 million related to its goodwill and fixed assets. These non-cash charges were the result of the annual goodwill and long lived asset impairment testing required under the company's accounting policies and US GAAP. This charge has not impacted the company's liquidity or its cash flow from operations or led to a breach of financial covenants under the company's credit facilities.

Net Financial Items were a net expense of \$53.6 million in the fourth quarter 2014 compared to an expense of \$20.9 million in the third quarter 2014. Interest expenses amounted to \$11.2 million compared to \$11.3 million in the third quarter 2014. Other financial items amounted to \$40.3 million expense compared to \$9.7 million expense in the third quarter 2014. Other financial items represent predominantly

foreign exchange losses on an intercompany loan balance denominated in Norwegian Kroner following the weakening of the Norwegian Kroner against USD in the fourth quarter of 2014.

*Comparison of the Three Months Ended December 31, 2014 to the Three Months Ended December 31, 2013*

Revenue for the three months ended December 31, 2014 was \$603.7 million compared to \$524.1 million for the fourth quarter 2013, up \$79.6 million or 15.2%. EBITDA of \$69.3 million for the three months ended December 31, 2014 increased 65.4% compared to \$41.9 million EBITDA for the fourth quarter 2013. Excluding restructuring costs and one-time charges in the fourth quarter 2014, amounting to \$2.8 million, and the fourth quarter of 2013, amounting to \$11.6 million, EBITDA improved by \$18.6 million or 34.8%.

**Comparison of the Year Ended December 31, 2014 compared to the Year Ended December 31, 2013**

Revenue for the year ended December 31, 2014 was \$2.3 billion, \$212.1 million or 10.4% higher compared to the revenue for 2013. EBITDA for the full year 2014 were \$232.2 million, an increase of \$84.8 million or 57.5%.

Revenue in North America increased 14.2% primarily driven by strong growth in our Pressure Pumping, Frac Valves and Pressure Control businesses. These increases were a result of higher utilisation combined with improved pricing in most businesses. In addition due to a nearly threefold increase in the number of valves sold, our Frac Valves business benefitted from higher after sales revenue arising from our regional service centres. As a result of the increased revenue and the restructuring effort initiated in 2013, total EBITDA in North America increased by 129.4% compared to last year.

Revenue in Latin America increased by 4.7%, with strong drilling activity in Argentina and Bolivia combined with the start-up of a new operations and management contract in Argentina. This increase was partially offset by the weakening of the Argentinean Peso as well as lower activity in Brazil following a significant down-sizing of our operations. EBITDA for the full year improved by 36.6% as a result of the higher activity and the absence of restructuring and one-time charges incurred in 2013.

Revenue in our North Sea Area increased by 15.9% largely due to a higher number of rigs in operation and increased drilling activity in the UK partially offset by a slowdown in Norway in the fourth quarter combined with adverse currency movements of the Norwegian Kroner and to a lesser extent the British Pound. Revenue in our Engineering Division increased with a full year of work related to the White Rose project as well as the integration and interface project for Archer Topaz in Norway. Revenue related to our Modular Rig business increased in the second half of the year, with the start-up of our new Modular Rig Archer Topaz in August 2014, overall higher operating rates, performance based bonus awards and demobilization fees earned for Archer Emerald. This was partially offset by lower operating days as the contract for Archer Emerald was completed at the end of September. Total year EBITDA of our Modular rig business improved by 73.5% compared to last year, as a result of the increased revenue partly offset by demobilization costs in excess of demobilisation revenue incurred on Archer Emerald during the fourth quarter 2014.

Compared to last year, 2014 revenue in Emerging Markets and Technologies decreased by 2.3% due to lower revenue in our International Wireline Division as a result of reduced logging activity in Norway and the UK, combined with an adverse exchange rate effect mainly in the fourth quarter. This was partly offset by increased revenue in our Oiltools Division, with the addition of new product offerings and a continued geographical expansion, as well as higher Survey and Inspection activity in Australia, Brazil and the UK. Despite the lower revenue, EBITDA in 2014 increased by 11.7% due to the absence of restructuring and one time charges accounted for in 2013.

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

### Cash Flow

Cash and cash equivalents, excluding restricted cash, amounted to \$28.9 million at December 31, 2014 compared to \$41.0 million at September 30, 2014 and \$49.5 million at December 31, 2013.

Cash flow from operations for the three months ended December 31, 2014 was \$30.9 million, which is comprised primarily of the net loss of \$90.2 million, add back for depreciation and amortization from continuing operations of \$37.8 million and impairment charges of \$58.9 million, add back expenses for share based compensation of \$1.3 million, add back a foreign currency loss of \$42.5 million, less increases in accounts receivable and inventories, partly offset by an increase in accounts payable and other current liabilities for a net amount of \$19.4 million.

As a result of the difficult market conditions, there is a possibility that we might exceed the leverage ratio at the end of 2015 or the beginning of 2016, currently prescribed in our loan agreement. We are confident that we can pre-empt a potential covenant breach through higher than estimated cost reductions, an improved revenue profile, strategic options or a revised covenant structure in agreement with our lenders.

Capital expenditures for continuing operations during the quarter amounted to \$82.4 million, representing predominantly additional milestone payments for the purchase of our new land rigs destined for Argentina, investments in our new modular rig Archer Topaz, auxiliary equipment for Pressure Pumping and investments related to the upgrade of Coiled Tubing equipment to larger diameter coil units. In addition we invested in upgrades of our Directional Drilling downhole tools, added capabilities to our aftersales services in Frac Valves and increased the amount of tools in our Oiltools Division.

Total net interest-bearing debt at December 31, 2014 was \$782.5 million compared to \$758.3 million as of September, 2014 and \$715.3 as of December 31, 2013.

### Share Capital

The total number of issued and fully paid shares of par value \$1.00 outstanding at December 31, 2014 was 579,159,787. A total of 27,573,857 options and RSUs were outstanding as of December 31, 2014.

### Fourth Quarter 2014 Operating Results by Area

We are organized in four Areas and our operational comments for the fourth quarter this year and the first quarter 2015 outlook are presented by Area below. During 2013 we sold our Rental, Tubular and Underbalanced businesses in North America. The commentary that follows excludes the operating results of those businesses as they are treated as discontinued operations on the face of our statement of operations. The change is reflected in the sequential comparisons and comments below in order to show the results by Area on a comparable basis.

<i>(In millions)</i>	Revenues			EBITDA		
	<u>Q4 2014</u> (unaudited)	<u>Q3 2014</u> (unaudited)	<u>Variance</u>	<u>Q4 2014</u> (unaudited)	<u>Q3 2014</u> (unaudited)	<u>Variance</u>
North America	\$ 205.7	\$ 188.2	\$ 17.5	\$ 19.3	\$ 26.7	\$ (7.4)
Latin America	170.3	152.9	17.4	22.4	10.8	11.6
North Sea	175.2	200.5	(25.3)	16.0	24.2	(8.2)
Emerging Markets	<u>52.5</u>	<u>51.5</u>	<u>1.0</u>	<u>11.6</u>	<u>8.4</u>	<u>3.2</u>
	<u>\$ 603.7</u>	<u>\$ 593.1</u>	<u>\$ 10.6</u>	<u>\$ 69.3</u>	<u>\$ 70.1</u>	<u>\$ (0.8)</u>

## *North America*

Revenue in the fourth quarter 2014 amounted to \$205.7 million, an increase of \$17.5 million, or 9.3% compared to the third quarter 2014, reflecting higher than expected growth in most Divisions despite the typical seasonal slowdown. Fourth quarter 2014 EBITDA of \$19.3 million decreased \$7.4 million or 27.7% compared to the previous quarter, as a result of the absence of non-recurring credits during the previous quarter as well as increased costs in both our Frac valve and Pressure Pumping businesses.

The total number of wells drilled in the United States in the fourth quarter 2014 was flat sequentially whereas the well count compared to fourth quarter 2013 increased by 461 or 5.1%. The average United States land-based rig count of 1,856 for the fourth quarter 2014 was also flat compared to the third quarter 2014 but increased by 158 or 9.3% year over year. The average rig count directed towards natural gas for the third quarter increased by 19 rigs, or 6% sequentially but reduced by 25 rigs, or 7.1%, compared to the fourth quarter 2013.

In Pressure Pumping we fracked a total of 2,548 stages in the fourth quarter 2014 compared to 2,644 during third quarter 2014. Fleet utilization for fourth quarter 2014 was 91.9% compared to 82.9% in third quarter 2014 and revenue per stage increased 14.5% while average daily revenue per fleet remained flat compared to third quarter 2014. As a result Pressure Pumping revenue for fourth quarter 2014 increased by \$7.1 million or 10.3% compared to third quarter 2014 due to an improved customer mix. EBITDA for the same period decreased by \$3.2 million or 32.6% largely a result of increased repair and maintenance costs during the quarter. Compared to the same period last year, Pressure Pumping revenue increased by \$21.9 million or 40.3% as result of improved utilization with a higher number of stages fracked as well as improved pricing with a more favourable customer mix. As a result of this improved revenue, EBITDA for the same period improved by \$5.5 million.

Pressure Control revenue in the fourth quarter 2014 decreased by \$3.3 million or 7.1% sequentially, primarily reflecting the transfer of our wireline related pressure services business to our Wireline US Division as well as a minor decrease in Coiled Tubing pricing. EBITDA for the same period decreased by \$3.8 million or 38.2% reflecting the absence of a one-time credit amounting to \$2.2 million in third quarter as well as reduced EBITDA as a result of the lower revenue. Compared to the fourth quarter 2013, revenue was slightly up with improved pricing for both Coiled Tubing and Snubbing services; improved utilisation for Snubbing services offset by the transfer of our wireline related pressure services business to our Wireline US Division. EBITDA for the same period increased by \$3.6 million or 139.4% reflecting improved margins from higher pricing combined with better utilization for Snubbing services.

Fourth Quarter 2014 revenue in Directional Drilling increased by \$5.1 million or 20.4% reflecting significant amount of job awards from a number of new customers and increased "lost in hole" revenue partially offset by slightly lower pricing. The average job count during the fourth quarter 2014 increased by 12.5% compared to the third quarter 2014 and by 33.9% compared to the fourth quarter 2013. EBITDA increased sequentially by \$0.2 million or 8.8% due to the higher revenue largely offset by increased operating costs. Compared to the same period last year, revenue increased by \$8.7 million or 39.9%, reflecting significantly higher number of jobs from several new customers. EBITDA for the same period increased by \$1.6 million, reflecting the margin generated by the incremental revenue partly offset by increased operational costs.

Revenue in our Frac Valve division increased by \$5.2 million or 30.0%, reflecting a higher number of new valves, a favourable change in product mix towards larger size valves and higher aftersales market activity. Despite the increased revenue EBITDA for the same period decreased by \$1.9 million reflecting increased operating costs in order to cope with the large increase of activity. Compared to the fourth quarter 2013, revenue increased by \$14.7 million with a higher number of new valves sold combined with higher after sales revenue relating to the larger installed base and the expansion of our regional service centre footprint. EBITDA for the same period increased by \$0.9 million with increased revenue partially offset by higher operating costs.

Wireline revenue increased during the fourth quarter 2014 by \$3.2 million or 10.7% with the transfer of the pressure services business from our Pressure Control division. EBITDA for the same period increased by \$0.8 million following higher revenue offset by increased operating costs. Compared to the fourth quarter 2013, revenue increased by \$7.2 million or 27.6%, reflecting a significant change in product and geographic mix combined with the addition of the pressure services business. EBITDA for the fourth quarter 2014 was \$6.7 million above the same period last year, reflecting predominantly the closure of unprofitable locations.

As a result of the sharp decline in oil prices during the fourth quarter 2014 and into 2015, most of our customers in North America have announced significant reductions to their exploration and development programs in 2015, evidenced by the rapid decline in rig count since the end of 2014. In addition to the reduction in activity, E&P companies have also approached all service companies requesting sizable concessions on pricing. As a result of this as well as a usual seasonal slowdown, we expect revenue in the first quarter 2015 to fall in line with the US land rig count. We have taken appropriate actions to reduce our cost base as a consequence of this reduction in activity and we expect a meaningful reduction of costs towards the end of the first quarter. In addition we expect to incur onetime charges related to adjusting our cost base of approximately \$5.0 million.

#### *Latin America*

Revenue in the fourth quarter 2014 amounted to \$170.3 million, an increase of \$17.4 million or 11.4% compared to the last quarter, while overall rig utilization of 87% remained flat compared to the previous quarter. This increase in revenue is primarily due to the increased activity related to the operations and management contract, now covering a total of 4 rigs compared to 2 in the prior quarter. In addition fourth quarter 2014 revenue benefited from retroactive rate adjustments with several customers totalling \$6.6 million, lower operational downtime compared to the previous quarter and higher mobilization and other cost reimbursements amounting to \$2.5 million. EBITDA for the fourth quarter 2014 was \$22.4 million, an increase of \$11.6 million or 107.4% with additional income resulting from the retroactive rate adjustments, amounting to \$6.4 million as well as other favourable one-time adjustments totalling \$3.0 million. Reduced downtime and increased activity levels contributed a total of \$2.5 million additional EBITDA in the quarter.

Compared to the fourth quarter 2013 revenue increased by \$28.6 million or 20.2% reflecting an 8% improvement in rig utilization, with increased activity in Argentina combined with billings for retrospective inflation and rate adjustments. EBITDA increased by \$8.9 million or 65.9% as a result of higher activity levels in Argentina, the absence of restructuring costs related to the down-sizing of Brazil operations taken in the fourth quarter 2013, and higher one-time credits relating to rate adjustments and other items in the fourth quarter 2014.

We expect first quarter 2015 revenue for Latin America to be 5-10% below the fourth quarter 2014, reflecting the absence of part of the retroactive rate adjustments in the fourth quarter 2014, two less operating days, an expected increase in social unrest and to a lesser extent lower pricing in the light of the adverse market conditions on a global level. This will be partly offset by the startup of the first newbuild land rig in the month of January, while the other new build rigs will start later in the year with a total estimated amount of 50 rig months for all new rigs in 2015. As a result we expect first quarter 2015 EBITDA in addition to the absence of the one-time benefits recognized in the fourth quarter 2014 to be negatively impacted by the reduced revenue.

#### *North Sea*

Fourth quarter 2014 revenue of \$175.2 million decreased by \$25.3 million or 12.6% compared to the third quarter 2014 with \$14.2 million or 8.1% caused by adverse currency movements. EBITDA for the same period was \$16.0 million, down \$8.2 million or 33.9% as a result of the lower revenue with \$1.7 million or 7.0% attributable to an unfavourable evolution of exchange rates during the quarter. In addition EBITDA included \$2.8 million of restructuring costs.

Revenue for our Platform Drilling services decreased by \$15.5 million or 10.1%, which, in addition to the adverse currency effect, reflects reduced reimbursable revenue, lower contract revenue in both Norway and in the UK combined with lower incentive awards. EBITDA for the same period was \$0.9 million or 6% below last quarter reflecting the impact of lower revenue. Compared to the fourth quarter 2013, Platform Drilling revenue decreased by \$4 million or 2.8%, primarily as a result of adverse currency effects and lower incentive awards, partly offset by increased activity in the UK with a higher number of operating platforms rigs under contract. EBITDA for the same period was \$3 million or 17.6% lower as a direct consequence of the lower revenue.

Revenue for our Engineering Division decreased by \$8.3 million or 28.5% compared to the third quarter 2014 as a result of the completion of the Heimdal project. EBITDA for the same period decreased by \$1.6 million due to charges in order to align headcount and structure of this business with lower activity levels going forward. Compared to the fourth quarter 2013, revenue reduced by \$1.2 million or 5.4%, due to the completion of the Heimdal project, partly offset by higher activity on the White Rose project. EBITDA for the fourth quarter 2014 decreased by \$0.6 million as a result of the above mentioned restructuring charges.

Total fourth quarter 2014 revenue in our Modular Rig Division of \$17.0 million was \$1.5 million below the third quarter as a result of the completion of the Emerald contract in New Zealand and the absence of the performance bonus achieved with this rig in the third quarter 2014, partly offset by higher revenue on Archer Topaz, which was under contract for the entire quarter. Fourth quarter revenue included \$5.0 of reimbursable revenue and \$1.7 million of demobilization fees related to Archer Emerald. EBITDA for the same period decreased down \$4.9 million or 62.8% with the absence of performance bonus achieved in the third quarter and \$1.1 million demobilization costs for Archer Emerald in excess of the demobilization revenue, partially offset by higher income due to the increased activity with Archer Topaz. Compared to the fourth quarter 2013, revenue increased by \$9.4 million or 125%, reflecting incremental reimbursable revenue, demobilisation fees on Archer Emerald and additional revenue on Archer Topaz. EBITDA for the same period increased \$1.3 million or 80.5% due to the increased revenue partially offset by demobilization costs in excess of demobilization revenue for Archer Emerald.

With a reduction in activity following the challenging macro environment, the absence of reimbursable and demobilization revenue in our Modular rig Division combined with two less operating days and adverse currency effects, we expect our first quarter 2015 revenue, absent of any cancellation or demobilization revenue, to be approximately 20-25% below the fourth quarter 2014. As our customers are reducing their spending in light of a challenging macro environment we have received notice from several customers advising us of cancellations or a reduction of activity. This includes the cancellation of the two year drilling contract for Archer Emerald with Talisman, which was planned to commence in January 2016, and the White Rose engineering project for the design of a new platform in Newfoundland. It also included the reduction of drilling activity for platforms with Apache and Shell in the UK and BP in Norway as well as the planned change to inactive status for Fairfield and Marathon in the UK. We are working with our customers to manage the reduction in activity in an orderly and safe manner and we are adjusting our workforce, both onshore and offshore, to adapt to the lower activity levels. In addition we are closely collaborating with our customers in order to improve drilling efficiencies and reduce downtime in order to reduce the overall drilling costs. As a result of the above reductions in activity we expect EBITDA for the first quarter 2015, absent of any cancellation or demobilization fees, to be below the fourth quarter 2014, as a result of the reduction in revenue. In addition we expect to incur onetime charges related to adjusting our cost base of approximately \$1.0 million.

#### *Emerging Markets & Technologies*

Revenue in the fourth quarter 2014 was \$52.5 million, \$1.0 million or 1.9% higher compared to previous quarter with increased activity levels in both our International Wireline and Survey and Inspection Divisions. This was partly offset by adverse currency movements amounting to \$3.0 million or 6%. EBITDA of \$11.6 million increased by \$3.2 million or 38.1% with incremental margins as a result of the higher revenue as well as due to a true-up of pension costs amounting to \$2.1 million, partly offset by the effect from unfavourable exchange rates amounting to \$1.5 million.

Revenue for our International Wireline division increased by \$1.9 million or 8.7% compared to the third quarter 2014 as a result of an increase in logging activity in several countries. EBITDA for the same period increased by \$3.7 million benefitting from incremental margins with higher logging activity as well as a \$2.1 million true-up related to pension costs. Compared to same quarter last year, revenue decreased by \$1.1 million or 4.5% reflecting lower activity levels in Norway as a result of the overall slowdown in the industry. EBITDA for the same period increased by \$2.1 million or 80.2% as a result of the above mentioned true-up of pension provisions, the absence of restructuring and one-time charges incurred during fourth quarter 2013 partially offset by lost margin on reduced activity.

Compared to the third quarter 2014, Oil Tools fourth quarter revenue decreased by \$2.9 million or 11.1%, as a result of lower revenue in West Africa. Despite the lower revenue, EBITDA was flat reflecting improved margins due to a change in revenue mix. Compared to the same period last year, Oil Tools revenue decreased by \$7.0 million or 23.4%, mainly caused by lower revenue in West Africa and lower Cflex™ equipment sales in the US, partly offset by increased LOCK™ rentals in Australia and the US combined with increased rental of TORNAR™ tools globally. Year on year EBITDA remained flat due to the absence of one-time costs incurred during fourth quarter 2013 offsetting lower margins from the reduced activity.

Survey & Inspection revenue in the fourth quarter 2014 increased by \$2.0 million or 58% compared to the previous quarter, due to higher activity in the UK, the commencement of work on a recently awarded Integrated Rig Inspection contract in Brazil and higher reimbursable revenue in the US and in the Middle East. In line with this increased revenue EBITDA for the same period increased by \$0.5 million. Compared to the fourth quarter of 2013, Survey and Inspection activity increased by \$1.7 million or 43.7% with an increase in activity in the UK and increased reimbursable billings in the US and in the Middle East. Profitability for the same period improved by \$1.4 million following the increased activity as well as the benefits resulting from the restructuring efforts and the closure of loss generating operations.

We expect first quarter 2015 revenue to be approximately 15-20% lower than the fourth quarter 2014, with lower revenues expected in all divisions. Seasonal slowdown in the North Sea, two less operating days combined with an unfavourable exchange rate effect and spending cuts from several customer are the key reasons for this reduction. EBITDA for the same period is also expected to reduce in line with the lower activity as well as the absence of the \$2.1 million one off credit related to the true up of pension provisions.

## **Summary Outlook**

While fourth quarter results were above our expectations, with a solid performance in all Areas, we have seen a rapid deterioration at the end of the year and the beginning of 2015, driven by the sharp decline in the price of oil. As a consequence of this decline many of our customers have decided to significantly reduce their investments and expenditures.

This reduction is most prominent in the US land market which, at the current price of oil, is uneconomical in many basins. We have seen a fast reaction, as the US land rig count has dropped since its peak at the end of November 2014, and within a period of 2 months has dropped in excess of 500 rigs or 30%. We expect this decline to continue throughout the first and into the second quarter 2015 although the extent and more importantly the duration of this decline is hard to predict.

Similarly we have seen a reduction in activity in the North Sea, which to some extent was already communicated at the end of the third quarter 2014 as many of our customers on the Norwegian Continental Shelf reduced spending as part of longer term cost saving initiatives. This reduction of activity has accelerated during the end of 2014 and the beginning of 2015 in particular in the UK, where several of our customers decided to cancel or delay projects or to stop drilling operations and idle platforms.

Activity levels in Latin America have not shown any significant signs of slowdown, partly due to the fact that drilling activity is either directed for predominantly internal consumption in Argentina or towards the

development of natural gas, which continues to be in high demand in the Southern Cone of Latin America. However we are experiencing some pricing pressure as operators expect reduced service costs amid the global downturn in the industry.

Although we have seen some reduction in other parts of the world, it has not been to the extent experienced in the US or in the North Sea.

As a consequence of the reduction in activity and the demand for our services, the Company has decided to reduce employee headcount by approximately 1,000 positions or 11% of its total workforce. The company continues to review its compensation, bonus and benefits plans in order to bring them in line with the current economic climate. We are also working with our suppliers and subcontractors to reduce our cost base to maintain a base level of profitability and generate positive cash flow.

Capital expenditures for 2015 have been reviewed and adjusted to the new market environment. Total expenditures for the year are estimated at \$165 million, including the committed remaining investments in our new land rigs destined for Argentina amounting to approximately \$70 million. Out of the remaining \$95 million, approximately \$15 million is committed; \$40 million is related to maintenance CAPEX and the remaining CAPEX is earmarked for tenders and other growth opportunities.



## **Cautionary Statement Regarding Forward-Looking Statements**

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

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

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

# ARCHER LIMITED

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# ARCHER LIMITED

## Consolidated Statements of Operations

(In millions, except per share data)

	Note	Three Months Ended December 31		Years Ended December 31	
		2014 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2013 (Audited)
<b>Revenues</b>					
Operating revenues		\$ 573.0	\$ 499.2	\$ 2,134.0	\$ 1,944.3
Reimbursable revenues		30.7	24.9	119.6	97.0
<b>Total revenues</b>		<b>603.7</b>	<b>524.1</b>	<b>2,253.6</b>	<b>2,041.3</b>
<b>Expenses</b>					
Operating expenses		485.0	439.9	1,826.0	1,739.1
Reimbursable expenses		29.4	24.7	114.5	93.7
Depreciation and amortization		37.8	38.7	145.9	161.4
Impairments	2	58.9	423.7	60.4	423.7
General and administrative expenses		20.0	17.6	80.9	61.3
<b>Total expenses</b>		<b>631.1</b>	<b>944.6</b>	<b>2,227.7</b>	<b>2,479.2</b>
<b>Operating (loss) / income</b>		<b>(27.4)</b>	<b>(420.5)</b>	<b>25.9</b>	<b>(437.9)</b>
<b>Financial items</b>					
Interest income		0.9	0.4	3.0	1.3
Interest expenses		(11.2)	(11.7)	(46.9)	(51.8)
Share of results in associated company		(3.0)	(1.0)	(4.2)	(1.6)
Other financial items	3	(40.3)	(5.4)	(54.1)	(21.6)
<b>Total financial items</b>		<b>(53.6)</b>	<b>(17.7)</b>	<b>(102.2)</b>	<b>(73.7)</b>
<b>(Loss) / income / from continuing operations before income taxes</b>		<b>(81.0)</b>	<b>(438.2)</b>	<b>(76.3)</b>	<b>(511.6)</b>
Income tax expense	4	(7.6)	9.0	(17.5)	2.6
<b>(Loss) / income from continuing operations</b>		<b>(88.6)</b>	<b>(429.2)</b>	<b>(93.8)</b>	<b>(509.0)</b>
Loss from discontinued operations, net of tax	5	(1.6)	(2.5)	(2.6)	(9.6)
<b>Net loss</b>		<b>\$ (90.2)</b>	<b>\$ (431.7)</b>	<b>\$ (96.4)</b>	<b>\$ (518.6)</b>
<b>Loss per share-basic</b>					
Loss from continuing operations		\$ (0.16)	\$ (0.75)	\$ (0.17)	\$ (0.92)
Loss from discontinued operations		-	-	-	(0.02)
Loss per share		<b>\$ (0.16)</b>	<b>\$ (0.75)</b>	<b>\$ (0.17)</b>	<b>\$ (0.94)</b>
<b>Loss per share-diluted</b>					
Loss from continuing operations		\$ (0.16)	\$ (0.75)	\$ (0.17)	\$ (0.92)
Loss from discontinued operations		-	-	-	(0.02)
Loss per share		<b>\$ (0.16)</b>	<b>\$ (0.75)</b>	<b>\$ (0.17)</b>	<b>\$ (0.94)</b>
<b>Weighted average number of shares outstanding</b>					
Basic	6	579.2	579.2	579.2	549.5
Diluted	6	579.2	579.2	579.2	549.5

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

**ARCHER LIMITED**  
Consolidated Statements of Comprehensive (Loss)/Income

<i>(In millions)</i>	<b>Three Months Ended December 31</b>		<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
<b>Net loss</b>	<b>\$(90.2)</b>	<b>\$(431.7)</b>	<b>\$ (96.4)</b>	<b>\$(518.6)</b>
<b>Other comprehensive (loss)/income</b>				
Actuarial gain / (loss) relating to pension	(3.2)	(15.5)	(3.2)	(15.5)
Currency exchange differences	3.7	(1.5)	6.1	(6.5)
Other Comprehensive income / (loss)	0.5	(17.0)	2.9	(22.0)
<b>Total comprehensive loss</b>	<b><u>\$(89.7)</u></b>	<b><u>\$(448.7)</u></b>	<b><u>\$ (93.5)</u></b>	<b><u>\$(540.6)</u></b>

**Accumulated Other Comprehensive Income/(Loss)**  
(Unaudited)

<i>(In millions)</i>	<b>Pension – Unrecognized Losses</b>	<b>Currency Exchange Differences</b>	<b>Total</b>
<b>Balance at December 31, 2013</b>	<b>\$ (22.7)</b>	<b>\$ 2.7</b>	<b>\$ (20.0)</b>
Currency translation differences	-	6.1	6.1
Actuarial loss relating to pension	(3.2)	-	(3.2)
<b>Balance at December 31, 2014</b>	<b><u>\$ (25.9)</u></b>	<b><u>\$ 8.8</u></b>	<b><u>\$ (17.1)</u></b>

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

## ARCHER LIMITED

### Consolidated Balance Sheets

(In millions)

	Note	December 31 2014 (Unaudited)	December 31 2013 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 28.9	\$ 49.5
Restricted cash		15.8	16.5
Accounts receivables		386.2	386.1
Inventories	7	97.5	65.2
Deferred income taxes		9.2	5.6
Other current assets		95.3	76.9
<b>Total current assets</b>		<b>632.9</b>	<b>599.8</b>
<b>Noncurrent assets</b>			
Investments in associates		-	0.6
Loans to associates		6.1	9.3
Property plant and equipment, net		869.5	800.0
Deferred income taxes		12.6	16.2
Goodwill	8	207.8	294.1
Other intangible assets, net	98	58.2	65.5
Deferred charges		16.8	9.4
<b>Total noncurrent assets</b>		<b>1,171.0</b>	<b>1,195.1</b>
<b>Total assets</b>		<b>\$ 1,803.9</b>	<b>\$ 1,794.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of interest-bearing debt	10	\$ 64.2	\$ 150.9
Accounts payable		137.5	110.7
Other current liabilities		239.5	214.3
<b>Total current liabilities</b>		<b>441.2</b>	<b>475.9</b>
<b>Noncurrent liabilities</b>			
Long-term interest-bearing debt	10	697.2	613.9
Loan from related party		50.0	-
Deferred taxes		11.4	11.6
Other noncurrent liabilities		58.0	58.9
<b>Total noncurrent liabilities</b>		<b>816.6</b>	<b>684.4</b>
<b>Commitments and contingencies</b>			
<b>Shareholders' equity</b>			
Common shares of par value \$1.00 per share: 1.2 billion shares authorized: 579,159,787 outstanding shares at December 31, 2014 (December 31, 2013: 579,159,787)		579.2	579.2
Additional paid in capital		821.1	816.1
Accumulated deficit		(998.6)	(902.2)
Accumulated other comprehensive loss		(17.1)	(20.0)
Contributed surplus		161.5	161.5
<b>Total shareholders' equity</b>		<b>546.1</b>	<b>634.6</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,803.9</b>	<b>\$ 1,794.9</b>

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

# ARCHER LIMITED

## Consolidated Statements of Cash Flow

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
Net loss	\$ (96.4)	\$ (518.6)
 <u>Adjustment to reconcile net loss to net cash provided by operating activities</u>		
Depreciation and amortization	149.3	159.1
Depreciation and amortization of assets in discontinued operations	-	23.0
Share-based compensation expenses	5.0	1.1
Impairment charges	60.4	423.7
Impairment charges relating to discontinued operations	-	7.2
(Gain)/loss on property, plant and equipment disposals	(3.4)	3.0
Gain on disposal of assets in discontinued operations, net	-	(9.7)
Equity in loss of unconsolidated affiliates	4.2	1.6
Amortization of loan fees	5.9	9.4
Deferred income taxes	(6.6)	(11.0)
Foreign currency loss	57.4	20.6
<i>Changes in operating assets and liabilities, net of acquisitions</i>		
(Decrease) / Increase in accounts receivable and other receivables	(53.2)	1.3
Increase in inventories	(34.9)	(0.2)
Increase / (decrease) in accounts payable and other liabilities	80.8	(36.0)
Other, net (mainly consisting of effect of exchange rate changes on asset and liability values)	(31.0)	(2.9)
<b>Net cash provided by operating activities</b>	<b>137.5</b>	<b>71.6</b>
 <b>Cash Flows from Investing Activities</b>		
Capital expenditures	(256.3)	(117.5)
Capital expenditures for discontinued operations	-	(2.1)
Proceeds from disposal of property, plant and equipment	19.1	9.0
Proceeds from disposal of assets in discontinued operations, net	-	253.9
Loans to associates	(7.3)	(9.3)
Net change in restricted cash	(1.4)	(5.5)
<b>Net cash (used)/provided by investing activities</b>	<b>(245.9)</b>	<b>128.5</b>
 <b>Cash Flows from Financing Activities</b>		
Net proceeds from revolving facilities	(4.9)	26.3
Proceeds of subordinated related party debt	50.0	10.0
Repayment of related party debt	-	(65.0)
Proceeds from long-term debt	58.3	43.7
Repayment of long-term debt	(21.5)	(463.0)
Debt issuance costs	(6.2)	(6.6)
Proceeds from issuance of equity, net	-	247.9
<b>Net cash provided/(used)by financing activities</b>	<b>75.7</b>	<b>(206.7)</b>
Effect of exchange rate changes on cash and cash equivalents	12.1	(2.1)
<b>Net decrease in cash and cash equivalents</b>	<b>(20.6)</b>	<b>(8.7)</b>
Cash and cash equivalents at beginning of the period	49.5	58.2
<b>Cash and cash equivalents at the end of the period</b>	<b>\$28.9</b>	<b>\$49.5</b>
 Interest paid	 \$ 35.0	 \$ 47.0
Taxes paid	\$ 9.3	\$ 13.6

*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)*

	<u>Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Contributed (Deficit)/ Surplus</u>	<u>Total Shareholders' Equity</u>
<b>Balance at December 31, 2013</b>	<b>\$ 579.2</b>	<b>\$ 816.1</b>	<b>\$ (902.2)</b>	<b>\$ (20.0)</b>	<b>\$ 161.5</b>	<b>\$ 634.6</b>
Translation differences	—	—	—	6.1	—	6.1
Change in pension liability	—	—	—	(3.2)	—	(3.2)
Net loss	—	—	(96.4)	—	—	(96.4)
Share based compensation	—	5.0	—	—	—	5.0
<b>Balance at December 31, 2014</b>	<b>\$ 579.2</b>	<b>\$ 821.1</b>	<b>\$ (998.6)</b>	<b>\$ (17.1)</b>	<b>\$ 161.5</b>	<b>\$ 546.1</b>

*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, 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 8,800 skilled and experienced people at December 31, 2014.

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

#### *Basis of presentation*

The unaudited fourth quarter interim consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited third quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These fourth quarter 2014 financial statements should be read in conjunction with our financial statements as of December 31, 2013. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

The results of operations from our Rental and Underbalanced businesses in North America and our Tubular business in North America and Latin America have been reclassified to discontinued operations for all periods presented.

#### *Use of estimates*

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



### *Significant accounting policies*

The accounting policies utilized in the preparation of the unaudited fourth quarter financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2013. 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. Once a base case has been established following the above principles, the cash flow model is then altered based on different macroeconomic and operational assumptions and based on probabilities a weighted fair value of the business is obtained. 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 asset*

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

#### *Reclassifications*

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

### *Recently issued accounting pronouncements*

Since December 31, 2013, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

**ASU 2014-06 Technical Corrections and Improvements Related to Glossary Terms.** The amendments in this update relate to glossary terms and cover a wide range of Topics in the codification. However, as they serve to clarify existing GAAP rather than change existing or add new GAAP, it is not expected to have any material impact on Archer's financial statements. The ASU states that;

*The amendments in this update represent changes to Clarify the Master Glossary of the Codification, consolidate multiple instances into a single definition, or make minor improvements to the Master Glossary that are not expected to result in substantive changes to the application of existing guidance.*

**2014-08 Presentation of Financial Statements (Topic 205) and Property Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.** The amendments in this update change the requirements for reporting discontinued operations in subtopic 205-20 by adding the requirement that the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

If a disposal (or planned disposal) meets the criteria for reporting discontinued operations, the amendments in this Update also require additional disclosures including;

1. The major classes of line items constituting the pretax profit/loss of the discontinued operation.
2. Either of the following:
  - a. Total operating or investing cashflows of the discontinued operations, or
  - b. The depreciation, amortisation, capital expenditures and significant operating and investing non-cash items of the discontinued operations.
3. If the discontinued operation contains a non-controlling interest, the pretax profit/loss attributable to the parent.
4. A reconciliation of the major classes of assets and liabilities of the discontinued operation classified as held for sale that are disclosed in the Notes, to the total assets and total liabilities of the disposal group classified as held for sale in the balance sheet.
5. A reconciliation of the major classes of line items constituting the pretax profit/loss of the discontinued operation that are disclosed in the Notes, to the after tax profit/loss of the discontinued operation reported in the income statement.

These amendments are effective for annual periods beginning on or after December 15 2014.

**2014-09 Revenue from Contracts with Customers (Topic 606):** This update replaces virtually all the previous USGAAP guidance on revenue recognition, with a single model to be applied to all contracts with Customers. It requires the identification of performance obligations in contracts, and allocation of the transaction price to those performance obligations, and then recognition of the revenue as and when each performance obligation is satisfied.

The new guidance removes the collectability criteria for the recognition of the revenue – requiring instead that recorded receivable amounts are impaired as and when their collectability becomes doubtful.

The performance obligation is satisfied, and therefore the revenue recognised over time, if the customer simultaneously receives and consumes the benefits provided by the entities. The majority of Archer's revenue is earned on a day rate basis, the recognition of which would be unchanged by the new guidance.

The guidance is applicable to all public companies' financial statements beginning after December 15, 2016 and early adoption is not permitted. We are currently assessing the potential effect the adoption of the new guidance will have on our financial statements.

**ASU 2014-14 Presentation of Financial Statements – Going Concern:** This update, issued August 2014, and effective for annual periods ending after December 15, 2016, provides guidance about Managements responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Early application is permitted

Archer's management already performs an appropriate evaluation each reporting date, and relevant disclosures have been added to the financial statement when it is deemed necessary.

## Note 2 – Impairments

A sudden and sharp decline in oil prices, has forced our customers to significantly reduce their expenditures in the exploration and development of their oil & gas assets, resulting in a reduction in demand for our services predominantly in North America, but also in the North Sea and to a lesser extent in other parts of the world and has led to a rapid drop in our share price. In addition, the above underlying condition has also led to the downward revision of cash flow expectations underlying the valuation of our Company in particular the North American business. As consequence, we prepared a comprehensive impairment test for long lived assets, including intangibles and goodwill, which resulted in the following impairments: An impairment of goodwill, amounting to \$41.8 million (See Note 8) and an impairment of fixed assets amounting to \$18.6 million.

## Note 3 – Other Financial Items

	Three Months Ended		Year Ended	
	December 31		December 31	
<i>(In millions)</i>	2014	2013	2014	2013
Foreign exchange differences	\$ (42.5)	\$ (4.9)	\$ (57.4)	\$ (20.5)
Other items	2.2	(0.5)	3.3	(1.1)
<b>Total other financial items</b>	<b>\$ (40.3)</b>	<b>\$ (5.4)</b>	<b>\$ (54.1)</b>	<b>\$ (21.6)</b>

Other financial items represent predominantly foreign exchange losses on an intercompany loan balance denominated in Norwegian Kroner following the weakening of the Norwegian Kroner against USD in the fourth quarter of 2014. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the entity with Norwegian Kroner functional currency is classified as other comprehensive income.

#### Note 4 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended December 31		Twelve Months Ended December 31	
	2014	2013	2014	2013
United States	\$ 0.3	\$(12.1)	\$ 0.4	\$(10.6)
South America	3.6	1.5	5.1	2.3
Europe	3.9	1.5	12.6	4.9
Others	(0.2)	0.1	(0.6)	0.8
<b>Total</b>	<b>\$ 7.6</b>	<b>\$ (9.0)</b>	<b>\$ 17.5</b>	<b>\$ (2.6)</b>

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.

We have incurred tax expenses of \$17.5 million for the twelve month period ending December 31, 2014, primarily in Europe with \$12.6 million, which relate to expensed withholding taxes of \$4.0 million and increased profitability in both Norway and in the UK.

There are significant tax assets in the United States totalling \$341 million, out of which \$144.5 million relate to federal net operating losses carryforward and \$151.3 million related to timing differences in the recognition of tax deductible items. We have finalized an internal restructuring which reduced these tax assets by \$43 million. We are precluded from recognising the benefits of these tax assets in United States, as we do not anticipate utilizing them within the foreseeable future. The tax expenses reported in the United States relates to withholding taxes and State income taxes, and are classified as current income tax.

An increase in profitability in Latin America during the quarter resulted in an increase in tax expenses. Tax expenses classified as others includes entities operating in Asia and the Middle East

#### Note 5 – Discontinued Operations

On September 27, 2013, we completed the sale of our Rental business in North America and our Tubular business in North America and Latin America. During the third quarter of 2013 we agreed to sell our Underbalanced business in North America which subsequently closed on October 17, 2013. We sold these operations as we determined that they were non-strategic assets and the proceeds from the sale would enable us to reduce our debt.

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

<i>(In millions)</i>	<b>Three Months Ended December 31</b>		<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues	\$ —	\$ 0.7	\$ —	\$ 64.8
Operating and reimbursable expenses	(1.6)	(3.2)	(2.6)	(45.2)
Impairments	—	—	—	(11.0)
Depreciation and amortization	—	—	—	(23.0)
Interest expense	—	—	—	(3.8)
Other financial items	—	—	—	—
Gain on sale of discontinued operations, net	—	—	—	9.1
(Loss)/income from discontinued operations before income tax expense	(1.6)	(2.5)	(2.6)	(9.1)
Income tax expense	—	—	—	(0.5)
<b>(Loss)/income from discontinued operations, net of tax</b>	<b>\$ (1.6)</b>	<b>\$ (2.5)</b>	<b>\$ (2.6)</b>	<b>\$ (9.6)</b>

The Rental and Tubular businesses were deconsolidated at September 27, 2013, the date of their disposal and the assets utilized in the North American Underbalanced business were sold in October 2013, so their assets and liabilities are not included within the balance sheets as at December 31, 2014 and December 31, 2013. The loss during the fourth quarter 2014 reflects the impairment of a lease related to an idle facility as well as a charge related to sales taxes resulting from prior periods..

#### **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:

<i>(In thousands)</i>	<b>Three Months Ended December 31</b>		<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Denominator</b>				
Weighted-average common shares outstanding	579,160	579,160	579,160	549,468
Effect of potentially dilutive share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	<u>579,160</u>	<u>579,160</u>	<u>579,160</u>	<u>549,468</u>

Share-based compensation of approximately 2,339,575 and 4,733,388 shares were excluded from the computation of diluted earnings per share for the three months and the year ended December 31, 2014 respectively, and 256,804 and 91,760 shares were excluded from the computation of diluted earnings per share for the three months and year ended December 31, 2013, respectively, as the effect would have been antidilutive due to the net loss for the period.

#### Note 7 – Inventories

<i>(In millions)</i>	<b>December 31</b>	<b>December 31</b>
	<b>2014</b>	<b>2013</b>
Manufactured		
Finished goods	\$ 12.3	\$ 3.8
Work in progress	4.6	1.4
Raw materials	10.7	8.0
Total manufactured	27.6	13.2
Drilling supplies	28.6	25.0
Chemicals	13.8	11.6
Other items and spares	27.5	15.4
<b>Total inventories</b>	<b>\$ 97.5</b>	<b>\$ 65.2</b>

#### Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. Following the impairment charge during the fourth quarter 2014, the remaining goodwill relates entirely to our North Sea and Emerging Markets & Technologies Area.

<i>(In millions)</i>	
<b>Net book balance at December 31, 2013</b>	<b>\$ 294.1</b>
Goodwill disposed during the period	-
Impairment	(41.8)
Currency adjustments	(44.5)
<b>Net book balance at December 31, 2014</b>	<b>\$ 207.8</b>

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.

The impairment is due to a sudden and sharp decline in oil prices, which has forced our customers to significantly reduce their expenditures in the exploration and development of their oil & gas assets, resulting in a reduction in demand for our services predominantly in North America, but also in the North Sea and to a lesser extent in other parts of the world. The above underlying condition has led to the downward revision of cash flow expectations underlying the valuation of our Company in particular the North American business.

## Note 9 – Other Intangible Assets

<i>(In millions)</i>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Balance at December 31, 2013</b>	<b>\$ 116.5</b>	<b>\$ (51.0)</b>	<b>\$ 65.5</b>
Additions	4.3	-	4.3
Amortization	—	(10.1)	(10.1)
Currency adjustments	(5.1)	3.6	(1.5)
<b>Balance at December 31, 2014</b>	<b>\$ 115.7</b>	<b>\$ (57.5)</b>	<b>\$ 58.2</b>

The net book value at December 31, 2014, consisted of customer relationships of \$47.0 million, identified technology of \$3.0 million, trademarks of \$1.5 million, patents of \$2.4 million and other intangible assets of \$4.3 million.

As part of our annual review of all our major assets for impairments, we have tested the carrying values of our intangible assets. We reviewed our customer relationships as at December 31 2014 compared to relations evaluated at acquisition dates, and overall we have reviewed the recoverability of these assets using undiscounted cash-flows, using similar assumptions to those used in our testing of our goodwill for impairment. No impairments of our intangible assets were identified.

## Note 10 – Long-term, Interest-Bearing Debt

<i>(In millions)</i>	<b>December 31 2014</b>	<b>December 31 2013</b>
Multicurrency term and revolving facility	\$ 629.6	\$ 669.2
Related party subordinated loan	50.0	-
Hermes-covered term loans	69.9	41.6
Other loans and capital lease liability	61.9	54.0
<b>Total loans and capital lease liability</b>	<b>811.4</b>	<b>764.8</b>
Less: current portion	(64.2)	(150.9)
<b>Long-term portion of interest bearing debt</b>	<b>\$ 747.2</b>	<b>\$ 613.9</b>

### *Multicurrency term and revolving facility*

On March 7, 2013, we entered into a third amendment and restatement agreement in relation to our multicurrency term and revolving facility agreement with a syndicate of banks, at which time \$876.9 million was committed by the lenders. Under the terms of the agreement 75% of the net proceeds from the sale of certain assets need to be applied towards the facility. Therefore, we repaid \$164.2 million as a result of the sale of our Rental and Tubular businesses in 2013 and an additional \$14.4 million as a result of the sale of assets used in our Underbalanced business. Following this repayment, the total amount available on our main credit facility was reduced from \$876.9 million to \$698.2 million. The agreement was amended by Addendum No. 1 thereto dated July 31, 2013, to address the covenant requirements after the divestiture.

On November 12, 2014, we signed a fourth amendment and re-statement multicurrency revolving facility agreement, and extended the term of the facility, which now matures in May 2018. The total amount available under the multicurrency revolving facility is \$750 million. No instalments are due until May 2017,

when quarterly instalments of \$25 million commence. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 3.95% per annum, depending on the ratio of the net interest bearing debt to EBITDA.

As of December 31, 2014, a total of \$629.6 million was drawn under the revolving facility. The facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of \$250 million in favour of the lenders under the revolving facility and the lenders of the overdraft facilities, securing our obligations under these facilities. Our entities that fall under the laws of the United States of America and are party to the revolving facility have executed general security agreements in respect of their assets as further security. The revolving facility contains certain financial covenants, including, among others:

- Our total consolidated net interest bearing debt shall not exceed 4.75x of the last twelve months EBITDA as of December 31, 2014. This leverage ratio has subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- Our minimum ratio of equity including subordinated debt to total assets of at least 30.0%.
- We are to maintain the higher of \$30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- We shall ensure that the capital expenditures, on a consolidated basis, measured at the end of each financial year from 2014 and onwards shall not exceed \$200 million, plus any capital expenditure under specific carved out arrangements.

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

As of December 31, 2014, we are in compliance with all covenants under our debt facilities.

#### *Related party subordinated loan*

On March 27, 2013, Seadrill Limited provided Archer Topaz Limited, a wholly owned subsidiary of Archer, with a \$10.0 million subordinated term loan facility. The loan provided for interest at LIBOR + 5% and was repayable by April 2, 2013. In March 2013, the full \$10.0 million was drawn and used to partly finance the first instalment on our second modular rig, Archer Topaz. This subordinated term loan was repaid in April 2013.

On October 24, 2014, we signed 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 is 7.5% per year, and is accumulated on the loan balance and 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 modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At December 31, the equivalent of \$51.9 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.



On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the modular rig, Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.55% above EURIBOR. At December 31, 2014, the equivalent of \$17.9 million was outstanding under this facility.

#### *Other loans and capital leases*

We have two \$50.0 million cash overdraft facilities and at December 31, 2014, net borrowings under these facilities were \$30.4 million. In addition we have borrowed \$10.4 million under short term facilities in Argentina as of December 31, 2014. We also have capital leases covering both real property and equipment, and financing arrangements for insurance premiums. At December 31, 2014, the net balance due under these arrangements was \$21.2 million.

#### *Interest rate swap agreement*

We have two NOK interest rate swap agreements, securing the interest rate on NOK 300 million until October 2015 and NOK 500 million until May 2019. We also have two USD interest rate swap agreements securing the interest rate on \$150 million until October 2015 and \$150 million until October 2017. The fair value of the swaps as of December 31, 2014 was a liability of \$4.0 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

#### *Capitalized Interest*

During the year ended December 31, 2014, we capitalized approximately \$0.7 million of interest costs related to the construction of equipment, primarily our modular rig (\$0.4 million and \$1.1 million for the three months and year ended December 31 2013 respectively). The rig was completed by September 30, 2014.

#### **Note 11 – Supplemental Cash Flow Information**

In February 2013 we issued 208,334,000 shares of our stock in a private placement which was underwritten by our five largest shareholders who, in aggregate, own 68% of our issued and outstanding share capital. The underwriters received an underwriting commission of \$5.0 million which was settled through the issuance of 4,166,667 new shares of our stock.

#### **Note 12 – Segment Information**

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

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

The split of our organization and aggregation of our business into four segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure. The accounting principles for the segments are the same as for our consolidated financial statements. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures,

goodwill and total assets by segment after treating our North America Rental business, our North America Underbalanced business and our Rental and Tubular business in Latin America as discontinued operations and not as part of our continuing operations by segment.

(In millions)	Three Months Ended December 31		Year December 31	
	2014	2013	2014	2013
<b>Revenues from external customers</b>				
North America	\$ 205.7	\$ 152.4	\$ 714.6	\$ 625.6
Latin America	170.3	141.8	587.9	561.6
North Sea	175.2	170.9	740.8	638.9
Emerging Markets & Technologies	52.5	59.0	210.3	215.2
<b>Total</b>	<b>\$ 603.7</b>	<b>\$ 524.1</b>	<b>\$ 2,253.6</b>	<b>\$ 2,041.3</b>
<b>Depreciation and amortization</b>				
North America	\$ 19.5	\$ 22.4	\$ 79.2	\$ 94.7
Latin America	8.1	7.7	29.2	33.8
North Sea	5.4	3.7	18.2	14.7
Emerging Markets & Technologies	4.8	4.9	19.3	18.2
<b>Total</b>	<b>\$ 37.8</b>	<b>\$ 38.7</b>	<b>\$ 145.9</b>	<b>\$ 161.4</b>
<b>Operating income/(loss) – net loss</b>				
North America	\$ (36.9)	\$(408.1)	\$ (55.1)	\$(456.8)
Latin America	12.6	3.7	25.9	5.5
North Sea	11.3	13.2	57.8	27.6
Emerging Markets & Technologies	(13.1)	(28.9)	2.3	(13.1)
Stock compensation costs	(1.3)	(0.4)	(5.0)	(1.1)
<b>Operating (loss) / income</b>	<b>(27.4)</b>	<b>(420.5)</b>	<b>25.9</b>	<b>(437.9)</b>
Total financial items	(53.6)	(17.7)	(102.2)	(73.7)
Income taxes	(7.6)	9.0	(17.5)	2.6
Discontinued operations, net of taxes	(1.6)	(2.5)	(2.6)	(9.6)
<b>Net income/(loss)</b>	<b>\$ (90.2)</b>	<b>\$(431.7)</b>	<b>\$ (96.4)</b>	<b>\$(518.6)</b>
<b>Capital expenditures</b>				
North America	\$ 24.5	\$ 4.8	\$ 46.0	\$ 31.6
Latin America	46.1	6.7	120.4	28.6
North Sea	5.3	2.9	61.3	37.6
Emerging Markets & Technologies	6.5	10.0	28.6	29.3
<b>Total</b>	<b>\$ 82.4</b>	<b>\$ 24.4</b>	<b>\$ 256.3</b>	<b>\$ 127.1</b>

<i>(In millions)</i>	<b>North America</b>	<b>Latin America</b>	<b>North Sea</b>	<b>Emerging Markets &amp; Technologies</b>	<b>Total</b>
<b>Goodwill</b>					
<b>Balance at December 31, 2013</b>	<b>\$ 5.5</b>	<b>\$ —</b>	<b>\$ 132.8</b>	<b>\$ 155.8</b>	<b>\$ 294.1</b>
Wireline international US	21.1	—	—	(21.1)	—
Impairments	(21.1)	—	—	(20.7)	(41.8)
Currency adjustments	—	—	(21.0)	(23.5)	(44.5)
<b>Balance at December 31, 2014</b>	<b>\$ 5.5</b>	<b>\$ —</b>	<b>\$ 111.8</b>	<b>\$ 90.5</b>	<b>\$ 207.8</b>

<i>(In millions)</i>	<b>December 31 2014</b>	<b>December 31 2013</b>
<b>Total assets</b>		
North America	\$ 487.5	\$ 501.0
Latin America	593.5	457.9
North Sea	449.3	498.7
Emerging Markets & Technologies	273.5	337.3
<b>Total</b>	<b>\$ 1,803.9</b>	<b>\$ 1,794.9</b>

### **Note 13 – Fair Value of Financial Instruments**

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

<i>(In millions)</i>	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
<b>Non-derivatives</b>				
Cash and cash equivalents	\$ 28.9	\$ 28.9	\$ 49.5	\$ 49.5
Restricted cash	15.8	15.8	16.5	16.5
Current portion of long-term debt	64.2	64.2	150.9	150.9
Long-term, interest-bearing debt	747.2	747.2	613.9	613.9
<b>Derivatives</b>				
Interest rate swap agreements	(4.0)	(4.0)	(0.4)	(0.4)

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

<i>(In millions)</i>	<u>December 31, 2014</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 28.9	\$ 28.9	—	—
Restricted cash	15.8	15.8	—	—
Interest rate swap agreements	(4.0)	—	(4.0)	—
<b>Liabilities</b>				
Revolving credit facility, excluding current portion	629.6	—	629.6	—
Other loans and capital leases, excluding current portion	82.6	—	82.6	—

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 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, 2014, 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.

Three separate class actions have been filed in the US alleging violations of the Fair Labor Standards Act relating to non-payment of overtime pay with respect to three of our subsidiaries: Great White Pressure Control LLC, Archer Pressure Pumping LLC and Archer Directional Drilling Services LLC. Each of these

cases are in different stages of the discovery process, and, although litigation is inherently uncertain, management believes these cases are highly defensible.

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

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.

##### Transactions with Seadrill:

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

During the twelve months ended December 31, 2014, we supplied Seadrill Limited and affiliates with services amounting to \$2.2 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2014, Seadrill owed us \$0.1 million in respect of these services.

In March of 2013, Seadrill provided Archer with a \$10.0 million subordinated term-loan facility which was repaid in April of 2013. In November 2012, Seadrill provided Archer with a \$55.0 million subordinated term-loan facility to assist in the funding of a required \$100 million principal payment on multi-currency term and revolving facility. This facility was repaid in February 2013 along with interest of \$0.8 million.

Seadrill has provided a guarantee of €48.6 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 9). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

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

As of December 31, 2014, we have accrued total guarantee fees of \$3.1 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 Other financial items.

##### Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an Oilfield Technology Company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010. During 2014 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner. The settlement of the purchase price was through a loan agreement amounting to 10

million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the of tools being developed by C6 Technologies AS.

As at December 31, 2014 we have a total outstanding loan balance equivalent to \$6.1 million.

#### Transactions with other related parties

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

- Frontline Management (Bermuda) Limited, or Frontline
- North Atlantic Drilling Ltd, or NADL
- Metrogas Holdings Inc, or Metrogas
- Geodynamics

Frontline provides management support and administrative services to us, and we have recorded fees of \$0.7 million for these services in the twelve months ended December 31, 2014. These amounts are included in General and Administrative expenses in the Consolidated statement of operations. At December 31, 2014, we paid Frontline all outstanding fees related to these services.

During the twelve months ended December 31, 2014, we supplied NADL with services amounting to \$5.6 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2014, NADL owed us \$0.2 million related to these services.

On October 24, 2014, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to \$50 million. The loan was drawn in full as at December 31, 2014. Interest equal to three months LIBOR plus 7.5% is payable on the loan, and will be accumulated and paid on the maturity date. The loan matures on June 30, 2018.

Geodynamics provided products and services to the company totalling \$0.7m for the twelve months ended December 31, 2014. These amounts were included in operating expenses.

#### **Note 16 – Subsequent Events**

In January 2015 one of our subsidiaries received a thirty-day notice of early termination from Talisman Sinopec Energy UK Limited of its modular rig contract for the Archer Emerald. The effective date of termination is January 29, 2015. The original two-year contract was valued at approximately \$96 million and was scheduled to commence during the first quarter of 2016. The early Termination fee due to Archer under the contract will range between \$34 million and \$43 million.

In order to be able to meet the Company's obligations under the employee's incentive programs, the Board has authorized a share buyback program under which the Company may repurchase up to 10 million of the outstanding shares over the next 12 months for this purpose. The Company intends to repurchase shares from time to time in open market transactions or private transactions in accordance with applicable securities laws, and will not repurchase any shares above the prevailing market price at the time of the repurchase. The timing and amount of any repurchases will be determined by Management of the Company based on its evaluation of market conditions, capital allocation opportunities, and other factors. The new buyback program does not require the Company to repurchase any specific number of shares and may be modified, suspended, extended or terminated by the Company at any time without prior notice.

## Appendix to Archer Third Quarter Report 2014

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follow for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended December 31, 2014, September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013, and September 30, 2013. 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)

<i>(In millions)</i>	Three Months Ended					
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013
<b>Revenue</b>	603.7	593.1	552.0	504.8	524.1	522.6
<b>Cost and expenses</b>						
Operational costs	(572.2)	(556.9)	(535.9)	(502.3)	(520.9)	(515.2)
Impairments	(58.9)	—	(1.5)	—	(423.7)	—
Net financial items	(53.6)	(20.9)	(20.4)	(7.3)	(17.7)	(13.9)
<b>(Loss) / income from continuing operations before income taxes</b>	<b>(81.0)</b>	<b>15.3</b>	<b>(5.8)</b>	<b>(4.8)</b>	<b>(438.2)</b>	<b>(6.5)</b>
Income tax (expense) benefit	(7.6)	(1.6)	(5.0)	(3.3)	9.0	(4.6)
<b>(Loss) / income from continuing operations</b>	<b>(88.6)</b>	<b>13.7</b>	<b>(10.8)</b>	<b>(8.1)</b>	<b>(429.2)</b>	<b>(11.1)</b>
(Loss)/income from discontinued operations, net of tax	(1.6)	(0.4)	(0.2)	(0.4)	(2.5)	(13.1)
<b>Net (loss) / income</b>	<b>(90.2)</b>	<b>13.3</b>	<b>(11.0)</b>	<b>(8.5)</b>	<b>(431.7)</b>	<b>(24.2)</b>

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

<i>(In millions)</i>	Three Months Ended					
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013
Net (loss) / income	(90.2)	13.3	(11.0)	(8.5)	(431.7)	(24.2)
Depreciation, amortization and impairments	96.7	33.9	38.7	37.0	462.4	42.5
Net financial items	53.6	20.9	20.4	7.3	17.7	13.9
Taxes on income	7.6	1.6	5.0	3.3	(9.0)	4.6
Loss/(income) from discontinued operations, net of tax	1.6	0.4	0.2	0.4	2.5	13.1
<b>EBITDA</b>	<b>69.3</b>	<b>70.1</b>	<b>53.3</b>	<b>39.5</b>	<b>41.9</b>	<b>49.9</b>

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

<i>(In millions)</i>	Three Months Ended					
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013
North America (NAM)	19.3	26.7	13.7	0.4	2.8	11.9
Latin America (LAM)	22.4	10.8	11.2	11.9	13.5	14.4
North Sea (NRS)	16.0	24.2	17.7	16.9	17.7	11.0
Emerging Markets & Technologies (EMT)	11.6	8.4	10.7	10.3	7.9	12.6
<b>EBITDA</b>	<b>69.3</b>	<b>70.1</b>	<b>53.3</b>	<b>39.5</b>	<b>41.9</b>	<b>49.9</b>