

# Archer

## Archer Limited (ARCHER) Second Quarter and Half-year 2015 Results

### Second Quarter 2015 highlights

- Second quarter revenue from continuing operations of \$388.9 million
- Second quarter EBITDA was a loss of \$1.9 million including \$5.0 million restructuring costs
- Net loss for the quarter of \$47.7 million
- Second quarter operational cash flow of \$28.9 million
- Net interest-bearing debt of \$793.9 million as of June 30, 2015

### Financial Statements

#### *Comparison of the Three Months Ended June 30, 2015 to the Three Months Ended March 31, 2015*

Revenue for second quarter 2015 was \$388.9 million compared to \$501.6 million for the first quarter 2015, a reduction of \$112.7 million or 22.5%. First quarter 2015 revenue included \$35.6 million revenue for cancellation of the Archer Emerald contract. Excluding this cancellation fee, second quarter revenue decreased by \$77.1 million or 16.5%. Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA, were a loss of \$1.9 million compared to \$58.1 million for the first quarter 2015. Normalised EBITDA, excluding restructuring costs and the effect from one time cancellation fees in both periods, second quarter 2015 EBITDA decreased from \$25.8 million to \$4.5 million, a reduction of \$21.3 million or 82.6%.

Net Financial Items were a net expense of \$13.9 million in the second quarter 2015 compared to an expense of \$36.1 million in the first quarter 2015. Interest expenses amounted to \$13.0 million compared to \$12.5 million in the first quarter 2015. Other financial items amounted to \$0.9 million expense compared to \$23.0 million expense in the first quarter 2015. Other financial items during the quarter represent predominantly losses in non-consolidated subsidiaries.

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

Revenue for the three months ended June 30, 2015 was \$388.9 million compared to \$552 million for the second quarter 2014, down \$163 million or 29.5%. EBITDA loss of \$1.9 million for the three months ended June 30, 2015 decreased \$55.2 million compared to \$53.3 million EBITDA for the second quarter 2014.

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 \$27.4 million at June 30, 2015, compared to \$28.4 million at March 31, 2015.

Cash flow from operations for the three months ended June 30, 2015, was \$28.9 million, which is comprised primarily of the net loss of \$47.7 million, add back for depreciation and amortization from continuing operations of \$37.7 million, add back expenses for share based compensation of \$0.7 million less \$6.5 million relating to increase in inventory stock, and finally add back \$44.9 million due to the decrease in accounts receivable and other assets, offset by increase in accounts payable.

Capital expenditures for continuing operations during the quarter amounted to \$16.3 million, representing predominantly maintenance related spending.

As of June 30, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. However, as a result of the difficult market conditions and the impact on our earnings, we project that we will exceed the leverage ratio we have agreed upon with our lenders at the end of 2015. The Company is currently evaluating more comprehensive options to remedy this breach of covenants and to find a longer term solution, which will provide the Company the necessary stability in this difficult market environment to build its business going forward.

Total net interest-bearing debt at June 30, 2015, was \$793.9 million compared to \$795.8 million as of March 31, 2015.

#### *Share Capital*

The total number of issued and fully paid shares of par value \$1.00 outstanding at June 30, 2015 was 579,159,787. A total of 32,178,590 options and RSUs were outstanding as of June 30, 2015.

#### **Second Quarter 2015 Operating Results by Area**

We are organized in four Areas and our operational comments for the second quarter this year are presented by Area below.

<i>(In millions)</i>	Revenues			EBITDA		
	<u>Q2 2015</u>	<u>Q1 2015</u>	<u>Variance</u>	<u>Q2 2015</u>	<u>Q1 2015</u>	<u>Variance</u>
North America	\$ 73.0	\$ 115.8	\$ (42.8)	\$ (11.1)	\$ (8.0)	\$ (3.1)
Latin America	160.8	164.8	(4.0)	(1.3)	11.8	(13.1)
North Sea	114.5	178.5	(64.0)	5.5	48.3	(42.8)
Emerging Markets	<u>40.6</u>	<u>42.5</u>	<u>(1.9)</u>	<u>5.0</u>	<u>6.0</u>	<u>(1.0)</u>
	<u>\$ 388.9</u>	<u>\$ 501.6</u>	<u>\$ (112.7)</u>	<u>\$ (1.9)</u>	<u>\$ 58.1</u>	<u>\$(60.0)</u>

#### *North America*

Revenue in the second quarter 2015 amounted to \$73.0 million, a reduction of \$42.8 million, or 37.0% as a consequence of the continued dramatic decline in drilling and completion activity in the US Land market. As a result, we have seen a significant reduction in demand for all of our services, combined with weather related delays in Texas and Oklahoma, as well as continued pressure on pricing. EBITDA for second quarter 2015 was a loss of \$11.1 million, a deterioration of \$3.1 million as a consequence of this sharp decline in revenue, partly offset by costs savings realised through implementation of various cost reduction initiatives, as well as a \$2.3 million reduction in restructuring and one-time expenditure.

The average United States land-based rig count of 876 for the second quarter 2015 was a reduction of 477 rigs or 35% compared to the first quarter 2015 and by 920 or 51%, as compared to second quarter 2014. The average rig count directed towards natural gas for the second quarter 2015 decreased by 68 rigs or 24% sequentially and reduced by 93 rigs, or 30% year on year.

In Pressure Pumping we fracked a total of 1,028 stages in the second quarter 2015 compared to 1,710 stages during first quarter 2015. Fleet utilization for second quarter 2015 was 42.6% compared to 58.1% for first quarter 2015. Revenue per stage remained flat while average daily revenue per fleet declined by

20% compared to first quarter 2015. As a result of the low utilization and job delays as well as the decision to lay down another fleet in the month of June, Pressure Pumping revenue in the second quarter 2015 reduced by \$13.3 million or 41% compared to first quarter 2015. Despite this reduction in revenue EBITDA for the same period increased by \$1.3 million or 18.3% arising from cost savings as well as lower restructuring costs. Compared to the second quarter 2014, Pressure Pumping revenue decreased by \$49.3 million or 72% with only 2.7 fleets operating compared to 5 fleets throughout the same period last year. For this period fleet utilization reduced from 88.6% to 42.6%, average daily revenue per fleet reduced by 36%, revenue per stage declined by 46% and number of stages fracked reduced from 2,012 to 1,028. As compared to second quarter 2014 EBITDA decreased by \$12.8 million or 182.3% as a result of this low utilization combined with lower pricing.

Pressure Control revenue for second quarter 2015 decreased by \$14.2 million or 40.7%, due to lower utilization and lower pricing for both Coiled Tubing and Snubbing services as the number of well completions continued to reduce in the second quarter. Despite lower restructuring costs and cost savings achieved during the quarter, EBITDA for the same period decreased by \$4.8 million or 170.9% as a result of lower revenue. Compared to second quarter 2014 revenue decreased by \$23.4 million or 53.1% due to significantly reduced utilization combined with lower pricing. EBITDA for the same period decreased by \$6.6 million or 144.1% as a consequence of the reduced revenue, partially compensated for by costs savings realised following the implementation of various cost saving initiatives.

Second Quarter 2015 revenue in Directional Drilling decreased by \$6.9 million or 43% with a continued decline in rig count combined with pricing pressure resulting in 34.5% reduction in job days and 3% reduction in pricing as well as lower revenue for tools lost during drilling operation. Despite this strong reduction in revenue EBITDA remained broadly flat, as cost savings implemented during the first quarter have shown the full effect during the second quarter. Compared to the second quarter 2014, revenue decreased by \$11 million or 54.7%, in line with the overall decline in rig count coupled with a reduction in pricing. In comparison to the second quarter 2014, the number of job days reduced by 45.7% and average pricing reduced by approximately 20%. EBITDA for the same period decreased by \$1.9 million, fully reflecting the reduced revenue, partially offset by lower compensation costs and other operating expenses.

Compared to the first quarter 2015, second quarter 2015 revenue in our Frac Valve division decreased by \$4.8 million or 48.6%, with a limited amount of new valves being sold during the second quarter. EBITDA for the same period remained flat, as reduced revenue was offset by lower operating costs. Compared to the same period 2014, revenue decreased by \$7.3 million or 58.8%, reflecting largely the substantial decrease in the amount of new valves sold. As a result of the missing contribution from new valve sales, EBITDA for the same period decreased by \$2.3 million or 102.3%.

Second quarter 2015 revenue for our US Wireline Division decreased by \$3.4 million or 15% reflecting the reduction in operating trucks from 61 to 43, partly offset by higher amount of operating hours per truck. As a result of the cost saving measures and the absence of one-time restructuring expenditure during the first quarter compensated by lost margin on lower revenue, EBITDA increased by \$0.6 million or 37.1%. Compared to second quarter 2014, revenue decreased by \$7.6 million or 28.4%, as a result of the lower amount of operational Wireline trucks in the field in response to the reduced overall drilling and completion activity. Consequentially EBITDA for the same period declined by \$2.2 million or 182.4%.

At least for the remainder of 2015 as well as the beginning of 2016, we expect the overall activity and pricing in the North America land market to remain at the depressed level experienced in the second quarter. Given the lack of long term contracts and commitments it is not possible to predict revenue or margins with a reasonable degree of confidence at this point in time.

## *Latin America*

Revenue in the second quarter 2015 amounted to \$160.8 million, a decrease of \$4.0 million or 2.4% compared to the previous quarter. This decrease is due to a total of 4 rigs being idled during the second quarter in Argentina and Bolivia, combined with further price reductions and concessions on terms and conditions with major customers, as a result of the difficult macro environment. In addition, revenue was negatively impacted due to inspection and related downtime for 2 drilling rigs, 4 workover rigs and 3 pulling units. This was partly offset by additional revenue generated from the start-up of 2 new drilling rigs for a major customer during the quarter. Overall rig utilization fell from 81% in the first quarter 2015, to 78.3% during the second quarter. EBITDA for the same period decreased by \$13.1 million or 111% as a result of downtime and related repair costs for a total of 9 rigs undergoing inspections and repairs. In addition, concessions on pricing, increased compensation costs including \$ 1.7 million of restructuring costs, and reduced contributions from rigs being idled negatively impacted results. This was partly offset by incremental margins from the new rigs starting operations in the second quarter.

Compared to second quarter 2014, revenue increased by \$18.5 million or 13.0%, reflecting increased reimbursable billings related to higher labour costs, increased activity for 3 new drilling rigs as well as an operation and management contract for 5 drilling rigs. This was partly offset by 5 drilling rigs being idled, higher downtime related to inspection as well as lower pricing. Compared to the same period last year, second quarter 2015 EBITDA decreased by \$12.5 million, with increased costs and downtime related to rig inspections, pricing concessions and higher support and restructuring costs. Incremental margins from 3 additional new rigs were partly offset by lower margins resulting from 5 rigs being idled compared to the same period in 2014.

We anticipate third quarter 2015 revenue for Latin America to be negatively impacted as a result of the drilling rigs idled during the second quarter, although the start-up of our new drilling rigs in the Neuquén area, as well as the finalization of the inspection program in the south of Argentina will have a positive impact on our revenue in the third quarter. In order to adjust our workforce to match the reduced activity levels, we expect to incur incremental restructuring costs.

## *North Sea*

Second quarter 2015 revenue was \$114.5 million, a decrease of \$64.0 million or 35.9%, compared to previous quarter. Excluding the effect from the cancellation fee for Archer Emerald in the first quarter as well as the discount given in relation to this cancellation fee in the second quarter 2015, amounting to \$1.4 million, revenue reduced by \$27.0 million or 18.9% sequentially. Excluding the effects of the cancellation fee in both quarters, EBITDA decreased by \$5.8 million sequentially. Excluding restructuring costs in both quarters, underlying operational EBITDA reduced by \$3.9 million or 29.8% sequentially as a result of the reduction in activity.

Revenue for our Platform Drilling services reduced by \$22.0 million or 18.3%, reflecting lower drilling activity combined with lower reimbursable revenue in Brazil, Norway and the UK. EBITDA for the same period decreased by \$4.1 million including a restructuring provision of \$2.0 million. Excluding this restructuring provision, operational EBITDA reduced by \$2.1 million or 20.4% as a result of the decline in revenue. Compared to the second quarter 2014, revenue in Platform Drilling decreased by \$49.2 million or 33.4%, due to adverse currency movements, amounting to \$23.5 million, and a reduction in operating activity. Compared to the same period last year EBITDA decreased by \$7.3 million. Excluding the restructuring provision of \$2.0 million, EBITDA decreased by \$5.3 million or 39.5%, with reduced margins as a result of the reduction in drilling activity.

Revenue for Engineering services decreased by \$4.2 million or 33.9% sequentially, reflecting a further reduction in activity in both Norway and the UK, as new projects, as well as modification and maintenance work are continuously being delayed. EBITDA for the same period decreased by \$1.5 million, reflecting this reduction in revenue and consequentially lower utilization for our personnel, as well as additional restructuring costs of \$0.3 million. Compared to the second quarter 2014, revenue deteriorated by \$18.4 million or 69%, as a result of the completion or cancellation of several larger scale engineering projects combined with an overall reduction in activity. As a result of this sharp reduction compared to the same period last year, EBITDA decreased by \$3.9 million.

Excluding the effect of the cancellation of the Archer Emerald contract, second quarter revenue and EBITDA for Modular Rigs remained broadly flat sequentially. Compared to the same period last year and excluding the effect from the adjustment of the cancellation fee recorded in the second quarter 2015, revenue was flat where revenue from full quarter's operation for Topaz was offset with the absence of performance bonus received on the Emerald in the second quarter of 2014. Year on year EBITDA increased by \$1.1 million with improved margins.

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

### *Emerging Markets & Technologies*

Revenue in the second quarter 2015 was \$40.6 million, \$1.9 million or 4.5% lower compared to last quarter with generally lower activity levels in Oiltools and Survey & Inspection, partly offset by increased revenue in International Wireline. EBITDA for the same period decreased by \$1.0 million or 16.7% as a result of the reduced revenue, as well as increased restructuring costs totalling \$0.3 million accounted for during the second quarter.

Revenue in International Wireline increased by \$1.5 million or 9%, compared to first quarter 2015, primarily due to increased logging and mechanical services activity in Norway partly offset by slowdown in Asia. EBITDA for the same period increased by \$1.4 million due to the increased revenue combined with lower operating costs. Year on year revenue decreased by \$8.2 million or 31.4% mainly as a result of adverse exchange rate effects, combined with lower logging activity in several countries. EBITDA for the same period remained flat due to proactive cost reduction measures as well as lower operating costs as a result of the movement in exchange rates.

Compared to the first quarter 2015, revenue in Oiltools decreased by \$2.4 million or 10.8%, primarily due to lower Cflex™ and Perfwash activity in Norway. EBITDA for the same period decreased by \$1.9 million or 37.5%, in line with a decrease in revenue and due to an unfavourable product mix. Year over year revenue decreased \$4.8 million or 19.8%, mainly as a result of the unfavourable evolution in exchange rates combined with lower activity in Norway and the US, following the reduction in spent by most of our major customers. This was partly offset by increased acceptance of our Tornar™ BOP cleaning tool and overall increased activity in West Africa. EBITDA for the same period decreased by \$5.6 million or 63.8% as a result of the drop in revenue, combined with higher cost of goods sold resulting from the change in product mix and increased infrastructure costs to support the continued international growth.

Survey & Inspection revenue for second quarter 2015 was \$1.2 million or 28% lower compared to first quarter 2015 with a reduction in global inspection activity as more drilling rigs are being stacked or scrapped and many customers are delaying mandatory survey and inspection work. As a result of the lower revenue base, EBITDA for the same period was \$0.4 million below the first quarter. Compared to the second quarter 2014, revenue decreased by \$0.9 million or 23.9%, as a result of lower survey activity in Asia. As a consequence EBITDA reduced by \$0.4 million over the same period.

## Summary Outlook

As a consequence of the reduced spending of our customers, second quarter 2015 revenue was 22.5% below the first quarter 2015 and 36% below the fourth quarter 2014, with all businesses and geographic areas being impacted. The U.S. land market experienced the strongest decline in activity and is now suffering from an oversupply in all service lines. The resulting market pressure has led in most parts to unsustainable pricing levels and significant capacity being idled. The North Sea Drilling activity has also been curtailed by many operators, which have extended their plans to keep platforms in maintenance mode. Further reductions in spending have also impacted Argentina and Bolivia, where global and local customers are reducing their spent in order to preserve cash flow.

In line with this reduction in activity, the Company has reduced its headcount by another 400 positions during the second quarter 2015, with a total reduction of about 18% compared to the headcount at the end of December 2014. In addition, we continued to adjust compensation levels throughout the organization in order to remain competitive in a lower price environment. Furthermore, we reduced our operating assets as well as the number of locations as part of a larger effort to adjust the cost base to the lower activity as well as pricing levels, imposed by the difficult market situation. Lastly, we have worked with many of our suppliers and subcontractors and we have made good progress during the second quarter.

We believe that activity levels are at or close to the bottom, however we do not expect activity levels to resume in the short to medium term and as a result we will have to make further adjustments to our workforce in line with expected activity levels going forward. Regretfully we will have to reduce our workforce by another 300 employees, leading to a total reduction of over 21% compared to the headcount at the end of December 2014 and approximately \$4.0 million of additional restructuring costs in the third quarter.

We continue to focus on the generation of cash flow and given the continued decline in activity levels, we have further reduced our capital expenditures, which are now estimated to total approximately \$135 million for the entire year, with the remaining CAPEX representing mainly expenditures for maintenance.

## 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 June 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  
(Unaudited)

(In millions, except per share data)

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2015	2014	2015	2014
<b>Revenues</b>					
Operating revenues		\$ 364.1	\$ 525.7	\$ 844.4	\$ 1,003.1
Reimbursable revenues		24.8	26.3	46.1	53.7
<b>Total revenues</b>		<b>388.9</b>	<b>552.0</b>	<b>890.5</b>	<b>1,056.8</b>
<b>Expenses</b>					
Operating expenses		353.7	453.7	758.5	872.5
Reimbursable expenses		22.0	25.1	42.9	51.3
Depreciation and amortization		37.7	36.9	75.3	73.8
Impairments		-	1.5	-	1.5
(Gain)/loss on sale of assets		-	0.3	(4.1)	0.4
General and administrative expenses		15.1	19.9	32.9	40.2
<b>Total expenses</b>		<b>428.5</b>	<b>537.4</b>	<b>905.5</b>	<b>1,039.7</b>
<b>Operating (loss) / income</b>		<b>(39.6)</b>	<b>14.6</b>	<b>(15.0)</b>	<b>17.1</b>
<b>Financial items</b>					
Interest income		0.6	1.2	1.2	1.5
Interest expenses		(13.0)	(12.5)	(25.5)	(24.4)
Share of results in associated company		(0.9)	(0.4)	(2.1)	(0.7)
Other financial items	2	(0.6)	(8.7)	(23.6)	(4.1)
<b>Total financial items</b>		<b>(13.9)</b>	<b>(20.4)</b>	<b>(50.0)</b>	<b>(27.7)</b>
<b>Loss from continuing operations before income taxes</b>		<b>(53.5)</b>	<b>(5.8)</b>	<b>(65.0)</b>	<b>(10.6)</b>
Income tax benefit / (expense)	3	5.8	(5.0)	2.4	(8.3)
<b>Loss from continuing operations</b>		<b>(47.1)</b>	<b>(10.8)</b>	<b>(62.6)</b>	<b>(18.9)</b>
(Loss)/ Income from discontinued operations, net of tax		-	(0.2)	-	(0.6)
<b>Net loss</b>		<b>\$ (47.7)</b>	<b>\$ (11.0)</b>	<b>\$ (62.6)</b>	<b>\$ (19.5)</b>
<b>Loss per share-basic</b>					
Loss from continuing operations		\$ (0.08)	\$ (0.02)	\$ (0.11)	\$ (0.03)
Loss from discontinued operations		-	-	-	-
Loss per share		<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ (0.11)</u>	<u>\$ (0.03)</u>
<b>Loss per share-diluted</b>					
Loss from continuing operations		\$ (0.08)	\$ (0.02)	\$ (0.11)	\$ (0.03)
Loss from discontinued operations		-	-	-	-
Loss per share		<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ (0.11)</u>	<u>\$ (0.03)</u>
<b>Weighted average number of shares outstanding</b>					
Basic	4	579.2	579.2	579.2	579.2
Diluted	4	579.2	579.2	579.2	579.2

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

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

<i>(In millions)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net loss</b>	<b>\$(47.7)</b>	<b>\$(11.0)</b>	<b>\$ (62.6)</b>	<b>\$(19.5)</b>
<b>Other comprehensive income/(loss)</b>				
Currency exchange differences	6.4	4.6	6.3	5.4
Actuarial gain/ (loss) relating to pension	-	-	-	-
<b>Other comprehensive income/(loss)</b>	<b>6.4</b>	<b>4.6</b>	<b>6.3</b>	<b>5.4</b>
<b>Total comprehensive loss</b>	<b>\$(41.3)</b>	<b>\$ (6.4)</b>	<b>\$ (56.3)</b>	<b>\$(14.1)</b>

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

<i>(In millions)</i>	<b>Pension – Unrecognized Losses</b>	<b>Currency Exchange Differences</b>	<b>Total</b>
<b>Balance at December 31, 2014</b>	<b>\$(25.9)</b>	<b>\$ 8.8</b>	<b>\$ (17.1)</b>
Currency exchange differences	-	6.3	6.3
Actuarial loss relating to pension	-	-	-
<b>Balance at June 30, 2015</b>	<b>\$(25.9)</b>	<b>\$ 15.1</b>	<b>\$ (10.8)</b>

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

## ARCHER LIMITED

### Consolidated Balance Sheets

(In millions)

	Note	June 30 2015 (Unaudited)	December 31 2014 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 27.4	\$ 28.9
Restricted cash		17.0	15.8
Accounts receivables		284.4	386.2
Inventories	5	107.8	97.5
Deferred income taxes		15.6	9.2
Other current assets		93.3	97.0
<b>Total current assets</b>		<b>545.5</b>	<b>634.6</b>
<b>Noncurrent assets</b>			
Investments in associates		-	0.2
Loans to associates		6.1	6.1
Property plant and equipment, net		868.0	870.3
Deferred income tax asset		13.3	12.6
Goodwill	6	197.7	207.8
Other intangible assets, net	7	48.7	53.9
Deferred charges and other current assets		10.2	15.1
<b>Total noncurrent assets</b>		<b>1,144.0</b>	<b>1,166.0</b>
<b>Total assets</b>		<b>\$ 1,689.5</b>	<b>\$ 1,800.6</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of interest-bearing debt	8	\$ 82.5	\$ 64.2
Accounts payable		104.8	137.5
Other current liabilities		226.8	243.6
<b>Total current liabilities</b>		<b>414.1</b>	<b>445.3</b>
<b>Noncurrent liabilities</b>			
Long-term interest-bearing debt	8	688.8	697.2
Subordinated related party loan		50.0	50.0
Deferred taxes		2.4	11.4
Other noncurrent liabilities		46.8	53.9
<b>Total noncurrent liabilities</b>		<b>788.0</b>	<b>812.5</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 March 31, 2015 (December 31, 2014: 579,159,787)		579.2	579.2
Additional paid in capital		822.0	821.1
Accumulated deficit		(1,064.5)	(1,001.9)
Accumulated other comprehensive loss		(10.8)	(17.1)
Contributed surplus		161.5	161.5
<b>Total shareholders' equity</b>		<b>487.4</b>	<b>542.8</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,689.5</b>	<b>\$ 1,800.6</b>

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

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

(In millions)

	<b>Six Months Ended June 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (62.6)	\$ (19.5)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	75.3	74.2
Share-based compensation expenses	1.4	2.2
Impairment charges	-	1.5
(Gain) / Loss on property, plant and equipment disposals	(4.1)	0.4
Equity in loss of unconsolidated affiliates	2.1	0.7
Amortization of loan fees	1.6	3.4
Deferred income taxes	(6.4)	(2.1)
Foreign currency loss	21.4	7.2
<i>Changes in operating assets and liabilities, net of acquisitions</i>		
Decrease /(Increase) in accounts receivable and other current assets	101.0	(24.4)
Increase in inventories	(12.4)	(10.4)
(Decrease) / Increase in accounts payable and other current liabilities	(60.5)	32.1
Other, net	(8.5)	(12.6)
<b>Net cash provided by operating activities</b>	<b>48.3</b>	<b>52.7</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(82.8)	(90.7)
Capital expenditures for discontinued operations	-	-
Proceeds from disposal of property, plant and equipment	10.8	0.5
Proceeds from disposal of assets in discontinued operations, net	-	-
Loans to associates	(2.3)	(5.1)
Net change in restricted cash	(1.7)	(1.8)
<b>Net cash (used)/provided by investing activities</b>	<b>(76.0)</b>	<b>(97.1)</b>
<b>Cash Flows from Financing Activities</b>		
Net borrowings /(repayments) under revolving facilities	32.6	(6.6)
Proceeds of related party debt	-	-
Repayment of related party debt	-	-
Proceeds from long-term debt	3.7	33.8
Repayment of long-term debt	(11.7)	(5.9)
Debt issuance costs	-	(1.9)
<b>Net cash provided/(used)by financing activities</b>	<b>24.6</b>	<b>19.4</b>
Effect of exchange rate changes on cash and cash equivalents	1.6	3.0
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1.5)</b>	<b>(22.0)</b>
Cash and cash equivalents at beginning of the period	28.9	49.5
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 27.4</b>	<b>\$ 27.5</b>
Interest paid	\$ 20.8	\$ 20.0
Taxes paid	\$ 12.7	\$ 6.2

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

**ARCHER LIMITED**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**(Unaudited)**

<i>(In millions)</i>	<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, 2014</b>	<b>\$ 579.2</b>	<b>\$ 821.1</b>	<b>\$(1,001.9)</b>	<b>\$ (17.1)</b>	<b>\$ 161.5</b>	<b>\$ 542.8</b>
Translation differences	—	—	—	6.3	—	6.3
Net loss	—	—	(62.6)	—	—	(62.6)
Cost of shares purchased for RSUs	—	(0.5)	—	—	—	(0.5)
Share based compensation	—	1.4	—	—	—	1.4
<b>Balance at June 30, 2015</b>	<b>\$ 579.2</b>	<b>\$ 822.0</b>	<b>\$(1,064.5)</b>	<b>\$ (10.8)</b>	<b>\$ 161.5</b>	<b>\$ 487.4</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 7,150 skilled and experienced people at June 30, 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 second quarter and first half 2015 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited second quarter and first half consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These second quarter and half-year 2015 financial statements should be read in conjunction with our financial statements as of December 31, 2014. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

#### *Use of estimates*

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

#### *Significant accounting policies*

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

#### *Goodwill*

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

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

We aggregated components with similar economic characteristics.

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

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

#### *Impairment of long-lived assets and intangible 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, 2014, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

**ASU 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)** Issued January 2015 simplifies Income Statement presentation by eliminating the concept of Extraordinary Items. Significant unusual and infrequently occurring items continue to be reported as a separate component of income from continuing operations or, alternatively, disclosed in the notes to the financial statements. Guidance is given in 225-20 as to the definition of unusual and infrequent. ASU 2015-01 is effective for accounting periods beginning after December 15, 2015 and early adoption is permitted. We

do not expect the provisions of ASU 2015 to have a material effect on our consolidated financial statements.

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

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

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

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

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

## Note 2 – Other Financial Items

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(In millions)</i>	2015	2014	2015	2014
Foreign exchange differences	\$ -	\$ (7.2)	\$ (21.4)	\$ (2.8)
Other items	(0.6)	(1.5)	(2.2)	(1.3)
<b>Total other financial items</b>	<b>\$ (0.6)</b>	<b>\$ (8.7)</b>	<b>\$ (23.6)</b>	<b>\$ (4.1)</b>

In the first quarter other financial items represent predominantly foreign exchange losses on an intercompany loan balance denominated in Norwegian Kroner following the continuing weakening of the Norwegian Kroner against USD in the first quarter of 2015. The intercompany loan receivables are held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of retranslating the entity with Norwegian Kroner functional currency is classified as other comprehensive income. During the second quarter exchange rate movements have stabilised, resulting in minimal exchange gains losses during this period.

### Note 3 – Income Taxes

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

<i>(In millions)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
United States	\$ -	\$ 0.1	\$ -	\$ 0.5
South America	(5.8)	3.0	(6.3)	1.0
Europe	(0.4)	1.7	2.5	6.6
Others	0.4	0.2	1.4	0.2
<b>Total</b>	<b>\$ (5.8)</b>	<b>\$ 5.0</b>	<b>\$ (2.4)</b>	<b>\$ 8.3</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.

The Group's net tax expense is a tax benefit of \$2.4 million for the six months period ending June 30, 2015, primarily in South America, with a net tax benefit of \$6.3 million relating mainly to losses in Argentina. Europe incurred tax expenses of \$ 2.5 million of which \$ 2.3 million are incurred in the UK. The \$1.4 million expense, reported under Others consists mainly of corporate income taxes in Australia, which amounted to \$1.0 million.

There are significant tax assets in the United States totalling \$325 million, out of which \$142 million relate to federal net operating losses carried forward and \$111 million related to timing differences in the recognition of tax deductible items. We are precluded from recognising the benefits of these tax assets in the United States, as we do not anticipate utilizing them within the foreseeable future.

### Note 4 – 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 June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Denominator</b>				
Weighted-average common shares outstanding	579,160	579,160	579,160	579,160
Effect of potentially dilutive common shares	—	—	—	—
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>579,160</u>

Share-based compensation of approximately 225,901 and 707,294 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2015, and 4,809,406 and 2,973,035 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2014, respectively, as the effect would have been antidilutive due to the net loss for the period.

## Note 5 – Inventories

<i>(In millions)</i>	<b>June 30</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
Manufactured		
Finished goods	\$ 28.5	\$ 12.3
Work in progress	2.0	4.6
Raw materials	2.4	10.7
Total manufactured	32.9	27.6
Drilling supplies	30.1	28.6
Chemicals	14.2	13.8
Other items and spares	30.6	27.5
<b>Total inventories</b>	<b>\$ 107.8</b>	<b>\$ 97.5</b>

## Note 6 – Goodwill

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

<i>(In millions)</i>	
<b>Net book balance at December 31, 2014</b>	<b>\$ 207.8</b>
Goodwill disposed during the period	-
Impairment	-
Currency adjustments	(10.1)
<b>Net book balance at June 30, 2015</b>	<b>\$ 197.7</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.

## Note 7 – Other Intangible Assets

<i>(In millions)</i>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Balance at December 31, 2014</b>	<b>\$ 111.4</b>	<b>\$ (57.5)</b>	<b>\$ 53.9</b>
Amortization	—	(4.9)	(4.9)
Currency adjustments	(1.3)	1.0	(0.3)
<b>Balance at June 30, 2015</b>	<b>\$ 110.1</b>	<b>\$ (61.4)</b>	<b>\$ 48.7</b>

The net book value at June 30, 2015, consisted of customer relationships of \$42.6 million, identified technology of \$2.2 million, trademarks of \$1.6 million, patents of \$2.2 million and non-compete agreements of \$0.1 million.

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

<i>(In millions)</i>	<b>June 30 2015</b>	<b>December 31 2014</b>
Multicurrency term and revolving facility	\$ 636.6	\$ 629.6
Related party subordinated loan	50.0	50.0
Hermes-covered term loans	55.6	69.9
Other loans and capital lease liability	79.1	61.9
<b>Total loans and capital lease liability</b>	<b>821.3</b>	<b>811.4</b>
Less: current portion	(82.5)	(64.2)
<b>Long-term portion of interest bearing debt</b>	<b>\$ 738.8</b>	<b>\$ 747.2</b>

### *Multicurrency term and revolving facility*

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

On April 20, 2015, the Company announced that it has received consent from its lenders under the multicurrency revolving facility to amend certain covenants, including an increase in the net interest bearing debt to 12 months rolling EBITDA covenant up to a maximum of 5.5X in the first quarter 2016 as well as adjustments to the calculation of the equity ratio covenant allowing us to exclude certain revaluation effects related to exchange rate movements. The description of the multicurrency revolving facility below incorporates the agreed to changes, though these changes has not been formally documented as per the date of this report.

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

As of June 30, 2015, a total of \$636.6 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 4.5x of the last twelve months EBITDA as of June 30, 2015. This leverage ratio increases to 5.0x as of September 30, 2015, 5.25x as of December 31, 2015 and 5.5x as of March 31, 2016. Thereafter it reduces to 4.75x in June 2016 and has subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- Our minimum ratio of equity, including subordinated debt and adjusted for certain revaluation effect related to exchange rate movements, to total assets of at least 30.0%.
- We are to maintain the higher of \$30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- We shall ensure that the capital expenditures, on a consolidated basis, measured at the end of each financial year shall not exceed \$120 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 June 30, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. However as a result of the difficult market conditions and the impact on our earnings, we project that we will exceed the leverage ratio we have agreed upon with our lenders at the end of 2015. The Company is currently evaluating more comprehensive options to remedy this breach of covenants and to find a longer term solution, which will provide the Company the necessary stability in this difficult market environment to build its business going forward.

#### *Related party subordinated loan*

On October 24, 2014, Archer entered into a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to \$50.0 million. The loan was drawn in full as at December 31, 2014 and is repayable in full at the maturity date. Interest 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.

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

#### *Hermes-covered term loans*

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At June 30, the equivalent of \$42.4 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the modular rig, Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.30% above EURIBOR. At June 30, 2015, the equivalent of \$13.2 million was outstanding under this facility.

#### *Other loans and capital leases*

We have two \$50.0 million cash overdraft facilities and at June 30, 2015, net borrowings under these facilities were \$33.4 million. In addition we have borrowed \$25.0 million under short term facilities in Argentina as of June 30, 2015. We also have capital leases covering both real property and equipment. At June 30, 2015, the net balance due under these arrangements was \$17.8 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 June 30, 2015, was a liability of \$3.2 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

#### *Capitalized Interest*

During the three months ended March 31, 2015, we capitalized approximately \$0.2 million of interest costs related to the construction of the new-build land rigs being constructed for deployment in Argentina. No further interest has been capitalised as the construction of the rigs has been completed.

For the three and six month periods ended June 30, 2014 we capitalised interest of \$0.5 and \$0.2 million respectively in respect of our second modular, which was completed by September 30, 2014.

### Note 9 – Segment Information

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

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

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

(In millions)	Three Months Ended June 30		Six Months June 30	
	,	2014	2015	2014
<b>Revenues from external customers</b>				
North America	\$ 73.0	\$ 171.8	\$ 188.8	\$ 320.7
Latin America	160.8	142.3	325.6	264.7
North Sea	114.5	183.4	293.0	365.1
Emerging Markets & Technologies	40.6	54.5	83.1	106.3
<b>Total</b>	<b>\$ 388.9</b>	<b>\$ 552.0</b>	<b>\$ 890.5</b>	<b>\$ 1,056.8</b>
<b>Depreciation and amortization</b>				
North America	\$ 18.3	\$ 19.9	\$ 37.3	\$ 40.4
Latin America	10.0	7.9	19.1	15.6
North Sea	4.8	4.3	9.5	8.4
Emerging Markets & Technologies	4.6	4.8	9.4	9.4
<b>Total</b>	<b>\$ 37.7</b>	<b>\$ 36.9</b>	<b>\$ 75.3</b>	<b>\$ 73.8</b>

**Operating (loss)/income – net loss**

North America	\$ (28.7)	\$ (7.4)	\$ (55.2)	\$ (27.1)
Latin America	(11.6)	3.9	(5.1)	8.5
North Sea	0.9	13.5	44.7	26.6
Emerging Markets & Technologies	0.5	5.3	2.0	11.3
Stock compensation costs	(0.7)	(0.7)	(1.4)	(2.2)
<b>Operating (loss)/income</b>	<b>(39.6)</b>	<b>14.6</b>	<b>(15.0)</b>	<b>17.1</b>
Total financial items	(13.9)	(20.4)	(50.0)	(27.7)
Income taxes	5.8	(5.0)	2.4	(8.3)
Discontinued operations, net of taxes	-	(0.2)	-	(0.6)
<b>Net loss</b>	<b>\$ (47.7)</b>	<b>\$ (11.0)</b>	<b>\$ (62.6)</b>	<b>\$ (19.5)</b>

**Capital expenditures**

North America	\$ 4.2	\$ 1.8	\$ 9.5	\$ 6.6
Latin America	8.3	19.7	66.6	39.1
North Sea	3.2	2.3	5.1	33.1
Emerging Markets & Technologies	0.6	7.7	1.6	12.0
<b>Total</b>	<b>\$ 16.3</b>	<b>\$ 31.5</b>	<b>\$ 82.8</b>	<b>\$ 90.8</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, 2014</b>	<b>\$ 5.5</b>	<b>\$ —</b>	<b>\$ 111.8</b>	<b>\$ 90.5</b>	<b>\$ 207.8</b>
Currency adjustments	—	—	(4.4)	(5.7)	(10.1)
<b>Balance at June 30, 2015</b>	<b>\$ 5.5</b>	<b>\$ —</b>	<b>\$ 107.4</b>	<b>\$ 84.8</b>	<b>\$ 197.7</b>

<i>(In millions)</i>	<b>June 30 2015</b>	<b>December 31 2014</b>
<b>Total assets</b>		
North America	\$ 376.9	\$ 487.6
Latin America	666.2	594.3
North Sea	383.0	449.3
Emerging Markets & Technologies	263.4	269.4
<b>Total</b>	<b>\$ 1,689.5</b>	<b>\$ 1,800.6</b>

## Note 12 – 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>June 30, 2015</b>		<b>December 31, 2014</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	\$ 27.4	\$ 27.4	\$ 28.9	\$ 28.9
Restricted cash	17.0	17.0	15.8	15.8
Current portion of long-term debt	82.5	82.5	64.2	64.2
Long-term, interest-bearing debt	738.8	738.8	747.2	747.2
<b>Derivatives</b>				
Interest rate swap agreements	(3.2)	(3.2)	(4.0)	(4.0)

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

<i>(In millions)</i>	<u>June 30, 2015</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	\$ 27.4	\$ 27.4	—	—
Restricted cash	17.0	17.0	—	—
Interest rate swap agreements	(3.2)	—	(3.2)	—
<b>Liabilities</b>				
Multicurrency term and revolving facility, excluding current portion	636.6	—	636.6	—
Other loans and capital leases, excluding current portion	102.4	—	102.4	—

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

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

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

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

### **Note 13 – Legal Proceedings**

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

Two separate class actions were filed alleging violations of the U.S. FLSA relating to non-payment of overtime pay with respect to two of our subsidiaries: Archer Pressure Pumping LLC and Archer Directional Drilling Services LLC. The case against Archer Directional Drilling Services LLC settled at mediation subsequent to the end of the quarter. The remaining case against Archer Pressure Pumping LLC is in the discovery process, and, although litigation is inherently uncertain, management believes the case is highly defensible.

Two of our subsidiaries are the plaintiffs in the case of Archer Drilling LLC and Rig Inspection Services (US) LLC vs. Buccaneer Energy Limited et al., wherein we claim \$8.0 million from the defendants for the

defendants' failure to pay for services provided. In response, the defendants raised counterclaims alleging that they are owed more than the amount we claimed in damages. On May 31, 2014, all but one of the defendants filed for Chapter 11 bankruptcy and in August 2014, the Archer parties removed the case to U.S. Bankruptcy Court where the claims are currently stayed pending further action by the court. Litigation is inherently uncertain and while we cannot determine the amount of our ultimate recovery or loss, we believe in the merits of the claim and that the alleged counterclaims are highly defensible.

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

#### **Note 14 – Related Parties**

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

##### Transactions with Seadrill:

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

During the six months ended June 30, 2015, we supplied Seadrill Limited and affiliates with services amounting to \$3.3 million, including the provision of reimbursable material. This amount has been included in operating revenues. At June 30, 2015, Seadrill owed us \$0.5 million in respect of these services.

On October 24, 2014, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to \$50 million. In March 2015, the loan and any accrued interest/fees, was sold to Seadrill Limited. The loan was drawn in full as at June 30, 2015. Interest of 7.5% per annum on the \$50 million principle amount, is being accrued and added to the outstanding balance, and will be paid when the loan matures on June 30, 2018.

Seadrill has provided a guarantee of up to €56 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 outstanding loan balance.

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

A further guarantee has been provided by Seadrill in favour of DNB Bank ASA, of up to \$20.0 million, in support of a bank guarantee agreement entered into between Archer and DNB Bank ASA.

As of June 30, 2015, we have accrued total guarantee fees of \$6.6 million which are due at the end of the guarantee period. The guarantee fees are being accrued over the guarantee period, and the cost of the fees are reported within Other Financial Items.

##### Transactions with C6 Technologies AS:

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

#### Transactions with Rawabi Allis-Chalmers Company Limited:

We own 50% of Rawabi Allis-Chalmers Company Limited “Rawabi”, a Saudi Arabia based joint venture that provides rental of oilfield products. During the six months ended June 30, 2015, we supplied Rawabi with services amounting to \$0.6 million.

#### Transactions with other related parties

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

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

Frontline provides management support and administrative services to us, and we have recorded fees of \$0.3 million for these services in the six months ended June 30, 2015. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At June 30, 2015, Archer owed Frontline \$0.1 million related to these services.

During the six months ended June 30, 2015, we supplied NADL with services amounting to \$1 million, including reimbursable material. This amount has been included in operating revenues. At June 30, 2015, NADL owed us \$0.2 million related to these services.

During the six months ended June 30, 2015, we supplied Sevan with services amounting to \$0.3 million, including reimbursable material. This amount was paid in full and has been included in operating revenues.

Geodynamics provided products and services to the company totalling \$0.2 million during the six months June 30, 2015. These amounts were included in operating expenses. At June 30, 2015, Archer owed Geodynamics \$0.1 million in respect of to these services.

#### **Note 15 – Subsequent Events**

None

#### **Appendix to Archer Second 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 follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended June 30, 2015, March 31, 2015, December 31, 2014, September 30, 2014, June 30, 2014, and March 31, 2014. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

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

<i>(In millions)</i>	<b>Three Months Ended</b>					
	June 30 2015	March 31 2015	December 31 2014	September 30 2014	June 30 2014	March 31 2014
<b>Revenue</b>	388.9	501.6	603.7	593.1	552.0	504.8
<b>Cost and expenses</b>						
Operational costs	(428.5)	(477.0)	(572.2)	(556.9)	(535.9)	(502.3)
Impairments	—	—	(58.9)	—	(1.5)	—
Net financial items	(13.9)	(36.1)	(56.9)	(20.9)	(20.4)	(7.3)
<b>Loss from continuing operations before income taxes</b>	<b>(53.5)</b>	<b>(11.5)</b>	<b>(84.3)</b>	<b>15.3</b>	<b>(5.8)</b>	<b>(4.8)</b>
Income tax (expense) benefit	5.8	(3.4)	(7.6)	(1.6)	(5.0)	(3.3)
<b>Loss from continuing operations</b>	<b>(47.7)</b>	<b>(14.9)</b>	<b>(91.9)</b>	<b>13.7</b>	<b>(10.8)</b>	<b>(8.1)</b>
(Loss)/income from discontinued operations, net of tax	-	-	(1.6)	(0.4)	(0.2)	(0.4)
<b>Net loss</b>	<b>(47.7)</b>	<b>(14.9)</b>	<b>(93.5)</b>	<b>13.3</b>	<b>(11.0)</b>	<b>(8.5)</b>

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

<i>(In millions)</i>	<b>Three Months Ended</b>					
	June 30 2015	March 31 2015	December 31 2014	September 30 2014	June 30 2014	March 31 2014
Net loss	(47.7)	(14.9)	(93.5)	13.3	(11.0)	(8.5)
Depreciation, amortization and impairments	37.7	33.5	96.7	33.9	38.7	37.0
Net financial items	13.9	36.1	56.9	20.9	20.4	7.3
Taxes on income	(5.8)	3.4	7.6	1.6	5.0	3.3
Loss/(income) from discontinued operations, net of tax	-	-	1.6	0.4	0.2	0.4
<b>EBITDA</b>	<b>(1.9)</b>	<b>58.1</b>	<b>69.3</b>	<b>70.1</b>	<b>53.3</b>	<b>39.5</b>

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

	<b>Three Months Ended</b>					
	June 30 2015	March 31 2015	December 31 2014	September 30 2014	June 30 2014	March 31 2014
<i>(In millions)</i>						
North America (NAM)	(11.1)	(8.0)	19.3	26.7	13.7	0.4
Latin America (LAM)	(1.3)	11.8	22.4	10.8	11.2	11.9
North Sea (NRS)	5.5	48.3	16.0	24.2	17.7	16.9
Emerging Markets & Technologies (EMT)	5.0	6.0	11.6	8.4	10.7	10.3
<b>EBITDA</b>	<b>(1.9)</b>	<b>58.1</b>	<b>69.3</b>	<b>70.1</b>	<b>53.3</b>	<b>39.5</b>