

ARCHER LIMITED

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ARCHER LIMITED
Consolidated Statement of Operations
(Unaudited)

(In millions, except per share data)

		Three Months Ended March 31	
	Note	2018	2017
Revenues			
Operating revenues		\$ 201.6	\$ 190.5
Reimbursable revenues		16.7	11.1
Total revenues		218.3	201.6
Expenses			
Operating expenses		181.6	167.4
Reimbursable expenses		15.7	10.2
Depreciation and amortisation		15.0	15.4
Gain on sale of assets		(0.3)	-
General and administrative expenses		7.8	9.1
Total expenses		219.8	202.1
Operating loss		(1.5)	(0.5)
 Financial items			
Interest income		1.1	0.3
Interest expenses		(10.0)	(14.0)
Share of results in associated company	6	(4.0)	(7.9)
Other financial items	2	16.9	1.5
Total financial items		4.0	(20.1)
Gain/ (loss) from continuing operations before income taxes		2.5	(20.6)
Income tax benefit/(expense)	3	1.9	(1.7)
Profit/(loss) from continuing operations		4.4	(22.3)
Loss from discontinued operations, net of tax		-	-
Net income/(loss)		\$ 4.4	\$ (22.3)
Earnings/(loss) per share-basic			
Earnings/(loss) from continuing operations		\$ 0.03	\$ (1.93)
Loss from discontinued operations		-	-
Earnings/(loss) per share		\$ 0.03	\$ (1.93)
Earnings/(loss) per share-diluted			
Earnings/(loss) from continuing operations		\$ 0.03	\$ (1.93)
Loss from discontinued operations		-	-
Earnings/(loss) per share		\$ 0.03	\$ (1.93)
 Weighted average number of shares outstanding			
Basic		147.3	84.1
Diluted		147.5	84.1

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

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

(In millions)

	Three Months Ended March 31	
	2018	2017
Net gain/(loss)	\$ 4.4	\$ (22.3)
Other comprehensive income		
Translation differences	1.4	1.4
Other comprehensive income	1.4	1.4
Total comprehensive income/(loss)	\$ 5.8	\$ (20.9)

Accumulated Other Comprehensive (Loss) / Income
(Unaudited)

	<u>Residual pension liability</u>	<u>Translation differences</u>	<u>Total</u>
<i>(In millions)</i>			
Balance at December 31, 2017	(0.7)	(0.5)	\$ (1.2)
Foreign currency translation differences	-	1.4	1.4
Balance at March 31, 2018	(0.7)	0.9	\$ 0.2

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

ARCHER LIMITED

Consolidated Balance Sheet

<i>(In millions)</i>	Note	<u>March 31 2018</u> (Unaudited)	<u>December 31 2017</u> (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 44.4	\$ 59.0
Restricted cash		6.4	8.7
Accounts receivables		145.6	140.4
Inventories	5	58.9	58.0
Other current assets		39.1	35.9
Total current assets		<u>294.4</u>	<u>302.0</u>
Noncurrent assets			
Investments in associates	6	102.2	82.6
Loans to associates	6	7.0	17.6
Property plant and equipment, net		424.4	432.2
Deferred tax		24.6	21.2
Goodwill	7	192.8	181.9
Other intangible assets, net	8	1.7	2.0
Other noncurrent assets		3.7	3.4
Total noncurrent assets		<u>756.4</u>	<u>740.9</u>
Total assets		<u>\$1,050.8</u>	<u>\$ 1,042.9</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	\$ 8.9	\$ 7.2
Accounts payable		55.0	53.6
Other current liabilities		115.3	117.0
Total current liabilities		<u>179.2</u>	<u>177.8</u>
Noncurrent liabilities			
Long-term interest-bearing debt	9	597.1	596.7
Subordinated related party Loan		58.3	58.3
Deferred tax		7.8	7.3
Other noncurrent liabilities		2.0	2.4
Total noncurrent liabilities		<u>665.2</u>	<u>664.7</u>
 Commitments and contingencies			
Shareholders' equity			
Common shares of par value \$0.01 per share: 1.0 billion shares authorised: 147,462,012 outstanding shares at March 31, 2018 (December 31, 2017: 147,281,887)		1.5	1.5
Additional paid in capital		926.2	926.0
Accumulated deficit		(1,461.6)	(1,466.0)
Accumulated other comprehensive loss		0.2	(1.2)
Contributed surplus		740.1	740.1
Total shareholders' equity		<u>206.4</u>	<u>200.4</u>
Total liabilities and shareholders' equity		<u>\$ 1,050.8</u>	<u>\$ 1,042.9</u>

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

ARCHER LIMITED
Consolidated Statement of Cash Flows
(Unaudited)

(In millions)

	Three months ended March 31	
	2018	2017
Cash Flows from Operating Activities		
Net income/(loss)	\$ 4.4	\$ (22.3)
Net loss from discontinued operations	-	-
Net profit from continuing operations	4.4	(22.3)
<u>Adjustment to reconcile net loss to net cash provided by operating activities</u>		
Depreciation and amortisation	15.0	15.4
Gain on QES IPO	(2.3)	-
Share-based compensation expenses	0.2	(0.1)
Gain on property, plant and equipment disposals	(0.3)	-
Share of losses of unconsolidated affiliates	4.1	7.9
Amortisation of loan fees and senior note premium	0.3	1.0
Deferred tax	4.3	(2.7)
Foreign currency (gain) / loss	(14.5)	(2.1)
<i>Changes in operating assets and liabilities, net of acquisitions</i>		
(Increase)/decrease in accounts receivable and other current assets	(12.6)	2.0
(Increase)/decrease in inventories	(0.3)	4.6
Decrease in accounts payable and other current liabilities	(0.9)	(10.0)
Other, net	-	0.8
Net cash used in discontinued operations	-	-
Net cash Used / (provided by) operating activities	(2.6)	(5.5)
Cash Flows from Investing Activities		
Capital expenditures	(2.9)	(0.3)
Proceeds from disposal of property, plant and equipment	0.1	0.1
Investment in/loans to associates	(10.4)	(5.6)
Net change in restricted cash	2.7	1.9
Net cash used by investing activities	(10.5)	(3.9)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	3.7	-
Repayments under revolving facilities	(2.9)	(31.0)
Repayment of long-term debt	-	(4.1)
Net proceeds from issuance of equity	-	96.7
Net cash provided by financing activities	0.8	61.6
Effect of exchange rate changes on cash and cash equivalents	(2.4)	(0.4)
Net increase / (decrease) in cash and cash equivalents	(14.7)	51.8
Cash and cash equivalents at beginning of the period	59.0	27.3
Cash and cash equivalents at the end of the period	\$44.3	\$79.1
Interest paid	\$ 10.3	\$ 9.5
Taxes paid	\$ 0.5	\$ 0.1

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

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

(In millions)

	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2017	\$ 1.5	\$ 926.0	\$ (1,466.0)	\$ (1.2)	\$ 740.1	\$ 200.4
Share based compensation	-	0.2	-	-	-	0.2
Translation differences	-	-	-	1.4	-	1.4
Net profit	-	-	4.4	-	-	4.4
Balance at March 31, 2018	\$ 1.5	\$ 926.8	\$ (1,461.6)	\$ 0.2	\$ 740.1	\$ 206.4

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

ARCHER LIMITED

Notes to the 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 organisation. Services include platform drilling, land drilling, modular rigs, engineering services, equipment rentals, wireline services, production monitoring, well imaging and integrity management tools.

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

We employed approximately 4,811 skilled and experienced people at March 31, 2018.

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

Basis of presentation

The unaudited first quarter 2018 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited first quarter consolidated financial statements do not include all of the disclosures required in the complete annual financial statements. These unaudited first quarter financial statements should be read in conjunction with our financial statements as of December 31, 2017. 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 amortisation, income taxes, valuation allowances and purchase price allocations. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

Significant accounting policies

The accounting policies utilized in the preparation of the unaudited first quarter financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2017. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

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Notes to the consolidated financial statements

Goodwill

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

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

We aggregated components with similar economic characteristics.

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

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

Impairment of long-lived assets and intangible assets

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment at least once a year during the fourth quarter. As prescribed by USGAAP, for step one of the impairment test, we assess our major assets/asset groups for recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment is required. We use various methods to estimate the fair value of our assets, using all and best available relevant data, including estimated discounted cashflow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment is recorded equal to the difference between the asset's carrying value and fair value.

Equity Method Investments

Investments in which we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are reported under Investments in unconsolidated associates in the Consolidated Balance Sheet. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors such as representation on the investee's Board of Directors and the nature of

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Notes to the consolidated financial statements

commercial arrangements are considered in determining whether the equity method of accounting is appropriate.

Under this method of accounting, our share of the net earnings or losses of the investee, together with other-than-temporary impairments in value and gain/loss on sale of investments, is reported under Share of net gains/losses of unconsolidated associates in the Consolidated Statement of Operations.

We evaluate our equity method investments whenever events or changes in circumstance indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period.

Note 2 – Other Financial Items

<i>(In millions)</i>	Three Months Ended	
	March 31	
	<u>2018</u>	<u>2017</u>
Foreign exchange gains	\$ 14.5	\$ 2.1
Other items	2.4	(0.6)
Total other financial items	\$ 16.9	\$ 1.5

Other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan is held in a \$ 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.

In the first quarter of 2018 we recognised a gain on \$2.3 million relating to the issue of shares by Quintanta Energy Services, or QES, pursuant to their initial public offering in February 2018, in exchange for our existing investments in QES.

Note 3 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended	
	March 31	
	<u>2018</u>	<u>2017</u>
United States	\$ -	\$ (0.1)
South America	0.1	1.8
Europe	(2.7)	(0.8)
Others	0.7	0.8
Total	\$ (1.9)	\$ 1.7

Archer is operating in many jurisdictions and our income tax expense is generated by earnings, which are taxed at the respective country's corporate income tax rate.

The Group's net tax position for the first quarter 2018 is a tax benefit (credit) of \$1.9 million.

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Notes to the consolidated financial statements

The net tax benefit in Europe amounted to \$2.7 million which primarily consists of a tax benefit of \$2.3 million arising in Norway and a net tax benefit for United Kingdom of \$0.4 million.

Tax expense of \$0.7 million reported under Others mainly represents adjustments of previous year's tax charged relating to results for our Australian operations.

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

As at 31 March 2018 we have total deferred tax assets of \$24.6 million which consist mainly of \$28.9 million of tax assets in Argentina, against which we have made a valuation allowance of \$20.1 million, and net deferred tax assets of \$15.1 million recorded in our Norwegian entities.

Deferred tax liabilities at March 31, 2018 total \$7.8 million, mainly relates to capital allowances on the six rigs acquired by our UK subsidiary Limay Drilling Rigs Ltd in 2014.

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>	Three Months Ended March 31	
	2018	2017
Denominator		
Weighted-average common shares outstanding	147,328	84,111
Effect of potentially dilutive common shares	199	—
Weighted-average common shares outstanding and assumed conversions	<u>147,527</u>	<u>84,111</u>

Share-based compensation of approximately 162,557 shares were excluded from the computation of diluted earnings per share for the three months ended March, 31 2017 as the effect would have been antidilutive due to the net loss for the period.

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Notes to the consolidated financial statements

Note 5 – Inventories

<i>(In millions)</i>	March 31 2018	December 31 2017
Manufactured		
Finished goods	\$ 16.3	\$ 16.5
Work in progress	1.7	1.8
Total manufactured	18.0	18.3
Drilling supplies	14.9	14.2
Chemicals	3.1	3.5
Other items and spares	22.9	22.0
Total inventories	\$ 58.9	\$ 58.0

Note 6 — Investments in Associates

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

	March 31, 2018	December 31, 2017
C6 Technologies AS	50.0%	50.0%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.0%	50.0%
Quintana Energy Services LP	28.7%	42.0%
TAQA Archer Services LLC	51.0%	51.0%

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

<i>(In millions)</i>	March 31, 2018	December 31, 2017
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	94.1	74.3
TAQA Archer Services LLC	8.1	8.3

The components of investments in associates are as follows:

<i>(In millions)</i>	QES	C6	Rawabi	TAQA
Carrying value of investment at December 31, 2016	85.2	-	-	9.7
Additional capital investment	-	2.6	-	-
Share in results of associates	(10.9)	(2.6)	-	(1.4)

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Notes to the consolidated financial statements

Carrying value of investment at December 31, 2017	74.3	-	-	8.3
Additional capital investment	10.0	0.6	-	-
Estimated share in results of associates	(3.2)	(0.6)	-	(0.2)
Conversion of loan to shares	10.7			
Adjustment to carrying value to reflect IPO	2.3	-	-	-
Carrying value of investment at March 31, 2018	94.1	-	-	8.1
Carrying value of Loan balance at March 31, 2018	-	7.0	-	-
Carrying value of Loan balance at December 31, 2017	11.0	6.6		

As part of the IPO conducted by Quintana Energy Service Inc, or QES, in February 2018, we received 8,494,306 shares in QES in consideration for our existing holding of 42% of the common units in Quintana Energy Services LLP, the outstanding loan owed by the partnership including accrued interest, and all penny warrants held by Archer. We valued our investment after the IPO at the offer price of \$10.00 per share. In addition to the shares issued to us in respect of our existing investment, we purchased an additional 1 million shares at \$10.00 per share under the IPO, after which our total shareholding is 9.5 million shares, or 28.7%. We continue to account for our shareholding in QES using the equity method of accounting, recognising our share of results of our investment within financial items and adjusting the carrying value of the investment accordingly.

Since completing an IPO of its shares in February 2018, QES shares are quoted on the New York Stock exchange. At March 31 2018 the quoted price for shares in QES was \$9.75.

Quoted market prices for C6 Technologies AS, (or C6), and Rawabi Archer Company, (or Rawabi) are not available because the shares are not publicly traded.

In addition to our capital investment in C6, we have made additional investment by way of a loan which, at March 31, 2018, has a carrying value of \$7.0 million (2017 \$6.6 million) and is repayable in 2021 when we expect the developed technology to have generated sufficient funds. We have applied our share of the expenses incurred by C6 as a reduction on the value of our loan due from the entity.

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Notes to the consolidated financial statements

Note 7 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. All of our remaining goodwill relates to our Eastern Hemisphere reporting segment – see also note 10.

(In millions)

Net book balance at December 31, 2017	\$ 181.9
Translation adjustments	10.9
Net book balance at March 31, 2018	\$192.8

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The testing of the valuation of goodwill involves significant judgement and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to future a material non-cash impairment charge of in relation to our remaining goodwill.

Note 8 – Other Intangible Assets

(In millions)

	Cost	Accumulated Amortisation	Net
Balance at December 31, 2017	\$ 26.3	\$ (24.3)	\$ 2.0
Amortisation	-	(0.4)	(0.4)
Translation adjustments	1.1	(1.0)	0.1
Balance at March 31, 2018	\$ 27.4	\$ (21.4)	\$ 1.7

The net book value at March 31, 2018, consisted of customer relationships of \$0.1 million, identified technology of \$0.2 million, and patents of \$1.4 million.

Note 9 – Long-term, Interest-Bearing Debt

<i>(In millions)</i>	March 31, 2018			December 31 2017		
	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs
Multicurrency term and revolving facility	566.8	(2.3)	564.5	566.8	(2.5)	564.3
Related party subordinated loan	58.3	-	58.3	58.3	-	58.3

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Notes to the consolidated financial statements

Hermes-covered term loans	26.5	(0.5)	26.0	25.5	(0.5)	25.0
Other loans and capital lease liability	15.5	-	15.5	14.6	-	14.6
Total loans and capital lease liability	667.2	(2.8)	664.3	665.2	(3.0)	662.2
Less: current portion	(10.0)	1.1	(8.9)	(8.3)	1.1	(7.2)
Long-term portion of interest bearing debt	657.1	(1.7)	655.4	656.9	(1.9)	655.0

Multicurrency term and revolving credit facility

The total amount available under the Facility is \$650.8 million of which a total of \$566.8 million was drawn as at March 31, 2018. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

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. In March 2020 quarterly instalments of \$10 million commence and the final maturity date of the Facility is September 30, 2020.

The Facility contains certain financial covenants, including, among others:

- Archer will ensure that the 12 months rolling Nominal EBITDA (after certain adjustments) of the group is at least \$55 million in 2018, \$65 million in 2019 and \$85 million in 2020.
- Archer shall ensure that the 12 months rolling EBITDA (as reported) for the group is positive.
- Archer shall maintain \$30 million in freely available cash (including undrawn committed credit lines).
- Archer shall ensure that the capital expenditures shall not exceed \$40 million per year.

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

As of March 31, 2018, the Company is in compliance with all covenants as agreed with its lenders under this Facility.

Related party subordinated loan

We established a subordinated convertible loan with face value of \$45 million in Q2 2017 from Seadrill Ltd., or Seadrill. The loan matures on December 31, 2021, and bears PIK interest of 5.5% per year. The conversion rights attached to the loan are exercisable from January 1, 2021, and entitle Seadrill to convert the debt at a rate of 0.48 ordinary shares in Archer for each \$1.00 of loan and accrued interest.

Under the USGAAP provisions, interest up to the maturity date has been accrued to the loan balance, increasing the book value of the loan from \$45 million to \$58.3 million.

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Notes to the consolidated financial statements

Hermes-covered term loan

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The loan matures September 2020, and contains covenants aligned to those of the multi-currency term loan and revolving credit facility. The interest rate applied to this loan is 1.45% above EURIBOR. At March 31, 2018 the equivalent of \$26.5 million was outstanding under this facility.

Other loans and capital leases

At March 31, 2018 we have borrowed \$6.6 million under a long term facility in Argentina, and in Bolivia we have borrowed a further \$5.4 million under local short term facilities.

We have finance arrangements relating to equipment in our Oiltools division and insurance premiums. At March 31, 2018, the balance due under these arrangements was \$3.5 million.

Interest rate swap agreement

We have an interest rate swap agreement securing the interest rate on NOK 500 million until May 2019, The fair value of the swap as at March 31, 2018 was a liability of \$0.9 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

Note 10 – Segment Information

The split of our organisation and aggregation of our business into segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure.

We present our business under two reporting segments based on geographical location;

- Eastern Hemisphere
- Western Hemisphere

In addition we report corporate costs, and assets as separate line items.

The accounting principles for the segments are the same as for our consolidated financial statements. Presented below and on the following page are the revenues, depreciation and amortisation, operating income, capital expenditures, goodwill and total assets by segment after treating our divested North America well service businesses, as discontinued operations and not as part of our continuing operations by segment.

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Notes to the consolidated financial statements

<i>(In millions)</i>	Three Months Ended March 31	
	2018	2017
Revenues from external customers		
Eastern Hemisphere	\$ 120.8	\$ 101.2
Western Hemisphere	97.5	100.4
Total	\$ 218.3	\$ 201.6
 Depreciation and amortisation		
Eastern Hemisphere	\$ 6.6	\$ 6.1
Western Hemisphere	8.4	9.3
Total	\$ 15.0	\$ 15.4
 Operating income / (loss) – net loss		
Eastern Hemisphere	\$ 3.9	\$ 4.6
Western Hemisphere	(3.7)	(3.1)
Corporate Costs	(1.7)	(2.0)
Operating loss	(1.5)	(0.5)
Total financial items	4.0	(20.1)
Income taxes	1.9	(1.7)
Discontinued operations, net of taxes	-	-
Net income/(loss)	\$ 4.4	\$ (22.3)
 Capital expenditures		
Eastern Hemisphere	\$ 1.0	\$ 0.3
Western Hemisphere	1.9	-
Total	\$ 2.9	\$ 0.3

<i>(In millions)</i>	Eastern Hemisphere	Western Hemisphere	Total
Goodwill			
Balance at December 31, 2017	\$ 181.9	\$ —	\$ 181.9
Translation adjustments	10.9	—	10.9
Balance at March 31, 2018	\$192.8	\$ —	\$192.8

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<i>(In millions)</i>	March 31 2018	December 31 2017
Total assets		
Eastern Hemisphere	\$ 541.3	\$ 522.0
Western Hemisphere	509.1	520.4
Corporate	0.4	0.5
Total	\$ 1,050.8	\$ 1,042.9

Note 11 – Fair Value of Financial Instruments

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

<i>(In millions)</i>	March 31, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>Nonderivatives</i>				
Cash and cash equivalents	\$ 44.4	\$ 44.4	\$ 59.0	\$ 59.0
Restricted cash	6.4	6.4	8.7	8.7
Current portion of interest-bearing debt	8.9	8.9	7.2	7.2
Long-term, interest-bearing debt	655.4	655.4	655.0	655.0
<i>Derivatives</i>				
Interest rate swap agreements	(0.9)	(0.9)	(1.2)	(1.2)

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

<i>(In millions)</i>	March 31, 2018	Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
<i>Assets</i>				
Cash and cash equivalents	\$ 44.4	\$ 44.4	—	—
Restricted cash	6.4	6.4	—	—
<i>Liabilities</i>				
Current portion of interest-bearing debt	8.9	—	8.9	—
Long-term, interest-bearing debt	655.4	—	655.4	—
Interest rate swap agreements	1.7	—	1.7	—

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

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and cash equivalents, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

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.

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

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at March 31, 2018.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

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 March 31, 2018, we are not aware of any such expected loss which would be material to our financial position and results of operations. Nor are we 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 13 – Related Parties

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

Transactions with Seadrill:

During the three months ended March 31, 2018, we supplied Seadrill Limited and affiliates with services amounting to \$0.1 million. This amount has been included in operating revenue.

A NOK 66 million (equivalent to \$7.9 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS. We were charged guarantee fees of \$26 thousand during the three months ended March 31, 2018.

Transactions with C6 Technologies AS:

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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. In the three months ended March 31, 2017 we have advanced \$0.6 million as additional loan to C6, and applied \$0.2 million interest to the loan balance. During the first quarter of 2018 we supplied C6 with personnel facility services amounting to \$0.1 million.

Transactions with other associated companies

Our relationship with TAQA and Rawabi is described in note 8 above. During 2017 we charged TAQA \$0.3 million for the lease of equipment. The amount remains outstanding at March 31, 2018. We have provided \$0.2 million of parts and spare parts to Rawabi during the year. At March 31, 2018 we have a balance of \$0.1 million owed to us by Rawabi.

At March 31, 2018, QES owe a balance of \$0.3 million in respect transition services provided following the sale of our North American businesses to QES at the end of 2015. The balance is reported as a receivable balance in our trade accounts receivable at as December 31, 2017.

Transactions with other related parties

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

- Frontline Management (Bermuda) Limited, ("Frontline")
- Seatankers Management Company Limited ("Seatankers")
- North Atlantic Drilling Ltd, or ("NADL")
- Enermech Services Inc. ("Enermech")

Frontline and Seatankers provides management support and administrative services to us, and we have recorded fees of \$0.1 and \$0.2 million for these services from these companies respectively in the three months ended March 31, 2018. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

During the Three months ended March 31, 2018, we supplied NADL with services amounting to \$0.3 million, including reimbursable material. This amount has been included in operating revenues. Also during the first quarter 2018, NADL provided warehouse space to our UK operations for which we were charged \$0.1 million.

Note 14 – Subsequent Events

None

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Appendix to first quarter financial statements 2018

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 amortisation (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, March 31, 2017, and December 31, 2016. 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					
	March 31 2018	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016
Revenue	218.3	223.7	212.3	209.2	201.6	221.4
Cost and expenses						
Operational costs	(219.8)	(224.0)	(215.2)	(213.0)	(202.1)	(223.8)
Impairments	—	(3.2)	—	—	—	—
Net financial items	4.0	(19.8)	(6.1)	109.8	(20.1)	(51.2)
Income/(loss) from continuing operations before income taxes	2.5	(23.3)	(9.0)	106.0	(20.6)	(53.6)
Income tax benefit/(expense)	1.9	0.6	4.4	6.9	(1.7)	5.1
Income/(loss) from continuing operations	4.4	(22.7)	(4.6)	112.9	(22.3)	(48.5)
(Loss)/ Income from discontinued operations, net of tax	-	-	(2.2)	-	-	(1.6)
Net (loss) / Income	4.4	(22.7)	(6.8)	112.9	(22.3)	(50.1)

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Reconciliation of GAAP to non-GAAP Measures (Unaudited)

<i>(In millions)</i>	Three Months Ended					
	March 31 2018	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016
Net Income/(loss)	4.4	(22.7)	(6.8)	112.9	(22.3)	(50.1)
Depreciation, amortisation and impairments (net of gains/losses on sale of assets)	14.7	18.2	15.7	16.7	15.4	16.4
Net financial items	(4.0)	19.8	6.1	(109.8)	20.1	51.2
Taxes on income	(1.9)	(0.6)	(4.4)	(6.9)	1.7	(5.1)
Loss from discontinued operations, net of tax	-	-	2.2	-	-	1.6
EBITDA	13.2	14.7	12.8	12.9	14.9	14.0
Restructuring costs	4.9	1.8	5.0	2.8	2.4	4.8
EBITDA before restructuring costs	18.1	16.5	17.8	15.7	17.3	18.8

EBITDA by Geographic and Strategic Areas (Unaudited)

<i>(In millions)</i>	Three Months Ended					
	March 31 2018	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016
Eastern Hemisphere	10.2	10.3	10.0	12.5	10.8	11.6
Western Hemisphere	4.7	6.1	4.4	1.7	6.1	4.8
Corporate costs	(1.7)	(1.7)	(1.6)	(1.3)	(2.0)	(2.4)
EBITDA	13.2	14.7	12.8	12.9	14.9	14.0