2015
Archer Limited

ANNUAL REPORT

Archer

Cover Photograph: Crew on Archer Topaz Modular Rig

Contents

Letter to Shareholders	2
Board of Director's Report	4
Responsibility Statement	36
Auditor's Report on Archer Limited Consolidated Financial Statements	38
Consolidated Statement of Operations for the years ended December 31, 2015 and 2014	40
Consolidated Statement of Comprehensive Loss for the years ended December 31, 2015 and 2014	41
Consolidated Balance Sheet as of December 31, 2015 and 2014	42
Consolidated Statement of Cash Flows for the years ended December 31, 2015 and 2014	43
Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2015 and 2014	44
Notes to Consolidated Financial Statements	45
Appendix A — Corporate Governance	76
Appendix B — List of Significant Subsidiaries	80
Appendix C — Supplemental parent company only information	84

Letter to Shareholders

Following the efforts to set the Company on a stronger operational footing, the performance in 2015 mirrors the dramatic deterioration of the oil and gas industry across all markets in which we operate, caused by the sudden drop in commodity prices and the resulting decline in demand for most oilfield services. Revenue from continuing operations in 2015 fell 17% as compared to 2014 and EBITDA reduced by 36% as all operating units experienced a significant sequential decline. Although I am certainly not pleased with the results, I do appreciate the effort required across our Company to make difficult choices and quickly address the market realities both in personnel reductions and, where appropriate, reducing our operational locations. In aggregate, Archer personnel were reduced by 23% year on year with the greatest reduction in North America where our headcount was reduced by 53%. Without these quick actions we would have not been able to manage the Company through such a difficult time. While managing these difficult changes I am proud to say that our organization has stayed true to its core values of Safety, Integrity and Performance and has shown measurable improvements for each of these core values.

As expected, the North American market suffered the fastest and most profound reduction of activity and pricing and we addressed the downturn in activity though aggressive changes to reduce our operational capacity. These changes started before the end of the year 2014 although the realization of the full magnitude of drop in activity levels was not anticipated at that point in time. As the magnitude of the decline became more apparent through the course of the year, changes to headcount, geographic footprint and cost structure continued, as the downturn in activity persisted and pricing pressure accelerated. At the same time, we continued our search for opportunities to build the mass necessary for our North America operations to achieve economies of scale and strengthen our capabilities to benefit the entire organization when the market improves. In December 2015, these efforts culminated with the closing of an agreement with Quintana Energy Services LP, or QES, to combine Archer's North American land based activities and QES into a single entity increasing both the scale and capabilities of both companies. As a result of the further deterioration of the North American Land Market in the first quarter 2016, the combined company has a very difficult start, but I believe the combined skill and mass of the resulting entity and the ability to achieve cost synergies gives Archer's shareholders an opportunity to realize the potential of this investment in the North American market over the medium to long term as industry fundamentals improve.

In Latin America, we had hoped to be sheltered to some extent from the full impact of international oil prices due to the continued promise of development of Argentina's shale resources and support of the oil price from the Argentine government. As the year developed we started to see pressure first on pricing and then on activity levels primarily in Southern Argentina. The falling oil price and its impact particularly on the portion of oil exported from Argentina caused severe pressure on our operations culminating in the temporary shutdown of all of Archer's drilling rigs in Southern Argentina in December of 2015. As a result, while revenues in Latin America increased year on year reflecting the start-up of our new rigs in the shale area in Neuquén, we saw a decline in our EBITDA performance primarily associated with the increase in relative costs in Southern Argentina to improve our operational performance, but also due to inflationary pressures, increased start-up costs as well as a reduction in pricing and activity more than offsetting the margins achieved with our new rigs. With regard to activity levels going forward, all involved parties have agreed on a short term solution, which provides some clarity for the coming months, but significant uncertainty about the ongoing level of operations going forward remains. We continue to work with our customers to develop a full understanding of their requirements for 2016 and beyond and will structure the Company to meet those needs.

Our North Sea operations were also severely impacted by the oil price decline, experiencing revenue reductions of approximately 30% as compared to 2014. Significant focus on cost management, including personnel reductions of 23% year on year, helped to sustain margins to some extent. The relationship we have maintained with our customer base through the provision of superior performance has supported our position as we enabled our customers to significantly reduce their overall costs by working more efficiently and in close collaboration with them and other service providers. Providing cost effective and efficient solutions such as the Archer Topaz modular drilling unit deployed on the Heimdal platform in the Norwegian Continental Shelf supported our reputation for superior performance and helped our customer to achieve its objective ahead of time and below budget.

Our Emerging Markets and Technologies segment also experienced both revenue and EBITDA declines as compared to 2014. The significant downturn in the deep water drilling market as well as continued pricing pressure across our customer base contributed to the decline. Over the course of 2015 we continued to work to expand our product offering and our geographical footprint in order to broaden our revenue opportunities. We believe this effort will support our ability to weather this downturn and also provide significant opportunities for growth when

the market turns. As in all our operating segments cost management has been, and will continue to be, a priority.

2015 proved to be a much more difficult year than was imagined a year ago. The depth of the downturn was underestimated and as a result we found ourselves continuously addressing a falling market. Our leadership team took the steps necessary in regards to personnel, equipment and locations to bring operations in line with the changing market condition. The toll on the organization was severe, particularly in the loss of many of our highly valued employees. I am proud to say that our organization has handled these changes in a thoughtful and respectful manner in keeping with our core values.

The year 2016 is anticipated to be very challenging. We expect to benefit from the changes in our structure that were made in 2015 and I believe we are in a much better positioned to address the market dynamics we have before us. We continue to operate around our values of Safety, Integrity and Performance as we believe this positions Archer to be a service company of choice to the industry. We have a leadership team that is capable and prepared to do what is necessary to make the Company successful and an employee base that is skilled and dedicated to making a difference.

David S. King
Chief Executive Officer

Board of Directors' Report
Company overview and history

Archer is a global oil services company with a heritage in drilling and well services that stretches back over 40 years. Employing more than 5,000 people at 40 locations in 19 countries, from drilling services, well integrity & intervention, plug & abandonment to decommissioning, Archer is focused on safely delivering the highest quality services and products to the drilling and well service markets.

Our comprehensive drilling and workover services include platform drilling, land drilling, modular rigs, drilling fluids, solids control, engineering services, equipment rentals, survey and inspection services as well as a select range of support services and products.

Our well services capabilities include production monitoring, well imaging, well integrity products and services, and wireline well intervention services, all aimed at improving well performance and extending well life.

We support our customers in critical processes such as well construction, well completion and production as well as well plug & abandonment and platform decommissioning. Our differentiated technologies in well bore imaging, well construction and well integrity as well as our modular rig technology are an important and integral part of this strategy.

We operate primarily in the North Sea, in Argentina, Bolivia, Norway, the United Kingdom and in the United States. In recent years we have expanded our operations into the Asia Pacific region, the Middle East and into West Africa. While we will continue our international expansion in the medium and longer term, we will focus on consolidating our presence in key markets in the short term.

Archer is a global oil services company with a heritage in drilling and well services that stretches back over 40 years. Employing more than 5,000 people at 40 locations in 19 countries, from drilling services, well integrity & intervention, plug & abandonment to decommissioning, Archer is focused on safely delivering the highest quality services and products to the drilling and well service markets.

The company conducted operations as Seawell Ltd until May 16, 2011, when shareholders approved a resolution to change the name to Archer Limited. Archer was incorporated in Bermuda on August 31, 2007, with registration number 40612, as an exempted, limited company and is organised and exists under the Laws of Bermuda.

Archer Limited's registered office is at Par la Ville Place, 14 Par la Ville Road, Hamilton HM 08, Bermuda and the office of Archer Management Limited (UK) is in 556 Chiswick High Road, Chiswick Park, Building 11, 2nd Floor, London W45YA, telephone +44 208 811 4900. Archer Limited is listed on the Oslo Stock Exchange under the ticker symbol ARCHER.NO and our web site is www.archerwell.com

Board of Directors' Report
Business overview

Principal markets
Archer operates in Angola, Argentina, Australia, Bolivia, Brazil, Canada, Congo, Denmark, Indonesia, Malaysia, New Zealand, Nigeria, Norway, Qatar, Saudi Arabia, Singapore, United Arab Emirates, United Kingdom and the United States.

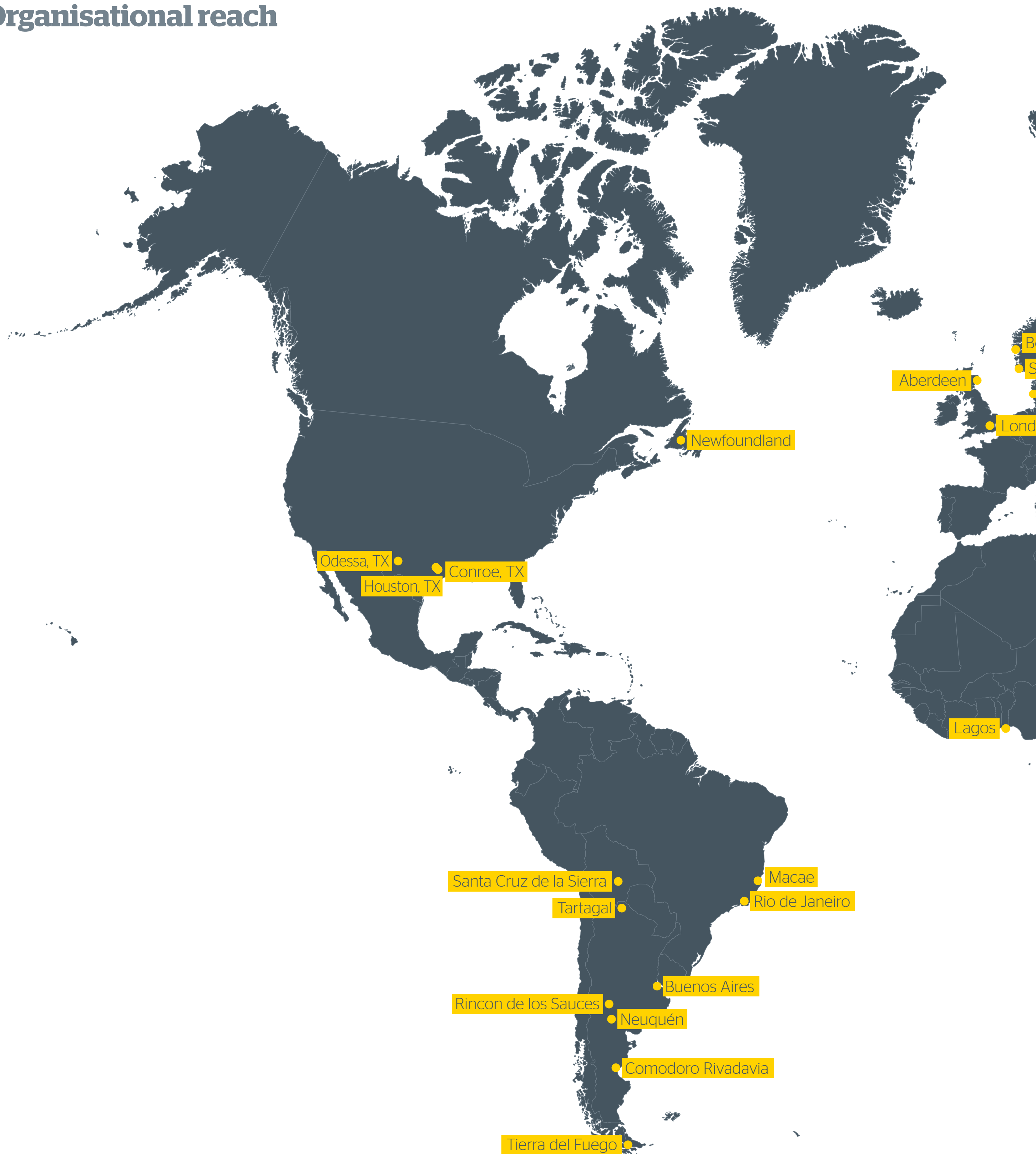
We have facilities and offices in Argentina, Australia, Bolivia, Brazil, Canada, Denmark, Hong Kong, Indonesia, Malaysia, Norway, Qatar, Singapore, the United Arab Emirates, the United Kingdom and the United States.

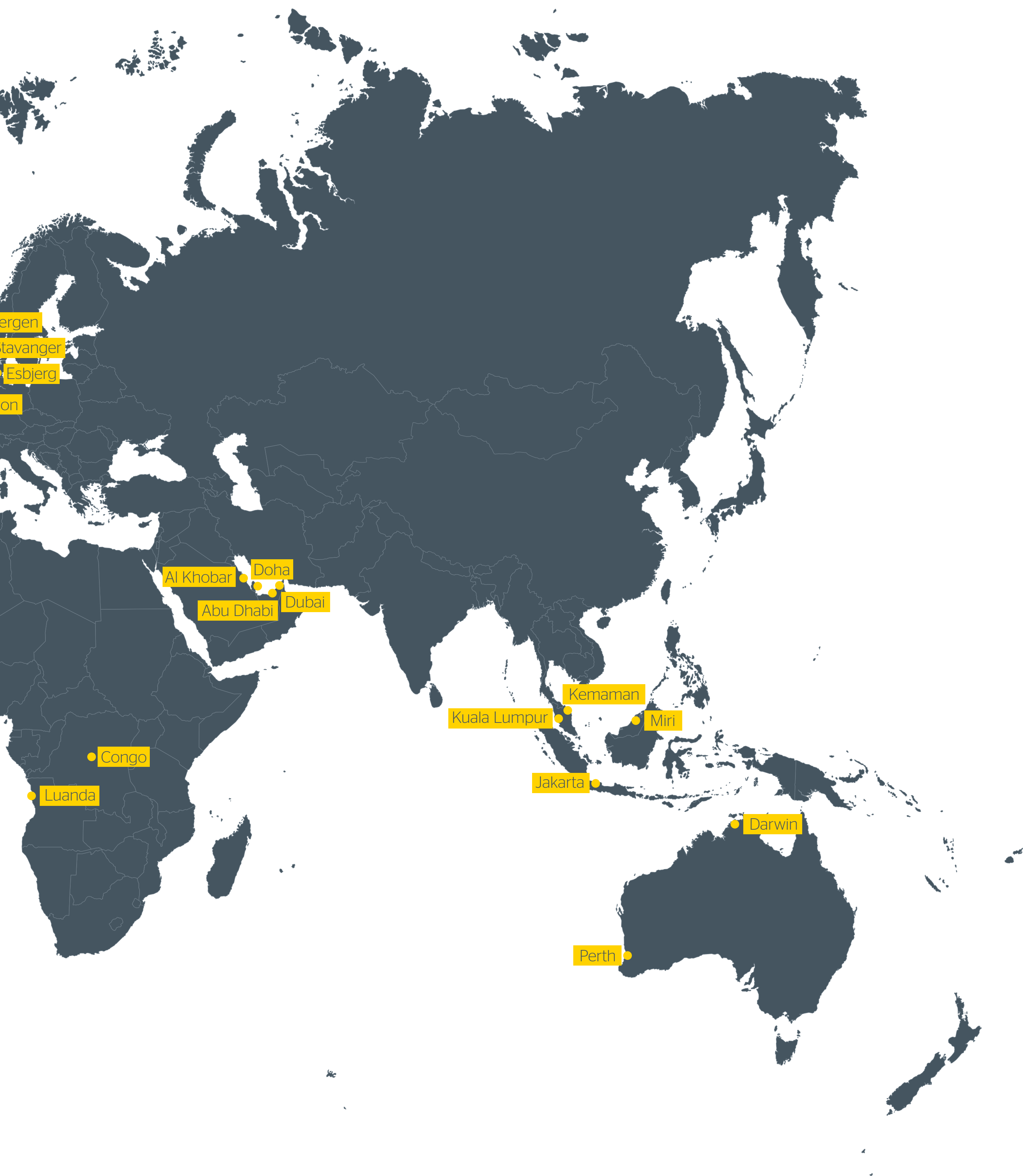
The demand for our products and services is driven by the price for hydrocarbons in the countries in which we operate. The rapid decline in the price of oil, which started in 2014 and continued throughout 2015, has led to a significant reduction in demand for our services and to some extent an oversupply of oilfield services throughout the countries in which we operate. This challenging environment has a significant negative impact on the demand and the pricing for our services in the short and medium term. Depending on the macro environment, we believe that the long-term fundamentals for the markets we operate in are sound and will allow the company to continue to grow.

Strategy
Our primary focus is to continuously improve our service and product quality in order to secure the position as "supplier of choice" for drilling services, well integrity & intervention, plug & abandonment and decommissioning, recognized for people who demonstrate our values and deliver excellence. This position will enable us to further expand our reach, both geographically and technically, and it will be the foundation to secure longer term profitable growth. We will continue to pursue opportunities to benefit from economies of scale and selectively strengthen our geographical footprint and develop technologies.

Our primary focus is to continuously improve our service and product quality in order to secure the position as "supplier of choice" for drilling services, well integrity & intervention, plug & abandonment and decommissioning, recognized for people who demonstrate our values and deliver excellence.

Board of Directors' Report
Organisational reach




Esbjerg
Al Khobar
Doha
Abu Dhabi
Dubai
Kemaman
Kuala Lumpur
Miri
Jakarta
Congo
Luanda
Darwin
Perth

Board of Directors' Report
Financial review

2015 Operating results

The following discussions are based on a continuing operations basis, after restating comparative numbers following the transaction that combined our North American Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions with Quintana Energy Services LP, or QES, an unrelated third party, on December 31, 2015. The results of our four above mentioned divested business units are shown as discontinued operations.

Revenue for the year ended December 31, 2015 was $1,321.1 million or 17.3% lower compared to the revenue for 2014 with reductions in all areas except Latin America.

Revenue in our North Sea Area Segment decreased by 30.1%, with a significant reduction in the number of operating rigs adversely impacting demand for our services combined with an unfavourable evolution of exchange rates versus the US Dollar. This was partially offset by a one-time receipt of early termination fees for Archer Emerald amounting to $34.2 million.

In our Emerging Markets and Technology segment, revenue decreased by 30.4%, primarily driven by adverse currency movements as well as lower activity levels and a significant reduction in pricing as a result of prevailing difficult market conditions.

Revenue in the remaining North American Frac Valves business decreased in line with the overall decline of activity levels in the North American shale sector leading to a significant reduction in the number of valves sold, pricing compression and unfavourable change in product mix combined with lower revenue from aftersales services.

These reductions were partially offset by higher revenue in Latin America, which was up by 8.1% with the start-up of 5 new rigs during the year and higher billing for inflation adjustments related to employee compensation and other costs. These increases were partially offset by several rigs becoming idle during the year as customers reduced their spending. Significantly reduced rates following a customer requested vacation plan in South Argentina as well as higher downtime related to inspection and repairs for a number of rigs and large pricing concessions provided on a number of contracts also negatively impacted revenue in 2015.

Our total operating expenses excluding impairment charges, for the year ended December 31, 2015 amounted to $1,283.4 million, a decrease of 13.9% compared to $1,490.5 million for the year ended December 31, 2014. This decrease is primarily due to lower activity levels, cost savings achieved following significant headcount reductions, adjustments of compensation levels, supply chain savings and other restructuring initiatives to align our cost base with lower activity and pricing levels. These favourable movements were partially offset by significantly higher restructuring costs, increased costs of goods sold primarily for Oiltools products following a change in product mix and due to start-up costs for new rigs in Argentina.

Our depreciation and amortization expenses for the year ended December 31, 2015 amounted to $79.2 million, an increase of 9.8% compared to $72.1 million for the year ended December 31, 2014 mainly as a result of incremental depreciation costs for the newly commissioned rigs in Argentina and a full year of depreciation for Archer Topaz.

During the fourth quarter of 2015, the following were considered to be circumstances which, more likely than not, would reduce the fair value of a reporting unit to below its carrying amount;

- Reduced pricing and activity levels as a result of lower demand for our products and services following drastic reduction in hydrocarbon prices over last year.
- Significant decline in our 2016 forecasted results compared to 2015 actual results.

As a consequence, we conducted a comprehensive impairment test for long-lived assets, including fixed assets, intangible assets and goodwill, which resulted in the following impairments for continuing operations: An impairment of fixed assets of $39.2 million, goodwill and intangible assets $9.5 million and inventory $1.5 million. The annual impairment testing of goodwill and intangible assets in 2014 resulted in an impairment of $22.8 million, with fixed assets impairment at $2.1 million and goodwill impairment at $20.7 million. Total impairment charges for continuing operations were at $50.2 million for the year ended December 31, 2015, compared to $22.8 million for the year ended December 31, 2014.

Our general and administrative expense for the year ended December 31, 2015 amounted to $55.1 million, a decrease of 28.1% compared to $76.6 million for the year ended December 31, 2014. The reduction is driven primarily due to down-sizing of the support structure in line with the lower level of activity.

Our interest expense for the year ended December 31, 2015 amounted to $50.2 million, an increase of 9.8% compared to $45.7 million for the year ended December 31, 2014. Net interest-bearing debt was $782.1 million at December 31, 2015, compared to $771.9 million on December 31, 2014.

Net income was negatively impacted by noncash impairment charges for continuing operations of $50.2 million.

Our other financial items for the year ended December 31, 2015 amounted to $53.7 million of expenses, compared to $54.8 million for the year ended December 31, 2014. Other financial items consist mainly of foreign exchange gains or losses arising on settlement of transactions denominated in currencies other than the functional currency as well as revaluation of outstanding foreign currency balances. In particular we have suffered unrealised exchange losses on an intercompany loan denominated in Norwegian Kroner. The expenses recognised in 2015 have resulted from weakening of currencies against the US dollar, especially the Norwegian Kroner, in which Archer transacts a significant portion of its business in the North Sea area.

Our total income tax charges for 2015 amounted to a charge of $3.7 million as compared to $17.5 million for the year ending 2014, which is entirely attributable to the lower profitability during 2015.

Our net loss from continuing operations for the year ended December 31, 2015 amounted to $123.2 million, compared to a net loss of $38.2 million for the year ended December 31, 2014.

As a direct consequence of the dramatic reduction in activity in the US land drilling market, the loss from discontinued operations, net of tax was $236.1 million compared to $61.5 million in 2014. This loss represents an operating loss of $107.2 million, non-cash impairment charges of $127.3 million and other financial expenses of $1.1 million and a net loss on the disposition of the discontinued operations of $0.5 million.

We have proposed no dividends for the year ended December 31, 2015.

Balance sheet

Our total current assets were $362.9 million at December 31, 2015 and consisted primarily of trade accounts receivables and inventory.

Our total noncurrent assets were $904.5 million at December 31, 2015 and consisted primarily of fixed assets used in our operations, goodwill and our 42% interest in QES following completion of the contribution of the majority of our North American businesses to the limited partnership.

As of December 31, 2015, our total assets amounted to $1.3 billion, a decrease of $0.5 billion as compared to December 31, 2014. The reduction is primarily due to depreciation, amortisation and impairment of fixed assets, goodwill and intangible assets. In addition our working capital has reduced due to lower activity levels.

Our total current liabilities were $319.3 million at December 31, 2015 and consisted primarily of the current portion of interest-bearing debt, accounts payable and accrued expenses.

Our total noncurrent liabilities were $750.8 million at December 31, 2015 and consisted primarily of long-term interest-bearing debt and accrued pension obligations.

Our total equity has decreased to $197.3 million at December 31, 2015, compared to $542.8 million at December 31, 2014. The decrease in equity is primarily attributable to the net loss for 2015.

Board of Directors' Report
Financial review

Cash flow
Our cash and cash equivalents, excluding restricted cash, amounted to $20.5 million as of December 31, 2015, compared to $28.9 million as of December 31, 2014.

Capital expenditures amounted to $88.7 million for the full year 2015, predominantly representing payments made for the purchase of new land rigs in Argentina commissioned with a major customer during the year.

On December 22, 2015, we signed a Fifth Amendment and Restatement Agreement relating to our multicurrency revolving facility agreement, which matures in May 2018. The total amount available under this multicurrency revolving facility is $687.5 million. The amount available under the facility will be reduced to $625 million on or before May 30, 2016. In May 2017 quarterly instalments of $25 million commence. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA. As of December 31, 2015, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility.

Parent company results 2015
Net loss from operations for the year was $359.3 million, corresponding to a net loss per share of $6.20.

Going concern
Our Board of Directors confirms their assumption of the Company as a going concern. This assumption is based on the market outlook for the oil service sector as per December 31, 2015, as well as the signed amendment to the multicurrency revolving facility and the agreement with Seadrill Limited, to provide new financing to Archer in an aggregate amount of up to $75 million in the event that Archer will not have sufficient funds to satisfy the agreed repayment and cancellation of the commitments under the multicurrency facility by May 31, 2016.
The Board believes the annual report provides a correct outline of the Company's assets and debt, financial position and financial performance.

Key figures

	2015	2014
Revenue *In $ millions*	1,321	1,598
EBITDA[1] *In $ millions*	113	177
Net loss from continuing operations *In $ millions*	(123)	(38)
Net interest bearing debt *In $ millions*	782	772
Employees at December 31	5,900	7,100

[1]EBITDA, as defined by management, is earnings before interest, taxes, depreciation, amortization and impairments.

Board of Directors' Report
Health, safety and environment

Our Health, Safety and Environmental, or HSE, philosophy is to establish and maintain an incident free work place where accidents, injuries or losses are always seen as preventable. Our primary responsibility is to ensure our employees are sufficiently trained and competent to identify, eliminate or mitigate risks while planning and undertaking their work activities.

Our expectations are that all employees will remain committed to maintaining a safe working environment while recognizing that they have an individual and collective responsibility to support the company in achieving our goal of establishing an incident free work place.

In 2015 we introduced a companywide HSE plan targeting common areas for actions which included visible leadership, validation of process and strengthening of safety culture. The plan is subject to review by the HSE executive team on a quarterly basis to ensure traction across the global organization.

This was supported by the operating regions through management employee engagement sessions conducted at the worksite and a concerted effort to disseminate lessons learned and best practice across all business units.

We continued to reinforce the need for active participation from our employees and contractors in our near miss and proactive reporting programs. Our efforts resulted in a 10% increase in participation levels based on 2014 numbers for collected and analyzed proactive reports.

Throughout the year we continued to see a positive trend in many of our HSE Key Performance Indicators, or KPI's, and are pleased to report a 31% reduction in our group total recordable incident frequency (TRIF) rate, our North Sea Platform Drilling business was the only area where we experienced an increase in the recordable, reportable incidents rate whilst three of our business units, North American Frac Valves, Drilling Facilities Engineering and Survey & Inspection worked the entire year incident free.

Within our North Sea Region we commenced operations with Archer Topaz, our second modular rig, which went on to work the remainder of 2015 without a recordable incident.

Whilst it is encouraging to report on these positive developments we must also recognize that we still have much work to do if we are to achieve our goal of realizing an incident free work place and as such we will continue to work tirelessly to identify and mitigate work place hazards and risks.

Sadly during the year one of our employees lost his life as a result of a non-work related motor vehicle incident. This tragic event serves to remind us all that road travel remains one of our greatest risks and as such requires our full attention while in our company or personal vehicles. Despite our best efforts we also incurred 16 lost time incidents for the year while expending a total of 20 million man-hours.

Area	2015		2014	
	Loss Time Injuries	Medical Treatment Cases	Loss Time Injuries	Medical Treatment Cases
North Sea	5	13	6	10
North America	4	29	17	43
Latin America	6	21	0	44
Oiltools	1	0	0	1
International Wireline	0	1	1	0
Archer Total	**16**	**64**	**24**	**98**

The table above provides a summary of our work injury statistics by business area. The figures reported for North America include those for both continuing and discontinued operations.

As can be seen from the table above we have achieved a significant reduction in our injurious incidents in both North America and Latin America. We have also seen a continued reduction year on year of our motor vehicle accident rate where we realized a 70% improvement on 2014 levels. We believe that the increased focus applied by management, the introduction of an improved journey management system in North America and the continued use of an "in vehicle" driving behavior monitoring system in Latin America has greatly assisted this reduction in incidents.

Through the year we also experienced a number of "high potential" incidents related to lifting and hoisting operations. These incidents were subject to thorough investigations which identified opportunities for improvement in our processes for dealing with "management of change".

We unfortunately recorded three environmental spills in the North American area, two related to our Pressure Pumping operations and the third within our Pressure Control operations. All three incidents were responded to immediately with specialist assistance being provided by a third party who performed the clean-up operations.

Our North Sea Region management system remains certified in accordance with ISO 9001:2008, for Quality Management, in addition our UK operations are also accredited to the ISO 14001:2006, for Environmental Management Standards.

Our Drilling and Workover operations in Argentina remain certified in accordance with ISO 9001:2008. Similarly AWC Frac Valves, Inc., our North American frac valves manufacturing company, is also certified in accordance with the ISO standard.

Board of Directors' Report
Employees and diversity

In reaction to the reduction in commodity prices that started during the fourth quarter of 2014, Archer initiated a program to down-size its headcount to align with lower activity levels. This process continued throughout 2015 as market conditions deteriorated further as the year went on. The pace of headcount reductions varied from market to market depending on the variations in activity, the prevailing legal framework and some more tactical considerations.

The North Sea market was particularly challenging and actions taken during 2015 resulted in a net reduction in headcount of 23% initially focused in the UK during the first quarter of 2015, but extending into the Norwegian sector from second quarter onwards.

In Latin America, headcount was reduced in Brazil as we exited the Brazilian land drilling market and in Bolivia in reaction to lower drilling activity. Archer's operations in Argentina were largely unaffected during the first three quarters of 2015, but saw a rapid deterioration in the fourth quarter resulting in a large reduction in workforce, which continues into 2016. In total, 10% of the Latin American workforce was laid off during 2015.

Archer's Emerging Markets & Technologies business was less affected than some of the other business units, but still experienced an 8% reduction in its workforce during 2015, primarily in the US and Norwegian markets, offset by some moderate headcount additions in the Middle East to support expansion of geographical footprints.

The North America business experienced the most severe downturn in activity and a rapid reduction in force was undertaken during the first quarter of 2015. Several subsequent reduction exercises were performed later during the year and resulted in a net reduction of 53% of the North American workforce during 2015. The contribution of the Archer's North American Well Services business units to QES on December 31, 2015 resulted in an additional 823 employees leaving Archer and moving to QES or its subsidiaries.

As of December 31, 2015, the Archer global headcount for continuing operations totalled approximately 5,900 employees, a net reduction of approximately 17% or 1,200 employees on the same basis from year end 2014. Including the businesses contributed to QES, total headcount reduced by 32% or over 2,800 employees.

Reacting to the tough market conditions necessitated making deep cuts to the workforce during 2015. Whilst this process was not a pleasant task, it was performed promptly, with active engagement of unions and other stakeholders and with compassion to those affected.

Archer is an equal opportunity employer and exercises fair treatment to all individuals regardless of race, colour, religion, gender, national origin, age, disability or any other status protected by law. This commitment applies to all employment decisions and in all the countries in which Archer operates.

Reacting to the tough market conditions necessitated making deep cuts to the workforce during 2015. Whilst this process was not a pleasant task, it was performed promptly, with active engagement of unions and other stakeholders and with compassion to those affected.

Board of Directors' Report
Risk factors

Our business is substantially dependent on the levels of expenditures by the oil and gas industry and oil and gas prices.
Demand for our business is substantially dependent on the level of expenditures by the oil and gas industry for the exploration, development and production of oil and natural gas reserves. These expenditures are generally dependent on the industry's view of future oil and natural gas prices and are sensitive to the industry's view of future economic growth and the resulting impact on demand for oil and natural gas. Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014. The continuous decline in oil and natural gas prices during 2015 is expected to cause a further reduction in most of our customers' drilling, completion and other production activities and related spending on our products and services in 2016. We believe our customers' capital expenditures will decline in 2016 and beyond if the current depressed oil and natural gas price environment continues or worsens. Recently experienced declines, as well as anticipated declines, in oil and gas prices could also result in project modifications, delays or cancellations, general business disruptions, and delays in payment, or non-payment, of amounts that are owed to us. These effects could have a material adverse effect on our financial condition, results of operations and cash flows.

Oil and natural gas prices have historically been volatile and are affected by numerous factors, including the following:

- the demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- uncertainty in capital and commodities markets;
- global weather conditions and natural disasters;
- advances in exploration, development and production technology;
- the ability of the Organisation of Petroleum Exporting Countries, commonly called OPEC, to set and maintain oil production levels and pricing;
- the level of production in non-OPEC countries;
- tax policies and governmental regulations where we operate;
- the development and exploitation of alternative fuels and the competitive, social and political position of natural gas as a source of energy compared with other energy sources;
- the policies of various governments regarding exploration and development of their oil and natural gas reserves;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, West Africa and other significant oil and natural gas-producing regions; and
- acts of terrorism or piracy that affect oil- and natural gas-producing regions, especially in Nigeria, Libya, Syria and Iraq, where armed conflict, civil unrest and acts of terrorism have recently increased.

Although we pursued a number of initiatives during 2015 to improve our liquidity and financial position and are continuing to pursue other initiatives, there can be no assurance that we will be able to successfully consummate these initiatives or that they will be successful to improve our financial condition and liquidity

Legal requirements, conservation measures and technological advances could reduce demand for oil and natural gas, which may adversely affect our business.
Environmental and energy matters have been the focus of increased scientific and political scrutiny and are subject to various legal requirements. International agreements, national laws, state laws and various regulatory schemes limit or otherwise regulate energy-related activities, such as emissions of greenhouse gasses, and additional restrictions are under consideration by governmental entities. These legal requirements, as well as fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, technological advances in fuel economy and energy generation devices, could reduce demand for oil and natural gas. We cannot predict the impact of the changing demand for oil and natural gas services and products and any major changes may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Global political, economic and market conditions could negatively impact our business.
Our financial results depend on demand for our services and products in the markets in which we operate. Declining economic conditions, or negative perceptions about economic conditions, could result in a substantial decrease in demand for our services and products. World political events could also result in further military actions, terrorist attacks, and related unrest that may impact our ability to operate in some countries.

Uncertain economic conditions and instability make it particularly difficult for us to forecast demand trends. The timing and extent of any changes to currently prevailing market conditions is uncertain, and may affect demand for many of our services and products. Consequently, we may not be able to accurately predict future economic conditions or the effect of such conditions on demand for our services and products and resulting results of operations or financial condition.

Our operations and revenue are affected by political, economic and other uncertainties worldwide.

We conduct the majority of our operations in Norway, the United Kingdom, the United States, Argentina, Brazil, and the Middle East, but also operate in parts of Asia and Africa. Risks associated with our operations in some of these areas include, but are not limited to:

- political, social and economic instability, war and armed conflict;
- potential seizure, expropriation or nationalization of assets;
- inflation;
- increased operating costs;
- complications associated with repairing and replacing equipment in remote locations;
- repudiation, modification or renegotiation of contracts, disputes and legal proceedings in international jurisdictions;
- limitations on insurance coverage, such as war-risk coverage in certain areas;
- import-export quotas or restrictions;
- confiscatory taxation;
- work stoppages or strikes;
- unexpected changes in regulatory requirements;
- wage and price controls;
- imposition of trade barriers;
- imposition or changes in enforcement of local content laws;
- the inability to collect or repatriate currency, income, capital or assets;
- foreign currency fluctuations and devaluation;
- challenges in staffing and managing international operations;
- increased governmental ownership and regulation of the economy in the markets we operate; and
- potential submission of disputes to the jurisdiction of a court or arbitration panel in one of our local operating countries.

Governments in some countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions regarding the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and natural gas companies and may continue to do so.

In some jurisdictions we are subject to governmental regulations favouring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, the local jurisdiction.

These and the other risks outlined above could cause us to curtail or terminate operations, result in the loss of personnel or assets, disrupt financial and commercial markets and generate greater political and economic instability in some of the geographic areas in which we operate.

Our industry is highly competitive with intense price competition. Our inability to compete successfully may reduce our profitability.

The markets in which we operate are highly competitive. Our contracts are traditionally awarded on a competitive-bid basis, with pricing often being the primary factor in determining which qualified contractor is awarded a job. Other competitive factors include technical capability, product and service quality and availability, responsiveness, experience, safety performance record and reputation for quality.

Several other oilfield service companies are larger than us and have resources that are significantly greater than our own. These large national and multi-national companies have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Several of our competitors provide a broader array of services and have a stronger presence in more geographic markets. Furthermore, we compete with several smaller companies capable of competing more effectively on a regional or local basis. Our competitors may be able to better withstand industry downturns, may be better suited to compete on the basis of price and may acquire new equipment and technologies quicker, all of which could affect our revenues and profitability. These competitors also compete with us for acquisitions of other businesses. As a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

Board of Directors' Report
Risk factors

A significant portion of our business is conducted in the North Sea. The mature nature of this region could result in less drilling activity in the area, thereby reducing demand for our services.
The North Sea is a mature oil and natural gas production region that has experienced substantial seismic survey and exploration activity for many years. Because a large number of oil and natural gas prospects in this region have already been drilled, additional prospects of sufficient size and quality could be more difficult to identify. Oil and natural gas companies may be unable to obtain financing necessary to drill prospects in this region. The decrease in the size of oil and natural gas prospects, the decrease in production or the failure to obtain such financing may result in reduced drilling activity in the North Sea and reduced demand for our services.

The macroeconomic and political situation in Argentina and changes to regulations affecting our Argentinian business could have a material adverse effect on our business, financial condition and results of operations.
In December 2015, Argentina elected a new government and we cannot predict what new legislation this new government will implement and how it will affect our customers or our business. Some changes could have a material adverse effect on our business, the financial condition of the Company and its results of operations.

Over the past years Argentina has implemented a strict currency control regulation, which made it very difficult to have access to foreign currencies. These restrictions imposed difficulties in settling invoices from foreign suppliers, whether third party or intercompany or to pay dividends to its shareholder outside the country. While the new government lifted most exchange controls, shortly after being sworn into to office, some controls still exist and access to international financial markets is still limited.

The oilfield service industry is highly cyclical and lower demand and pricing could result in further declines in our profitability.
Historically, the oilfield service industry has been highly cyclical with periods of high demand and favourable pricing often followed by periods of low demand and sharp reduction in pricing power. Periods of decreased demand or increased supply intensify the competition in the industry. As a result of the cyclicality of the industry in which we operate, management expects our results of operations to be volatile and to decrease during market declines.

We are subject to environmental laws and regulations that may expose us to significant liabilities for penalties, damages or compliance.
We are subject to various the various local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. We incur, and expect to continue to incur, capital and operating costs to comply with these laws and regulations. It also is possible that existing and proposed governmental conventions, laws, regulations and standards, including those related to climate and emissions of "greenhouse gases" may, in the future, add significantly to our operating costs or limit our activities or the activities and levels of capital spending by our customers.

In addition, many aspects of our operations are subject to laws and regulations that relate, directly or indirectly, to the oilfield services industry, including laws requiring us to control the discharge of oil and other contaminants into the environment or otherwise relating to environmental protection. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and even criminal penalties, the imposition of remedial obligations and the issuance of injunctions that may limit or prohibit our operations. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part.

These laws and regulations may expose us to liability for the conduct of, or conditions caused by, others or for acts that were in compliance with all applicable laws at the time the acts were performed. The application of these requirements, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploration and production activity could materially limit our future contract opportunities, materially increase our costs or both. Environmental laws and regulations are subject to change in the future, possibly resulting in more stringent legal requirements. If existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Our business depends upon our ability to obtain specialised equipment and parts from third-party suppliers and we may be vulnerable to delayed deliveries and future price increases.

We purchase specialised equipment and parts from third-party suppliers and affiliates. There are a limited number of suppliers that manufacture the equipment we use. Should our current suppliers be unable or unwilling to provide the necessary equipment and parts or otherwise fail to deliver the products in a timely manner and in the quantities required, any resulting delays in the provision of our services could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, future price increases for this type of equipment and parts could negatively impact our ability to purchase new equipment to update or expand the existing fleet or to make timely repairs to equipment in the existing fleet.

We can provide no assurance that our current backlog will be ultimately realised.

As of December 31, 2015, our total backlog was approximately $1.3 billion which is the same level as our 2015 total revenue from continuing operations. The amount of our backlog does not necessarily indicate actual future revenue or earnings related to the performance of that work. Management calculates its contract revenue backlog, or future contracted revenue, as the contract day rate multiplied by the number of days remaining on the contract, assuming full utilization and excluding revenues for contract preparation and customer reimbursables. We may not be able to perform under our contracts due to various operational factors, including unscheduled repairs, maintenance, operational delays, health, safety and environmental incidents, weather events in the North Sea and elsewhere and other factors (some of which are beyond our control), and our customers may seek to cancel or renegotiate our contracts for various reasons, including a financial downturn or falling commodity prices. In some of the contracts, our customer has the right to terminate the contract without penalty and, in certain instances, with little or no notice. Our inability or the inability of our customers to perform their respective contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

We will experience reduced profitability if our customers reduce activity levels or terminate or seek to renegotiate their contracts or if we experience downtime, operational difficulties, or safety-related issues.

Currently, our service contracts with major customers are both day-rate contracts, pursuant to which we charge a fixed charge per day regardless of the number of days needed to drill the well, and footage-based contracts, where a fixed rate per foot drilled is charged regardless of the time it takes to drill. During depressed market conditions, a customer may no longer need services that are currently under contract or may be able to obtain comparable services at a lower daily rate. As a result, customers may seek to renegotiate the terms of their existing contracts or avoid their obligations under those contracts. In addition, our customers may have the right to terminate or may seek to renegotiate existing contracts if we experience downtime, operational problems above the contractual limit or safety-related issues or in other specified circumstances, which include events beyond the control of either party.

Some of our contracts with our customers include terms allowing the customer to terminate the contracts without cause, with little or no prior notice and without penalty or early termination payments. In addition, under some of our existing contracts, we could be required to pay penalties if such contracts are terminated due to downtime, operational problems or failure to perform. Some of our other contracts with customers may be cancellable at the option of the customer upon payment of a penalty, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in our employees being idle for an extended period of time. The likelihood that a customer may seek to terminate a contract is increased during periods of market weakness. If our customers cancel or require us to renegotiate some of our significant contracts and we are unable to secure new contracts on substantially similar terms, or if contracts are suspended for an extended period of time, our revenues and profitability would be materially reduced.

Board of Directors' Report
Risk factors

If we are unable to renew or obtain new and favourable contracts for rigs or services whose contracts are expiring or are terminated, our revenues and profitability could be materially reduced.
In the ordinary course of our business, we have a number of contracts that will expire each year. Our ability to renew these contracts or obtain new contracts and the terms of any such contracts will depend on market conditions. We may be unable to renew our expiring contracts or obtain new contracts, and the day rates under any new contracts may be substantially below the existing day rates, which could materially reduce our revenues and profitability.

An oversupply of comparable rigs in the geographic markets in which we compete could depress the utilization rates and day rates for our rigs and materially reduce our revenues and profitability.
Utilisation rates, which are the number of days a rig actually works divided by the number of days the rig is available for work, and day rates, which are the contract prices customers pay for rigs per day, also are affected by the total supply of comparable rigs available for service in the geographic markets in which we compete. Improvements in demand in a geographic market may cause our competitors to respond by moving competing rigs into the market, thus intensifying price competition. Significant new rig construction could also intensify price competition. In the past, there have been prolonged periods of rig oversupply with correspondingly depressed utilisation rates and day rates largely due to earlier, speculative construction of new rigs. Improvements in day rates and expectations of longer-term, sustained improvements in utilisation rates and day rates for drilling rigs may lead to construction of new rigs. These increases in the supply of rigs could depress the utilisation rates and day rates for the rigs and materially reduce our revenues and profitability.

Loss of key members of our management could hurt our operations.
We are dependent upon the efforts and skills of key members of our management to run our business, identify and consummate additional acquisitions and to provide an environment where we can attract and retain customers. If any of our key managers resign or become unable to continue in their present roles and are not adequately replaced, our business operations could be materially adversely affected.

Our industry has experienced a high rate of employee turnover. Any difficulty we experience replacing or adding personnel could adversely affect our business.
We are dependent upon the available labour pool of skilled employees. We compete with other oilfield services businesses and other employers to attract and retain qualified personnel with the technical skills and experience required to provide our customers with the highest quality service. We may have problems finding enough skilled and unskilled labourers in the future if demand for our services increases. If we are unable to increase our service rates sufficiently to compensate for increases in wage rates our operating results could suffer. As a result of our industry volatility and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with ours. We believe that our success is dependent upon our ability to continue to employ and retain skilled technical personnel. Our inability to employ or retain skilled technical personnel generally could have a material adverse effect on our operations.

Severe weather could have a material adverse impact on our business.
Our business could be materially and adversely affected by severe weather in areas where we operate, most notably the North Sea, Brazil and certain regions of the United States. Adverse weather conditions in the North Sea can result in lower levels of offshore activity. Further, optimal weather conditions offshore Brazil normally exist only from October to April and most offshore operations in this region are scheduled for that period. Repercussions of severe weather conditions may include:

- curtailment of services;
- weather-related damage to facilities and equipment resulting in suspension of operations;
- inability to deliver materials to job sites in accordance with contract schedules; and
- loss of productivity.

We could be adversely affected if we fail to keep pace with technological changes and changes in technology could have a negative result on our market share.

We provide services in increasingly challenging onshore and offshore environments. To meet our clients' needs, we must continually develop new, and update existing, technology for the services we provide. In addition, rapid and frequent technology and market demand changes can render existing technologies obsolete, requiring substantial new capital expenditures and could have a negative impact on our market share. Any failure by us to anticipate or to respond adequately to changing technology, market demands and client requirements could adversely affect our business and financial results.

We may not be fully indemnified against losses due to personal injury, property damage, and catastrophic events. These risks may be self-insured or may not be fully covered under our insurance policies.

Substantially all of our operations are subject to hazards that are customary for exploration and production activity including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution, and mechanical failure. These hazards could result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations.

As is customary in our industry, our contracts generally provide that we will indemnify and hold harmless our customers from any claims arising from personal injury or death of our employees, damage to or loss of our equipment, and pollution emanating from our equipment and services. Similarly, our customers generally agree to indemnify and hold us harmless from any claims arising from personal injury or death of their employees, damage to or loss of their equipment, and pollution caused from their equipment or the well reservoir (including uncontained oil flow from a reservoir).

Our indemnification arrangements may not protect us in every case. For example, from time to time we may enter into contracts with less favourable indemnities or perform work without a contract that protects us. In addition, our indemnification rights may not fully protect us if we cannot prove that we are entitled to be indemnified or if the customer is bankrupt or insolvent, does not maintain adequate insurance or otherwise does not possess sufficient resources to indemnify us.

In addition, our indemnification rights may be held unenforceable in some jurisdictions. Our customers' changing views on risk allocation could cause us to accept greater risk to win new business or could result in us losing business if we are not prepared to take such risks.

Although we maintain insurance coverage of types and amounts that we believe to be customary in the industry, we are not fully insured against all risks, either because insurance is not available or because of the high premium costs. In addition, we have a significant amount of self-insured retention or deductible for certain losses relating to general liability and property damage. There can be no assurance, however, that any insurance obtained by us will be adequate to cover any losses or liabilities, or that this insurance will continue to be available or available on terms which are acceptable to us. Liabilities for which we are not insured, or which exceed the policy limits of our applicable insurance, could have a material adverse effect on us.

Our ability to do business may be impaired by corrupt behaviour by our employees or agents or those of our affiliates.

We operate in countries known to experience governmental corruption. While we are committed to conducting business in a legal and ethical manner, there is a risk that our employees or agents or those of our affiliates may take actions that violate legislation promulgated by a number of countries pursuant to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or other applicable anti-corruption regulations which generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Any failure to comply with the anti-bribery laws could subject us to fines, sanctions and other penalties against us which could have a material adverse impact on our business, financial condition and results of operations.

Cyber attacks could affect our business.

If our systems for protecting against cybersecurity risks are circumvented or breached, this could result in the loss of our intellectual property or other proprietary information, including customer data, and disruption of our business operations.

Board of Directors' Report
Risk factors

A small number of customers account for a significant portion of our operating revenues and the loss of, or a decline in the creditworthiness of, one or more of these customers could adversely affect our financial condition and results of operations.
During the year ended December 31, 2015, contracts from Pan American Energy, Statoil, and ConocoPhillips accounted for 30%, 12% and 9% of our total operating revenues, respectively. In the year ended, December 31, 2014, Pan American, Statoil and ConocoPhillips accounted for approximately 21%, 17% and 9% of our total operating revenues from continuing operations, respectively. Our financial condition and results of operations will be materially adversely affected if these customers interrupt or curtail their activities, terminate their contracts with us, fail to renew their existing contracts or refuse to award new contracts to us, and we are unable to enter into contracts with new customers at comparable day rates. The loss of any significant customer could adversely affect our financial condition and results of operations.

Additionally, this concentration of customers may increase our overall exposure to credit risk.

Many of our customers' activity levels, spending for our services and payment patterns have been and may continue to be impacted by the credit markets.
Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. During 2008, there was a significant decline in the credit and equity markets, adversely impacting the availability of capital. We believe that since March 2009, the credit and equity markets have improved. However, the sudden decline in the price of oil has a profound impact on the ability of our customers' profitability and as such their ability to have access to financing. This deterioration has a material adverse impact on our customers' willingness and ability to require and pay for our services. A consequential reduction in demand has a material adverse effect on our operations.

In addition, while historically our customer base has not presented significant credit risks, the same factors that may lead to a reduction in our customers' spending also may increase our exposure to the risks of nonpayment and nonperformance by our customers. A significant reduction in our customers' liquidity may result in a decrease in their ability to pay or otherwise perform on their obligations to us. Any increase in the nonpayment of and nonperformance by our counterparties, either as a result of recent changes in financial and economic conditions or otherwise, could have an adverse impact on our operating results and could adversely affect our liquidity.

We have recorded substantial goodwill as the result of acquisitions and a severe prolonged downturn could negatively affect the value of our goodwill.
We perform purchase price allocations to intangible assets when accounting for a business combination. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and, thereafter, to goodwill. Periodic reviews of goodwill for impairment in value are conducted at least annually. Any impairment would result in a noncash charge against earnings in the period reviewed, which may or may not create a tax benefit, and would have a corresponding decrease in stockholders' equity.

We reviewed goodwill in 2015 and in 2014 and recorded impairments of $5.5 million and $41.8 million, respectively. The testing of the valuation of goodwill involves significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations. In the event that market conditions deteriorate or other circumstances arise which result in changes to these estimates and assumptions, we may be required to record an additional impairment of goodwill and such impairment could be material.

Our results of operations may be adversely affected by currency fluctuations.

Due to our international operations, we may experience currency exchange losses when revenues are received and expenses are paid in nonconvertible currencies or when we do not hedge an exposure to a foreign currency. We also may incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital. We attempt to limit the risks of currency fluctuation and restrictions on currency repatriation where possible by obtaining contracts providing for payment of a percentage of the contract indexed to the U.S. dollar exchange rate. To the extent possible, we seek to limit its exposure to local currencies by matching the acceptance of local currencies to our local expense requirements in those currencies. We may not be able to take these actions in the future, thereby, exposing us to foreign currency fluctuations that could cause our results of operations, financial condition and cash flows to deteriorate materially.

This risk is in particular present in Argentina, where at the end of 2015 the Argentinean Peso devalued by approximately 26.5% against the US Dollar, negatively impacting the financial results of the Company.

We may not be able to grow successfully through future acquisitions or successfully manage future growth, and we may not be able to effectively integrate the businesses we do acquire.

Our business strategy includes growth through the acquisitions of other businesses. We may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets. In addition, we may not be successful in integrating our current or future acquisitions into our existing operations, which may result in unforeseen operational difficulties or diminished financial performance or require a disproportionate amount of our management's attention. Even if we are successful in integrating our current or future acquisitions into our existing operations, we may not derive the benefits, such as operational or administrative synergies, that we expected from such acquisitions, which may result in the commitment of our capital resources without the expected returns on such capital. Furthermore, competition for acquisition opportunities may escalate, increasing our cost of making further acquisitions or causing us to refrain from making additional acquisitions.

Whether we realise the anticipated benefits from an acquisition depends, in part, upon our ability to integrate the operations of the acquired business, the performance of the underlying product and service portfolio, and the performance of the management team and other personnel of the acquired operations. Accordingly, our financial results could be adversely affected from unanticipated performance issues, legacy liabilities, transaction-related charges, amortisation of expenses related to intangibles, charges for impairment of long-term assets, credit guarantees, partner performance and indemnifications.

Our investment in Quintana Energy Services L.P. might be negatively impacted due to the negative market conditions or other adverse circumstances.

On December 31, 2015 we contributed our North American Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions with Quintana Energy Services LP, an unrelated third party in exchange for 42% of the combined entity's share capital. Based on a combination of both internal and external valuations this investment has been recorded at its fair value of $148.1 million as of December 31, 2015,

As the valuation depends on expected future market developments it is highly judgemental and can fluctuate significantly based on immediate and future market conditions and there can be no assurance that we will be able to realize the value of our investment.

In the event that market conditions deteriorate or other circumstances arise which result in changes to our original estimates and assumptions, this could result in our recording significant impairment in the carrying value of our affiliates.

We have operated at a loss in the past, and there is no assurance of our profitability in the future.

Historically, we have experienced periods of low demand for our services and have incurred operating losses. In the future, we may not be able to reduce our costs, increase our revenues, or reduce our debt service obligations sufficient to achieve or maintain profitability and generate positive operating income. Under such circumstances, we may incur further operating losses and experience negative operating cash flow.

Board of Directors' Report
Risk factors

We have a significant level of debt and could incur additional debt in the future, which could have significant consequences for our business and future prospects.
As of December 31, 2015, we had total outstanding interest-bearing debt of $802.6 million. This debt represented 63.3% of our total assets. Our debt and the limitations imposed on us by our existing or future debt agreements could have significant consequences for our business and future prospects, including the following:

- we may not be able to obtain necessary financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- we will be required to dedicate a substantial portion of our cash flow from operations to payments of principal and interest on our debt;
- we could be more vulnerable during downturns in our business and be less able to take advantage of significant business opportunities and to react to changes in our business and in market or industry conditions; and
- we may have a competitive disadvantage relative to our competitors that have less debt.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our earnings and cash flow may vary significantly from year to year due to the cyclical nature of the oilfield services industry. As a result, our future cash flows may be insufficient to meet all of our debt obligations and other commitments and any insufficiency could negatively impact our business. To the extent we are unable to repay our indebtedness as it becomes due or at maturity with cash on hand, we will need to refinance our debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we may not be able to complete asset sales in a timely manner sufficient to make such repayments.

We will need to make quarterly instalment payments of $25.0 million starting in May 2017 on our syndicated facility and will further need to refinance the remaining debt from our syndicated facility as well as the subordinated debt facility before May 2018.
As per our current financing obligations, we will need to make quarterly instalment payments of $25.0 million starting in May 2017 on our syndicated facility and will further need to refinance the remaining debt from our syndicated facility as well as the subordinated debt facility before May 2018, if not otherwise refinanced.

The amounts referred to above have currently not been refinanced and we are at risk not of being able to secure funding, which could adversely affect our business.

Our credit facility imposes restrictions on us that may limit the discretion of management in operating our business and that, in turn, could impair our ability to meet our obligations.
Our credit facility contains various restrictive covenants that limit management's discretion in operating its business. In particular, these covenants limit our ability to, among other things:

- make certain types of loans and investments;
- incur or guarantee additional indebtedness;
- pay dividends, redeem or repurchase stock, prepay, redeem or repurchase other debt or make other restricted payments;
- use proceeds from asset sales, new indebtedness or equity issuances for general corporate purposes or investment into our business;
- place restrictions on our subsidiaries' ability to make dividends or other payments;
- invest in joint ventures;
- create or incur liens;
- enter into transactions with affiliates;
- sell assets or consolidate or merge with or into other companies; and
- enter into new lines of business.

The credit facility also imposes additional covenants and restrictions, including the imposition of a requirement to maintain a minimum equity ratio at all times. Our ability to comply with these financial covenants and restrictions may be affected by events beyond our control. Our credit facility requires that we meet certain financial ratios and tests, and given the difficult macro environment there can be no assurance that we will be able to comply with the financial covenants. Reduced activity levels in the exploration and production industry could adversely impact our ability to comply with such covenants in the future.

These covenants could materially and adversely affect our ability to finance our future operations or capital needs. Furthermore, they may restrict our ability to expand, to pursue our business strategies and otherwise to conduct our business. A breach of these covenants could result in a default under our credit facility. If there were to be an event of default under the credit facility, the affected creditors could cause all amounts borrowed under the facility to be due and payable immediately. Additionally, if we fail to repay indebtedness under our credit facility when it becomes due, the lender could proceed against our assets which we have pledged as security. Our assets and cash flow might not be sufficient to repay our outstanding debt in the event of a default.

Our tax liabilities could increase as a result of adverse tax audits, inquiries or settlements.

Our operations are, and may in the future become, subject to audit, inquiry and possible reassessment by different tax authorities. In accordance with applicable accounting rules relating to contingencies, management provides for taxes in the amounts that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. Management also separately considers if taxes payable in relation to filings not yet subject to audit may be higher than the amounts stated in our filed tax return and makes additional provisions for probable risks, if appropriate. As forecasting the ultimate outcome includes some uncertainty, the risk exists that adjustments will be recognised to our tax provisions in later years as and when these and other matters are finalized with the appropriate tax authorities.

Our operations are subject to a significant number of tax regimes and changes in legislation or regulations in any one of the countries in which we operate could negatively and adversely affect our results of operations.

Our operations are carried out in several countries across the world and our tax filings are, therefore, subject to the jurisdiction of a significant number of tax authorities and tax regimes, as well as cross-border tax treaties between governments. Furthermore, the nature of our operations means that we routinely have to deal with complex tax issues (such as transfer pricing, permanent establishment or similar issues), as well as competing and developing tax systems where tax treaties may not exist or where the legislative framework is unclear. In addition, our international operations are taxed on different bases that vary from country to country, including net profit, deemed net profit (generally based on turnover) and revenue-based withholding taxes based on turnover.

Our management determines our tax provision based on our interpretation of enacted local tax laws and existing practices and uses assumptions regarding the tax deductibility of items and recognition of revenue. Changes in these assumptions and practices could impact the amount of income taxes that we provide for in any given year and could negatively and adversely affect the result of our operations.

Our common shares may trade at low volumes that could have an adverse effect on the resale price.

Our common stock is traded on Oslo Børs. An active trading market may not prevail on Oslo Børs. Active and liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an active trading market for our common shares does not prevail, the price of the shares may be more volatile and it may be more difficult to complete a buy or sell order for our common shares.

Even if an active public trading market prevails, there may be little or no market demand for our common shares, making it difficult or impossible to resell the shares, which would have an adverse effect on the resale price. We cannot predict the price at which our common shares will trade.

Board of Directors' Report
Risk factors

The price of our common shares has been, and may continue to be, volatile.

The trading price of our common shares has historically fluctuated and we expect it to continue to remain highly volatile given the cyclical nature of our industry. A reduced share price may result in a loss to investors and may adversely affect our ability to issue common shares to fund our activities.

Archer is a Bermuda company and being a shareholder of a Bermuda company involves different rights and privileges than being a stockholder of a corporation registered in Norway.

The laws of Bermuda, our memorandum of association and our amended and restated by-laws govern the rights of our shareholders. Bermuda law extends to shareholders' certain rights and privileges that may not exist under Norwegian law, and conversely, does not extend rights and privileges extended by Norwegian law.

Because we are organised under the laws of Bermuda, investors may face difficulties in protecting their interests and their ability to protect their rights through courts may be limited.

It may be difficult to bring and enforce suits against us because we are organized under the laws of Bermuda. Some of our directors reside in various jurisdictions outside Norway. As a result, it may be difficult for investors to affect service of process within Norway upon our non-Norwegian directors or within other jurisdictions outside the relevant director's country of residence. Equally, it may be difficult for investors to enforce judgments obtained in the Norwegian courts or courts of other jurisdictions outside Bermuda or the relevant director's country of residence against us or our non-Norwegian directors. In addition, there is some doubt as to whether the courts of Bermuda and other countries would recognise or enforce judgments of foreign courts obtained against us or our directors or officers or would hear actions against us or those persons based on foreign laws. We have been advised by our legal advisors in Bermuda that Norway and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Some remedies available under the laws of Norway may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Therefore, a final judgment for the payment of money rendered by any federal or state court in Norway based on civil liability would not automatically be enforceable in Bermuda.

We may not have sufficient capital in the future to meet our needs. Future financings to provide this capital may dilute our shareholders' ownership.

We may raise additional capital in the future through public or private debt or equity financings by issuing additional common shares of our common stock or other preferred financing shares, debt or equity securities convertible into common or preferred shares, or rights to acquire these securities.

Our board may issue additional equity securities to fund the potential acquisition of additional businesses and pursuant to employee benefit plans. We also may issue additional equity securities for other purposes. These securities may have the same rights as our common shares or, alternatively, may have dividend, liquidation, or other preferences. The issuance of additional equity securities will dilute the holdings of existing shareholders and may reduce the price of our common shares.

Seadrill Limited and Lime Rock Partners V L.P. currently control a substantial ownership stake in us and such interests could conflict with those of our other shareholders.

Seadrill Limited, or Seadrill, currently holds 23,105,324 shares of our issued and outstanding common stock, representing approximately 39.9% as of December 31, 2015. Lime Rock Partners V L.P., or Lime Rock, currently holds 6,593,520 shares of our issued and outstanding common stock, representing approximately 11.4% as of December 31, 2015.

As a result of these substantial ownership interests in Archer, Seadrill and Lime Rock have the ability to exert significant influence over certain actions requiring shareholder approval including, but not limited to, increasing or decreasing the authorized share capital of our common stock (and disapplying preemptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with a controlling shareholder could benefit us, the interests of these significant shareholders could, at times, conflict with the interests of other holders of our common shares. Although we have in the past sought, and continue to seek, to conclude all related party transactions on an arm's-length basis, and we have adopted procedures for entering into transactions with related parties, conflicts of interest may arise between us and our principal shareholders or their respective affiliates, resulting in the conclusion of transactions on terms not determined by market forces. Any such conflicts of interest could adversely affect our business, financial condition and results of operations and, therefore, the value of our shares.

ASEP 183
WPC 1002 A
R 4450 KG
T 1200 KG
P 3250 KG
Elmar
R 1450 KG
T 1450 KG
P 0 KG
ASEP V01 - 089
WPC 1002 B
Archer

Board of Directors' Report

Share capital issues

At December 31, 2015, our authorised share capital was $10,000,000 consisting of 1,000,000,000 shares each with a par value of $0.01. All of our shares are of the same class. In September 2015, a special general meeting of shareholders approved a capital reorganisation pursuant to whichArcher's authorised share capital was consolidated, so that 10 shares, of par value $1.00 became one share of par value $10.00. Our issued share capital was then reduced by $9.99 per share, the par value of each consolidated share being thus reduced to $0.01 per share. Upon this capital reduction of the paid up share capital, all unissued $10 shares were subdivided into 1000 shares of par value $0.01 each.

As a result of the capital re-organisation, an amount of $578.6 million share capital was reclassified as contributed surplus.

At December 31, 2015, the number of shares issued was 57,915,716 corresponding to a share capital of $579,157.16. The issued shares are fully paid. There are no shares not representing the capital in the Company. The shares are equal in all respects and each share carries one vote at our General Meeting of shareholders. None of our shareholders have different voting rights. The Board is not aware of any other shareholders agreements or any take-over bids during the year.

Our shares are freely tradeable. All of our issued shares are listed on the Oslo Stock Exchange and the split of the shareholders was as per the table below:

Shareholder overview as of December 31, 2015

Seadrill	39.9%
Lime Rock	11.4%
Hemen Holdings	7.7%
Others	41.0%

Hemend Holdings is an investment company which also holds a significant shareholding in seadrill.

Corporate governance

The Board has reviewed our compliance with various rules and regulations, such as the Norwegian Accounting Act, the Norwegian Code of Practice for Corporate Governance, as well as the respective Bermuda law. A detailed discussion of each item can be found in the compliance section of this annual report in Appendix A. The Board believes that we are in compliance with the rules and regulations except for certain sections where the reasons for this noncompliance are provided.

Board of Directors' Report
Board of Directors

Composition of the Board
Overall responsibility for the management of the Company and its subsidiaries rests with the Board. Our bye-laws provide that the Board shall consist of a minimum of two directors and the shareholders have currently approved a maximum of nine directors.

Our business address at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda, serves as c/o addresses for the members of the Board in relation to their directorships of the Company.

Mrs. Cecilie Fredriksen served as a Director since September 2008 until her resignation on May 28, 2015.

Ørjan Svanevik
Chairman
Mr. Svanevik has served as a Director since May 2015 and was elected as Chairman of the Board of the Company in September 2015. Mr. Svanevik has served as a director of Seadrill Limited since October 2014 and as a director of North Atlantic Drilling Ltd., since May 2015. Mr. Svanevik joined the Seatankers Group, a related company, in July 2014 and has a broad industry background, with special knowledge of oil and gas, maritime, shipbuilding, and engineering sectors. He has extensive experience from global operations, investment management and corporate finance. Mr Svanevik was previously Managing Director for the investment advisory firm Oavik Capital from October 2008 to July 2014. Prior to this he was Head of M&A and a Partner at Aker ASA from 2005 to 2008, and COO and EVP of Kværner ASA from 2004 to 2005. Prior to this Mr Svanevik also worked in corporate advisory and Investment banking for Arkwright from 1994 to 2001. He started his career at Schlumberger, where he held various international financial management positions from 1991 to 1994. Mr Svanevik has an AMP from Harvard Business School and a MBA from Thunderbird. Mr Svanevik is a Norwegian citizen and is resident in Norway.

John Reynolds
Director
Mr. Reynolds has served as a Director since February 2011 and as Chairman of the Board of the Company between July 2013 and September 2015. Mr. Reynolds cofounded Lime Rock Partners in 1998 and is currently a managing director of Lime Rock Partners. Mr. Reynolds remains an active member of the Lime Rock Partners investment team, investigating and executing primarily energy service investment opportunities worldwide. Prior to cofounding Lime Rock Partners, Mr. Reynolds worked at Goldman Sachs where he spent six years in the investment research department and had senior analyst responsibility for global oil service sector research and was one of the top-rated analysts in the sector. He currently serves on the board of directors of EnerMech Ltd., Revelation Energy Holdings LLC, Shelf Drilling Ltd. and Tercel Oilfield Products. Previously, he served on the board of directors of Hercules Offshore Inc., Eastern Drilling ASA, IPEC Ltd., Noble Rochford Drilling Ltd., Patriot Drilling, Roxar ASA, Sensa Ltd., Tesco Corporation, Torch Offshore Inc., and VEDCO Holdings Inc. Mr. Reynolds is a U.S. citizen, resident in the United States.

Kate Blankenship
Director

Kate Blankenship has served as a Director since our incorporation in August 2007. Mrs. Blankenship has also served as a director of Frontline Ltd.since 2003. Mrs. Blankenship joined Frontline in 1994 and served as its Chief Accounting Officer and Company Secretary until October 2005. Mrs. Blankenship has been a director of Ship Finance International Limited since October 2003, Seadrill Limited since 2005, Seadrill Partners since June 2012, North Atlantic Drilling Limited since February 2011, Independent Tankers Corporation Limited, or Independent Tankers, since February 2008, Golden Ocean Group Limited since November 2004 and Avance Gas Holding Ltd since October 2013. Mrs. Blankenship served as a director of Golar LNG Limited from July 2003 until September 2015 and Golar LNG partners from September 2007 until September 2015. She is a member of the Institute of Chartered Accountants in England and Wales. Mrs. Blankenship is a British citizen, resident in the UK.

Harald Thorstein
Director

Mr Thorstein has served as a Director since May 2015. Mr. Thorstein is employed by Seatankers Consultancy Services (UK) Limited (previously "Frontline Corporate Services Limited") since 2011, prior to which he was employed in theCorporate Finance Division of DnB NOR Markets from 2008 to 2011, specializing in the offshore and shipping sectors. Mr. Thorstein has served as a director of Ship Finance International since September 2011, North Atlantic Drilling Ltd since September 2013, and Deep Sea Supply Plc since May 2013. Mr Thorstein has previously served as Chairman of the Board of Directors of Aktiv Kapital AS until July 2014 and as a director of Northern Offfshore Limited from 2012 until 2015. Mr. Thorstein has an M Sc. in Industrial Economics and Technology Management from the Norwegian University of Science and Technology.Economics and Technology Management from the Norwegian University of Science and Technology. Mr Thorstein is a Norwegian citizen, resident in the UK.

Giovanni Dell' Orto
Director

Giovanni Dell' Orto was appointed as a Director in February 2011. Mr. Dell' Orto was president and chief executive officer of DLS Drilling, Logistics and Services from 1994 to August 2006. He is a member of the board of Energy Developments and Investments Corporation (EDIC), supervising EDIC's gas marketing activities in Europe and other upstream projects in North Africa. He also is a nonexecutive member of the board of directors of Gas Plus S.p.a., an Italian company listed on the Milan Stock Exchange. Mr. Dell' Orto also has served as chairman and chief executive officer of Saipem and was a board member of Agip and Snam. Mr. Dell' Orto is an Argentinean citizen, resident in Argentina.

Alf Ragnar Løvdal
Director

Mr Løvdal has served as a Director since May 2015. Mr Løvdal is Chief Executive Officer of North Atlantic Drilling Limited since January 2013 and has served as Senior Vice President for Seadrill in the Asia Pacific region from April 2009 until December 2012. He was previously Chief Executive officer of Seawell Ltd. Mr Løvdal has 35 years of experience in the oil and gas industry, 10 years of which he was responsible for the well services business for the drilling contractor Smedvig, which Seadrill acquired in early 2006. At Smedvig, Mr Løvdal held several senior positions including general manager of operations for mobile drilling units. Prior to his employment with Smedvig and Seadrill, Mr Løvdal held various positions in different oil service companies, including five years of field experience with Schlumberger. He has a degree in mechanical engineering from Horten Engineering Academy in Norway. Mr Løvdal is a Norwegian citizen, resident in Norway.

Board independence

All directors are independent from the executive management team, all the directors are independent from the company's material business relations and two of the six directors (Alf Løvdal and Giovanni Dell' Orto) are independent from shareholders who hold 10% or more of our shares. Thus, as a whole, the Board complies with the independency requirements of Oslo Børs listing rules and the Norwegian corporate governance code.

Board of Directors' Report
Senior management

David King
Chief Executive Officer
Mr. King was appointed as Chief Executive Officer for Archer in July 2013.

Mr. King has more than 30 years' experience in the oil & gas services industry. He joined Halliburton in 1978 where he held numerous executive and leadership roles. As a member of the Executive Committee, he served as Chief Health, Safety and Environmental Officer. He was also President of the Completion and Production division and Senior Vice President of Production Optimisation. In 2010, Mr. King joined Kenda Capital as a Senior Business Advisor.

Mr. King graduated from the University of Alabama with a BSc in Civil Engineering where in 2007 he was recognised as a Distinguished Fellow of the College of Engineering, and completed the Advanced Management Program, an executive education program of Harvard Business School.

He is a US citizen residing in Houston, Texas.

John Lechner
President Eastern Hemisphere & Executive Vice President
Mr. Lechner was appointed to the position of President, Eastern Hemisphere and Executive Vice President in January 2016. He previously held the position of President North Sea and Senior Business Development Manager for Asia Pacific at Archer. Mr. Lechner has over 28 Years of oilfield experience having worked in the European, Asian, Russian, North American, Middle Eastern and Far Eastern Markets within various senior roles at Schlumberger, Parker Drilling and OiLSERV.

Mr. Lechner is a graduate of the University of Notre Dame and the University of Houston. He is a US citizen and resides in Stavanger, Norway.

Max L. Bouthillette
President Western Hemisphere, General Counsel and Executive Vice President

Mr. Bouthillette was appointed to the position of President Western Hemisphere in January 2016. He continues his role of Executive Vice President and General Counsel, which he had since August 2010. Mr. Bouthillette was previously employed for 16 years with BJ Services, Schlumberger Limited and the US law firm of Baker Hostetler LLP. His professional experience includes serving as chief compliance officer and associate general counsel for BJ Services from 2006 to 2010, as a partner with Baker Hostetler LLP from January 2004 to 2006, and in several positions with Schlumberger in North America, Asia, and Europe from 1998 to December 2003.

Mr. Bouthillette holds a degree in accounting from Texas A&M University and a Juris Doctorate from the University of Houston Law Center. Mr. Bouthillette is a US citizen and resides in Houston, Texas.

Christoph Bausch
Chief Financial Officer and Executive Vice President

Mr. Bausch has been our Executive Vice President and Chief Financial Officer since May 2011. Before joining Archer, Mr. Bausch was Global Director Finance at Transocean. Prior to this, he had a 20-year career in Schlumberger, where he held various financial positions around the world. After several financial positions in Germany, he started his international career in 1996 as region controller for Sedco Forex Contract Drilling Services in South America. From 1998 until 2000, Mr. Bausch was responsible for the financial integration of Camco International Inc. into Schlumberger. Mr. Bausch also worked as financial controller responsible for Mexico & Central America and Middle East & Asia. From 2006 to 2010 he was based in Houston as the worldwide controller for research, engineering and manufacturing activities in Schlumberger.

Mr. Bausch studied at the University of Mannheim, where he obtained a degree in Masters of Business Administration. Mr. Bausch is a German citizen based in the UK.

Board of Directors' Report
Responsibility statement

We confirm, to the best of our knowledge, that the financial statements for the year ended December 31, 2015, have been prepared in accordance with accounting principles generally accepted in the United States or US GAAP and give a true and fair view of the Company's consolidated assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the year-end Directors' Report includes a fair review of important events that have occurred during the financial year and their impact on the set of consolidated financial statements and a description of the principal risks and uncertainties.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The directors are required to prepare financial statements for each financial year. The directors have prepared the group and parent company financial statements in accordance with accounting principles generally accepted in the United States of America. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting principles generally accepted in the United States of America have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1981 (Bermuda). They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

April 2015
The Board of Archer Limited

Ørjan Svanevik
(Chairman)

Kate Blankenship
(Director)

Alf Ragnar Løvdal
(Director)

Giovanni Dell Orto
(Director)

John Reynolds
(Director)

Harald Thorstein
(Director)

Financial Statements 2015

Independent auditors' report to the members of Archer Limited

Report on the group financial statements

Our opinion

In our opinion, Archer Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

What we have audited

Archer Limited's financial statements, included within the Annual Report, comprise:

- the Consolidated balance sheet as at 31 December 2015;
- the Consolidated statement of operations, the Consolidated statement of comprehensive loss for the year then ended and the Consolidated statement of accumulated other comprehensive income/(loss) as at 31 December 2015;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law in Bermuda and accounting principles generally accepted in the United States of America.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the UK Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the company's members as a body for in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matters

We have reported separately on the company financial statements of Archer Limited for the year ended 31 December 2015.

PricewaterhouseCoopers LLP
Chartered Accountants
Cambridge, United Kingdom
March 2016

Archer Limited and Subsidiaries
Consolidated statement of operations

($ in millions, except share and per share data)	YEAR ENDED DECEMBER 31	
	2015	2014 (Restated)
Net loss		
Operating revenues	1,233.2	1,478.1
Reimbursable revenues	87.9	119.6
Total revenues	**1,321.1**	**1,597.7**
Expenses		
Operating expenses	1,074.1	1,230.1
Reimbursable expenses	79.2	114.5
Depreciation and amortisation	79.2	72.1
Net gain on sale of assets	(4.2)	(2.8)
Impairment of goodwill and noncurrent assets	50.2	22.8
General and administrative expenses	55.1	76.6
Total expenses	**1,333.6**	**1,513.3**
Operating income/(loss)	**(12.5)**	**84.4**
Financial items		
Interest income	2.5	3.0
Interest expenses	(50.2)	(45.7)
Share of results in associated company	(5.6)	(7.6)
Other financial items	(53.7)	(54.8)
Total financial items	**(107.0)**	**(105.1)**
Loss from continuing operations before income taxes	**(119.5)**	**(20.7)**
Income tax expense	(3.7)	(17.5)
Loss from continuing operations	**(123.2)**	**(38.2)**
Loss from discontinued operations, net of tax	(236.1)	(61.5)
Net loss	**(359.3)**	**(99.7)**
Basic loss per share ($) – from continuing operations	(2.12)	(0.66)
– from discontinued operations	(4.08)	(1.06)
Diluted loss per share ($) – from continuing operations	(2.12)	(0.66)
– from discontinued operations	(4.08)	(1.06)
Weighted average number of shares outstanding *(In thousands)*		
Basic	57,916	57,916
Diluted	57,916	57,916

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

Archer Limited and Subsidiaries
Consolidated statement of comprehensive loss

	YEAR ENDED DECEMBER 31	
($ in millions)	2015	2014
Net loss	**(359.3)**	**(99.7)**
Other comprehensive income / (loss) net of tax		
Change in unrealised loss related to pension	2.8	(3.2)
Change in unrealised foreign exchange differences	8.8	6.1
Other comprehensive income	**11.6**	**2.9**
Total comprehensive loss (net of tax)	**(347.7)**	**(96.8)**

Archer Limited and Subsidiaries
Consolidated statement of accumulated comprehensive income/(loss)

($ in millions)	PENSION – UNRECOGNISED GAIN/ (LOSS)	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2013	**(22.7)**	**2.7**	**(20.0)**
Net change in gains and losses and prior service cost	–	6.1	6.1
Foreign currency translation differences	(3.2)	–	(3.2)
Balance at December 31, 2014	**(25.9)**	**8.8**	**(17.1)**
Net change in gains and losses and prior service cost	–	8.8	8.8
Foreign currency translation differences	2.8	–	2.8
Balance at December 31, 2015	**(23.1)**	**17.6**	**(5.5)**

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

Archer Limited and Subsidiaries
Consolidated balance sheet

($ in millions)	DECEMBER 31	
	2015	**2014 (Restated)**
ASSETS		
Current assets		
Cash and cash equivalents	20.5	28.9
Restricted cash	8.0	15.8
Accounts receivables, net of allowance for doubtful accounts of $1.4 million and $1.6 million respectively	193.3	386.2
Inventories	83.5	97.5
Deferred tax	-	-
Other current assets	57.6	93.8
Total current assets	**362.9**	**622.2**
Noncurrent assets		
Investments in associates	148.1	0.2
Loans to associates	4.7	6.1
Property plant and equipment	554.5	870.3
Deferred tax	13.3	21.8
Goodwill	174.2	207.8
Other intangible assets	4.8	53.9
Other noncurrent assets	4.9	7.7
Total noncurrent assets	**904.5**	**1,167.8**
Total assets	**1,267.4**	**1,790.0**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of interest-bearing debt	95.0	61.0
Other current liabilities	224.3	381.1
Total current liabilities	**319.3**	**442.1**
Long-term interest-bearing debt	657.6	689.8
Subordinated related party loan	50.0	50.0
Deferred tax	9.3	11.4
Other noncurrent liabilities	33.9	53.9
Total noncurrent liabilities	**750.8**	**805.1**
Shareholders' equity		
Common shares of par value $0.01 per share; 1.0 billion shares authorised, 57,915,716 outstanding shares at December 31, 2015 (December 31, 2014: 579,159,787 shares of $1.00 par value)	0.6	579.2
Additional paid-in capital	823.3	821.1
Accumulated deficit	(1,361.2)	(1,001.9)
Accumulated other comprehensive loss	(5.5)	(17.1)
Contributed surplus	740.1	161.5
Total shareholders' equity	**197.3**	**542.8**
Total liabilities and shareholders' equity	**1,267.4**	**1,790.0**

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

Archer Limited and Subsidiaries
Consolidated statement of cash flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2015	**2014 (Restated)**
Cash Flows from Operating Activities		
Net loss	**(359.3)**	**(99.7)**
Net loss from discontinued operations	**236.1**	**61.5**
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortisation	79.2	72.1
Share-based compensation expenses	2.7	4.3
Gain on property, plant and equipment disposals	(4.2)	(2.4)
Impairment charges	50.2	22.8
Equity in loss of unconsolidated affiliates	5.6	7.6
Amortisation of loan fees and senior note premium	3.3	5.9
Deferred income taxes	(0.6)	(18.0)
Unrealised foreign currency gain	49.4	57.4
Decrease / (increase) in trade accounts receivable and other short-term receivables	97.2	(60.4)
Increase in inventories	(3.6)	(31.6)
(Decrease) / increase in trade accounts payable and other short-term liabilities	(85.2)	73.6
Change in other operating assets and liabilities, net	(23.1)	(25.8)
Cash (used in) / provided by operating activities of discontinued operations	(8.3)	70.1
Net cash provided by operating activities	**39.4**	**137.4**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(88.7)	(214.6)
Proceeds from sale of property, plant and equipment	11.0	12.9
Loans to associates	(4.6)	(7.3)
Net change in restricted cash	6.4	(1.4)
Cash used in investing activities of discontinued operations	(12.8)	(35.5)
Net cash used in investing activities	**(88.7)**	**(245.9)**

Continued next page.

Archer Limited and Subsidiaries
Consolidated statement of cash flows

Cash Flows from Financing Activities		
Borrowings under revolving facilities Repayments under revolving facilities	77.3 (22.9)	29.9 (34.9)
Proceeds from related party debt	–	50.0
Proceeds from debt	4.1	58.4
Repayment of debt	(24.3)	(21.0)
Debt issuance costs	(1.1)	(6.2)
Cash used in the financing activities of discontinued	(0.2)	(0.5)
Net cash provided by financing activities	**32.9**	**75.8**
Effect of exchange rate changes on cash and cash equivalents	8.0	12.1
Net decrease in cash and cash equivalents	**(8.4)**	**(20.6)**
Cash and cash equivalents at beginning of the year	28.9	49.5
Cash and cash equivalents at the end of the year	**20.5**	**28.9**
Interest paid	(40.0)	(35.0)
Taxes paid	(15.7)	(9.3)

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

Archer Limited and Subsidiaries
Consolidated statement of changes in shareholders' equity

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	(ACCUMULATED DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	CONTRIBUTED (DEFICIT)/ SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2013	**579.2**	**816.1**	**(902.2)**	**(20.0)**	**161.5**	**634.6**
Foreign currency translation differences	–	–	–	6.1	–	6.1
Pension – unrecognised gain	–	–	–	(3.2)	–	(3.2)
Share-based compensation	–	5.0	–	–	–	5.0
Net loss	–	–	(99.7)	–	–	(99.7)
Balance at December 31, 2014	**579.2**	**821.1**	**(1,001.9)**	**(17.1)**	**161.5**	**542.8**
Foreign currency translation differences	–	–	–	8.8	–	8.8
Pension – unrecognised gain	–	–	–	2.8	–	2.8
Adjustment to share par value	(578.6)	–	–	–	578.6	–
Share purchased for RSUs	–	(0.5)	–	–	–	(0.5)
Share-based compensation	–	2.7	–	–	–	2.7
Net loss	–	–	(359.3)	–	–	(359.3)
Balance at December 31, 2015	**0.6**	**823.3**	**(1,361.2)**	**(5.5)**	**740.1**	**197.3**

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

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 1 — General Information
Archer is an international oilfield service company providing a variety of oilfield products and services through its global organisations. Services include platform drilling, land drilling, modular rigs, engineering services, 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, organisation, we, us, our and its, or references to specific entities, is not intended to be a precise description of corporate relationships.

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

Basis of presentation
The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The amounts are presented in United States Dollars, or USD, or $ rounded to the nearest million, unless otherwise stated.

During 2015 we contributed four of our North American business divisions, namely, Archer Pressure Control, Archer Pressure Pumping, Archer Directional Drilling and Archer Wireline, to Quintana Energy Services LP, or QES, an unrelated party, in exchange for a 42% shareholding in QES. We present our financial statements on a continuing business basis and we have restated comparative figures to exclude these discontinued operations.

The accounting policies set out below have been applied consistently to all periods in these consolidated financial statements.

Basis of consolidation
Investments in companies in which we directly or indirectly hold more than 50% of the voting control are consolidated in our financial statements.

Entities in which we do not have a controlling interest but over which we have significant influence are accounted for under the equity method of accounting. Our share of after-tax earnings of equity method investees are reported under Share of results of associated companies.

A list of all significant consolidated subsidiaries is attached – see Appendix B.

Intercompany transactions and internal sales have been eliminated on consolidation.

Reclassifications
Certain amounts in prior years' consolidated financial statements are sometimes reclassified to conform to the current year presentation. In our 2015 consolidated financial statements, we have reclassified unamortised debt fees, previously reported with other assets, to report the amounts as a reduction of our outstanding debt balances, see note 16.

Note 2 — Accounting Policies
Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 predicted with certainty. Accordingly, our accounting estimates require the exercise of judgment. While management believes the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ materially 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 and 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.

Revenue recognition
We recognise revenue for services and products when purchase orders, contracts or other persuasive evidence of an arrangement with the customer exists, the price is fixed or determinable, collectability is reasonably assured and services have been performed or the product delivered. Contracts for equipment rental, drilling services or well services are provided to our customers at various contractual rates. Revenue from contract services performed on an hourly, daily or monthly rate basis is recognised as the service is performed based on the number of days completed at fixed rates stipulated by the contract. Revenues contracted on a per-job basis are recognised on a percentage completion basis, calculated with reference to time recorded against the project, budgeted total time for the project, and budgeted daily rates.

For certain contracts we receive lump-sum payments and other fees for equipment and mobilisation costs. Mobilisation fees and related costs are deferred and amortised over the contract term.

Reimbursements for the purchase of supplies, equipment, personnel services, and other services provided at the request of our customers in accordance with a contract or agreement are recorded as revenue when incurred. The related costs are recorded as reimbursable expenses when incurred.

All known or anticipated losses on contracts are provided for when they become evident.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Foreign currencies
As of December 31, 2015, most of our subsidiaries have functional currency in USD. For subsidiaries that have functional currencies other than USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

Transactions in foreign currencies during the year are translated into functional currency at the specific entity at the rates of exchange in effect on the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and noncurrent classification
Assets and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long term, unless the facts or circumstances indicate that current classification is otherwise appropriate.

Cash and cash equivalents
Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with maturity of three months or less and exclude restricted cash.

Restricted cash
Restricted cash consists mainly of bank deposits arising from advance employee tax withholdings.

Receivables
Accounts receivable are recorded in the balance sheet at their full amount less allowance for doubtful receivables. We establish reserves for doubtful receivables on a case-by-case basis. In establishing these reserves, we consider changes in the financial position of the customer, as well as customer payment history. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when they are considered unrecoverable.

Bad debt expense for 2015 was $1.5 million (2014: $0.5 million).

Inventories
Inventories are valued at the lower of first-in, first-out cost or market value. On a regular basis we evaluate our inventory balances for excess quantities and obsolescence by analysing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are written down, if necessary.

Property, plant and equipment
Property, plant and equipment are recorded at historical cost less accumulated depreciation. The cost of these assets less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our fixed assets are in the following ranges:

– Land and buildings	3 – 40 years
– Drilling and well service equipment	2 – 25 years
– Office furniture and fixtures	3 – 10 years
– Motor vehicles	3 – 7 years

We evaluate the remaining useful life of our property, plant and equipment on a periodic basis to determine whether events and circumstances warrant a revision.

Expenditures for replacements or improvements are capitalised. Maintenance and repairs are charged to operating expenses as incurred.

Fully depreciated assets are retained in property, plant and equipment and accumulated depreciation until disposal. Upon sale or retirement, the cost of property and equipment, related accumulated depreciation and write-downs are removed from the balance sheet and the net amount, less any proceeds from disposal, is charged or credited to the consolidated statement of operations.

Assets under construction
The carrying value of assets under construction represents the accumulated costs at the balance sheet date and is included in property, plant and equipment on the face of the balance sheet. Cost components include payments for instalments and variation orders, construction supervision, equipment, spare parts, capitalised interest, costs related to first-time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the new builds has been completed and it is ready for its intended use.

Capitalised interest
The amount of interest expense capitalised in an accounting period is determined by applying an interest rate or the capitalisation rate to the average amount of accumulated expenditures for the asset during the period. The capitalisation rates used in an accounting period is based on the rates applicable to our borrowings outstanding during the period. We do not capitalise amounts beyond the actual interest expense incurred in the period. We capitalised interest of $0.2 million in the year ended December 31, 2015 (2014: $1.5 million).

If our financing plans associate a specific new borrowing with a qualifying asset, we use the rate on that borrowing as the capitalisation rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalisation rate to be applied to such excess shall be a weighted average of the rates applicable to our other borrowings.

Capital leases
We lease office space and equipment at various locations. Our Oiltools division also leases operating equipment which is leased out to Archer customers. Where we have substantially all the risks and rewards of ownership, the lease is classified as a capital lease. Capital leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Each lease payment is allocated between the corresponding capital lease liability and finance charges so as to achieve a constant rate on the liability outstanding. The interest element of the capital cost is charged to the Consolidated Statement of Operations over the lease period.

Depreciation of assets held under capital leases is reported within "Depreciation and amortisation expense" in the Consolidated Statement of Operations. Capitalised leased assets are depreciated on a straight-line basis over the estimated useful economic lives of the assets or a straight-line basis over the lease term, whichever is shorter.

Intangible assets
Intangible assets are recorded at historical cost less accumulated amortisation. The cost of intangible assets is generally amortised on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of our intangible assets range from 2 to 20 years. We evaluate the remaining useful life of our intangible assets on a periodic basis to determine whether events and circumstances warrant a revision of the remaining amortisation period. Once fully amortised, the intangible's cost and accumulated amortisation are eliminated.

Trade names under which we intend to trade for the foreseeable future are not amortised. In circumstances where management decides to phase out the use of a trade name, the relevant cost is amortised to zero over the remaining estimated useful life of the asset.

Acquired technology is not amortised until ready for marketing.

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 certain components with similar economic characteristics.

The goodwill impairment test involves an initial qualitative analysis to determine whether it is more likely than not that the carrying value of our goodwill exceeds its fair value. If we conclude that our good will is more likely than not impaired, we continue with 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 and capital expenditures. The discount rate is based on our specific risk characteristics, its weighted average cost of capital and its underlying forecasts. There are inherent risks and uncertainties involved in the estimation process, such as determining growth and discount rates.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Impairment of long-lived assets and intangible assets
TThe 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 US GAAP, 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 cash-flow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment is recorded equal to the difference between the asset's carrying value and fair value.

Research and development
All research and development ("R&D") expenditures are expensed as incurred. Under the provisions of ASC 805, 'Business Combinations' acquired in-process R&D that meet the definition of an intangible asset are capitalised and amortised.

Defined benefit pension plans
We have one defined benefit plan that provides retirement, death and termination benefits. Our net obligation is calculated separately for the plan by estimating the amount of the future benefit that employees have earned in return for their cumulative service.

The projected future benefit obligation is discounted to its present value and the fair value of any plan's assets is deducted. The discount rate is the market yield at the balance sheet date on government bonds in the currency and based on terms consistent with the post-employment benefit obligations. The retirement benefits are generally a function of years of employment and amount of compensation. The plan is primarily funded through payments to insurance companies. We record our pension costs in the period during which the services are rendered by the employees. Actuarial gains and losses are recognised in the Consolidated Statement of Operations when the net cumulative unrecognised actuarial gains or losses for the plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognised over the expected remaining working lives of the employees participating in the plans. Otherwise, recognition of actuarial gains and losses is not recognised in the Consolidated Statement of Operations. We recognise the funded status of the plan in the Consolidated Balance Sheet with a corresponding adjustment to "Accumulated other comprehensive income/(loss)" and as net periodic pension cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognised as net periodic pension cost in the same periods will be recognised as a component of other comprehensive income. Those amounts will be subsequently recognised as a component of net periodic pension cost on the same basis as the amounts recognised in "Accumulated other comprehensive income/(loss)."

Income taxes
Archer is a Bermuda company. Under current Bermuda law, Archer is not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, Archer will be exempted from taxation until year 2035.

Certain of our subsidiaries operate in other jurisdictions where taxes are imposed, mainly Norway, the United States, Argentina, Brazil and the United Kingdom. For legal entities operating in taxable jurisdictions, we compute tax on income in accordance with the tax rules and regulations of the taxing authority where the income is earned. The income tax rates imposed by these authorities vary. Taxable income may differ from pre-tax income for accounting purposes. To the extent that differences are due to revenues or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred taxes is made. A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. When it is more likely than not that a portion or all of a deferred tax asset will not be realised in the future, we provide a valuation allowance against that deferred tax asset. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

The impact of changes to income tax rates or tax law is recognised in periods when the change is enacted.

Significant judgment is involved in determining the provision for income taxes. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. Our tax filings are subject to regular audit by the tax authorities in most of the jurisdictions in which we conduct our business. These audits may result in assessments for additional taxes which are resolved with the authorities or, potentially, through the courts. We recognise the impact of a tax position in our financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The level of judgment involved in estimating such potential liabilities and the uncertain and complex application of tax regulations, may result in liabilities on the resolution of such audits, which are materially different from our original estimates. In such an event, any additional tax expense or tax benefit will be recognised in the year in which the resolution occurs.

Earnings per share or EPS
Basic earnings per share are calculated based on the income/(loss) for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period including vested restricted stock units. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, for which we include share options and unvested restricted stock units.

Deferred charges
Loan-related costs, including debt arrangement fees, incurred on the initial arrangement are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortisation of loan-related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognised in the Consolidated Statement of Operations within "Interest expenses" in the period in which they are incurred. At December 31, 2015 we early adopted ASU 2015-03 and reclassified remaining unamortised debt fees, previously reported within other assets, as a reduction of our debt. We have made similar reclassifications in our 2014 comparative balance sheet.

Share-based compensation
We have established a stock option plan under which employees, directors and officers of the Archer Group may be allocated options to subscribe for new shares in Archer.

The fair value of the share options issued under our employee share option plans is determined at grant date, taking into account the terms and conditions upon which the options are granted and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognised as personnel expenses with a corresponding increase in equity over the period during which the employees become unconditionally entitled to the options.

In 2014 the Board granted restricted stock units (RSUs) to members of Archer's management team. The RSUs vest, 25% on 1 March 2015 and 25% on March 1 for each of the subsequent three years. A further grant of RSU's was made in May 2015, the units also vesting in four equal annual tranches commencing March 2016. A total number of RSUs issued in 2014 were 6,385,000, and 8,540,000 were issued in the second issue in 2015.
In September 2015 we concluded a share consolidation of our authorised and issues shares in the proportion 10:1. All share options and RSU were similarly consolidated. Following the consolidation, 961,375 RSUs remain unvested as at 31, December 2015 (2014: 587,500). The RSU's are accounted for using similar principles as applies to the share options, The Fair value, determined as the grant date quoted price of Archer shares is recognised over the vesting periods.
Compensation cost in respect of share options and RSUs is initially recognised based upon grants expected to vest with appropriate subsequent adjustments to reflect actual forfeitures. National insurance contributions will arise from such incentive programs in some tax jurisdictions. We accrue for estimated contribution over the vesting periods of the relevant instruments.

Financial instruments
From time to time, we enter into interest rate swaps in order to manage floating interest rates on debt. Interest rate swap agreements are recorded at fair value in the balance sheet when applicable. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognised asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting we formally designate the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognised in the "Accumulated other comprehensive income/(loss)" line of the Consolidated Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the Consolidated Statement of Operations in "Other financial items." Changes in the fair value of interest rate swaps are otherwise recorded as a gain or loss under "Other financial items" in the Consolidated Statement of Operations where those hedges are not designated as cash flow hedges.

Discontinued operations
We believe that the disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Archer determined that the sale of four of our North American business divisions, namely, Archer Pressure Control, Archer Pressure Pumping, Archer Directional Drilling and Archer Wireline, to QES in 2015 represented a significant strategic shift in Archer's business and has, therefore, recorded the results of operations of these divisions as discontinued operations in the years ended December 31, 2015 and 2014. The balance sheet at December 31, 2014 and the statement of cash flows for the years ended December 31, 2015, 2014 and 2013 have also been presented on a discontinued operations basis.

Segment reporting
A segment is a distinguishable component of the Company that is engaged in business activities from which it earns revenues and incurs expenses,, whose operating results are regularly reviewed by the chief operating decision maker and which is subject to risks and rewards that are different from those of other segments.

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

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

The split of our organisation 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.
Segmental data is presented in Note 24.

The accounting principles for the segments are the same as for our consolidated financial statements.

Following the contribution of the majority of the NAM business units to QES, we have reorganised our management structure and from 2016 we shall be presenting our results under two reporting segments – see note 27 Subsequent events.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Related party transactions
Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties also are related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements
The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):

ASU 2015-06 Technical Corrections and Improvements Related to Glossary Terms.
The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):

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 have adopted 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 3 — Restructuring costs
In 2015, due to the significant decline in the price of crude oil and our anticipation of a lower level of exploration and production spending in 2015 by our customers, we initiated a plan to reduce our overall costs and workforce to align with anticipated activity levels. This cost reduction plan includes a workforce reduction and other cost reduction measures initiated across our geographic regions.

In connection with the plan, we recognized restructuring charges of $20.4 million in 2015, which comprised termination (severance and early retirement) benefits of $19.3 million, office closure costs of $0.7 million and other restructuring charges of $0.4 million. $3.1 million of the restructuring costs are reported in discontinued operations and restructuring charges of $17.3, relating to continuing operations, are reported within operating expenses.

The following tables present the components of the restructuring charges by segment and plan for the year ended December 31, 2015.

($ in millions)	YEAR ENDED DECEMBER 31, 2015		
	SEVERANCE COSTS	OFFICE CLOSURE	OTHER COSTS
NAM	1.6	–	–
LAM	12.5	–	–
NRS	2.6	–	0.1
EMT	0.4	–	0.1
Discontinued operations	2.2	0.7	0.2
Total	**19.3**	**0.7**	**0.4**

At December 31 2015, we have provided for the following restructuring costs, the majority of which will be settled in the first quarter of 2016.

($ in millions)	
Severance costs	1.6
Office Closure costs	–
Other costs	0.2
Total	**1.8**

Note 4— Impairments

The continued decline in oil prices, has forced our customers to significantly reduce their expenditures in the exploration and development of their oil & gas assets, resulting in a reduction in demand for our services predominantly in North America, but also in the North Sea and to a lesser extent in other parts of the world and has led to the further depression of our share price. In addition, the above underlying condition has also led to the downward revisions of cash flow expectations underlying the valuation of our Company. As a consequence, we prepared a comprehensive impairment test for long lived assets, including intangibles and goodwill, which resulted in total impairment charges of $177.5 million being recognised in the fourth quarter of 2015, of which $50.2 million is recognised in continuing operations, comprising;

- $5.5 million of goodwill, (See Note 13)
- $4.0 million of intangible assets, predominantly customer relationships, (See Note 14)
- $39.2 million of fixed assets, the majority of which ($33.3 million), related to our two modular rigs, and
- $1.5 million of obsolete inventory.

In addition, the following impairment charges are reported within the results of discontinued operations:

- $35.1 million impairments of intangible assets
- $91.7 million impairments of fixed assets, and
- $0.5 million impairment of inventory stock

In 2014, depressed market conditions resulted in our recognition of impairment of goodwill, amounting to $20.7 million and an impairment of fixed assets amounting to $2.1. Additionally in 2014, the following impairment charges were recognised and have subsequently been reclassified to discontinued operations:

- $21.1 million impairments of Goodwill
- $16.5 million impairments of fixed assets, and

As stated in our policy noted above, we use various methods to estimate the fair value of our assets, each of which involves significant judgement. The current economic climate is adding to uncertainties in the assumptions involved in valuations based on future performance of assets. We have used the most relevant data available, including specific independent valuations for each of our land rigs. The key inputs and assumptions used in the various valuations included future market growth rates, EBITDA margins, discount factors and asset lives. Reasonable variations in these assumptions could give rise to additional impairment, particularly in relation to the discontinued North American businesses, the North Sea modular rigs and the Latin America drilling rigs. Whilst acknowledging the uncertainty and the level of judgment involved in our estimates of value, we believe our determination of impairment charges to be reasonable and prudent.

Please refer to Note 13 for further details on the calculation of goodwill impairments.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 5 – Other Financial Items

($ in millions)	YEARS ENDED DECEMBER 31	
	2015	**2014**
Foreign exchange differences	(49.4)	(57.4)
Other items	(4.3)	2.6
Total other financial items	**(53.7)**	**(54.8)**

The other financial items consist mainly of foreign exchange gains and losses arising on transactions denominated in currencies other than an entity's functional currency. In 2015 net foreign exchange losses of $49.4 million (2014: $57.4 million) resulted predominantly from an intercompany loan balance denominated in Norwegian Kroner following the weakening of the Norwegian Kroner against the US Dollar during 2015. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the weakening Kroner on the entity with Norwegian Kroner functional currency is reported as translation differences and classified as other comprehensive income.

Note 6 – Income Taxes

Our income tax expense consists of the following:

($ in millions)	YEARS ENDED DECEMBER 31	
	2015	**2014**
Current tax expense	4.3	24.4
Deferred tax benefit	(0.6)	(6.9)
Total income tax expense	**3.7**	**17.5**

Tax expense is impacted by derecognition of deferred tax assets which we do not expect to be able to utilise in the foreseeable future. We have booked valuation allowances against deferred tax relating to net operating losses and foreign tax credits in North America and Brazil, and other timing differences in Argentina. In addition, 2015 tax expenses have been impacted by adjustments to the taxable income in prior years, mainly related to North America and Europe.

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

($ in millions)	YEARS ENDED DECEMBER 31	
	2015	**2014**
United States	(0.6)	0.4
South America	0.4	5.1
Europe	3.1	12.6
Others	0.8	(0.6)
Total	**3.7**	**17.5**

The following table shows a reconciliation of the tax expense based on the expected blended tax rate, to the actual tax expense / (benefit) reported by the Archer Group:

($ in millions)	YEARS ENDED DECEMBER 31	
	2015	**2014**
Expected blended tax value re continuing operations	(42.6)	(3.8)
Tax value of losses reported in discontinued operations	(59.8)	–
Goodwill impairment	1.3	8.2
Other non-deductible expenses	4.6	5.2
Tax exempted income and credits	18.9	43.5
Foreign tax rate differences	(9.0)	–
Valuation allowances	91.3	(39.2)
Adjustments for prior years	(1.8)	(3.5)
State and withholding taxes	0.8	7.1
Actual tax expense recognised	**3.7**	**17.5**

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognised for financial reporting purposes and such amounts recognised for tax purposes. The net deferred tax assets (liabilities) consist of the following:

($ in millions)	DECEMBER 31	
	2015	**2014**
Pension	6.4	15.1
Tax loss carry forward	225.7	185.4
Impairments of tangible and intangible assets	98.7	108.2
Property differences	31.7	(1.4)
Provisions	89.1	58.2
Other	6.9	10.6
Gross deferred tax asset	**458.5**	**376.1**
Deferred tax on excess values	–	3.8
Other	9.3	7.6
Gross deferred tax liability	**9.3**	**11.4**
Net deferred tax asset before valuation allowance	**449.2**	**364.7**
Valuation allowance	(445.2)	(354.3)
Net deferred tax asset	**4.0**	**10.4**

The deferred tax asset of $225.7 million shown in the above table under Tax losses carry forward, principally relates to carried forward tax losses of $534 million originating in the United States, and which expire over a period of 20 years, and tax losses of $49 million originating in Brazil. The Brazilian tax losses can be carried forward indefinitely. The US tax losses carried forward are not affected by the disposition of the well services entities to QES, as the transaction is transparent from a tax perspective.

Overall, gross deferred tax assets increased in 2015 due to additional tax losses incurred in 2015 and further provisions made in Argentina. In each of these cases the increase in deferred tax assets is offset by an increase in the valuation allowance, so no net effect in the 2015 financial statements results from these items.

In total, the valuation allowance is a provision against net deferred tax assets relating to tax operating losses, foreign tax credits and excess tax values on drilling equipment in jurisdictions where there is a history of losses in past operating results and insufficient evidence of future realization.

Deferred taxes are classified as follows:

($ in millions)	DECEMBER 31	
	2015	**2014**
Deferred tax asset	13.3	21.8
Deferred tax liability	(9.3)	(11.4)
Net deferred tax asset	**4.0**	**10.4**

No provision has been made in respect of deferred tax on unremitted earnings from subsidiaries (2014 : Nil). No tax would be expected to be payable if unremitted earnings were repatriated to the ultimate parent.

The Archer Group operates in a number of jurisdictions and its tax filings are subject to regular audit by the tax authorities. The Archer Group's principal operations are located in Norway, Brazil, Argentina, UK, Malaysia and Canada with the earliest periods under audit or open and subject to examination by the tax authorities being; 2012, 2013, 2014 and 2015 respectively.

As in previous years, all benefits and expenses in relation to uncertain tax positions, have been analysed in terms of quantification and risk, and we have provided for uncertain benefits and expense where we believe is more likely than not that they will crystalize.

The Archer Group's accounting policy is to include interest and penalties in relation to uncertain tax positions within tax expense. Withholding taxes are expensed as and when withheld, and are credited to the income statement if and when recovered.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 7 – Discontinued Operations

On December 31, 2015, we completed a transaction with QES, whereby we contributed to QES our Pressure Pumping, Directional Drilling, Pressure Control and Wireline divisions ("Well Services Entities") which have previously been reported within our North American (NAM) segment.

The aggregate consideration paid by QES in exchange for the contribution of the Well Services Entities consisted of QES common units constituting 42% of the total common units in QES on a fully diluted basis.

From 2016 onwards, our interest in the combined company will be reported as an equity investment with our share of QES results being reported within Share of results of associated companies. This investment, as well as our North American Frac Valve division will be reported under a new reporting segment, Western Hemisphere, as discussed in Note 27, Subsequent events.

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

($ in millions)	YEARS ENDED DECEMBER 31	
	2015	2014
Revenues	276.6	655.9
Operating expenses	(304.1)	(595.9)
Selling general and administration	(9.5)	(6.9)
Impairments	(127.3)	(37.6)
Depreciation and amortization	(70.2)	(77.3)
(Loss) /gain on sale of assets	–	0.7
Interest expense	(1.0)	(0.4)
Other financial items	(0.1)	–
Gain on sale of discontinued operations, net	(0.5)	–
Loss from discontinued operations before income tax expense	(236.1)	(61.5)
Income tax expense	–	–
Loss from discontinued operations, net of tax	**(236.1)**	**(61.5)**

We allocated debt interest to discontinued operations only when it can be specifically identified with debt repaid as a result of the disposition. Interest expense included in discontinued operations above related to capital leases of equipment, which are included in the disposition.

The Well Service Entities were deconsolidated at December 31, 2015, the date of their disposition, and as such their assets and liabilities are not included within the balance sheet as at December 31, 2015. As of December 31, 2014, the carrying amounts of the major classes of assets and liabilities associated with our discontinued operations were classified as follows:

($ in millions)	DECEMBER 31, 2014
Accounts receivable	100.9
Inventory	11.1
Other current assets	9.1
Property plant & equipment	265.8
Intangible assets	42.0
Accounts payable	43.7
Other current liabilities	25.4
Capital lease obligations	4.9

Note 8 – Earnings Per Share, or EPS

The components for the calculation of basic EPS and diluted EPS and the resulting values are as follows:

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE *(in $)*
2015			
Basic loss per share from continuing operations	(123.2)	57,915,911	(2.12)
Effect of dilutive options*	—	—	—
Diluted loss per share	(123.2)	57,915,911	(2.12)
Basic loss per share from discontinued operations	(236.1)	57,915,911	(4.08)
Effect of dilutive options*	—	—	—
Diluted loss per share	(236.1)	57,915,911	(4.08)

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE *(in $)*
2014			
Basic loss per share from continuing operations	(38.2)	57,915,978	(0.66)
Effect of dilutive options*	—	—	—
Diluted loss per share	(38.2)	57,915,978	(0.66)
Basic loss per share from discontinued operations	(61.5)	57,915,978	(1.06)
Effect of dilutive options*	—	—	—
Diluted loss per share	(61.5)	57,915,978	(1.06)

**Loss per share not adjusted for dilutive in the money share options or unvested RSUs. Share based compensation of approximately 729,314 and 473,338 shares were excluded from the computation of diluted earnings per share for the years ended December 31, 2015 and 2014, respectively, as the effect would have been anti-dilutive due to the net loss for the period.*

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 9 – Inventories
Our inventories include the following:

($ in millions)	DECEMBER 31	
	2015	2014
Manufactured:		
Finished goods	22.8	12.3
Work in progress	0.8	4.6
Raw materials	2.2	10.7
Total manufactured	25.8	27.6
Drilling supplies	27.3	28.6
Chemicals	7.5	13.8
Other items and spares	22.9	27.5
Total inventories	**83.5**	**97.5**

Note 10 — Other Current Assets
Our other current assets include:

($ in millions)	DECEMBER 31	
	2015	2014
Prepaid expenses	20.7	39.6
VAT and other taxes receivable	18.4	22.2
Other short term receivables	18.5	32.0
Total other current assets	**57.6**	**93.8**

Note 11 — Investments in Associates
We have the following participation in investments that are recorded using the equity method:

	2015	2014
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.00%	50.00%
Quintana Energy Services LP	42.00%	–

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

($ in millions)	DECEMBER 31	
	2015	2014
C6 Technologies AS	–	–
Rawabi Archer Company	–	–
Quintana Energy Services LP	148.1	–
Total investments in associates	**148.1**	**–**

The components of investments in associates are as follows:

($ in millions)	DECEMBER 31					
	2015			2014		
	QES	C6	RAWABI	QES	C6	RAWABI
Net book balance at beginning of year	–	–	–	–	0.6	–
Additional capital investment	148.1	2.0	–	–	4.0	–
Share in results of associates	–	(2.0)	–	–	(4.2)	–
Currency adjustment	–	–	–	–	(0.4)	–
Net book balance at end of year	**148.1**	**–**	**–**	**–**	**–**	**–**

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

In addition to our capital investment, we have also made additional investment in C6 by way of a loan which, at December 31, 2015, amounted to $4.7 million (2014 $6.1 million) and is repayable in 2021 when we expect the developed technology to have generated sufficient funds. Our equity share of the losses incurred by C6 in 2015 are greater than the remaining carrying value of our capital investment. We have applied the remaining share of the losses as a reduction on the value of our loan due from the entity.

Rawabi Archer Company

Rawabi Archer Company or. Rawabi, is a joint venture with an unrelated Saudi company, Rawabi Holding Company Ltd. The joint venture was formed to provide oilfield services, including directional drilling, tubular services, underbalanced services, production services, and rental, drilling and completion services in Saudi Arabia. Currently, the joint venture is providing rental services in Saudi Arabia.

We have determined that Rawabi is a variable interest entity under the terms of the joint venture agreement that does not allow either shareholder, acting alone, to control the entity's operations. While we are not the primary beneficiary under the joint venture agreement, we are able to materially influence the operational and financial decisions of Rawabi and have accounted for our investment using the equity method.

In 2012, the carrying value of our investment in Rawabi was impaired to zero due to sustained historical losses. The entity has had limited activity since 2012. Our Oil tools division has recently begun trading with Rawabi with a view to extend our Oiltools business in the Saudi region. We have supplied Rawabi with inventory and services from our Oiltools business line during 2015, which are described in Note 22 Related parties.

C6 Technologies AS

In November 2010 we closed an agreement with the IKM Group, pursuant to which IKM Group acquired 50% of the shares in C6 Technologies AS, or C6, through an equity issue, and C6 simultaneously purchased 100% of the shares in Viking Intervention Technology AS, or VIT. Previously, on April 30, 2010, we announced our acquisition of VIT. VIT is a company developing an integrated carbon cable intervention system and was acquired for its complimentary product portfolio. These transactions were completed under the same terms as the initial share purchase agreement.

Following the loss of control in VIT, we deconsolidated VIT and have accounted for the investment in C6 as an investment in associates.

Quintana Energy Services LP

As discussed in Note 7, Discontinued operations above, on December 31, 2015, we contributed four of our North American business units to QES. As purchase consideration, we received units in QES amounting to 42% of the total common units in the limited partnership. We have valued our resulting investment in QES at fair value at the transaction date which we have estimated to be $148.1 million. As discussed in our risk factors, the valuation depends on expected future market developments, it is highly judgemental and can fluctuate in volatile market conditions. In the event that market conditions deteriorate or other circumstances arise which result in changes to our original estimates and assumptions, we may be required to record significant write-downs of our original investment in future periods.

We have evaluated our investment in QES under the relevant accounting guidance. We have concluded that our holding in the limited partnership does not constitute a variable interest, under US GAAP, and that the voting rights conferred to us in the partnership agreement do not give us a controlling interest, therefore we are accounting for our shares in QES under the equity method, as an investment in associated company.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 12 – Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
As of December 31, 2015				
Cost	1,007.6	30.6	26.0	1,064.2
Accumulated depreciation and impairments	(487.7)	(22.0)	–	(509.7)
Net book value	**519.9**	**8.6**	**26.0**	**554.5**
Depreciation and amortisation for 2015	72.1	4.8	–	76.9
As of December 31, 2014				
Cost	1,443.6	40.9	59.5	1,544.0
Accumulated depreciation and impairments	(648.0)	(25.7)	–	(673.7)
Net book value	**795.6**	**15.2**	**59.5**	**870.3**
Depreciation and amortization for 2014	132.5	6.6	–	139.1
Less: 2014 Depreciation of discontinued operations	(69.3)	(0.7)	–	(70.0)
Depreciation and amortization for 2014 – continued operations	**63.2**	**5.9**	**–**	**69.1**

Operational equipment includes drilling rigs and equipment and well services equipment. Other fixed assets include land and buildings, office fixtures, furniture and equipment and motor vehicles. At December 31,2015, $10.8 million of fixed assets have been pledged in respect of finance agreements for their acquisition (2014: $24.3 million)

We review our long-lived assets for impairment and for the year ended December 31, 2015 we have recognised impairments totalling $130.9 million (2014: $18.6 million) in respect of property, plant and equipment. The impairments predominately relate to assets in our pressure pumping and pressure control assets, which are impaired by $90.8 million, the charge being reported within discontinued operations, and our modular rigs against which an impairment charge of $33.3 million is reported in our results of continuing operations.

Our impairment test comprises a two-step process using estimated cash-flows to be generated by our assets. The current uncertainty and volatility in the oilfield service market makes the estimation of future performance especially difficult and a significant amount of judgement is involved in the forecast process.

In 2015 we have obtained independent third party valuations for each of our land rigs to assist in the impairment review process and to support our internal assessments of potential impairments.

Due to the lack of comparable market data available for our modular rigs, owing to their unique nature, we used several different data points to estimate their current fair value, including market data for Jack-up rigs which operate in a similar market, estimated replacement costs and estimated future cash flows that we expect the rigs to generate.

The testing for impairment of our modular rigs, and other long lived assets, involves significant judgment 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, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates and other assumptions used to estimate our assets' fair value and future reductions in our expected cash flows, current market conditions worsening or persisting for an extended period of time could lead to future material non-cash impairment charges in relation to our major assets.

Included in the cost of operational equipment is $27.5 million in respect of assets held under capital leases (2014: $38.9 million).

Note 13 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired, which represents primarily to intangible assets pertaining to the acquired workforce and expected future synergies.

($ in millions)	2015			2014		
	ASSET VALUE	IMPAIRMENT	NET VALUE	ASSET VALUE	IMPAIRMENT	NET VALUE
Value at beginning of year	886.8	(679.0)	207.8	931.3	(637.2)	294.1
Impairments of goodwill	–	(5.5)	(5.5)	–	(41.8)	(41.8)
Goodwill disposed of in sale of discontinued operations	–	–	–	–	–	–
Currency adjustments	(28.1)	–	(28.1)	(44.5)	–	(44.5)
Net book balance at end of year	**858.7**	**(684.5)**	**174.2**	**886.8**	**(679.0)**	**207.8**

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 judgment 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 a future material non-cash impairment charge in relation to our remaining goodwill.

During step one of our annual goodwill impairment testing in the fourth quarter of 2015, we considered the following qualitative indicators sufficient to trigger a quantitative test of the valuation of goodwill as we concluded that they amounted to circumstances which, more likely than not, would reduce the fair value of a reporting unit to below its carrying amount;

The continued decline in oil prices, during the fourth quarter of the year, which has forced our customers to significantly reduce their expenditures in the exploration and development of their oil & gas assets, resulted in a reduction in demand for our services and a decline in our 2015 forecasted results compared to forecasts prepared at the time of the 2014 goodwill impairment testing.

We considered the key assumptions in our goodwill valuation model, including long-term market growth predictions, the discount rate to be applied and potential tax effects. As a consequence, we concluded at December 31, 2015 that our carrying value exceeded the fair value in certain of our reporting units. After further analysis and consideration we recorded a goodwill impairment of $5.5 million, being the write off of the remaining goodwill in relation to our North America Segment. (See Note 4)

The fair value calculations are particularly sensitive to assumptions concerning revenue growth, EBITDA margin, investments for future growth, terminal value growth and the discount factor. With the majority of the remaining goodwill, relating to our North Sea and Emerging Market & Technologies Reporting Segments the sensitivity to market volatility has reduced slightly.

The fair value has been modelled under the assumptions of continuing existing contracts and incremental improvements in revenue for known new projects. We have assumed, in our model, that the current downturn in the gas and oilfield industry will continue throughout 2016, with a modest recovery in 2017. Our model takes account of our continued cost reduction strategies which, in the short term, involve some re-organisation costs. Apart from Platform Drilling and Land Drilling, where we assumed a terminal revenue growth rate of 0%, the terminal revenue growth rate was assumed at 2% with EBITDA margins being equal to the exit year. EBITDA margins were assumed to moderately improve from current low rates over the next few years. Should these revenue and margin improvements and growth rates not be obtained over the forecast period, additional levels of impairment could be required.

The impact of either an assumed 1% lower revenue growth or 1% lower than estimated margin in our model, would have an impact on our 2015 impairment calculations of approximately $1.7 million, being an impairment to Goodwill in our Oiltools reporting unit, and $0.3 million additional impairment to the goodwill in our Survey and Inspection reporting unit, respectively. Lowering the assumptions by 1% would have no significant impact on any other of our segments.

The weighted average cost of capital, or WACC, used to discount estimated future cash flows, remained unchanged from previous years at 9.8%. We also performed a sensitivity analysis on this metric as input variables such as the risk free rate of return, the volatility index beta, the market risk and small stock premium or the equity ratio is subject to change over the time horizon in the cash flow model. For example an increase of the weighted average cost of capital from 9.8% to 10.8% would lead to an additional impairment of $2.8 million in respect of goodwill allocated to our Oiltools reporting unit.

During our annual goodwill analysis in 2014, we concluded that the fair value was below carrying value for certain reporting units. The resulting impairment adjustments are disclosed in the table above, and are comprised of $41.8 million impairment of goodwill, of which $21.1 million related to the North American segment and $20.7 million to the Emerging Markets and Technology segment.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 14 — Other Intangible Assets

The following table discloses our intangible assets:

($ in millions)	TECHNOLOGY	CUSTOMER RELATIONSHIPS	TRADE NAMES	PATENTS	OTHER	TOTAL
Estimated useful lives	8–10 years	4–11 years	Indefinite	9–20 years	Indefinite	–
Remaining average amortisation period, December 31, 2015	2.6 years	2.3 years	–	7.7 years	–	–
As of December 31, 2015						
Cost	8.1	94.2	2.4	3.0	0.1	107.8
Accumulated amortisation and impairments	(6.6)	(92.9)	(2.4)	(1.0)	(0.1)	(103.0)
Net book value	**1.5**	**1.3**	**–**	**2.0**	**–**	**4.8**
Amortisation and impairments for 2015	1.1	45.5	1.5	0.3	–	48.4*
**Of which $41.9 million is reported within discontinued operations*						
As of December 31, 2014						
Cost	9.6	96.1	2.4	3.1	0.2	111.4
Accumulated amortisation and impairments	(6.7)	(49.1)	(0.9)	(0.7)	(0.1)	(57.5)
Net book value	**2.9**	**47.0**	**1.5**	**2.4**	**0.1**	**53.9**
Amortisation and impairments for 2014	1.4	8.5	–	0.3	–	10.2

Future amortisation of intangible assets as of December 31, 2015 is as follows:

($ in millions)	2016	2017	2018	2019	2020 AND THEREAFTER	ASSETS NOT CURRENTLY BEING AMORTISED	TOTAL
Intangible assets							
Customer relationships	0.6	0.6	0.1	–	–	–	1.3
Technology	0.6	0.6	0.3	–	–	–	1.5
Patents	0.3	0.3	0.3	0.3	0.8	–	2.0
Total intangible amortisations	**1.5**	**1.5**	**0.7**	**0.3**	**0.8**	**–**	**4.8**

We review all our intangible assets at least annually to ensure the carrying value remains justifiable.

We carried out our annual review of long-lived assets for impairment in the fourth quarter of 2015, as a result of which we recorded impairment charges totalling $39.1 million against our intangible assets. Most of the impairment related to assets recorded in our North American reporting segment, where we wrote off remaining customer relationships of $36.4 million due to the dramatic fall in sales in that business segment. In addition we wrote off $1.0 million of customer relationships in respect of our Survey and Inspection business in Singapore and Australia, and also $1.7 million in respect of the XIT trade name and customer relationships recorded in respect of the acquisition of the XIT business in 2012.

The judgment and assumptions employed in the testing of our intangible assets are subject to similar uncertainties as those involved in the testing of goodwill discussed above.

Our 2014 review indicated that none of our intangible assets were impaired as at December 31, 2014.

Note 15 — Other Noncurrent Assets

Our other noncurrent assets are composed of the following:

($ in millions)	DECEMBER 31	
	2015	2014
Deferred mobilisation costs	2.3	3.5
Other	2.6	4.2
Total other noncurrent assets	**4.9**	**7.7**

Note 16 — Interest-bearing Debt

($ in millions)	DECEMBER 31, 2015			DECEMBER 31, 2014		
	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	638.7	(6.8)	631.9	629.6	(8.3)	621.3
Related party subordinated loan	50.0	–	50.0	50.0	–	50.0
Hermes-covered term loans	46.0	(1.5)	44.5	69.9	(2.3)	67.6
Other loans and capital lease liability	76.2	–	76.2	61.9	–	61.9
Total loans and capital lease liability	**810.9**	**(8.3)**	**802.6**	**811.4**	**(10.6)**	**800.8**
Less: current portion	(99.7)	4.7	(95.0)	(64.2)	3.2	(61.0)
Long-term portion of interest bearing debt	**711.2**	**(3.6)**	**707.6**	**747.2**	**(7.4)**	**739.8**

With effect from December 31, 2015 we have adopted ASU 2015-03 which required that debt issuance costs are deducted from the carrying value of the financial liability and not recorded as separate assets. We have therefore reclassified $10.6 million of unamortised debt issuance fees, which were reported as assets in our 2014 financial statements.

Multicurrency term and revolving facility

On November 11, 2010, we, entered into the multicurrency term and revolving facilities agreement.

On November 12, 2014, we signed a fourth amendment and re-statement agreement relating to our multicurrency revolving facility agreement, and extended the term of the facility, which now matures in May 2018. On December 22, 2015, we signed a fifth amendment and restatement agreement relating to our multicurrency revolving facility agreement which amended the financial covenants, and reduced the amount available under the facility.

At December 31, 2015, the total amount available under the multicurrency revolving facility was $687.5 million (2014: $750 million). The amount available under the facility will be reduced to $625 million on or before May 30, 2016. In May 2017 quarterly instalments of $25 million commence. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA.

As of December 31, 2015, a total of $638.7 million was drawn under the revolving facility (2014: $629.6 million). The facility is secured by pledges over shares in material subsidiaries and assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of $250 million in favour of the lenders under the revolving facility and the lenders of the overdraft facilities, securing our obligations under these facilities. Seadrill Limited has furthermore agreed to provide new financing to Archer in an aggregate amount of up to USD 75 million in the event that Archer will not have sufficient funds for the repayment and cancellation of the commitments under the facilities by April 30, 2016.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Following the execution of the fifth amendment and restatement agreement, the main financial covenants imposed by the facility are:

- For financial quarters up to and including second quarter 2016 the last twelve months rolling EBITDA shall be at least $30 million. For third quarter 2016 to first quarter 2017 it shall be at least $45 million.
- As at June 30, 2017, our total consolidated net interest bearing debt shall not exceed 3.75x of the last twelve months EBITDA, with subsequent quarterly reduction of 0.25x until it reaches 3.0x.
- As at June 30, 2017, our minimum ratio of equity including subordinated debt and adjusted for certain revaluation effects, to total assets, is at least 30.0%.
- For each quarterly reporting date, up to and including March 31, 2017 the total equity of the group shall be at least $100 million.
- 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, for the financial year 2015 shall not exceed $120 million, and measured at the end of each financial year thereafter shall not exceed $70 million, plus any capital expenditure under specific carved out arrangements.

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

As of December 31, 2015, we are in compliance with all covenants under our debt facilities.

Related party subordinated loan

On October 24, 2014, Archer entered into a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to $50.0 million. The loan was drawn in full as at December 31, 2014 and is repayable in full at the maturity date. Interest of 7.5% per year, is being accrued over the term of the loan and is payable on the maturity date. The loan matures on June 30, 2018.

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

Hermes-covered term 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 modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At December 31, 2015, the equivalent of $36.3 million (2014: $51.9 million) was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the modular rig, Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.55 above EURIBOR. At December 31, 2015, the equivalent of $9.7 million (2014: $17.9 million) was outstanding under this facility. The covenants relating to this loan have been aligned to the covenants under our multicurrency and revolving facility.

Other loans and capital leases

We have two $45.8 million cash overdraft facilities and at December 31, 2015, net borrowings under these facilities were $44.7 million in aggregate (2014: $30.4 million). As agreed with our lenders as part of the fifth amendment and restatement agreement, the credit limit on each of these facilities will be reduced to $41.7 million on or before May 31, 2016.

In addition we have borrowed $20.6 million (2014: $10.4 million) under cash overdraft facilities in Argentina.

We have also entered into capital leases relating to equipment leased by our Oiltools division. At December 31, 2015, the net balance due under these arrangements was $10.5 million (2014: $21.2 million).

Our outstanding interest bearing debt as of December 31, 2015, is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2016	3.4	96.2	99.6
2017	3.3	88.6	91.9
2018	2.3	610.4	612.7
2019	1.4	5.2	6.6
2020	0.1	–	0.1
Thereafter	–	–	–
Total debt	**10.5**	**800.4**	**810.9**

Note 17 — Other Current Liabilities
Our other current liabilities are comprised of the following:

($ in millions)	DECEMBER 31	
	2015	2014
Accounts payable	59.0	137.5
Accrued expenses and prepaid revenues	121.0	165.8
Taxes payable	7.2	16.6
Employee withheld taxes, social security and vacation payment	35.0	52.1
Other current liabilities	2.1	9.1
Total other current liabilities	**224.3**	**381.1**

Note 18 — Other Noncurrent Liabilities
Our other noncurrent liabilities are comprised of the following:

($ in millions)	DECEMBER 31	
	2015	2014
Accrued pension and early retirement obligation	29.2	43.5
Deferred mobilisation revenue	–	2.5
Other noncurrent liabilities	4.7	7.9
Total other noncurrent liabilities	**33.9**	**53.9**

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 19 — Commitments and Contingencies

Purchase commitments

As of December 31, 2015, we have committed to purchase obligations including capital expenditure amounting to $4.9 million, (2014: $97.6 million) As at December 31, 2014, $42.6 million of commitments related to the contract for new build land drilling rigs in Argentina, all of which were delivered during 2015. As at December 31, 2015, we have significantly reduced our expenditure, both capital and operational, in response to the continued depressed market conditions within the oil and gas industry.

Guarantees

We have issued guarantees in favour of third parties as follows, which is the maximum potential future payment for each type of guarantee:

($ in millions)	DECEMBER 31	
	2015	**2014**
Guarantees to customers of the Company's own performance	58.8	65.3
Guarantee in favour of banks	21.0	2.5
Other guarantees	10.7	11.9
	90.5	**79.7**

Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of December 31, 2015, we were not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

Two of our subsidiaries are the plaintiffs in the case of Archer Drilling LLC and Rig Inspection Services (US) LLC vs. Buccaneer Energy Limited et al., wherein we claim $8.0 million from the defendants for the defendants' failure to pay for services provided. In response, the defendants raised counterclaims alleging that they are owed more than the amount we claimed in damages. On May 31, 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.

The Company's subsidiaries in Norway are members of the Shipowner's Association. At Oslo District Court, the Association has previously prevailed on claims made by our employees' Union seeking additional pension benefits and the Union appealed. The Court of Appeal ruled in favour of the Union and there is now an appeal to the Supreme Court. The Association believes the Supreme Court should reverse the Court of Appeals, nonetheless we report a potential exposure of approximately $6 million for the Company should the Association fail in its appeal. We have not made any accrual for this contingent liability in our financial statements as at December 31,2015 as, based on available precedent, we do not believe the Unions case has sufficient merit to prevail.

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 20 – Share Capital

	DECEMBER 31			
	2015		2014	
	All shares are common shares of $1.00 par value each		All shares are common shares of $1.00 par value each	
	SHARES	$ MILLION	SHARES	$ MILLION
Authorized share capital	1,000,000,000	10.0	1,200,000,000	1,200.0
Issued, outstanding and fully paid share capital	57,915,716	0.6	579,159,787	579.2

Archer shares are traded on the Oslo Börs under the symbol "ARCHER.OL." Dividends, when declared, will be denominated in NOK.

In February 2013 Archer issued 208,334,000 new shares in a private placement resulting in net proceeds of $250.0 million. Those proceeds were used to repay the $100.0 million instalment due in November 2013 under our multi-currency facility, prepay $95.0 million under that same facility and repay a $55.0 million subordinated loan from a related party. The private placement was underwritten by Archer's five largest shareholders who in aggregate own 68% of Archer's issued and outstanding share capital. The underwriters received an underwriting commission of $5.0 million which was settled through the issuance of 4,166,667 new shares of Archer. In order to facilitate the immediate settlement and delivery of freely tradable shares to the subscribers shares were made available through a share loan arrangement with Seadrill. At a special general meeting on February 13, 2013, we reduced the par value of Archer common stock from $2.00 to $1.00 and increased the number of authorised shares from 600 million to 1.2 billion. Following the par value reduction and the issuance of new shares, Archer has 579,159,787 fully paid shares of par value of $1.00 each.

Following approval by our Annual General Meeting on September 18, 2015, during the third quarter of 2015 we consolidated our authorised share capital so that 10 shares, originally of par value $1.00 became one share of par value $10.00. Our paid up share capital was then reduced by $9.99 per share, the par value of each consolidated share being thus reduced to $0.01 per share. Upon this capital reduction of the paid up share capital, all unissued $10 shares were subdivided into 1000 shares of par value $0.01 each.

As a result of the capital re-organisation, an amount of $578.6 million share capital was reclassified as contributed surplus.

Note 21 — Share Option Plans

Options on Archer shares:

We have granted options to our senior management and directors that provide the management with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the Board of Directors. The options granted under the plan vest over a period of one to five years.

As of December 31, 2015, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers. In September 2015, a 10 to 1 reverse split of Archer Limited listed shares took place. The exercise prices of the options granted have been adjusted accordingly in the below notes.

Accounting for share-based compensation

The fair value of the share options granted is recognised as personnel expenses. During 2015, $1.0 million has been expensed in our Statement of Operations ($2.6 million in 2014).

The following summarises share option transactions related to the Archer programs in 2015 and 2014:

	2015		2014	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	21,678,857	9.57	12,557,606	12.36
Granted	—	—	10,550,000	7.09
Exercised	—	—	—	—
Forfeited/expired	(2,368,877)	22.08	(1,428,749)	15.79
Modifications related to reverse split	(17,519,470)	95.76	—	—
Outstanding at end of year	**1,790,510**	**86.66**	**21,678,857**	**9.57**
Exercisable at end of year	871,776	107.37	5,638,857	16.51

Archer Limited and Subsidiaries
Notes to consolidated financial statements

No income was received in 2015 as a result of share options being exercised (2014: nil).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 60.30 and NOK 722.60. At December 31, 2015, all 14,223 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program may be exercised up to April 21, 2020. The exercise price is between NOK 184.80 and NOK 192.20. At December 31, 2015, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2009 & 2010 Program may be exercised up to December 31, 2015. The exercise price is between NOK 100.00 and NOK 220.00 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2015, all 670,000 options outstanding under the 2009 & 2010 Program expired.

Options issued under the 2011, 2012 & 2013 Program may be exercised up to December 31, 2018. The exercise price is between NOK 37.90 and NOK 200.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2015, a total of 831,000 options were outstanding under the 2011, 2012 & 2013 Program and 445,600 of these were exercisable.

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 28.72 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2015, a total of 830,001 options were outstanding under the 2014 Program and 296,667 of these were exercisable.

No options were granted during 2015. The weighted average grant-date fair value of options granted during 2014 was 24.60 per share.

As of December 31, 2015, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 28.6 million (or $3.0 million), which is expected to be recognised as expenses in 2016, 2017, 2018 and 2019 by, NOK 17.7 million (or $2.0 million), NOK 8.1 million (or $0.9 million), NOK 2.5 million (or $0.3 million) and NOK 0.3 million (or $34.000) , respectively.

The weighted average remaining contractual life of outstanding options is 36 months (2014: 49 months) and their weighted average fair value was NOK 33.80 per option (2014: NOK 34.10 per option).

We pay the employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised we settle the obligation by issuing new shares.

Valuation:
We use the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behaviour regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on history and expectation of dividend pay-outs.

We use a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of our industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from our "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

The parameters used in calculating these weighted fair values for option granted during the year were are as follows:

– average risk-free interest rate NA (2014: 1.7%);

– volatility NA (2014: 50.0%);

– dividend yield NA (2014: 0%);

– option holder retirement rate NA (2014: 10%) and

– expected term NA (2014: 3.0 years)

Restricted Stock
On February 10, 2014, the Board granted restricted stock units, orRSU's, to members of Archer's management team. The RSUs vest, 25% on 1 March 2015 and 25% on March 1 for each of the subsequent three years. The total number of RSUs initially issued is 6,160,000.

In May 2015, the Board granted further restricted stock units to members of its management team. On May 18, 2015, a total of 8,540,000 RSU's were issued. The RSUs vest, 25% on March 1, 2016 and 25% on March 1 for each of the subsequent three years.

Restricted stock awards do not receive dividends or carry voting rights during the performance period. Accordingly, the fair value of the restricted stock award is the quoted market price of Archer's stock on the date of grant less the present value of the expected dividends not received during the vesting period.

The following table summarizes information about all restricted stock transactions:

	2015		2014	
	RSU's	WEIGHTED AVERAGE GRANT DATE FAIR VALUE NOK	RSU's	WEIGHTED AVERAGE GRANT DATE FAIR VALUE NOK
Unvested at beginning of year	5,945,000.	7.12	–	–
Granted	8,745,000	2.86	6,455,000	7.12
Released	(1,382,500)	–	–	–
Forfeited	(906,250)	–	(510,000)	–
Modification due to reverse split of shares	(11,442,375)	–	–	–
Outstanding at end of year	**958,875**	**4.18**	**5,945,000**	**7.12**

Note 22 — Pension Benefits

Defined benefits plan

We have a defined benefit pension plan covering all Norwegian offshore employees as of December 31, 2015. This plan is administered by a life insurance company. Offshore employees in Norway have retirement and long-term disability pension of approximately 60 percent of salary at retirement age of 67, with a preretirement pension arrangement from age of 62.

Annual pension cost

($ in millions)	2015	2014
Benefits earned during the year	7.9	8.5
Interest cost on prior years' benefit obligation	2.3	4.4
Gross pension cost for the year	**10.1**	**12.9**
Expected return on plan assets	(2.1)	(3.3)
Administration charges	0.6	0.7
Net pension cost for the year	**8.6**	**10.4**
Social security cost	1.2	1.5
Amortisation of actuarial gains/losses	1.4	(2.1)
Impact of settlement/curtailment funded status	(5.6)	–
Impact of settlement/curtailment net actuarial gains/losses	1.6	–
Total net pension cost	**7.2**	**9.8**

The funded status of the defined benefit plan

($ in millions)	DECEMBER 31	
	2015	2014
Projected benefit obligations	90.8	106.7
Plan assets at market value	(65.2)	(65.9)
Accrued pension liability exclusive social security	**25.5**	**40.8**
Social security related to pension obligations	3.6	5.8
Accrued pension liabilities	**29.1**	**46.6**

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Change in benefit obligations

($ in millions)	2015	2014
Benefit obligations at beginning of year	106.7	118.6
Interest cost	2.3	4.4
Current service cost	7.9	8.5
Curtailments	(4.8)	–
Benefits paid	(0.7)	(1.1)
Change in actuarial gains/losses	(3.8)	3.8
Translation adjustments	(16.7)	(27.5)
Benefit obligations at end of year	**90.8**	**106.7**

Change in pension plan assets

($ in millions)	2015	2014
Fair value of plan assets at beginning of year	68.6	73.3
Estimated return	2.1	3.3
Contribution by employer	8.9	12.9
Administration charges	(0.6)	(0.7)
Curtailments	–	–
Benefits paid	(0.7)	(0.7)
Change in actuarial gains/losses	(1.7)	(2.1)
Translation adjustments	(11.4)	(17.3)
Fair value of plan assets at end of year	**65.2**	**68.6**

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets, discount rates, compensation increases and employee turnover rates. We evaluate the assumptions periodically and make adjustments to these assumptions and the recorded liabilities as necessary.

Two of the most critical assumptions used in calculating our pension expense and liabilities are the expected rate of return on plan assets and the assumed discount rate. We evaluate assumptions regarding the estimated rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by a third party investment advisor utilising the asset allocation classes held by the plan's portfolios. In determining the discount rate we utilized the Norwegian Government 10-year bond effective yield plus 0.3-0.5 percent. Changes in these and other assumptions used in the actuarial computations could impact the projected benefit obligations, pension liabilities, pension expense and other comprehensive income.

Assumptions used in calculation of pension obligations

	2015	2014
Rate of compensation increase at the end of year	2.50%	2.50%
Discount rate at the end of year	2.70%	2.30%
Prescribed pension index factor	1.20%	1.20%
Expected long term rate of return on plan assets	3.30%	3.20%
Turnover	4.00%	4.00%
Expected increases in Social Security Base	2.25%	2.50%

The asset allocation of funds related to our defined benefit plan was as follows:

Pension benefit plan assets

	DECEMBER 31	
	2015	2014
Equity securities	10.1%	8.3%
Debt securities	47.5%	50.1%
Real estate	14.7%	14.9%
Money market	25.2%	24.3%
Other	2.5%	2.4%
Total	**100.0%**	**100.0%**

The investment policies and strategies for the pension benefit plan funds do not use target allocations for the individual asset categories. The investment objectives are to maximise returns subject to specific risk management policies. We address diversification by the use of domestic and international fixed income securities and domestic and international equity securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The estimated yearly return on pension assets was 3.3% in 2015 (2014: 3.2%).

Cash flows — Benefits expected to be paid

The table below shows our expected annual pension plan payments under defined benefit plans for the years 2016–2025. The expected payments are based on the assumptions used to measure our obligations at December 31, 2015, and include estimated future employee services.

($ in millions)	
2016	8.3
2017	8.5
2018	8.7
2019	8.9
2020	9.1
2021-2025	48.7
Total payments expected during the next 10 years	**92.2**

Defined Contributions Plans

We contribute to a private defined contribution pension plan for our UK onshore workforce in addition to our employees working offshore on the UK continental shelf. Eligible employees may contribute a minimum of 2% of their salary to the scheme, and we contribute between 5% and 7.5% to participants' plans. In 2015 we contributed $4.2 million (2014: $5.4 million) to the plan.

We also contribute to the 401(k) Profit Sharing Plan adopted for the US employees. The plan is a defined contribution savings plans designed to provide retirement income to eligible employees. It is funded by voluntary pre-tax contributions from employees up to statutory limits based on percentage of salary. We fund the plans with matching contributions. In 2015 we contributed $2.1 million to 401(k) plans for our employees (2014: $3.1 million).

Note 23 — Related Party Transactions

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

Transactions with Seadrill;

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

During the twelve months ended December 31, 2015, we supplied Seadrill and affiliates with services amounting to $3.6 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2015, Seadrill owed us $0.2 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 December 31, 2015. Accrued interest of 7.5% is payable on the loan, and will be accumulated and paid on the maturity date. The loan matures on June 30, 2018.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Seadrill has provided the following guarantees on behalf of the Archer Group:

- a guarantee of €33 million, equivalent to $36.0 million, to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 10). Annual guarantee fees are charged at 1.25% of the guaranteed amount.
- a guarantee of $250.0 million to the lenders of our revolving facility (see Note 10). Annual guarantee fees are charged at 1.25% of the guaranteed amount.
- A guarantee totalling $16.2 million was provided to various insurance companies on behalf of Archer Well Company Inc..
- a performance guarantee up to the value of NOK 66 million, or $7.5 million.

We are accruing fees of 1.25% on the amounts guaranteed in respect of these guarantees. As at December 31, 2015, we have accrued total guarantee fees of $9.9 million which are due at the end of the guarantee periods. The guarantee fees are being accrued over the guarantee period.

Transactions with C6 Technologies AS:
We own 50% of C6 Technologies AS, an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010. During 2014 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner. The settlement of the purchase price was through a loan agreement amounting to 10 million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the of tools being developed by C6 Technologies AS.As at December 31, 2015, we have a receivable balance of $4.7 million due from C6 under an interest bearing loan agreement.

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 "Sevan"
- EnerMech Mechanical Services Inc.

Frontline provides management support and administrative services to us, and we have recorded fees of $0.6 million for these services in the twelve months ended December 31, 2015. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At December 31, 2015, Archer owed Frontline $0.1 million related to these services.

During the twelve months ended December 31, 2015, we supplied NADL with services amounting to $2.1 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2015, NADL owed us $0.3 million related to these services.

During the twelve months ended December 31, 2015, we supplied Sevan with services amounting to $0.5 million, including reimbursable material. At December 31, 2015, Sevan owed us $0.1 million related to these services.

EnerMech provided products and services to the company totalling $0.5m for the twelve month ended December 31, 2015. At December 31, 2015, Archer had paid the balance due to EnerMech in full.

Note 24 — Reporting and Geographical Segment Information
Following the significant expansion of the business in 2011, the management structure of the group was reorganised in 2012 with focus on four geographic and strategic areas: North America, Latin America, North Sea and Emerging Markets and Technologies.

The split of our organisation 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.

Following the deconsolidation of the majority of the NAM business units we have re-organised our management structure and from January 1, 2016 onwards, we shall be presenting our results under two reporting segments – see note 27 Subsequent events. We have, in addition, following this transaction decided to report our corporate costs separately and not to allocate them to the segments. Corporate costs include costs for the corporate management team, director fees, corporate audit fees, stock-based compensation costs and other related costs which are centrally managed. 2014 comparative figures shown in the tables below have been adjusted to reflect this change in presentation.

($ in millions)	FOR THE YEARS ENDED DECEMBER 31	
	2015	2014
Revenues from external customers		
North America	21.5	58.7
Latin America	635.5	587.9
North Sea	517.7	740.8
Emerging Markets & Technologies	146.4	210.3
Total	**1,321.1**	**1,597.7**
Depreciation and amortisation		
North America	3.0	1.9
Latin America	39.3	32.7
North Sea	20.2	18.2
Emerging Markets & Technologies	16.7	19.3
Total	**79.2**	**72.1**
Operating (loss) / income — net loss		
North America	(17.8)	7.4
Latin America	(21.7)	29.3
North Sea	32.1	62.4
Emerging Markets & Technologies	9.7	4.2
Corporate costs	(12.1)	(13.9)
Stock compensation costs	(2.7)	(5.0)
Operating loss	**(12.5)**	**84.4**
Total financial items	(107.0)	(105.1)
Income taxes	(3.7)	(17.5)
Discontinued operations, net of tax	(236.1)	(61.5)
Net loss	**(359.3)**	**(99.7)**
Capital expenditures – fixed assets		
North America	0.8	4.3
Latin America	75.1	120.4
North Sea	8.0	60.6
Emerging Markets & Technologies	4.8	28.0
Discontinued operations	17.7	43.0
Total	**106.4**	**256.3**

($ in millions)	AS OF DECEMBER 31	
	2015	2014
Total assets		
North America	188.4	484.9
Latin America	608.2	594.3
North Sea	328.1	442.0
Emerging Markets & Technologies	142.7	268.8
Total	**1,267.4**	**1,790.0**

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Goodwill

($ in millions)	NAM	LAM	NRS	EMT	TOTAL
Balance at December 31, 2013	**5.5**	**—**	**132.8**	**155.8**	**294.1**
Transfer of Wireline International US	21.1	—	—	(21.1)	—
Impairment	(21.1)	—	—	(20.7)	(41.8)
Exchange rate fluctuations on goodwill measured in foreign currency	—	—	(21.0)	(23.5)	(44.5)
Balance at December 31, 2014	**5.5**	**—**	**111.8**	**90.5**	**207.8**
Impairment	(5.5)	—	—	—	(5.5)
Exchange rate fluctuations on goodwill measured in foreign currency	—	—	(13.2)	(14.9)	(28.1)
Balance at December 31, 2015	**—**	**—**	**98.6**	**75.6**	**174.2**

Geographic information by country

($ in millions)	YEARS ENDED DECEMBER 31	
	2015	2014
Revenue		
Norway	327.5	503.3
United States	33.2	80.4
Argentina	608.1	533.5
United Kingdom	212.0	250.0
Other	140.3	230.5
Total	**1,321.1**	**1,597.7**

($ in millions)	AS OF DECEMBER 31	
	2015	2014
Property plant and equipment		
United States	11.9	282.7
Argentina	376.1	340.5
In transit (Modular rig en route to UK)	—	73.1
Norway	98.8	143.5
Brazil	—	7.5
United Kingdom	59.6	10.7
Other	8.1	12.3
Total	**554.5**	**870.3**

Note 25 — Risk Management and Financial Instruments

Our reporting currency is US Dollars. We have operations and assets in a number of countries worldwide, and receive revenues and incur expenditures in other currencies, causing our results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the Norwegian krone and British pounds. We are also exposed to changes in interest rates on variable interest rate debt, and to the impact of changes in currency exchange rates on debt denominated in Norwegian krone, Euros and British pounds. There is thus a risk currency and interest rate fluctuations will have a negative effect on our cash flows.

Interest rate risk management

Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favourable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with the flexibility to meet requirements for working capital and capital investments.

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt

exposure and our views regarding future interest rates. At December 31, 2015, we have interest swap agreements which fix our variable interest payable covering NOK 500 million of our NOK interest bearing loan (2014: NOK 800 million), and $150 million of our USD interest bearing loan (2014: $300 million), effectively fixing the interest rate on approximately 32% of the debt (2014: 65%). We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our income statement. The total fair value loss relating to interest rate swaps in 2015 amounted to $3.4 million (2014: $3.6 million).

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating consolidated subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognised in "Other financial items" on our Consolidated Statement of Operations in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction loss relating to foreign exchange losses recognised in the Consolidated Statement of Operations in 2015 amounted to $49.4 million (2014: $57.4 million).

Credit risk management

We have financial assets, including cash and cash equivalents, trade receivables and other receivables. These assets expose us to credit risk arising from possible default by the counterparty. We consider the counterparties to be creditworthy financial institutions and do not expect any significant loss to result from non-performance by such counterparties. We, in the normal course of business, do not demand collateral.

Fair values

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

($ in millions)	DECEMBER 31			
	2015		2014	
Assets/(Liabilities)	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Nonderivatives				
Cash and cash equivalents	20.5	20.5	28.9	28.9
Restricted cash	8.0	8.0	15.8	15.8
Current portion of interest bearing debt	(99.7)	(99.7)	(64.2)	(64.2)
Long term interest bearing debt	(661.2)	(661.2)	(697.2)	(697.2)
Subordinated related party loan	(50.0)	(50.0)	(50.0)	(50.0)
Interest rate swap agreement	(3.4)	(3.4)	(4.0)	(4.0)

The above financial assets and liabilities are measured at fair value on a recurring basis as follows:

($ in millions)		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
	DECEMBER 31, 2015	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets:				
Cash and cash equivalents	20.5	20.5	–	–
Restricted cash	8.0	8.0	–	–
Interest rate swap agreements	(3.4)	–	(3.4)	–
Liabilities:				
Multicurrency revolving facility, excluding current portion	625.0	–	625.0	–
Other loans and capital leases, excluding current portion	36.2	–	36.2	–
Subordinated related party loan	50.0	–	50.0	–

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 as of December 31, 2015, and 2014. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed the carrying amount approximated fair value due to the short-term maturity of those instruments.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

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 cannot be purchased by us at prices other than the outstanding balance plus accrued interest.

The fair value 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 December 31, 2015.

Retained risk
We retain the risk, through self-insurance, for the deductibles relating to physical damage insurance on our capital equipment, currently a maximum of $1.0 million per occurrence. In the opinion of management, adequate provisions have been made in relation to such exposures, based on known and estimated losses.

Concentration of risk
The following table summarises revenues from our major customers as a percentage of total revenues from continuing operations (revenues in excess of 10 percent for the period):

CUSTOMER	2015	2014
Pan American Energy	30%	21%
StatoilHydro	12%	17%
Customer <10%	58%	62%
Total	**100%**	**100%**

Note 26 — Lease Obligations
In addition to capital leases (See Note 16), we have significant operating leases for certain premises, office equipment and operating equipment. The most significant lease agreements are related to offices in the United States, Norway and United Kingdom. Rental expenses amounted to $15.2 million in 2015 (2014: $22.2 million).

Estimated future minimum rental payments are as follows:

($ in millions)	OPERATING LEASES	CAPITAL LEASES	TOTAL
YEAR			
2016	13.6	3.7	17.3
2017	10.9	3.5	14.4
2018	8.4	2.4	10.8
2019	6.8	1.4	8.2
2020	4.7	0.1	4.8
Thereafter	24.7		24.7
Total	**69.1**	**11.1**	**80.2**

Note 27 — Subsequent Events
Subsequent events have been incorporated to related notes where appropriate. Other subsequent events are disclosed in this note.

Following the disposition of our North American Well Service entities, on January 4, 2016 we announced the reorganisation of our remaining business lines into two reporting segments, Eastern Hemisphere and Western Hemisphere. The reorganisation is to improve focus on the business in the respective geographic areas, and to create opportunities for further synergies.

Eastern Hemisphere will include the Drilling Facilities Engineering and Platform Drilling business components, reported within our NRS segment up to December 31, 2015, and Oiltools and International Wireline, which previously were reported within the EMT segment.

Western Hemisphere will comprise AWC Frac Valves which is the remaining continuing business unit in the NAM segment at 31 December 2015, Land Drilling, previously reported in the LAM segment, and the ownership participation of Quintana Energy Services LP.

As a consequence of the sustained weakness of hydrocarbon prices since the end of the year 2015, many oil & gas companies have announced further reductions to their planned capital budgets in 2016. These reductions will impact the service oilfield industry across the world, but most profoundly in the North American Land Market, where the land based rig count dropped by another 34% since the end of the year 2015 until to date. As a direct consequence of this additional reduction in activity in the United States Land market we shall condunct a review of the carrying value of 42% shareholding in Quintana Energy Services during our first quarter reporting process in 2016 to determine whether the carrying value, recorded at December 31, 2015, remains appropriate.

Appendix A
Corporate governance

As used herein, unless otherwise required by the context, the terms "Archer", "Company", "we", "our" and "us" refer to Archer Limited and its consolidated subsidiaries. The Norwegian Code of Practice for Corporate Governance (the "Code") applies to us to the extent that the provisions of this Code do not conflict with the legislation of our national jurisdiction. The Code is a "comply or explain" guideline and we generally aim at complying with the recommendations of the Code. However, we will, to some extent, deviate from certain recommendations of the Code, partly due to different practice and principles under which Bermuda companies operate. The status of noncompliance and the explanations therefore is set out below.

The Code is available in its entirety at the Oslo Stock Exchange website (www.ose.no) and the website of The Norwegian Corporate Governance Board (www.nues.no).

Section 1
Archer Limited is a limited liability company registered in Bermuda and listed on the Oslo Stock Exchange (Oslo Børs). The foundation for Archer's governance structure are Bermuda law as well as regulations for foreign companies listed on the Oslo Stock Exchange. In line with the directions given by the Board of Directors, Archer conducts its business on the basis of three fundamental values:

• Safety: We are committed individually and as a team, to protect the health and safety of its employees, customers and communities.

• Integrity: We are committed to maintaining an environment of trust, built upon honesty, ethical behaviour, respect and candour.

• Performance: We are committed to efficiently and effectively perform to all Archer standards and those of our customers.

Archer's Board of Directors reviews the actual performance for all the values mentioned above and where applicable compares the key performance indicators against the plan on a quarterly basis. With regard to integrity, Archer has implemented a code of conduct and a compliance and business ethics manual, which is available on its website (www.archerwell.com). It is Archer's policy that an employee who becomes aware of a possible violation of the Company's policies regarding legal or ethical business conduct must report the violation. This includes possible violations of policies set forth in the code of conduct and compliance and business ethics manual, or other policies, manuals, or guides distributed by the Company. On a quarterly basis the Audit Committee reviews reported potential violations of the Company's code of conducts and discusses required actions, if any.
The Board has reviewed the overall performance of the Company compared to its values and its corporate governance for the financial year 2015 in line with the Norwegian Code of Practice for Corporate Governance and confirms, with the exceptions stated below, that it is in compliance with the code.

Section 2
In accordance with normal practice for Bermuda companies, our by-laws do not include a specific description of our business. According to the memorandum of association, no restrictions apply as to the purpose of the company and the reasons for its incorporation. As a Bermuda incorporated company, we have chosen to establish the constitutional framework in compliance with the normal practice of Bermuda and accordingly deviate from section 2 of the Code.

Section 3
Our equity capital is at a level appropriate for our objectives, strategy, and risk profile. In accordance with Bermuda law, the Board is authorised to repurchase treasury shares, and to issue any unissued shares within the limits of the authorised share capital. These authorities are neither limited to specific purposes nor to a specific period as recommended in section 3 of the Code. While we aim at providing competitive long-term return on the investments of our shareholders, we do not currently have a formal dividend policy.

Section 4
In accordance with the company laws of Bermuda, the shareholders can resolve an amount of authorised capital within which the Board may decide to increase the issued capital at its discretion without further shareholder approval. There is no legal framework providing for specific time-limited or purpose-limited authorisations to increase the share capital. The Board will propose to the shareholders that they consider and, if necessary, resolve to increase the authorised capital of the Company that will allow the Board some flexibility to increase the number of issued shares without further shareholder approval. As such, we may deviate from the Code's recommendation in section 4 to limit such authorisation to 10% of the issued share capital. Any increase of the authorised capital is, however, subject to approval by the shareholders by 2/3 majority of the votes cast. Neither our by-laws nor Bermuda company laws include regulation of pre-emptive rights for shareholders in connection with share capital increases. Our by-laws provide for the Board in its sole discretion to direct a share issue to existing shareholders at par value or at a premium price. We are subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board will, in connection with any future share issues, on a case-by-case basis, evaluate whether deviation from the principle of equal treatment is justified. The Board will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code section 5. The Board may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

Other than related party transactions disclosed in note 23, the Company did not enter into any transactions with its shareholders or closely associated entities.

Section 5
We are subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board will, in connection with any future share issues, on a case-by-case basis, evaluate whether deviation from the principle of equal treatment is justified. The Board will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code section 5. The Board may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

Section 6
As a Bermuda registered company, the general meetings of the Company can be conducted through proxy voting. The VPS registered shareholders are holders of interests in the shares and thus represented by the VPS Registrar in the general meetings and not through their own physical presence. This is in line with the general practice of other non-Norwegian companies listed on Oslo Børs. We comply in all other respects with the recommendations for general meetings as set out in of the Code.

Section 7
We have not established a nomination committee as recommended by the Code section 7. In lieu of a nomination committee comprised of independent directors, the Board is responsible for identifying and recommending potential candidates to become Board members and recommending directors for appointment to board committees. Board members are appointed by the Annual General Meeting for an undefined term.

Section 8
The Chairman of our six-member Board has been elected by the Board and not by the shareholders as recommended in the Code. This is in compliance with normal procedures under Bermuda law. We are not fully in compliance with section 8 of the Code with respect to independence of board members. The Code recommends that the board should not include executive personnel and the majority of the shareholder-elected board members should be independent of the company's executive personnel and material business contacts. The Code also recommends that at least two of the members of the board should be independent of the company's main shareholders. Two of our six directors, Harald Thorstien and Giovanni Dell' Orto, are independent of our two largest shareholders, Lime Rock Partners L.P ("Lime Rock Partners") and Seadrill Limited ("Seadrill"). Three of our directors, Orjan Svanevik, Kate Blankenship and Harald Thorstein, may be deemed affiliated, under the Code, with our largest shareholder, Seadrill. Our chairman, John Reynolds, is affiliated with our second largest shareholder, Lime Rock Partners. We accordingly deviate from section 8 of the Code.

Section 9
The Board sets an annual plan for the upcoming year in December which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and review and monitoring of our current year financial performance. The Board meets at least four times a year, with further meetings being held as required to react to operational or strategic changes in the market and company circumstances. The Board receives frequent and relevant information to carry out its duties. It has delegated authority to the Company's executive management by the means of a delegation of authority guideline. The Board has established an HSE committee, which reviews our performance related to health, safety and environment.

The Board has established an Audit Committee, which has a formal charter and terms of reference approved by the Board. The Audit Committee, which is comprised of our chairman John Reynolds and director Kate Blankenship, is responsible for ensuring Archer has an independent and effective internal and external audit system. The Audit Committee supports the Board in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintaining appropriate relationships with our auditors. Appointment of the auditor for audit services is approved at our annual general meeting and the Board is given authority to approve the fees to be paid to the auditor. Our auditor meets with the Audit Committee annually regarding the preparation of the annual financial statements and also to present their report on the internal control procedures. The Audit Committee meets quarterly with our external auditors to discuss the annual financial statements and quarterly press releases, and annually without executive management being present. The scope, resources, and the level of fees proposed by the external auditor in relation to our audit are approved by the Audit Committee.

Section 10
Archer's Board of Directors ensures that the Company follows guidelines to minimise the overall risk to the Company and its shareholders and implements and complies with an adequate internal control framework. Archer's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

We have implemented clear lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of expenditures. The senior management team meets with its geographic and divisional leadership on a regular basis to discuss particular issues affecting each region and business unit, including their key risks, health and safety statistics and legal and financial matters. We have also implemented a process to assess the Company's projected financing needs and compliance with covenants under its financing arrangements. The results are being presented and discussed with the Board of Directors on a regular basis so adequate corrective measures can be taken if and when necessary.

Integrity is part of our core values and high ethical standards are paramount to achieve our business objectives. Our Code of Conduct describes Archer's commitment related to ethics for both personal and business matters. We comply with applicable laws and regulations and acts in an ethical and socially responsible manner. Our Code of Conduct applies to everyone working for Archer, including the members of the Board of Directors. The Code of Conduct is available at www.archerwell.com. Archer has implemented a dedicated ethics helpline that can be used by employees who wish to express concerns or seek advice regarding the legal and ethical conduct of our business.

We comply with the Code related to this section.

Section 11
There is no obligation to present the guidelines for remuneration of the Board of Directors to the shareholders of a Bermuda incorporated company. We will provide information to our shareholders regarding remuneration of the Board in compliance with United States generally accepted accounting principals ("US GAAP") but will not implement procedures that are not generally applied under Bermuda law. We therefore deviate from this part of section 11 of the Code. There are no service contracts between the Company and any of our directors providing for benefits upon termination of their service.

Appendix A
Corporate governance

Section 12
There is no obligation to present the guidelines for remuneration of the executive management to the shareholders of a Bermuda incorporated company. We provide information to our shareholders regarding remuneration of the executive management in compliance with US GAAP, but will not implement procedures that are not generally applied under Bermuda law. In the view of the Company there is sufficient transparency and simplicity in the remuneration structure and information provided through the annual report and financial statements are sufficient to keep shareholders adequately informed. We therefore deviate from this part of section 12 of the Code.

Section 13
The Board of Directors has established guidelines requiring us to report interim financial information on a quarterly basis according to a financial calendar that is publically available. It has also asked us to hold a quarterly financial results conference call, which is accessible to all participants in the securities market. Timing and venue for such events are announced through public press releases. For specific events the Board of Directors requests us to hold investor meetings allowing for more detailed information. The information shared in such meetings is published on our website.

Section 14
The Board of Directors has adopted all recommendation related to takeovers, which requires that all shareholders are given sufficient information and time to form an independent view of a potential takeover offer.

Section 15
The Board's Audit Committee is responsible for ensuring that the group is subject to an independent and effective audit. Our independent registered public accounting firm (independent auditor) is independent in relation to Archer and is appointed by the general meeting of shareholders. The independent auditor's fee must be approved by the general meeting of shareholders.

The Audit Committee is approved by the Board of Directors and is responsible for ensuring that the Company is subject to an independent and effective external and internal audit. On an annual basis the independent auditor presents a plan for the Audit Committee for the execution of the independent auditor's work.

The independent auditor participates in all meetings of the Audit Committee and participates in reviewing the Company's internal control procedures, including identified weaknesses and proposals for improvement.

When evaluating the independent auditor, emphasis is placed on the firm's competence, capacity, local and international availability, and the size of its fee. The Audit Committee evaluates and makes a recommendation to the Board of Directors, the corporate assembly and the general meeting of shareholders regarding the choice of independent auditor, and it is responsible for ensuring that the independent auditor meets the requirements in Norway.

The Audit Committee considers all reports from the independent auditor before they are considered by the Board of Directors. The Audit Committee holds regular meetings with the independent auditor without the Company's management being present.

We comply with the Code related to this section.

Norwegian Accounting Act Section 3-3 b
In addition to the Norwegian Code of Practice for Corporate Governance, the Norwegian Accounting Act has set out additional requirements for corporate governance. We have established a set of guidelines related to internal control and corporate governance.

Risk Oversight
It is management's responsibility to manage risk and bring our most material risks to the attention of the Board of Directors. The Board of Directors has delegated to the Audit Committee the responsibility to discuss with management our major financial risk exposures and the steps management has taken to monitor and control those exposures, including our risk assessment and risk management policies. The Audit Committee reports as appropriate to the full Board. Each operational division head is responsible to report risks related to each segment to the Chief Executive Officer, who in turn reports to the Board.

Internal control
Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with US GAAP. Our control environment is the foundation for our system of internal control over financial reporting and is an integral part of our Code of Business Ethics and Conduct for the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, which sets the tone of our Company. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with US GAAP, and that receipts and expenditures are being made only in accordance with authorisations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Audit committee

The Audit Committee currently consists of Directors Kate Blankenship and John Reynolds. The Audit Committee assists our Board of Directors in fulfilling its oversight responsibility by overseeing and evaluating (i) the conduct of our accounting and financial reporting process and the integrity of our financial statements; (ii) the functioning of our systems of internal accounting and financial controls; (iii) the performance and independence of our internal audit function and (iv) the engagement, compensation, performance, qualifications and independence of our independent auditors.

The independent auditors have unrestricted access and report directly to the Audit Committee. The Audit Committee meets privately with, and has unrestricted access to, the independent auditors and all of our personnel.

Compensation committee

The Compensation Committee currently consists of our Chairman, Orjan Svanevik. The Compensation Committee formulates and oversees the execution of our compensation strategies, including making recommendations to our Board of Directors with respect to compensation arrangements for senior management, directors and other key employees. The Compensation Committee also administers our stock compensation plans.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee currently consist of one director, Giovanni Dell' Orto. The Health, Safety and Environmental Committee direct management to conduct our business with no accidents, injuries or losses in an environmental sustainable manner. The committee reviews material incidents and discusses appropriate actions to mitigate future occurrences.

Communications with the Board of Directors

Stockholders and other interested parties wishing to communicate with the Board of Directors or any individual director, including the Chairman, should send any communication to the Corporate Secretary, Archer Limited, Par-la-Ville Place 14 Par-la-Ville Road, Hamilton HM 08, Bermuda. Any such communication must state the number of shares beneficially owned by the stockholder making the communication. The Corporate Secretary will forward such communication to the director or directors to whom the communication is directed, unless the Corporate Secretary determines that the communication does not relate to the business or affairs of the Company or the functioning or constitution of the Board of Directors or any of its committees, relates to routine or insignificant matters that do not warrant the attention of the Board of Directors, is an advertisement or other commercial solicitation or communication, is frivolous or offensive, or is otherwise not appropriate for delivery to directors.

Communication from the Company

Information of relevance to our share price is communicated through our website, and includes information relating to results and economic development. Our policy is to comply with all applicable standards aimed at securing a good information flow.

We publish annual and quarterly reports on our website. We acknowledge the importance of providing shareholders, and the equity market in general, with correct and relevant information about us and our activities.

Related party transaction approval policy

Our Board of Directors has adopted a written policy relating to the approval of transactions with related persons. For purposes of this policy, a related person transaction is one in which we were, are or will be a participant and the amount involved exceeds $120,000, and in which any related person had, has or will have a direct or indirect material interest. Pursuant to the policy, all related party transactions must be reviewed and approved by the Audit Committee of our Board of Directors.

Other than the ones mentioned above, we have not established any further guidelines regulating the work of the Board and its committees.

Appendix B
List of significant subsidiaries

Company Name	Percent holding	Nature of Company
Archer (UK) Limited	100%	Drilling and well service operations
Archer AS	100%	Drilling and well service operations
Archer Assets UK Limited	100%	Holding company
Archer BCH (Canada) Ltd	100%	Holding company
Archer Consulting Resources Limited	100%	Provides crew services
Archer Directional Drilling Services LLC	100%	Directional drilling services
Archer DLS Corporation	100%	Land drilling operations
Archer do Brazil Servicos de Petroleo Ltda	100%	Drilling service operations
Archer Drilling LLC	100%	Platform drilling and engineering
Archer Emerald (Bermuda) Limited	100%	Owns and operates modular rig
Archer Holdco LLC	100%	Holding Company
Archer Management Limited	100%	Provides management services
Archer Norge AS	100%	Drilling and well service operations and management services
Archer Offshore Denmark AS	100%	Well service operations
Archer Oil Tools AS	100%	Provides oil tools
Archer Oil Tools LLC	100%	Provides oil tools
Archer Overseas Contracting Limited	100%	Provides crew services
Archer Services Limited	100%	Provides crew services
Archer Survey and Inspection LLC	100%	Performs rig inspections
Survey and Inspection Limited	100%	Performs rig inspections
Archer Topaz Limited	100%	Acquiring a modular rig
Archer Well Company (Australia) Pty Ltd	100%	Well service operations
Archer Well Company (M) SDN BHD	100%	Well service operations
Archer Well Company (Singapore) Pte Ltd	100%	Well service operations
Archer Well Company Inc.	100%	Holding and management company
Archer Well Company International Ltd	100%	Well service operations
Archer Well Services Nigeria Limited	100%	Dormant
AWC Frac Valves Inc.	100%	Sells and services frac valves
BCH Energy do Brasil Servicos de Petroleo Ltda	100%	Drilling service operations
Bergen Technology Center AS	100%	Manufacturing and engineering
C6 Technologies AS	50%	Research and development
DLS Argentina Limited	100%	Land drilling operations
Limay Drilling Rigs Ltd	100%	Asset owning and leasing
PT Archer	100%	Well service operations
Tanus Argentina S.A.	100%	Provides drilling mud services
TAQA Archer Services LLC	51%	Provides Wireline Services

Independent auditors' report to the members of Archer Limited

Report on the company financial statements

Our opinion

In our opinion, Archer Limited's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

What we have audited

Archer Limited's financial statements, included within the Annual Report, comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of operations, the Statement of comprehensive loss for the year then ended and the Statement of Accumulated other comprehensive income/(loss) as at 31 December 2015;
- the Statement of cash flows for the year then ended;
- the Statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law in Bermuda and accounting principles generally accepted in the United States of America.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the UK Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the company's members as a body for in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matters

We have reported separately on the group financial statements of Archer Limited for the year ended 31 December 2015.

PricewaterhouseCoopers LLP
Chartered Accountants
Cambridge, United Kingdom
March 2016

Appendix C
Supplemental parent company only information

Archer Limited
Statement of Operations

($ in millions)	YEAR ENDED DECEMBER 31	
	2015	**2014**
Revenues		
Operating revenues	–	6.1
Total revenues	–	**6.1**
Expenses		
General and administrative expenses	3.1	1.8
Total expenses	**3.1**	**1.8**
Operating (loss) / income	**(3.1)**	**4.3**
Financial items		
Interest expenses	(5.8)	(9.6)
Interest/dividends from subsidiaries	28.3	33.5
Share of loss from subsidiaries	(325.6)	(59.9)
Other financial items	(53.1)	(68.0)
Total financial items	**(356.2)**	**(104.0)**
Loss before income taxes	**(359.3)**	**(99.7)**
Income taxes	–	–
Net loss	**(359.3)**	**(99.7)**
Basic loss per share ($)	**(6.20)**	**(1.72)**
Diluted loss per share ($)	**(6.20)**	**(1.72)**
Weighted average number of shares outstanding (in millions)		
Basic	57.9	57.9
Diluted	57.9	57.9

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

Archer Limited
Statement of Comprehensive Loss

($ in millions)	YEAR ENDED DECEMBER 31	
	2015	2014
Net loss	**(359.3)**	**(99.7)**
Other comprehensive income / (loss)		
Change in unrealised gain / (loss) relating to subsidiary pension plans	2.8	(3.2)
Change in unrealised foreign exchange differences	8.8	6.1
Other comprehensive income	**11.6**	**2.9**
Total comprehensive loss	**(347.7)**	**(96.8)**

Archer Limited
Statement of accumulated Other Comprehensive income/(loss)

($ in millions)	SUBSIDIARY PENSION PLANS-UNRECOGNISED (LOSS)/GAIN	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2013	**(22.7)**	**2.7**	**(20.0)**
Foreign exchange differences	–	6.1	6.1
Net changes in gains and losses and prior service costs	(3.2)	–	(3.2)
Balance at December 31, 2014	**(25.9)**	**8.8**	**(17.1)**
Foreign exchange differences	–	8.8	8.8
Net changes in gains and losses and prior service costs	2.8	–	2.8
Balance at December 31, 2015	**(23.1)**	**17.6**	**(5.5)**

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

Appendix C
Supplemental parent company only information

Archer Limited
Balance Sheet

($ in millions)	DECEMBER 31	
	2015	2014
ASSETS		
Current assets		
Amounts due from subsidiaries	101.9	70.7
Total current assets	**101.9**	**70.7**
Noncurrent assets		
Amounts due from subsidiaries, long term	357.6	416.4
Investments in subsidiaries	–	111.9
Total noncurrent assets	**357.6**	**528.3**
Total assets	**459.5**	**599.0**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Other current liabilities	13.0	5.7
Total current liabilities	**13.0**	**5.7**
Noncurrent liabilities		
Accumulated losses of unconsolidated subsidaries in excess of investment	199.2	–
Related party subordinated loan	50.0	50.0
Other long-term liabilities	–	0.5
Total noncurrent liabilities	**249.2**	**50.5**
Shareholders' equity		
Common shares of par value $0.01 per share: 1.0 billion shares authorised: 57,915,716 outstanding shares at December 31, 2015 (December 31, 2014: 579,159,787 shares of $1.0 par value)	0.6	579.2
Additional paid in capital	823.3	821.1
Accumulated deficit	(1,361.2)	(1,001.9)
Accumulated other comprehensive (loss)/income	(5.5)	(17.1)
Contributed surplus/(deficit)	740.1	161.5
Total shareholders' equity	**197.3**	**542.8**
Total liabilities and shareholders' equity	**459.5**	**599.0**

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

Archer Limited
Statement of Cash Flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2015	**2014**
Cash Flows from Operating Activities		
Net loss	**(359.3)**	**(99.7)**
Adjustment to reconcile net loss to net cash used in operating activities:		
Share of loss of subsidiaries	325.6	59.9
Amortisation of loan fees	–	2.7
Interest income applied to loan balances	(18.3)	(33.5)
Unrealised foreign currency losses	49.7	65.4
Increase in amounts owed by subsidiaries	(32.7)	(56.9)
Change in other operating assets and liabilities, net	6	16.5
Net cash used in operating activities	**(29.0)**	**(45.6)**
Cash Flows from Investing Activities		
Net cash repaid by / (invested in) subsidiaries	29.0	(4.9)
Net cash used in investing activities	**29.0**	**(4.9)**
Cash Flows from Financing Activities		
Proceeds from related party debt	–	50.0
Net cash provided by financing activities	**–**	**50.0**
Net (decrease)/increase in cash and cash equivalents	**–**	**(0.5)**
Cash and cash equivalents at beginning of the year	–	0.5
Cash and cash equivalents at the end of the year	**–**	**–**
Interest paid	1.9	6.9
Taxes paid	–	–

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

Appendix C
Supplemental parent company only information

Archer Limited
Statement of Changes in Shareholders' Equity

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	(ACCUMULATED DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	CONTRIBUTED (DEFICIT)/SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2013	**579.2**	**816.1**	**(902.2)**	**(20.0)**	**161.5**	**634.6**
Foreign currency translation differences	–	–	–	6.1	–	6.1
Pension – unrecognised gain	–	–	–	(3.2)	–	(3.2)
Share based compensation	–	5.0	–	–	–	5.0
Net loss	–	–	(99.7)	–	–	(99.7)
Balance at December 31, 2014	**579.2**	**821.1**	**(1,001.9)**	**(17.1)**	**161.5**	**542.8**
Foreign currency translation differences	–	–	–	8.8	–	8.8
Change in pension liability	–	–	–	2.8	–	2.8
Adjustment to nominal value of shares	(578.6)	–	–	–	578.6	–
Cost of shares purchased for RSUs	–	(0.5)	–	–	–	(0.5)
Share based compensation	–	2.7	–	–	–	2.7
Net loss	–	–	(359.3)	–	–	(359.3)
Balance at December 31, 2015	**0.6**	**823.3**	**(1,361.2)**	**(5.5)**	**740.1**	**197.3**

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

Archer Limited
Notes to the supplemental parent only financial information

Note 1 — General Information
Archer Limited is a holding company. As used herein, unless otherwise required by the context, the terms "Archer", "Company", "we", "our" and words of similar import refer to Archer Limited. The use herein of such terms as group, organisation, we, us, our and its, or references to specific entities, is not intended to be a precise description of corporate relationships.

We were incorporated on August 31, 2007.

Our shares are traded on the Oslo Börs under the symbol "ARCHER.OL." Dividends, when declared, will be denominated in NOK.

Basis of presentation
We are a limited company that conducts substantially all of our business through our subsidiaries. This supplemental information has been presented on a "parent company only" basis to comply with Norwegian regulations.

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The amounts are presented in United States Dollars, or USD, or $ rounded to the nearest million, unless otherwise stated.

The accounting policies set out below has been applied consistently to all periods in these financial statements.

Reclassifications
Certain amounts in prior years' consolidated financial statements are sometimes reclassified to conform to the current year presentation.

Note 2 — Accounting Policies

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 predicted with certainty. Actual results could differ from those estimates.

Foreign currencies
As of December 31, 2015, most of our subsidiaries have functional currency in USD. For subsidiaries that have functional currencies other than USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

Transactions in foreign currencies during the year are translated into functional currency at the specific entity at the rates of exchange in effect on the date of the transaction. Foreign currency assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and noncurrent classification
Assets and liabilities are classified as current assets and current liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long term.

Cash and cash equivalents
Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with maturity of three months or less, and exclude restricted cash.

Capitalised debt fees
Loan related costs, including debt arrangement fees, incurred on the initial arrangement of loan finance and any subsequent amendments, are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortisation of loan related costs are included in interest expense. Recurring loan costs, such as commitment fees, are recognised in the income statement within other financial items in the period in which they are incurred.

Investments in subsidiaries
Our investments in subsidiaries are presented under the equity method of accounting. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted to reflect our share of the net profit or loss of the subsidiary. Distributions received from the investee reduce the carrying amount of the investment.

Appendix C
Supplemental parent company only information

Impairment of long-lived assets
The carrying values of long-lived assets that are held and used by us are reviewed for impairment whenever events or changes in circumstances indicate 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.

The carrying value of our investments in subsidiaries is tested as part of the Archer Groups annual review of goodwill for impairment. In 2015 we have compared the carrying value of our investments with the estimated business enterprise value of the consolidated Archer Group. As the carrying value exceeded the estimated business enterprise value we have recorded an impairment. The recognition of our share in the losses of our equity investments for 2015 has reduced the carrying value of those investments to zero. The remainder of share of losses is recorded under Share of losses from subsidiaries line in the income statement and Accumulated losses of unconsolidated subsidiaries in excess of investment on the Balance sheet.

Income taxes
We are a Bermuda company. Under current Bermuda law, we are not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, we will be exempted from taxation until year 2035.

The impact of changes to income tax rates or tax law is recognised in periods when the change is enacted.

Earnings per share, or EPS
Basic earnings per share are calculated based on the income for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments, which includes share options.

Financial Instruments
From time to time, we enter into interest rate swaps in order to manage floating interest rates on debt. Interest rate swap agreements are recorded at fair value in the balance sheet when applicable. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognised asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting, we formally designate the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognised in the "Accumulated other comprehensive income/(loss)" line of the Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the Statement of Operations in "Other financial items." Changes in the fair value of interest rate swaps are otherwise recorded as a gain or loss under "Other financial items" in the Statement of Operations where those hedges are not designated as cash flow hedges.

Related party transactions
Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements
The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):

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 have adopted 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 3 — Earnings Per share, or EPS

The components for the calculation of basic EPS and diluted EPS and the resulting value are as follows:

($ in millions)	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2015			
Loss per share	(359.3)	57,915,911	(6.20)
Effect of dilutive options*	—	—	—
Diluted	(359.3)	57,915,911	(6.20)

($ in millions)	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE (IN $)
2014			
Loss per share	(99.7)	57,915,979	(1.72)
Effect of dilutive options*	—	—	—
Diluted	(99.7)	57,915,979	(1.72)

**Loss per share not adjusted for dilutive in the money share options or unvested RSUs. Share based compensation of approximately 729,314 and 473,338 shares were excluded from the computation of diluted earnings per share for the years ended December 31, 2015 and 2014, respectively, as the effect would have been anti-dilutive due to the net loss for the period*

Note 4 – Amounts due from subsidiaries

Balances reported under Amounts due from subsidiaries comprise the following:

($ in millions)	DECEMBER 31	
	2015	2014
Due from Archer Norge, as holder of the cash pool arrangement	99.2	63.0
Due from Archer Management (UK) Ltd. for corporate costs re-charged	2.7	7.7
Total amounts due from subsidiaries	**101.9**	**70.7**

Appendix C
Supplemental parent company only information

Note 5 – Investments in subsidiaries
We had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2015	2014
Archer Management Limited	100%	100%
Archer Management (Bermuda) Ltd.	100%	100%
Archer Overseas Contracting Limited	100%	100%
Archer Services Limited	100%	100%
Archer Assets UK Limited	100%	100%
Archer Well Company (Singapore) Ptd. Ltd.	100%	100%
Archer Emerald (Bermuda) Limited	100%	100%
Archer Topaz Limited	100%	100%

In addition to equity investments we have the following long term loans receivable from our subsidiaries:

($ in millions)	DECEMBER 31	
	2015	2014
Archer Norge AS	287.0	318.3
Archer Services Limited	–	2.9
Archer Emerald (Bermuda) Limited	51.0	70.9
Archer Topaz Limited	19.6	24.3
Total amounts due from subsidiaries	**357.6**	**416.4**

Note 6 — Related Party Subordinated Loan
On October 24, 2014, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to $50.0 million. The loan was drawn in full as at December 31, 2014 and is repayable in full at the maturity date. Interest is 7.5% per year, and being accrued in Other current liabillities. 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.

Note 7 – Other Current Liabilities
Our other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2015	2014
Accounts payable	0.1	-
Short term fair value of financial instruments	0.7	0.4
Accrued expenses	12.2	5.3
Total other current liabilities	**13.0**	**5.7**

Note 8 – Commitments and Contingencies
Guarantees
We have issued guarantees in favour of third parties as follows, which is the maximum potential future payment for each type of guarantee:

($ in millions)	DECEMBER 31	
	2015	2014
Guarantees to customers of the Company's own performance	23.2	5.0
Guarantee in favour of banks	11.2	11.7
	34.4	**16.7**

Note 9 – Legal Proceedings
From time to time, we are involved in litigations, disputes and other legal proceedings arising in the normal course of their 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 our loss can be reasonably estimated, we record a liability for the expected loss but at this time any such expected loss are immaterial to our financial condition 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.

Note 10 – Share Capital

	2015		2014	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $1.00 par value each*	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorized share capital	1,000,000,000	10.0	1,200,000,000	1,200.0
Issued, outstanding and fully paid share capital	57,915,716	0.6	579,159,787	579.2

Archer shares are traded on the Oslo Börs under the symbol "ARCHER.OL." Dividends, when declared, will be denominated in NOK.

In February 2013, Archer issued 208,334,000 new shares in a private placement resulting in net proceeds of $250.0 million. Those proceeds were used to repay the $100.0 million instalment due in November 2013 under our multi-currency facility, prepay $95.0 million under that same facility and repay a $55.0 million subordinated loan from a related party. The private placement was underwritten by Archer's five largest shareholders who in aggregate own 68% of Archer's issued and outstanding share capital. The underwriters received an underwriting commission of $5.0 million which was settled through the issuance of 4,166,667 new shares of Archer. In order to facilitate the immediate settlement and delivery of freely tradable shares to the subscribers shares were made available through a share loan arrangement with Seadrill. At a special general meeting on February 13, 2013, we reduced the par value of Archer common stock from $2.00 to $1.00 and increased the number of authorised shares from 600 million to 1.2 billion. Following the par value reduction and the issuance of new shares, Archer has 579,159,787 fully paid shares of par value of $1.00 each.

Following approval by our Annual General Meeting on September 18, 2015, during the third quarter of 2015 we consolidated our authorised share capital so that 10 shares, originally of par value $1.00 became one share of par value $10.00. Our paid up share capital was then reduced by $9.99 per share, the par value of each consolidated share being thus reduced to $0.01 per share. Upon this capital reduction of the paid up share capital, all unissued $10 shares were subdivided into 1000 shares of par value $0.01 each.

As a result of the capital re-organisation, an amount of $578.6 million share capital was reclassified as contributed surplus.

Appendix C
Supplemental parent company only information

Note 11 – Share Option Plans

Options on Archer shares:

We have granted options to our senior management and directors that provide the employee with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the Board of Directors. The options granted under the plan to date vest over a period of one to five years.

As of December 31, 2015, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers. In September 2015, a 10 to 1 reverse split of Archer Limited listed shares took place. The exercise prices of the options granted have been adjusted accordingly in the below notes.

Accounting for share-based compensation

The fair value of the share options granted is recognised as personnel expenses. During 2015, $1.0 million has been expensed in our Statement of Operations ($2.6 million in 2014).

The following summarises share option transactions related to the Archer programs in 2015 and 2014:

	2015		2014	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	21,678,857	9.57	12,557,606	12,36
Granted	–	–	10,550,000	7.09
Exercised	–	–	–	–
Forfeited/expired	(2,368,877)	22.08	(1,428,749)	15.79
Modifications related to reverse split	(17,519,470)	95.76	–	–
Outstanding at end of year	**1,790,510**	**86.66**	**21,678,857**	**9.57**
Exercisable at end of year	871,776	107.37	5,638,857	16.51

No income was received in 2015 as a result of share options being exercised (2014: nil).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 60.30 and NOK 722.60. At December 31, 2015, all 14,223 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program may be exercised up to April 21, 2020. The exercise price is between NOK 184.80 and NOK 192.20. At December 31, 2015, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

Options issued under the 2009 & 2010 Program may be exercised up to December 31, 2015. The exercise price is between NOK 100.00 and NOK 220.00 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2015, all 670,000 options outstanding under the 2009 & 2010 Program expired.

Options issued under the 2011, 2012 & 2013 Program may be exercised up to December 31, 2018. The exercise price is between NOK 37.90 and NOK 200.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2015, a total of 831,000 options were outstanding under the 2011, 2012 & 2013 Program and 445,600 of these were exercisable.

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 28.72 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2015, a total of 830,001 options were outstanding under the 2014 Program and 296,667 of these were exercisable.

No options were granted during 2015. The weighted average grant-date fair value of options granted during 2014 was 24.60 per share.

As of December 31, 2015, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 28.6 million, which is expected to be recognised as expenses in 2016, 2017, 2018 and 2019 by, NOK 17.7 million, NOK8.1 million, NOK2.5 million and NOK 0.3 million, respectively.

The weighted average remaining contractual life of outstanding options is 36 months (2014: 49 months) and their weighted average fair value was NOK 33.80 per option (2014: NOK 34.10 per option).

We pay the employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised we settle the obligation by issuing new shares.

Valuation
We use the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behaviour regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on history and expectation of dividend pay-outs.

We use a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of our industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from our "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

The parameters used in calculating these weighted fair values for option granted during the year were are as follows:

- average risk-free interest rate NA (2014: 1.7%);
- volatility NA (2014: 50.0%);
- dividend yield NA (2014: 0%);
- option holder retirement rate NA (2014: 10%); and
- expected term NA (2014: 3.0 years).

Restricted Stock
Restricted Stock
On February 10 2014 the Board granted restricted stock units, or RSU's to members of Archer's management team. The RSUs vest, 25% on 1 March 2015 and 25% on March 1 for each of the subsequent three years. The total number of RSU's initially issued is 6,160,000.

In May 2015, the Board granted further restricted stock units to members of its management team. On May 18, 2015 a total of 8,540,000 RSU's were issued. The RSUs vest, 25% on March 1, 2016 and 25% on March 1 for each of the subsequent three years.

Restricted stock awards do not receive dividends or carry voting rights during the performance period. Accordingly, the fair value of the restricted stock award is the quoted market price of Archer's stock on the date of grant less the present value of the expected dividends not received during the vesting period.

The following table summarizes information about all restricted stock transactions:

	2015		2014	
	RSU'S	WEIGHTED AVERAGE GRANT DATE FAIR VALUE NOK	RSU'S	WEIGHTED AVERAGE GRANT DATE FAIR VALUE NOK
Unvested at beginning of year	5,945,000.	7.12	–	–
Granted	8,745,000	2.86	6,455,000	7.12
Released	(1,382,500)	–	–	–
Forfeited	(906,250)	–	(510,000)	–
Modification due to reverse split of shares	(11,442,375)	–	–	–
Outstanding at end of year	**958,875**	**4.18**	**5,945,000**	**7.12**

Appendix C
Supplemental parent company only information

Note 12 — Related Party Transactions
We transact business with Seadrill and Metrogas Holdings Inc., being companies in which our principal shareholders Hemen Holding Ltd. and Farahead Investments Inc. have a significant interest.

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.

Seadrill has provided guarantees totaling $309.7 million to the lenders of our multicurrency revolving facility, our Hermes covered term loan and to other third parties in respect of finance and performance obligations. Annual guarantee fees are charged, to our subsidiaries, at 1.25% of the guaranteed amount.

The subordinated loan provided by Metrogas Holdings Inc., is discussed in note 7 above.

Note 13 — Risk Management and Financial Instruments
Our reporting currency is US Dollars. Our subsidiaries operate in a number of countries worldwide and receive revenues and incur expenditures in other currencies causing their results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the Norwegian Krone and British Pounds. We also are exposed to changes in interest rates on variable interest rate debt and to the impact of changes in currency exchange rates on debt denominated in Norwegian Krone, Euros and British Pounds. There is, thus, a risk currency and interest rate fluctuations will have a negative effect on our cash flows.

Interest rate risk management
Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favourable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide us with flexibility to meet requirements for working capital and capital investments.

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2015, we hold interest swap agreements which fix our variable interest payable $150 million of USD interest bearing loan, drawn by certain of our subsidiaries under our revolving credit facility. We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our income statement. The total fair value loss relating to interest rate swaps in 2015 amounted to $0.7 million (2014 $0.9 million).

Foreign currency risk management
We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognised in "Other financial items" in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction loss relating to foreign exchange movements recognised in our Statement of Operations in 2015 amounted to $49.7 million (2014: loss $65.4 million).

Credit risk management
We have financial assets, including cash and cash equivalents and other receivables. These assets expose us to credit risk arising from possible default by the counterparty. We consider the counterparties to be creditworthy financial institutions and do not expect any significant loss to result from non-performance by such counterparties. We, in the normal course of business, do not demand collateral.

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

($ in millions)	DECEMBER 31			
	2015		2014	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Cash and cash equivalents	—	—	`—	—
Related party subordinated loan	(50.0)	(50.0)	(50.0)	(50.0)
Interest rate swap agreement	(0.7)	(0.7)	(0.9)	(0.9)

The above financial liabilities are measured at fair value on a recurring basis as follows:

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
($ in millions)	DECEMBER 31, 2015	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
Cash and cash equivalents	—	—	—	—
Liabilities:				
Subordinated related party loan	(50.0)	—	(50.0)	—
Interest rate swap agreement – long-term liability	(0.7)	—	(0.7)	—

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

We have 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 as of December 31, 2015, and 2014. 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 relevant NIBOR 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 December 31,2015.

Note 14 — Subsequent Events
Subsequent events have been incorporated to related notes where appropriate. Other subsequent events are disclosed in this note.

Following the disposition of our North American Well Service entities, on January 4, 2016 we announced the reorganisation of our remaining business lines into two reporting segments, Eastern Hemisphere and Western Hemisphere. The reorganisation is to improve focus on the business in the respective geographic areas, and to create opportunities for further synergies.

Eastern Hemisphere will include the Drilling Facilities Engineering and Platform Drilling business components, reported within our NRS segment up to December 31, 2015, and Oiltools and International Wireline, which previously were reported within the EMT segment.

Western Hemisphere will comprise AWC Frac Valves which is the remaining continuing business unit in the NAM segment at December 31, 2015,Land Drilling, previously reported in the LAM segment, and the ownership participation of Quintana Energy Services LP.

As a consequence of the sustained weakness of hydrocarbon prices since the end of the year 2015, many oil & gas companies have announced further reductions to their planned capital budgets in 2016. These reductions will impact the service oilfield industry across the world, but most profoundly in the North American Land Market, where the land based rig count dropped by another 34% since the end of the year 2015 until to date. As a direct consequence of this additional reduction in activity in the United States Land market we believe that it is more likely than not that the investment we recorded for our 42% shares in Quintana Energy Services at the end of the year 2015 will have to be reviewed for impairment during the first quarter 2016.

Global Offices

North Sea
Archer Norge AS
Travbaneveien 3
P.O. Box 338
4002 Stavanger
Norway
+47 5130 8000

EMT
Archer (UK) Limited, Dubai Branch
Millennium Plaza Tower, 18th floor
Sheikh Zayed Road
P.O. Box 24609
Dubai
United Arab Emirates
+971 4 702 7781

North America
Archer Well Company Inc.
10613 W. Sam Houston Parkway N.
Suite 600
Houston, TX 77064
United States
+1 713 856 4222

Latin America
Archer DLS Corporation
Avenida Bouchard 551, Piso 22
Buenos Aires
C1106ABG
Argentina
+54 11 5129 2900

London
Archer Management Limited
Second floor, Building 11, Chiswick Park
566 Chiswick High Rd.
London, W4 5YS
United Kingdom
+44 208 811 4900