

Archer

Second quarter 2018 highlights

- Revenue \$224.4 million.
- EBITDA of \$18.0 million before exceptional items.
- Revenue and margin increase for all segments in Eastern Hemisphere relative to first quarter.
- Award of four additional Equinor platforms to commence in fourth quarter 2018.
- Depreciation of the Argentine Peso reduced Land Drilling revenue (reported in USD) by 8% in the quarter.

Second Quarter and First Six Months 2018 Results

Archer's revenue was up \$6.1 million, or 2.8%, to \$224.4 million in the second quarter compared to the previous quarter, reflecting increasing activity levels in all Eastern Hemisphere business segments, partly offset by a reduction in US dollar reported revenue in the Western Hemisphere. The reduction in revenue in the Western Hemisphere is a result of the depreciation of Argentine Peso against the US dollar. The Argentine Peso has depreciated approximately 35% against the US dollar from year end 2017 to June 30, 2018. The Peso depreciation, net of inflation and salary increases, reduced the US dollar reported revenue by about 8% in second quarter compared to first quarter. Excluding the currency depreciation in Argentina, Archer total revenue would have increased by 6% in the second quarter compared to first quarter. Eastern Hemisphere revenue was up \$7.5 million following increased activity in all divisions, mainly driven by Platform Drilling.

EBITDA before exceptional items ("Underlying EBITDA") for second quarter of \$18.0 million was in-line with previous quarter of \$18.1million. Eastern Hemisphere had a meaningful increase of \$2.6 million in Underlying EBITDA in second quarter compared to first quarter, with positive development in all divisions. The increase in Eastern Hemisphere was offset by a reduction in Western Hemisphere with Latin America's Underlying EBITDA being reduced by \$2.4 million.

The improved result for the Eastern Hemisphere in the quarter was mainly driven by the Platform Drilling division with high activity and incentive achievement, delivering an Underlying EBITDA increase of \$1.0 million from the previous quarter. In relative terms, the increases in Underlying EBITDA in Oiltools, Wireline and Engineering was higher. Oiltools and Wireline both experienced positive fall-through from increased revenue outside of Norway and from a favourable product mix.

The Frac Valves services in the US saw continued high activity during the second quarter and increased Underlying EBITDA by \$0.1 million to \$1.3 million for the quarter. The reduction in Underlying EBITDA of \$2.5 million in Latin America was mainly explained by higher maintenance cost and weaker drilling activity and performance during the winter season.

Net financial loss was \$19.8 million in the second quarter, down from the net financial income of \$4.0 million in the first quarter. The negative development is derived mainly from erosion in foreign exchange rates primarily NOK versus US\$ and Argentine Peso versus US\$. In second the quarter we had exchange losses of \$13.2 million compared to exchange gains of \$14.4 million in the first quarter. Net financial gain YTD June was \$1.2 million.

Archer reports a net loss attributable to the Company of \$7.4 million, or \$0.02 per share, for the second quarter of 2018 compared with net income attributable to the Company of \$4.4 million, or \$0.03 per share in the first quarter.

Net loss for the first six months of 2018 was \$3.0 million compared with a net gain of \$90.6 million for the first six months of 2017. The gain recorded in 2017 relates mainly from the accounting effects of debt forgiveness and guarantee settlements, which were part of our overall refinancing completed during the second quarter in 2017. For the first six months of 2018, net operating loss was \$3.8 million, an improvement of 11.6% compared with the net operating loss of \$4.3 million in the corresponding period in 2017.

In the second quarter of 2018, operating cash flow contributed \$4.9 million to our cash balance, compared to a net usage in first quarter of \$2.6 million. Net cash used in investing activities was \$10.6 million, including an increase in restricted cash of \$5.6 million primarily related to withheld tax payment on salary in Norway, which was in line with the total usage in the previous quarter. Net cash used in financing activities was \$11.4 million, which included debt repayments of \$16.8 million on our revolving credit facility.

Cash and cash equivalents, excluding restricted cash, amounted to \$21.8 million at June 30, 2018 compared to \$44.4 million at March 31, 2018. Including undrawn credit lines, available liquidity was \$114.5 million at the end of the quarter.

Disciplined capex spend of \$4.8 million was focused on equipment upgrades for rigs being mobilized in Latin America.

Total net interest-bearing debt at June 30, 2018 was \$629.8 million compared to \$603.2 million as of end of 2017.

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

Outlook

The outlook for oil services has improved in the quarter, and we are seeing improvements within most of our divisions. We expect moderate activity increase and improved financial results during the second half of 2018.

Risks and uncertainties

Archer is exposed to a number of risk factors relating to the Company's finance and the industry in which the Company operates. Archer has not identified any additional risk exposure beyond those described in Archer Limited's 2017 Annual report.

Our largest uncertainty in activity going forward continues to be our operations in Argentina as activity continues to be low and volatile. The financial instability in Argentina over the last six months has reduced the reported contribution of the operation there, as a consequence of high inflation and depreciation of the Argentine Peso.

Cautionary Statement Regarding Forward-Looking Statements

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

any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results/pro forma results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the Year ending December 31, 2017. These forward-looking statements are made only as of the date of this news release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

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

Responsibility Statement from the Board of Directors and CEO

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period January 1, to June 30, 2018 has been prepared in accordance with United States Generally Accepted Accounting Principles, or "US GAAP" and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements. We have disclosed all major related parties' transactions. A detailed description of the principal risks and uncertainties facing the group is provided in our annual statement for the year ended December 31, 2017, and remain was for the remaining materially unchanged for the remaining six months of the financial year 2018.

August 2018
The Board of Archer Limited

Alf Ragnar Løvdal
Director

Kate Blankenship
Director

Dag Skindlo
Director

Giovanni Dell'Orto
Director

John Reynolds
Director

John Lechner
CEO



ARCHER LIMITED

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ARCHER LIMITED

Consolidated Statements of Operations (Unaudited)

(In millions, except per share data)

		Three Months Ended June 30		Six Months Ended June 30	
	Note	2018	2017	2018	2017
Revenues					
Operating revenues		\$ 204.0	\$ 195.3	\$ 405.6	\$ 385.8
Reimbursable revenues		20.4	13.9	37.1	25.0
Total revenues		224.4	209.2	442.7	410.8
Expenses					
Operating expenses		184.8	171.9	366.4	339.3
Reimbursable expenses		19.2	12.9	34.9	23.1
Depreciation and amortization		14.6	16.7	29.6	32.1
Loss/(Gain) on sale of assets		-	-	(0.2)	-
General and administrative expenses		8.0	11.5	15.8	20.6
Total expenses		226.7	213.0	446.5	415.1
Operating loss		(2.3)	(3.8)	(3.8)	(4.3)
Financial items					
Interest income		0.7	0.9	1.8	1.2
Interest expenses		(10.7)	(11.2)	(20.7)	(25.2)
Share of results in associated companies		0.3	(2.0)	(3.7)	(9.9)
Other financial items	2	(10.1)	122.1	6.8	123.6
Total financial items		(19.8)	109.8	(15.8)	89.7
Profit/(loss) from continuing operations before income taxes		(22.1)	106.0	(19.6)	85.4
Income tax benefit / (expense)	3	14.7	6.9	16.6	5.2
Income/(loss) from continuing operations		(7.4)	112.9	(3.0)	90.6
Income/(loss) from discontinued operations, net of tax		-	-	-	-
Net Income / (loss)		\$ (7.4)	\$ 112.9	\$ (3.0)	\$ 90.6
Income / (loss) per share-basic					
Income/(loss) from continuing operations		\$ (0.05)	\$ 0.77	\$ (0.02)	\$ 0.79
Loss from discontinued operations		-	-	-	-
Income/(loss) per share		\$ (0.05)	\$ 0.77	\$ (0.02)	\$ 0.79
Income / (loss) per share-diluted					
Income/(loss) from continuing operations		\$ (0.07)	\$ 0.77	\$ (0.04)	\$ 0.79
Loss from discontinued operations		-	-	-	-
Income/(loss) per share		\$ (0.07)	\$ 0.77	\$ (0.04)	\$ 0.79
Weighted average number of shares outstanding					
Basic	4	147.5	145.9	147.4	115.3
Diluted	4	147.5	145.9	147.4	115.4

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

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

(In millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Net income/(loss)	\$ (7.4)	\$112.9	\$ (3.0)	\$ 90.6
Other comprehensive income/(loss)				
Currency translation differences	(5.6)	3.5	(4.7)	5.0
Other comprehensive income/(loss)	(5.6)	3.5	(4.7)	5.0
Total comprehensive income/(loss)	\$ (13.0)	\$116.4	\$ (7.7)	\$ 95.6

Accumulated Other Comprehensive Loss
(Unaudited)

(In millions)

	<u>Foreign currency translation differences</u>	<u>Pension – unrealised gain /(loss)</u>	<u>Total</u>
Balance at December 31, 2017	\$ (0.5)	\$ (0.7)	\$ (1.2)
Foreign currency translation differences arising during 2018	(4.7)	-	(4.7)
Balance at June 30, 2018	\$ (5.2)	\$ (0.7)	\$ (5.9)

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

ARCHER LIMITED

Consolidated Balance Sheets

(In millions)

	Note	June 30 2018 (Unaudited)	December 31 2017 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 21.8	\$ 59.0
Restricted cash		11.4	8.7
Accounts receivables		140.0	140.4
Inventories	5	57.7	58.0
Other current assets		31.2	35.9
Total current assets		262.1	302.0
Noncurrent assets			
Investments in associates	6	101.1	82.6
Loans to associates	6	8.9	17.6
Property plant and equipment, net		411.6	432.2
Deferred income tax asset	3	30.8	21.2
Goodwill	7	183.0	181.9
Other intangible assets, net	8	1.3	2.0
Deferred charges and other current assets		3.2	3.4
Total noncurrent assets		739.9	740.9
Total assets		\$ 1,002.0	\$ 1,042.9
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	\$ 8.9	\$ 7.2
Accounts payable		51.8	53.6
Other current liabilities		100.8	117.0
Total current liabilities		161.5	177.8
Noncurrent liabilities			
Long-term interest-bearing debt	9	584.4	596.7
Subordinated related party loan		58.3	58.3
Deferred taxes		3.1	7.3
Other noncurrent liabilities		1.7	2.4
Total noncurrent liabilities		647.5	664.7
Shareholders' equity			
Common shares of par value \$0.01 per share: 1.0 billion shares authorized: 147,462,012 outstanding shares at June 30, 2018 (December 31, 2017: 147,281,887)		1.5	1.5
Additional paid in capital		926.3	926.0
Accumulated deficit		(1,469.0)	(1,466.0)
Accumulated other comprehensive loss		(5.9)	(1.2)
Contributed surplus		740.1	740.1
Total shareholders' equity		193.0	200.4
Total liabilities and shareholders' equity		\$ 1,002.0	\$ 1,042.9

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

ARCHER LIMITED

Consolidated Statements of Cash Flow

(Unaudited)

(In millions)

	Six Months Ended June 30	
	2018	2017
Cash Flows from Operating Activities		
Net income/(loss)	\$ (3.0)	\$ 90.6
<u>Adjustment to reconcile net income/(loss) to net cash (used in)/provided by operating activities</u>		
Depreciation and amortization	29.6	32.1
Gain on debt restructure	-	(121.1)
Gain on QES IPO	(2.3)	-
Debt fees paid	-	3.5
Share-based compensation expenses	0.3	0.1
Gain on property, plant and equipment disposals	(0.2)	-
Share of results in associated companies	3.7	9.9
Amortization of loan fees	0.5	1.8
Deferred income taxes	(17.3)	(9.1)
Foreign currency gain	(1.2)	(6.0)
<i>Changes in operating assets and liabilities</i>		
Decrease/(Increase) in accounts receivable and other current assets	6.0	(0.2)
Decrease in inventories	0.4	7.2
Decrease in accounts payable and other current liabilities	(14.2)	(11.4)
Other, net	-	(0.5)
Net cash provided by/(used in) operating activities	2.3	(3.1)
Cash Flows from Investing Activities		
Capital expenditures	(7.7)	(4.5)
Proceeds from disposal of property, plant and equipment	0.6	0.4
Loans to / investment in associates	(11.1)	(6.2)
Net change in restricted cash	(2.9)	(3.7)
Net cash used in investing activities	(21.1)	(14.0)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	11.7	-
Repayments under revolving facilities	(22.3)	(33.9)
Proceeds from related party subordinated debt	-	-
Proceeds from long-term debt	-	0.5
Repayment of long-term debt	-	(6.5)
Debt issuance costs	-	(3.5)
Net proceeds from private placement and subsequent offering	-	102.7
Net cash (used in)/provided by financing activities	(10.6)	59.3
Effect of exchange rate changes on cash and cash equivalents	(7.8)	(0.1)
Net increase/(decrease) in cash and cash equivalents	(37.2)	42.1
Cash and cash equivalents at beginning of the period	59.0	27.3
Cash and cash equivalents at the end of the period	21.8	69.4
Interest paid	\$ 20.4	\$ 18.8
Taxes paid	\$ 1.6	\$ 1.8

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

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Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

(In millions)

	<u>Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Contributed Surplus</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2017	\$ 1.5	\$ 926.0	\$ (1,466.0)	\$ (1.2)	\$ 740.1	\$ 200.4
Share based compensation	-	0.3	-	-	-	0.3
Translation differences	-	-	-	(4.7)	-	(4.7)
Net income	-	-	(3.0)	-	-	(3.0)
Balance at June 30, 2018	\$ 1.5	\$ 926.3	\$ (1,469.0)	\$ (5.9)	\$ 740.1	\$ 193.0

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

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Notes to Unaudited Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

Archer Limited is an international oilfield service company providing a variety of oilfield products and services through its Area organization. Services include platform drilling, land drilling, modular rigs, engineering services, equipment rentals, wireline services, well imaging and integrity management tools.

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

We employed approximately 4,771 skilled and experienced people at June 30, 2018.

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

Basis of presentation

The unaudited second quarter 2018 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited second quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These second quarter financial statements should be read in conjunction with our financial statements as of December 31, 2017. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

Use of estimates

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

Significant accounting policies

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

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Notes to Unaudited Consolidated Financial Statements

Goodwill

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

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

We aggregated components with similar economic characteristics.

If an initial qualitative review of the carrying value of our goodwill indicates that impairment is probable, we apply the testing mechanism prescribed in USGAAP which involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if a reporting unit's fair value is less than its carrying value, an impairment of goodwill may exist, requiring a second step to measure the amount of impairment loss.

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

Impairment of long-lived assets and intangible assets

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

Equity Method Investments

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

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Notes to Unaudited Consolidated Financial Statements

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

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

Recently issued accounting pronouncements

Since December 31, 2016, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

ASU 2017-02 Leases (Topic 842). This update creates new topic 842, containing new guidance for lease accounting which is effective for fiscal years beginning after December 15, 2018. Early application is permitted. The new GAAP requires the recognition of lease assets and liabilities by lessees, for leases previously classified as operating leases.

For leases for a period of 12 months or less, an election is available by class of underlying asset, not to recognise lease assets and liabilities. Instead, a lease expense may be recognised, generally on a straight line basis, over the lease term.

The distinction between finance and operating leases is maintained under the new GAAP, and the effect of leases in the statement of comprehensive income and statement of cash flows is largely unchanged from previous GAAP.

Under the new GAAP a lease is defined as a contract (or part of a contract) that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

We expect that the application of the new GAAP will bring some additional assets and liabilities on to our future balance sheets. We have not yet analysed and quantified the amounts involved.

ASU 2017-08 Revenue from contracts with customers (Topic 606) Principal versus Agent considerations. The update clarifies the guidance on whether revenues should be recognised gross or net, in cases where a third party intermediary is involved in the transaction. The provisions are more directly relevant to intermediaries involved in some of our sales and have not had a material effect on our financial statements.

ASU 2017-10 revenue from Contracts with customers (Topic 606) Identifying performance obligations and Licensing. The new revenue recognition guidance (Topic 606) is applicable for fiscal periods beginning after December 15, 2017. We are still assessing the impact of the new provisions on our financial statements.

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Notes to Unaudited Consolidated Financial Statements

Note 2 – Other Financial Items

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(In millions)</i>	2018	2017	2018	2017
Foreign exchange gains / (losses)	\$ (13.2)	\$ 3.9	\$ 1.3	\$ 6.0
Gain on debt restructure	-	121.1	-	121.1
Other items	3.1	(2.9)	5.5	(3.5)
Total other financial items	\$ (10.1)	\$ 122.1	\$ 6.8	\$123.6

During the second quarter of 2017 we completed a comprehensive restructuring of our debt by the signing of an amendment and restatement agreement with the lenders under our multicurrency revolving credit facility, and the signing of certain amendment agreements with Seadrill in relation to the subordinated loan. The debt restructure resulted in the recognition of a gain of \$121.1 million in the second quarter. This represented \$1.05 of the year to date earnings per share, and \$0.83 of the second quarter earnings per share figure in 2017.

In addition to the one-off gain on the debt restructure, Other financial items represent predominantly foreign exchange gains on an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the entity with Norwegian Kroner functional currency is classified as other comprehensive income. During the first half of 2018 there our Argentine subsidiaries, who report to us in USD, have been affected by the devaluation of the Argentine Peso. The revaluation of their Peso assets and liabilities is reported in the foreign exchange gains/losses above.

Note 3 – Income Taxes

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(In millions)</i>	2018	2017	2018	2017
United States	\$ -	\$ 0.1	\$ -	\$ -
South America	(5.5)	(3.7)	(5.4)	(2.1)
Europe	(8.7)	(3.4)	(11.4)	(4.1)
Others	(0.5)	0.1	0.2	1.0
Total	\$(14.7)	\$ (6.9)	\$(16.6)	\$ (5.2)

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

The Group's net tax position for the second quarter is a tax benefit of \$14.7 million.

The net tax benefit in Europe amounted to \$8.7 million in second quarter which primarily consists of a tax benefit of \$8.4 million arising in the UK related to tax loss from sale of rigs.

The net tax benefit in South America amounted to \$5.5 million in the second quarter and relates to the net loss from the legal entities operating in North of Argentina and Bolivia. The net loss generated in North of Argentina is heavily impacted by the devaluation of pesos towards USD currency during first half of 2018.

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Notes to Unaudited Consolidated Financial Statements

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

As at 30 June 2018 we have total deferred tax assets of \$30.8 million which consist of \$14.8 million of tax assets in Norway, \$9.4 million tax asset in Argentina North and \$5.9 million tax asset in UK.

Deferred tax liabilities at 30 June, 2018 total \$3.1 million.

Note 4 – Earnings Per Share

The computation of basic EPS is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments. The denominator used for the computation of basic and diluted earnings was computed as follows:

<i>(In thousands)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Denominator				
Weighted-average common shares outstanding	147,462	145,875	147,395	115,287
Effect of potentially dilutive share based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	<u>147,462</u>	<u>145,875</u>	<u>147,395</u>	<u>115,287</u>

Share-based compensation of 54,380 and 110,170 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2018, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 5 – Inventories

<i>(In millions)</i>	June 30 2018	December 31 2017
Manufactured		
Finished goods	\$ 17.1	\$ 16.5
Work in progress	<u>1.7</u>	<u>1.8</u>
Total manufactured	18.8	18.3
Drilling supplies	14.3	14.2
Chemicals	3.0	3.5
Other items and spares	<u>21.6</u>	<u>22.0</u>
Total inventories	<u>\$ 57.7</u>	<u>\$ 58.0</u>

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Notes to Unaudited Consolidated Financial Statements

Note 6 — Investments in Associates

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

	June 30, 2018	December 31, 2017
C6 Technologies AS	50.0%	50.0%
Rawabi Archer Company	50.0%	50.0%
Quintana Energy Services LLP	28.7%	42.0%
TAQA Archer Services LLC	51.0%	51.0%

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

<i>(In millions)</i>	June 30, 2018	December 31, 2017
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	93.0	74.3
TAQA Archer Services LLC	8.1	8.3

The components of investments in associates are as follows:

<i>(In millions)</i>	QES	C6	Rawabi	TAQA
Carrying value of investment at December 31, 2017	74.3	-	-	8.3
Additional capital investment	10.0	-	-	-
Share in results of associates	(4.2)	-	-	(0.2)
Conversion of loan to shares	10.7	-	-	-
Adjustment to carrying value to reflect IPO	2.3	-	-	-
Carrying value of investment at June 30, 2018	93.0	-	-	8.1
Carrying value of Loan balance at June 30, 2018	-	8.9	-	-

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

Since completing an IPO of its shares in February 2018, QES shares are quoted on the New York Stock exchange. At June 30 2018 the quoted price for shares in QES was \$8.47.

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

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Notes to Unaudited Consolidated Financial Statements

In addition to our capital investment in C6, we have made additional investment by way of a loan which, at June 30, 2018, has a carrying value of \$8.9 million (2017 \$6.6 million) and is repayable in 2021 when we expect the developed technology to have generated sufficient funds. We have applied our share of the expenses incurred by C6 as a reduction on the value of our loan due from the entity.

Note 7 – Goodwill

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

(In millions)

Net book balance at December 31, 2017	\$ 181.9
Currency adjustments	1.1
Net book balance at June 30, 2018	\$183.0

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

Note 8 – Other Intangible Assets

<i>(In millions)</i>	Cost	Accumulated Amortization	Net
Balance at December 31, 2017	\$ 26.2	\$ (24.2)	\$ 2.0
Amortization	-	(0.7)	(0.7)
Currency adjustments	0.1	(0.1)	-
Balance at June 30, 2018	\$ 26.3	\$ (25.0)	\$ 1.3

The net book value of \$1.3 million at June 30, 2018, related to patents of technology.

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Notes to Unaudited Consolidated Financial Statements

Note 9 – Long-term, Interest-Bearing Debt

	June 30, 2018			December 31 2017		
<i>(In millions)</i>	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs
Multicurrency term and revolving facility	550.0	(2.0)	548.0	566.8	(2.5)	564.3
Related party subordinated convertible loan	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loans	24.9	(0.5)	24.4	25.5	(0.5)	25.0
Other loans and capital lease liability	20.9	-	20.9	14.6	-	14.6
Total loans and capital lease liability	654.1	(2.5)	651.6	665.2	(3.0)	662.2
Less: current portion	(10.0)	1.1	(8.9)	(8.3)	1.1	(7.2)
Long-term portion of interest bearing debt	644.1	(1.4)	642.7	656.9	(1.9)	655.0

Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the “Facility”) is \$626.8 million, split between \$383.7 million under a term loan and \$243.1million in a revolving facility. A total of \$24 million of the Facility has been carved out during the second quarter of 2018 to two overdraft facilities, each of \$ 12 million. A total of \$550.0 million was drawn as at June 30, 2018 under the Facility and \$76.8 million remain available. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

The interest payable on the Facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA. In March 2020 quarterly instalments of \$10 million commence and the final maturity date of the Facility is September 30, 2020.

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

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

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

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Notes to Unaudited Consolidated Financial Statements

As of June 30, 2018, the Company is in compliance with all covenants as agreed with its lenders under this Facility.

Related party subordinated loan

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

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

Hermes-covered term loan

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The loan matures September 2020, and contains covenants aligned to those of the multi-currency term loan and revolving credit facility. The interest rate applied to this loan is 1.45% above EURIBOR. At June 30, 2018 the equivalent of \$24.9 million was outstanding under this facility.

Other loans and capital leases

We have two \$12.0 million overdraft facilities and at June 30, 2018, net borrowing under these facilities amounted to \$7.4 million.

At June 30, 2018 we have borrowed \$5.8 million under a long term facility, and \$0.4 million under a short term facility in Argentina, and in Bolivia we have borrowed a further \$4.4 million under local short term facilities.

We have finance arrangements relating to equipment in our Oiltools division and insurance premiums. At June 30, 2018, the balance due under these arrangements was \$2.7 million.

Note 10 – Segment Information

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

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

- Eastern Hemisphere
- Western Hemisphere

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

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

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Notes to Unaudited Consolidated Financial Statements

(In millions)

	Three Months Ended June 30		Six Months June 30	
	2018	2017	2018	2017
Revenues from external customers				
Eastern Hemisphere	\$ 128.3	\$ 112.8	\$ 249.0	\$ 214.0
Western Hemisphere	96.1	96.4	193.7	196.8
Total	\$ 224.4	\$ 209.2	\$ 442.7	\$ 410.8
Depreciation and amortization				
Eastern Hemisphere	\$ 5.9	\$ 8.0	\$ 12.5	\$ 14.2
Western Hemisphere	8.7	8.7	17.1	17.9
Total	\$ 14.6	\$ 16.7	\$ 29.6	\$ 32.1
Operating (loss)/income – net				
Eastern Hemisphere	\$ 7.2	\$ 4.6	\$ 11.1	\$ 9.3
Western Hemisphere	(7.3)	(7.0)	(10.9)	(10.1)
Corporate costs	(2.1)	(1.2)	(3.7)	(3.4)
Stock compensation costs	(0.1)	(0.2)	(0.3)	(0.1)
Total Operating (loss)/income - net	(2.3)	(3.8)	(3.8)	(4.3)
Total financial items	(19.8)	109.8	(15.8)	89.7
Income taxes	14.7	6.9	16.6	5.2
Discontinued operations, net of taxes	-	-	-	-
Net income/(loss)	\$ (7.4)	\$ 112.9	\$ (3.0)	\$ 90.6
Capital expenditures				
Eastern Hemisphere	\$ 1.0	\$ 0.7	\$ 1.9	\$ 1.0
Western Hemisphere	3.8	3.5	5.8	3.5
Total	\$ 4.8	\$ 4.2	\$ 7.7	\$ 4.5

(In millions)

	Eastern Hemisphere	Western Hemisphere	Total
Goodwill			
Balance at December 31, 2017	\$ 181.9	\$ -	\$ 181.9
Currency adjustments	1.1	-	1.1
Balance at June 30, 2018	\$ 183.0	\$ -	\$ 183.0

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

<i>(In millions)</i>	June 30 2018	December 31 2017
Total assets		
Eastern Hemisphere	\$ 547.2	\$ 522.0
Western Hemisphere	454.2	520.4
Corporate	0.6	0.5
Total	\$ 1,002.0	\$ 1,042.9

Note 11 – Fair Value of Financial Instruments

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

<i>(In millions)</i>	June 30, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	\$ 21.8	\$ 21.8	\$ 59.0	\$ 59.0
Restricted cash	11.4	11.4	8.7	8.7
Accounts receivable	140.0	140.0	140.4	140.4
Accounts payable	(51.8)	(51.80)	(53.6)	(53.6)
Current portion of long-term debt	(8.9)	(8.9)	(7.2)	(7.2)
Long-term, interest-bearing debt	(584.4)	(584.4)	(596.7)	(596.7)
Subordinated related party debt	(58.3)	(58.3)	(58.3)	(58.3)
Derivatives				
Interest rate swap agreements	(0.7)	(0.7)	(1.2)	(1.2)

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

<i>(In millions)</i>	June 30, 2018	Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 21.8	\$ 21.8	—	—
Restricted cash	11.4	11.4	—	—
Accounts receivable	140.0	—	140.0	—
Liabilities				
Accounts receivable	(52.0)	—	(52.0)	—
Current portion of interest-bearing debt	(8.9)	—	(8.9)	—
Long-term, interest-bearing debt	(642.7)	—	(642.7)	—
Interest rate swap agreements	(75.5)	—	(75.5)	—

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

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

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

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

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

Note 12 – Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of June 30, 2018, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

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 13 – Related Parties

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

Transactions with Seadrill:

During the six months ended June 30, 2018, we supplied Seadrill Limited and affiliates with services amounting to \$0.2 million. This amount has been included in operating revenue.

A NOK 66 million (equivalent to \$8.1 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS. We were charged guarantee fees of \$26 thousand during the six months ended June 30, 2018.

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. In the six months ended June 30, 2018 we have advanced \$1.1 million as additional loan to C6, and applied \$0.4 million interest to the loan balance. During the first quarter of 2018 we supplied C6 with personnel and facility services amounting to \$0.1 million.

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Notes to Unaudited Consolidated Financial Statements

Transactions with other associated companies

Our relationship with TAQA and Rawabi is described in note 6 above. During 2018 we charged TAQA \$0.3 million for the lease of equipment. The amount remains outstanding at June 30, 2018. We have provided \$0.2 million of parts and spare parts to Rawabi during the year. At June 30, 2018 we have a balance of \$0.1 million owed to us by Rawabi.

At June 30, 2018, QES owe a balance of \$0.3 million in respect transition services provided following the sale of our North American businesses to QES at the end of 2015. The balance is reported as a receivable balance in our trade accounts receivable at as June 30, 2018.

Transactions with other related parties

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

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

Frontline and Seatankers provides management support and administrative services to us, and we have recorded fees of \$0.1 and \$0.2 million for these services from these companies respectively in the six months ended June 30, 2018. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

During the six months ended June 30, 2018, we supplied NADL with services amounting to \$0.6 million, including reimbursable material. This amount has been included in operating revenues. During the same period, NADL provided warehouse space to our UK operations for which we were charged \$0.1 million.

Note 15 – Subsequent Events

None.

ARCHER LIMITED

Appendix to second quarter unaudited financial statements

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

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Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended					
	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017	March 31 2017
<i>(In millions)</i>						
Revenue	224.4	218.3	223.7	212.3	209.2	201.6
Cost and expenses						
Operational costs	(226.7)	(219.8)	(224.0)	(215.2)	(213.0)	(202.1)
Impairments	—	—	(3.2)	—	—	—
Net financial items	(19.8)	4.0	(19.8)	(6.1)	109.8	(20.1)
Income / (loss) from continuing operations before income taxes	(22.1)	2.5	(23.3)	(9.0)	106.0	(20.6)
Income tax (expense) benefit	14.7	1.9	0.6	4.4	6.9	(1.7)
Income / (loss) from continuing operations	(7.4)	4.4	(22.7)	(4.6)	112.9	(22.3)
(Loss)/income from discontinued operations, net of tax	-	-	-	(2.2)	-	-
Net income (loss)	(7.4)	4.4	(22.7)	(6.8)	112.9	(22.3)

ARCHER LIMITED
Appendix to second quarter unaudited financial statements

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

	Three Months Ended					
	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017	March 31 2017
<i>(In millions)</i>						
Net income / (loss)	(7.4)	4.4	(22.7)	(6.8)	112.9	(22.3)
Depreciation, amortization and impairments	14.6	14.7	18.2	15.7	16.7	15.4
Net financial items	19.8	(4.0)	19.8	6.1	(109.8)	20.1
Taxes on income	(14.7)	(1.9)	(0.6)	(4.4)	(6.9)	1.7
Income/(loss) from discontinued operations, net of tax	-	-	-	2.2	-	-
EBITDA	12.3	13.2	14.7	12.8	12.9	14.9
Restructuring costs	5.6	4.9	1.8	5.0	2.8	2.4
EBITDA before restructuring costs	18.0	18.1	16.5	17.8	15.7	17.3

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017	March 31 2017
<i>(In millions)</i>						
Eastern Hemisphere	13.0	10.2	10.3	10.0	12.5	10.8
Western Hemisphere	1.4	4.7	6.1	4.4	1.7	6.1
Corporate costs and stock compensation costs	(2.1)	(1.7)	(1.7)	(1.6)	(1.3)	(2.0)
EBITDA	12.3	13.2	14.7	12.8	12.9	14.9