

Archer

Second quarter 2017 highlights

- Revenue \$209.2 million.
- EBITDA of \$15.7 million, excluding restructuring costs of \$2.8 million.
- Net income of \$112.9 million, including net financial gain of \$121.1 million from the refinancing.
- Secured contract with Pan American Energy for Land Drilling totalling \$700 million.
- Secured renewal of three contracts with Shell UK, Marathon UK and Energean Greece for Platform Drilling totalling \$100 million.
- High growth in the US with revenue increase of 25% and healthy margins.
- Archer concluded refinancing with reduced debt and sufficient liquidity.

Financial statements

Archer revenue was up \$7.6 million or 3.8% to \$209.2 million in Q2 17, reflecting increasing activity levels in Eastern Hemisphere partly offset by reduced activity in Western Hemisphere. Eastern Hemisphere revenue was up \$11.5 million, following increased activity in all divisions, mainly driven by Oiltools. Western Hemisphere revenue decreased by \$4.0 million with a \$5.5 million reduction in Land Drilling, partially offset by growth in Frac Valves services in US. The revenue reduction in Land Drilling was driven by less active rigs and abnormal weather conditions impacting operations.

EBITDA before restructuring cost ("underlying EBITDA") decreased by \$1.6 million to \$15.7 million in Q2 2017. The shortfall was caused by a significant reduction in Western Hemisphere of \$4.2million, partly offset by an increase in Eastern Hemisphere of \$2.2 million. The reduction in Latin America was due to a combination of reduced drilling activity in Bolivia and strikes and seasonally abnormal weather conditions in the San Jorge Gulf, with a total reduction in underlying EBITDA by \$4.8 million. The reduction in activity for Latin America was partly offset by a healthy increase in activity and results in other divisions. The improved result for Eastern Hemisphere in the quarter was mainly driven by the Oiltools division with high activity and favourable product mix, with EBITDA up \$2.2 million from previous quarter. The AWC business in the US saw continued high activity during the quarter and increased EBITDA by \$0.6 million to \$1.1 million

Net financial gain was \$109.8 million in Q2 2017, significantly up from the net financial loss of \$20.1 million in Q1 2017. The improvement derived mainly from the accounting effects of debt forgiveness and guarantee settlements, which were part of our overall refinancing completed during Q2 2017, but also reflecting improved results in associated companies and less interest expense. Cash and cash equivalents, excluding restricted cash, amounted to \$69.4 million at June 30, 2017 compared to \$79.1 million at March 31, 2017. Available liquidity was \$124.6 million at June 30, 2017.

Cash generated from underlying operations to financing activities and servicing of debt for Q2 2017 was \$9.8 million, down from \$11.3 million in Q1 2017, mainly related to reduction in results. Cash generated from underlying operations to financing activities and servicing of debt is calculated to be the EBITDA adjusted for changes in working capital and tax payments.

Disciplined capex spend of \$4.2 million was focused on maintenance in the quarter.

Net cash outflow from financing activities during the Q2 2017, including interest paid, was \$11.6million, which includes net proceeds from equity issue of \$5.7 million, \$4.8 million reduction of debt, \$3.5 million debt fees paid and interest paid of \$9.3 million.

Total net interest-bearing debt at June 30, 2017 was \$623.5 million compared to \$710.8 million as of March 31 2017. The reduction is primarily driven by the overall refinancing completed during first half of 2017, including the reduction in interest bearing debt related to the Seadrill debt forgiveness and net proceeds received from the private placement.

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 remains uncertain, but we believe and plan for a moderate activity increase during the second half of 2017. Archer secured renewal of contracts for more than \$800 million in the quarter, supporting Archer's position with key clients going forward. Furthermore, our US land business – AWC and our interest in QES – is expected to continue to grow in line with the US rig count and related fracking intensity.

Risks and uncertainties,

Our largest uncertainty in activity going forward continues to be our operations in Argentina as activity continues to be low and volatile. The newly signed contract with Pan American Energy will give us increased activity and scope as the contract ramp-ups gradually through the second half of 2017.

We have not identified any other additional risk exposure beyond the risks disclosed in our report contained in Archer Limited's 2016 Annual report published at OSE.

Responsibility Statement

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period January 1, to June 30, 2017 has been prepared in accordance with United States Generally Accepted Accounting Principles, or "USGAAP" 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, 2016, and remain was for the remaining materially unchanged for the remaining six months of the financial year 2017.

July 2017
The Board of Archer Limited

Ørjan Svanevik
Chairman

Kate Blankenship
Director

Alf Ragnar Løvdal
Director

Giovanni Dell Orto
Director

John Reynolds
Director

Dag Skindlo
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	2017	2016	2017	2016
Revenues					
Operating revenues		\$ 195.3	\$ 201.3	\$ 385.8	\$ 412.2
Reimbursable revenues		13.9	17.5	25.0	38.8
Total revenues		209.2	218.8	410.8	448.0
Expenses					
Operating expenses		171.9	194.4	339.3	376.8
Reimbursable expenses		12.9	15.8	23.1	31.5
Depreciation and amortization		16.7	19.1	32.1	37.0
Impairments		-	0.2	-	5.7
Loss/(Gain) on sale of assets		-	1.5	-	1.4
General and administrative expenses		11.5	10.3	20.6	21.5
Total expenses		213.0	241.3	415.1	473.9
Operating loss		(3.8)	(22.5)	(4.3)	(25.9)
Financial items					
Interest income		0.9	0.5	1.2	1.2
Interest expenses		(11.2)	(13.3)	(25.2)	(28.4)
Share of results in associated companies		(2.0)	(13.3)	(9.9)	(32.8)
Other financial items	2	122.1	3.2	123.6	16.8
Total financial items		109.8	(22.9)	89.7	(43.2)
Profit/(loss) from continuing operations before income taxes		106.0	(45.4)	85.4	(69.1)
Income tax benefit / (expense)	3	6.9	-	5.2	(2.9)
Income/(loss) from continuing operations		112.9	(45.4)	90.6	(72.0)
Income/(loss) from discontinued operations, net of tax		-	0.2	-	(1.0)
Net Income / (loss)		\$ 112.9	\$ (45.2)	\$ 90.6	\$ (73.0)
Income / (loss) per share-basic					
Income/(loss) from continuing operations		\$ 0.77	\$ (0.78)	\$ 0.79	\$ (1.23)
Loss from discontinued operations		-	-	-	(0.02)
Income/(loss) per share		\$ 0.77	\$ (0.78)	\$ 0.79	\$ (1.25)
Income / (loss) per share-diluted					
Income/(loss) from continuing operations		\$ 0.77	\$ (0.78)	\$ 0.79	\$ (1.23)
Loss from discontinued operations		-	-	-	(0.02)
Income/(loss) per share		\$ 0.77	\$ (0.78)	\$ 0.79	\$ (1.25)
Weighted average number of shares outstanding					
Basic	5	145.9	58.1	115.3	58.1
Diluted	5	145.9	58.1	115.4	58.1

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

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

<i>(In millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income/(loss)	\$112.9	\$(45.2)	\$ 90.6	\$ (73.0)
Other comprehensive income/(loss)				
Currency translation differences	3.5	-	5.0	(12.5)
Other comprehensive income/(loss)	3.5	-	5.0	(12.5)
Total comprehensive income/(loss)	\$116.4	\$(45.2)	\$95.6	\$ (85.5)

Accumulated Other Comprehensive Loss
(Unaudited)

<i>(In millions)</i>	<u>Total</u>
Accumulated foreign currency translation differences at December 31, 2016	\$ (7.7)
Foreign currency translation differences arising during 2017	5.0
Accumulated foreign currency translation differences at June 30, 2017	\$ (2.7)

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

ARCHER LIMITED

Consolidated Balance Sheets

(In millions)

	Note	June 30 2017 (Unaudited)	December 31 2016 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 69.4	\$ 27.3
Restricted cash		11.5	7.6
Accounts receivables		146.6	150.5
Inventories	5	55.0	61.8
Other current assets		47.5	39.9
Total current assets		330.0	287.1
Noncurrent assets			
Investments in associates	6	86.1	94.9
Loans to associates	6	17.2	11.0
Property plant and equipment, net		454.5	476.4
Deferred income tax asset		20.9	12.2
Goodwill	7	178.4	172.6
Other intangible assets, net	8	2.7	3.3
Deferred charges and other current assets		3.1	2.8
Total noncurrent assets		762.9	773.2
Total assets		\$ 1,092.9	\$1,060.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	\$ 21.7	\$ 131.1
Accounts payable		46.8	52.0
Other current liabilities		111.4	130.0
Total current liabilities		179.9	313.1
Noncurrent liabilities			
Long-term interest-bearing debt	9	612.9	567.1
Subordinated related party loan		58.3	125.0
Deferred taxes		10.4	9.7
Other noncurrent liabilities		3.4	15.8
Total noncurrent liabilities		685.0	717.6
Shareholders' equity			
Common shares of par value \$0.01 per share: 1.0 billion shares authorized: 147,281,887 outstanding shares at June 30, 2017 (December 31, 2016: 57,915,716)		1.5	0.6
Additional paid in capital		925.6	823.7
Accumulated deficit		(1,436.5)	(1,527.1)
Accumulated other comprehensive loss		(2.7)	(7.7)
Contributed surplus		740.1	740.1
Total shareholders' equity		228.0	29.6
Total liabilities and shareholders' equity		\$ 1,092.9	\$ 1,060.3

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	
	2017	2016
Cash Flows from Operating Activities		
Net income/(loss)	\$ 90.6	\$ (73.0)
Net loss from discontinued operations	-	1.0
Net income/(loss) from continuing operations	90.6	(72.0)
Adjustment to reconcile net income/(loss) to net cash (used in)/provided by operating activities		
Depreciation and amortization	32.1	37.0
Gain on debt restructure	(121.1)	-
Debt fees paid	3.5	
Write-down of inventory	-	5.5
Share-based compensation expenses	0.1	0.2
Loss on property, plant and equipment disposals	-	1.4
Share of results in associated companies	9.9	32.8
Amortization of loan fees	1.8	3.0
Deferred income taxes	(9.1)	0.7
Foreign currency gain	(6.0)	(18.3)
Changes in operating assets and liabilities		
(Increase) /Decrease in accounts receivable and other current assets	(0.2)	52.4
Decrease in inventories	7.2	4.2
Decrease in accounts payable and other current liabilities	(11.4)	(12.1)
Other, net	(0.5)	(2.2)
Net cash used in discontinued operations	-	(1.0)
Net cash (used in)/provided by operating activities	(3.1)	31.6
Cash Flows from Investing Activities		
Capital expenditures	(4.5)	(3.4)
Proceeds from disposal of property, plant and equipment	0.4	1.0
Loans to / investment in associates	(6.2)	(15.3)
Net change in restricted cash	(3.7)	(0.2)
Net cash used in investing activities	(14.0)	(17.9)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	-	107.7
Repayments under revolving facilities	(33.9)	(162.2)
Proceeds from related party subordinated debt	-	75.0
Proceeds from long-term debt	0.5	-
Repayment of long-term debt	(6.5)	(10.5)
Debt issuance costs	(3.5)	(2.0)
Net proceeds from private placement and subsequent offering	102.7	-
Net cash provided by financing activities	59.3	7.7
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(12.4)
Net increase/(decrease) in cash and cash equivalents	42.1	9.0
Cash and cash equivalents at beginning of the period	27.3	20.5
Cash and cash equivalents at the end of the period	69.4	29.5
Interest paid	\$ 18.8	\$ 20.1
Taxes paid	\$ 1.8	\$ 6.7

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

ARCHER LIMITED

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

(In millions)

	<u>Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Contributed Surplus</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2016	\$ 0.6	\$ 823.7	\$ (1,527.1)	\$ (7.7)	\$ 740.1	\$ 29.6
Proceeds from private placement	0.8	98.3	-	-	-	99.1
Proceeds from subsequent offer	0.1	5.7	-	-	-	5.8
Costs of share issue	-	(2.2)	-	-	-	(2.2)
Share based compensation	-	0.1	-	-	-	0.1
Translation differences	-	-	-	5.0	-	5.0
Net income	-	-	90.6	-	-	90.6
Balance at June 30, 2017	\$ 1.5	\$ 925.6	\$ (1,436.5)	\$ (2.7)	\$ 740.1	\$ 228.0

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, production monitoring, well imaging and integrity management tools.

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

We employed approximately 4,800 skilled and experienced people at June 30, 2017.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited second quarter 2017 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 unaudited second quarter financial statements should be read in conjunction with our financial statements as of December 31, 2016. 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 first quarter financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2016. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

Goodwill

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Notes to Unaudited Consolidated Financial Statements

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

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

We aggregated components with similar economic characteristics.

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

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

Impairment of long-lived assets and intangible assets

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

Recently issued accounting pronouncements

The following summary describes provisions of Accounting Standards Updates (ASUs) recently issued by the Financial Accounting Standards Board (FASB) which may be relevant to Archer's financial statements:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle is that a company should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. This update establishes a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing US GAAP. The FASB recently issued ASU 2015-14, which deferred the effective date of ASU

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Notes to Unaudited Consolidated Financial Statements

2014-09 by one year to period commencing on or after December 15, 2017. The Company is in the process of considering the impact of the standard on its consolidated financial statements. The majority of our revenue is based on contractual daily rates, either for the provision of drilling equipment or service personnel. We expect to continue recognizing revenue based on these actual daily rates. The adoption of the standard is not expected to have a material impact on other income, primarily income earned from wireline and engineering projects.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

Note 2 – Other Financial Items

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(In millions)</i>	2017	2016	2017	2016
Foreign exchange gains / (losses)	\$ 3.9	\$ 4.0	\$ 6.0	\$ 18.3
Gain on debt restructure	121.1	-	121.1	-
Other items	(2.9)	(0.8)	(3.5)	(1.5)
Total other financial items	\$ 122.1	\$ 3.2	\$123.6	\$(16.8)

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 restructure is described in more detail in notes 9 and 14. The debt restructure resulted in the recognition of a gain of \$121.1 million in the second quarter. This represents \$1.05 of the year to date earnings per share, and \$0.83 of the second quarter earnings per share figure.

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.

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Notes to Unaudited Consolidated Financial Statements

Note 3 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
United States	\$ 0.1	\$ -	\$ -	\$ 0.3
South America	(3.7)	0.8	(2.1)	1.4
Europe	(3.4)	(1.3)	(4.1)	0.3
Others	0.1	0.5	1.0	0.9
Total	\$ (6.9)	\$ -	\$ (5.2)	\$ 2.9

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

The Group's net tax position for the first half of 2017 is a tax benefit of \$5.2 million.

The income tax credit in South America of \$2.1 million relates mainly to capitalization of operational losses in Argentina.

Tax in Europe amounted also to a net tax credit of \$4.1 million which primarily consists of a tax credit of \$6.9 million arising in Norway in relation to the capitalisation of tax assets. In United Kingdom we have expensed withholding taxes of \$ 1.5 million in addition to the current year tax expense of \$0.8 million. The remaining \$0.5 million relates to tax on profits in Denmark.

Tax expense of \$1.0 million reported under Others mainly represents adjustments of the previous year's tax charges relating to results of our UAE branches, and withholding taxes in Malaysia and UAE. Australia has a current tax of \$ 0.2 million.

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

As at 30 June 2017 we have total deferred tax assets of \$ 20.9 million which consist mainly of \$30.0 million of tax assets in Argentina, against which we have made a valuation allowance of \$22.8 million, and net deferred tax assets of \$13.5 million recorded in our Norwegian entities.

Deferred tax liabilities at June 30, 2017 total \$10.4 million, the majority of which, \$7.3 million, relates to capital allowances claimed on the six rigs acquired by our UK subsidiary Limay Drilling Rigs Ltd in 2014.

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Notes to Unaudited Consolidated Financial Statements

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	
	2017	2016	2017	2016
Denominator				
Weighted-average common shares outstanding	145,875	58,077	115,287	58,077
Effect of potentially dilutive common shares	—	—	—	—
Share-based compensation shares	40	—	117	—
Weighted-average common shares outstanding and assumed conversions	<u>145,915</u>	<u>58,077</u>	<u>115,404</u>	<u>58,077</u>

Share-based compensation of 1,490 and 83,759 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2016, 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	December 31
	2017	2016
Manufactured		
Finished goods	\$ 15.4	\$ 16.6
Work in progress	1.6	1.2
Total manufactured	17.0	17.8
Drilling supplies	12.5	24.4
Chemicals	4.6	6.1
Other items and spares	20.9	13.5
Total inventories	\$ 55.0	\$ 61.8

Note 6 — Investments in Associates

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

	June 30, 2017	December 31, 2016
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company	50.00%	50.00%
Quintana Energy Services LLP	42.00%	42.00%
TAQA Archer Services LLC	51.00%	51.00%

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Notes to Unaudited Consolidated Financial Statements

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

<i>(In millions)</i>	June 30, 2017	December 31, 2016
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	76.8	85.1
TAQA Archer Services LLC	9.3	9.8

The components of investments in associates are as follows:

<i>(In millions)</i>	QES	C6	Rawabi	TAQA
Carrying value of investment at December 31, 2016	85.1	-	-	9.8
Additional capital investment	-	1.1	-	-
Share in results of associates	(8.3)	(1.1)	-	(0.5)
Rounding adjustment		-	-	
Carrying value of investment at June 30, 2017	76.8	-	-	9.3
Carrying value of Loan balance at June 30, 2017	10.5	6.7	-	-

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

In addition to our capital investment in C6, we have made additional investment by way of a loan which, at June 30, 2017, has a carrying value of \$6.7 million (2016 \$6.0 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 in a reduction on the value of our loan due from the entity.

The share in results related to our investment in QES reflects our 42% portion of the total losses estimated by the entity for the first half of 2017. In addition to the investment in QES, we have provided QES with a loan of \$10 million. Included in the terms of the loan arrangement which involved other third parties, Archer and the other lenders received penny warrants. Archer's warrants represent 8.5% of the shares in QES which, along with the warrants issues to other lenders, implies that on a fully diluted basis, Archer's ownership in QES will be reduced from 42% to approximately 36% if all the warrants are exercised.

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 7 – Goodwill

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

(In millions)

Net book balance at December 31, 2016	\$ 172.6
Currency adjustments	5.8
Net book balance at June 30, 2017	\$178.4

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

Note 8 – Other Intangible Assets

(In millions)

	Cost	Accumulated Amortization	Net
Balance at December 31, 2016	\$ 25.2	\$ (21.9)	\$ 3.3
Amortization	-	(0.7)	(0.7)
Currency adjustments	0.7	(0.6)	0.1
Balance at June 30, 2017	\$ 25.9	\$ (23.2)	\$ 2.7

The net book value at June 30, 2017, consisted of customer relationships of \$0.5 million, identified technology of \$0.6 million, and patents of \$1.6 million.

Note 9 – Long-term, Interest-Bearing Debt

	June 30, 2017			December 31 2016		
<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	598.2	(3.0)	595.2	625.0	(4.5)	620.5
Related party subordinated convertible loan	58.3	-	58.3	125.0	-	125.0
Hermes-covered term loans	24.4	(0.6)	23.8	28.0	(0.8)	27.2
Other loans and capital lease liability	15.6	-	15.6	50.5	-	50.5
Total loans and capital lease liability	696.5	(3.6)	692.9	828.5	(5.3)	823.2
Less: current portion	(22.8)	1.1	(21.7)	(134.7)	3.6	(131.1)
Long-term portion of interest bearing debt	673.7	(2.5)	671.2	693.8	(1.7)	692.1

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Notes to Unaudited Consolidated Financial Statements

Multicurrency revolving credit facility

During the Q2 2017, we completed the restructuring of our main finance facilities involving the amendment agreements to our multicurrency term and revolving facility, (the “facility”), the new terms of which are disclosed below, and our subordinated loan from Seadrill, which is discussed in more detail below and in Note 13, Related parties. We have concluded that the overall restructuring of our debt with our various lenders falls under the USGAAP definition of a troubled debt restructure.

The main amendment to the facility is a new repayment schedule with the final maturity date extended from May 2018 to September 2020 and certain changes to the financial covenants.

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.

As of June 30, 2017, a total of \$598.2 million was drawn under the facility. The facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

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 \$45 million in 2017, \$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 \$25 million for the financial year 2017 and \$40 million per year thereafter.

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

As of June 30, 2017, the Company is in compliance with all covenants as agreed with its lenders under this facility.

Related party subordinated loan

A total of \$125 million of subordinated loans from Seadrill Limited, were replaced with a subordinated convertible loan with face value of \$45 million in Q2 2017. The loan matures on December 31, 2021, and bears interest of 5.5% per year. The conversion rights attached to the renegotiated 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 for troubled debt restructuring, interest up to the maturity date has been accrued, increasing the book value of the loan from \$45 million to \$58.3 million.

The amendments to the finance arrangements agreed with Seadrill are discussed in more detail in Note 13, Related parties.

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Notes to Unaudited Consolidated Financial Statements

Hermes-covered term loan

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. As part of the debt restructuring agreed with our lenders in June 2017, the maturity date of this loan will be extended from May 2019 to September 2020, the repayment schedule will be amended and the covenants aligned to those of the multicurrency term and revolving facility. The amendments to this loan agreement are expected to be in place and effective before the end of the third quarter. The interest rate applied to this loan is 1.45% above EURIBOR. At June 30, 2017 the equivalent of \$24.4 million was outstanding under this facility.

Other loans and capital leases

At June 30, 2017 we have borrowed \$1.0 million under short term facilities and \$7.1 million under a long term facility in Argentina, and in Bolivia we have borrowed a further \$1.3 million under local short term facilities.

We have finance arrangements relating to equipment for our Oiltools division and insurance premiums. At June 30, 2017, the balance due under these arrangements was \$6.2 million.

Interest rate swap agreement

We have two interest rate swap agreements, one securing the interest rate on NOK 500 million until May 2019, and a \$ interest rate swap agreement securing the interest rate on \$150 million until October 2017. The fair value of the swaps as at June 30, 2017 was a liability of \$1.5 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

Note 10 – Segment Information

The split of our 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	
	2017	2016	2017	2016
Revenues from external customers				
Eastern Hemisphere	\$ 112.8	\$ 113.1	\$ 214.0	\$ 293.2
Western Hemisphere	96.4	105.7	196.8	208.8
Total	\$ 209.2	\$ 218.8	\$ 410.8	\$ 448.0
Depreciation and amortization				
Eastern Hemisphere	\$ 8.0	\$ 7.9	\$ 14.2	\$ 15.8
Western Hemisphere	8.7	11.2	17.9	21.2
Total	\$ 16.7	\$ 19.1	\$ 32.1	\$ 37.0
Operating (loss)/income – net loss				
Eastern Hemisphere	\$ 4.6	\$ 2.8	\$ 9.3	\$ 8.9
Western Hemisphere	(7.0)	(22.1)	(10.1)	(28.6)
Corporate costs	(1.2)	(3.4)	(3.4)	(6.0)
Stock compensation costs	(0.2)	0.2	(0.1)	(0.2)
Operating (loss)/income	(3.8)	(22.5)	(4.3)	(25.9)
Total financial items	109.8	(25.3)	89.7	(45.6)
Income taxes	6.9	-	5.2	(2.9)
Discontinued operations, net of taxes	-	0.2	-	(1.0)
Net income/(loss)	\$ 112.9	\$ (47.6)	\$ 90.6	\$ (75.4)
Capital expenditures				
Eastern Hemisphere	\$ 0.7	\$ 0.7	\$ 1.0	\$ 1.3
Western Hemisphere	3.5	0.9	3.5	2.1
Total	\$ 4.2	\$ 1.6	\$ 4.5	\$ 3.4

(In millions)

	Eastern Hemisphere	Western Hemisphere	Total
Goodwill			
Balance at December 31, 2016	\$ 172.6	\$ -	\$ 172.6
Currency adjustments	5.8	-	5.8
Balance at June 30, 2017	\$ 178.4	\$ -	\$ 178.4

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

<i>(In millions)</i>	June 30 2017	December 31 2016
Total assets		
Eastern Hemisphere	\$ 555.3	\$ 493.4
Western Hemisphere	536.2	564.0
Corporate	1.4	2.9
Total	\$ 1,092.9	\$ 1,060.3

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, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	\$ 69.4	\$ 69.4	\$ 27.3	\$ 27.3
Restricted cash	11.5	11.5	7.6	7.6
Current portion of long-term debt	(22.8)	(22.8)	(134.7)	(134.7)
Long-term, interest-bearing debt	(673.7)	(673.7)	(693.8)	(693.8)
Derivatives				
Interest rate swap agreements	(1.5)	(1.5)	(2.0)	(2.0)

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

<i>(In millions)</i>	June 30, 2017	Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 69.4	\$ 69.4	—	—
Restricted cash	11.5	11.5	—	—
Liabilities				
Interest rate swap agreements	(1.5)	—	(1.5)	—
Multicurrency term and revolving facility, excluding current portion	(598.2)	—	(598.2)	—
Other loans and capital leases, excluding current portion	(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

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

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Notes to Unaudited Consolidated Financial Statements

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

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

Note 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, 2017, 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:

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 15.7% of our stock.

During the six months ended June 30, 2017, we supplied Seadrill Limited and affiliates with services amounting to \$0.2 million, including the provision of reimbursable material. This amount has been included in operating revenues.

On October 24, 2014, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of \$50 million. In March 2017 the loan, and any accrued interest/fees, was sold to Seadrill Limited. Interest of 7.5% per annum on the \$50 million principle amount, was being accrued and added to the outstanding balance, to be paid when the loan matured on June 30, 2018.

In May 2016, Seadrill Limited provided new financing to Archer in an aggregate amount of up to \$ 75 million, which was contributed in form of subordinated debt. Interest of 10% per year was being accrued over the term of the loan to be paid, along with the principal amount on the maturity date of June 30 2018.

Seadrill provided a guarantee of €38 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 10). Annual guarantee fees were charged at 1.25% of the guaranteed amount.

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Seadrill also provided 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 NOK 66 million (equivalent to \$7.9 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS

In addition, Seadrill provided Archer Norge AS with a guarantee of a maximum of \$20 million to support Archer Norge AS's guarantee facility.

On April 28, 2017 as part of a comprehensive restructuring of our financing arrangements, contracts were signed to agree the following with Seadrill:

- The principal amounts outstanding under the two subordinated loans above is replaced with the \$45 million, interest bearing million convertible loan described in Note 9 .
- The balance owed for accrued interest as at the effective date of the amendment agreement totalling \$15.6 million is reduced to \$2.0 million.
- The balance owed for accrued guarantee fees as at the effective date of the amendment agreement totalling \$10.6 million is reduced to \$30,521.
- In consideration for the release from its guarantees described above, Seadrill made payments totalling \$28 million to our lenders. Under the overall restructuring scheme, our lenders have allocated their receipts from Seadrill as prepayments of our outstanding loans. The resultant reductions in our loan balances have been recorded as part of the gain recognised on the debt restructuring, discussed in Note 2.

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 2016 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.

In the six months ended June 30, 2017 we have advanced \$1.3 million as additional loan to C6.

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, or Frontline
- North Atlantic Drilling Ltd, or NADL
- Sevan Marine Servicos de Perfuracao Ltda, or Sevan
- Enermech Services Inc

Frontline provides management support and administrative services to us, and we have recorded fees of \$0.1 million for these services in the six months ended June 30, 2017. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

During the six months ended June 30, 2017, we supplied NADL with services amounting to \$0.4 million, including reimbursable material. This amount has been included in operating revenues.

Enermech Services Inc. provided products and services to the company totalling \$0.1 million during the six months June 30, 2017. These amounts were included in operating expenses. At June 30, 2017,

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

During 2016, after our acquisition of our 42% holding in QES in return for the contribution of our North American pressure pumping and Wireline businesses, we provided transitional services to QES. In addition we invoiced QES for items which we have paid on their behalf following the sale, such as benefits and insurance claims. At June 30, 2017, QES owe a balance of \$0.8 million in respect of these services, which is reported as a receivable balance in our trade accounts receivable at as June 30. 2017.

Note 15 – Subsequent Events

None.

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Appendix to second quarter 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, 2017, March 31, 2017, December 31, 2016, September 30, 2016, June 30, 2016, and March 31, 2016. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

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Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended					
	June 30 2017	March 31 2017	December 31 2016	September 30 2016	June 30 2016	March 31 2016
<i>(In millions)</i>						
Revenue	209.2	201.6	221.4	214.4	218.8	229.2
Cost and expenses						
Operational costs	(213.0)	(202.1)	(223.8)	(215.1)	(241.3)	(232.6)
Impairments	—	—	—	(12.0)	—	—
Net financial items	109.8	(20.1)	(51.2)	(26.2)	(22.9)	(20.3)
Income / (loss) from continuing operations before income taxes	106.0	(20.6)	(53.6)	(38.9)	(45.4)	(23.7)
Income tax (expense) benefit	6.9	(1.7)	5.1	(3.1)	—	(2.9)
Income / (loss) from continuing operations	112.9	(22.3)	(48.5)	(42.0)	(45.4)	(26.6)
(Loss)/income from discontinued operations, net of tax	-	-	(1.6)	(0.8)	0.2	(1.2)
Net income (loss)	112.9	(22.3)	(50.1)	(42.8)	(45.2)	(27.8)

ARCHER LIMITED
Appendix to second quarter financial statements

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

	Three Months Ended					
	June 30 2017	March 31 2017	December 31 2016	September 30 2016	June 30 2016	March 31 2016
<i>(In millions)</i>						
Net income / (loss)	112.9	(22.3)	(50.1)	(42.8)	(47.6)	(27.8)
Depreciation, amortization and impairments	16.7	15.4	16.4	29.6	20.8	23.3
Net financial items	(109.8)	20.1	51.2	26.2	25.3	20.3
Taxes on income	(6.9)	1.7	(5.1)	3.1	-	2.9
Income/(loss) from discontinued operations, net of tax	-	-	1.6	0.8	(0.2)	1.2
EBITDA	12.9	14.9	14.0	16.9	(1.7)	19.9
Restructuring costs	2.8	2.4	4.8	4.6	19.1	6.5
EBITDA before restructuring costs	15.7	17.3	18.8	21.5	17.4	26.4

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
	June 30 2017	March 31 2017	December 31 2016	September 30 2016	June 30 2016	March 31 2016
<i>(In millions)</i>						
Eastern Hemisphere	12.5	10.8	11.6	12.5	12.1	14.0
Western Hemisphere	1.7	6.1	4.8	6.8	(10.6)	8.8
Corporate costs and stock compensation costs	(1.3)	(2.0)	(2.4)	(2.4)	(3.2)	(2.9)
EBITDA	12.9	14.9	14.0	16.9	(1.7)	19.9