

Archer

Third Quarter 2016 highlights

- Third quarter revenue from continuing operations was \$214.4 million.
- Third quarter EBITDA before net restructuring costs was \$21.5 million.
- Third quarter cash generated from underlying operations to financing activities and servicing of debt was \$6.2 million.
- Net interest-bearing debt was \$814.9 million at September 30, 2016.
- Archer Oiltools has launched a new product family named "Stronghold", which enables us to deliver faster, safer and more economical solutions for a series of perforating, washing and cementing systems.
- Aker BP extended the Platform Drilling services contract in Norway for additional three years.

Financial Statements

The following discussions are based on a continuing operations basis. The results of the divested North American business, which have previously been reported in our North America Area, have been reclassified to discontinued operations for all periods presented and previously announced results have also been restated.

Comparison of the Three Months ended September 30, 2016 to the Three Months ended June 30, 2016

Revenue for third quarter 2016 was \$214.4 million compared to \$218.8 million for the second quarter 2016, a reduction of \$4.4 million or 2%. Earnings before Interest, Taxes, Restructuring, Depreciation and Amortization or EBITDA, was \$21.5 million, an increase of \$4.1 million or 23.6% compared to second quarter 2016. EBITDA margin achieved for the quarter was 10%. Third quarter 2016 results include a \$5.0 million one-time credit adjustments related to changes in Norwegian pension plan for offshore employees. Excluding the \$5.0 million one-time pension related credit, EBITDA decreased by \$0.9 million or 5.2%. In line with reduced activity, we recorded additional restructuring and other one-time costs of \$4.6 million aimed at reducing our costs base for land drilling, wireline and oiltools.

EBITDA after restructuring of \$16.9 million improved by \$18.6 million as a result of lower restructuring costs, one-time pension credit in Norway and improved margin following headcount reductions. Total headcount was reduced by 153 employees in third quarter 2016. Total headcount reductions YTD September 2016 was 833 employees, or 14%, compared to headcount end of 2015. Furthermore, we had 157 employees on temporary leave in Norway at end of September 2016.

Net Financial Items were a net expense of \$26.2 million in the third quarter 2016 compared to an expense of \$22.9 million in the second quarter 2016. Interest expenses increased to \$18.0 million compared to \$13.3 million in the second quarter, mainly following interest paid on the settlement of an old tax case in Bolivia. Losses derived from results in associated companies amounted to \$15.8 million in the third quarter 2016 compared to \$13.3 million in the second quarter 2016, mainly attributable to our investment in Quintana Energy Services LLP. This was partly offset by other financial items, the majority of which is exchange rate gains, amounting to \$7.2 million income in third quarter 2016, compared to \$3.2 million income in the second quarter 2016.

Quarter on quarter Net Income before impairment of \$12.0 million, improved by \$14.2 million mainly attributed to lower restructuring costs and lower operating costs.

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

Cash Flow

Cash and cash equivalents, excluding restricted cash, amounted to \$17.5 million at September 30, 2016 compared to \$29.5 million at June 30, 2016.

Cash generated from underlying operations to financing activities and servicing of debt in third quarter was \$6.2 million. 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. Cash outflow on financial costs during the quarter was approximately \$14 million including \$3.7 million of interest and penalties on a tax case lost in Bolivia pertaining to earlier years. During fourth quarter 2016 we expect cash generated from underlying operations to financing activities and servicing of debt to be approximately \$15 million.

Disciplined capex spend of \$1.0 million in third quarter which is less than 1% of our revenue for the quarter.

Net cash outflow from financing activities during the third quarter, including interest, was \$3.2 million, which consists of \$10.7 million net additional drawdowns on our debt facilities, less interest paid of \$13.9 million.

Total net interest-bearing debt at September, 2016 was \$814.9 million compared to \$790.7 million as of June 30, 2016. The total increase in interest-bearing debt end of September 2016 relates mainly to \$ 8.1 million in payment of VAT & WHT taxes related to the re-organization of operations in Latin America, payment of old tax dispute in Bolivia of \$6.4million and the net increased working capital commitment of \$6.5 million.

Total cash and committed undrawn credit lines amount to \$73.4 million at the end of September 30, 2016.

Share Capital

The total number of issued and fully paid shares of par value \$0.01 outstanding at September 30, 2016 was 58,164,966. A total of 1,332,933 options and restricted stock units, or "RSU"s were outstanding as of September 30, 2016.

Third Quarter 2016 Operating Results by Area

The management discussions and analysis below represents results from continuing operations and excludes the divested North America Pressure Pumping, Pressure Control, Directional Drilling and Wireline divisions. Archer business lines are separated into two reporting segments; Eastern Hemisphere and Western Hemisphere and all operational comments are presented in line with this organization below unless stated otherwise.

<i>(In millions)</i>	Revenues			EBITDA before restructuring costs		
	<u>Q3 2016</u>	<u>Q2 2016</u>	<u>Variance</u>	<u>Q3 2016</u>	<u>Q2 2016</u>	<u>Variance</u>
Eastern Hemisphere	\$ 96.0	\$ 113.1	\$ (17.1)	\$ 14.3	\$ 12.3	\$ 2.0
Western Hemisphere	118.4	105.7	12.7	9.1	7.6	1.5
Corporate	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(1.9)</u>	<u>(2.5)</u>	<u>0.6</u>
	<u>\$ 214.4</u>	<u>\$ 218.8</u>	<u>\$ (4.4)</u>	<u>\$ 21.5</u>	<u>\$ 17.4</u>	<u>\$ 4.1</u>

Note: The EBITDA numbers shown above are before restructuring costs; Restructuring costs incurred during third quarter 2016 were \$4.6 million as compared to \$19.1 million during second quarter 2016

Eastern Hemisphere

Third quarter 2016 revenue was \$96 million, a decrease of \$17.1 million or 15.1% sequentially as a result of reduced demand for our products and services in a challenging market. In spite of lower revenue quarter on quarter, EBITDA before restructuring costs increased by \$2 million or 16.3%, resulting from \$5.0 million one-time credit adjustment related to cancellation of defined benefit

pension plan for offshore employees in Norway, partially offset by fall through from reduced revenue. Excluding one-time pension adjustment credit of \$5.0 million, EBITDA was down \$3.0 million or 24.4% in line with reduced revenue. EBITDA margin reported for the quarter was at a healthy level of 14.9%.

The cancellation of the defined benefit pension plan for offshore employees in Norway will contribute to more predictable pension costs going forward, as the defined benefit pension plan is replaced by a contribution pension plan. The cancellation of the defined pension plan also reversed our previous reported pension liability, giving a net reduction in long term liabilities of \$29.0 million end of third quarter 2016.

Platform Drilling revenue for third quarter 2016 decreased by \$10.2 million or 13.8% following lower reimbursable billings, lower rental activity, adverse currency changes between US Dollars and British pounds partially offset by increased operating activities and higher add-on personnel billings in the UK. For the same period EBITDA before restructuring costs decreased by \$1.1 million or 14.6%, reflecting direct fall through from reduced revenue partially offset by costs savings on training and travel.

Third Quarter 2016 revenue for Engineering services increased by 5.1% sequentially mainly on account of increased reimbursable billings and increase in underlying activity. Quarter on quarter EBITDA improved by 28.8% reflecting cost reductions initiatives taken earlier in the year.

Wireline revenue for third quarter 2016 decreased by \$5.1 million or 31.6% due to lower activity in all markets. EBITDA before restructuring costs for the same period decreased by \$1.5 million as a result of reduced activity levels.

Compared to second quarter 2016, Oiltools revenue decreased by \$1.6 million or 11.4% primarily driven by lower activity in certain markets. Despite lower revenue quarter on quarter, EBITDA increased by 6.8% primarily driven by costs savings and improved revenue mix.

For Eastern Hemisphere we expect fourth quarter 2016 revenue to increase by 5-10% on higher activity for platform drilling, engineering and wireline services. Despite incremental revenue EBITDA is expected to be lower due to absence of one-time credit related to pension costs in Norway. For 2017 we expect demand for our services to increase from current level as a number of our key customers have communicated that they will re-activate some of their assets next year.

Western Hemisphere

Third quarter 2016 revenue was \$118.4 million, an increase of \$12.7 million or 12% compared to second quarter, mainly related to land drilling services in Latin America on higher rig utilizations. EBITDA before restructuring costs increased by \$1.5 million or 19.7% in the third quarter compared to second quarter, primarily on fall through from increased land drilling revenue.

Land Drilling revenue for the third quarter 2016 increased \$12.6 million to \$115.7 million on increased rig activity, higher rig' utilization and more rigs on operational rate vs standby rate during the quarter. Rig utilization in third quarter 2016 was 64.2% compared to 61.7% for second quarter 2016. For the same period EBITDA before restructuring costs increased by \$1.4 million or 15.2% due to margin from incremental revenue and lower maintenance costs, partially offset by increased customs and transportation costs. During the quarter 61 employees were terminated to align our cost base in line with the current activity levels.

Revenue for Frac Valves services for third quarter 2016 increased 5% reflecting higher new valves sales and parts sale, partially offset by lower repair revenue

We expect fourth quarter 2016 revenue to decrease by 5-10% in line with lower drilling activity. Market conditions for land drilling services in Argentina are expected to remain challenging into 2017.

Corporate Costs

Corporate costs of \$1.9 million during the third quarter 2016 was \$0.6 million or 24% below the second quarter 2016 mainly on account of lower long term incentive plan costs following headcount reduction and timing difference on insurance related costs recharges.

Summary Outlook

As global commodity prices remained under pressure and the price for oil hit a 12 year low in February 2016, many of our customers decided to further reduce their spending levels for the year 2016. However, in line with what our well services competitors have announced, we are starting to see signs of higher activity levels and expect activity to improve towards the end of the year in selective segments. Furthermore, in fourth quarter we commenced the incremental Platform Drilling operations for Statoil which we were awarded earlier this year. In the short term, we expect fourth quarter 2016 revenue to be in-line with third quarter, following increased activity for Platform Drilling in the North Sea offset by an equivalent reduction in the revenue in Latin America.

We will continue to focus on items we can control in line with our values, which are to provide safe operations with a superior service quality and a high level of integrity. In addition we will continue to focus on our cost structure and work with our customers to find ways to reduce the overall cost of operation.

We continue to curtail our capital expenditures and we expect total spending for 2016 to be approximately \$7 million.

Risks and uncertainties

Our largest uncertainty in activity going forward is related to drilling operations in Argentina as the country moves towards market based prices for oil and gas which is expected to be implemented by January 1, 2017.

In line with reduction in activity level in fourth quarter 2016, we plan to reduce headcount further during the quarter.

Cautionary Statement Regarding Forward-Looking Statements

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

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the Year ending December 31, 2015. These forward-looking statements are made only as of the date of this press release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

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

Archer

ARCHER LIMITED

INDEX TO UNAUDITED THIRD QUARTER AND FULL YEAR FINANCIAL STATEMENTS

Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015	Page 7
Consolidated Statements of Comprehensive Loss for the three and nine months September 30, 2016 and 2015	Page 8
Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015	Page 9
Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015	Page 10
Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2016	Page 11
Notes to Unaudited Consolidated Financial Statements	Page 12
Appendix	Page 28

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2016	2015	2016	2015
Revenues					
Operating revenues		\$ 197.8	\$ 304.2	\$ 610.0	\$ 974.8
Reimbursable revenues		16.6	17.7	52.4	63.8
Total revenues		<u>214.4</u>	<u>321.9</u>	<u>662.4</u>	<u>1,038.6</u>
Expenses					
Operating expenses		173.8	264.1	550.6	832.9
Reimbursable expenses		14.5	15.8	46.0	58.7
Depreciation and amortization		17.5	20.0	54.5	59.5
Impairments		12.0	-	17.7	-
Loss/(Gain) on sale of assets		0.1	0.1	1.5	(3.2)
General and administrative expenses		9.2	14.3	30.7	46.0
Total expenses		<u>227.1</u>	<u>314.3</u>	<u>701.0</u>	<u>993.9</u>
Operating (loss) / income		(12.7)	7.6	(38.6)	44.7
Financial items					
Interest income		0.4	0.6	1.6	1.8
Interest expenses		(18.0)	(12.9)	(46.4)	(38.0)
Share of results in associated company		(15.8)	(1.9)	(48.6)	(0.2)
Other financial items	3	7.2	(23.0)	24.0	(46.5)
Total financial items		<u>(26.2)</u>	<u>(33.4)</u>	<u>(69.4)</u>	<u>(82.9)</u>
Loss from continuing operations before income taxes		(38.9)	(25.8)	(108.0)	(38.2)
Income tax (expense) / benefit	4	(3.1)	(1.2)	(6.0)	1.2
Loss from continuing operations		<u>(42.0)</u>	<u>(27.0)</u>	<u>(114.0)</u>	<u>(37.0)</u>
Loss from discontinued operations, net of tax		<u>(0.8)</u>	<u>(25.6)</u>	<u>(1.8)</u>	<u>(78.2)</u>
Net loss		<u>\$ (42.8)</u>	<u>\$ (52.6)</u>	<u>\$ (115.8)</u>	<u>\$ (115.2)</u>
Loss per share-basic					
Loss from continuing operations		\$ (0.74)	\$ (0.47)	\$ (1.98)	\$ (0.64)
Loss from discontinued operations		-	(0.44)	(0.02)	(1.35)
Loss per share		<u>\$(0.74)</u>	<u>\$(0.91)</u>	<u>\$ (2.00)</u>	<u>\$ (1.99)</u>
Loss per share-diluted					
Loss from continuing operations		\$ (0.74)	\$ (0.47)	\$ (1.98)	\$ (0.64)
Loss from discontinued operations		-	(0.44)	(0.02)	(1.35)
Loss per share		<u>\$(0.74)</u>	<u>\$(0.91)</u>	<u>\$ (2.00)</u>	<u>\$ (1.99)</u>
Weighted average number of shares outstanding					
Basic	5	58.2	57.9	58.1	57.9
Diluted	5	58.2	57.9	58.1	57.9

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

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

<i>(In millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Net loss	\$(42.8)	\$(52.6)	\$(115.8)	\$(115.2)
Other comprehensive income /(loss)				
Currency translation differences	(9.2)	1.8	(21.7)	8.1
Change in pension liability	23.1	-	23.1	
Other comprehensive income	13.9	1.8	1.4	8.1
Total comprehensive loss	<u>\$(28.9)</u>	<u>\$(50.8)</u>	<u>\$(114.4-)</u>	<u>\$(107.1)</u>

Accumulated Other Comprehensive Loss
(Unaudited)

<i>(In millions)</i>	Pension – Unrecognized <u>Losses</u>	Currency Exchange <u>Differences</u>	<u>Total</u>
Balance at December 31, 2015	\$(23.1)	\$ 17.6	\$ (5.5)
Currency exchange differences		(21.7)	(21.7)
Change in pension liability	23.1	-	23.1
Balance at September 30, 2016	<u>\$ -</u>	<u>\$ (4.1)</u>	<u>\$ (4.1)</u>

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

ARCHER LIMITED

Consolidated Balance Sheets

<i>(In millions)</i>	Note	September 30 2016 (Unaudited)	December 31 2015 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 17.5	\$ 20.5
Restricted cash		4.9	8.0
Accounts receivables		164.7	193.3
Inventories	7	68.0	83.5
Other current assets		44.2	57.6
Total current assets		299.3	362.9
Noncurrent assets			
Investments in associates	8	114.9	148.1
Loans to associates	8	6.0	4.7
Property plant and equipment, net		497.2	554.5
Deferred income tax asset		6.8	13.3
Goodwill	9	184.4	174.2
Other intangible assets, net	10	3.9	4.8
Deferred charges and other assets		3.0	4.9
Total noncurrent assets		816.2	904.5
Total assets		\$ 1,115.5	\$1,267.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	11	\$ 108.8	\$ 95.0
Accounts payable		49.7	59.1
Other current liabilities		135.4	165.2
Total current liabilities		293.9	319.3
Noncurrent liabilities			
Long-term interest-bearing debt	11	598.6	657.6
Subordinated related party loan		125.0	50.0
Deferred taxes		10.1	9.3
Other noncurrent liabilities		4.9	33.9
Total noncurrent liabilities		738.6	750.8
Shareholders' equity			
Common shares of par value \$0.01 per share: 1.0 billion shares authorized: 58,164,966 outstanding shares at September 30, 2016 (December 31, 2015: 57,915,716)		0.6	0.6
Additional paid in capital		823.4	823.3
Accumulated deficit		(1,477.0)	(1,361.2)
Accumulated other comprehensive loss		(4.1)	(5.5)
Contributed surplus		740.1	740.1
Total shareholders' equity		83.0	197.3
Total liabilities and shareholders' equity		\$ 1,115.5	\$ 1,267.4

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

<i>(In millions)</i>	Nine Months Ended September 30	
	2016	2015
Cash Flows from Operating Activities		
Net loss	\$ (115.8)	\$ (115.2)
Net loss from discontinued operations	1.8	78.2
Net loss from continuing operations	(114.0)	(37.0)
<u>Adjustment to reconcile net loss to net cash provided by operating activities</u>		
Depreciation and amortization	54.5	59.5
Impairments & Write-down of inventory	17.7	-
Share-based compensation expenses	0.1	1.0
Loss/(Gain) on property, plant and equipment disposals	1.5	(3.2)
Share of losses of unconsolidated affiliates	48.6	0.2
Amortization of loan fees	3.8	2.4
Deferred income taxes	0.6	(4.9)
Foreign currency (gain) / loss	(27.9)	43.3
<i>Changes in operating assets and liabilities</i>		
Decrease in accounts receivable and other current assets	48.6	42.9
Decrease / (Increase) in inventories	9.7	(9.1)
Decrease in accounts payable and other current liabilities	(19.9)	(46.9)
Other, net	(5.2)	(22.5)
Net cash (used in) / provided by discontinued operations	(1.8)	13.6
	<u>16.3</u>	<u>39.3</u>
Cash Flows from Investing Activities		
Capital expenditures	(4.4)	(80.4)
Proceeds from disposal of property, plant and equipment	1.3	8.9
Loans to / investment in associates	(15.9)	(3.6)
Net change in restricted cash	3.9	8.9
Net cash used in investing activities of discontinued operations	-	(15.8)
Net cash used investing activities	<u>(15.1)</u>	<u>(82.0)</u>
Cash Flows from Financing Activities		
Borrowings under revolving facilities	151.9	74.1
Repayments under revolving facilities	(191.7)	(9.0)
Proceeds from related party subordinated debt	75.0	-
Proceeds from long-term debt	-	4.2
Repayment of long-term debt	(14.8)	(17.0)
Debt issuance costs	(2.0)	-
Cash used in financing activities of discontinued operations	-	(0.2)
Net cash provided/(used)by financing activities	<u>18.4</u>	<u>52.1</u>
Effect of exchange rate changes on cash and cash equivalents	(22.6)	6.3
Net increase/(decrease) in cash and cash equivalents	<u>(3.0)</u>	<u>15.7</u>
Cash and cash equivalents at beginning of the period	<u>20.5</u>	<u>28.9</u>
Cash and cash equivalents at the end of the period	<u>17.5</u>	<u>44.6</u>
Interest paid	\$ 36.7	\$ 20.8
Taxes paid	\$ 8.3	\$ 8.3

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

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

<i>(In millions)</i>	<u>Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Contributed Surplus</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2015	\$ 0.6	\$ 823.3	\$ (1,361.2)	\$ (5.5)	\$ 740.1	\$ 197.3
Net loss	—	—	(115.8)	—	—	(115.8)
Reversal of actuarial gain relating to terminated pension plan	—	—	—	23.1	—	23.1
Translation differences	—	—	—	(21.7)	—	(21.7)
Share based compensation	—	0.1	—	—	—	0.1
Balance at September 30, 2016	\$ 0.6	\$ 823.4	\$ (1,477.0)	\$ (4.1)	\$ 740.1	\$ 83.0

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

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

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

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

We employed approximately 4,910 skilled and experienced people at September 30, 2016.

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 third quarter 2016 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 third quarter financial statements should be read in conjunction with our financial statements as of December 31, 2015. 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 third 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, 2015. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

Goodwill

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

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

We aggregated components with similar economic characteristics.

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

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

Reclassifications

We have made certain reclassifications to prior period amounts to conform to the current period's presentation, including certain reclassifications to present discontinued operations. Other reclassifications did not have a material effect on our consolidated financial statements.

Recently issued accounting pronouncements

Since December 31, 2015, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

ASU 2016-02 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 2016-08 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, however we shall apply the provisions to ensure our revenues are recorded correctly. We do not expect this update to have a material effect on our financial statements.

ASU 2016-09 Stock compensation (Topic 718) – Improvements to employee share based payment accounting. The update is part of the FASB's simplification initiative. We do not expect the provisions in this guidance to have a material effect on our financial statements.

ASU 2016-10 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.

Note 2 – Impairments

With the continued economic challenges within the Oilfield sector during 2016, which is reflected in reduced results and forecasts, we have been closely monitoring the carrying values of our assets and we conducted a comprehensive impairment test for long lived assets during the third quarter. During 2016 we have recognised an impair loss of \$5.5 million in respect of obsolete inventory within our Frac Valves division, our review during the third quarter has resulted in the recognition of further impairments in relating to rigs and land drilling equipment in in our South American business of \$12.2 million.

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

Note 3 – Other Financial Items

<i>(In millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
Foreign exchange gains / (losses)	\$ 9.6	\$ (21.9)	\$ 27.9	\$ (43.3)
Other items	(2.4)	(1.1)	(3.9)	(3.3)
Total other financial items	<u>\$ 7.2</u>	<u>\$ (23.0)</u>	<u>\$ 24.0</u>	<u>\$ (46.6)</u>

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.

Other items include interest and penalties paid in relation to the settlement of a tax case in Bolivia.

Note 4 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
United States	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.1
South America	(2.7)	(1.9)	(1.3)	(8.2)
Europe	5.2	2.8	5.6	5.3
Other taxes	0.5	0.2	1.4	1.6
Total	<u>\$ 3.1</u>	<u>\$ 1.2</u>	<u>\$ 6.0</u>	<u>\$ (1.2)</u>

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, and withholding taxes applied to some cross-border settlements.

The Group's net tax expense for the first nine months of 2016 is \$6.0 million.

In the nine months ended September 30, 2016 we have recognised a net tax benefit of \$1.3 million relating to our South American operations. This comprises a tax expense of \$0.6 million relating to a gain on an internal sale of shares in a subsidiary company, recorded as part of a restructuring of our Land Drilling division, off-set by a tax credit recorded in respect of operational losses of \$1.5 million in our Argentinian operations and a net tax benefit of \$0.4 million recorded by our Bolivian subsidiary.

Our operations in Europe resulted in a net tax expense of \$5.6 million of which \$5.1 million relates to profits arising in the United Kingdom and \$0.5 million relates to our Norwegian entities.

Other taxes represent mainly adjustments to previous years in Australia and withholding taxes paid in UAE.

As at 30 September we have total deferred tax assets in Argentina of \$29.2 million, against which we have made a valuation allowance \$28.7 million. In addition we have deferred tax assets of \$6.3 million recorded in our Norwegian entities.

Note 5 – Discontinued Operations

On December 31, 2015, we completed a contribution agreement with Quintana Energy Services LLP (“QES”) to contribute our Pressure Pumping, Directional Drilling, Pressure Control and Wireline divisions (“Well Services Entities”) which have previously been reported within our North American (NAM) segment.

The aggregate consideration paid by QES in exchange for the contribution of the Well Services Entities consists of QES Common Units constituting 42% of the total Common Units in QES pursuant to closing of the transaction on a fully diluted basis.

Our interest in the combined company is reported as an equity investment with our share of QES results being reported within share of results of affiliates

During 2016 we have reported costs of \$1.8 million as discontinued operations. These costs relate to the closure of an office facility which previously serviced the business contributed to QES, and the provision of transition services to QES

Note 6 – 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 September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Denominator				
Weighted-average common shares outstanding	58,165	57,916	58,077	57,916
Effect of potentially dilutive common shares	—	—	—	—
Share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	<u>58,165</u>	<u>57,916</u>	<u>58,077</u>	<u>57,916</u>

Share-based compensation of approximately 2,678 and 58,119 shares were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2016, and 41,997 and 130,395 shares were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2015, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 7 – Inventories

<i>(In millions)</i>	September 30	December 31
	2016	2015
Manufactured		
Finished goods	\$ 14.7	\$ 22.8
Work in progress	0.7	0.8
Raw materials	<u>-</u>	<u>2.2</u>
Total manufactured	15.4	25.8
Drilling supplies	32.2	27.3
Chemicals	3.1	7.5
Other items and spares	<u>17.3</u>	<u>22.9</u>
Total inventories	<u>\$ 68.0</u>	<u>\$ 83.5</u>

Note 8 — Investments in Associates

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

	September 30, 2016	December 31, 2015
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.00%	50.00%
Quintana Energy Services LLP	42.00%	42.00%
TAQA Archer Services LLC	51.00%	-

We invested \$12.2 million into TAQA Archer Services LLC, (“TAQA”), a Saudi resident joint venture entity, which was registered during the second quarter 2016, together with TAQA Industrialisation & Energy Services Company, (“TAQA Co”). The joint venture is governed by a shareholders agreement between Archer and TAQA Co. We have determined that the shareholders agreement provides TAQA Co, with substantive participating rights in the joint venture, by virtue of their representation on the board of the joint venture. Unanimous resolution by the board is required for some decisions which we consider have a significant influence on the financial and operational activities of the joint venture.

Although we own a majority of the voting shares of the joint venture, as a result of the above evaluation, we are not fully consolidating the entity. Instead we are accounting for the joint venture as using the equity method of consolidation

The carrying amounts of our investments accounted for under the equity method are as follows:

<i>(in millions)</i>	September 30, 2016	December 31, 2015
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LLP	104.4	148.1
TAQA Energy Services LLC	10.5	—

The components of investments in associates are as follows:

<i>(\$ in millions)</i>	2016				2015		
	QES	C6	Rawabi	TAQA	QES	C6	Rawabi
Net book balance at beginning of year	148.1	-	-	-	-	-	-
Additional capital investment*	-	3.2	-	12.2	148.1	2.0	-
Share in results of associates	(43.7)	(3.2)	-	(1.7)	-	(2.0)	-
Rounding adjustment	-	-	-	-	-	-	-
Net book balance at September 30, / December 31	104.4	-	-	10.5	148.1	-	-

Quoted market prices for C6 Technologies AS, Rawabi Archer Company, Quintana Energy Services LLP and Archer TAQA Services LLC 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 September 30, 2016, amounted to \$6.0 million (2015 \$4.7 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 in 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 nine months to September 30, 2016. The loss is a result of the deterioration of the North American land market, combined with one-time costs incurred to adjust the cost structure and to integrate Archer’s North American Well Service entities into QES. However, the US onshore rig count has improved 39% since the market hit the bottom in May this year, with corresponding increase in monthly revenue for QES during third quarter. QES has improved the operating results but will require additional liquidity to fund further growth. We continue to closely monitor the performance and estimated valuation of our investment. At September 30, 2016, we do not consider that there is a permanent reduction in the carrying value of this investment as we expect the market to improve in the medium term. We continue to monitor this investment and we shall record impairment immediately if we determine that any losses in value have become other than temporary.

Note 9 – 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 12.

(In millions)

Net book balance at December 31, 2015	\$ 174.2
Currency adjustments	<u>10.2</u>
Net book balance at September 30, 2016	<u>\$184.4</u>

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 10 – Other Intangible Assets

<i>(In millions)</i>	Cost	Accumulated Amortization	Net
Balance at December 31, 2015	\$ 25.5	\$ (20.7)	\$ 4.8
Amortization	-	(1.1)	(1.1)
Currency adjustments	1.3	(1.1)	0.2
Balance at September 30, 2016	<u>\$ 26.8</u>	<u>\$ (22.9)</u>	<u>\$ 3.9</u>

The net book value at September 30, 2016, consisted of customer relationships of \$0.9 million, identified technology of \$1.2 million, and patents of \$1.8 million.

Note 11 – Long-term, Interest-Bearing Debt

<i>(In millions)</i>	September 30, 2016			December 31 2015		
	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	625.0	(5.4)	619.6	638.7	(6.8)	631.9
Related party subordinated loan	125.0	-	125.0	50.0	-	50.0
Hermes-covered term loans	35.2	(1.0)	34.2	46.0	(1.5)	44.5
Other loans and capital lease liability	53.6	-	53.6	76.2	-	76.2
Total loans and capital lease liability	<u>838.8</u>	<u>(6.4)</u>	<u>832.4</u>	<u>810.9</u>	<u>(8.3)</u>	<u>802.6</u>
Less: current portion	(112.6)	3.8	(108.8)	(99.7)	4.7	(95.0)
Long-term portion of interest bearing debt	<u>726.2</u>	<u>(2.6)</u>	<u>732.6</u>	<u>711.2</u>	<u>(3.6)</u>	<u>707.6</u>

At December 31, 2015 we adopted ASU 2015-03 which required that debt issuance costs are deducted from the carrying value of the financial liability and not recorded as separate assets.

Multicurrency term and revolving facility

On December 22, 2015, we signed a fifth amendment and restatement agreement relating to our multicurrency revolving facility agreement, which matures in May 2018.

The total amount available under the multicurrency revolving facility is \$625 million. In May 2017 quarterly instalments of \$25 million commence. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA.

As of September 30, 2016, a total of \$625.0 million was drawn under the revolving facility. The facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of \$250 million in favour of the lenders under the revolving facility and the lenders of the overdraft facilities, securing our obligations under these facilities.

The revolving facility contains certain financial covenants, including, among others:

- We shall ensure that the 12 months rolling EBITDA of the group is at least \$30 million for the financial quarters up to and including Q2 2016 and \$45 million thereafter up to and including Q1 2017. The ratio of net interest bearing debt to 12 months rolling EBITDA shall not exceed 3.75x as of September 30, 2017 with subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- We shall ensure that the adjusted total equity of the group, including subordinated debt and adjusted for certain revaluation effects related to exchange rate movements, at all times is at least \$100 million for the financial quarters up to and including Q1 2017. For the financial quarter Q2 2017 and onwards, we shall ensure that the ratio of equity, including subordinated debt and adjusted for certain revaluation effects related to exchange rate movements, to total assets is at least 30.0%.
- We are to maintain the higher of \$30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- We shall ensure that the capital expenditures, on a consolidated basis, shall not exceed \$70 million in per year.

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

As of September 30, 2016, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility. However as a result of the difficult market conditions and the impact on our earnings, we project that we will be in breach of certain financial covenants in second quarter 2017. The Company continues to evaluate more comprehensive options to remedy this breach of covenants in order to find a longer term solution, which will provide the Company the necessary stability in this difficult market environment to build its business going forward. These options include, among others, negotiations with lenders to seek further modifications or waivers of the revolving multicurrency credit facility, refinancing of all or part of our debt, the sale of assets or obtaining additional equity financing.

Related party subordinated loan

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

repayable in full at the maturity date. Interest of 7.5% per year, is being accrued over the term of the loan and is payable on the maturity date. The loan matures on September 30, 2018.

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

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. The loan was drawn in full as at May 31, 2016 as is repayable in full at the maturity date. Interest of 10% per year is being accrued over the term of the loan and is payable on the maturity date. The loan matures on September 30 2018.

Hermes-covered term loans

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual instalments. The interest rate is 1.45% above EURIBOR. At September 30, 2016 the equivalent of \$31.9 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the financing of the modular rig, Archer Emerald. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.55% above EURIBOR. At September 30, 2016, the equivalent of \$3.3 million was outstanding under this facility.

Other loans and capital leases

We have two \$41.7 million overdraft facilities and at September 30, 2016, net borrowings under these facilities amounted to a total of \$27.4 million.

We have borrowed \$12.1 million in Argentina and \$5.4 million in Bolivia under short term as at September 30, 2016. We also have capital leases relating to equipment leased by the Oil Tools division. At September 30, 2016, the net balance due under these arrangements was \$8.6 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 USD interest rate swap agreement securing the interest rate on \$150 million until October 2017. The fair value of the swaps as at September 30, 2016 was a liability of \$3.0 million and is included within other liabilities. We are not currently applying hedge accounting to any of our financial instruments.

Capitalized Interest

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

Note 12 – 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.

Following the contribution of our North American well services businesses to QES on December 31, 2015, and a re-organisation of our management and reporting structure, with effect from January 1, 2016, we are presenting our business under two reporting segments;

- Eastern Hemisphere
- Western Hemisphere

Western Hemisphere comprises our operations previously reported under Latin America, being land drilling operations in Latin America, plus our Frac Valve producing facility in North America and our 42% interest in QES.

The Eastern Hemisphere segment contains the business previously reported under North Sea, plus our global Oil Tools and Wireline Service divisions (previously reported within the Emerging Markets & Technologies segment). 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.

(In millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Revenues from external customers				
Eastern Hemisphere	\$ 96.0	\$ 146.3	\$ 335.2	\$ 522.4
Western Hemisphere	118.4	175.6	327.2	516.2
Total	\$ 214.4	\$ 321.9	\$ 662.4	\$ 1,038.6
Depreciation and amortization				
Eastern Hemisphere	\$ 7.6	\$ 9.0	\$ 23.4	\$ 27.8
Western Hemisphere	9.9	11.0	31.1	31.7
Total	\$ 17.5	\$ 20.0	\$ 54.5	\$ 59.5
Operating (loss)/income – net loss				
Eastern Hemisphere	\$ 4.9	\$ 13.0	\$ 13.8	\$ 63.4
Western Hemisphere	(16.0)	(1.6)	(44.6)	(7.4)
Corporate costs	(2.5)	(2.8)	(8.5)	(8.9)
Stock compensation costs	0.1	(1.0)	(0.1)	(2.4)
Operating (loss)/income	(13.5)	7.6	(39.4)	44.7
Total financial items	(26.2)	(33.4)	(69.4)	(82.9)
Income taxes	(3.1)	(1.2)	(6.0)	1.2
Discontinued operations, net of taxes	-	(25.6)	(1.0)	(78.2)
Net loss	\$ (42.8)	\$ (52.6)	\$(115.8)	\$(115.2)
Capital expenditures				
Eastern Hemisphere	\$ 0.3	\$ 4.7	\$ 1.6	\$ 11.4
Western Hemisphere	0.7	12.0	2.8	88.1
Total	\$ 1.0	\$ 16.7	\$ 4.4	\$ 99.5

<i>(In millions)</i>			
	Eastern Hemisphere	Western Hemisphere	Total
Goodwill			
Balance at December 31, 2015	\$ 174.2	\$ -	\$ 174.2
Currency adjustments	10.2	-	10.2
Balance at September 30, 2016	\$ 184.4	\$ -	\$ 184.4

	September 30	December 31
<i>(In millions)</i>	2016	2015
Total assets		
Western Hemisphere	\$ 532.9	\$ 513.9
Western Hemisphere	581.3	750.4
Corporate	1.3	3.1
Total	\$ 1,115.5	\$ 1,267.4

Note 13 – Fair Value of Financial Instruments

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

	September 30, 2016		December 31, 2015	
<i>(In millions)</i>	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	\$ 17.5	\$ 17.5	\$ 20.5	\$ 20.5
Restricted cash	4.9	4.9	0.8	0.8
Current portion of long-term debt	108.8	108.8	95.0	95.0
Long-term, interest-bearing debt	723.6	723.6	707.6	707.6
Derivatives				
Interest rate swap agreements	(3.0)	(3.0)	(3.4)	(3.4)

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

<i>(In millions)</i>	<u>September 30, 2016</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash and cash equivalents	\$ 17.5	\$ 17.5	—	—
Restricted cash	4.9	4.9	—	—
Liabilities				
Interest rate swap agreements	3.0	—	3.0	—
Multicurrency term and revolving facility, excluding current portion	572.7	—	572.7	—
Other loans and capital leases, excluding current portion	150.9	—	150.9	—

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

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

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

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

Note 14 – Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of September 30, 2016, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

Two of our subsidiaries are the plaintiffs in the case of Archer Drilling LLC and Rig Inspection Services (US) LLC vs. Buccaneer Energy Limited et al., wherein we claim \$8.0 million from the defendants for the defendants' failure to pay for services provided. In response, the defendants raised counterclaims alleging that they are owed more than the amount we claimed in damages. On May 31, 2015, all but one of the defendants filed for Chapter 11 bankruptcy and in August 2015, the Archer parties removed the case to U.S. Bankruptcy Court where the claims are currently stayed pending further action by the

court. Litigation is inherently uncertain and while we cannot determine the amount of our ultimate recovery or loss, we believe in the merits of the claim and that the alleged counterclaims are highly defensible.

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

Note 15– Related Parties

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

Transactions with Seadrill:

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

On October 24, 2015, we signed a subordinated loan agreement with Metrogas Holdings Inc, a related party, for a loan of up to \$50 million. In March 2016 the loan, and any accrued interest/fees, was sold to Seadrill Limited. The loan was drawn in full as at September 30, 2016. Interest of 7.5% per annum on the \$50 million principle amount, is being accrued and added to the outstanding balance, and will be paid when the loan matures on September 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. The loan was drawn in full as at May 31, 2016 as is repayable in full at the maturity date. Interest of 10% per year is being accrued over the term of the loan and is payable on the maturity date. The loan matures on September 30 2018.

Seadrill has provided a guarantee of €38 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 11). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

Seadrill also provided a guarantee of \$250.0 million to the lenders of our revolving facility (see Note 11). 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. As at September 30, 2016 a total of \$2.9 million of guarantees was issued under the guarantee facility. The guarantee fee is 1.25% per annum of the guaranteed amount.

As of September 30, 2016, we have accrued total guarantee fees of \$11.4 million which are due at the end of the guarantee period. The guarantee fees are being accrued over the guarantee period, and the cost of the fees are reported within Financial Items.

Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an Oilfield Technology Company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010. During 2015 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner. The settlement of the purchase price was through a loan agreement amounting to 10 million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the tools being developed by C6 Technologies AS.

In the nine months ended September 30, 2016 we have advanced \$3.6 million as additional loan to C6.

Since our acquisition of our 42% holding in QES in return for the contribution of our North American pressure pumping and Wireline businesses, we have been providing transitional services to QES. In addition we have invoiced QES for items which we have paid on their behalf following the sale, such as benefits and insurance claims. We have invoiced QES a total of \$2.3 million. This amount is reported as a receivable balance in our trade accounts receivable at as September 30, 2016.

Note 16 – Subsequent Events

None.

Appendix to Archer Third Quarter Report 2016

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 September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, and June 30, 2015. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

ARCHER LIMITED Condensed Consolidated Statements of Operations (Unaudited)

<i>(In millions)</i>	Three Months Ended					
	September 30 2016	June 30 2016	March 31 2016	December 31 2015	September 30 2015	June 30 2015
Revenue	214.4	218.8	229.2	282.5	321.9	320.8
Cost and expenses						
Operational costs	(215.1)	(241.3)	(232.6)	(289.5)	(314.3)	(334.0)
Impairments	(12.0)	—	—	(50.2)	—	—
Net financial items	(26.2)	(22.9)	(20.3)	(24.1)	(33.4)	(13.6)
(Loss)/income from continuing operations before income taxes	(38.9)	(45.4)	(23.7)	(81.3)	(25.8)	(26.7)
Income tax (expense) benefit	(3.1)	—	(2.9)	(4.9)	(1.2)	5.8
Loss from continuing operations	(42.0)	(45.4)	(26.6)	(86.2)	(27.0)	(20.9)
(Loss) / income from discontinued operations, net of tax	(0.8)	0.2	(1.2)	(157.9)	(25.6)	(26.8)
Net loss	(42.8)	(45.2)	(27.8)	(244.1)	(52.6)	(47.7)

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

<i>(In millions)</i>	Three Months Ended					
	September 30 2016	June 30 2016	March 31 2016	December 31 2015	September 30 2015	June 30 2015
Net loss	(42.8)	(47.6)	(27.8)	(244.1)	(52.6)	(47.7)
Depreciation, amortization and impairments	29.6	20.8	23.3	68.9	20.1	21.2
Net financial items	26.2	25.3	20.3	24.1	33.4	13.6
Taxes on income	3.1	-	2.9	4.9	1.2	(5.8)
Income/(loss) from discontinued operations, net of tax	-	(0.2)	1.2	157.9	25.6	26.8
EBITDA	16.9	(1.7)	19.9	11.7	27.7	8.1
Restructuring costs	4.6	19.1	6.5	9.1	2.4	5.1
EBITDA before restructuring costs	21.5	17.4	26.4	20.8	30.1	13.2

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

<i>(In millions)</i>	Three Months Ended					
	September 30 2016	June 30 2016	March 31 2016	December 31 2015	September 30 2015	June 30 2015
Eastern Hemisphere	12.5	12.1	14.0	21.7	22.0	12.9
Western Hemisphere	6.8	(10.6)	8.8	(6.5)	9.5	(1.0)
Corporate costs and stock compensation costs	(2.4)	(3.2)	(2.9)	(3.5)	(3.8)	(3.8)
EBITDA	16.9	(1.7)	19.9	11.7	27.7	8.1