



## ARCHER LIMITED

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**ARCHER LIMITED**  
**Consolidated Statements of Operations**  
**(Unaudited)**

*(In millions, except per share data)*

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2018	2017	2018	2017
<b>Revenues</b>					
Operating revenues		\$ 192.9	\$ 199.9	\$ 598.5	\$ 585.7
Reimbursable revenues		20.8	12.4	58.0	37.4
Total revenues		<u>213.7</u>	<u>212.3</u>	<u>656.5</u>	<u>623.1</u>
<b>Expenses</b>					
Operating expenses		163.9	179.4	530.3	518.7
Reimbursable expenses		19.8	11.6	54.7	34.7
Depreciation and amortization		13.5	16.0	43.1	48.1
Loss/(Gain) on sale of assets		0.3	(0.3)	0.1	-
General and administrative expenses		7.6	8.5	23.5	28.8
Total expenses		<u>205.1</u>	<u>215.2</u>	<u>651.7</u>	<u>630.3</u>
Operating income / (loss)		8.6	(2.9)	4.8	(7.2)
<b>Financial items</b>					
Interest income		1.3	0.8	3.1	2.0
Interest expenses		(10.6)	(10.9)	(31.3)	(36.1)
Share of results in associated company		0.2	(5.2)	(3.5)	(15.1)
Gain on sale of Subsidiary Frac Valve business	2	8.9	-	8.9	-
Other financial items	2	(7.1)	9.2	(0.3)	132.8
Total financial items		<u>(7.3)</u>	<u>(6.1)</u>	<u>(23.1)</u>	<u>83.6</u>
Income/(loss) from continuing operations before income taxes		1.3	(9.0)	(18.3)	76.4
Income tax benefit/(expense)	3	5.6	4.4	22.2	9.6
Income/(loss) from continuing operations		6.9	(4.6)	3.9	86.0
Loss from discontinued operations, net of tax		-	(2.2)	-	(2.2)
Net income/(loss)		<u>\$ 6.9</u>	<u>\$ (6.8)</u>	<u>\$ 3.9</u>	<u>\$ 83.8</u>
<b>Income/(loss) per share-basic</b>					
Income/(loss) from continuing operations		\$ 0.47	\$ (0.03)	\$ 0.26	\$ 0.68
Loss from discontinued operations		-	(0.01)	-	(0.02)
Income/(loss) per share		<u>0.47</u>	<u>\$ (0.04)</u>	<u>\$ 0.26</u>	<u>\$ 0.66</u>
<b>(Loss)/income per share-diluted</b>					
Income/(loss) from continuing operations		\$ 0.47	\$ (0.03)	\$ 0.26	\$ 0.68
Loss from discontinued operations		-	(0.01)	-	(0.02)
Income/(loss) per share		<u>0.47</u>	<u>\$ (0.04)</u>	<u>\$ 0.26</u>	<u>\$ 0.66</u>
<b>Weighted average number of shares outstanding</b>					
Basic	4	147.5	147.3	147.4	126.1
Diluted	4	147.5	147.3	147.5	126.2

*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	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net (loss)/income	\$ 6.9	\$ (6.8)	\$ 3.9	\$ 83.8
Other comprehensive income /(loss)				
Currency translation differences	<u>1.9</u>	<u>0.9</u>	<u>(2.8)</u>	<u>5.7</u>
Other comprehensive income	<u>1.9</u>	<u>0.9</u>	<u>(2.8)</u>	<u>5.7</u>
Total comprehensive loss	<u><u>\$ 8.8</u></u>	<u><u>\$ (5.9)</u></u>	<u><u>\$ 1.1</u></u>	<u><u>\$ 89.5</u></u>

**Accumulated Other Comprehensive Loss**  
**(Unaudited)**

<i>(In millions)</i>	<u>Foreign currency translation differences</u>	<u>Pension – unrealised gain /(loss)</u>	<u>Total</u>
<b>Balance at December 31, 2017</b>	<b>\$ (0.5)</b>	<b>\$ (0.7)</b>	<b>\$ (1.2)</b>
Foreign currency translation differences arising during 2018	(2.8)	-	(2.8)
<b>Balance at June September, 2018</b>	<b>\$ (3.3)</b>	<b>\$ (0.7)</b>	<b>\$ (4.0)</b>

*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 2018 (Unaudited)	December 31 2017 (Audited)
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 20.8	\$ 59.0
Restricted cash		6.5	8.7
Accounts receivables		124.4	140.4
Inventories	5	51.8	58.0
Other current assets		32.1	35.9
Total current assets		<b>235.6</b>	<b>302.0</b>
Noncurrent assets			
Investments in associates	6	101.1	82.6
Loans to associates	6	9.0	17.6
Property plant and equipment, net		397.6	432.2
Deferred income tax asset		32.6	21.2
Goodwill	7	182.7	181.9
Other intangible assets, net	8	1.2	2.0
Deferred charges and other assets		3.1	3.4
Total noncurrent assets		<b>727.3</b>	<b>740.9</b>
Total assets		<b>\$ 962.9</b>	<b>\$ 1,042.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Current portion of interest-bearing debt	9	\$ 8.0	\$ 7.2
Accounts payable		45.3	53.6
Other current liabilities		89.4	117.0
Total current liabilities		<b>142.7</b>	<b>177.8</b>
Noncurrent liabilities			
Long-term interest-bearing debt	9	555.1	596.7
Subordinated related party loan		58.3	58.3
Deferred taxes		3.4	7.3
Other noncurrent liabilities		1.5	2.4
Total noncurrent liabilities		<b>618.3</b>	<b>664.7</b>
Shareholders' equity			
Common shares of par value \$0.01 per share: 1.0 billion shares authorized: 147,462,012 outstanding shares at September 30, 2018 (December 31, 2017: 147,281,887)		1.5	1.5
Additional paid in capital		926.4	926.0
Accumulated deficit		(1,462.1)	(1,466.0)
Accumulated other comprehensive loss		(4.0)	(1.2)
Contributed surplus		740.1	740.1
Total shareholders' equity		<b>201.9</b>	<b>200.4</b>
Total liabilities and shareholders' equity		<b>\$ 962.9</b>	<b>\$ 1,042.9</b>

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

**ARCHER LIMITED**  
**Consolidated Statements of Cash Flow**  
(Unaudited)

(In millions)

	Nine Months Ended September 30	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net operating income	\$ 3.9	\$ 83.8
Net loss from discontinued operations	-	2.2
Net income / (loss) from continuing operations	3.9	86.0
<u>Adjustment to reconcile net loss to net cash provided by operating activities</u>		
Depreciation and amortization	43.1	48.1
Gain on debt restructure	-	(121.1)
Gain on QES IPO	(2.3)	-
Gain on sale of subsidiary	(8.9)	-
Share-based compensation expenses	0.4	0.3
Loss on property, plant and equipment disposals	0.1	-
Share of losses of unconsolidated affiliates	3.5	15.1
Debt fees paid and expensed	-	6.9
Amortization of loan fees	0.8	2.1
Deferred income taxes	(23.0)	(13.0)
Foreign currency loss/(gain)	5.7	(19.4)
<i>Changes in operating assets and liabilities</i>		
Decrease/(increase) in accounts receivable and other current assets	8.6	(11.1)
(Increase)/decrease in inventories	(0.9)	5.2
Decrease in accounts payable and other current liabilities	(30.2)	(15.9)
Net cash (used in) / provided by discontinued operations	-	(2.2)
	0.8	(19.0)
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(12.3)	(5.8)
Proceeds from disposal of property, plant and equipment	0.6	1.1
Proceeds from disposal of subsidiary	30.0	-
Loans to / investment in associates	(11.4)	(7.9)
Net change in restricted cash	2.0	1.9
<b>Net cash used in investing activities of discontinued operations</b>	-	-
<b>Net cash provided by/(used in) investing activities</b>	9.0	(10.7)
<b>Cash Flows from Financing Activities</b>		
Borrowings under revolving facilities	8.4	3.5
Repayments under revolving facilities	(49.3)	(31.3)
Proceeds from long-term debt	-	0.5
Repayment of long-term debt	-	(37.6)
Debt issuance costs	-	(6.9)
Net proceeds from private placement and subsequent offering	-	102.7
Net cash provided by financing activities	(40.9)	30.9
Effect of exchange rate changes on cash and cash equivalents	(7.1)	16.3
Net increase/(decrease) in cash and cash equivalents	(38.2)	17.5
Cash and cash equivalents at beginning of the period	59.0	27.3
Cash and cash equivalents at the end of the period	20.8	44.8
Interest paid	\$ 30.5	\$ 22.8
Taxes paid	\$ 1.9	\$ 3.2

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

**ARCHER LIMITED**  
**Consolidated Statements of Cash Flow**  
(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>
<b>Balance at December 31, 2017</b>	<b>\$ 1.5</b>	<b>\$ 926.0</b>	<b>\$ (1,466.0)</b>	<b>\$ (1.2)</b>	<b>\$ 740.1</b>	<b>\$ 200.4</b>
Share based compensation	-	0.4	-	-	-	0.4
Translation differences	-	-	-	(2.8)	-	(2.8)
Net income	-	-	3.9	-	-	(3.9)
<b>Balance at June 30, 2018</b>	<b>\$ 1.5</b>	<b>\$ 926.4</b>	<b>\$ (1,462.1)</b>	<b>\$ (4.0)</b>	<b>\$ 740.1</b>	<b>\$ 201.9</b>

*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, 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 4,700 skilled and experienced people at September 30, 2018.

Archer was incorporated in Bermuda on August 31, 2007.

#### *Basis of presentation*

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

#### *Use of estimates*

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

#### *Significant accounting policies*

The accounting policies utilized in the preparation of the unaudited 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, 2017. 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

# ARCHER LIMITED

## *Notes to Unaudited Consolidated Financial Statements*

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 2014-09 by one year to period commencing on or after December 15, 2018. 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 2017, the FASB issued ASU 2017-02, *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



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## Notes to Unaudited Consolidated Financial Statements

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

<i>(In millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Foreign exchange (losses)/gains	\$ (5.7)	\$ 13.4	\$ (4.4)	\$ 19.4
Gain on debt restructure	-	-	-	121.1
Other items	(1.4)	(4.2)	4.1	(7.7)
<b>Total other financial items</b>	<b>\$ (7.1)</b>	<b>\$ 9.2</b>	<b>\$ (0.3)</b>	<b>\$ 132.8</b>

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.

### Note 3 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
United States	\$ -	\$ (0.1)	\$ -	\$ (0.1)
South America	(5.6)	(1.5)	(11.0)	(3.6)
Europe	(1.4)	(2.3)	(12.8)	(6.4)
Others	1.4	(0.5)	1.6	0.5
<b>Total</b>	<b>\$ (5.6)</b>	<b>\$ (4.4)</b>	<b>\$ (22.2)</b>	<b>\$ (9.6)</b>

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 third quarter of 2018 is a tax benefit of \$5.6 million.

The net tax benefit in South America amounted to \$5.6 million in the third quarter and relates to the net loss from the operations in the North of Argentina. The net loss generated in North of Argentina is heavily impacted by the devaluation of pesos towards USD currency during third quarter of 2018.

The net tax benefit in Europe amounted to \$1.4 million in third quarter which primarily consists of a tax benefit of \$0.9 million in UK related to net loss from operations and a tax benefit of \$0.5 million arising in the Norway related to net loss from operations.

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**Notes to Unaudited Consolidated Financial Statements**

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

As at 30 September 2018 we have total deferred tax assets of \$32.6 million which consist of \$15.2 million of tax assets in Norway, \$11.4 million tax assets in Argentina North and \$6.0 million tax assets in UK.

Deferred tax liabilities at 30 September 2018 were total \$3.4 million.

**Note 4 – Earnings Per Share**

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

<i>(In thousands)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
<b>Denominator</b>				
Weighted-average common shares outstanding	147,462	147,282	147,418	126,069
Effect of potentially dilutive common shares due to share-based compensation schemes	68	72	119	127
Weighted-average common shares outstanding and assumed conversions	147,530	147,354	126,537	126,196

**Note 5 – Inventories**

<i>(In millions)</i>	September 30 2018	December 31 2017
	Manufactured	
Raw Materials	\$ 3.3	\$ -
Finished goods	5.0	16.5
Work in progress	0.5	1.8
Total manufactured	8.8	18.3
Drilling supplies	14.8	14.2
Chemicals	3.2	3.5
Other items and spares	25.0	22.0
<b>Total inventories</b>	<b>\$ 51.8</b>	<b>\$ 58.0</b>

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**Notes to Unaudited Consolidated Financial Statements**

**Note 6 — Investments in Associates**

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

	September 30, 2018	December 31, 2017
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%

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

<i>(In millions)</i>	September 30, 2018	December 31, 2017
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	93.9	74.3
TAQA Archer Services LLC	8.1	8.3

The components of investments in associates are as follows:

	QES	C6	Rawabi	TAQA
<b>Carrying value of investment at December 31, 2017</b>	74.3	-	-	8.3
Additional capital investment	10.0	(0.1)	-	-
Share in results of associates	(3.4)	0.1	-	(0.2)
Conversion of loan to shares	10.7	-	-	-
Adjustment to carrying value to reflect IPO	2.3	-	-	-
<b>Carrying value of investment at September 30, 2018</b>	93.9	-	-	8.1
<b>Carrying value of Loan balance at September 30, 2018</b>	-	9.0	-	-

As part of the IPO conducted by Quintana Energy Service Inc. (“QES”), in February 2018, we received 8,494,306 shares in QES in consideration for our existing holding of 42% of the common units in Quintana Energy Services LLP, the outstanding loan owed by the partnership including accrued interest, and all penny warrants held by Archer. We valued our investment after the IPO at the offer price of \$10.00 per share. In addition to the shares issued to us in respect of our existing investment, we purchased an additional 1 million shares at \$10.00 per share under the IPO, after which our total shareholding is 9.5 million shares, or 28.2%. We continue to account for our shareholding in QES using the equity method of accounting, recognising our share of results of our investment within financial items and adjusting the carrying value of the investment accordingly.

Since completing an IPO of its shares in February 2018, QES shares are quoted on the New York Stock exchange.

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

In addition to our capital investment in C6, we have made additional investment by way of a loan which, at September 30, 2018, has a carrying value of \$9.0 million (2017 \$6.6 million) and is repayable in 2021 when we expect the developed technology to have generated sufficient funds. We

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## Notes to Unaudited Consolidated Financial Statements

have applied our share of the expenses incurred by C6 as a reduction on the value of our loan due from the entity.

### Note 7 – Goodwill

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

*(In millions)*

<b>Net book balance at December 31, 2017</b>	<b>\$ 181.9</b>
Currency adjustments	0.8
<b>Net book balance at September 30, 2018</b>	<b>\$ 182.7</b>

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
<b>Balance at December 31, 2017</b>	<b>\$ 26.2</b>	<b>\$ (24.2)</b>	<b>\$ 2.0</b>
Amortization	-	(0.8)	(0.8)
Currency adjustments	0.1	(0.1)	0.2
<b>Balance at September 30, 2018</b>	<b>\$ 26.3</b>	<b>\$ (25.1)</b>	<b>\$ 1.2</b>

The net book value of \$1.2 million, at September 30, 2018, consists of patents.

### Note 9 – Long-term, Interest-Bearing Debt

	September 30, 2018			December 31 2017		
<i>(In millions)</i>	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs
Multicurrency term and revolving facility	525.0	(1.8)	523.2	566.8	(2.5)	564.3
Related party subordinated convertible loan	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loan	24.8	(0.4)	24.4	25.5	(0.5)	25.0
Other loans and capital lease liability	14.5	-	14.5	14.6	-	14.6
<b>Total loans and capital lease liability</b>	<b>622.6</b>	<b>(2.2)</b>	<b>620.4</b>	<b>665.2</b>	<b>(3.0)</b>	<b>662.2</b>
Less: current portion	(8.1)	1.1	(7.0)	(8.3)	1.1	(7.2)
<b>Long-term portion of interest bearing debt</b>	<b>614.5</b>	<b>(1.1)</b>	<b>613.4</b>	<b>656.9</b>	<b>(1.9)</b>	<b>655.0</b>

# ARCHER LIMITED

## *Notes to Unaudited Consolidated Financial Statements*

### *Multicurrency term and revolving credit facility*

The total amount available under the Multicurrency term and revolving credit facility (the "Facility") is \$611.2 million, split between \$373.1 million under a term loan and \$238.1 million in a revolving facility. A total of \$24 million of the Facility was carved out during the second quarter of 2018 to two overdraft facilities, each of \$ 12 million. A total of \$525.0 million was drawn as at September 30, 2018 under the Facility and \$86.2 million remain available. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

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

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

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

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

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

### *Related party subordinated loan*

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

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

### *Hermes-covered term loan*

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The loan matures September 2020, and contains covenants aligned to those of the multi-currency term loan and revolving credit facility. The interest rate applied to this loan is 1.45% above EURIBOR. At September 30, 2018 the equivalent of \$24.8 million was outstanding under this facility.

### *Other loans and capital leases*

We have two \$11.75 million overdraft facilities and at September 30, 2018, net borrowing under these facilities amounted to \$4.2 million.

# ARCHER LIMITED

## Notes to Unaudited Consolidated Financial Statements

At September 30, 2018 we have borrowed \$5.7 million under a long term facility in Argentina, and in Bolivia we have borrowed a further \$3.2 million under local short term facilities.

We have finance arrangements relating to equipment in our Oiltools division and insurance premiums. At September 30, 2018, the balance due under these arrangements was \$2.2 million.

### Note 10 – Segment Information

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

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

- Eastern Hemisphere
- Western Hemisphere

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

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

(In millions)	Three Months Ended September 30		Nine Months September 30	
	2018	2017	2018	2017
<b>Revenues from external customers</b>				
Eastern Hemisphere	\$ 126.2	\$ 112.3	\$ 375.3	\$ 326.2
Western Hemisphere	87.5	100.0	281.2	296.9
<b>Total</b>	<b>\$ 213.7</b>	<b>\$ 212.3</b>	<b>\$ 656.5</b>	<b>\$ 623.1</b>
<b>Depreciation and amortization</b>				
Eastern Hemisphere	\$ 5.7	\$ 7.3	\$ 17.9	\$ 21.4
Western Hemisphere	8.1	8.7	25.2	27.6
<b>Total</b>	<b>\$ 13.8</b>	<b>\$ 16.0</b>	<b>\$ 43.1</b>	<b>\$ 48.1</b>
<b>Operating (loss)/income – net loss</b>				
Eastern Hemisphere	\$ 6.7	\$ 2.7	\$ 17.2	\$ 11.9
Western Hemisphere	3.9	(4.3)	(6.9)	(14.3)
Corporate costs	(1.9)	(1.3)	(5.1)	(4.5)
Stock compensation costs	(0.1)	(0.1)	(0.4)	(0.3)
<b>Operating (loss)/income</b>	<b>8.6</b>	<b>(2.9)</b>	<b>4.8</b>	<b>(7.2)</b>
Total financial items	(7.3)	(6.1)	(23.1)	83.6
Income taxes	5.6	4.4	22.2	9.6
Discontinued operations, net of taxes	-	(2.2)	-	(2.2)
<b>Net income/(loss)</b>	<b>\$ 6.9</b>	<b>\$ (6.8)</b>	<b>\$ 3.9</b>	<b>\$ 83.8</b>

**ARCHER LIMITED**  
**Notes to Unaudited Consolidated Financial Statements**

(In millions)	Three Months Ended September 30		Nine Months September 30	
	2018	2017	2018	2017
	<b>Capital expenditures</b>			
Eastern Hemisphere	\$ 2.0	\$ 0.5	\$ 4.0	\$ 1.3
Western Hemisphere	2.5	1.2	8.3	4.7
<b>Total</b>	<b>\$ 4.5</b>	<b>\$ 1.7</b>	<b>\$ 12.3</b>	<b>\$ 6.0</b>

(In millions)	Eastern Hemisphere	Western Hemisphere	Total
	<b>Goodwill</b>		
<b>Balance at December 31, 2017</b>	<b>\$ 181.9</b>	<b>\$ -</b>	<b>\$ 181.9</b>
Currency adjustments	0.8	-	0.8
<b>Balance at September 30, 2018</b>	<b>\$ 182.7</b>	<b>\$ -</b>	<b>\$ 182.7</b>

(In millions)	September 30 2018	December 31 2017
	<b>Total assets</b>	
Eastern Hemisphere	\$ 529.9	\$ 522.0
Western Hemisphere	399.7	520.4
Corporate	0.3	0.5
<b>Total</b>	<b>\$ 962.9</b>	<b>\$ 1,042.9</b>

**Note 11 – Fair Value of Financial Instruments**

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

(In millions)	September 30, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Non-derivatives</b>				
Cash and cash equivalents	\$ 20.8	\$ 20.8	\$ 59.0	\$ 59.0
Restricted cash	6.5	6.5	8.7	8.7
Accounts receivable	124.4	124.4	140.4	140.4
Accounts payable	(45.3)	(45.3)	(53.6)	(53.6)
Current portion of long-term debt	(8.0)	(8.0)	(7.2)	(7.2)
Long-term, interest-bearing debt	(555.1)	(555.1)	(596.7)	(596.7)
Subordinated related party debt	(58.3)	(58.3)	(58.3)	(58.3)
<b>Derivatives</b>				
Interest rate swap agreements	(0.5)	(0.5)	(1.2)	(1.2)

**ARCHER LIMITED**  
**Notes to Unaudited Consolidated Financial Statements**

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

<i>(In millions)</i>	<u>September 30, 2018</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>
<b>Assets</b>				
Cash and cash equivalents	\$ 20.8	\$ 20.8	—	—
Restricted cash	6.5	6.5	—	—
Accounts receivable	124.4	—	124.4	—
<b>Liabilities</b>				
Accounts payable	(45.3)	—	(45.3)	—
Current portion of interest-bearing debt	(8.0)	—	(8.0)	—
Long-term, interest-bearing debt	(555.1)	—	(555.1)	—
Interest rate swap agreements	(58.3)	—	(58.3)	—

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 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 September 30, 2018, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

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

**Note 13 – Related Parties**

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



# ARCHER LIMITED

## *Notes to Unaudited Consolidated Financial Statements*

### Transactions with Seadrill:

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

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

### Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010.

In the nine months ended September 30, 2018 we have advanced \$1.7 million as additional loan to C6, and applied \$0.5 million interest to the loan balance. During 2018 we have supplied C6 with personnel and facility services amounting to \$0.1 million.

### Transactions with other associated companies

Our relationship with TAQA and Rawabi is described in note 6 above. During 2017 we charged TAQA \$0.3 million for the lease of equipment. The amount remains outstanding at September 30, 2018. We have provided \$0.2 million of parts and spare parts to Rawabi during the year. At September 30, 2018 we have a balance of \$0.1 million owed to us by Rawabi.

### Transactions with other related parties

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

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

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

During the nine months ended September 30, 2018, we supplied NADL with services amounting to \$1.6 million, including reimbursable material. This amount has been included in operating revenues. During the same period, NADL provided warehouse space to our UK operations for which we were charged \$0.1 million.

### **Note 15 – Subsequent Events**

None.

**ARCHER LIMITED**  
**Appendix to Unaudited Consolidated 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 September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017 and June 30, 2017. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

**ARCHER LIMITED**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

<i>(In millions)</i>	<b>Three Months Ended</b>					
	September 30 2018	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017
<b>Revenue</b>	213.7	224.4	218.3	223.7	212.3	209.2
<b>Cost and expenses</b>						
Operational costs	(205.1)	(226.7)	(219.8)	(224.0)	(215.2)	(213.0)
Impairments	—	—	—	(3.2)	—	—
Net financial items	(7.3)	(19.8)	4.0	(19.8)	(6.1)	109.8
<b>Income / (loss) from continuing operations before income taxes</b>	<b>1.3</b>	<b>(22.1)</b>	<b>2.5</b>	<b>(23.3)</b>	<b>(9.0)</b>	<b>106.0</b>
Income tax (expense) benefit	5.6	14.7	1.9	0.6	4.4	6.9
<b>Income / (loss) from continuing operations</b>	<b>6.9</b>	<b>(7.4)</b>	<b>4.4</b>	<b>(22.7)</b>	<b>(4.6)</b>	<b>112.9</b>
(Loss)/income from discontinued operations, net of tax	-	-	-	-	(2.2)	-
<b>Net income (loss)</b>	<b>6.9</b>	<b>(7.4)</b>	<b>4.4</b>	<b>(22.7)</b>	<b>(6.8)</b>	<b>112.9</b>

**ARCHER LIMITED**  
**Appendix to Unaudited Consolidated Financial Statements**

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

<i>(In millions)</i>	<b>Three Months Ended</b>					
	September 30 2018	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017
Net income /(loss)	6.9	(7.4)	4.4	(22.7)	(6.8)	112.9
Depreciation, amortization and impairments	13.8	14.6	14.7	18.2	15.7	16.7
Net financial items	7.3	19.8	(4.0)	19.8	6.1	(109.8)
Taxes on income	(5.6)	(14.7)	(1.9)	(0.6)	(4.4)	(6.9)
Loss / (income) from discontinued operations, net of tax	-	-	-	-	2.2	-
<b>EBITDA – Continuing operations</b>	<b>22.4</b>	<b>12.3</b>	<b>13.2</b>	<b>14.7</b>	<b>12.8</b>	<b>12.9</b>
Restructuring and exceptional costs	3.3	5.6	4.9	1.8	5.0	2.8
<b>EBITDA before restructuring costs</b>	<b>25.7</b>	<b>18.0</b>	<b>18.1</b>	<b>16.5</b>	<b>17.8</b>	<b>15.7</b>

**ARCHER LIMITED**  
**EBITDA by Geographic and Strategic Areas**  
**(Unaudited)**

<i>(In millions)</i>	<b>Three Months Ended</b>					
	September 30 2018	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017
Eastern Hemisphere	12.0	13.0	10.2	10.3	10.0	12.5
Western Hemisphere	12.1	1.4	4.7	6.1	4.4	1.7
Corporate costs and stock compensation costs	(1.7)	(2.1)	(1.7)	(1.7)	(1.6)	(1.3)
<b>EBITDA</b>	<b>22.4</b>	<b>12.3</b>	<b>13.2</b>	<b>14.7</b>	<b>12.8</b>	<b>12.9</b>