Archer

2016
Archer Limited

ANNUAL REPORT

Contents

Board of Director's Report
Company overview and history

Archer Limited (Archer), along with its subsidiaries (the Group or the Company), is a global oil services provider with a heritage in drilling and well services that stretches back over 40 years. Employing 5,097 people as at December 31, 2016, at 40 locations in 19 countries, from drilling services, well integrity and intervention, plug and abandonment to decommissioning, we are focused on safely delivering the highest quality services and products to the drilling and well service markets.

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

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

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

We operate primarily in Norway, the United Kingdom, Argentina, Bolivia and in the United States, but we also have operations in the Asia Pacific region, the Middle East and into West Africa. We will focus on consolidating our presence in key markets in the short term.

Archer Limited was incorporated in Bermuda on August 31, 2007, with registration number 40612, as an exempted, limited company and is organised and exists under the Laws of Bermuda.

Archer's registered office is at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda and the office of Archer Management Limited (UK) is in 556 Chiswick High Road, Chiswick Park, Building 11, 2nd Floor, London W4 5YS, telephone +44 208 811 4900. Archer is listed on the Oslo Stock Exchange under the ticker symbol ARCHER.NO and our web site is www.archerwell.com.

Board of Director's Report
Business overview

Principal markets

The demand for our products and services is driven by the price for hydrocarbons in the countries in which we operate. The rapid decline in the price of oil, which started in 2014 and continued throughout 2015 and into 2016, led to a significant reduction in demand for our services and to some extent an oversupply of oilfield services throughout the countries in which we operate. This challenging environment has had a significant negative impact on the demand and the pricing for our services. We have implemented initiatives and restructuring in response to the market conditions, including reductions in our workforce, cutting our costs and restricting our capital investments to realign with our customers' demand for our services.

We have seen some improvement at the end of 2016 and we believe that the long-term fundamentals for the markets we operate in are sound and will allow the Company to grow.

The Company operates in Angola, Argentina, Australia, Bolivia, Brazil, Canada, Congo, Denmark, Indonesia, Malaysia, Nigeria, Norway, Saudi Arabia, Singapore, United Arab Emirates, the United Kingdom and the United States.

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

Strategy

Our strategy is to be the "supplier of choice" for drilling services, well integrity and intervention and plug and abandonment. We aim to achieve this by continuously improving our service and product quality and being recognized for people who demonstrate our values and deliver excellence. This position will enable us to further broaden our reach, both geographically and technically, and it will be the foundation to secure longer term profitable growth. We will continue to pursue opportunities to benefit from economies of scale, to selectively strengthen our geographical footprint and to develop proprietary technologies.

Board of Director's Report
Financial review

2016 Operating results
The following discussions are based on a continuing operations basis following the transaction that combined our North American pressure pumping, pressure control, directional drilling and wireline divisions with Quintana Energy Services LP, or QES, an unrelated third party, on December 31, 2015. The results of our four above mentioned divested business units are shown as discontinued operations in our 2015 results.

Revenue for the year ended December 31, 2016 was $883.8 million or 33.1% lower compared to the revenue for 2015 with significant reductions in all business segments. Prior year revenue included a $35.6 million one off contract cancellation fee for the modular rig Archer Emerald. Excluding the cancellation fee, revenue decreased by 31.2%. Earnings before Interest, Taxes, Restructuring, Depreciation and Amortization or EBITDA were $49.1 million, a decrease of 56.4% compared to 2015, primarily due to lower activity partially offset by higher levels of spending on business restructuring initiatives. Excluding the one off cancellation fee EBITDA were lower by 36.3% in 2016.

Eastern Hemisphere revenue was down 33% as a number of key customers curtailed their spending, adversely impacting demand and pricing for all our products and services particularly for platform drilling. EBITDA was down 55.5% with lost margin from a reduction in activity and the impact of pricing compression partially offset by savings realised in a number of divisions from cost reduction initiatives. These included headcount reductions, facilities mergers/closures and amendments to employees' benefits plans. Prior year revenue included a $35.6 million one off contract cancellation fee for the Archer Emerald modular rig. Excluding the cancellation fee, revenue decreased by 29.2% and EBITDA decreased by 35%.

Western Hemisphere revenue decreased 33.2% in comparison with 2015, reflecting a significant reduction in land drilling activity in Argentina as customers cancelled contracts as well as requested activity stoppage for an extended period of time, which also triggered price erosion. The reduction in our frac valves division revenue was caused by a significant reduction in the number of valves sold as well as lower parts and after-sales services activity following reduced onshore US fracking activity. Year on year EBITDA decreased by 37.3% due to lost margin on lower revenue and increased spending on restructuring projects partially offset by realised costs savings.

Our total operating expenses, including reimbursable expenses, for the year ended December 31, 2016 amounted to $796.2 million, a decrease of 31% compared to $1,153.3 million for the year ended December 31, 2015. This significant reduction is primarily driven by lower activity levels, cost savings achieved following significant headcount reductions, adjustments to compensation levels, supply chain savings and other restructuring initiatives to align our cost base with lower activity and pricing levels. These favourable movements were partially offset by significantly higher restructuring costs primarily for our Land Drilling business in Argentina, and for our Wireline and Oiltools operations in the Eastern Hemisphere. As at December 31, 2016 we had 5,112 employees as compared to 5,902 employees at December 31, 2015. Other restructuring initiatives during the year included closure/merger of facilities, and changes in employees' benefits plan.

Our depreciation and amortization expenses for the year ended December 31, 2016 amounted to $72.6 million, a decrease of 8.3% compared to $79.2 million for the year ended December 31, 2015 primarily driven by limited investments in new fixed assets during 2016.

During the third quarter of 2016 impairment reviews were conducted for land drilling rigs and modular rigs representing 86% of the total value of our assets. The following were considered to be circumstances which, more likely than not, would reduce the fair values of these businesses to below their carrying amount;

1. Reduced pricing and activity levels as a result of lower demand for land drilling services.
2. No backlog or contracts in hand for both the modular rigs.

As a consequence, an impairment charge of $12.4 million relating to land drilling assets was booked in third quarter 2016.

During fourth quarter 2016, we carried out an impairment review on the carrying value of our investments in Quintana Energy Services LP (QES) and concluded that the current loss in value of QES is temporary. The five year forecast indicates a recovery which supports our carrying value at December 31, 2016. Therefore, whilst we continue to recognise the loss in value due to our share of QES results, which have reduced the carrying value of our investment from our initial valuation of $148.1 million at December 31, 2015, to $85.2 million at December 31, 2016, we have not recognised any additional impairment to the carrying value of our investment.

The annual impairment testing of goodwill was conducted during fourth quarter 2016 using a qualitative review which concluded that there were no indicators suggesting any impairment in 2016.

Board of Director's Report
Financial review

Our general and administrative expense for the year ended December 31, 2016 amounted to $38.5 million, a decrease of 30.1% compared to $55.1 million for the year ended December 31, 2015. The reduction is primarily due to down-sizing of the support structure in line with the lower level of activity.

Our interest expense for the year ended December 31, 2016 .amounted to $63.0 million, an increase of 25.5% compared to $50.2 million for the year ended December 31, 2015, Net interest-bearing debt was $795.9 million at December 31, 2016, compared to $782.1 million on December 31, 2015.

Our other financial items for the year ended December 31, 2016 amounted to a gain of $9.2 million, compared to $53.7 million of expenses for the year ended December 31, 2015. Other financial items consist mainly of foreign exchange gains or losses arising on settlement of transactions denominated in currencies other than the functional currency as well as revaluation of outstanding foreign currency balances. We are also exposed to the effect of currency exchange movements on loan balances between our subsidiaries.

Our total income tax charges for 2016 amounted to a charge of $0.9 million as compared to $3.7 million for the year ending December 31, 2015, which is entirely attributable to the lower profitability during 2016. For the year ended December 31, 2016 we have recognised a net tax benefit of $3.9 million relating to our Latin 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 $4.5 million in our Argentinian operations. Our operations in Europe resulted in a net tax cost of $4.4 million. The main elements of this value are a tax cost of $5.1 million relating to profits arising in the United Kingdom, and $0.9 million in tax credits reported by our Norwegian entities.

We have not recognised any deferred tax asset in relation to current and historical operational losses from our North American and Brazilian operations due to uncertainty over timing of future profits against which the assets may be utilised.

Our net loss from continuing operations for the year ended December 31, 2016 amounted to $162.5 million, compared to a net loss of $123.2 million for the year ended December 31, 2015.

We have proposed no dividends for the year ended December 31, 2016.

Balance sheet

Our total current assets were $287.1 million at December 31,2016 , a reduction of 20.9% compared to $362.9 million at December 31, 2015 and consisted primarily of trade accounts receivables and inventory. The significant reduction is primarily driven by lower activity levels.

Our total noncurrent assets were $773.2 million at December 31, 2016 and consisted primarily of fixed assets used in our operations, goodwill and our 42% interest in Quintana Energy Services LP (QES).

As of December 31, 2016, our total assets amounted to $1.1 billion, a decrease of $0.2 billion as compared to December 31, 2015. The reduction is primarily due to depreciation and amortisation of fixed assets and intangible assets. In addition our working capital has reduced due to lower activity levels.

Our total current liabilities were $313.1 million at December 31, 2016 and consisted primarily of the current portion of interest-bearing debt, accounts payable and accrued expenses.

Our total noncurrent liabilities were $717.6 million at December 31, 2016 and consisted primarily of long-term interest-bearing debt.

Our total equity has decreased to $29.6 million at December 31, 2016, compared to $197.3 million at December 31, 2015. The decrease in equity is primarily attributable to the net loss for 2016.

Board of Director's Report
Financial review

Cash flow

The following table summarises our cash flows from operating, investing and financing activities for the years ended December 31, 2016 and 2015

In $ millions	**2016**	**2015**
Net cash provided by continuing operating activities	34.1	39.4
Net cash used in investing activities	(25.4)	(88.7)
Net cash provided by financing activities	10.7	32.9
Effect of exchange rate changes on cash and cash equivalents	(12.6)	8.0
Cash and cash equivalents and the beginning of the year	20.5	28.9
Cash and cash equivalents and the end of the year	**27.3**	**20.5**

Cash flow from operating actives reduced in 2016, compared to 2015 due to the reduction in services provided to our clients resulting from the general slowdown within the oil and gas industry. We mitigated the fall in cash generated from our activities by the implementation of cost cutting initiatives, and continued drive to improve collection efficiency.

In 2016 we limited our investments in assets to essential costs for the maintenance of our operational performance. The reduction in investment in 2016 was partly offset by additional funding provided to our unconsolidated associates.

In both 2015 and 2016 we obtained additional liquidity by net drawings on our overdraft facilities. In 2016, Seadrill provided additional financing in the form of a $75 million subordinated loan. Additional finance obtained is partly offset in 2016 and 2015 by the scheduled repayments of fixed term debt which financed the construction of our two modular rigs.

We have significant cash flows in GBP and NOK which are subject to movements in exchange rates.

Parent company results 2016

Net loss from operations for the year was $165.9 million, corresponding to a net loss per share of $2.86.

Going concern

Our Board of Directors confirms their assumption of the Company as a going concern. This assumption is based on the market outlook for the oil service sector as per December 31, 2016 and the refinancing of the Company described below.

The Company has agreed in principle to amend its $625.0 million revolving credit facility, or RCF, with lenders representing 94% of the exposure (the "Consenting Lenders"). However, the current terms of the RCF require the consent of all the lenders to effect the amendments. Currently, one lender, representing 6% of the exposure, is withholding its consent. The Company intends to file an application with the Court in Bermuda for a scheme of arrangement under which the proposed amendments are capable of being effected with the consent of lenders representing 75% of the exposure under the RCF. There can be no assurance that the Court will approve the application for a scheme of arrangement. The Consenting Lenders have signed legally binding "lock-up" agreements which, among other matters, defer two instalment payments otherwise due in May 2017 and October 2017, amounting to $47 million until September 30, 2017; replace the financial covenants applicable under the current terms of the RCF with the amended financial covenants contemplated by the refinancing; and commit the Consenting Lenders to the proposed refinancing if the scheme of arrangement is approved. The deferral of instalment payments and replacement of financial covenants are binding regardless of the outcome of the application for a scheme of arrangement.

On February 28, 2017 the Company raised $100 million through a private placement of its shares. Together with the deferral of the instalment payments and replacement of financial covenants, and expected cash from operations, the Company believes that it has sufficient liquidity to fund its liabilities for a period not less than twelve months from the date of the accompanying financial statements.

On April 26, 2017 the Company announced that it had entered into agreements with Seadrill Limited (Seadrill) to convert approximately $ 146 million of principal and accrued interest under subordinated loan agreements and accrued guarantee fees, into a new $ 45 million subordinated convertible loan maturing in December 2021 and that a total of $ 253 million of guarantees provided by Seadrill for Archer's banks has been released for which Seadrill has agreed to pay a fee amounting to 10% of the face value of the released guarantees. Archer has agreed with its banks to apply that payment to reduce its bank debt by approximately $ 25 million.

Board of Director's Report
Financial review

Seadrill is in the process of a comprehensive restructuring plan that will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code, and it is preparing accordingly. There could be residual risk that these transactions are challenged in the court proceedings. If the termination payments from Seadrill are subject to claw-back and/or the claims forgiven to Archer are reinstated, there is a risk that this will cause Archer's liabilities to increase equivalently.

Key figures

	2016	**2015**
Revenue *In $ millions*	884	1,321
EBITDA[1] *In $ millions*	49	113
Net loss from continuing operations *In $ millions*	(163)	(123)
Net interest bearing debt *In $ millions*	796	782
Employees at December 31	5,112	5,902

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

Board of Director's Report
Health, Safety and environment

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

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

In 2016 Archer introduced a Group wide Safety Commitment Initiative. The initiative started with a clear message from the CEO and the business line Vice Presidents stating their safety commitments. All business lines are involved in the initiative and on a monthly basis employees state their safety commitments that are distributed internally via the company website. The intention behind the initiative is to build a stronger safety culture with focus on personal engagement and contribution.

Archer continued to reinforce the need for active participation from employees and contractors in near miss and proactive reporting programs. These efforts resulted in a continued increase in participation levels compared to 2015 numbers for collected and analysed proactive reports. Proactive reporting will also have continued focus in 2017, as Archer believes that this tool helps to build a positive safety culture, through greater safety awareness, both individually and collectively.

Throughout the year a positive trend continued in the majority of the HSE Key Performance Indicators, resulting in a reduction in the total recordable incident frequency (TRIF) rate. Both Eastern and Western Hemisphere improved their 2016 results compared to 2015 results.

Despite best efforts, Archer incurred 11 lost time incidents for the year while expending a total of 12 million man-hours. This indicates that even though there were positive developments, there is still much work to do to achieve the goal of realizing an incident free work place. Management and employees will continue to work tirelessly to identify and mitigate work place hazards and risks.

Root cause analysis indicates that it is in the process of identifying all relevant risks where failures occur; whilst employees are proficient at mitigating the risks identified, they are not always able to identify all relevant risks. This shows the importance of utilizing the Archer risk identification tools, as the use of these tools as intended provides a structured way of approaching the risk identification process resulting in a high quality risk assessment process. This will be a continued focus in 2017 to ensure continued positive improvement towards the incident free workplace objective.

The following table provides a summary of our work injury statistics.

	2016		2015	
Area	**Loss Time Injuries**	**Medical Treatment Cases**	**Loss Time Injuries**	**Medical Treatment Cases**
Eastern Hemisphere	4	8	6	15
Western Hemisphere	7	11	6	19
Archer Total	**11**	**19**	**12**	**34**

The table above illustrates the reduction in incidents in both Eastern and Western Hemisphere. The increased management focus greatly assisted this reduction in incidents.

During the year two "high potential" incidents related to dropped objects occurred. These incidents were subject to thorough investigations which identified opportunities for improvement in work routines.

No recordable spill occurred during 2016.

The Company is actively working to minimise the risk of damage to the environment as a result of operations. This includes the systematic registration of emissions and discharges and pre-emptive action in selecting chemicals that cause minimum harm to environment. However, there are still risks of environmental damage and negative consequences for the Company, as stated in the section on risk factors.

Board of Director's Report

Health, Safety and environment

The Archer Eastern Hemisphere management system will move from an ISO 9001:2008 certification to an ISO 9001:2015 certificate during 2017. In addition the UK and Brazil operations and wireline Norwegian operations are also accredited to the ISO 14001:2006, for Environmental Management Standards.

Archer's drilling and work-over operations in Argentina remain certified in accordance with ISO 9001:2008. Similarly AWC Frac Valves, Inc., Archer's North American frac valves manufacturing company, is also certified in accordance with the ISO standard.

The Company has not established a social responsibility policy.

Employees and diversity

In reaction to the reduction in commodity prices that started during the fourth quarter of 2014, the Company initiated a program to down-size headcount to align with lower activity levels. This process continued throughout 2016, during which, Archer actively managed headcount across all its business units to align with local changes in activity levels.

In the Eastern Hemisphere, headcount reduction actions taken during 2016 resulted in a net reduction of 10%. The terminations were primarily related to the platform drilling and wireline business units in Norway and in the UK.

In Latin America, headcount in Argentina was reduced by 20% during the year in reaction to significantly lower drilling activity. This was partially offset by an increase in headcount in Bolivia as previously stacked rigs were put back to work.

In North America, the regional support structure was reduced to reflect the greatly reduced business support requirements after the contribution of Archer's North American Well Services business units to QES on December 31, 2015.

As of December 31, 2016, the Archer headcount totalled 5,112 employees, a net reduction of 790 employees, or 13.4%, compared to 2015.

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

Board of Director's Report
Risk factors

Risks relating to the Company's finance

The Company may not obtain the required lender approval or be able to complete an alternative arrangement to accomplish the refinancing of its revolving credit facility, which could have significant consequences for its business, financial condition and cash flow.

The Company has agreed in principal to amend its $625.0 million revolving credit facility, or RCF with lenders representing 94% of the exposure (the "Consenting Lenders"). However, the current terms of the RCF require the consent of all the lenders to effect the amendments. Currently, one lender, representing 6% of the exposure, is withholding its consent. The Company intends to file an application with the Court in Bermuda for a Bermuda law scheme of arrangement, under which the proposed amendments are capable of being effected with the consent of lenders representing 75% of the exposure under the RCF. There can be no assurance that the Court will approve the application for a scheme of arrangement. The Consenting Lenders have signed legally binding "lock-up" agreements which, among other matters, defer two instalment payments due in May 2017 and August 2017 until September 30, 2017 for an amount of $ 47 million; replace the financial covenants applicable under the current terms of the RCF with the amended financial covenants contemplated by the refinancing; and commit the Consenting Lenders to the proposed refinancing if the scheme of arrangement is approved. The deferral of instalment payments and replacement of financial covenants are binding regardless of the outcome of the application for a scheme of arrangement.

One of the conditions for the refinancing is that Seadrill is released from its guarantees of the RCF against a payment of part of the guaranteed amount. The guarantee release was effected as of April 26, 2017. If Seadrill Limited enters into proceedings under Chapter 11 of Title 11 of the United States Code or other similar proceedings this could lead to a claw-back of the payments made relating to the termination of the guarantees and/or the reinstatement of the claims forgiven to Archer. If the termination payments from Seadrill are subject to claw-back and/or the claims forgiven to Archer are reinstated, there is a risk that this will cause Archer's liabilities to increase equivalently. In addition, if a scheme of arrangement is not obtained, the Company may be required to repay the loan in full and its business, financial condition and cash flow may suffer. Furthermore, under the terms of the refinancing, the Company has an obligation to agree amendments to the EUR 24.0 million facility financing the rig Archer Topaz on substantially the same terms as the proposed amendments to the RCF by May 2017. Archer and the lenders under the Archer Topaz facility have concluded negotiations for an agreement in principle, subject to relevant credit committee approvals. The Consenting Lenders have indicated that they are supportive of the principle agreement in respect of the Archer Topaz Facility.

No assurance can be given that the Company's refinancing of its RCF will be sufficient and that the Group will not require additional funding to fund operations and capital expenditure or for other purposes.

To the extent the Company does not generate sufficient cash from operations together with the cash proceeds from the Private Placement, the Company and its subsidiaries may need to raise additional funds through public or private debt or equity financing, or refinance its debt facilities. Adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed, and the Company may not be able to refinance its debt facilities on acceptable terms and conditions or at all.

The Group has a significant level of debt, and could incur additional debt in the future, which could have significant consequences for its business and future prospects.

As of December 31, 2016, the Group had total outstanding interest-bearing debt of $828.5 million. This debt represented 78.1% of the Group's total assets. Even if the Company is able to refinance its outstanding debt, the Group would have total outstanding interest-bearing debt of $695 million. The Group's debt and the limitations imposed on the Group by its existing or future debt agreements could have significant consequences for the Group's business and future prospects, including the following:

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

The Group's RCF imposes financial covenants and restrictions on the Group that may limit the discretion of management in operating the Group's business and that, in turn, could impair the Group's ability to meet its obligations.

The Group's existing credit facility contains various restrictive covenants that limit management's discretion in operating its business. In particular, these covenants limit its ability to, among other things:

Board of Director's Report

Risk factors

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

The credit facility also imposes additional covenants and restrictions, including the imposition of a requirement to maintain a minimum equity ratio at all times.

If the Company is able to refinance its debt it would provide the Group with covenant relief compared to the terms and conditions of its current financing facilities. However, there can be no assurance that the Group would be able to meet the new financial covenants or other obligations.

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

Risks Relating to the Group and the Industry in which the Group Operates

The Group's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea and internationally. The significant decline in exploration, development and production activity during the last years, e.g. associated with depressed oil and natural gas prices, has adversely affected, and may continue to adversely affect the demand for the Group's services.

The Group's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea and internationally, and in particular, the level of exploration, development and production expenditures of the Group's customers. Demand for the Group's drilling and well services is adversely affected by declines in exploration, development and production activity associated with depressed oil and natural gas prices. Even the perceived risk of a decline in oil or natural gas prices often causes exploration and production companies to reduce their spending. Oil and natural gas prices began a rapid and substantial decline in the fourth quarter of 2014 which continued to decline or remain depressed in 2015 and 2016. The continuous decline in oil and natural gas prices caused a reduction in drilling, completion and other production activities of the Group's customers and related spending on the Group's products and services. The Group incurred net losses during 2015 and 2016. If industry conditions do not improve, it may continue to suffer net losses and negative cash flows from operations. These effects could have a material adverse effect on the Group's financial condition, results of operations and cash flows. In addition, higher prices do not necessarily translate into increased drilling activity since clients' expectations about future commodity prices typically drive demand for the Group's services. Oil and natural gas prices are extremely volatile.

Oil and natural gas prices are affected by numerous factors, including the following:

- the demand for oil and natural gas in Europe, the United States and elsewhere;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- uncertainty in capital and commodities markets;
- political, economic and weather conditions, as well as natural disasters, in Europe, the United States and elsewhere;
- advances in exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain oil production levels and pricing;
- the level of production in non-OPEC countries;

Board of Director's Report
Risk factors

- domestic and international tax policies and governmental regulations in jurisdictions where the Group operates;
- the development and exploitation of alternative fuels, and the competitive, social and political position of natural gas as a source of energy compared with other energy sources;
- the policies of various governments regarding exploration and development of their oil and natural gas reserves;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crisis in the Middle East, West Africa and other significant oil and natural gas producing regions; and
- acts of terrorism or piracy that affect oil and natural gas producing regions, especially in Nigeria, Libya, Syria and Iraq, where armed conflict, civil unrest and acts of terrorism have recently increased.

Legal requirements, conservation measures and technological advances could reduce demand for oil and natural gas, which may adversely affect the Group's business, financial condition, results of operations and cash flows.

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

The Group is experiencing continued challenges in its Argentina operations, and is in part dependent on finding solutions with its customers.

Land drilling activity in Argentina fell significantly in late 2015 and throughout 2016 leading to excess or idle personnel on hand. The reduction of personnel in significant quantities requires the cooperation of unions, employees, government ministry and the customer. The Group is working closely with our clients and unions in order to find appropriate solutions to match personnel levels to operational requirements, but to the extent that the Group is unable to reach a satisfactory agreement with its clients and unions, the Company anticipates that the revenue and operational performance could be negatively impacted.

Global political, economic and market conditions influence, and could negatively impact, the Group's business.

The Group's operations are affected by global political, economic and market conditions. A worldwide economic downturn could reduce the availability of liquidity and credit to fund business operations worldwide. This could adversely affect the operations of the Group's customers, suppliers and lenders which in turn could affect demand for the Group's services. In addition, an economic downturn could reduce demand for oilfield services negatively and impact the Group's activity levels and pricing of its services and thus adversely affect the Group's financial condition and results of operations. A decline in energy consumption following a downturn will materially and adversely affect the Group's results of operations. Continued hostilities in the Middle East and West Africa and the occurrence or threat of terrorist attacks against the United States or other countries could contribute to a downturn in the economies of countries in which the Group operates. A sustained or deep recession could further limit economic activity and thus result in an additional decrease in energy consumption, which in turn could cause the Group's revenues and margins to decline and limit the Group's future growth prospects.

The Group does business in jurisdictions whose political and regulatory environments and compliance regimes differ.

Risks associated with the Group's operations in various jurisdictions across the world include, but are not limited to:

- political, social and economic instability, war and acts of terrorism;
- potential seizure, expropriation or nationalization of assets;
- inflation;
- damage to the Group's equipment or violence directed at its employees, including kidnappings and piracy;
- increased operating costs;
- complications associated with repairing and replacing equipment in remote locations;
- repudiation, modification or renegotiation of contracts, disputes and legal proceedings in international jurisdictions;
- limitations on insurance coverage, such as war risk coverage in certain areas;
- import-export quotas or restrictions;
- confiscatory taxation;
- work stoppages or strikes;

Board of Director's Report
Risk factors

- unexpected changes in regulatory requirements;
- wage and price controls;
- imposition of trade barriers;
- imposition or changes in enforcement of local content laws;
- the inability to collect or repatriate currency, income, capital or assets;
- foreign currency fluctuations and devaluation;
- challenges in staffing and managing international operations;
- increased governmental ownership and regulation of the economy in markets in which the Group operates;
- potential submission of disputes to the jurisdiction of a court or arbitration panel in one of the Group's local operating countries; and
- other forms of government regulation and economic conditions that are beyond the Group's control.

Part of the Group's strategy is to prudently and opportunistically acquire businesses and assets that complement the Group's existing products and services, and to expand the Group's geographic footprint. If the Group makes acquisitions in other countries, the Group may increase its exposure to the risks outlined above.

The Group's operations are subject to various laws and regulations in countries in which the Group operates, including laws and regulations relating to currency conversions and repatriation, oil and natural gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of supplies and equipment. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and natural gas companies and may continue to do so. Operations in developing countries can be subject to legal systems which are not as predictable as those in more developed countries, which can lead to greater risk and uncertainty in legal matters and proceedings.

In some jurisdictions the Group is subject to foreign governmental regulations favouring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These regulations may adversely affect the Group's ability to compete. Additionally, the Group's operations in some jurisdictions may be significantly affected by union activity and general labour unrest. In Argentina and Brazil, labour organizations have substantial support and have considerable political influence. The demands of labour organizations in Argentina have increased in recent years as a result of the general labour unrest and dissatisfaction resulting from the disparity between the cost of living and salaries in Argentina as a result of the devaluation of the Argentine Peso. There can be no assurance that the Group's operations in Argentina will not face labour disruptions in the future or that any such disruptions will not have a material adverse effect on the Group's financial condition or results of operations.

The risks described above could cause the Group to curtail or terminate operations, result in the loss of personnel or assets, disrupt financial and commercial markets and generate greater political and economic instability in some of the geographic areas in which the Group operates.

Employee and customer labor problems could adversely affect the Group.

Archer and its subsidiaries are parties to collective bargaining agreements material to the Group's operations in Argentina, Brazil, the United Kingdom and Norway. We have experienced strikes, work stoppages or other slowdowns in the past. A prolonged strike, work stoppage or other slowdown by our employees or by the employees of our customers could cause us to experience a disruption of our operations, which could adversely affect our business, financial condition and results of operations.

The Group is subject to numerous governmental laws and regulations, some of which may impose significant liability on the Group for environmental and natural resource damages.

The Group is subject to various local and foreign laws and regulations, including those relating to the energy industry in general and the environment in particular, and may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. The Group's operations are subject to compliance with international conventions and the laws, regulations and standards of other countries in which the Group operates, including anti-bribery regulations. It is also possible that existing and proposed governmental conventions, laws, regulations and standards, including those related to climate and emissions of "greenhouse gases," may in the future add significantly to the Group's operating costs or limit the Group's activities or the activities and levels of capital spending by the Group's customers.

Board of Director’s Report
Risk factors

In addition, many aspects of the Group’s operations are subject to laws and regulations that relate, directly or indirectly, to the oilfield services industry, including laws requiring the Group to control the discharge of oil and other contaminants into the environment or otherwise relating to environmental protection. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and even criminal penalties, the imposition of remedial obligations, and the issuance of injunctions that may limit or prohibit the Group’s operations. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose strict liability, rendering the Group liable for environmental and natural resource damages without regard to negligence or fault on its part. These laws and regulations may expose the Group to liability for the conduct of, or conditions caused by, others or for acts that were in compliance with all applicable laws at the time the acts were performed. The application of these requirements, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploration and production activity could materially limit the Group’s future contract opportunities; materially increase the Group’s costs or both.

If new laws or regulations that significantly restrict hydraulic fracturing, or other equipment or procedures used by the Group, are adopted, such laws could make it more difficult or costly for the Group to perform its services at a competitive price. Such legislative changes could also cause the Group to incur substantial compliance costs, and compliance or the consequences of any failure to comply by the Group could have a material adverse effect on the Group’s financial condition and results of operations.

The Group’s industry is highly competitive, with intense price competition. The Group’s inability to compete successfully may reduce its profitability.

The Group’s industry is highly competitive. The Group’s contracts are traditionally awarded on a competitive bid basis, with pricing often being the primary factor in determining which qualified contractor is awarded a job, although each contractor’s technical capability, product and service quality and availability, responsiveness, experience, safety performance record and reputation for quality can also be key factors in the determination.

Several other oilfield service companies are larger than the Group and have resources that are significantly greater than the Group’s resources. Furthermore, the Group competes with several smaller companies capable of competing effectively on a regional or local basis. These competitors may be able to better withstand industry downturns, compete on the basis of price, and acquire new equipment and technologies, all of which could affect the Group’s revenues and profitability. These competitors compete with the Group both for customers and for acquisitions of other businesses. This competition may cause the Group’s business to suffer. The Group’s management believes that competition for contracts will continue to be intense in the foreseeable future.

A small number of customers account for a significant portion of the Group’s total operating revenues, and the loss of, or a decline in the creditworthiness of, one or more of these customers could adversely affect the Group’s financial condition and results of operations.

The Group derives a significant amount of its total operating revenues from a few energy companies. In the year ended, December 31, 2016, Pan American, YPF, Statoil and ConocoPhillips accounted for approximately 26%, 13%, 13% and 8% of the Group’s total operating revenues from continuing operations, respectively. During the year ended 31 December 2015, contracts from Pan American Energy, YPF, Statoil, and ConocoPhillips accounted for 30%, 9%, 12% and 9% of the Group’s total operating revenues, respectively. The Group’s financial condition and results of operations will be materially adversely affected if these customers interrupt or curtail their activities, terminate their contracts with the Group, fail to renew their existing contracts or refuse to award new contracts to the Group, and the Group is unable to enter into contracts with new customers at comparable dayrates. The loss of any significant customer could adversely affect the Group’s financial condition and results of operations.

Additionally, this concentration of customers may increase the Group’s overall exposure to credit risk. The Group’s customers will likely be similarly affected by changes in economic and industry conditions. The Group’s financial condition and results of operations will be materially and adversely affected if one or more of its significant customers fails to pay the Group or ceases to contract with the Group for its services on terms that are favourable to the Group or at all.

Many customers’ activity levels, spending for the Group’s services and payment patterns have been and may continue to be impacted by the significant market decline.

Many of the Group’s customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. During 2008, there was a significant decline in the credit and equity markets, adversely impacting the availability of capital. The Group believes that since March 2009, the credit and equity markets have improved. However, the sudden decline in the price of oil has a profound impact on the ability of the Group’s customers’ profitability and as such their ability to have access to financing. This deterioration has a material adverse impact on the customers’ willingness and ability to require and pay for the

Board of Director's Report
Risk factors

Group's services. A consequential reduction in demand has a material adverse effect on the Group's operations. Further deterioration in the equity or debt capital markets or in the oil and natural gas markets could have a material adverse impact on the willingness or ability of the Group's customers to require and pay for the Group's services.

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

The Group's business depends upon its ability to obtain specialized equipment and parts from third party suppliers and the Group may be vulnerable to delayed deliveries and future price increases.

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

The Group can provide no assurance that its current backlog will be ultimately realized.

As of December 31, 2016, the Group's total backlog was approximately $1.03 billion. The USD amount of the Group's backlog does not necessarily indicate actual future revenue or earnings related to the performance of that work. Management calculates its contract revenue backlog, as the contract dayrate multiplied by the number of days remaining on the contract, assuming expected utilization and excluding revenues for contract preparation and customer reimbursable for the fixed duration contracts and expected work under frame agreements for the engineering, wireline and oiltools divisions. The Group may not be able to perform under its contracts due to various operational factors, including unscheduled repairs, maintenance, operational delays, health, safety and environmental incidents, weather events in the North Sea and elsewhere and other factors (some of which are beyond the Group's control), and the Group's customers may seek to cancel or renegotiate the Group's contracts for various reasons, including a financial downturn or falling commodity prices. In some of the contracts, the Group's customer has the right to terminate the contract without penalty and in certain instances, with little or no notice. The Group's inability or the inability of its customers to perform their respective contractual obligations may have a material adverse effect on the Group's financial position, results of operations and cash flows.

The Group will experience reduced profitability if its customers reduce activity levels or terminate or seek to renegotiate their contracts or if the Group experiences downtime, operational difficulties, or safety-related issues.

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

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

Board of Director’s Report
Risk factors

If the Group is unable to renew or obtain new and favourable contracts for rigs whose contracts are expiring or are terminated, the Group’s revenues and profitability could be materially reduced.

The Group has a number of contracts that will expire. The Group’s ability to renew these contracts or obtain new contracts and the terms of any such contracts will depend on market conditions. The Group may be unable to renew its expiring contracts or obtain new contracts for the rigs, and the dayrates under any new contracts may be substantially below the existing dayrates, which could materially reduce the Group’s revenues and profitability.

An oversupply of comparable rigs in the geographic markets in which the Group competes could depress the utilization rates and dayrates for its rigs and materially reduce its revenues and profitability.

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

The loss of the services of key executives of the Group’s management companies could hurt the Group’s operations.

The Group is dependent upon the efforts and skills of certain directors of the Group and executives employed by the Group’s management companies to manage the Group’s business, identify and consummate additional acquisitions and obtain and retain customers.

The Group’s failure to attract and retain skilled workers and key personnel could hurt the Group’s operations.

The Group is dependent upon its ability to retain key personnel employed by past and future acquisitions to ensure the successful integration of the operations of its acquisitions with its existing operations as well as the acquired business’ successful development.

In addition, the Group and its competitors are dependent upon the available labour pool of skilled employees. The Group’s development and expansion will require additional experienced management and operations personnel. No assurance can be given that the Group will be able to identify and retain these employees. The Group competes with other oilfield services businesses and other employers to attract and retain qualified personnel with the technical skills and experience required to provide the Group’s customers with the highest quality service. A shortage of skilled workers, increases in wage rates or changes in applicable laws and regulations, could make it more difficult for the Group to attract and retain personnel and could require the Group to enhance its wage and benefits packages. There can be no assurance that labour costs will not increase. Any increase in the Group’s operating costs could cause its business to suffer.

Severe weather conditions could have a material adverse impact on the Group’s business.

The Group’s business could be materially and adversely affected by severe weather in the areas where it operates. Repercussions of severe weather conditions may include:

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

A substantial portion of the Group’s revenue from operations is generated from work performed in the North Sea. Adverse weather conditions during the winter months in the North Sea usually result in low levels of offshore activity. Further, in Brazil, where the Group also generates a portion of revenue from operations, adverse weather conditions affect the Group’s results of operations. Optimal weather conditions offshore Brazil normally exist only from October to April and most offshore operations in this region are scheduled for that period. Additionally, during certain periods of the year, the Group may encounter adverse weather conditions such as tropical storms. Adverse seasonal weather conditions limit the Group’s access to job sites and its ability to service wells in affected areas. These constraints and the resulting shortages or high costs could delay the Group’s operations and materially increase the Group’s operating and capital costs in general or for the affected regions.

Board of Director's Report
Risk factors

A terrorist attack or armed conflict could harm the Group's business.

Terrorist activities, anti-terrorist efforts and other armed conflicts in, or involving any region of the Group's activities or other oil producing nation may adversely affect local and global economies and could prevent the Group from meeting their financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for the Group's services and causing a reduction in the Group's revenues. Oil and natural gas related facilities could be direct targets of terrorist attacks, and the Group's operations could be adversely impacted if infrastructure integral to the Group's customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

The Group has recorded substantial goodwill as the result of its acquisitions and goodwill is subject to periodic reviews of impairment.

The Group performs purchase price allocations to intangible assets when it makes acquisitions. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and thereafter to goodwill. The Group conducts periodic reviews of goodwill for impairment in value. Any impairment would result in a non-cash charge against earnings in the period reviewed, which may or may not create a tax benefit, and would cause a corresponding decrease in shareholders' equity. In the event that market conditions deteriorate or there is a prolonged downturn, the Group may be required to record an impairment of goodwill, and such impairment could be material.

The Group's results of operations may be adversely affected by currency fluctuations.

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

This risk is in particular present in Argentina, where at the end of 2015 the Argentinean Peso devalued by more than 30% against the US Dollar, negatively impacting the financial results of the Group.

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

On 31 December 2015 the Group contributed its North American pressure pumping, pressure control, directional drilling and wireline divisions with Quintana Energy Services LP, an unrelated third party in exchange for 42% of the combined entity's share capital. The original value of $148.1 million was based on a valuation report compiled by an independent appraiser, and represents the average of a range of values presented in the report, which were derived from estimated future cash flows, EBITDA multiples and by comparison with similar market transactions.

During 2016 using the equity method of accounting, the carrying value of the Company's investment has been reduced by $62.9 million representing the Company's share of losses incurred by QES during 2016. In December 2016 the Company invested an additional $5 million by way of a term loan, bringing the carrying value of our total investment, including loans, at 31 December 2016 to $90.2 million.

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

In the event that market conditions deteriorate or other circumstances arise which result in changes to the Group's original estimates and assumptions, Quintana Energy Services L.P. may be required to record impairments to their assets, which would, in turn, result in the Group recording significant losses as share of results of its associated companies.

The Group has operated at a loss in the past and recently, and there is no assurance of its profitability in the future.

Board of Director’s Report
Risk factors

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

The Group may be subject to litigation if another party claims that the Group has infringed upon its intellectual property rights.

Third parties could assert that the tools, techniques, methodologies, programs and components the Group uses to provide its services infringe upon the intellectual property rights of others. Infringement claims generally result in significant legal and other costs and may distract management from running the Group’s core business. Additionally, if any of these claims were to be successful, developing non-infringing technologies and/or making royalty payments under licenses from third parties, if available, would increase the Group’s costs. If a license were not available the Group might not be able to continue to provide a particular service or product, which could adversely affect the Group’s financial condition, results of operations and cash flows.

The Group could be adversely affected if it fails to keep pace with technological changes and changes in technology could have a negative result on the Group’s market share.

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

The Group may be subject to claims for personal injury and property damage, which could materially adversely affect the Group’s financial condition and results of operations.

Substantially all of the Group’s operations are subject to hazards that are customary for exploration and production activity, including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution and mechanical failure. Any of these risks could result in damage to or destruction of drilling equipment, personal injury and property damage, suspension of operations, or environmental damage. The Group may also be subject to property, environmental and other damage claims by oil and natural gas companies and other businesses operating offshore and in coastal areas. Litigation arising from an accident at a location where the Group’s products or services are used or provided may cause the Group to be named as a defendant in lawsuits asserting potentially large claims. Generally, the Group’s contracts provide for the division of responsibilities between the Group and its customer, and consistent with standard industry practice, the Group’s clients generally assume, and indemnify the Group against, some of these risks. In particular, contract terms generally provide that the Group’s customer, the operator, will retain liability and indemnify the Group for (i) environmental pollution caused by any oil, gas, or other fluids and pollutants originating from below the seabed, (ii) damage to customer and third-party equipment and property including any damage to the sub-surface and reservoir and (iii) personal injury to or death of customer personnel, unless resulting from the Group’s gross negligence or willful misconduct. There can be no assurance, however, that these clients will necessarily be financially able to indemnify the Group against all risks. Also, the Group may be effectively prevented from enforcing these indemnities because of the nature of the Group’s relationship with some of its larger clients. Additionally, from time to time the Group may not be able to obtain agreement from its customers to indemnify the Group for such damages and risks.

To the extent that the Group is unable to transfer such risks to customers by contract or indemnification agreements, the Group generally seeks protection through customary insurance to protect its business against these potential losses. However, the Group has a significant amount of self-insured retention or deductible for certain losses relating to general liability and property damage. There is no assurance that such insurance or indemnification agreements will adequately protect the Group against liability from all of the consequences of the hazards and risks described above. The occurrence of an event for which the Group is not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses.

The Group’s insurance coverage may become more expensive, may become unavailable in the future, and may be inadequate to cover the Group’s losses.

The Group’s insurance coverage is subject to certain significant deductibles and levels of self-insurance, does not cover all types of losses and, in some situations, may not provide full coverage for losses or liabilities resulting from the Group’s operations. In addition, the Group is likely to continue experiencing increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries. Insurers may not continue to offer the type and level of coverage that the Group currently maintains, and its costs may increase substantially as a result of increased premiums, potentially to the point

Board of Director's Report
Risk factors

where coverage is not available on economically manageable terms. Should liability limits be increased via legislative or regulatory action, it is possible that the Group may not be able to insure certain activities to a desirable level. If liability limits are increased and/or the insurance market becomes more restricted, the Group's business, financial condition and results of operations could be materially adversely affected.

Insurance costs may also increase in the event of ongoing patterns of adverse changes in weather or climate. The Group may not be able to obtain customary insurance coverage in the future, thus putting the Group at a greater risk of loss due to severe weather conditions and other hazards. Moreover, the Group may not be able to maintain adequate insurance in the future at rates management considers reasonable or be able to obtain insurance against certain risks.

A significant portion of the Group's business is conducted in the North Sea. The mature nature of this region could result in less drilling activity in the area, thereby reducing demand for the Group's services.

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

The macroeconomic and political situation in Argentina and changes to regulations affecting the Group's Argentinian business could have a material adverse effect on the Group's business, financial condition and results of operations.

In December 2015, Argentina elected a new government and the Group cannot predict what new legislation this new government will implement and how it will affect its customers or its business. Some changes could have a material adverse effect on the capital spending and activity levels of its customers, and impact the Group's business, financial condition and its results of operations.

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

Archer Limited is a holding company, and as a result is dependent on dividends from its subsidiaries to meet its obligations.

Archer Limited is a holding company and does not conduct any business operations of its own. Archer Limited's principal assets are the equity interests it owns in its operating subsidiaries, either directly or indirectly. As a result, the Archer Limited is dependent upon cash dividends, distributions or other transfers it receives from its subsidiaries to repay any debt it may incur, and to meet its other obligations. The ability of Archer's subsidiaries to pay dividends and make payments to Archer Limited will depend on their operating results and may be restricted by, among other things, applicable corporate, tax and other laws and regulations and agreements of those subsidiaries. For example, the corporate laws of some jurisdictions prohibit the payment of dividends by any subsidiary unless the subsidiary has a capital surplus or net profits in the current or immediately preceding fiscal year. Payments or distributions from Archer's subsidiaries also could be subject to restrictions on dividends or repatriation of earnings under applicable local law, and monetary transfer restrictions in the jurisdictions in which Archer's subsidiaries operate. Archer's subsidiaries are separate and distinct legal entities. Any right that Archer Limited has to receive any assets of or distributions from any subsidiary upon the bankruptcy, dissolution, liquidation or reorganization of such subsidiary, or to realize proceeds from the sale of the assets of any subsidiary, will be junior to the claims of that subsidiary's creditors, including trade creditors.

The Group's tax liabilities could increase as a result of adverse tax audits, inquiries or settlements.

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

Board of Director's Report

Risk factors

The Group's failure to comply with anti-bribery laws may have a negative impact on its ongoing operations.

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

Cyber attacks could adversely affect the Group's business.

The Group's operations are subject to the risk of cyber-attacks. If the Group's systems for protecting against cybersecurity risks are circumvented or breached, this could result in the loss of the Group's intellectual property or other proprietary information, including customer data, and disruption of its business operations, which could adversely affect the Group's financial condition and results of operation.

The Group's operations are subject to a significant number of tax regimes, and changes in legislation or regulations in any one of the countries in which the Group operates could negatively and adversely affect the Group's results of operations.

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

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

The Group is, and may in the future be, subject to litigation that could have an adverse effect on it.

The Group is from time to time involved in litigation. The numerous operating hazards inherent in the Group's business increase the Group's exposure to litigation, which may involve, among other things, contract disputes, personal injury, environmental, employment, tax and securities litigation, and litigation that arises in the ordinary course of business. Management cannot predict with certainty the outcome or effect of any claim or other litigation matter. Litigation may have an adverse effect on the Group because of potential negative outcomes, the costs associated with defending the lawsuits, the diversion of the Group's management's resources and other factors.

The oilfield service industry is highly cyclical and lower demand and pricing could result in declines in the Group's profitability.

Historically, the oilfield service industry has been highly cyclical, with periods of high demand and favourable pricing often followed by periods of low demand and sharp reduction in pricing power. Periods of decreased demand or increased supply intensify the competition in the industry. As a result of the cyclicality of the Group's industry, management expects the Group's results of operations to be volatile and to decrease during market declines.

Risks Relating to Our Shares

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

The trading price of the Archer Limited's ordinary shares (Shares), quoted by the Oslo stock exchange, has historically fluctuated significantly and will most likely continue to fluctuate in response to a number of factors beyond the Company's control, including quarterly variations in operating results, adverse business developments, changes in financial estimates and investment recommendations or ratings by securities analysts, significant contracts, acquisitions or strategic relationships, publicity about the Company, its products and services or its competitors, lawsuits against the Company, unforeseen liabilities, changes to the regulatory environment in which it operates or general market conditions.

Board of Director's Report
Risk factors

In recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies. Those changes may occur without regard to the operating performance of these companies. The price of our Shares may therefore fluctuate based upon factors that have little or nothing to do with the Company, and these fluctuations may materially affect the price of its Shares.

Future issuances of Shares or other securities in Archer Limited may dilute the holdings of shareholders and could materially affect the price of our Shares.

It is possible that Archer may decide to offer additional Shares or other securities in the future in order to finance new capital-intensive investments, develop new products or services, respond to competitive pressures, repay debt, respond to a difficult market climate, cover unanticipated liabilities or expenses, or for any other purposes. Any such additional offering could reduce the proportionate ownership and voting interests of holders of Shares as well as the earnings per Share and the net asset value per Share, and any offering by the Company could have a material adverse effect on the market price of our Shares.

There are certain risks connected to beneficial interests in our Shares being registered in the Norwegian Central Securities Depository (Nw. Verdipapirsentralen) ("VPS").

Our Shares are for the purpose of Bermuda company law, registered in the Company's register of members in the name of Nordea Bank AB (publ), Norwegian branch (the "**VPS Registrar**"), which holds our shares as a nominee on behalf of the beneficial owners. For the purpose of enabling trading of shares on the Oslo Stock Exchange, the Company maintains a register in the VPS, where the beneficial ownership interests in the Shares and transfer of such beneficial ownership interests are recorded.

The Company has entered into a registrar agreement with the VPS Registrar where the VPS Registrar is appointed as registrar and nominee, in order to provide for the registration of each investor's beneficial ownership in the Shares in the VPS on investors' individual VPS accounts.

In accordance with market practice in Norway and system requirements of the VPS, the beneficial ownership of investors is registered in the VPS under the name of a "share" and the beneficial ownership is listed and traded on the Oslo Stock Exchange as "shares" in Archer Limited. Investors who purchase Shares (although recorded as owners of the shares in the VPS) will have no direct rights against the Company.

Each VPS-registered share represents evidence of beneficial ownership of one Share for the purposes of Norwegian law, however such ownership would not necessarily be recognized by a Bermuda or other court. The VPS-registered shares are freely transferable with delivery and settlement through the VPS-system. Investors must look solely to the VPS Registrar for the payment of dividends, for the exercise of voting rights attached to our Shares and for all other rights arising in respect of the Shares.

Beneficial owners of our Shares that are registered in a nominee account (such as through brokers, dealers or other third parties) will also need to look to their nominees for the payment of dividends, for the exercise of voting rights attached to our Shares and for all other rights arising in respect of our Shares. Archer cannot guarantee that beneficial owners of its Shares will receive the notice of a general meeting of shareholders of the company in time to instruct their nominees to either effect a re-registration of their Shares or otherwise vote for their Shares in the manner desired by such beneficial owners. Any persons that hold their Shares through a nominee arrangement should consult the nominee to ensure that any Shares beneficially held are voted for in the manner desired by such beneficial owner.

Investors may have difficulty enforcing any judgment obtained in the United States against the Company or its directors or officers.

Archer is incorporated under the laws of Bermuda. Some of its current directors and executive officers reside outside the United States. Furthermore, most of the Company's assets and most of the assets of the Company's directors and executive officers are located outside the United States. As a result, investors may be unable to effect service of process on the Company or its directors and executive officers or enforce judgments obtained in the United States (including judgments predicated upon the civil liability provisions of the federal securities laws of the United States).

Board of Director's Report

Share capital issues

At December 31, 2016, our authorised share capital was $10,000,000 consisting of 1,000,000,000 shares each with a par value of $0.01. All of our shares are of the same class.

In September 2015, a special general meeting of shareholders approved a capital reorganisation pursuant to which Archer's authorised share capital was consolidated, so that 10 shares, of par value $1.00 became one share of par value $10.00. Our issued share capital was then reduced by $9.99 per share, the par value of each consolidated share being thus reduced to $0.01 per share. Upon this capital reduction of the paid up share capital, all unissued $10 shares were subdivided into 1000 shares of par value $0.01 each.

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

At December 31, 2016, the number of shares issued was 58,164,966 corresponding to a share capital of $581,650.

The issued shares are fully paid. There are no shares not representing the capital in the Company. The shares are equal in all respects and each share carries one vote at our General Meeting of shareholders. None of our shareholders have different voting rights. The Board is not aware of any other shareholders agreements or any take-over bids during the year.

All of our issued shares are listed on the Oslo Stock Exchange and the split of the shareholders, as registered in the Norwegian Central Securities Depository (VPS), was as per the table below.

Shareholder overview as of December 31, 2016

Seadrill	39.7%
Lime Rock	11.3%
Hemen Holdings	6.3%
Others	42.7%

Hemen Holding Ltd, or Hemen, a Cyprus holding company is indirectly controlled by trusts established by Mr. John Fredriksen, for the benefit of his immediate family. Mr Fredriksen is the Chairman and President of Seadrill, which is one of our principal shareholders.

On February 28, 2017 we issued 84 million shares at a subscription price of NOK 10.00 per share in a private placement. This initial issue was followed up by a subsequent offering, as a result of which a further 4,925,171 ordinary $0.01 shares, have been allotted at an issue price of NOK 10, or approximately $1.17, each. See Note 27 Subsequent events in our audited financial statements.

Corporate governance

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

Board of Director's Report
Board of Directors

Composition of the Board

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

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

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

Mr. Harald Thorstein served as a Director since May 2016 until September 23, 2016.

Ørjan Svanevik
Chairman
Mr. Svanevik has served as a Director since May 2015 and was elected as Chairman of the Board of the Company in September 2015. Mr. Svanevik has served as a director of Seadrill Limited since October 2014 and as a director of North Atlantic Drilling Ltd., since May 5. Mr. Svanevik joined the Seatankers Group, a related company, in July 2014 and has a broad industry background, with special knowledge of oil and gas, maritime, shipbuilding, and engineering sectors. He has extensive experience from global operations, investment management and corporate finance. Mr Svanevik was previously Managing Director for the investment advisory firm Oavik Capital from October 2008 to July 2014. Prior to this he was Head of Mergers and Acquisitions and a Partner at Aker ASA from 2005 to 2008, and COO and EVP of Kværner ASA from 2004 to 2005. Prior to this Mr Svanevik also worked in corporate advisory and Investment banking for Arkwright from 1994 to 2001. He started his career at Schlumberger, where he held various international financial management positions from 1991 to 1994. Mr Svanevik has an AMP from Harvard Business School and a MBA from Thunderbird. Mr Svanevik is a Norwegian citizen and is resident in Norway.

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

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

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

Board of Director's Report
Board of Directors

Alf Ragnar Løvdal
Director
Mr Løvdal has served as a Director since May 2016. Mr Løvdal is Chief Executive Officer of North Atlantic Drilling Limited since January 2013 and has served as Senior Vice President for Seadrill in the Asia Pacific region from April 2009 until December 2012. He was previously Chief Executive officer of Seawell Ltd. Mr Løvdal has 35 years of experience in the oil and gas industry, 10 years of which he was responsible for the well services business for the drilling contractor Smedvig, which Seadrill acquired in early 2006. At Smedvig, Mr Løvdal held several senior positions including general manager of operations for mobile drilling units. Prior to his employment with Smedvig and Seadrill, Mr Løvdal held various positions in different oil service companies, including five years of field experience with Schlumberger. He has a degree in mechanical engineering from Horten Engineering Academy in Norway. Mr Løvdal is a Norwegian citizen, resident in Norway.

Dag Skindlo
Dag Skindlo joined Archer in April 2016 as Chief Financial Officer and Executive Vice President, Strategy, a role in which he still serves. He was appointed to the board later in April 2016.

Mr. Skindlo has 24 years' experience in the Oil and Gas industry. He joined Schlumberger in 1992, where he held various financial and operation positions, before joining Aker Group of Companies in 2015, in which he held roles including Global CFO and Managing Director for large industrial business divisions. Before joining Archer Mr Skindlo was the CEO for Aquamarine Subsea, a HitecVision owned company. Mr Skindlo is a Norwegian citizen with a Master of Science in Economics and Business Administration from the Norwegian School of Economy and Business Administration (NHH).

Board independence

The Chairman of the Company's six-member Board of Directors has been elected by the Board of Directors and not by the shareholders as recommended in the Norwegian Code of Practice. This is in compliance with normal procedures under Bermuda law. Archer is not fully in compliance with section 8 of the Norwegian Code of Practice with respect to independence of board members. The Norwegian Code of Practice recommends that the board should not include executive personnel and the majority of the shareholder-elected board members should be independent of the company's executive personnel and material business contacts. The Norwegian Code of Practice also recommends that at least two of the members of the board should be independent of the company's main shareholders. Dag Skindlo, a director of the Company, also holds the position as CFO and Executive Vice President Strategy in the Company. One of the Company's six directors, Giovanni Dell' Orto, is independent of the Company's two largest shareholders, Lime Rock Partners L.P and Seadrill Limited. Three of the Company's directors, Ørjan Svanevik, Kate Blankenship and Alf Ragnar Løvdal, may be deemed affiliated, under the Norwegian Code of Practice, with the Company's largest shareholder, Seadrill. One of the Company's directors, John Reynolds, is affiliated with Archer's second largest shareholder, Lime Rock Partners. Archer accordingly deviates from section 8 of the Norwegian Code of Practice.

Board of Director's Report
Senior management

Mr. David King served as Chief Executive Officer for Archer from July 2013 until his resignation on April 4, 2016

John Lechner
Chief Executive Officer, President Eastern Hemisphere and Executive Vice President

Mr. Lechner was appointed to the position of President, Eastern Hemisphere and Executive Vice President in January 2016. In April 2016 he succeeded David King as Chief Executive Officer, a role he fulfils alongside his role as President Eastern Hemisphere. He previously held the position of President North Sea and Senior Business Development Manager for Asia Pacific at Archer. Mr. Lechner has over 32 Years of oilfield experience having worked in the European, Asian, Russian, North American, Middle Eastern and Far Eastern Markets within various senior roles at Schlumberger, Parker Drilling and OiLSERV.

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

Dag Skindlo
Chief Financial Officer and
Executive Vice President, Strategy

Mr Skindlo has served as Chief Financial Officer, Executive Vice President, Strategy and Board Director since April 2016. More details are included under Board Members above.

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

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

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

Board of Director's Report
Responsibility Statement

We confirm that, to the best of our knowledge, the financial statements for 2016 have been prepared in accordance with the current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss for the Group as a whole.

We also confirm that the Board of Director's Report includes a true and fair review of the development and performance of the business and the position of the Group, together with a description of the financial risks and uncertainties facing the Group.

April 2017

The Board of Archer Limited

John Reynolds
(Director)

Ørjan Svanevik
(Chairman)

Kate Blankenship
(Director)

Giovanni Dell' Orto
(Director)

Alf Ragnar Løvdal
(Director)

Dag Skindlo
(Director)

John Lechner
(Chief Executive Officer)

Independent auditors' report to the members of Archer Limited

Report on the consolidated financial statements

Our opinion

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

- give a true and fair view of the state of the affairs of Archer Limited and its subsidiaries (together the "group") as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated balance sheet as at 31 December 2016;
- the Consolidated statement of operations and the Consolidated statement of comprehensive loss for the year ended 31 December 2016 and the Consolidated statement of accumulated other comprehensive loss as at 31 December 2016;
- the Consolidated statement of cashflows for the year ended 31 December 2016;
- the Consolidated statement of changes in shareholders' equity for the year ended 31 December 2016; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Other matters

We have reported separately on the company financial statements of Archer Limited for the year ended 31 December 2016.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Uxbridge, United Kingdom
28 April 2017

(a) The maintenance and integrity of the group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(a) Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements 2016

Archer Limited and subsidiaries
Consolidated statement of operations

($ in millions, except share and per share data)	**YEAR ENDED DECEMBER 31**	
	2016	**2015**
Revenues		
Operating revenues	817.6	1,233.2
Reimbursable revenues	66.2	87.9
Total revenues	**883.8**	**1,321.1**
Expenses		
Operating expenses	737.5	1,074.1
Reimbursable expenses	58.7	79.2
Depreciation and amortisation	72.6	79.2
Net gain on sale of assets	(0.2)	(4.2)
Impairment of goodwill and other assets	17.7	50.2
General and administrative expenses	38.5	55.1
Total expenses	924.8	1,333.6
Operating loss	**(41.0)**	**(12.5)**
Financial items		
Interest income	1.9	2.5
Interest expense	(63.0)	(50.2)
Share of net losses of unconsolidated associates	(68.7)	(5.6)
Other financial items, net	9.2	(53.7)
Total financial items	**(120.6)**	**(107.0)**
Loss from continuing operations before income taxes	**(161.6)**	**(119.5)**
Income tax expense	(0.9)	(3.7)
Loss from continuing operations	**(162.5)**	**(123.2)**
Loss from discontinued operations, net of tax	**(3.4)**	**(236.1)**
Net loss	**(165.9)**	**(359.3)**
Basic loss per share ($) - from continuing operations	**(2.80)**	**(2.12)**
- from discontinued operations	**(0.06)**	**(4.08)**
Diluted loss per share ($) - from continuing operations	**(2.80)**	**(2.12)**
- from discontinued operations	**(0.06)**	**(4.08)**
Weighted average number of shares outstanding *(In thousands)*		
Basic	58,121	57,916
Diluted	58,121	57,916

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

Archer Limited and subsidiaries
Consolidated statement of comprehensive loss

($ in millions)	YEAR ENDED DECEMBER 31	
	2016	**2015**
Net loss	**(165.9)**	**(359.3)**
Other comprehensive income / (loss) net of tax		
Reversal of unrealised loss on termination of pension plan	23.1	2.8
Foreign currency translation differences	(25.3)	8.8
Other comprehensive (loss) / income, net	**(2.2)**	**11.6**
Total comprehensive loss (net of tax)	**(168.1)**	**(347.7)**

Archer Limited and Subsidiaries
Consolidated statement of accumulated other comprehensive loss

	PENSION – UNRECOGNISED GAIN/(LOSS)	CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES	TOTAL
Balance at December 31, 2014	**(25.9)**	**8.8**	**(17.1)**
Net change in gains and losses and prior service cost	2.8	-	2.8
Foreign currency translation differences	-	8.8	8.8
Balance at December 31, 2015	**(23.1)**	**17.6**	**(5.5)**
Reversal of unrealised loss on termination of pension plan	23.1	-	23.1
Foreign currency translation differences	-	(25.3)	(25.3)
Balance at December 31, 2016	-	**(7.7)**	**(7.7)**

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

Archer Limited and subsidiaries
Consolidated balance sheet

($ in millions)	DECEMBER 31	
	2016	**2015**
ASSETS **Current assets**		
Cash and cash equivalents	27.3	20.5
Restricted cash	7.6	8.0
Accounts receivables, net of allowance for doubtful accounts of $2.3 million and $1.4 million respectively	150.5	193.3
Inventories	61.8	83.5
Other current assets	39.9	57.6
Total current assets	**287.1**	**362.9**
Noncurrent assets		
Investments in unconsolidated associates	94.9	148.1
Loans to associates	11.0	4.7
Property plant and equipment, net	476.4	554.5
Deferred tax, net of valuation allowance	12.2	13.3
Goodwill	172.6	174.2
Other intangible assets	3.3	4.8
Other noncurrent assets	2.8	4.9
Total noncurrent assets	**773.2**	**904.5**
Total assets	**1,060.3**	**1,267.4**
LIABILITIES AND SHAREHOLDERS' EQUITY **Current liabilities**		
Current portion of interest-bearing debt	131.1	95.0
Other current liabilities	182.0	220.4
Total current liabilities	**313.1**	**315.4**
Long-term interest-bearing debt	567.1	657.6
Subordinated related party loan	125.0	50.0
Deferred tax	9.7	9.3
Other noncurrent liabilities	15.8	37.8
Total noncurrent liabilities	**717.6**	**754.7**
Shareholders' equity		
Common shares of par value $0.01 per share; 1.0 billion shares authorised, 58,164,966 outstanding shares at December 31, 2016 (December 31, 2015: 57,915,716 shares of $0.01 par value)	0.6	0.6
Additional paid-in capital	823.7	823.3
Accumulated deficit	(1,527.1)	(1,361.2)
Accumulated other comprehensive loss	(7.7)	(5.5)
Contributed surplus	740.1	740.1
Total shareholders' equity	**29.6**	**197.3**
Total liabilities and shareholders' equity	**1,060.3**	**1,267.4**

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

Archer Limited and subsidiaries
Consolidated statement of cashflows

($ in millions)	YEAR ENDED DECEMBER 31	
	2016	**2015**
Cash Flows from Operating Activities		
Net loss	**(165.9)**	**(359.3)**
Net loss from discontinued operations	**3.4**	**236.1**
Net loss from continuing operations	**(162.5)**	**(123.2)**
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortisation	72.6	79.2
Share-based compensation expenses	0.4	2.7
Net gain on sale of assets	(0.2)	(4.2)
Impairment of goodwill and other assets	17.7	50.2
Equity in loss of unconsolidated associates	68.7	5.6
Amortisation of loan fees and senior note premium	4.6	3.3
Deferred income taxes	(6.5)	(0.6)
Unrealised foreign currency (gain) / loss	(11.6)	49.4
Changes in operating assets and liabilities		
Decrease in trade accounts receivable and other short-term receivables	63.3	97.2
Decrease / (Increase) in inventories	14.6	(3.6)
Decrease in trade accounts payable and other short-term liabilities	(21.7)	(85.2)
Change in other operating assets and liabilities, net	(1.9)	(23.1)
Cash used in operating activities of discontinued operations	(3.4)	(8.3)
Net cash provided by operating activities	**34.1**	**39.4**
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(6.5)	(88.7)
Proceeds from sale of property, plant and equipment	1.8	11.0
Investment in / loans to associates	(21.4)	(4.6)
Net change in restricted cash	0.7	6.4
Cash used in investing activities of discontinued operations	-	(12.8)
Net cash used in investing activities	**(25.4)**	**(88.7)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities	148.2	77.3
Repayments under revolving facilities	(189.6)	(22.9)
Proceeds from related party debt	75.0	-
Proceeds from debt	-	4.1
Repayment of debt	(20.9)	(24.3)
Debt issuance costs	(2.0)	(1.1)
Cash used in the financing activities of discontinued operations	-	(0.2)
Net cash provided by financing activities	**10.7**	**32.9**
Effect of exchange rate changes on cash and cash equivalents	(12.6)	8.0
Net increase / (decrease) in cash and cash equivalents	**6.8**	**(8.4)**
Cash and cash equivalents at beginning of the year	20.5	28.9
Cash and cash equivalents at the end of the year	**27.3**	**20.5**
Interest paid	(47.4)	(40.0)
Taxes paid	(10.6)	(15.7)

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

Archer Limited and subsidiaries

Consolidated statement of changes in shareholders' equity

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	(ACCUMULATED DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE LOSS	CONTRIBUTED SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2014	**579.2**	**821.1**	**(1,001.9)**	**(17.1)**	**161.5**	**542.8**
Foreign currency translation differences	-	-	-	8.8	-	8.8
Pension – unrecognised gain	-	-	-	2.8	-	2.8
Share-based compensation	-	2.7	-	-	-	2.7
Adjustment to share par value	(578.6)	-	-	-	578.6	-
Shares purchased for RSU's		(0.5)	-	-	-	(0.5)
Net loss	-	-	(359.3)	-	-	(359.3)
Balance at December 31, 2015	**0.6**	**823.3**	**(1,361.2)**	**(5.5)**	**740.1**	**197.3**
Foreign currency translation differences	-	-	-	(25.3)	-	(25.3)
Reversal of unrealised loss on termination of pension plan	-	-	-	23.1	-	23.1
Share-based compensation	-	0.4	-	-	-	0.4
Net loss	-	-	(165.9)	-	-	(165.9)
Balance at December 31, 2016	**0.6**	**823.7**	**(1,527.1)**	**(7.7)**	**740.1**	**29.6**

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

Note 1 — General Information

Archer is an international oilfield service company providing a variety of oilfield products and services through its global organisations. Services include platform drilling, land drilling, modular rigs, engineering services, wireline services, production monitoring, well imaging and integrity management tools.

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

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

Basis of presentation

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

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

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

Basis of consolidation

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

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

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

Intercompany transactions and internal sales have been eliminated on consolidation.

Reclassifications

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

Going concern

The consolidated financial statements have been prepared on the basis of the Company as a going concern.

The Company has agreed in principle to amend its $625.0 million revolving credit facility, or RCF, with lenders representing 94% of the exposure (the "Consenting Lenders"). However, the current terms of the RCF require the consent of all the lenders to effect the amendments. Currently, one lender, representing 6% of the exposure, is withholding its consent. The Company intends to file an application with the Court in Bermuda for a scheme of arrangement under which the proposed amendments are capable of being effected with the consent of lenders representing 75% of the exposure under the RCF. There can be no assurance that the Court will approve the application for a scheme of arrangement. The Consenting Lenders have signed legally binding “lock-up” agreements which, among other matters, defer two instalment payments due in May 2017 and August 2017, amounting to $47 million until September 30, 2017; replace the financial covenants applicable under the current terms of the RCF with the amended financial covenants contemplated by the refinancing; and commit the Consenting Lenders to the proposed refinancing if the scheme of arrangement is approved. The deferral of instalment payments and replacement of financial covenants are binding regardless of the outcome of the application for a scheme of arrangement.

On February 28, 2017 the Company raised $100 million through a private placement of its shares. Together with the deferral of the instalment payments and replacement of financial covenants, and expected cash from operations, the Company believes that it has sufficient liquidity to fund its liabilities for a period not less than twelve months from the date of the accompanying financial statements.

On April 26, 2017 the Company announced that it had entered into agreements with Seadrill Limited to convert approximately $ 146 million of principal and accrued interest under subordinated loan agreements and accrued guarantee fees, into a new $ 45 million subordinated convertible loan maturing in December 2021 and that a total of $ 253 million of guarantees provided by Seadrill Limited for Archer's banks has been released for which Seadrill Limited has agreed to pay a fee amounting to 10% of the face value of the released guarantees. Archer has agreed with its banks to apply that payment to reduce its bank debt by approximately $ 25 million.

Seadrill is in the process of a comprehensive restructuring plan that will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code, and it is preparing accordingly. There could be residual risk that these transactions are challenged in the court proceedings. If the termination payments from Seadrill are subject to claw-back and/or the claims forgiven to Archer are reinstated, there is a risk that this will cause Archer's liabilities to increase equivalently.

Note 2 — Accounting Policies

Use of estimates

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

Revenue recognition

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

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

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

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

Foreign currencies

As of December 31, 2016, most of our subsidiaries have a functional currency of the USD. For subsidiaries that have functional currencies other than the USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

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

Current and noncurrent classification

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

Cash and cash equivalents

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

Restricted cash

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

Receivables

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

Net bad debt expense for 2016 was less than $0.1 million (2015: $1.5 million).

Inventories

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

Property, plant and equipment

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

- Land and buildings 3 – 40 years
- Drilling and well service equipment 2 – 30 years
- Office furniture and fixtures 3 – 10 years
- Motor vehicles 3 – 7 years

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

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

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

Assets under construction

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

Capital leases

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

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

Intangible assets

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

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

Acquired technology is not amortised until ready for marketing.

Goodwill

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

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

We aggregate certain components with similar economic characteristics.

The goodwill impairment test involves an initial qualitative analysis to determine whether it is more likely than not that the carrying value of our goodwill exceeds its fair value. If we conclude that our goodwill is more likely than not impaired, we continue with a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. If the reporting unit's fair value exceeds its carrying value no further procedures are required. However, if a reporting unit's fair value is less than its carrying value an impairment of goodwill may exist requiring a second step to measure the amount of impairment loss.

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

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 US GAAP, for step one of the impairment test, we assess our major assets/asset groups for recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment charge is required. We then use various methods to estimate the fair value of our assets, using all and best available relevant data, including estimated discounted cash-flow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment is recorded equal to the difference between the asset's carrying value and fair value.

Research and development

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

Defined benefit pension plans

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

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

In 2016 we transferred the majority of our employees covered by the defined benefits plan to a defined contribution plan, as part of our strategy to discontinue the defined benefits plan.

Income taxes

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

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

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

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

Earnings per share or EPS

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

Deferred charges

Loan-related costs, including debt arrangement fees, incurred on the initial arrangement are capitalised and amortised over the term of the related loan using the straight-line method, which approximates the interest method. Amortisation of loan-related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognised in the Consolidated Statement of Operations within “Interest expenses” in the period in which they are incurred. Unamortised loan costs are presented as a reduction of the carrying value of the related debt.

Share-based compensation

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

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

In 2014 the Board granted restricted stock units (RSUs) to members of Archer’s management team. The RSUs vest, 25% on 1 March 2016 and 25% on March 1 for each of the subsequent three years. A further grant of RSU’s was made in May 2015, the units also vesting in four equal annual tranches commencing March 2015. The total number of RSUs issued in 2015 was 8,745,000 and 10,000 were issued in 2016.

563,000 RSUs remain unvested as at 31, December 2016 (2015: 958,875). The RSU’s are accounted for using similar principles as applies to the share options, The Fair value, determined as the grant date quoted price of Archer shares is recognised over the vesting periods.

Compensation cost in respect of share options and RSUs is initially recognised based upon grants expected to vest with appropriate subsequent adjustments to reflect actual forfeitures. National insurance contributions will arise from such incentive programs in some tax jurisdictions. We accrue for estimated contribution over the vesting periods of the relevant instruments.

Financial instruments

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

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

Discontinued operations

The disposal of a component of an entity or a group of components of an entity is reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. Archer determined that the sale of four of our North American business divisions, namely, Archer Pressure Control, Archer Pressure Pumping, Archer Directional Drilling and Archer Wireline, to QES in 2015 represented a significant strategic shift in Archer’s business and has, therefore, recorded the results of operations of these divisions as discontinued.

Segment reporting

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

Prior to 2016, we reported our results under the following four segments:

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

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

Segmental information is presented in Note 24. Segmental information for 2015 has been restated under the two new reporting segments.

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

Related party transactions

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

Recently issued accounting pronouncements

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

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

In March 2016, the FASB issued ASU 2016-07, *Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The update eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The update requires excess tax benefits and tax deficiencies to be recorded on the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity on the statement of cash flows. The standard also allows withholding up to the maximum statutory amount for taxes on employee share-based compensation, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity on the statement of cash flows and provides an accounting policy election to account for forfeitures as they occur. The new standard is effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance will be effective January 1, 2020, with early adoption permitted. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of cash flows (Topic 230): Classification of certain cash receipts and cash payments*. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, *Income taxes (Topic 740): Intra-entity transfers of assets other than inventory*, which prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-17, *Consolidation (Topic 810): Interests held through related parties that are under common control*, which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of cash flows (230): Restricted cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As such, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01 *Business combinations (805)*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this Update provide an initial test to determine if an integrated set of assets and activities, or a set, is not a business. If the set does not meet the requirements of this initial test, the guidance (i) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (ii) removes the evaluation of whether a market participant could replace the missing elements. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in certain cases. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04 *Intangibles - Goodwill and other (350),* which simplifies the test for goodwill impairment. This Update eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of the assets acquired and liabilities assumed in a business combination. Instead an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

Note 3 — Restructuring costs

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

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

Due to the downturn in the oilfield service sector continuing into 2016, we extended the downsizing initiative implemented in 2015, by initiating further reductions in our workforce, particularly in the Western Hemisphere, rationalisation of our support functions and closure of offices including a significant change to, and reduction of our corporate management function. In connection with our 2016 initiatives we have recognised $37.2 million costs in connection with the restructuring within our total operating expenses.

An analysis of these costs is tabulated below:

($ in millions)	Year ended December 31, 2016			Year ended December 31, 2015		
	Severance costs	Office closure	Other costs	Severance costs	Office closure	Other costs
Eastern Hemisphere	4.0	-	-	3.0	-	0.2
Western Hemisphere	30.3	2.1	0.8	14.1	-	-
Discontinued operations	-	-	-	2.2	0.7	0.2
Total	34.3	2.1	0.8	19.3	0.7	0.4

At December 31 2016, and 2015, we have provided for the following restructuring costs:

$ in millions	**2016**	**2015**
Severance costs	9.4	1.6
Office Closure costs	2.3	-
Other costs	0.1	0.2
Total	**11.8**	**1.8**

Note 4 — Impairments

Our long-lived assets predominantly consist of Land drilling rigs and equipment utilised by our Land drilling division in South America, and our two modular rigs. The carrying values of these assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset, or group of assets, may not be fully recoverable, and at least once each year as part of our annual reporting routine.

In 2016 we have recognised total impairment charges of $17.7 million. The charges include a write down of $5.3 million of obsolete inventory stock within our Frac Valves division, and $12.4 million in respect of land drilling rigs and equipment utilised in our Land drilling division in Latin America. Our routine annual test, conducted during the third quarter of 2016, involves a two-step process. The recoverability of the carrying values is first compared to total expected future cash flows expected to be generated by the assets. Where step one indicates that the carrying value may not be fully recoverable, a second exercise compares carrying values with estimated fair values in order to quantify any impairment loss.

As stated in our accounting policy, 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 the future performance of assets. We use the most relevant data available, including specific independent valuations for each of our land rigs. The key inputs and assumptions used in the various valuations included future market growth rates, EBITDA margins, discount factors and asset lives. Reasonable variations in these assumptions could give rise to additional impairment, particularly in relation to the modular rigs and the Latin America drilling rigs.
Whilst acknowledging the uncertainty and the level of judgment involved in our estimates of value, we believe our determination of impairment charges to be reasonable and prudent.

No further indicators of impairment were identified in the fourth quarter of 2016.

In 2015 we recognised total impairment charges of $177.5 million of which $50.2 million is recognised in continuing operations.

2015 impairment charges comprise;

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

In addition, the following impairment charges were reported in 2015 within the results of discontinued operations:

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

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

Note 5 — Other Financial Items

	YEARS ENDED DECEMBER 31	
($ in millions)	**2016**	**2015**
Foreign exchange gain / (loss)	11.6	(49.4)
Other items	(2.4)	(4.3)
Total other financial items, net	**9.2**	**(53.7)**

The other financial items consist mainly of foreign exchange gains (losses) arising on transactions denominated in currencies other than an entity's functional currency. In 2016 net foreign exchange gains of $11.6 million, compared to losses of $49.4 million in 2015, resulting predominantly from 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.

Note 6 — Income Taxes

Our income tax consists of the following:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2016**	**2015**
Current tax expense	7.4	4.3
Deferred tax benefit	(6.5)	(0.6)
Total income tax expense, net	**0.9**	**3.7**

Tax expense is impacted by de-recognition of deferred tax assets which we do not expect to be able to utilise within the foreseeable future. We have booked valuation allowances against deferred tax relating to net operating losses and foreign tax credits in North America Malaysia and Brazil, and other timing differences in Argentina and Norway.

The Company, including its subsidiaries, is taxable in several jurisdictions based on its rig operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the Company may pay tax within some jurisdictions even though it might have losses in others.

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

	YEARS ENDED DECEMBER 31	
($ in millions)	**2016**	**2015**
United States	0.4	(0.6)
South America	(3.9)	0.4
Europe	4.4	3.1
Others	-	0.8
Total	**0.9**	**3.7**

The income taxes for the years ended December 31 2016 and 2015 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

	YEARS ENDED DECEMBER 31	
($ in millions)	**2016**	**2015**
Income taxes at statutory rate	-	-
Effect of taxable losses from continuing operations	(50.9)	(42.6)
Effect of taxable losses from discontinued operations	(2.6)	(59.8)
Effect of Impairment charges	5.4	1.3
Effect of other non-deductible expenses	(2.7)	3.5
Effect of share of losses of unconsolidated subsidiaries	23.3	1.1
Effect of pension plan curtailment	9.9	-
Effect of tax exempted income and credits	(2.1)	18.9
Effect of foreign exchange rate differences	4.6	(9.0)
Effect of valuation allowances	13.3	91.3
Effect of adjustments from prior years	(0.8)	(1.8)
Effect of state and withholding taxes	3.5	0.8
Actual tax expense recognised	**0.9**	**3.7**

Deferred Income Taxes

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

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Pension	0.1	6.4
Tax loss carry forward	242.1	225.7
Impairments of tangible and intangible assets	104.2	98.7
Property differences	30.6	31.7
Provisions	83.2	89.1
Other	31.8	6.9
Gross deferred tax asset	**492.0**	**458.5**
Other	9.7	9.3
Gross deferred tax liability	**9.7**	**9.3**
Net deferred tax asset before valuation allowance	**482.3**	**449.2**
Valuation allowance	(479.8)	(445.2)
Net deferred tax asset	**2.5**	**4.0**

The deferred tax asset of $242.1 million shown in the above table under Tax losses carry forward, principally relates to carried forward tax losses of $563.1 million originating in the United States, and which expire over a period of 20 years, and tax losses of $60 million originating in Brazil. The Brazilian tax losses can be carried forward indefinitely. The US tax losses carried forward are not affected by the disposition of the well services entities to QES, as the transaction is transparent from a tax perspective.

Overall, gross deferred tax assets increased in 2016 due to additional tax losses incurred in 2016 and further provisions made in Argentina. In each of these cases the increase in deferred tax assets is offset by an increase in the valuation allowance, resulting in no net effect in the 2016 financial statements results from these items.

In total, the valuation allowance is a provision against deferred tax assets relating to tax operating losses, foreign tax credits and excess tax values on drilling equipment, for which we do not, at the balance sheet date, have a sufficiently documented tax strategy for realisation against future tax liabilities.

Deferred taxes are classified as follows:

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Deferred tax asset	12.2	13.3
Deferred tax liability	(9.7)	(9.3)
Net deferred tax asset	**2.5**	**4.0**

No provision has been made in respect of deferred tax on unremitted earnings from subsidiaries (2015 : Nil). No tax would be expected to be payable if unremitted earnings were repatriated to the ultimate parent.

The Archer Group operates in a number of jurisdictions and its tax filings are subject to regular audit by the tax authorities. The Archer Group's principal operations are located in Norway, Brazil, Argentina, UK, and Malaysia with the earliest periods under audit or open and subject to examination by the tax authorities being 2012, 2013, 2014, 2015 and 2016 respectively.

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

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

Note 7 – Discontinued Operations

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

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

From December 31, 2015 onwards, our interest in the combined company is reported as an equity investment with our share of QES results being reported within Share of net loss of unconsolidated associates. This investment, as well as our North American Frac Valve division will be reported under a new reporting segment, Western Hemisphere.

The summarized results of operations included in income from discontinued operations for the year ended December 31, 2015 were as follows:

(In millions)	**2015**
Revenues	276.6
Operating expenses	(304.1)
Selling general and administration	(9.5)
Impairments	(127.3)
Depreciation and amortization	(70.2)
Interest expense	(1.0)
Other financial items	(0.1)
Gain on sale of discontinued operations, net	(0.5)
Loss from discontinued operations before income tax expense	(236.1)
Income tax expense	—
Loss from discontinued operations, net of tax	**(236.1)**

In 2016 we have reported $3.4 million costs as results of discontinued operations. These costs relate to the closure of the office which previously housed the headquarters of the North American operations which were contributed to QES. The office is subject to a lease which expires in October 2021. The additional expense reported in 2016 relates to the true-up of the accrual for the remaining lease costs which is estimated net of sub rental income.

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

The Well Service Entities were deconsolidated at December 31, 2015, the date of their disposition, and as such their assets and liabilities are not included within the balance sheet as at December 31, 2015.

Note 8 — Earnings Per Share, or EPS

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

	NET LOSS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2016			
Basic loss per share from continuing operations	(162.5)	58,121,381	(2.80)
Effect of dilutive options*	—	—	—
Diluted loss per share	(162.5)	58,121,381	(2.80)
Basic loss per share from discontinued operations	(3.4)	58,121,381	(0.06)
Effect of dilutive options*	—	—	—
Diluted loss per share	(3.4)	58,121,381	(0.06)

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

*Loss per share is not adjusted for dilutive in the money share options or unvested RSUs. Share-based compensation of approximately 123,496 and 729,314 shares were excluded from the computation of diluted earnings per share for the years ended December 31, 2016 and 2015, respectively, as the effect would have been anti-dilutive due to the net loss for the period.

Note 9 — Inventories

Our inventories include the following:

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Manufactured:		
Finished goods	16.6	22.8
Work in progress	1.2	0.8
Raw materials	-	2.2
Total manufactured	**17.8**	**25.8**
Drilling supplies	24.4	27.3
Chemicals	6.1	7.5
Other items and spares	13.5	22.9
Total inventories	**61.8**	**83.5**

Note 10 — Other Current Assets

Our other current assets include:

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Prepaid expenses	6.6	20.7
VAT and other taxes receivable	19.1	18.4
Other short term receivables	14.2	18.5
Total other current assets	**39.9**	**57.6**

Note 11 — Investments in Unconsolidated Associates

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

	2016	2015
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company (Previously Rawabi Allis-Chalmers Company Ltd.)	50.00%	50.00%
Quintana Energy Services LP	42.00%	42.00%
TAQA Archer Services LLC	51.00%	-

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

	DECEMBER 31	
($ in millions)	**2016**	**2015**
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	85.2	148.1
TAQA Archer Services LLC	9.7	—
Total investments in associates	**94.9**	148.1

The components of investments in unconsolidated associates are as follows:

($ in millions)	2016				
	QES	**C6**	**Rawabi**	**TAQA**	**Total**
Net book balance at beginning of year	148.1	-	-	-	148.1
Additional capital investment	-	3.3	-	12.2	15.5
Share in results of associates	(62.9)	(3.3)	-	(2.5)	(68.7)
Carrying value of investment at end of year	85.2	-	-	9.7	94.9
Carrying value of loan to affiliate at end of year	5.0	6.0	-	-	11.0

($ in millions)	2015				
	QES	**C6**	**Rawabi**	**TAQA**	**Total**
Net book balance at beginning of year	-	-	-	-	-
Additional capital investment	148.1	2.0	-	-	150.1
Share in results of associates	-	(2.0)	-	-	(2.0)
Carrying value of investment at end of year	148.1	-	-	-	148.1
Carrying value of loan to affiliate at end of year	-	4.7	-	-	4.7

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

Investment in QES

As discussed in Note 7, Discontinued operations above, on December 31, 2015, we contributed four of our North American business units to QES. As purchase consideration, we received units in QES amounting to 42% of the total common units in the limited partnership. We have valued our resulting investment in QES at fair value at the transaction date which we have estimated to be $148.1 million. The valuation depends on expected future market developments it is highly judgemental and can fluctuate significantly based on immediate and future market conditions. In the event that market conditions deteriorate or other circumstances arise which result in changes to our original estimates and assumptions, QES may be required to record impairments to their assets, which would, in turn, result in our recording significant losses as our share of results of our associated companies.

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

The share in results related to our investment in QES reflects our 42% portion of the total losses estimated by the entity for the twelve months to December 31, 2016.

In December 2016 and in January 2017, Archer provided 25% of a total of $40 million in funding to QES. Included in the terms of the arrangement, we received penny warrants for 8.5% of the shares in QES. QES issued warrants for 34% of the shares in exchange for the total $40 million 2nd lien loans provided, which implies that fully diluted our ownership in QES will be reduced from currently 42% to approximately 36% following this transaction.

Summarised financial information for QES is detailed in the table below:

($ in millions)	At December 31 2016	At December 31 2015
Current assets	108.2	84.0
Non-current assets	164.9	292.3
Current liabilities	46.1	119.8
Non-current liabilities	120.8	4.6
	Year ended December 31, 2016	Year ended December 31, 2015
Total revenue	210.4	189.3
Operating loss	146.6	55.9
Net loss	154.7	59.0

Investment in C6

In addition to our capital investment in C6, we have also made additional investment by way of a loan which, at December 31, 2016, has a carrying value of $6.0 million (2015 $4.7 million). The loan is repayable in 2021 when we expect the developed technology to have generated sufficient funds. Our equity share of the losses incurred by C6 in 2016 are greater than the remaining carrying value of our capital investment. We have applied the remaining share of the losses as a reduction on the value of this loan due from the entity.

Investment in Rawabi Archer Company

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

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

In 2012, the carrying value of our investment in Rawabi was impaired to zero due to sustained historical losses. The entity has had limited activity since 2012. Our Oiltools division has recently begun trading with Rawabi with a view to extend our Oiltools business in the Saudi region.

Investment in TAQA

In 2016, we invested $12.2 million into TAQA Archer Services LLC, or TAQA, a Saudi Arabia resident joint venture entity, which was registered during the second quarter of 2016, together with TAQA Industrialisation & Energy Services Company, or 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 to 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 do not consolidate the entity. Instead we are accounting for the joint venture using the equity method of accounting.

Note 12 — Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
As of December 31, 2016				
Cost	867.4	32.4	3.7	903.5
Accumulated depreciation and impairments	(402.9)	(24.2)	-	(427.1)
Net book value	**464.5**	**8.2**	**3.7**	**476.4**
Depreciation for 2016	67.2	3.9	-	71.1
As of December 31, 2015				
Cost	1,007.6	30.6	26.0	1,064.2
Accumulated depreciation and impairments	(487.7)	(22.0)	-	(509.7)
Net book value	**519.9**	**8.6**	**26.0**	**554.5**
Depreciation for 2015	72.1	4.8	-	76.9

Operational equipment includes drilling and well services equipment. Included in the cost of operational equipment is $24.7 million in respect of assets held under capital leases (2015: $27.5 million). Other fixed assets include land and buildings, office furniture and fixtures, and motor vehicles. At December 31, 2016, $7.5 million of fixed assets have been pledged in respect of finance agreements for their acquisition (2015: $10.8 million)

Impairment losses are recorded whenever we determine that any of our assets have suffered a material loss in value that is other than temporary. We formally review our long-lived assets for impairment at least annually. Our impairment test comprises a two-step process using estimated cash-flows to be generated by our assets. The uncertainty and volatility in the oilfield service market, particularly during 2015 and 2016, has made the estimation of future performance especially difficult and a significant amount of judgement is involved in the forecast process.

We conducted our testing for 2016 during the third quarter of the year. During 2016 we recognised total impairment losses of $17.7 million comprising an impairment loss of $5.3 million in respect of obsolete inventory within our Frac Valves division, and impairments in relating to rigs and land drilling equipment in in our South American business of $12.4 million. Step one of our testing of the two modular rigs, which uses expected consolidated cash flows, indicated that the rigs are not impaired.

For the year ended December 31, 2015 we recognised impairments totalling $130.9 million in respect of property, plant and equipment. The impairments predominantly related to assets in our pressure pumping and pressure control assets, which were impaired by $90.8 million, the charge being reported within discontinued operations, and our modular rigs against which an impairment charge of $33.3 million was reported in our results of continuing operations.

For step two of our impairment test in 2016 and 2015 we have obtained independent third party valuations for each of our land rigs to assist in the impairment review process and to support our internal assessments of potential impairments.

In 2015, due to the lack of comparable market data available for our modular rigs, owing to their unique nature, we used several different data points to estimate their current fair value, including market data for Jack-up rigs which operate in a similar market, estimated replacement costs and estimated future cash flows that we expect the rigs to generate. Our testing during 2016 did not result in any indication of impairment losses.

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

Note 13 — Goodwill

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

($ in millions)		**2016**			**2015**	
	Asset value	Impairment	**Net Value**	Asset value	Impairment	**Net Value**
Value at beginning of year	858.7	(684.5)	174.2	886.8	(679.0)	207.8
Impairments of goodwill	-	-	-	-	(5.5)	(5.5)
Currency adjustments	(1.6)	-	(1.6)	(28.1)	-	(28.1)
Net book balance at end of year	**857.1**	**(684.5)**	**172.6**	**858.7**	**(684.5)**	**174.2**

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 can involve significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to a future material non-cash impairment charge in relation to our remaining goodwill.

In 2016, our initial qualitative analysis of possible indicators of impairment of our goodwill did not lead to a conclusion that it was more likely than not that the carrying value of our goodwill is impaired. The main factors which lead us to this conclusion were:

- The significant headroom indicated by our 2015 testing in respect of our remaining goodwill;
- The upturn in the Oilfield service sector, especially reflected in our platform drilling division – which should lead to additional business for our engineering and S&I division, and;
- The increase in our share price resulting in our market capitalisation being in excess of our net asset carrying value.

In 2015, step one of our annual goodwill impairment testing identified circumstances which, more like than not, would reduce the fair value of a reporting unit to below its carrying amount, we therefore conducted a detailed step two analysis.

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

The fair value calculations are particularly sensitive to assumptions concerning revenue growth, EBITDA margin, investments for future growth, terminal value growth and the discount factor. At December 31, 2015, we had impaired all goodwill relating to our Western Hemisphere segment. All remaining goodwill, at December 31, 2015, related to our Platform Drilling, Wireline and Oiltools reporting unit. The results of these business units have historically been less volatile than those in our Western Hemisphere segment, so the sensitivity of our goodwill testing model to market volatility, at December 31, 2015 was reduced.

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

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

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

Note 14 — Other Intangible Assets

The following table discloses our intangible assets:

($ in millions)	TECHNOLOGY	CUSTOMER RELATIONSHIPS	TRADE NAMES	PATENTS	OTHER	TOTAL
Estimated useful lives	8–10 years	4–11 years	Indefinite	9–20 years	Indefinite	
Remaining average amortisation period, December 31, 2016	1.5 years	1.3 years		5.7 years		
As of December 31, 2016						
Cost	8.3	13.0	1.2	2.7	0.1	25.3
Accumulated amortisation and impairments	(7.3)	(12.3)	(1.2)	(1.1)	(0.1)	(22.0)
Net book value	**1.0**	**0.7**	**-**	**1.6**	**-**	**3.3**
Amortisation and impairments for 2016	0.6	0.6	-	0.3	-	1.5
As of December 31, 2015						
Cost	8.1	94.2	2.4	3.0	0.1	107.8
Accumulated amortisation and impairments	(6.6)	(92.9)	(2.4)	(1.0)	(0.1)	(103.0)
Net book value	**1.5**	**1.3**	**-**	**2.0**	**-**	**4.8**
Amortisation and impairments for 2015	1.1	45.5	1.5	0.3	-	48.4*

* Of which $41.9 million is reported within discontinued operations

Future amortisation of intangible assets as of December 31, 2016 is as follows:

($ in millions)	2017	2018	2019	2020	2021 AND THEREAFTER	TOTAL
Intangible assets						
Customer relationships	0.6	0.1	-	-	-	0.7
Technology	0.6	0.4	-	-	-	1.0
Patents	0.3	0.3	0.3	0.3	0.4	1.6
Total intangible amortisations	**1.5**	**0.8**	**0.3**	**0.3**	**0.4**	**3.3**

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

We carried out our annual review of long-lived assets for impairment in the third quarter of 2016 and concluded that none of our intangible assets were impaired. No further indicators of impairment were identified in the fourth quarter of 2016.

In 2015 we recorded impairment charges totalling $39.1 million against our intangible assets. Most of the impairment related to assets recorded in our North American reporting segment, where we wrote off remaining customer relationships of $36.4 million due to the dramatic fall in sales in that business segment. In addition we wrote off $1.0 million of customer relationships in respect of our Survey and Inspection business in Singapore and Australia, and also $1.7 million in respect of the XIT trade name and customer relationships recorded in respect of the acquisition of the XIT business in 2012.

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

Note 15 — Other Noncurrent Assets

Our other noncurrent assets are composed of the following:

($ in millions)	DECEMBER 31	
	2016	**2015**
Deferred mobilisation costs	1.8	2.3
Other	1.0	2.6
Total other noncurrent assets	**2.8**	**4.9**

Note 16 — Interest-bearing Debt

	December 31 2016			**December 31 2015**		
($ in millions)	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs	Loan balance	Unamortised debt issuance costs	Long-term debt less unamortised debt issuance costs
Multicurrency revolving credit facility	625.0	(4.5)	620.5	638.7	(6.8)	631.9
Related party subordinated loans	125.0	-	125.0	50.0	-	50.0
Hermes-covered term loans	28.0	(0.8)	27.2	46.0	(1.5)	44.5
Other loans and capital lease liability	50.5	-	50.5	76.2	-	76.2
Total loans and capital lease liability	**828.5**	**(5.3)**	**823.2**	**810.9**	**(8.3)**	**802.6**
Less: current portion	(134.7)	3.6	(131.1)	(99.7)	4.7	(95.0)
Long-term portion of interest bearing debt	**693.8**	**(1.7)**	**692.1**	**711.2**	**(3.6)**	**707.6**

Multicurrency revolving credit 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 (2015: $684.5 million). In May 2017 quarterly reductions of $25 million are due to commence but as set out above, the Consenting Lenders have granted an extension in respect of their 94% share of such reductions until October 2017. The interest payable on the facility is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to EBITDA.

As of December 31, 2016, a total of $625.0 million was drawn under the revolving facility (2015: $638.7). 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 Archer's obligations under these facilities.

The revolving facility contains certain financial covenants which, at December 31, 2016, included among others:

- We will ensure that the 12 months rolling adjusted EBITDA of the group is at least $45 million for the financial quarters 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 June 30, 2017 with subsequent quarterly reductions of 0.25x until it reaches 3.0x.
- We will 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%.

- The Company is to maintain the higher of $30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- The Company will ensure that the capital expenditures, on a consolidated basis, shall not exceed $70 million per year.

These have been replaced with amended covenants as part of the refinancing agreements described below and under Subsequent events in Note 27.

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

As of December 31, 2016, the Company is in compliance with all covenants as agreed with its lenders under its revolving multicurrency credit facility.

The revolving facility is subject to a refinancing process which is further described in the risk factors, below and under subsequent events in Note 27.

Related party subordinated loans

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

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

In May 2016, Seadrill Limited provided new financing to the Company of $75 million, which was contributed in form of subordinated debt. The loan was drawn as at May 31, 2016 and 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 June 30, 2018.

On April 26,2017, we announced the execution of amendment agreements in relation to the subordinated loan agreements which reduced the amounts outstanding under these loans from $125 million plus accrued interest, to $45 million. See Note 27 Subsequent events.

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 December 31, 2016 the equivalent of $25.0 million (2015: $36.3 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.

The Hermes covered term loan granted to Archer Topaz Limited is subject to a refinancing process which is further described in the risk factors and under subsequent events in Note 27.

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 December 31, 2016, the equivalent of $3.1 million (2015: $9.7 million) was outstanding under this facility.

Other loans and capital leases

We have two $41.7 million overdraft facilities and at December 31, 2016, net borrowings under these facilities amounted to a total of $28.7 million (2015: $44.7 million).

We have borrowed $10.4 million in Argentina and $4.0 million in Bolivia under local short term facilities as at December 31, 2016 (2015: total $20.6 million).

We also have capital leases relating to equipment leased by the Oiltools division. At December 31, 2016, the net balance due under these arrangements was $7.2 million (2015: $10.5 million).

Our outstanding interest bearing debt as of December 31, 2016, is repayable as follows:

($ in millions)	CAPITAL LEASE	OTHER DEBT	TOTAL
Year ending December 31			
2017	3.3	131.3	134.6
2018	2.4	685.0	687.4
2019	1.4	5.0	6.4
2020	0.1	-	0.1
Thereafter	-	-	-
Total debt	**7.2**	**821.3**	**828.5**

Subsequent amendments to interest bearing debt.

As discussed in Note 1 above, and under subsequent events in Note 27, we have agreed in principle with our lenders to a restructuring of our financing agreements. The new arrangements involve a comprehensive restructuring of Archer's debt including the Multicurrency Revolving Credit Facility, or RCF, our overdraft facilities and the subordinated loan from Seadrill.

Note 17 — Other Current Liabilities

Our other current liabilities are comprised of the following:

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Accounts payable	52.0	59.0
Accrued restructuring costs	11.8	1.8
Accrued expenses and prepaid revenues	88.9	115.3
Taxes payable	4.6	7.2
Employee withheld taxes, social security and vacation payment	24.7	35.0
Other current liabilities	-	2.1
Total other current liabilities	**182.0**	**220.4**

Note 18 — Other Noncurrent Liabilities

Our other noncurrent liabilities are comprised of the followings:

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Accrued pension and early retirement obligation	0.6	29.2
Accrued interest on Subordinated debt	12.0	3.9
Other noncurrent liabilities	3.2	4.7
Total other noncurrent liabilities	**15.8**	**37.8**

The reduction in our accrued pension obligates results from the settlement of the defined benefits pension plan operated by our Norwegian subsidiaries during 2016. Employees enrolled in the old defined benefits plan have been transferred to a defined contribution plan and settlement has been made to close the old plan (see note 22).

Note 19 — Commitments and Contingencies

Purchase commitments

As of December 31, 2016, we have committed to purchase obligations including capital expenditure amounting to $5.0 million, (2015: $4.9 million). During 2016 and 2015 we have significantly reduced our expenditure, both capital and operational, in response to the continued depressed market conditions within the oil and gas industry.

Guarantees

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

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Guarantees to customers of the Company's own performance	47.0	58.8
Guarantee in favour of banks	12.6	21.0
Other guarantees	4.7	10.7
	64.3	**90.5**

Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of December 31, 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. In December 2016, the Archer parties and the defendants settled all claims on a confidential basis. The Archer parties have no liability under the settlement and will receive a confidential but not material sum from the bankruptcy estate.

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

Note 20 — Share Capital

	DECEMBER 31			
	2016		2015	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $0.01 par value each*	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorized share capital	1,000,000,000	10.0	1,000,000,000	10.0
Issued, outstanding and fully paid share capital	58,164,966	0.6	57,915,716	0.6

Archer shares are traded on the Oslo Børs under the symbol "ARCHER.OL."

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

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

As discussed under note 16 above, on February 28, 2017, we completed a private placement under which we issued 84,000,000 common shares of par value $0.01 each, at a subscription price of NOK 10.00, raising NOK 840 million or approximately $100 million. Following the issuance Archer's issued share capital is increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. This initial issue was followed up by a subsequent offering, as a result of which a further 4,925,171 ordinary $0.01 shares have been allotted at an issue price of NOK 10, or approximately $1.17, each.

Note 21 — Share Option Plans
Options on Archer shares:

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

As of December 31, 2016, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers. In September 2015, a 10 to 1 reverse split of Archer Limited listed shares took place. The exercise prices of the options granted have been adjusted accordingly in the below notes.

Accounting for share-based compensation

The fair value of the share options granted is recognised as personnel expenses. During 2016, $0.4 million has been expensed in our Statement of Operations ($2.7 million in 2015).

The following summarises share option transactions related to the Archer programs in 2016 and 2015:

	2016		2015	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK
Outstanding at beginning of year	**1,790,510**	88.66	21,678,857	9.57
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/expired	(1,079,677)	79.01	(2,368,877)	22.08
Modifications related to reverse split	10,800	182.83	(17,519,470)	95.76
Outstanding at end of year	**721,633**	**98.65**	**1,790,510**	**88.66**
Exercisable at end of year	545,366	106.78	871,776	107.37

No income was received in 2016 as a result of share options being exercised (2015: nil).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 60.30 and NOK 722.60. At December 31, 2016, all 14,146 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program may be exercised up to April 21, 2020. The exercise price is between NOK 184.80 and NOK 192.20. At December 31, 2016, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

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

Options issued under the 2011, 2012 and 2013 Program may be exercised up to December 31, 2018. The exercise price is between NOK 37.90 and NOK 200.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2016, a total of 92,200 options were outstanding under the 2011, 2012 and 2013 Program and 82,600 of these were exercisable.

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 28.72 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2016, a total of 500,001 options were outstanding under the 2015 Program and 333,334 of these were exercisable.

No options were granted during 2016 or 2015.

As of December 31, 2016, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 7,5 million, which is expected to be recognised as expenses in 2017, 2018 and 2019 by, NOK 5,6 million (or $0.7million), NOK 1,7 million (or $0.2 million) and NOK 0.2 million (or $24,000) , respectively.

The weighted average remaining contractual life of outstanding options is 33 months (2015: 36 months) and their weighted average fair value was NOK 2.65 per option (2015: NOK 3.38 per option).

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

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

Valuation:

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

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

No options were granted in 2016 or 2015.

Restricted Stock units

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

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

In September 2016, the board granted new restricted stock units to members of the management team. On Sept 29, 2016 a total of 10,000 RSU`s were issued. The RSU`s are scheduled to vest 25% on March 1 2017 and 25% on March 1 for each of the subsequent three years.

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

The following table summarizes information about all restricted stock transactions:

	2016		**2015**	
	RSU's	**Weighted average grant date fair value NOK**	**RSU's**	**Weighted average grant date fair value NOK**
Unvested at beginning of year	**958,875**	4.18	**5,945,000**.	7.12
Granted	10,000	4.50	8,745,000	2.86
Released	(252,625)		(1,382,500)	
Forfeited	(640,625)		(906,250)	
Corrections due to reverse split of shares	484,875		(11,442,375)	
Correction 2015 OB	2,500			
Unvested at end of year	**563,000**	4.09	**958,875**	4.18

Note 22 — Pension Benefits

Defined benefits plan

The defined benefit plan for offshore employees in Norway was terminated in September 2016 and all employees in that plan were transferred to a defined contribution plan. Unrealised gains relating to the defined benefit plan assets, previously reported in accumulated other comprehensive income were reclassified as a result of the termination, and the effect of the reclassification is reported as part of employee costs within operational expenses.

Annual pension cost

($ in millions)	**2016**	**2015**
Benefits earned during the year	3.0	7.9
Interest cost on prior years' benefit obligation	1.5	2.3
Gross pension cost for the year	**4.5**	**10.1**
Expected return on plan assets	(1.3)	(2.1)
Administration charges	0.7	0.6
Net pension cost for the year	**3.9**	**8.6**
Social security cost	0.6	1.2
Amortisation of actuarial gains/losses	1.0	1.4
Impact of settlement/curtailment funded status	(19.6)	(5.6)
Impact of settlement/curtailment net actuarial gains/losses	17.5	1.6
Impact of settlement/curtailment past service cost	(8.4)	-
Impact of settlement/curtailment transition obligations/assets	3.6	-
Total net pension cost	**(1.4)**	**7.2**

The funded status of the defined benefit plan

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Projected benefit obligations	1.0	90.8
Plan assets at market value	(0.5)	(65.2)
Accrued pension liability exclusive social security	**0.5**	**25.5**
Social security related to pension obligations	0.1	3.6
Accrued pension liabilities	**0.6**	**29.1**

Change in benefit obligations

($ in millions)	**2016**	**2015**
Benefit obligations at beginning of year	90.8	106.7
Interest cost	1.5	2.3
Current service cost	3.1	7.9
Curtailments	(85.3)	(4.8)
Benefits paid	(0.5)	(0.7)
Change in actuarial gains/losses	(12.7)	(3.8)
Translation adjustments	4.1	(16.7)
Benefit obligations at end of year	**1.0**	**90.8**

Change in pension plan assets

($ in millions)	2016	2015
Fair value of plan assets at beginning of year	65.2	68.6
Estimated return	1.3	2.1
Contribution by employer	5.3	8.9
Administration charges	(0.7)	(0.6)
Benefits paid	(0.5)	(0.7)
Curtailments and change in unrecognised actuarial gain	(73.2)	(1.7)
Translation adjustments	3.1	(11.4)
Fair value of plan assets at end of year	**0.5**	**65.2**

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

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

Assumptions used in calculation of pension obligations

	2016	2015
Rate of compensation increase at the end of year	2.25%	2.50%
Discount rate at the end of year	2.10%	2.70%
Prescribed pension index factor	0.00%	1.20%
Expected long term rate of return on plan assets	3.00%	3.30%
Turnover	4.00%	4.00%
Expected increases in Social Security Base	2.00%	2.25%

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

Pension benefit plan assets

	DECEMBER 31	
	2016	2015
Equity securities	9.3%	10.1%
Debt securities	60.6%	47.5%
Real estate	6.8%	14.7%
Money market	21.8%	25.2%
Other	1.5%	2.5%
Total	**100.0%**	**100.0%**

The investment policies and strategies for the pension benefit plan funds do not use target allocations for the individual asset categories. The investment objectives are to maximise returns subject to specific risk management policies. We address diversification by the use of domestic and international fixed income securities and domestic and international equity securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The estimated yearly return on pension assets was 3.0% in 2016 (2015: 3.3%).

Defined Contributions Plans

We contribute to a private defined contribution pension plan for our UK onshore workforce in addition to our employees working offshore on the UK continental shelf. Eligible employees may contribute a minimum of 2% of their salary to the scheme, and we contribute between 5% and 7.5% to participants' plans. In 2016 we contributed $3.8 million (2015: $4.2 million) to the plan.

In Norway we also have a defined contribution pension plan both for our Norwegian onshore workforce in addition to our employees working offshore on the Norwegian continental shelf from 2016. For onshore employees we contribute 5% of salary between 1 and 6 G and 8% of salary between 6 and 12 G. For offshore employees we contribute 3% of salary up till 7.1 G and 15% of salary between 7.1 and 12 G. (G represents the minimum base salary used in the Norwegian National Insurance scheme, and for 2016 is equivalent to approximately $11,000). In 2016 we contributed $1.5 million (2015: $2.1 million) to the plan in Norway.

Note 23 — Related Party Transactions

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

<u>Transactions with Seadrill Limited;</u>
At December 31, 2016, Seadrill owned 39.7% of our common shares.

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 associated accrued interest/fees, was sold to Seadrill Limited. The loan was drawn in full as at December 31, 2016. Interest of 7.5% per annum on the $50 million principle amount, is being accrued and added to the outstanding balance, and will paid when the loan matures on June 30, 2018.

In May 2016, Seadrill Limited provided new financing to Archer in an aggregate amount of up to $ 75 million, which was contributed in form of subordinated debt. 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 June 30, 2018.

At December 31, 2016, we have accrued a total of $12.0 million (2015: $3.9 million) interest in respect of the subordinated loans owed to Seadrill which is included in other non-current liabilities (see note 18).

Guarantees

Seadrill has provided a guarantee of €23.7 million to the lenders of our Hermes covered term loan agreement for the modular rig, Archer Topaz (see Note 16). 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 16). Annual guarantee fees are charged at 1.25% of the guaranteed amount.

A NOK 66 million (equivalent to $7.6 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 December 31, 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 December 31, 2016, we have accrued total guarantee fees of $12.1 million (2015: $9.9 million) which are due at the end of the guarantee period, and are reported in other current liabilities, (see note 17). The guarantee fees are being accrued over the guarantee period, and the cost of the fees are reported within Financial Items.

As discussed in Note 16, at the ends of February 2017, we reached a term-sheet agreement with 94% of our lenders under the RCF, the ODF lenders and Seadrill for the re-organisation of our financing arrangements.

In relation to the subordinated loan, the terms of agreement provide that;

- The total loan of $125 million plus accrued interest will be converted to a convertible loan of principal value $45 million.
- Seadrill guarantees are to be released in exchange for a cash payment of 10% of the principal amount guaranteed.

<u>Transactions with C6 Technologies AS:</u>
We own 50% of C6 Technologies AS, (C6), an Oilfield Technology Company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results

using the equity method of accounting since its creation in 2010. During 2014 we sold our fully owned subsidiary Wellbore Solutions AS for an amount of 25 million Norwegian Kroner to C6. The settlement of the purchase price was through a loan agreement amounting to 10 million Norwegian Kroner and the balance will be settled in the form of royalties contingent on the successful commercialisation of the of tools being developed by C6 Technologies AS.

In the twelve months ended December 31, 2016 we advanced $4.1 million (2015: $4.6 million) as additional loan to C6.

Transactions with TAQA:
TAQA, a new joint venture in which we hold a 51% shareholding began operations in 2016. The carrying value of our investment has been reduced, under the equity method of accounting, by our share of the entity's start-up costs. In 2016 we sold a ComTrac unit, purchased from C6 to TAQA for $2.1 million, resulting in a net gain of $0.5 million being reported in gain on sale of assets.

Transactions with QES:
Since the acquisition of our 42% holding in QES in return for the contribution of our North American pressure pumping and Wireline businesses on December 31, 2015, 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 December 31, 2016.

During the fourth quarter we signed a refinancing agreement with QES under which we have provided loan finance of $5 million to QES in December 2016, and a further $5 million has been provided during January 2017.

Note 24 — Reporting and Geographical Segment Information

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

With effect from January 1 2016, 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, we manage and present 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 now report our corporate costs and assets separately and do not allocate them to the segments. Corporate costs include costs for the corporate management team, director fees, corporate audit fees, stock-based compensation costs and other related costs which are centrally managed.

2015 comparative figure shown in the tables below have been adjusted to reflect this change in presentation.

($ in millions)	**FOR THE YEARS ENDED DECEMBER 31**	
	2016	**2015**
Revenues from external customers		
Eastern Hemisphere	**445.1**	664.1
Western Hemisphere	**438.7**	657.0
Total	**883.8**	**1,321.1**
Depreciation and amortization		
Eastern Hemisphere	31.3	37.6
Western Hemisphere	41.3	41.6
Total	**72.6**	**79.2**

Operating (loss) / income — net loss		
Eastern Hemisphere	19.2	41.9
Western Hemisphere	(49.2)	(39.6)
Corporate costs	(10.6)	(12.1)
Stock compensation costs	(0.4)	(2.7)
Operating loss	**(41.0)**	**(12.5)**
Total financial items	(120.6)	(107.0)
Income taxes	(0.9)	(3.7)
Discontinued operations, net of tax	(3.4)	(236.1)
Net loss	**(165.9)**	**(359.3)**

Capital expenditures – fixed assets		
Eastern Hemisphere	1.9	12.7
Western Hemisphere	4.6	93.7
Total	**6.5**	**106.4**

($ in millions)	**AS OF DECEMBER 31**	
	2016	**2015**
Total assets		
Eastern Hemisphere	493.4	507.7
Western Hemisphere	564.0	754.5
Corporate	2.9	5.2
Total	**1,060.3**	**1,267.4**

Goodwill

($ in millions)	**EASTERN HEMISPHERE**	**WESTERN HEMISPHERE**	**TOTAL**
Balance at December 31, 2014	**202.3**	**5.5**	**207.8**
Impairment	—	(5.5)	(5.5)
Exchange rate fluctuations on goodwill measured in foreign currency	(28.1)	—	(28.1)
Balance at December 31, 2015	**174.2**	**—**	**174.2**
Exchange rate fluctuations on goodwill measured in foreign currency	(1.6)	—	(1.6)
Balance at December 31, 2016	**172.6**	**—**	**172.6**

Geographic information by country

	FOR THE YEARS ENDED DECEMBER 31	
($ in millions)	**2016**	**2015**
Revenue		
Norway	211.5	327.5
United States	20.5	33.2
Argentina	392.6	608.1
United Kingdom	149.6	212.0
Other	109.6	140.3
Total	**883.8**	**1,321.1**

	AS OF DECEMBER 31	
($ in millions)	**2016**	**2015**
Property plant and equipment		
United States	9.2	11.9
Argentina	291.7	376.1
Norway	82.4	98.8
United Kingdom	50.1	59.6
Other	43.0	8.1
Total	**476.4**	**554.5**

Note 25 — Risk Management and Financial Instruments

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

Interest rate risk management

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

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2016, we have interest swap agreements which fix our variable interest payable covering NOK 500 million of our NOK interest bearing loan (2015: NOK 500 million), and $150 million of our USD interest bearing loan (2015: $150 million), effectively fixing the interest rate on approximately 33% of the debt (2015: 32%). We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our consolidated statement of operations. The total fair value loss relating to interest rate swaps in 2016 amounted to $2.0 million (2015: $3.4 million).

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating consolidated subsidiaries who do not have a functional currency of USD. Transaction losses are recognised in "Other financial items" on our Consolidated Statement of Operations in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction gain relating to foreign exchange recognised in the Consolidated Statement of Operations in 2016 amounted to $11.6 million compared to a total loss in 2015 of $49.4 million.

Credit risk management

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

Fair values

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

($ in millions)	DECEMBER 31			
	2016		2015	
Assets / (Liabilities)	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Non-derivatives				
Cash and cash equivalents	27.3	27.3	20.5	20.5
Restricted cash	7.6	7.6	8.0	8.0
Current portion of interest bearing debt	(134.7)	(134.7)	(99.7)	(99.7)
Long term interest bearing debt	(568.8)	(568.8)	(661.2)	(661.2)
Subordinated related party loan	(125.00)	(125.00)	(50.0)	(50.0)
Interest rate swap agreement	(2.0)	(2.0)	(3.4)	(3.4)

The above financial assets and liabilities are disclosed at fair value as follows:

($ in millions)	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	DECEMBER 31 2016	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVAB LE INPUTS (LEVEL 3)
Assets:				
Cash and cash equivalents	27.3	27.3	—	—
Restricted cash	7.6	7.6	—	—
Liabilities:				
Current portion of interest bearing debt	(134.7)	—	(134.7)	—
Long term interest bearing debt	(568.8)	—	(568.8)	—
Subordinated related party loan	(125.00)	—	(125.00)	—
Interest rate swap agreements	(2.0)	—	(2.0)	—

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments as of December 31, 2016, and 2015. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months.

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

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

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at December 31, 2016.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Retained risk

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

Concentration of risk

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

CUSTOMER	2016	2015
Pan American Energy	26%	30%
YPF SA	13%	9%
StatoilHydro	13%	12%
Customer <10%	48%	49%
Total	**100%**	**100%**

Note 26 — Operating Lease Obligations

In addition to capital leases (See Note 16), we have significant operating leases for certain premises, office equipment and operating equipment. The most significant lease agreements are related to offices in Norway and United Kingdom. Rental expenses amounted to $14.0 million in 2016 (2015: $15.2 million).

Estimated future minimum rental payments are as follows:

($ In millions)	OPERATING LEASE OBLIGATIONS
YEAR	
2017	11.0
2018	8.3
2019	6.6
2020	4.4
2021	3.7
Thereafter	18.0
Total	**52.0**

Note 27 — Subsequent Events

Subsequent events have been incorporated to related notes where appropriate, and summarised below. Other subsequent events are disclosed in this note.

As discussed in Notes 16, 20 and 23 above, over the last 12 months, Archer has been in discussions with its lenders under the Multicurrency Term and Revolving Facility Agreement, or RCF, the Overdraft Facilities, or ODF and lenders to Archer Topaz Limited, as well as Seadrill Limited both as significant shareholder, guarantor and subordinated debt lender.

As at the date of filing its annual return, the Company has agreed in principle to amend its $625.0 million revolving credit facility, or RCF, with lenders representing 94% of the exposure (the "Consenting Lenders"). However, the current terms of the RCF require the consent of all the lenders to effect the amendments. Currently, one lender, representing 6% of the exposure, is withholding its consent. The Company intends to file an application with the Court in Bermuda for a scheme of arrangement under which the proposed amendments are capable of being effected with the consent of lenders representing 75% of the exposure under the RCF. There can be no assurance that the Court will approve the application for a scheme of arrangement. The Consenting Lenders have signed legally binding "lock-up" agreements which, among other matters, defer two instalment payments otherwise due in May 2017 and October 2017, amounting to $47 million until September 30, 2017; replace the financial covenants applicable under the current terms of the RCF with the amended financial covenants contemplated by the refinancing; and commit the Consenting Lenders to the proposed refinancing if the scheme of arrangement is approved. The deferral of instalment payments and replacement of financial covenants are binding regardless of the outcome of the application for a scheme of arrangement. At the end of February 2017, we reached a term-sheet agreement with 94% of our lenders under the RCF, the ODF lenders approved, but subject to a successful above $60 million equity issue.

On February 28, 2017, we completed a private placement under which we issued 84,000,000 common shares of par value $0.01 each, at a subscription price of NOK 10.00, raising NOK 840 million or approximately $100 million. Following the issuance Archer's issued share capital is increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. This initial issue was followed up by a subsequent offering, as a result of which a further 4,925,171 ordinary $0.01 shares, have been allotted at an issue price of NOK 10, or approximately $1.17, each.

The terms of agreement also provided that the following shall be agreed with Seadrill regarding the subordinated loan;

- The total subordinated loan of $125 million plus accrued interest will be converted to a convertible loan of principal value $45 million.
- Seadrill guarantees are to be released in exchange for a cash payment of 10% of the principal amount guaranteed.

On April 26, 2017 the Company announced that it had entered into agreements with Seadrill to convert approximately $ 146 million of principal and accrued interest under subordinated loan agreements and accrued guarantee fees, into a new $ 45 million subordinated convertible loan maturing in December 2021 and that a total of $ 253 million of guarantees provided by Seadrill for Archer's banks has been released for which Seadrill has agreed to pay a fee amounting to 10% of the face value of the released guarantees. Archer has agreed with its banks to apply that payment to reduce its bank debt by approximately $ 25 million.

Appendix A – Corporate Governance

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

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

Section 1

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

- Safety: We are committed individually and as a team, to protect the health and safety of its employees, customers and communities.
- Integrity: We are committed to maintaining an environment of trust, built upon honesty, ethical behaviour, respect and candour.
- Performance: We are committed to efficiently and effectively perform to all Archer standards and those of our customers.

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

The Board has reviewed the overall performance of the Company compared to its values and its corporate governance for the financial year 2016 in line with the Norwegian Code of Practice for Corporate Governance and confirms it is in compliance with the code, except for deviations which are highlighted in the detailed description of the main provisions of the code below:

Section 2

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

Section 3

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

Section 4

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

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

Section 5

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

Section 6

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

Section 7

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

Section 8

The Chairman of our six-member Board has been elected by the Board and not by the shareholders as recommended in the Code. This is in compliance with normal procedures under Bermuda law. We are not fully in compliance with section 8 of the Code with respect to independence of board members. The Code recommends that the board should not include executive personnel and the majority of the shareholder-elected board members should be independent of the company's executive personnel and material business contacts. The Code also recommends that at least two of the members of the board should be independent of the company's main shareholders. Dag Skindlo, a director of the Company, also holds the position as CFO and Executive Vice President Strategy in the Company. One of the Company's six directors, Giovanni Dell' Orto, is independent of the Company's two largest shareholders, Lime Rock Partners L.P ("**Lime Rock Partners**") and Seadrill Limited ("**Seadrill**"). Two of the Company's directors, Ørjan Svanevik and Kate Blankenship, may be deemed affiliated, under the Norwegian Code of Practice, with the Company's largest shareholder, Seadrill. One of the Company's directors, John Reynolds, is affiliated with our second largest shareholder, Lime Rock Partners. We accordingly deviate from section 8 of the Code.

Section 9

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

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

Section 10

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

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

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

We comply with the Code related to this section.

Section 11

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

Section 12

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

Section 13

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

Section 14

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

Section 15

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

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

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

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

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

We comply with the Code related to this section.

Norwegian Accounting Act Section 3-3 b

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

Risk Oversight

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

Internal control

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

Audit committee

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

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

Compensation committee

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

Health, Safety and Environment Committee

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

Communications with the Board of Directors

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

Communication from the Company

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

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

Related party transaction approval policy

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

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

Archer Limited and subsidiaries

Appendix B – List of significant subsidiaries

Name	Country of Incorporation	Holding	Field of Activity
Archer (UK) Limited Abu Dhabi (Branch)	Abu Dhabi	100%	Drilling and well service operations
DLS-Archer Ltd. S.A.	Argentina	100%	Land drilling operations
DLS Argentina Ltd. Argentina (Branch)	Argentina	100%	Land drilling operations
DLA Argentina Fluidos S.A.	Argentina	100%	Provides fluids services
Archer Well Company (Australia) Pty Ltd	Australia	100%	Well service operations
Archer Well Company International Azerbaijan (Branch)	Azerbaijan	100%	Oiltools services
Archer Emerald (Bermuda) Limited	Bermuda	100%	Owns and operates modular rig
Archer Topaz Limited	Bermuda	100%	Owns and operates modular rig
Archer DLS Corporation Bolivia (Branch)	Bolivia	100%	Land drilling operations
Archer do Brazil Servicos de Petroleo Ltda	Brazil	100%	Guarantor company
BCH Energy do Brasil Servicos de Petroleo Ltda	Brazil	100%	Drilling service operations
Archer DLS Corporation	BVI	100%	Holding company
DLS Argentina Limited	BVI	100%	Land drilling operations
Archer BCH (Canada) Ltd	Canada	100%	Oiltools services and land rigs owner
Archer Oil Tools AS Congo (Branch)	Congo	100%	Oiltools services
Archer Offshore Denmark AS	Denmark	100%	Well service operations
Archer (UK) Limited Dubai (Branch)	Dubai	100%	Drilling and well service operations
Archer (UK) Limited France (Branch)	France	100%	Oiltools services
Archer Services Limited	Hong Kong	100%	Provides international personnel services
PT Archer	Indonesia	95%	Well service operations
Archer Well Company (M) SDN BHD	Malaysia	100%	Well service operations
Archer AS	Norway	100%	Drilling and well service operations
Archer Consulting AS	Norway	100%	Provides engineering and crew services
Archer Norge AS	Norway	100%	Drilling and well service management
Archer Oil Tools AS	Norway	100%	Oiltools services
Bergen Technology Center AS	Norway	100%	Research and development
C6 Technologies AS	Norway	50%	Research and development
Rawabi Archer Company	Saudi Arabia	50%	Oiltools services
TAQA Archer Services LLC	Saudi Arabia	51%	Provides Wireline Services
Archer Well Company (Singapore) Pte Ltd	Singapore	100%	Well service operations
Archer (UK) Limited Jebel Ali Free Zone (Branch)	UAE	100%	Well service operations
Archer (UK) Limited	UK	100%	Drilling and well service operations
Archer Assets UK Limited	UK	100%	Holding company
Archer Consulting Resources Limited	UK	100%	Drilling service operations
Archer Management Limited	UK	100%	Provides management services
Survey and Inspection Limited	UK	100%	Performs rig inspections
Archer Well Company International Ltd	UK	100%	Well service operations
Limay Drilling Rigs Ltd	UK	100%	Land rig owning company
Archer Drilling LLC	USA	100%	Platform drilling and engineering

Appendix B – List of significant subsidiaries

Archer Holdco LLC	USA	100%	Holding Company
Archer Oiltools LLC	USA	100%	Oiltools services
Archer Survey and Inspection LLC	USA	100%	Performs rig inspections
Archer Well Company Inc.	USA	100%	Holding and management company
AWC Frac Valves Inc.	USA	100%	Sells and services frac valves
Quintana Energy Services GP LLC	USA	50%	Management Services
Quintana Energy Services LP	USA	42%*	Drilling and well service operations

* see note 11 for explanation of QES holding

Independent auditors' report to the members of Archer Limited

Report on the company financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and
- have been prepared in accordance with the requirements of the Companies Act 1981 (Bermuda).

What we have audited

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

- the Balance sheet as at 31 December 2016;
- the Statement of operations and the Statement of comprehensive loss for the year ended 31 December 2016 and the Statement of Accumulated other comprehensive loss as at 31 December 2016;
- the Statement of cash flows for the year ended 31 December 2016;
- the Statement of changes in shareholders' equity for the year ended 31 December 2016; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Other matters

We have reported separately on the consolidated financial statements of Archer Limited for the year ended 31 December 2016.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Uxbridge, United Kingdom
28 April 2017

(a) The maintenance and integrity of the company's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(a) Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Appendix C – Supplemental parent company only information

Archer Limited

Statement of operations

($ in millions, except share and per share data)	**YEAR ENDED DECEMBER 31**	
	2016	**2015**
Revenues		
Operating revenues	2.1	-
Total revenues	**2.1**	**-**
Expenses		
General and administrative expenses	2.8	3.1
Total expenses	**2.8**	**3.1**
Operating (loss) / income	**(0.7)**	**(3.1)**
Financial items		
Interest expenses	(8.1)	(5.8)
Interest/dividends from subsidiaries	18.1	28.3
Share of loss from subsidiaries	(176.7)	(325.6)
Other financial items	1.5	(53.1)
Total financial items	**(165.2)**	**(356.2)**
Loss before income taxes	**(165.9)**	**(359.3)**
Income taxes	-	-
Net loss	**(165.9)**	**(359.3)**
Basic loss per share ($)	**(2.86)**	**(6.20)**
Diluted loss per share ($)	**(2.86)**	**(6.20)**
Weighted average number of shares outstanding (in millions)		
Basic	58.2	57.9
Diluted	58.2	57.9

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

Appendix C – Supplemental parent company only information

Archer Limited

Statement of comprehensive loss

	YEAR ENDED DECEMBER 31	
($ in millions)	**2016**	**2015**
Net loss	**(165.9)**	**(359.3)**
Other comprehensive income / (loss)		
Reversal of unrealised loss on termination of pension plan	23.1	2.8
Foreign currency translation differences	(25.3)	8.8
Other comprehensive (loss) / income, net	**(2.2)**	**11.6**
Total comprehensive loss	**(168.1)**	**(347.7)**

Statement of accumulated other comprehensive loss

($ in millions)	**SUBSIDIARY PENSION PLANS-UNRECOGNISED (LOSS)/GAIN**	**CHANGE IN UNREALISED FOREIGN EXCHANGE DIFFERENCES**	**TOTAL**
Balance at December 31, 2014	**(25.9)**	**8.8**	**(17.1)**
Foreign currency translation differences	-	8.8	8.8
Net changes in gains and losses and prior service costs	2.8	-	2.8
Balance at December 31, 2015	**(23.1)**	**17.6**	**(5.5)**
Foreign currency translation differences	-	(25.3)	(25.3)
Net changes in gains and losses and prior service costs	23.1	-	23.1
Balance at December 31, 2016	**-**	**(7.7)**	**(7.7)**

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

Appendix C – Supplemental parent company only information

Archer Limited

Balance Sheet

($ in millions)	DECEMBER 31	
	2016	**2015**
ASSETS **Current assets**		
Cash and cash equivalents	2.6	-
Amounts due from subsidiaries	116.9	101.9
Total current assets	**119.5**	**101.9**
Noncurrent assets		
Amounts due from subsidiaries, long term	361.0	357.6
Total noncurrent assets	**361.0**	**357.6**
Total assets	**480.5**	**459.5**
LIABILITIES AND SHAREHOLDERS' EQUITY **Current liabilities**		
Other current liabilities	19.3	13.0
Total current liabilities	**19.3**	**13.0**
Noncurrent liabilities		
Accumulated losses of unconsolidated subsidiaries in excess of investment	378.2	199.2
Long-term loans from subsidiaries	3.4	-
Related party subordinated loan	50.0	50.0
Total noncurrent liabilities	**431.6**	**249.2**
Shareholders' equity		
Common shares of par value $0.01 per share: 1.0 billion shares authorised: 58,164,966 outstanding shares at December 31, 2016 (December 31, 2015: 57,915,716 shares of $0.01 par value)	0.6	0.6
Additional paid in capital	823.7	823.3
Accumulated deficit	(1,527.1)	(1,361.2)
Accumulated other comprehensive loss	(7.7)	(5.5)
Contributed surplus	740.1	740.1
Total shareholders' equity	**29.6**	**197.3**
Total liabilities and shareholders' equity	**480.5**	**459.5**

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

Appendix C – Supplemental parent company only information

Archer Limited

Statement of Cash Flows

($ in millions)	YEAR ENDED DECEMBER 31	
	2016	**2015**
Cash Flows from Operating Activities		
Net loss	**(165.9)**	**(359.3)**
Adjustment to reconcile net loss to net cash used in operating activities:		
Share of loss of subsidiaries	180.3	325.6
Interest income applied to loan balances	(17.6)	(18.3)
Foreign currency (gain) / losses	(0.9)	49.7
Changes in operating assets and liabilities, net of acquisitions		
Increase in amounts owed by subsidiaries	(6.3)	(32.7)
Change in other operating assets and liabilities, net	(0.4)	6.0
Net cash used in operating activities	**(10.8)**	**(29.0)**
Cash Flows from Investing Activities		
Net cash repaid by / (invested in) subsidiaries	10.0	29.0
Net cash used in investing activities	**10.0**	**29.0**
Cash Flows from Financing Activities		
Proceeds from loans from subsidiary	3.4	-
Net cash provided by financing activities	**3.4**	**-**
Net increase in cash and cash equivalents	**2.6**	**-**
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at the end of the year	**2.6**	**-**
Interest paid	-	1.9

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

Appendix C – Supplemental parent company only information
Archer Limited

Statement of Changes in Shareholders' Equity

($ in millions)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	(ACCUMULATED DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	CONTRIBUTED (DEFICIT)/ SURPLUS	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2014	**579.2**	**821.1**	**(1,001.9)**	**(17.1)**	**161.5**	**542.8**
Foreign currency translation differences	-	-	-	8.8	-	8.8
Pension – unrecognised gain	-	-	-	2.8	-	2.8
Adjustment to nominal value of shares	(578.6)	-	-	-	578.36	-
Cost of shares purchased for RSUs	-	(0.5)	-	-	-	(0.5)
Share based compensation	-	2.7	-	-	-	2.7
Net loss	-	-	(359.3)	-	-	(359.3)
Balance at December 31, 2015	**0.6**	**823.3**	**(1,361.2)**	**(5.5)**	**740.1**	**197.3**
Foreign currency translation differences	-	-	-	(25.3)	-	(25.3)
Change in pension liability	-	-	-	23.1	-	23.1
Share based compensation	-	0.4	-	-	-	0.4
Net loss	-	-	(165.9)	-	-	(165.9)
Balance at December 31, 2016	**0.6**	**823.7**	**(1,527.1)**	**(7.7)**	**740.1**	**29.6**

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

Appendix C

Notes to supplemental parent Company only information
Archer Limited

Note 1 — General Information

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

We were incorporated on August 31, 2007.

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

Basis of presentation

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

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

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

Going concern

The consolidated financial statements have been prepared on the basis of the Company as a going concern.

On April 26, 2017 the Company has agreed in principle to amend its $625.0 million revolving credit facility (the "**RCF**") with lenders representing 94% of the exposure (the "**Consenting Lenders**"). However, the current terms of the RCF require the consent of all the lenders to effect the amendments. Currently, one lender, representing 6% of the exposure, is withholding its consent. The Company intends to file an application with the Court in Bermuda for a scheme of arrangement under which the proposed amendments are capable of being effected with the consent of lenders representing 75% of the exposure under the RCF. There can be no assurance that the Court will approve the application for a scheme of arrangement. The Consenting Lenders have signed legally binding "lock-up” agreements which, among other matters defer two instalment payments due in May 2017 and August 2017, amounting to $47 million until September 30, 2017; replace the financial covenants applicable under the current terms of the RCF with the amended financial covenants contemplated by the refinancing; and commit the Consenting Lenders to the proposed refinancing if the scheme of arrangement is approved. The deferral of instalment payments and replacement of financial covenants are binding regardless of the outcome of the application for a scheme of arrangement.

On the February 28, 2017 the Company raised $100 million through a private placement of its shares; together with the deferral of the instalment payments and replacement of financial covenants, and expected cash from operations, the Company believes that it has sufficient liquidity to fund its liabilities for a period not less than twelve months from the date of the accompanying financial statements.

On April 26, 2017 the Company announced that it had entered into agreements with Seadrill Limited to convert approximately $ 146 million of principal and accrued interest under subordinated loan agreements and accrued guarantee fees, into a new $ 45 million subordinated convertible loan maturing in December 2021 and that a total of $ 253 million of guarantees provided by Seadrill Limited for Archer’s banks has been released for which Seadrill Limited has agreed to pay a fee amounting to 10% of the face value of the released guarantees. Archer has agreed with its banks to apply that payment to reduce its bank debt by approximately $ 25 million.

Seadrill is in the process of a comprehensive restructuring plan that will likely involve schemes of arrangement in the United Kingdom or Bermuda or proceedings under Chapter 11 of Title 11 of the United States Code, and it is preparing accordingly. There could be residual risk that these transactions are challenged in the court proceedings. If the termination payments from Seadrill are subject to claw-back and/or the claims forgiven to Archer are reinstated, there is a risk that this will cause Archer’s liabilities to increase equivalently.

Note 2 — Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty. Actual results could differ from those estimates.

Foreign currencies
As of December 31, 2016, most of our subsidiaries have a functional currency in USD. For subsidiaries that have functional currencies other than USD, we use the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year-end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

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

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

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

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

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

If our share in results of our equity investments exceeds their carrying value then we either reduce the carrying value of our other investment in those entities, in the form of loans receivable from subsidiaries or disclose as a separate line in the balance sheet, within liabilities, under the heading Accumulated losses of unconsolidated subsidiaries in excess of investment.

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

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

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

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

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

Related party transactions

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

Recently issued accounting pronouncements

The 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, 2017. Archer is in the process of considering the impact of the standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The update eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and early adoption is permitted. Archer does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The update requires excess tax benefits and tax deficiencies to be recorded on the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity on the statement of cash flows. The standard also allows withholding up to the maximum statutory amount for taxes on employee share-based compensation, clarifies that all cash payments made on an employee’s behalf for withheld shares should be presented as a financing activity on the statement of cash flows and provides an accounting policy election to account for forfeitures as they occur. The new standard is effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. Archer does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance will be effective January 1, 2020, with early adoption permitted. Entities are required to apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of cash flows (Topic 230): Classification of certain cash receipts and cash payments*. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. Archer is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, *Income taxes (Topic 740): Intra-entity transfers of assets other than inventory*, which prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-17, *Consolidation (Topic 810): Interests held through related parties that are under common control*, which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Archer does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of cash flows (230): Restricted cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As such, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Archer does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01 *Business combinations (805)*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this Update provide an initial test to determine if an integrated set of assets and activities, or a set, is not a business. If the set does not meet the requirements of this initial test, the guidance (i) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (ii) removes the evaluation of whether a market participant could replace the missing elements. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in certain cases. Archer does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

Notes to supplemental parent Company only information Archer Limited

Note 3 — Earnings Per share, or EPS

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

	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	LOSS PER SHARE (IN $)
2016			
Loss per share	(165.9)	58,121,381	(2.86)
Effect of dilutive options*	—	—	—
Diluted	(165.9)	58,121,381	(2.86)

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

**Loss per share not adjusted for dilutive in the money share options or unvested RSUs. Share-based compensation of approximately 110,294 and 729,314 shares were excluded from the computation of diluted earnings per share for the years ended December 31, 2016 and 2015, respectively, as the effect would have been anti-dilutive due to the net loss for the period.*

Note 4 — Amounts due from subsidiaries

Balances reported under Amounts due from subsidiaries comprise the following:

($ in millions)	DECEMBER 31	
	2016	**2015**
Due from Archer Norge, as holder of the cash pool arrangement	113.8	99.2
Due from Archer Management (UK) Ltd. for corporate costs re-charged	3.1	2.7
Total amounts due from subsidiaries	116.9	101.9

Notes to supplemental parent Company only information
Archer Limited

Note 5 — Investments In Subsidiaries

We had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2016	**2015**
Archer Management Limited	100%	100%
Archer Management (Bermuda) Ltd.	100%	100%
Archer Overseas Contracting Limited	100%	100%
Archer Services Limited	100%	100%
Archer Assets UK Limited	100%	100%
Archer Well Company (Singapore) Pte. Ltd.	100%	100%
Archer Emerald (Bermuda) Limited	100%	100%
Archer Topaz Limited	100%	100%

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

($ in millions)	DECEMBER 31	
	2016	**2015**
Archer Norge AS	281.9	287.0
Archer Emerald (Bermuda) Limited	61.9	51.0
Archer Topaz Limited	17.2	19.6
Total amounts due from subsidiaries	361.0	**357.6**

Note 6 — Related Party Subordinated Loan

On October 24, 2014, we signed a subordinated loan agreement with Metrogas Holdings Inc., a related party, for a loan of up to $50.0 million. The loan was drawn in full as at December 31, 2015 and is repayable in full at the maturity date. Interest is 7.5% per year, and being accrued in Other current liabilities. The loan matures on June 30, 2018.

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

Note 7 — Other Current Liabilities

Our other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2016	**2016**
Accounts payable	-	0.1
Short term fair value of financial instruments	0.4	0.7
Accrued expenses	18.9	12.2
Total other current liabilities	**19.3**	**13.0**

Notes to supplemental parent Company only information
Archer Limited

Note 8 — Commitments and Contingencies

Guarantees

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

	DECEMBER 31	
($ in millions)	**2016**	**2015**
Guarantees to customers of the Company's own performance	23.5	23.2
Guarantee in favour of banks	9.3	11.2
	32.8	**34.4**

Note 9 Legal Proceedings

From time to time, we are involved in litigations, disputes and other legal proceedings arising in the normal course of their business.

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

Note 10 — Share Capital

	2016		2015	
	All shares are common shares of $0.01 par value each		*All shares are common shares of $0.01 par value each*	
	SHARES	**$ MILLION**	**SHARES**	**$ MILLION**
Authorized share capital	1,000,000,000	10.0	1,000,000,000	10.0
Issued, outstanding and fully paid share capital	58,164,966	0.6	57,915,716	0.6

Archer shares are traded on the Oslo Børs under the symbol "ARCHER.OL."

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

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

On February 28, 2017, we completed a private placement under which we issued 84,000,000 common shares of par value $0.01 each, at a subscription price of NOK 10.00, raising NOK 840 million or approximately $100 million. Following the issuance Archer's issued share capital is increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. This initial issue was followed up by a subsequent offering, as a result of which a further 6,025,552 ordinary $0.01 shares, have been allotted at an issue price of NOK 10, or approximately $1.17, each.

Notes to supplemental parent Company only information
Archer Limited

Note 11 — Share Option Plans

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

As of December 31, 2016, Archer has two active option programs, in addition to two programs which were acquired and have been continued following the merger with Allis-Chalmers in 2011. In September 2015, a 10 to 1 reverse split of Archer Limited listed shares took place. The exercise prices of the options granted have been adjusted accordingly in the below notes.

Accounting for share-based compensation

The fair value of the share options granted is recognised as personnel expenses. During 2016, $0.4 million has been expensed in our Statement of Operations ($2.7 million in 2015).

The following summarises share option transactions related to the Archer programs in 2016 and 2015:

	2016		2015	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE - NOK
Outstanding at beginning of year	**1,790,510**	88.66	21,678,857	9.57
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/expired	(1,079,677)	79.01	(2,368,877)	22.08
Modifications related to reverse split	10,800	182.83	(17,519,470)	95.76
Outstanding at end of year	**721,633**	**98.65**	**1,790,510**	**88.66**
Exercisable at end of year	545,366	106.78	871,776	107.37

No income was received in 2016 as a result of share options being exercised (2015: nil).

Options issued under the Allis-Chalmers 2003 Program may be exercised up to March 5, 2019. The exercise price is between NOK 60.30 and NOK 722.60. At December 31, 2016, all 14,146 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program may be exercised up to April 21, 2020. The exercise price is between NOK 184.80 and NOK 192.20. At December 31, 2016, all 115,286 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

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

Options issued under the 2011, 2012 and 2013 Program may be exercised up to December 31, 2018. The exercise price is between NOK 37.90 and NOK 200.00 per share, and may be exercised one fifth each year beginning twelve months after they were granted. At December 31, 2016, a total of 92 200 options were outstanding under the 2011, 2012 and 2013 Program and 82 600 of these were exercisable.

Options issued under the 2014 Program may be exercised up to March 1, 2020. The exercise price is between NOK 28.72 and NOK 71.80 per share, and may be exercised one third each year beginning twelve months after they were granted. At December 31, 2016, a total of 500 001 options were outstanding under the 2015 Program and 333 334 of these were exercisable.

No options were granted during 2016 or 2015.

As of December 31, 2016, total unrecognised compensation costs related to all unvested share-based awards totalled NOK 7,5 million, which is expected to be recognised as expenses in 2017, 2018 and 2019 by, NOK 5,6 million (or $0,7million), NOK 1,7 million (or $0.2 million) and NOK 0,2 million (or $24.000) , respectively.

The weighted average remaining contractual life of outstanding options is 33 months (2015: 36 months) and their weighted average fair value was NOK 2,65 per option (2015: NOK 3,38 per option).

Notes to supplemental parent Company only information
Archer Limited

We pay the employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.
When stock options are exercised we settle the obligation by issuing new shares.

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

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

In September 2016, the board granted new restricted stock units to members of its management team. On Sept 29, the total of 10,000 RSU`s were issued. The RSU`s are scheduled to vest 25% on March 1 2017 and 25% on March 1 for each of the subsequent three years.

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

The following table summarizes information about all restricted stock transactions:

	2016		2015	
	RSU's	**Weighted average grant date fair value NOK**	**RSU's**	**Weighted average grant date fair value NOK**
Unvested at beginning of year	**958,875**	4.18	**5,945,000**.	7.12
Granted	10,000	4.50	8,745,000	2.86
Released	(252,625)		(1,382,500)	
Forfeited	(640,625)		(906,250)	
Corrections due to reverse split of shares	484,875		(11,442,375)	
Correction 2015 OB	2,500			
Unvested at end of year	**563,000**	4.09	**958,875**	4.18

Note 12 — Related Party Transactions

We have transacted business with Seadrill Limited, or Seadrill and Metrogas Holdings Inc., or Metrogas, which are related parties.

Seadrill has provided guarantees totaling $284.2 million to the lenders of our multicurrency revolving facility, our Hermes covered term loan and to other third parties in respect of finance and performance obligations. Annual guarantee fees are charged, to our subsidiaries, at 1.25% of the guaranteed amount.

The subordinated loan provided by Metrogas is discussed in note 6 above.

Note 13 — Risk Management and Financial Instruments

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

Interest rate risk management
Our exposure to interest rate risk relates mainly to our variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. Our policy is to obtain the most favourable interest rate borrowings available without increasing our foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at

bank. Such deposits generally have short-term maturities, in order to provide us with flexibility to meet requirements for working capital and capital investments.

The extent to which we utilise interest rate swaps and other derivatives to manage our interest rate risk is determined by reference to our net debt exposure and our views regarding future interest rates. At December 31, 2016, we hold interest swap agreements which fix our variable interest payable $150 million of USD interest bearing loan, drawn by certain of our subsidiaries under our revolving credit facility. We have not elected to hedge account for our current interest rate swaps, accordingly any changes in the fair values of the swap agreements are reported within our income statement. The total fair value loss relating to interest rate swaps in 2016 amounted to $0.4 million (2015 $0.7 million).

Foreign currency risk management

We are exposed to foreign currency exchange movements in both transactions that are denominated in currency other than USD, and in translating subsidiaries who do not have a functional currency of USD, which is our reporting currency. Transaction losses are recognised in “Other financial items” in the period to which they relate. Translation differences are recognised as a component of equity. The total transaction gain relating to foreign exchange movements recognised in our Statement of Operations in 2016 amounted to $1.5 million compared to a (loss of $53.1) million in 2015.

Credit risk management

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

Fair values

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

	DECEMBER 31			
($ in millions)	2016		2015	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Cash and cash equivalents	2.6	2.6	-	-
Related party subordinated loan	(50.0)	(50.0)	(50.0)	(50.0)
Interest rate swap agreement	(0.4)	(0.4)	(0.7)	(0.7)

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

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
($ in millions)	DECEMBER 31 2016	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
Cash and cash equivalents	(2.6)	(2.6)	—	—
Liabilities:				
Subordinated related party loan	(50.0)		(50.0)	
Interest rate swap agreement – long-term liability	(0.4)		(0.4)	

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We have used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments as of December 31, 2016, and 2015. 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.

Notes to supplemental parent Company only information
Archer Limited

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

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at December 31, 2016.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Note 14 — Subsequent Events

Subsequent events have been incorporated to related notes where appropriate, and summarised below. Other subsequent events are disclosed in this note.

As at the date of filing its annual return, the Company has agreed in principle to amend its $625.0 million revolving credit facility, or RCF, with lenders representing 94% of the exposure (the "Consenting Lenders"). However, the current terms of the RCF require the consent of all the lenders to effect the amendments. Currently, one lender, representing 6% of the exposure, is withholding its consent. The Company intends to file an application with the Court in Bermuda for a scheme of arrangement under which the proposed amendments are capable of being effected with the consent of lenders representing 75% of the exposure under the RCF. There can be no assurance that the Court will approve the application for a scheme of arrangement. The Consenting Lenders have signed legally binding "lock-up" agreements which, among other matters, defer two instalment payments otherwise due in May 2017 and October 2017, amounting to $47 million until September 30, 2017; replace the financial covenants applicable under the current terms of the RCF with the amended financial covenants contemplated by the refinancing; and commit the Consenting Lenders to the proposed refinancing if the scheme of arrangement is approved. The deferral of instalment payments and replacement of financial covenants are binding regardless of the outcome of the application for a scheme of arrangement. At the end of February 2017, we reached a term-sheet agreement with 94% of our lenders under the RCF, the overdraft facility lenders approved, but subject to a successful above $60 million equity issue.

On February 28, 2017, we completed a private placement under which we issued 84,000,000 common shares of par value $0.01 each, at a subscription price of NOK 10.00, raising NOK 840 million or approximately $100 million. Following the issuance Archer's issued share capital is increased to $1,421,649.66 divided into 142,164,699 ordinary shares of $0.01 par value each. This initial issue was followed up by a subsequent offering, as a result of which a further 4,925,171 ordinary $0.01 shares, have been allotted at an issue price of NOK 10, or approximately $1.17, each.

The terms of agreement also provided that the following shall be agreed with Seadrill regarding the subordinated loan;

- The total subordinated loan of $125 million plus accrued interest will be converted to a convertible loan of principal value $45 million.
- Seadrill guarantees are to be released in exchange for a cash payment of 10% of the principal amount guaranteed.

On April 26, 2017 the Company announced that it had entered into agreements with Seadrill to convert approximately $ 146 million of principal and accrued interest under subordinated loan agreements and accrued guarantee fees, into a new $ 45 million subordinated convertible loan maturing in December 2021 and that a total of $ 253 million of guarantees provided by Seadrill for Archer's banks has been released for which Seadrill has agreed to pay a fee amounting to 10% of the face value of the released guarantees. Archer has agreed with its banks to apply that payment to reduce its bank debt by approximately $ 25 million.