ARCHER LIMITED

INDEX TO UNAUDITED FOURTH QUARTER FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended December 31 2018	Three Months Ended December 31 2017	Year Ended December 31 2018	Year Ended December 31 2017
Revenues					
Operating revenues		$ 212.7	$ 204.0	$ 811.2	$ 789.7
Reimbursable revenues		20.5	19.7	78.4	57.1
Total revenues		233.2	223.7	889.6	846.8
Expenses					
Operating expenses		177.1	180.1	707.4	699.0
Reimbursable expenses		19.4	18.2	74.1	52.9
Depreciation and amortization		12.6	15.6	55.7	63.7
Impairment charges		1.1	3.2	1.1	3.2
Loss/(Gain) on sale of assets		(0.1)	(0.6)	-	(0.7)
General and administrative expenses		12.4	10.7	35.8	39.4
Total expenses		222.5	227.2	874.1	857.5
Operating income / (loss)		10.7	(3.5)	15.5	(10.7)
Financial items					
Interest income		0.6	1.0	3.7	3.0
Interest expenses		(10.6)	(9.9)	(41.9)	(46.0)
Share of losses of unconsolidated affiliates		(9.4)	0.2	(12.9)	(14.9)
Gain on sale of Frac Valve business	2	(0.1)	-	8.8	-
Other financial items	2	(14.0)	(11.1)	(14.3)	121.7
Total financial items		(33.5)	(19.8)	(56.6)	63.8
(Loss)/income from continuing operations before income taxes		(22.8)	(23.3)	(41.1)	53.1
Income tax (expense)/benefit	3	(7.6)	0.6	14.6	10.2
Income/(loss) from continuing operations		(30.4)	(22.7)	(26.5)	63.3
Loss from discontinued operations, net of tax		-	-	-	(2.2)
Net (loss)/income		$ (30.4)	$ (22.7)	$ (26.5)	$ 61.1
(Loss)/income per share-basic					
(Loss)/income from continuing operations		$ (0.21)	$ (0.15)	$ (0.18)	$ 0.48
Loss from discontinued operations		-	-	-	(0.02)
(Loss)/income per share		$ (0.21)	$ (0.15)	$ (0.18)	$ 0.46
(Loss)/income per share-diluted					
(Loss)/income from continuing operations		$ (0.21)	$ (0.15)	$ (0.18)	$ 0.48
Loss from discontinued operations		-	-	-	(0.02)
(Loss)/income per share		$ (0.21)	$ (0.15)	$ (0.18)	$ 0.46
Weighted average number of shares outstanding					
Basic	4	147.5	147.3	147.4	131.4
Diluted	4	147.6	147.5	147.7	131.5

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

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

(In millions)	Three Months Ended December 31		Year Ended December 31	
	2018	2017	2018	2017
Net (loss)/income	$(30.4)	$ (22.7)	$ (26.5)	$ 61.1
Other comprehensive income /(loss)				
Currency translation differences	1.2	1.4	(1.6)	7.2
Change in pension liability	0.7	(0.7)	0.7	(0.7)
Other comprehensive income	1.9	0.7	(0.9)	6.5
Total comprehensive loss	$(28.5)	$ (22.0)	$ (27.4)	$ 67.6

Accumulated Other Comprehensive Loss
(Unaudited)

(In millions)	**Foreign currency translation differences**	**Pension – unrealised gain /(loss)**	**Total**
Balance at December 31, 2017	**$ (0.5)**	**$ (0.7)**	**$ (1.2)**
Foreign currency translation differences arising during 2018	(1.6)	0.7	(0.9)
Balance at December 31, 2018	**$ (2.1)**	**$ -**	**$ (2.1)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	December 31 2018 (Unaudited)	December 31 2017 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 20.2	$ 59.0
Restricted cash		11.3	8.7
Accounts receivables		137.0	140.4
Inventories	5	51.9	58.0
Other current assets		23.5	35.9
Total current assets		**243.8**	**302.0**
Noncurrent assets			
Investments in associates	6	83.6	82.6
Loans to associates	6	9.5	17.6
Property plant and equipment, net		392.5	432.2
Deferred income tax asset		26.9	21.2
Goodwill	7	172.6	181.9
Other intangible assets, net		1.1	2.0
Deferred charges and other assets		7.1	3.4
Total noncurrent assets		**693.3**	**740.9**
Total assets		**$ 937.1**	**$ 1,042.9**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	8	$ 4.7	$ 7.2
Accounts payable		45.5	53.6
Other current liabilities		108.1	117.0
Total current liabilities		**158.3**	**177.8**
Noncurrent liabilities			
Long-term interest-bearing debt	8	543.0	596.7
Subordinated related party loan		58.3	58.3
Deferred taxes		2.8	7.3
Other noncurrent liabilities		1.0	2.4
Total noncurrent liabilities		**605.0**	**664.7**
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 147,462,012 outstanding shares at December 31, 2018 (December 31, 2017: 147,281,887)		1.5	1.5
Additional paid in capital		926.7	926.0
Accumulated deficit		(1,492.5)	(1,466.0)
Accumulated other comprehensive loss		(2.1)	(1.2)
Contributed surplus		740.1	740.1
Total shareholders' equity		**173.7**	**200.4**
Total liabilities and shareholders' equity		**$ 937.1**	$ **1,042.9**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Year Ended December 31	
	2018	2017
Cash Flows from Operating Activities		
Net operating (loss)/income	$ (26.5)	$ 61.1
Net loss from discontinued operations	-	2.2
Net (loss) / income from continuing operations	(26.5)	63.3
Adjustment to reconcile net (loss) / income to net cash provided by operating activities		
Depreciation and amortization	55.7	63.7
Impairments	1.1	3.2
Gain on debt restructure	-	(121.1)
Gain on QES IPO	(2.3)	-
Gain on sale of Frac Valve business	(8.8)	-
Share-based compensation expenses	0.7	0.5
Loss/(gain) on property, plant and equipment disposals	0.2	(0.7)
Share of losses of unconsolidated affiliates	12.9	14.9
Debt fees paid and expensed	-	7.4
Amortization of loan fees	1.1	2.3
Deferred income taxes	(16.9)	(13.1)
Foreign currency loss/(gain)	18.6	(8.9)
Changes in operating assets and liabilities		
Decrease/(increase) in accounts receivable and other current assets	10.7	9.5
(Increase)/decrease in inventories	(2.0)	2.5
Decrease in accounts payable and other current liabilities	(7.6)	(7.9)
Net cash (used in) / provided by discontinued operations	-	(2.2)
	36.9	13.4
Cash Flows from Investing Activities		
Capital expenditures	(24.5)	(12.5)
Proceeds from disposal of property, plant and equipment	1.2	2.3
Proceeds from disposal of subsidiary and liquidation of equity investment	33.2	-
Loans to / investment in associates	(11.6)	(8.8)
Net change in restricted cash	(3.3)	(0.8)
Net cash provided by/(used in) investing activities	(5.0)	(19.8)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	9.4	3.7
Repayments under revolving facilities	(63.6)	(36.2)
Proceeds from long-term debt	0.8	0.5
Repayment of long-term debt	(2.7)	(40.0)
Debt issuance costs	-	(7.4)
Net proceeds from private placement and subsequent offering	-	102.7
Net cash provided by financing activities	(56.1)	23.3
Effect of exchange rate changes on cash and cash equivalents	(14.6)	14.8
Net increase/(decrease) in cash and cash equivalents	(38.8)	31.7
Cash and cash equivalents at beginning of the period	59.0	27.3
Cash and cash equivalents at the end of the period	20.2	59.0
Interest paid	$ 40.9	$ 40.0
Taxes paid	$ 3.5	$ 3.8

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2017	**$ 1.5**	**$ 926.0**	**$ (1,466.0)**	**$ (1.2)**	**$ 740.1**	**$ 200.4**
Share based compensation	-	0.7	-	-	-	0.7
Translation differences	-	-	-	(1.6)	-	(1.6)
Change in pension liability				0.7		0.7
Net income	-	-	(26.5)	-	-	(26.5)
Balance at December 31, 2018	**$ 1.5**	**$ 926.7**	**$ (1,492.5)**	**$ (2.1)**	**$ 740.1**	**$ 173.7**

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

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

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

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

We employed approximately 5,000 skilled and experienced people at December 31, 2018.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

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

Use of estimates

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

Significant accounting policies

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

Goodwill

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

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

We aggregated components with similar economic characteristics.

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

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

Impairment of long-lived assets and intangible assets

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

Recently issued accounting pronouncements

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes substantially 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 conducted a study during 2018 to determine 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 concluded that have correctly continued recognizing revenue based on these actual daily rates. The adoption of the standard has not had any material impact on other income, primarily income earned from wireline and engineering projects.

In February 2017, the FASB issued ASU 2017-02, *Leases (Topic 842)*. The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

Note 2 – Other Financial Items

	Three Months Ended December 31		**Year Ended December 31**	
(In millions)	2018	**2017**	**2018**	**2017**
Foreign exchange (losses)/gains	$ (14.2)	$ (10.5)	$ (18.6)	$ 8.9
Gain on debt restructure	-	-	-	121.1
Other items	0.2	(0.6)	4.3	(8.3)
Total other financial items	$ (14.0)	$ (11.1)	$ (14.3)	$121.7

Other financial items represent predominantly foreign exchange gains and losses on an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the entity with Norwegian Kroner functional currency is classified as other comprehensive income.

Note 3 – Income Taxes

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

	Three Months Ended December 31		**Year Ended December 31**	
(In millions)	**2018**	**2017**	**2018**	**2017**
North America	$ 1.3	$ -	$ 1.3	$ 0.1
South America	4.0	4.1	(7.0)	(6.2)
Europe	3.1	5.3	(9.7)	(4.9)
Others	(0.8)	(9.9)	0.8	0.8
Total	**$ 7.6**	**$ (0.6)**	**$(14.6)**	**$ (10.2)**

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

The Group's net tax position for the fourth quarter of 2018 is a tax expense of $7.6 million.

The net tax expense in South America amounted to $4.0 million in the fourth quarter and relates to expense of deferred tax related to DLS Fluids of $2.4 million and in addition the net reported gain for the Argentina operations mainly from the foreign exchange movement in fourth quarter.

The net tax expense in Europe amounted to $3.1 million in fourth quarter which primarily consists of a tax expense of $0.6 million in Norway related to net gain from operations during fourth quarter, and an adjustment to deferred tax assets in the UK resulting from the limitation of tax deductible interest expense.

The net tax expense in North America of $1.3 million in the fourth quarter relates to withholding tax paid in Canada of $0.7 million and expensed deferred tax of $0.6 million.

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

As at 31 December 2018 we have total deferred tax assets of $26.9 million which includes of $11.8 million of tax assets in Norway, $9.3 million tax assets in Argentina and $5.9 million tax assets in UK.

Deferred tax liabilities at 31 December 2018 were total $2.8 million.

Note 4 – Earnings Per Share

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

	Three Months Ended December 31		**Year Ended December 31**	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Denominator				
Weighted-average common shares outstanding	147,462	147,282	147,429	131,416
Effect of potentially dilutive common shares due to share-based compensation schemes	172	179	270	261
Weighted-average common shares outstanding and assumed conversions	147,634	147,461	147,699	131,677

Note 5 – Inventories

(In millions)	**December 31 2018**	**December 31 2017**
Manufactured		
Raw Materials	$ 3.4	$ -
Finished goods	4.9	16.5
Work in progress	0.6	1.8
Total manufactured	8.9	18.3
Drilling supplies	15.2	14.2
Chemicals	2.1	3.5
Other items and spares	25.7	22.0
Total inventories	**$ 51.9**	**$ 58.0**

Note 6 — Investments in Associates

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

	December 31, 2018	December 31, 2017
C6 Technologies AS	50.00%	50.00%
Rawabi Archer Company	50.00%	50.00%
Quintana Energy Services LLP	28.20%	42.00%
TAQA Archer Services LLC	-	51.00%

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

(In millions)	December 31, 2018	December 31, 2017
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	83.6	74.3
TAQA Archer Services LLC	-	8.3

The components of investments in associates are as follows:

	QES	C6	Rawabi	TAQA
Carrying value of investment at December 31, 2017	74.3	-	-	8.3
Additional capital investment	10.0	(0.8)	-	-
Share in results of associates	(5.2)	0.8	-	-
Impairment of investment	(8.5)	-	-	
Conversion of loan to shares	10.7	-	-	-
Adjustment to carrying value to reflect IPO	2.3	-	-	-
Final cash distribution on liquidation	-	-	-	(5.4)
Allocation of investment to settle trading balances				(2.7)
Write off of remaining balance after liquidation	-	-	-	(0.2)
Carrying value of investment at December 31, 2018	83.6	-	-	-
Carrying value of Loan balance at December 31, 2018	-	9.5	-	-

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

Since completing an IPO of its shares in February 2018, QES shares are quoted on the New York Stock exchange. Shares were values at $10 per share at the time of the IPO and have fallen since to a low of $3.46. The continued fall in the share price lead us to consider whether the carrying value of our investment was impaired as at December 31, 2018. We do not believe the total fall in in the share price is a permanent loss in value. We were guided by professional analysts' estimates of future value, which resulted in our recognising an impairment charge relating to the reduction which we believe is other than temporary, reducing our carrying value of QES shares to an amount equivalent to $8.8 per share. At the time of filing the share price has recovered to $4.98 per share.

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

In addition to our capital investment in C6, we have made additional investment by way of a loan which, at December 31, 2018, has a carrying value of $9.5 million (2017 $6.6 million) and is repayable in 2021 when we expect the developed technology to be generating earnings. We have applied our share of the expenses incurred by C6 as a reduction on the value of our loan due from the entity.

During the fourth quarter of 2018, the joint venture TAQA Archer Services LLC was dissolved and Archer received our share of the surplus cash in the joint venture.

Note 7 – Goodwill

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

(In millions)	
Net book balance at December 31, 2017	**$ 181.9**
Currency adjustments	(9.3)
Net book balance at December 31, 2018	**$ 172.6**

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

Note 8 – Debt

(In millions)	December 31, 2018			December 31 2017		
	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs
Multicurrency term and revolving facilities	510.0	(1.6)	508.4	566.8	(2.5)	564.3
Related party subordinated convertible loan	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loan	24.5	(0.3)	24.2	25.5	(0.5)	25.0
Other loans and capital lease liability	15.1	-	15.1	14.6	-	14.6
Total loans and capital lease liability	**607.9**	**(1.9)**	**606.0**	**665.2**	**(3.0)**	**662.2**
Less: current portion	(5.8)	1.1	(4.7)	(8.3)	1.1	(7.2)
Long-term portion of interest bearing debt	**602.1**	**(0.8)**	**601.3**	**656.9**	**(1.9)**	**655.0**

Multicurrency term and revolving credit facilities

The total amount available under the Multicurrency term and revolving credit facilities (the “Facilities”) is $610.8 million, split between $372.9 million under a term loan and $238.0 million in a revolving facility. A total of $510.0 million was drawn at December 31, 2018 under the Facilities and $100.8 million remains available. The Facilities are secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

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

The Facilities contain certain financial covenants, including, among others:

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

The Facilities contain 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, 2018, the Company is in compliance with all covenants as agreed with its lenders under the Facilities.

Related party subordinated loan

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

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

Hermes-covered term loan

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The agreement was amended and restated on October 6, 2017. The loan matures September 2020, and contains covenants aligned to those of the Facilities. The interest rate applied to this loan is 1.45% above EURIBOR. At December 31, 2018 the equivalent of $24.5 million was outstanding under this facility.

Other loans and capital leases

We have two $11.7 million overdraft facilities and at December 31, 2018, net borrowing under these facilities amounted to $4.6 million.

At December 31, 2018 we have borrowed $5.7 million under a long term facility in Argentina, and we have borrowed a further $2.7 million under local short term facilities in Latin America.

We have finance arrangements relating to equipment in our Oiltools division and insurance premiums. At December 31, 2018, the balance due under these arrangements was $2.1 million.

Note 9 – Segment Information

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

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

- Eastern Hemisphere
- Western Hemisphere

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

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

(In millions)	Three Months Ended December 31		Year December 31	
	2018	2017	2018	2017
Revenues from external customers				
Eastern Hemisphere	$ 150.9	$ 119.4	$ 526.1	$ 445.6
Western Hemisphere	82.3	104.3	363.5	401.2
Total	$ 233.2	$ 223.7	$ 889.6	$ 846.8
Depreciation and amortization				
Eastern Hemisphere	$ 5.2	$ 7.1	$ 23.0	$ 28.6
Western Hemisphere	7.4	8.5	32.7	35.1
Total	$ 12.6	$ 15.6	$ 55.7	$ 63.7
Net operating (loss)/gain				
Eastern Hemisphere	$ 5.3	$ 0.2	$ 22.5	$ 12.1
Western Hemisphere	0.6	(7.4)	(6.2)	(21.6)
Corporate costs	5.2	3.9	(0.1)	(0.5)
Stock compensation costs	(0.3)	(0.2)	(0.7)	(0.5)
Operating income/(loss)	10.7	(3.5)	15.5	(10.7)
Total financial items	(33.5)	(19.8)	(56.6)	63.8
Income taxes	(7.6)	0.6	14.6	10.2
Discontinued operations, net of taxes	-	-	-	(2.2)
Net (loss)/gain	$ (30.4)	$ (22.7)	$ (26.5)	$ 61.1
Capital expenditures				
Eastern Hemisphere	$ 7.3	$ 3.0	$ 11.3	$ 4.3
Western Hemisphere	4.9	3.5	13.1	8.2
Total	**$ 12.2**	**$ 6.5**	**$ 24.5**	**$ 12.5**

(In millions) **Goodwill**	**Eastern Hemisphere**	**Western Hemisphere**	**Total**
Balance at December 31, 2017	**$ 181.9**	**$ -**	**$ 181.9**
Currency adjustments	(9.3)	-	(9.3)
Balance at December 31, 2018	**$ 172.6**	**$ -**	**$ 172.6**

(In millions)	**December 31 2018**	**December 31 2017**
Total assets		
Eastern Hemisphere	**$ 515.2**	**$ 522.0**
Western Hemisphere	**421.3**	**520.4**
Corporate	**0.6**	**0.5**
Total	**$ 937.1**	**$ 1,042.9**

Note 10 – Fair Value of Financial Instruments

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

(In millions)	December 31, 2018 Fair Value	December 31, 2018 Carrying Value	December 31, 2017 Fair Value	December 31, 2017 Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 20.2	$ 20.2	$ 59.0	$ 59.0
Restricted cash	11.3	11.3	8.7	8.7
Accounts receivable	137.0	137.0	140.4	140.4
Accounts payable	(45.5)	(45.5)	(53.6)	(53.6)
Current portion of long-term debt	(4.7)	(4.7)	(7.2)	(7.2)
Long-term, interest-bearing debt	(543.0)	(543.0)	(596.7)	(596.7)
Subordinated related party debt	(58.3)	(58.3)	(58.3)	(58.3)
Derivatives				
Interest rate swap agreements	(0.3)	(0.3)	(1.2)	(1.2)

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

(In millions)	December 31, 2018 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 20.2	$ 20.2	—	—
Restricted cash	11.3	11.3	—	—
Accounts receivable	137.0	—	137.0	—
Liabilities				
Accounts payable	(45.5)	—	(45.5)	—
Current portion of interest-bearing debt	(4.7)	—	(4.7)	—
Long-term, interest-bearing debt	(543.0)	—	(543.0)	—
Subordinated related party debt	(58.3)	—	(58.3)	—
Interest rate swap agreements	(0.3)	—	(0.3)	—

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

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

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

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

Note 11 – 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, 2018, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

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

Note 12 – Related Parties

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

<u>Transactions with Seadrill;</u>

During the year ended December 31, 2018, we supplied Seadrill Limited and affiliates with services amounting to $1.8 million, mainly relating to the provision of offshore equipment and rental of warehouse space to Seadrill by our Aberdeen facility. This amount has been included in operating revenue.

A NOK 33 million (equivalent to $4.0 million) performance guarantee is provided to Conoco Phillips by Seadrill on behalf of Archer AS. We were charged guarantee fees of $25 thousand during the year ended December 31, 2018.

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

In the year ended December 31, 2018 we have advanced $1.9 million as additional loan to C6, and applied $0.7 million interest to the loan balance. During 2018 we have supplied C6 with personnel and facility services amounting to $0.2 million.

<u>Transactions with other associated companies</u>
Our relationship with Rawabi is described in note 6 above. We have provided $0.2 million of parts and spare parts to Rawabi during the year. At December 31, 2018 we have a balance of $0.1 million owed to us by Rawabi.

<u>Transactions with other related parties</u>
The following are related parties, being companies in which Archer’s largest shareholder, Seadrill and/or Hemen Holding Ltd have a significant interest:

- Frontline Management (Bermuda) Limited, (“Frontline”)
- Seatankers Management Company Limited (“Seatankers”)
- North Atlantic Drilling Ltd, or (“NADL”)

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.4 million and $0.3 million for these services from these two companies respectively in the year ended December 31, 2018. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

During the year ended December 31, 2018, we supplied NADL with services amounting to $2.1 million, including reimbursable material. This amount has been included in operating revenues.

Note 13 – Subsequent Events
None.

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

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

ARCHER LIMITED
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2018	September 31 2018	June 30 2018	March 31 2018	December 31 2017	September 31 2017
Revenue	233.2	213.7	224.4	218.3	223.7	212.3
Cost and expenses						
Operational costs	(221.4)	(205.1)	(226.7)	(219.8)	(224.0)	(215.2)
Impairments	(1.1)	—	—	—	(3.2)	—
Net financial items	(33.5)	(7.3)	(19.8)	4.0	(19.8)	(6.1)
(Loss) / income from continuing operations before income taxes	**(22.8)**	**1.3**	**(22.1)**	**2.5**	**(23.3)**	**(9.0)**
Income tax (expense) / benefit	(7.6)	5.6	14.7	1.9	0.6	4.4
(Loss) / income from continuing operations	**(30.4)**	**6.9**	**(7.4)**	4.4	**(22.7)**	**(4.6)**
Loss from discontinued operations, net of tax	-	-	-	-	-	(2.2)
Net (loss) / income	**(30.4)**	**6.9**	**(7.4)**	**4.4**	**(22.7)**	**(6.8)**

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

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

	Three Months Ended					
(In millions)	December 31 2018	September 31 2018	June 30 2018	March 31 2018	December 31 2017	September 31 2017
Net income /(loss)	(30.4)	6.9	(7.4)	4.4	(22.7)	(6.8)
Depreciation, amortization and impairments	13.6	13.8	14.6	14.7	18.2	15.7
Net financial items	33.5	7.3	19.8	(4.0)	19.8	6.1
Taxes on income	7.6	(5.6)	(14.7)	(1.9)	(0.6)	(4.4)
Loss from discontinued operations, net of tax	-	-	-	-	-	2.2
EBITDA – Continuing operations	**24.3**	**22.4**	**12.3**	**13.2**	**14.7**	**12.8**
Restructuring and exceptional costs	2.5	3.3	5.6	4.9	1.8	5.0
EBITDA before restructuring costs	**26.9**	**25.7**	**18.0**	**18.1**	**16.5**	**17.8**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2018	September 31 2018	June 30 2018	March 31 2018	December 31 2017	September 31 2017
Eastern Hemisphere	15.3	12.0	13.0	10.2	10.3	10.0
Western Hemisphere	11.4	12.1	1.4	4.7	6.1	4.4
Corporate costs and stock compensation costs	(2.4)	(1.7)	(2.1)	(1.7)	(1.7)	(1.6)
EBITDA	**24.3**	**22.4**	**12.3**	**13.2**	**14.7**	**12.8**