Archer Limited (ARCHER) Second Quarter and Half-Year 2013 Results

Second Quarter and First-Half 2013 highlights

- Second quarter revenue from continuing operations of $514.5 million, Year-to-date revenue from continuing operations of $1.0 billion.
- Second quarter EBITDA from continuing operations of $26.9 million, Year-to-date EBITDA from continuing operations of $55.7 million.
- Net loss for the quarter of $25.7 million, Year-to-date net loss of $62.7 million.
- Completed divestiture of North American Rental and Tubular business for $244 million.
- Second quarter operational cash flow of $45.4 million, Year-to-date operational cash flow of $19.6 million.
- Net interest-bearing debt of $742.1 million at June 30, 2013.

Financial Statements

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

Comparison of the Three Months Ended June 30, 2013 to the Three Months Ended March 31, 2013

Revenue for the second quarter 2013 was $514.5 million vs. $491.2 million for the first quarter 2013. Earnings Before Interest, Taxes, Depreciation and Amortization, or EBITDA, was $26.9 million compared to $28.8 million for the first quarter 2013, a decrease of 6.6%. Detailed explanations for the fluctuations are provided in our operational review by area later in this report.

Net Financial Items were a net expense of $20.1 million in the second quarter 2013 compared to an expense of $22.4 million in the first quarter 2013. Interest expenses amounted to $13.7 million compared to $13.9 million in the first quarter 2013. Other financial items amounted to $6.7 million expense compared to $8.2 million expense in the first quarter 2013. Other financial items represent predominantly unrealized foreign exchange losses related to a further weakening of the Norwegian Kroner during the second quarter.

Comparison of the Three Months Ended June 30, 2013 to the Three Months Ended June 30, 2012

Revenue for the three months ended June 30, 2013 decreased 2.9% compared to $529.9 million for the second quarter 2012. EBITDA for the three months ended June 30, 2013 decreased 53.4% compared to $57.7 million EBITDA for the second quarter 2012.

Comparison of the Six Months Ended June 30, 2013 compared to the Six Months Ended June 30, 2012

Revenue for the six months ended June 30, 2013 was $1.0 billion, flat compared to the results for the same period in 2012. Revenue gains in Latin America, which reported revenue of $275.5 million for the six months ended June 30, 2013, an increase of 6.3% compared to the same period of the prior year, was offset by a reduction of revenue in North America, which reported revenue of $258.1 million during the six months ended June 30, 2013, a reduction of 19.0% compared to the same period last year.

Total EBITDA for the six months ended June 30, 2013 amounted to $55.7 million, 49.7% below the results for the same period in 2012. All segments experienced a decline in results as North America reported $8.9 million, Latin America reported $13.3 million, North Sea reported $14.4 million and Emerging Markets & Technologies reported $19.1 million, which on a year-over-year basis were decreases of 74.4%, 31.8%, 32.4% and 45.7%, respectively.

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

Cash Flow

Cash and cash equivalents, excluding restricted cash, amounted to $62.0 million at June 30, 2013 compared to $40.8 million at the end of March 2013.

Cash flow from operations for the three months ended June 30, 2013 was $45.4 million, which is comprised primarily of the net loss of $25.7 million, add back for depreciation and amortization from continuing operations of $41.6 million, add back of deferred income taxes of $10.0 million and a reduction in trade receivables and other short-term assets of $19.2 million.

Capital expenditures for continuing operations during the quarter amounted to $29.6 million, representing predominantly investments in new Wireline equipment and improvements to existing land drilling rigs. At the time of this report we have committed to capital expenditures of $40 million for the remainder of 2013, bringing the total year capital expenditures to approximately $120 million.

Total net interest-bearing debt at June 30, 2013 was $742.1 million compared to $982.5 million as of March 31, 2013. A majority of the net proceeds from the sale of our North American Rental and Tubular business were used to pay down debt. We will continue to streamline our operations in line with the strategy to simplify our structure and reduce our debt.

Share Capital

The total number of issued and fully paid shares of par value $1.00 outstanding at June 30, 2013 was 579,159,787. A total of 9,477,905 options were outstanding as of June 30, 2013.

Second Quarter 2013 Operating Results by Area

We are organized in four Areas and our operational comments for the second quarter and the third quarter outlook are presented by Area below. During the second quarter 2013 we sold our North American Rental and Tubular business, previously reported as part of both our Latin America and North America Areas. The commentary that follows excludes the operating results of those businesses as they are treated as discontinued operations on the face of our statement of operations. In order to better serve our customers in Brazil we moved the responsibility and management of our Platform Drilling and Engineering operations in Brazil from our Latin American Area to the North Sea, effective January 1, 2013. Both changes are reflected in the sequential comparisons and comments below and show the results by Area on a comparable basis.

	Revenues			EBITDA		
	Q2 2013	Q1 2013	Variance	Q2 2013	Q1 2013	Variance
North America	$ 131.1	$ 127.0	$ 4.1	$ 7.0	$ 1.9	$ 5.1
Latin America	144.9	130.6	14.3	3.9	9.4	(5.5)
North Sea	158.7	150.3	8.4	8.5	5.9	2.6
Emerging Markets	79.8	83.3	(3.5)	7.5	11.6	(4.1)
	$ 514.5	$ 491.2	$ 23.3	$ 26.9	$ 28.8	$ (1.9)

Note: The results of our Platform Drilling and Engineering business in Brazil have been regrouped from Latin America to the North Sea Area. The results of our Rental and Tubular business in Latin America and North America have been eliminated from the results above as they are now reported under Discontinued Operations.

North America

Revenue for the second quarter 2013 was $131.1 million, an increase of $4.1 million, or 3.2%, compared to the first quarter 2013. Revenue increases in Frac Valves, Directional Drilling and Pressure Pumping were partly offset by decreased revenue in Underbalanced Drilling. EBITDA for the second quarter 2013 was $7.0 million, an increase of $5.1 million, or 268.4%, compared to the first quarter 2013.

The average United States land-based rig count for the second quarter 2013 remained flat compared to the first quarter 2013, but reduced by 217 rigs, or 13%, compared to the same period in the previous year. The average rig count directed towards natural gas for the second quarter dropped by 63 rigs, or 18% sequentially compared to last quarter and reduced by 220 rigs, or 65%, compared to the second quarter 2012. Our results are negatively impacted by the reduction in rig count and the shift in activity has resulted in significant pricing pressure and decreased utilization throughout most of our business lines and in all geographic regions in which Archer operates.

Revenue for our Frac Valves operation increased by approximately $3.7 million in the second quarter 2013 compared to the first quarter 2013, with EBITDA increasing approximately $1.8 million over the same period. The increase is primarily attributable to an increase in the volume of valves sold and increased service center revenue.

Revenue for our Directional Drilling services increased by approximately $1.3 million in the second quarter 2013 compared to the first quarter 2013. The increase is primarily related to a favorable activity mix by region as overall operating days decreased between period but the more lucrative regions saw increased operating days. EBITDA improved by approximately $1.2 million over the same period as a result of the higher revenue with limited incremental costs.

In our Pressure Pumping division we fracked a total of 964 stages compared to 1,004 stages in the first quarter 2013. Our overall fleet utilization dropped slightly from 73% in the first quarter 2013 to 66% in the second quarter 2013. However, revenue for our Pressure Pumping operations increased by approximately $1.1 million in the second quarter 2013 compared to the first quarter 2013 primarily due to a favorable customer mix. EBITDA improved by approximately $3.3 million over the same period due to better pricing as a result of the improved customer mix, as well as material and labor costs and one-time credits related to an adjustment for sales tax and other accruals. At the end of June 2013 we have a total capacity of 208,000 HHP, which includes our sixth fleet which will start operating towards the end of the third quarter.

Our Pressure Control division revenue in the second quarter 2013 was flat compared to the first quarter of 2013 and with a slight decline in EBITDA. We marketed an average of 20 coiled tubing units during the second quarter 2013. This is a reduction of two units compared to the first quarter 2013, as they have been idled during the quarter due to a lack of demand. Operating days for our coiled tubing reduced 6% in the second quarter 2013 compared to the first quarter 2013 as job days decreased from 929 days to 871 days between periods.

Our Underbalanced operations continue to see decreased utilization which resulted in lower revenue and EBITDA in the second quarter of 2013 compared to the previous quarter.

We expect third quarter 2013 revenue to be flat compared to the second quarter 2013, with the sixth pressure pumping fleet starting operations late in the third quarter. EBITDA in the third quarter 2013 is forecasted to be below the second quarter as a result of start-up costs related to the sixth fleet, amounting to $ 2.0 million, as well as an unfavorable sales mix and the absence of some one-time credits which benefitted the second quarter results.

Latin America

Revenue in the second quarter 2013 totaled $144.9 million, an increase of $14.3 million, or 10.9%, compared to last quarter. The increase was primarily due to increased revenue in Argentina as previously idled rigs have returned to work, partially offset by lower activity in Brazil. Rig utilization in the second quarter 2013 was 85.5% compared to 81.3% in the first quarter 2013. EBITDA for the three months ended June 30, 2013 was $3.9 million, a decrease of $5.5 million, or 58.5%, compared to the first quarter 2013. The decrease in EBITDA is a result of severance payments of $4.2 million to adjust the workforce to the lower level of activity in Brazil, as well as high start-up expenses for the redeployment of rigs in the South of Argentina.

We expect third quarter 2013 to reflect a more normalized financial performance with revenue to be relatively flat compared to the second quarter 2013 and EBITDA to be above the level of the second quarter and close to historical EBITDA levels. The increase in EBITDA is a result of the severance and start-up costs incurred in the second quarter not being repeated in the third quarter.

North Sea

Second quarter 2013 revenue was $158.7 million, an increase of $8.4 million, or 5.6%, compared to the first quarter 2013. The increase in revenue was attributable to improved operations on the modular rig, Archer Emerald, increased reimbursable revenue and revenue for equipment rental in our Platform Drilling operations. Total EBITDA for the three months ended June 30, 2013 came in at $8.5 million, an increase of $2.6 million, or 44.1%, compared to the first quarter 2013. The improvement in EBITDA is primarily a function of improved performance of the modular rig during the second quarter.

We expect our North Sea revenue and EBITDA for the third quarter 2013 to be flat with our second quarter as additional revenue generated by an increased day rate on the Archer Emerald will be offset by a reduction in reimbursable revenue.

Emerging Markets & Technologies

Revenue for the second quarter 2013 was $79.8 million, a decrease of $3.5 million, or 4.2%, compared to the three months ended March 31, 2013. Revenue was impacted by the planned shutdown of a large portion of our operations in the North Sea by one of our key customers. Revenue in North America was adversely affected by the unexpected loss of market share in the Northeast United States. These losses were partly offset by increased revenue in our Oiltools Division as we installed our first Cflex systems in Angola combined with strong Cflex sales in the United States and Australia and improved LOCK Series rentals in Norway, Nigeria and Angola. EBITDA for the second quarter 2013 was $7.5 million, a decrease of $4.1 million, or 35.3%, compared to the first quarter 2013 as a result of the loss of revenue during the shutdown in Norway while costs remained unchanged. During the quarter we opened two regional offices and a tool repair facility in the Middle East.

We expect third quarter revenue and EBITDA to return to more normalized levels as operations in the field resume and a shut down for maintenance in the second quarter in Norway has completed. We also expect continued growth in our Oiltools Division leading to higher revenue and EBITDA.

Half-Year 2013 Operating Results by Area

	Revenues			EBITDA		
	Six Months Ended June 30			Six Months Ended June 30		
	2013	2012	Variance	2013	2012	Variance
North America	$ 258.1	$ 318.8	$ (60.7)	$ 8.9	$ 34.8	$ (25.9)
Latin America	275.5	259.2	16.3	13.3	19.5	(6.2)
North Sea	309.0	309.8	(0.8)	14.4	21.3	(6.9)
Emerging Markets	163.1	161.4	1.7	19.1	35.2	(16.1)
	$1,005.7	$1,049.2	$ (43.5)	$ 55.7	$110.8	$ (55.1)

Note: The results of our Platform and Engineering business in Brazil have been regrouped from Latin America to the North Sea Area. The results of our Rental and Tubular business in North America and Latin America have been eliminated from the results above as they are now reported under Discontinued Operations.

North America

Revenue for the first six months of 2013 was $258.1 million, a decrease of $60.7 million, or 19.0%, compared to the first six months of 2012. Revenue increases in Pressure Pumping were more than offset by decreased revenue in all other North American operations. EBITDA for the first six months of 2013 was $8.9 million, a decrease of $25.9 million, or 74.4%, compared to the first six months of 2012. As the case with revenue, the improvements in Pressure Pumping were more than offset by decreased EBITDA in all other North American operations.

Latin America

Revenue in the first six months of 2013 totalled $275.5 million, an increase of $16.3 million, or 6.3% compared to the first six months of 2012. The increase was primarily due to less strike days in the first six months of 2013 compared to the prior year. EBITDA for the six months ended June 30, 2013 was $13.3 million, a decrease of $6.2 million, or 31.8%, compared to the six months ended June 30, 2012. The decrease in EBITDA is a result of severance payments of $4.2 million to adjust the workforce to the lower level of activity in Brazil, as well as high start-up expenses for the redeployment of rigs in the South of Argentina.

North Sea

Revenue for the six months ended June 30, 2013 was $309.0 million, flat compared to the first six months of 2012. Total EBITDA for the six months ended June 30, 2013 came in at $14.4 million, a decrease of $6.9 million, or 32.4%, compared to the first six months of 2012. The decrease in EBITDA is primarily a function of higher margin platform drilling and engineering contract work in 2012 being replaced by lower margin contract and reimbursable revenue, as well as the start-up costs for the modular rig in the first quarter 2013.

Emerging Markets & Technologies

Revenue for the first six months of 2013 was $163.1 million, basically flat compared to the six months ended June 30, 2012. EBITDA for the first six months of 2013 was $19.1 million, a decrease of $16.1 million, or 45.7%, compared to the first six months of 2012. The decrease in EBITDA was due to pricing pressure in North America between the two periods, increased costs to build our infrastructure in the Eastern Hemisphere and an unfavorable sales mix.

Summary Outlook

While the financial results in the second quarter 2013 were depressed as a consequence of the difficult market situation in the United States as well as the sudden reduction of the Brazilian land market and the temporary shutdown of a customer's field in Norway, several notable events and improvements occurred during the second quarter.

The drilling activity in Argentina increased and the demand for additional rigs is strong. The modular rig worked very well during the quarter and customer interest in this technology continues to be high. The closing of the divestiture of the North American Rental and Tubular business helped to significantly reduce our debt, with net interest bearing debt now at $742.1 million compared to $1.2 billion at the end of last year. Strong focus on working capital helped to improve our cash flow during the second quarter.

The appointment of a new Chief Executive Officer, with a long experience in the industry will help the Company to accelerate its operational turnaround, simplify its structure and reduce its net debt.

The Board of Directors is encouraged by the progress made during the quarter and are committed to take the necessary measures to continue the improvements going forward.

Cautionary Statement Regarding Forward-Looking Statements

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

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the year ending December 31, 2012. These forward-looking statements are made only as of the date of this press release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

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

ARCHER LIMITED

INDEX TO UNAUDITED SECOND QUARTER AND HALF-YEAR FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended June 30 2013	Three Months Ended June 30 2012	Six Months Ended June 30 2013	Six Months Ended June 30 2012
Revenues					
Operating revenues		$ 488.9	$ 506.7	$ 957.4	$ 1,008.7
Reimbursable revenues		25.6	23.2	48.3	40.5
Total revenues		**514.5**	**529.9**	**1,005.7**	**1,049.2**
Expenses					
Operating expenses		445.2	429.8	865.3	855.3
Reimbursable expenses		23.3	21.8	46.1	38.8
Depreciation and amortization		41.6	41.1	83.1	81.7
General and administrative expenses		19.1	20.6	38.6	44.3
Total expenses		**529.2**	**513.3**	**1,033.1**	**1,020.1**
Operating (loss)/income		**(14.7)**	**16.6**	**(27.4)**	**29.1**
Financial items					
Interest income		0.2	0.4	0.5	2.5
Interest expenses		(13.7)	(14.0)	(27.6)	(27.4)
Share of results in associated company		0.1	0.3	(0.5)	(0.1)
Other financial items	3	(6.7)	(15.2)	(14.9)	2.1
Total financial items		**(20.1)**	**(28.5)**	**(42.5)**	**(22.9)**
(Loss)/income from continuing operations before income taxes		**(34.8)**	**(11.9)**	**(69.9)**	**6.2**
Income tax (expense)/benefit	4	(0.5)	2.8	(1.8)	(3.2)
(Loss)/income from continuing operations		**(35.3)**	**(9.1)**	**(71.7)**	**3.0**
Income from discontinued operations, net of tax	5	9.6	1.3	9.0	4.2
Net (loss)/income		**$ (25.7)**	**$ (7.8)**	**$ (62.7)**	**$ 7.2**
(Loss)/earnings per share-basic					
(Loss)/earnings from continuing operations		$ (0.06)	$ (0.02)	$ (0.14)	$ 0.01
Earnings from discontinued operations		0.02	0.00	0.02	0.01
(Loss)/earnings per share		$(0.04)	$ (0.02)	$ (0.12)	$ 0.02
(Loss)/earnings per share-diluted					
(Loss)/earnings from continuing operations		$ (0.06)	$ (0.02)	$ (0.14)	$ 0.01
Earnings from discontinued operations		0.02	0.00	0.02	0.01
(Loss)/earnings per share		$ (0.04)	$ (0.02)	$ (0.12)	$ 0.02
Weighted average number of shares outstanding					
Basic		579.2	366.6	519.3	366.5
Diluted		579.2	366.6	519.3	366.8

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

ARCHER LIMITED

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

(In millions)	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2013	**2012**	**2013**	**2012**
Net (loss)/income	**$(25.7)**	**$ (7.8)**	**$ (62.7)**	**$ 7.2**
Other comprehensive (loss)/income				
Currency exchange differences	(0.8)	1.1	(10.4)	(1.7)
Total comprehensive (loss)/income	**$(26.5)**	**$ (6.7)**	**$ (73.1)**	**$ 5.5**

Accumulated Other Comprehensive Gain/(Loss)

(Unaudited)

(In millions)	**Pension – Unrecognized Losses**	**Currency Exchange Differences**	**Other Comprehensive Gains**	**Total**
Balance at December 31, 2012	**$ (7.2)**	**$ 9.2**	**$ —**	**$ 2.0**
Currency exchange differences	—	(10.4)	—	(10.4)
Balance at June 30, 2013	**$ (7.2)**	**$ (1.2)**	**$ —**	**$ (8.4)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	June 30 2013 (Unaudited)	December 31 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 62.0	$ 58.2
Restricted cash		18.2	11.9
Accounts receivables		405.2	418.5
Inventories	7	68.0	64.3
Deferred income taxes		6.1	8.4
Other current assets		81.3	81.0
Total current assets		**640.8**	**642.3**
Noncurrent assets			
Investments in associates		8.6	2.4
Property plant and equipment, net		861.3	1,059.4
Deferred income tax asset			29.1
Goodwill	8	672.7	706.1
Other intangible assets, net	9	105.7	129.6
Deferred charges		22.0	18.4
Total noncurrent assets		**1,670.3**	**1,945.0**
Total assets		**$ 2,311.1**	**$ 2,587.3**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	10	$ 61.6	$ 329.5
Accounts payable		139.5	142.9
Other current liabilities		208.9	220.4
Total current liabilities		**410.0**	**692.8**
Noncurrent liabilities			
Long-term interest-bearing debt	10	742.5	889.8
Deferred taxes		16.1	38.3
Other noncurrent liabilities		41.2	40.2
Total noncurrent liabilities		**799.8**	**968.3**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $1.00 per share: 1.2 billion shares authorized: 579,159,787 outstanding shares at June 30, 2013 (December 31, 2012: par value $2.00 per share; 600 million authorized; 366,659,120 outstanding)		579.2	733.3
Additional paid in capital		815.3	779.6
Accumulated deficit		(446.3)	(383.6)
Accumulated other comprehensive (loss)/income		(8.4)	2.0
Contributed surplus/(deficit)		161.5	(205.1)
Total shareholders' equity		**1,101.3**	**926.2**
Total liabilities and shareholders' equity		**$ 2,311.1**	**$ 2,587.3**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Six Months Ended June 30	
	2013	**2012**
Cash Flows from Operating Activities		
Net (loss)/income	$ (62.7)	$ 7.2
Adjustment to reconcile net (loss)/income to net cash provided by operating activities		
Depreciation and amortization	83.1	81.7
Depreciation and amortization of assets in discontinued operations	18.8	20.0
Share-based compensation expenses	0.3	2.0
Gain on property, plant and equipment disposals	(0.8)	(0.6)
(Gain)/loss on disposal of assets in discontinued operations, net	(9.8)	0.3
Equity in loss of unconsolidated affiliates	0.5	0.1
Gain on debt redemption	—	(4.7)
Amortization of loan fees and senior note premium	5.6	2.5
Deferred income taxes	0.1	(5.5)
Foreign currency loss	14.5	1.8
Changes in operating assets and liabilities, net of acquisitions		
(Increase)/decrease in accounts receivable and other current assets	(21.7)	15.7
Increase in inventories	(2.2)	(12.5)
Increase in accounts payable and other current liabilities	0.9	36.1
Other, net	(7.0)	(9.6)
Net cash provided by operating activities	**19.6**	**134.5**
Cash Flows from Investing Activities		
Capital expenditures	(73.9)	(155.9)
Capital expenditures for discontinued operations	(2.1)	(9.3)
Proceeds from disposal of property, plant and equipment	4.9	4.7
Proceeds from disposal of assets in discontinued operations, net	235.5	3.3
Acquisition of subsidiaries, net of cash	—	(0.9)
Investment in associates	(6.8)	—
Net change in restricted cash	(7.1)	(2.4)
Net cash provided/(used) by investing activities	**150.5**	**(160.5)**
Cash Flows from Financing Activities		
Net repayments under revolving facilities	(15.0)	(0.1)
Proceeds of related party debt	10.0	20.0
Repayment of related party debt	(65.0)	—
Proceeds from long-term debt	30.5	368.0
Repayment of long-term debt	(368.1)	(296.4)
Debt issuance costs	(5.2)	(2.8)
Proceeds from issuance of equity, net	247.9	0.3
Net cash (used)/provided by financing activities	**(164.9)**	**89.0**
Effect of exchange rate changes on cash and cash equivalents	(1.4)	—
Net increase in cash and cash equivalents	**3.8**	**63.0**
Cash and cash equivalents at beginning of the period	58.2	37.3
Cash and cash equivalents at the end of the period	**$ 62.0**	**$ 100.3**
Interest paid	$ 26.5	$ 37.0
Taxes paid	$ 2.5	$ 23.2

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

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

(In millions)	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Contributed (Deficit)/ Surplus	Total Shareholders' Equity
Balance at December 31, 2012	**$ 733.3**	**$ 779.6**	**$ (383.6)**	**$ 2.0**	**$ (205.1)**	**$ 926.2**
Recapitalization	(366.6)	—	—	—	366.6	—
Private placement	212.5	35.4	—	—	—	247.9
Currency exchange differences	—	—	—	(10.4)	—	(10.4)
Net loss	—	—	(62.7)	—	—	(62.7)
Share based compensation	—	0.3	—	—	—	0.3
Balance at June 30, 2013	**$ 579.2**	**$ 815.3**	**$ (446.3)**	**$ (8.4)**	**$ 161.5**	**$ 1,101.3**

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

ARCHER LIMITED
Notes to Unaudited Interim Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

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

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

We employed approximately 8,300 skilled and experienced people at June 30, 2013.

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

Basis of presentation

The unaudited second quarter and first-half 2013 interim consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited second quarter and first-half 2013 interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These second quarter and first-half interim financial statements should be read in conjunction with our financial statements as of December 31, 2012. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

The results of operations from our Rental business in North America and our Tubular business in North America and Latin America have been reclassified to discontinued operations for all periods presented.

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 second quarter interim 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, 2012.

Reclassifications

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

Recently issued accounting pronouncements

The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):

In December 2011, the FASB issued ASU 2011-11 "Disclosures about Offsetting Assets and Liabilities" in order to standardize the disclosure requirements under US GAAP and IFRS relating to both instruments and transactions eligible for offset in financial statements. ASU 2011-11 is applicable for annual reporting periods beginning on or after January 1, 2013. We adopted these provisions in the first quarter of 2013 and the adoption had no material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires additional disclosures regarding amounts reclassified out of accumulated other comprehensive income by component. This requirement is effective for fiscal years and interim periods beginning after December 15, 2012. We adopted these provisions in the first quarter of 2013 and the adoption had no material impact on our consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" which requires that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent should release the cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity; and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Upon the occurrence of those events, the cumulative translation adjustment should be released into net income. The amendments in this ASU are effective prospectively for fiscal years beginning after December 15, 2013 and for interim reporting periods within those years, with early adoption being permitted. We plan to adopt these provisions in the first quarter of 2014 and do not expect the adoption to have a material impact on our consolidated financial statements.

Note 2 – Acquisitions

X-it Energy Services Limited

On April 4, 2012 we completed the acquisition of all of the outstanding stock of X-it Energy Services Limited, or X-it, for $6.0 million in cash. X-it specializes in the sales, service and rental of casing exit equipment.

The net assets acquired as a result of the acquisition are listed below *(in millions):*

	Final Allocation of Purchase Price
Current assets	$ 1.2
Intangible assets (excluding goodwill)	5.2
Acquired goodwill	1.9
Total assets acquired	**8.3**
Current liabilities	0.9
Deferred tax liabilities	1.4
Total liabilities acquired	**2.3**
Total purchase price	**$ 6.0**

We have applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the combined balance sheet is attributable to expected synergies and other acquired intangible assets which cannot be separately identified.

The allocation of the purchase price of X-it has been based upon fair-value estimates.

Wellbore Solutions

In April 2012 we acquired the remaining 57.4% of Wellbore Solutions, or Wellbore, for $397,520. Previously, we owned 42.6% of Wellbore but we had consolidated the financial statements of Wellbore as we had control over the company through a shareholder agreement which gave us the power to vote for 50.1% of the shares.

The purchase price was allocated to goodwill.

Note 3 – Other Financial Items

	Three Months Ended June 30		**Six Months Ended June 30**	
(In millions)	**2013**	**2012**	**2013**	**2012**
Foreign exchange differences	$ (6.4)	$ (14.3)	$(14.5)	$ (1.8)
Gain on redemption of debt	—	—	—	4.7
Other items	(0.3)	(0.9)	(0.4)	(0.8)
Total other financial items	**$ (6.7)**	**$ (15.2)**	**$(14.9)**	**$ 2.1**

Financial items consist mainly of foreign exchange differences arising on loans or cash balances denominated in currencies other than the recording company's functional currency. The redemption of the Allis-Chalmers senior notes in the first quarter of 2012 generated a gain of $4.7 million.

Note 4 – Income Taxes

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

	Three Months Ended June 30		Six Months Ended June 30	
(In millions)	**2013**	**2012**	**2013**	**2012**
United States	$ 0.9	$ (4.4)	$ 1.1	$ (3.5)
South America	(0.7)	1.4	(0.3)	3.6
Europe	0.7	(0.3)	1.3	2.4
Others	(0.4)	0.5	(0.3)	0.7
Total	**$ 0.5**	**$ (2.8)**	**$ 1.8**	**$ 3.2**

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 tax being imposed, Archer will be exempted from taxation until year 2035. Therefore, our income tax expense is generated by earnings outside of Bermuda that are taxed at the respective country's income tax rate.

In the three and six months ended June 30, 2013 and the three months ended June 30, 2012, we have income tax expense even though we have a loss before income taxes due primarily to our inability to record income tax benefit from the losses we incur in the United States and Brazil as we do not expect to utilize the deferred tax assets related to those losses in the foreseeable future. We also incur withholding taxes, primarily in Brazil, that are treated as income tax although not based on income.

Note 5 – Discontinued Operations

On June 27, 2013, we completed the sale of our Rental business in North America and our Tubular business in North America and Latin America. We sold these operations as we determined that they were non-strategic assets and the proceeds from the sale would enable us to reduce our debt.

The summarized results of operations included in income from discontinued operations were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(In millions)	**2013**	**2012**	**2013**	**2012**
Revenues	$ 24.9	$ 25.1	$ 48.2	$ 52.1
Operating and reimbursable expenses	(13.3)	(11.9)	(25.7)	(24.8)
Depreciation and amortization	(9.1)	(10.2)	(18.8)	(20.0)
Interest expense	(1.7)	(1.6)	(3.3)	(3.1)
Other financial items	—	(0.1)	—	(0.1)
Gain on disposal of assets in discontinued operations, net	9.1	—	9.1	—
Income from discontinued operations before income tax expense	9.9	1.3	9.5	4.1
Income tax expense	(0.3)	—	(0.5)	0.1
Income from discontinued operations, net of tax	**$ 9.6**	**$ 1.3**	**$ 9.0**	**$ 4.2**

The Rental and Tubular businesses were deconsolidated at June 27, 2013, the date of their disposal, so their assets and liabilities are not included within the June 30, 2013 balance sheet. As of December 31, 2012 the carrying amounts of the major classes of assets and liabilities associated with our discontinued operations were classified as follows:

	December 31
(In millions)	**2012**
Accounts receivable	$ 16.9
Other current assets	0.2
Property plant and equipment	186.0
Goodwill	13.3
Intangibles	15.6
Deferred tax assets	19.4
Total assets	**$ 251.4**
Accounts payable	3.1
Other current liabilities	3.8
Deferred tax liabilities	4.1
Total liabilities	**$ 11.0**

Note 6 – Earnings Per Share

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

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	**2013**	**2012**	**2013**	**2012**
Denominator				
Weighted-average common shares outstanding	579,160	366,576	519,284	366,489
Effect of potentially dilutive common shares				
Share-based compensation shares	—	—	—	319
Weighted-average common shares outstanding and assumed conversions	579,160	366,576	519,284	366,808

Share-based compensation of approximately 122,191 and 179 shares were excluded from the computation of diluted earnings per share for the three months ended June 30, 2012 and the six months ended June 30, 2013, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 7 – Inventories

	June 30	December 31
(In millions)	**2013**	**2012**
Manufactured		
Finished goods	$ 9.3	$ 6.8
Work in progress	3.1	3.6
Raw materials	6.2	6.6
Total manufactured	18.6	17.0
Drilling supplies	24.9	25.2
Chemicals	9.0	8.1
Other items and spares	15.5	14.0
Total inventories	**$ 68.0**	**$ 64.3**

Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired.

(In millions)	
Net book balance at December 31, 2012	**$ 706.1**
Goodwill disposed during the period	(13.3)
Currency adjustments	(20.1)
Net book balance at June 30, 2013	**$ 672.7**

The goodwill associated with the divestiture of our Rental and Tubular businesses was removed from our books in 2013 (see Note 5).

We test goodwill 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 testing of the valuation of goodwill involves significant judgment and assumptions to be made in connection with the future performance of the various components of our business operations.

Note 9 – Other Intangible Assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2012	**$ 173.2**	**$ (43.6)**	**$ 129.6**
Amortization	—	(8.1)	(8.1)
Disposals	(19.2)	4.6	(14.6)
Currency adjustments	(2.4)	1.2	(1.2)
Balance at June 30, 2013	**$ 151.6**	**$ (45.9)**	**$ 105.7**

The intangibles disposed of during the period were associated with the divestiture of our Rental and Tubular businesses (see Note 5). The net book value at June 30, 2013 consisted of customer relationships of $82.9 million, identified technology of $6.9 million, trademarks of $9.5 million, patents of $6.3 million and noncompete of $0.1 million.

Note 10 – Long-term, Interest-Bearing Debt

(In millions)	June 30 2013	December 31 2012
Multicurrency term and revolving facility	$ 705.2	$ 1,047.1
Related party subordinated loan	—	55.0
Hermes-covered term loan	30.8	34.9
Other loans and capital lease liability	68.1	82.3
Total loans and capital lease liability	**804.1**	**1,219.3**
Less: current portion	(61.6)	(329.5)
Long-term portion of interest bearing debt	**$ 742.5**	**$ 889.8**

Multicurrency term and revolving facility

On March 7, 2013, we entered into a third amendment and restatement agreement in relation to our multicurrency term and revolving facility agreement with a syndicate of banks, at which time $876.9 million was committed by the lenders. Under the terms of the agreement 75% of the net proceeds from the sale of certain assets need to be applied towards the facility. Therefore, we repaid $164.2 million as a result of the sale of our Rental and Tubular businesses. Following this prepayment the total amount available on our main credit facility has been reduced from $876.9 million to $712.7 million. The agreement was amended by Addendum No. 1 thereto dated July 31, 2013 to address the covenant requirements after the divestiture.

The amended and restated multicurrency term and revolving facility, is divided into two tranches. The total amount available under tranche A (the revolving credit facility) is $398.4 million and the total amount available under tranche B (the term loan facility) is $314.3 million. An installment of $100.0 million is due in November 2014. The final maturity date of the facility is November 11, 2015. The interest payable on the tranches is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 3.00% and 3.95% per annum, depending on the ratio of the net interest bearing debt to EBITDA, in addition to mandatory costs, if any.

As of June 30, 2013, a total of $705.2 million has been drawn under the multicurrency term and revolving facility, of which $390.9 million has been drawn under tranche A and $314.3 million has been drawn under tranche B. The two tranches are 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 $200.0 million in favor of the lenders under the multicurrency term and revolving facilities and the lenders of the overdraft facilities, securing our obligations under tranche A, tranche B and the overdraft facilities. Our entities that fall under the laws of the United States of America and that are parties to the multicurrency term and revolving facility have executed general security agreements in respect of their assets as further security. The multicurrency term and revolving facility contains certain financial covenants, including, among others:

- Our leverage ratio covenant has been increased in Addendum No.1 referred to above. Our total consolidated net interest bearing debt shall not exceed 6.25x of the last twelve months EBITDA as of June 30, 2013. This leverage ratio is increased to 6.30x as of September 30, 2013 and then reduced to 5.75x as of December 31, 2012 with subsequent quarterly reductions of 0.25x until it reaches 4.0x prior to maturity.

- Our minimum ratio of equity to total assets of at least 30.0%.

- We are to maintain the higher of $30 million and at least 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).

- We shall ensure that the capital expenditures, on a consolidated basis, measured at the end of each financial year after 2012 shall not exceed $150 million, plus any capital expenditure relating to the modular rigs.

The multicurrency term and 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 June 30, 2013, we are in compliance with all covenants under our debt facilities.

Related party subordinated loan

On March 27, 2013, Seadrill Limited provided Archer Topaz Limited, a wholly owned subsidiary of Archer, with a $10.0 million subordinated term loan facility. The loan provided for interest at LIBOR + 5% and was repayable by April 2, 2013. In March 2013, the full $10.0 million was drawn and used to partly finance the first installment on our second modular rig, Archer Topaz. This subordinated term loan was repaid in April 2013.

On November 12, 2012, Seadrill Limited provided us with a $55.0 million subordinated term loan facility that was repayable by February 28, 2013. The loan provided for interest at LIBOR + 5%. In November 2012, we borrowed the full $55.0 million and applied it to our annual principal payment of $100 million due under the multi-currency term and revolving facility along with using part of our existing cash balances on hand. This subordinated term loan was settled in full before the due date.

Hermes-covered term loan

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 modular rig, Archer Emerald. The facility is repayable in semi-annual installments in March and September through March 2017. The interest rate is 1.3% above EURIBOR. At June 30, 2013, the equivalent of $30.8 million was outstanding under this facility.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at June 30, 2013, net borrowings under these facilities were $28.8 million. In addition we have borrowed $21.9 million under cash overdraft facilities in Argentina as of June 30, 2013. We have a $25.0 million import facility in Argentina, which had an outstanding balance at June 30, 2013 of $0.4 million. We also have capital leases covering both real property and equipment and at June 30, 2013, the net balance due under these arrangements was $15.8 million. We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at June 30, 2013 of $1.1 million. In addition, we have several equipment financing obligations that in aggregate had a balance due of $0.1 million at June 30, 2013.

Interest rate swap agreement

We have a NOK interest rate swap agreement, currently securing the interest rate on NOK 300 million ($49.8 million) until October 2015. We also have a USD interest rate swap agreement securing the interest rate on $150 million until October 2015. The agreements were entered into in mid-April 2013. The fair value of the swaps as of June 30, 2013 was an asset of $0.7 million and is included within other non-current assets.

Note 11 – Supplemental Cash Flow Information

During 2013, we financed equipment purchases of $6.2 million through capitalized leases.

In February 2013 we issued 208,334,000 shares of our stock in a private placement which was underwritten by our five largest shareholders who, in aggregate, own 68% of our issued and outstanding share capital. The underwriters received an underwriting commission of $5.0 million which was settled through the issuance of 4,166,667 new shares of our stock.

Note 12 – Segment Information

We have determined that our operational performance aligned with the following four segments effective January 1, 2012:

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

The split of our organization 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. 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 the divestiture of our North American Rental business and our Rental and Tubular business in Latin American.

(In millions)	Three Months Ended June 30		Six Months Ended June 30	
	2013	**2012**	**2013**	**2012**
Revenues from external customers				
North America	$ 131.1	$ 160.9	$ 258.1	$ 318.8
Latin America	144.9	134.2	275.5	259.2
North Sea	158.7	152.8	309.0	309.8
Emerging Markets & Technologies	79.8	82.0	163.1	161.4
Total	**$ 514.5**	**$ 529.9**	**$ 1,005.7**	**$ 1,049.2**
Depreciation and amortization				
North America	$ 21.1	$ 22.1	$ 42.1	$ 43.7
Latin America	7.8	8.9	15.7	17.7
North Sea	3.6	1.8	7.2	4.4
Emerging Markets & Technologies	9.1	8.3	18.1	15.9
Total	**$ 41.6**	**$ 41.1**	**$ 83.1**	**$ 81.7**
Operating (loss)/income – net (loss)/income				
North America	$ (14.1)	$ (2.2)	$ (33.0)	$ (8.4)
Latin America	(4.1)	3.7	(2.5)	2.3
North Sea	4.9	6.6	7.3	17.4
Emerging Markets & Technologies	(1.6)	9.5	1.1	19.8
Stock compensation costs	0.2	(1.0)	(0.3)	(2.0)
Operating (loss)/income	**(14.7)**	**16.6**	**(27.4)**	**29.1**
Total financial items	(20.1)	(28.5)	(42.5)	(22.9)
Income taxes	(0.5)	2.8	(1.8)	(3.2)
Discontinued operations, net of taxes	9.6	1.3	9.0	4.2
Net (loss)/income	**$ (25.7)**	**$ (7.8)**	**$ (62.7)**	**$ 7.2**
Capital expenditures				
North America	$ 4.6	$ 52.8	$ 17.2	$ 92.7
Latin America	9.6	9.2	13.7	23.0
North Sea	4.2	18.5	29.8	29.4
Emerging Markets & Technologies	11.2	7.2	19.4	10.8
Total	**$ 29.6**	**$ 87.7**	**$ 80.1**	**$ 155.9**

(In millions) **Goodwill**	**North America**	**Latin America**	**North Sea**	**Emerging Markets & Technologies**	**Total**
Balance at December 31, 2012	**$ 324.5**	**$ —**	**$ 141.4**	**$ 240.2**	**$ 706.1**
Goodwill disposed	(13.3)	—	—	—	(13.3)
Currency adjustments	—	—	(9.7)	(10.4)	(20.1)
Balance at June 30, 2013	**$ 311.2**	**$ —**	**$ 131.7**	**$ 229.8**	**$ 672.7**

(In millions)	**June 30 2013**	**December 31 2012**
Total assets		
North America	$ 874.9	$ 1,114.9
Latin America	473.4	478.9
North Sea	456.2	479.6
Emerging Markets & Technologies	506.6	513.9
Total	**$ 2,311.1**	**$ 2,587.3**

Note 13 – Fair Value of Financial Instruments

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

	June 30, 2013		**December 31, 2012**	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Nonderivatives				
Cash and cash equivalents	$ 62.0	$ 62.0	$ 58.2	$ 58.2
Restricted cash	18.2	18.2	11.9	11.9
Current portion of long-term debt	61.6	61.6	329.5	329.5
Long-term, interest-bearing debt	742.5	742.5	889.8	889.8
Derivatives				
Interest rate swap agreements	0.7	0.7	—	—

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

	June 30, 2013	Fair Value Measurements at Reporting Date Using		
(In millions)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 62.0	$ 62.0	—	—
Restricted cash	18.2	18.2	—	—
Liabilities				
Multicurrency term and revolving facility, excluding current portion	705.2	—	705.2	—
Other loans and capital leases, excluding current portion	37.3	—	37.3	—
Interest rate swap agreements	0.7	—	0.7	—

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 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.

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.

Note 14 – Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of August 29, 2013 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.

We are also named from time to time in legal proceedings related to activities that occurred prior to one of our predecessor's bankruptcy in 1988 (Allis-Chalmers). However, we believe that we were discharged from liability for all such claims in the bankruptcy and believe the likelihood of a material loss relating to any such legal proceeding is remote.

The case of *Cudd Pressure Control, Inc. vs. Great White Pressure Control, LLC, et. al*., one of our subsidiaries, pre-dates Archer's acquisition of the Great White group. Plaintiff, Cudd Pressure Control, alleges several causes of action relating to Great White Pressure Control's employment of former Cudd employees. Although the case was filed in 2006 and the relevant events date back more than five years, the case was just recently tried in Texas state district court with the jury returning a verdict in favor of the defendants. Plaintiff subsequently filed an appeal of the jury verdict, but the plaintiff has since withdrawn its appeal and all claims with prejudice.

A class action was filed in Corpus Christi, Texas against one of our subsidiaries alleging violations of the FLSA relating to non-payment of overtime pay. The court has conditionally certified a class of potential class members and the opt-in period has expired. The plaintiffs have filed an Amended Petition adding additional subsidiaries as defendants. On April 5, 2013, the Court entered an Order granting preliminary approval of the settlement agreement entered into between the parties. The class settlement process has begun and we anticipate final approval from the Court following a hearing currently scheduled for November 2013. Because of the nature of a settlement class, we are not able to predict with any degree of certainty at this time the ultimate settlement amount; however, we have received an assessment of potential liabilities from outside counsel which has allowed us to assess a contingency reserve in accordance with US GAAP.

Three class actions have recently been filed against a number of our subsidiaries all alleging violations of the FLSA relating to non-payment of overtime pay. These cases are in the early stages of discovery and, although litigation is inherently uncertain, management believes these cases are highly defensible.

Two of our wholly owned 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. We submitted our writ in December 2012 and a final court decision can be expected at the earliest towards the end of 2014. In the defendants' answer to the writ, they raised counterclaims alleging that they are owed more than the amount we claimed in damages. Litigation is inherently uncertain and while we cannot determine the amount of our ultimate recovery or loss, we believe in the merits of the claim and that the alleged counterclaims are highly defensible.

In August 2013, Archer as claimant settled all pending litigation claims against GW Holdings and Wexford Capital arising from Archer's August 2011 purchase of the Great White companies. The settlement is final and its terms are confidential per the terms of the Confidential Settlement Agreement.

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

Note 15 – Related Parties

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

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

During the six months ended June 30, 2013, we supplied Seadrill Limited and affiliates with services amounting to $3.0 million, including reimbursable material. This amount has been included in operating revenues. At June 30, 2013, Seadrill owed us $0.5 million related to these services.

In March of 2013, Seadrill provided Archer with a $10.0 million subordinated term-loan facility which was repaid in April of 2013. In November 2012, Seadrill provided Archer with a $55.0 million subordinated term-loan facility to assist in the funding of a required $100 million principal payment on multi-currency term and revolving facility. This facility was repaid in February 2013 along with interest of $0.8 million.

Seadrill has provided a guarantee of $200.0 million to the lenders of our multicurrency term and revolving facility (see Note 10). Seadrill is charging us a guarantee fee of 1.25% of the guaranteed amount and as of June 30, 2013, we had not yet paid the fees. The guarantee fees are being amortized over the life of the guarantee and as amortized included in our interest expense.

The following related parties, being companies in which Archer's principal shareholders, Seadrill and/or Hemen Holding Ltd have a significant interest:

- Frontline Management (Bermuda) Limited, or Frontline
- North Atlantic Drilling Ltd, or NADL

Frontline provides management support and administrative services to us, and we have recorded fees of $0.7 million for these services in the six months ended June 30, 2013. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At June 30, 2013, we owe Frontline $0.2 million related to these services.

During the six months ended June 30, 2013, we supplied NADL with services amounting to $1.9 million, including reimbursable material. This amount has been included in operating revenues. At June 30, 2013, NADL owed us $0.3 million related to these services.

Note 16 – Subsequent Events

In August 2013, Archer as claimant settled all pending litigation claims against GW Holdings and Wexford Capital arising from Archer's August 2011 purchase of the Great White companies. The settlement is final and its terms are confidential per the terms of the Confidential Settlement Agreement.

Responsibility Statement

We confirm, to the best of our knowledge, that the condensed interim financial statements for the period January 1 to June 30, 2013 have been prepared in accordance with U.S. generally accepted accounting principles, and give a true and fair view of the Company's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

The Board of Directors
Archer Limited
Hamilton, Bermuda
August 29, 2013

David S. King
CEO, Archer Management (US) LLC
Houston, Texas, USA
August 29, 2013

Appendix to Archer Second Quarter and Half-Year Report 2013

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table below for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended June 30, 2013, March 31, 2013, December 31, 2012, September 30, 2012 and June 30, 2012. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

ARCHER LIMITED
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
(In millions)	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Revenue	514.5	491.2	513.8	526.0	529.9	519.3
Cost and expenses						
Operational costs	(529.2)	(503.9)	(540.4)	(525.5)	(513.3)	(506.8)
Impairments	—	—	—	(299.5)	—	—
Net financial items	(20.1)	(22.4)	(8.5)	(4.7)	(28.5)	5.6
(Loss)/income from continuing operations before income taxes	**(34.8)**	**(35.1)**	**(35.1)**	**(303.7)**	**(11.9)**	**18.1**
Income tax (expense) benefit	(0.5)	(1.3)	(5.1)	2.8	2.8	(6.0)
(Loss)/income from continuing operations	**(35.3)**	**(36.4)**	**(40.2)**	**(300.9)**	**(9.1)**	**12.1**
Income/(loss) from discontinued operations, net of tax	9.6	(0.6)	(1.5)	(40.4)	1.3	2.9
Net (loss)/income	**(25.7)**	**(37.0)**	**(41.7)**	**(341.3)**	**(7.8)**	**15.0**

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

	Three Months Ended					
(In millions)	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Net (loss)/income	(25.7)	(37.0)	(41.7)	(341.3)	(7.8)	15.0
Depreciation, amortization and impairments	41.6	41.5	41.7	341.4	41.1	40.6
Net financial items	20.1	22.4	8.5	4.7	28.5	(5.6)
Taxes on income	0.5	1.3	5.1	(2.8)	(2.8)	6.0
Income/(loss) from discontinued operations, net of tax	(9.6)	0.6	1.5	40.4	(1.3)	(2.9)
EBITDA	**26.9**	**28.8**	**15.1**	**42.4**	**57.7**	**53.1**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
(In millions)	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
North America (NAM)	7.0	1.9	3.0	5.3	19.7	15.1
Latin America (LAM)	3.9	9.4	4.8	13.4	12.5	7.0
North Sea (NRS)	8.5	5.9	(1.4)	10.9	8.0	13.3
Emerging Markets & Technologies (EMT)	7.5	11.6	8.7	12.8	17.5	17.7
EBITDA	**26.9**	**28.8**	**15.1**	**42.4**	**57.7**	**53.1**