



Archer Limited (ARCHER) Fourth Quarter 2013 Results

Fourth Quarter 2013 highlights

- Fourth quarter revenue from continuing operations of \$524.1 million,
- Fourth quarter EBITDA from continuing operations at \$41.9 million including a \$11.6 million charge for restructuring and other one-time exceptional costs
- Fourth quarter impairment charge of \$423.7 million
- Net loss for the quarter of \$ 431.7 million
- Fourth quarter operational cash flow of \$37.7 million,
- Net interest-bearing debt of \$715.3 million at December 31, 2013.
- Completed the sale of North American Underbalanced Assets to Atlas Copco

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, as well as the results of the North American Underbalanced assets, previously reported under North America, have been reclassified to discontinued operations for all periods presented and previously announced results have also been adjusted.

Comparison of the Three Months Ended December 31, 2013 to the Three Months Ended September 30, 2013

Revenue for the fourth quarter 2013 was \$524.1 million compared to \$522.6 million for the third quarter 2013. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, were \$41.9 million compared to \$49.9 million for the third quarter 2013, a decrease of 16%. Total restructuring and other one-time costs incurred in the fourth quarter amounted to \$11.6 million representing severance costs for the reduction of 190 staff and other one-time costs. Detailed explanations for the fluctuations are provided in our operational review by area.

In the fourth quarter 2013 the company recorded a total of \$423.7 million impairment charges related to its goodwill, intangible and fixed assets. These non-cash charges were the result of the annual goodwill and long lived asset impairment testing required under the company's accounting policies and US GAAP. The charge is primarily related to our assets in North America and the US based assets within the Emerging Markets & Technologies segment. This non-cash charge has not impacted the company's normal business operations, affected the liquidity of the company, impacted on the cash flow from operations or lead to a breach of financial covenants under the company's credit facilities.

Net Financial Items were a net expense of \$17.6 million in the fourth quarter 2013 compared to an expense of \$13.9 million in the third quarter 2013. Interest expenses amounted to \$11.7 million compared to \$12.8 million in the third quarter 2013. Other financial items amounted to \$5.4 million expense compared to \$1.4 million expense in the third quarter 2013. Other financial items represent predominantly unrealized foreign exchange losses.

Comparison of the Three Months Ended December 31, 2013 to the Three Months Ended December 31, 2012

Revenue for the three months ended December 31, 2013 was \$524.1 million compared to \$507.1 million for the fourth quarter 2012. EBITDA of \$41.9 million for the three months ended December 31, 2013 increased 187% compared to \$14.6 million EBITDA for the fourth quarter 2012.

Comparison of the Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Revenue for the year ended December 31, 2013 was \$2 billion, \$13.4 million lower compared to the results for 2012. Revenue in Latin America increased by 6.5% as a result of improved pricing and lower number of strike days in Argentina. Revenue in Emerging Markets and Technologies increased by 3.4% with improved sales of Oiltools products partly offset by lower pricing coupled with a loss of market share for Wireline services in the United States. This was offset by an 8.8% revenue reduction in North America as a result of the continued pricing pressure due to an oversupply for oilfield services and a 1.5% decline in the North Sea Area following the loss of the Gullfaks contract in Norway.

Total EBITDA for the year ended December 31, 2013 amounted to \$147.2 million, \$16.2 million or 9.8% below 2012. North America reported EBITDA of \$29.4 million, a decrease of 22.6% as a result of lower pricing and utilization. Emerging Markets & Technologies reported EBITDA of \$33.6 million, a decline of 40.7% year-over-year, as a result of continued market pressure for its Wireline offering in the United States. These shortfalls were offset by an increase in both the North Sea, recording EBITDA of \$42.9 million, an increase of 39.3% compared to last year, mainly due to a non-recurring provision for doubtful debt booked in 2012, as well as the start-up of the modular rig in 2013. Latin America reported EBITDA of \$41.3 million representing a 9.5% increase year over year mainly as a result of improved rig utilization in Argentina.

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 \$49.5 million at December 31, 2013 compared to \$30.2 million at September 30, 2013.

Cash flow from operations for the three months ended December 31, 2013 was \$37.7 million, which is comprised primarily of the net loss of \$431.7 million, add back of impairment charges of \$423.7 million, add back for depreciation and amortization from continuing operations of \$38.7 million, add back results from discontinued operations of \$2.5 million add back a reduction in accounts receivable partly offset by a decrease in accounts payable and other current liabilities for a net amount of \$4.5 million.

Capital expenditures for continuing operations during the quarter amounted to \$24.3 million, representing predominantly investments in improvements to existing land drilling rigs, investment in our new modular rig and new wireline equipment.

Total net interest-bearing debt at December 31, 2013 was \$715.3 million compared to \$747.3 million as of September 30, 2013.

As part of the plan to align the cost structure with activity levels, the company incurred a total of \$11.6 million restructuring and other one-time charges during the fourth quarter, and reduced its workforce by a total of 190 employees, predominantly in North America and in Brazil.

Share Capital

The total number of issued and fully paid shares of par value \$1.00 outstanding at December 31, 2013 was 579,159,787. A total of 12,557,606 options were outstanding as of December 31, 2013.

Fourth Quarter 2013 Operating Results by Area

We are organized in four Areas and our operational comments for the third quarter and the fourth quarter outlook are presented by Area below. During the fourth quarter we sold our Underbalanced business in North America. The commentary that follows excludes the operating results of that business as it is treated as discontinued operations on the face of our statement of operations. The change is reflected in the sequential comparisons and comments below in order to show the results by Area on a comparable basis.

<i>(In millions)</i>	Revenues			EBITDA		
	<u>Q4 2013</u>	<u>Q3 2013</u>	<u>Variance</u>	<u>Q4 2013</u>	<u>Q3 2013</u>	<u>Variance</u>
North America	\$ 126.3	\$ 134.0	\$ (7.7)	\$ 6.8	\$ 13.9	\$ (7.1)
Latin America	141.8	144.3	(2.5)	13.5	14.5	(1.0)
North Sea	170.9	159.0	11.9	17.7	11.2	6.5
Emerging Markets	<u>85.1</u>	<u>85.3</u>	<u>(0.2)</u>	<u>3.9</u>	<u>10.3</u>	<u>(6.4)</u>
	<u>\$ 524.1</u>	<u>\$ 522.6</u>	<u>\$ 1.5</u>	<u>\$ 41.9</u>	<u>\$ 49.9</u>	<u>\$ (8.0)</u>

Note: The results of our Underbalanced business in North America have been eliminated from the previously reported Q3 2013 results above as they are now reported under Discontinued Operations.

North America

Revenue in the fourth quarter 2013 was negatively impacted by seasonal effects and amounted to \$126.3 million, a decrease of \$7.7 million, or 5.7%, compared to the third quarter 2013. Absent of the \$13.0 million exceptional benefit in the third quarter, EBITDA of \$6.8 million in the fourth quarter 2013 increased by \$5.9 million. Fourth quarter 2013 results were negatively impacted by severance costs amounting to \$1.2 million, offset by a refund for sales tax amounting to \$1.1 million.

The average United States land-based rig count for the fourth quarter 2013 remained flat compared to the third quarter 2013, but reduced by 61 rigs, or 4%, compared to the same period in the previous year. The average rig count directed towards natural gas for the fourth quarter dropped by 11 rigs, or 3% sequentially compared to last quarter and reduced by 54 rigs, or 14%, compared to the fourth 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.

In Pressure Pumping we fracked a total of 1,073 stages in the fourth quarter 2013, in line with the third quarter 2013 and the fleet utilization decreased from 80.7% in the third quarter 2013 to 75.3% in the fourth quarter 2013. Revenue decreased by \$6.9 million compared to the third quarter 2013 due to a change in customer mix leading to lower average revenue per stage combined with lower utilization. EBITDA improved by approximately \$4.5 million over the same period due to the absence of start-up expenses incurred in third quarter as well as a reduction in product costs as a result of a changed customer mix and lower repair and maintenance costs. Compared to the fourth quarter 2012, revenue increased by \$12.7 million as a result of the addition of a new frac fleet. EBITDA for the same period increased by \$2.4 million reflecting incremental margins from the increased revenue base.

Fourth quarter 2013 revenue in our Pressure Control division was flat compared to third quarter 2013, reflecting a small improvement in operating days in Coiled Tubing, offset by lower utilization in Snubbing. EBITDA decreased by \$1 million as a result of higher repair and maintenance costs. Compared to the fourth quarter 2012, revenue declined by \$2.8 million as a result of lower pricing and utilization in Coiled Tubing, negatively impacting EBITDA by \$2.1 million.

Fourth Quarter revenue in Directional Drilling decreased by \$2.1 million compared to the third quarter 2013. The average number of jobs declined by 11% during the quarter; however the average price per job improved by 6%. The reduction in activity was primarily in the Mid Continent and Gulf Coast regions partly offset by increased revenue in the Rocky Mountains and in the Permian basin. Despite lower revenue, EBITDA improved by \$0.5 million as a result of lower direct and indirect costs following a 10% reduction in workforce. Compared to the fourth quarter 2012, revenue decreased by \$4.2 million, reflecting lower activity in North East following lower gas rig count as well as lower revenue in the Mid Continent as a result of a loss of market share. Average number of jobs per month decreased by 17%, while pricing remained flat. EBITDA improved by \$0.9 million with lower personnel costs as a result of headcount reductions and other costs savings.

Compared to the third quarter 2013, fourth quarter revenue in our Frac Valve Division increased by \$1.3 million, with a 30% incremental EBITDA margin. This increase is primarily attributable to an increased number of valves sold during the quarter. Compared to the fourth quarter 2012, revenue declined by \$1.9 million as a result of lower prices for valves, while the total number of valves sold during the quarter remained flat. EBITDA for the same period declined by \$0.8 million as a result of the lower revenue.

We expect first quarter 2014 revenue to be between 5% to 10% below the fourth quarter 2013 as a result of difficult weather conditions in several of our operating regions. EBITDA is forecasted to be below the fourth quarter, impacted by the lower revenue as well as a less favourable job mix in pressure pumping and additional restructuring expenses of approximately \$ 2.0 million. Starting January 1, 2014, our Wireline operations in the United States will become part of our North America Area and will therefore be reported as part of North America going forward.

Latin America

Revenue in the fourth quarter 2013 was \$141.8 million, a decrease of \$2.5 million or 1.7% compared to last quarter. Lower activity in Brazil as well as in Argentina, which was negatively impacted by rig transfers during the quarter, resulted in overall slightly lower rig utilization in the fourth quarter 2013 with 90.5% in Argentina and Bolivia and 15.2% in Brazil. The lower activity was combined with an adverse impact of accelerating currency devaluation in Argentina towards the end of the fourth quarter 2013, partially offset by retrospective price increases with several key customers in Argentina. EBITDA for the three months ended December 31, 2013 was \$13.5 million, a decrease of \$1.0 million, or 6.9%, compared to the third quarter 2013. This decrease in EBITDA is the result of a charge for restructuring costs in Brazil amounting \$2.8 million, partly offset by retroactive price escalations. Compared to fourth quarter 2012 revenue increased \$9.1 million or 7% reflecting higher activity and retrospective price increases in Argentina, partially offset by the reduction in Land Drilling activity in Brazil. EBITDA increased by \$8.6 million or 176% reflecting increased margins from increased activity and the positive effect from retrospective price increases partly offset the restructuring costs.

We expect first quarter 2014 revenue to be below the fourth quarter 2013 as a result of 2 less operating days as well as a negative currency devaluation effect on revenue, which is estimated at approximately \$25 million in the first quarter 2014. EBITDA in the first quarter is also expected to be below the fourth quarter as a result of less operating days while most of the costs remain fixed, as well as a one-time effect from the currency evaluation in January amounting to approximately \$4 million, partly offset by lower Argentinean peso denominated costs.

North Sea

Fourth quarter 2013 revenue was \$170.9 million, an increase of \$11.9 million or 7.5% compared to the third quarter 2013. The increased revenue is mainly due to higher contract and reimbursable revenue in Platform Drilling, improved revenue for Engineering services with utilization of Engineering personnel partially offset by a reduction in revenue for the Modular Rig, due to a milestone bonus earned in the prior quarter. EBITDA of \$17.7 million is \$6.5 million above prior quarter, primarily as a result of increased performance bonuses and other retroactive billing, higher activity in the United Kingdom and in Engineering services partly offset by severance costs amounting to \$0.8 million. Compared to fourth quarter 2012, revenue was marginally up with increased revenue for the Modular rig, offset by lower revenue in Engineering. Compared to fourth quarter 2012 EBITDA increased by \$19.1 million with improved margins in Platform Drilling and Engineering as well as income from the Modular Rig and the absence of an \$8 million bad debt provision included in fourth quarter 2012 results, partially offset by severance costs reported in the fourth quarter 2013.

We expect first quarter 2014 revenue in the North Sea Area to be slightly below the fourth quarter 2013 due to 2 less operating days and the absence of performance bonuses received from several customers. Consequentially we expect EBITDA in the first quarter 2014 to be lower as a result to the lower revenue, while apart from reimbursable items the cost structure remains broadly the same.

Emerging Markets & Technologies

Revenue in the fourth quarter 2013 was \$85.1 million, flat compared to last quarter. Revenue in Oiltools increased due to strong sales of Cflex equipment in the United States and improved LOCK Series rentals in Norway offset by a reduction in Wireline activity in the United States following a seasonal slowdown as well as adverse weather conditions. EBITDA of \$3.9 million for the fourth quarter deteriorated by \$6.4 million as a result of restructuring and one-time charges totalling \$6.8 million. Compared to the fourth quarter 2012, revenue increased \$4.3 million or 5.3% reflecting higher revenue at Oiltools mainly as a result of higher Cflex sales in the United States and increased activity in our Eastern Hemisphere Wireline operations, offset by significant reductions in Wireline in the United States with a slowdown in pump down activity and a loss of market share due to service quality issues. EBITDA decreased by \$4.6 million due to restructuring and one-time charges amounting to \$6.8 million partly offset by strong margins from increased Oiltools sales.

We expect first quarter 2014 revenue to be slightly below fourth quarter 2013 as a result of seasonally lower Oiltools sales as well as continued adverse weather conditions in the United States impacting our Wireline Division, partly offset by increased Wireline activity in the Eastern Hemisphere. EBITDA is expected to improve as a result of the absence of restructuring and one-time exceptional costs partly offset by lower margins as a result of a change in sales mix and incremental start-up costs in some of our Eastern Hemisphere operations. Starting January 1, 2014 Wireline operations in the United States, will be reported as part of our North America Area.

Summary Outlook

Excluding exceptional effects over the last quarters, we continued to see sequential improvements in revenue and margins as a result of improved drilling activity in Argentina, continued growth of product sales and services in offshore markets and a solid performance of the modular rig. Although fourth quarter results in North America were slightly improved compared to the third quarter 2013, the North American land based market remains challenging, which has been reflected in the impairment of the company's goodwill and intangible assets.

Despite the short term weather related increase in natural gas prices, we believe that the markets for most oilfield services in the United States remain oversupplied in the short term, in particular as operators continue to push for efficiency gains, but we believe that the second half of 2014 will see an improvement in activity levels and consequentially in utilization and pricing.

We continue to expect that overall normalized margins will slowly improve, although results in the first quarter 2014 will be impacted by the reasons mentioned above. The restructuring plan implemented in the fourth quarter is well on track and most of the remaining tasks will be completed within the first quarter 2014, where the company expects to incur additional restructuring charges of approximately \$2-\$3 million. As a result of this restructuring plan we expect annualized savings of approximately \$15 million – \$20 million, which will help to improve margins over the remainder of the year and into next year.

The recently awarded contract for the provision of 5 drilling rigs in Argentina will support the growth in Latin America, as we expect the new drilling rigs to arrive during the second half of 2014 and into 2015. The recent increase in drilling activity and the push for increased indigenous production of hydrocarbons in Argentina will support continuous growth and improved margins, even if the recent devaluation has introduced additional uncertainties. We believe that the contracts we have in place will cover us against a significant adverse financial impact, although macroeconomic and social uncertainties have increased over the past weeks.

The committed investments including new drilling rigs for YPF in Argentina as well as the previously announced new modular rig Archer Topaz, will contribute approximately \$8.0 million of incremental EBITDA in 2014 and \$60 million on an annualized basis.

Considering the geographical proximity and the increased demand for integrated operations in North America, we have decided to move the management of our Wireline operations in the United States from Emerging Markets & Technologies to our North America Area effective January 1, 2014. This will allow us to structure all of our North American land based business in one cohesive unit to better address customer needs.

The Board of Directors is humble and disappointed for the bad performance the Company has had after the major acquisitions in 2010 and 2011. The Board is however pleased with the progress the Company made over the last couple of quarters, in particular the reduction of net interest bearing debt and the strengthening of the Company's balance sheet. Based on a stabilization of the current weak US market, improved operations and commencement of the new business which has been committed, the Company should have the ability to significantly improve the operating results in 2014 and 2015. A potential improvement in market conditions will further increase this upside.

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

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ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)

	Note	Three Months Ended December 31		Years Ended December 31	
		2013	2012	2013	2012
Revenues					
Operating revenues		\$ 499.2	\$ 471.9	\$ 1,944.3	\$ 1,945.8
Reimbursable revenues		24.9	35.2	97.0	108.9
Total revenues		524.1	507.1	2,041.3	2,054.7
Expenses					
Operating expenses		439.9	433.0	1,739.1	1,701.0
Reimbursable expenses		24.7	35.9	93.7	106.6
Depreciation and amortization		38.7	39.5	161.4	155.7
Impairments	3	423.7	—	423.7	293.2
General and administrative expenses		17.6	23.6	61.3	83.9
Total expenses		944.6	532.0	2,479.2	2,340.4
Operating loss		(420.5)	(24.9)	(437.9)	(285.7)
Financial items					
Interest income		0.4	(1.2)	1.3	1.7
Interest expenses		(11.7)	(12.0)	(51.8)	(54.7)
Share of results in associated company		(1.0)	0.2	(1.6)	(0.2)
Other financial items	4	(5.4)	4.6	(21.6)	17.5
Total financial items		(17.7)	(8.4)	(73.7)	(35.7)
Loss from continuing operations before income taxes		(438.2)	(33.3)	(511.6)	(321.4)
Income tax (expense)/benefit	5	9.0	(5.1)	2.6	(5.5)
Loss from continuing operations		(429.2)	(38.4)	(509.0)	(326.9)
Loss from discontinued operations, net of tax	6	(2.5)	(3.3)	(9.6)	(48.9)
Net loss		\$(431.7)	\$ (41.7)	\$ (518.6)	\$ (375.8)
Loss per share-basic					
Loss from continuing operations		\$ (0.75)	\$ (0.10)	\$ (0.94)	\$ (0.89)
Loss from discontinued operations		-	(0.01)	(0.02)	(0.14)
Loss per share		\$(0.75)	\$ (0.11)	\$ (0.92)	\$ (1.03)
Loss per share-diluted					
Loss from continuing operations		\$ (0.75)	\$ (0.10)	\$ (0.94)	\$ (0.89)
Loss from discontinued operations		-	(0.01)	(0.02)	(0.14)
Loss per share		\$ (0.75)	\$ (0.11)	\$ (0.92)	\$ (1.03)
Weighted average number of shares outstanding					
Basic	7	579.2	366.7	549.5	366.6
Diluted	7	579.2	366.7	549.5	366.6

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

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

<i>(In millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
Net loss	\$(431.7)	\$(41.7)	\$(518.6)	\$(375.8)
Other comprehensive income/(loss)				
Currency exchange differences	(1.5)	(2.6)	(6.5)	(5.0)
Actuarial gain/ (loss) relating to pension	(15.5)	14.4	(15.5)	14.4
Change in valuation of interest rate swap	-	0.8	-	1.2
Other comprehensive income/(loss)	(17.0)	12.6	(22.0)	10.6
Total comprehensive loss	\$(448.7)	\$(29.1)	\$(540.6)	\$(365.2)

Accumulated Other Comprehensive Gain/(Loss)
(Unaudited)

<i>(In millions)</i>	Pension – Unrecognized <u>Losses</u>	Currency Exchange <u>Differences</u>	<u>Total</u>
Balance at December 31, 2012	\$ (7.2)	\$ 9.2	\$ 2.0
Currency exchange differences		(6.5)	
Actuarial loss relating to pension	(15.5)		(22.0)
Balance at December 31, 2013	\$(22.7)	\$ 2.7	\$(20.0)

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

ARCHER LIMITED

Consolidated Balance Sheets

<i>(In millions)</i>	Note	<u>December 31 2013</u> (Unaudited)	<u>December 31 2012</u> (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 49.5	\$ 58.2
Restricted cash		16.5	11.9
Accounts receivables		386.1	418.5
Inventories	8	65.2	64.3
Deferred income taxes		5.6	8.4
Assets held for sale	6	-	—
Other current assets		70.7	81.0
Total current assets		<u>593.6</u>	<u>642.3</u>
Noncurrent assets			
Investments in associates		0.6	2.4
Loans to associates		9.3	
Property plant and equipment, net		800.0	1,059.4
Deferred income tax asset		16.2	29.1
Goodwill	9	294.1	706.1
Other intangible assets, net	10	65.5	129.6
Deferred charges		15.6	18.4
Total noncurrent assets		<u>1,201.3</u>	<u>1,945.0</u>
Total assets		<u>\$ 1,794.9</u>	<u>\$ 2,587.3</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	11	\$ 150.9	\$ 329.5
Accounts payable		110.7	142.9
Other current liabilities		214.3	220.4
Total current liabilities		<u>475.9</u>	<u>692.8</u>
Noncurrent liabilities			
Long-term interest-bearing debt	11	613.9	889.8
Deferred taxes		11.6	38.3
Other noncurrent liabilities		58.9	40.2
Total noncurrent liabilities		<u>684.4</u>	<u>968.3</u>
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 December 31, 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		816.1	779.6
Accumulated deficit		(902.2)	(383.6)
Accumulated other comprehensive (loss)/income		(20.0)	2.0
Contributed surplus/(deficit)		161.5	(205.1)
Total shareholders' equity		<u>634.6</u>	<u>926.2</u>
Total liabilities and shareholders' equity		<u>\$ 1,794.9</u>	<u>\$ 2,587.3</u>

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)

	Years Ended December 31	
	2013	2012
Cash Flows from Operating Activities		
Net loss	\$ (518.6)	\$ (375.8)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	159.1	155.7
Depreciation and amortization of assets in discontinued operations	23.0	49.3
Share-based compensation expenses	1.1	4.1
Impairment charges	423.7	338.7
Impairment charges – reported in discontinued operations	7.2	—
Loss on property, plant and equipment disposals	3.0	2.9
(Gain)/loss on disposal of assets in discontinued operations, net	(9.7)	0.4
Equity in loss of unconsolidated affiliates	1.6	0.2
Gain on debt redemption	—	(4.7)
Amortization of loan fees and senior note premium	9.4	5.9
Deferred income taxes	(11.0)	(11.7)
Foreign currency loss/(gain)	20.6	(13.7)
<i>Changes in operating assets and liabilities, net of acquisitions</i>		
Decrease in accounts receivable and other current assets	1.3	32.1
Increase in inventories	(0.2)	(13.1)
(Decrease)/increase in accounts payable and other current liabilities	(36.0)	6.5
Other, net	(2.9)	(8.0)
Net cash provided by operating activities	71.6	168.8
Cash Flows from Investing Activities		
Capital expenditures	(117.5)	(248.7)
Capital expenditures for discontinued operations	(2.1)	(17.5)
Proceeds from disposal of property, plant and equipment	9.0	8.6
Proceeds from disposal of assets in discontinued operations, net	253.9	6.5
Acquisition of subsidiaries, net of cash	—	(0.9)
Loans to associates	(9.3)	—
Net change in restricted cash	(5.5)	2.3
Net cash provided/(used) by investing activities	128.5	(249.7)
Cash Flows from Financing Activities		
Net (repayments) borrowings under revolving facilities	26.3	55.2
Proceeds of related party debt	10.0	75.0
Repayment of related party debt	(65.0)	(20.0)
Proceeds from long-term debt	43.7	434.8
Repayment of long-term debt	(463.0)	(439.8)
Debt issuance costs	(6.6)	(4.3)
Proceeds from issuance of equity, net	247.9	0.4
Net cash (used)/provided by financing activities	(206.7)	101.3
Effect of exchange rate changes on cash and cash equivalents	(2.1)	0.5
Net (decrease)/increase in cash and cash equivalents	(8.7)	20.9
Cash and cash equivalents at beginning of the period	58.2	37.3
Cash and cash equivalents at the end of the period	\$ 49.5	\$ 58.2
Interest paid	\$ 47.0	\$ 65.1
Taxes paid	\$ 13.6	\$ 38.8

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

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

<i>(In millions)</i>	<u>Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Contributed (Deficit)/ Surplus</u>	<u>Total Shareholders' Equity</u>
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
Actuarial gain/ (loss) relating to pension	—	—	—	(15.5)	—	(15.5)
Currency exchange differences	—	—	—	(6.5)	—	(6.5)
Net loss	—	—	(518.5)	—	—	(518.6)
Share based compensation	—	1.1	—	—	—	1.1
Balance at						
December 31, 2013	\$ 579.2	\$ 816.1	\$ (902.2)	\$ (20.0)	\$ 161.5	\$ 634.6

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

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

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

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

We employed approximately 8,100 skilled and experienced people at December 31, 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 fourth quarter 2013 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 fourth quarter 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 and Underbalanced businesses 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 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, 2012. 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. Once a base case has been established following the above principles, the cash flow model is then altered based on different macroeconomic and operational assumptions and based on probabilities a weighted fair value of the business is obtained. 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 asset

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess 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 loss is recorded equal to the difference between the asset's carrying value and fair value.

Reclassifications

We have made certain reclassifications to prior period amounts to conform 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 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.

In July 2013, the FASB issued ASU No. 2013-11 "Income Taxes: Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This pronouncement provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This pronouncement is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2013. We will adopt the provisions of ASU No. 2013-11 on January 1, 2014. We do not anticipate the provisions of ASU No. 2013-11 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 – Impairments

We performed our comprehensive annual impairment test for long lived assets, including intangibles and goodwill, which resulted in the following impairments:

- an impairment of goodwill, amounting to \$378.6 million,
- an impairment of fixed assets amounting to \$18.7 million. and
- an impairment of intangibles amounting to \$33.5 million.

Of the impairments of goodwill and intangible assets, \$4.4 million and \$2.8 million respectively were reported within results of discontinued operations.

Note 4 – Other Financial Items

<i>(In millions)</i>	Three Months Ended		Years Ended	
	December 31		December 31	
	2013	2012	2013	2012
Foreign exchange differences	\$ (4.9)	\$ 5.3	\$(20.5)	\$ 13.7
Gain on redemption of debt	—	—	—	4.7
Other items	(0.5)	(0.6)	(1.1)	(0.9)
Total other financial items	\$ (5.4)	\$ 4.7	\$(21.6)	\$ 17.5

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 5 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended		Years Ended	
	December 31		December 31	
	2013	2012	2013	2012
United States	\$(12.1)	\$ 2.5	\$(10.6)	\$ (9.9)
South America	1.5	2.3	2.3	6.6
Europe	1.5	0.6	4.9	8.5
Others	0.1	(0.3)	0.8	0.3
Total	\$ (9.0)	\$ 5.1	\$ (2.6)	\$ 5.5

Archer is a Bermuda company. Under current Bermuda law, Archer is not required to pay corporate income taxes in Bermuda. 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.

We have incurred tax expenses for the year and the three months period ended December 31, 2013 primarily in Latin America and in Europe. In the United States there has been a reversal of a valuation allowance related to discontinued businesses. We have accumulated significant tax losses in the United States and in Brazil, with a total tax value of \$180 million and \$107 million respectively. We are precluded from recognising the tax benefit in respect of these losses as we do not anticipate being able to utilise the losses within the foreseeable future. However we incur tax expenses in both those countries including withholding taxes and State income taxes, which are classified as current income tax.

Note 6 – 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. During the third quarter of 2013 we agreed to sell our Underbalanced business in North America which subsequently closed on October 17, 2013. 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:

<i>(In millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
Revenues	\$ 0.7	\$ 28.4	\$ 28.4	\$134.0
Operating and reimbursable expenses	(3.2)	(18.3)	(45.2)	(80.5)
Impairments	—	-	(11.0)	(45.5)
Depreciation and amortization	—	(11.8)	(23.0)	(49.3)
Interest expense	—	(1.7)	(3.8)	(6.8)
Other financial items	—	0.1	—	—
Gain on sale of discontinued operations, net	—	—	9.1	—
Loss from discontinued operations before income tax expense	(2.5)	(3.3)	(9.1)	(48.1)
Income tax expense	—	—	(0.5)	(0.8)
Loss from discontinued operations, net of tax	\$ (2.5)	\$ (3.3)	\$ (9.6)	\$ (48.9)

The Rental and Tubular businesses were deconsolidated at June 27, 2013, the date of their disposal and the assets utilized in the North American Underbalanced business were sold in October 2013, so their assets and liabilities are not included within the December 31, 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:

<i>(In millions)</i>	December 31 2012
Accounts receivable	\$ 21.2
Inventory	7.7
Other current assets	0.3
Property plant and equipment	198.7
Goodwill	13.3
Intangibles	15.6
Deferred tax assets	14.2
Total assets	\$ 271.0
Accounts payable	4.2
Other current liabilities	4.5
Deferred tax liabilities	4.1
Total liabilities	\$ 12.8

Note 7 – Earnings Per Share

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

<i>(In thousands)</i>	Three Months Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
Denominator				
Weighted-average common shares outstanding	579,160	366,659	549,468	366,543
Effect of potentially dilutive common shares				
Share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	<u>579,160</u>	<u>366,659</u>	<u>549,468</u>	<u>366,543</u>

Share-based compensation of approximately 256,804 and 91,760 shares were excluded from the computation of diluted earnings per share for the three and twelve months ended December 31, 2013, and 18,487 and 151,022 shares were excluded from the computation of diluted earnings per share for the three and twelve months ended December 31, 2012, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 8 – Inventories

<i>(In millions)</i>	December 31	December 31
	2013	2012
Manufactured		
Finished goods	\$ 3.8	\$ 6.8
Work in progress	1.4	3.6
Raw materials	<u>8.0</u>	<u>6.6</u>
Total manufactured	13.2	17.0
Drilling supplies	25.0	25.2
Chemicals	11.6	8.1
Other items and spares	<u>15.4</u>	<u>14.0</u>
Total inventories	<u>\$ 65.2</u>	<u>\$ 64.3</u>

Note 9 – 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)
Impairment	(378.6)
Currency adjustments	<u>(20.1)</u>
Net book balance at December 31, 2013	<u><u>\$ 294.1</u></u>

The impairment is primarily due to reduced pricing and low utilization of equipment as a result of an oversupply of land based oilfield services in the United States. The above underlying condition has led to the downward revision of cash flow expectations underlying the valuation of the North American business.

The goodwill associated with the divestiture of our Rental and Tubular businesses was removed from our books in 2013 (see Note 6). The selling price of our Underbalanced business is below its carrying cost; therefore all goodwill associated with the business was impaired prior to the closing of the sale. The impairment of the Underbalanced goodwill is reported within results of discontinued operations.

Note 10 – Other Intangible Assets

<i>(In millions)</i>	Cost	Accumulated Amortization	Net
Balance at December 31, 2012	\$ 173.2	\$ (43.6)	\$ 129.6
Amortization	—	(15.1)	(15.1)
Disposals	(19.2)	4.6	(14.6)
Impairments	(35.2)	1.7	(33.5)
Currency adjustments	(2.3)	1.4	(0.9)
Balance at December 31, 2013	<u><u>\$ 116.5</u></u>	<u><u>\$ (51.0)</u></u>	<u><u>\$ 65.5</u></u>

The intangibles disposed of during the period were associated with the divestiture of our Rental and Tubular businesses (see Note 6). The selling price of our Underbalanced business is below its carrying cost, therefore all intangibles associated with the business were impaired prior to the closing of the sale. This included \$2.7 million impairment of customer relationship carried in Archer Underbalanced Services LLC. The net book value at December 31, 2013, consisted of customer relationships of \$56.0 million, identified technology of \$5.0 million, trademarks of \$1.6 million, patents of \$2.8 million and noncompete agreements of \$0.1 million.

Note 11 – Long-term, Interest-Bearing Debt

<i>(In millions)</i>	December 31 2013	December 31 2012
Multicurrency term and revolving facility	\$ 669.2	\$ 1,047.1
Related party subordinated loan	—	55.0
Hermes-covered term loan	41.6	34.9
Other loans and capital lease liability	54.0	82.3
Total loans and capital lease liability	764.8	1,219.3
Less: current portion	(150.9)	(329.5)
Long-term portion of interest bearing debt	\$ 613.9	\$ 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 and an additional \$14.4 million as a result of the sale of assets used in Underbalanced business. Following this prepayment, the total amount available on our main credit facility has been reduced from \$876.9 million to \$698.2 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 \$299.8 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 December 31, 2013, a total of \$669.2 million has been drawn under the multicurrency term and revolving facility, of which \$369.4 million has been drawn under tranche A and \$299.8 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 5.75x of the last twelve months EBITDA as of December 31, 2013. This leverage ratio has 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 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 December 31, 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 loans

On December 6, 2013 Archer Topaz (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the modular rig, Archer Topaz. The facility is repayable in 10 semi-annual installments. The interest rate is 1.45% above EURIBOR. At December 31, 2013, the equivalent of \$13.1 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favor of the lender securing our obligations under this facility.

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the modular rig, Archer Emerald. The facility is repayable in semi-annual installments in March and September through March 2017. The interest rate is 1.55% above EURIBOR. At December 31, 2013, the equivalent of \$28.4 million was outstanding under this facility.

Other loans and capital leases

We have two \$50.0 million cash overdraft facilities and at December 31, 2013, net borrowings under these facilities were \$22.6 million. In addition we have borrowed \$16.0 million under short term facilities in Argentina as of December 31, 2013. We also have capital leases covering both real property and equipment and at December 31, 2013, the net balance due under these arrangements was \$15.4 million. In addition, we have several equipment financing obligations that in aggregate had a balance due of \$0.1 million at December 31, 2013.

Interest rate swap agreement

We have a NOK interest rate swap agreement, currently securing the interest rate on NOK 300 million (\$49.3 million at December 31, 2013) until October 2015. We also have two USD interest rate swap agreement securing the interest rate on \$150 million until October 2015 and \$150 million until October 2017 respectively. The fair value of the swaps as of December 31, 2013 was a net liability of \$0.4 million and is included within other non-current liabilities.

Capitalized Interest

During the three and twelve months ended December 31, 2013, we capitalized approximately \$0.4 million and \$1.1 million respectively, of interest costs related to the construction of equipment, primarily our modular rig.

Note 12 – Supplemental Cash Flow Information

During 2013, we financed equipment purchases of \$7.2 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 13 – 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 treating our North America Rental business, our North America Underbalanced business and our Rental and Tubular business in Latin America as discontinued operations and not as part of our continuing operations by segment.

(In millions)	Three Months Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
Revenues from external customers				
North America	\$ 126.3	\$ 122.6	\$ 507.3	\$ 556.3
Latin America	141.8	133.9	561.6	527.3
North Sea	170.9	169.8	638.9	648.6
Emerging Markets & Technologies	85.1	80.8	333.5	322.5
Total	\$ 524.1	\$ 507.1	\$ 2,041.3	\$ 2,054.7
Depreciation and amortization				
North America	\$ 19.2	\$ 19.6	\$ 77.9	\$ 78.4
Latin America	7.7	8.1	33.8	34.8
North Sea	3.7	3.2	14.7	10.3
Emerging Markets & Technologies	8.1	8.6	35.0	32.2
Total	\$ 38.7	\$ 39.5	\$ 161.4	\$ 155.7
Operating (loss)/income – net loss				
North America	\$(338.1)	\$ (17.0)	\$(374.0)	\$(274.6)
Latin America	3.7	(2.8)	5.6	(53.6)
North Sea	13.2	(4.2)	27.8	21.7
Emerging Markets & Technologies	(98.9)	(0.1)	(96.2)	24.8
Stock compensation costs	(0.4)	(0.8)	(1.1)	(4.0)
Operating (loss)/income	(420.56)	(24.9)	(437.9)	(285.7)
Total financial items	(17.6)	(8.4)	(73.7)	(35.7)
Income taxes	9.0	(5.1)	2.6	(5.5)
Discontinued operations, net of taxes	(2.5)	(3.3)	(9.6)	(48.9)
Net loss	\$(431.7)	\$ (41.7)	\$(518.6)	\$(375.8)
Capital expenditures				
North America	\$ 4.9	\$ 13.1	\$ 24.9	\$ 130.4
Latin America	6.7	9.4	28.6	43.8
North Sea	7.5	19.0	42.4	48.2
Emerging Markets & Technologies	5.2	8.1	29.2	31.7
Total	\$ 24.3	\$ 49.6	\$ 125.1	\$ 254.1

<i>(In millions)</i>	North America	Latin America	North Sea	Emerging Markets & Technologies	Total
Goodwill					
Balance at December 31, 2012	\$ 324.5	\$ —	\$ 141.4	\$ 240.2	\$ 706.1
Goodwill disposed	(13.3)	—	—	—	(13.3)
Impairments	(305.7)	—	—	(72.9)	(378.6)
Currency adjustments	—	—	(8.6)	(11.5)	(20.1)
Balance at December 31, 2013	\$ 5.5	\$ —	\$ 132.8	\$ 155.8	\$ 294.1

<i>(In millions)</i>	December 31 2013	December 31 2012
Total assets		
North America	\$ 494.7	\$ 1,114.9
Latin America	471.4	478.9
North Sea	484.7	479.6
Emerging Markets & Technologies	406.9	513.9
Total	\$ 1,857.7	\$ 2,587.3

Note 14 – Fair Value of Financial Instruments

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

<i>(In millions)</i>	December 31, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>Nonderivatives</i>				
Cash and cash equivalents	\$ 49.5	\$ 49.5	\$ 58.2	\$ 58.2
Restricted cash	16.5	16.5	11.9	11.9
Current portion of long-term debt	150.9	150.9	329.5	329.5
Long-term, interest-bearing debt	613.9	613.9	889.8	889.8
<i>Derivatives</i>				
Interest rate swap agreements	(0.4)	(0.4)	—	—

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

<i>(In millions)</i>	<u>December 31,</u> <u>2013</u>	<u>Fair Value Measurements at</u> <u>Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash and cash equivalents	\$ 49.5	\$ 49.5	—	—
Restricted cash	16.5	16.5	—	—
Interest rate swap agreements	(0.4)	—	(0.4)	—
Liabilities				
Multicurrency term and revolving facility, excluding current portion	569.2	—	569.2	—
Other loans and capital leases, excluding current portion	44.7	—	44.7	—

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 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 15 – Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of September 30, 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.

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 was given final approval by the Court in November 2013 and the settlement was funded by December 31, 2013.

Three class actions have been filed against a number of our subsidiaries all alleging violations 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.

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 16 – 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 year ended December 31, 2013, we supplied Seadrill Limited and affiliates with services amounting to \$3.4 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2013, Seadrill owed us \$0.1 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 11). Seadrill is charging us an annual guarantee fee of 1.25% of the guaranteed amount and as of December 31, 2013, we had not yet paid the fees as they are due at the end of the guarantee period. The guarantee fees are being amortized and are 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 \$0.8 million for these services in the year ended December 31, 2013. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At December 31, 2013, we owe Frontline \$0.1 million related to these services.

During the year ended December 31, 2013, we supplied NADL with services amounting to \$3.3 million, including reimbursable material. This amount has been included in operating revenues. At December 31, 2013, NADL owed us \$0.4 million related to these services.

Note 17 – Subsequent Events

On February 4, Archer signed an agreement with YPF S.A. for the provision of five new built drilling rigs. The agreed contract period is for an initial five years, valued at a total of approximately \$400 million, plus three optional years. The Company is currently in advanced discussions with various lenders, to establish an efficient financing structure based on this project. Seadrill Limited, the major shareholder of Archer Limited, confirmed that it will support Archer in obtaining suitable financing up to and including a financial guarantee.

On February 10, the Company has granted restricted stock units (RSU's) to members of its management team. These RSUs will vest over a four year period with 1/4th vesting on March 1, 2015 followed by 1/4th for each of the remaining three years. The total number of RSUs issued under this plan is 6,370,000 and there are no Primary Insiders among the recipients of these RSUs.

Appendix to Archer Fourth Quarter 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 that follow for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, December 31, 2012 and September 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)

<i>(In millions)</i>	Three Months Ended					
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012
Revenue	524.1	522.6	510.1	484.5	507.1	519.2
Cost and expenses						
Operational costs	(520.9)	(515.2)	(523.3)	(496.0)	(532.0)	(516.9)
Impairments	(423.7)	—	—	—	—	(293.2)
Net financial items	(17.7)	(13.9)	(19.9)	(22.3)	(8.4)	(4.6)
Loss from continuing operations before income taxes	(438.2)	(6.5)	(33.1)	(33.8)	(33.3)	(295.5)
Income tax (expense) benefit	9.0	(4.6)	(0.5)	(1.3)	(5.1)	2.8
Loss from continuing operations	(429.2)	(11.1)	(33.6)	(35.1)	(38.4)	(292.7)
(Loss)/income from discontinued operations, net of tax	(2.5)	(13.1)	7.9	(1.9)	(3.3)	(48.6)
Net loss	(431.7)	(24.2)	(25.7)	(37.0)	(41.7)	(341.3)

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

<i>(In millions)</i>	Three Months Ended					
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012
Net loss	(431.7)	(24.2)	(25.7)	(37.0)	(41.7)	(341.3)
Depreciation, amortization and impairments	462.4	42.5	40.2	40.1	39.5	332.7
Net financial items	17.7	13.9	19.9	22.3	8.4	4.6
Taxes on income	(9.0)	4.6	0.5	1.3	5.1	(2.8)
Loss/(income) from discontinued operations, net of tax	2.5	13.1	(7.9)	1.9	3.3	48.6
EBITDA	41.9	49.9	27.0	28.6	14.6	41.8

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

<i>(In millions)</i>	Three Months Ended					
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012
North America (NAM)	6.8	13.9	7.1	1.6	2.4	4.7
Latin America (LAM)	13.5	14.5	3.9	9.5	4.9	13.4
North Sea (NRS)	17.7	11.2	8.5	5.9	(1.4)	10.9
Emerging Markets & Technologies (EMT)	3.9	10.3	7.5	11.6	8.7	12.8
EBITDA	41.9	49.9	27.0	28.6	14.6	41.8