Archer

Archer Limited (ARCHER) First Quarter 2014 Results

First Quarter 2014 highlights

- First quarter revenue from continuing operations of $504.8 million.
- First quarter EBITDA from continuing operations at $39.5 million including a $3.6 million charge for restructuring costs.
- Net loss for the quarter of $8.5 million.
- First quarter operational cash flow of $31.5 million.
- Net interest-bearing debt of $745.4 million at March 31, 2014.

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 March 31, 2014 to the Three Months Ended December 31, 2013

Revenue for the first quarter 2014 was $504.8 million compared to $524.1 million for the fourth quarter 2013, a decrease of $19.3 million. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, were $39.5 million compared to $41.9 million for the fourth quarter 2013, a decrease of 5.7%. Total restructuring costs incurred in the first quarter amounted to $3.6 million representing severance costs for the reduction of an additional 75 employees and the closure of several facilities mainly in the United States. Detailed explanations for the fluctuations are provided in our operational review by Area.

Net Financial Items were a net expense of $7.3 million in the first quarter 2014 compared to an expense of $17.7 million in the fourth quarter 2013. Interest expenses amounted to $11.9 million compared to $11.7 million in the fourth quarter 2013. Other financial items amounted to $4.6 million income compared to $5.4 million expense in the fourth quarter 2013. Other financial items represent predominantly unrealized foreign exchange gains.

Comparison of the Three Months Ended March 31, 2014 to the Three Months Ended March 31, 2013

Revenue for the three months ended March 31, 2014 was $504.8 million compared to $484.5 million for the first quarter 2013, up $ 20.3 million or 4.2%. EBITDA of $39.5 million for the three months ended March 31, 2014 increased 36.4% compared to $28.6 million EBITDA for the first quarter 2013.

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 $42.8 million at March 31, 2014 compared to $49.5 million at December 31, 2013.

Cash flow from operations for the three months ended March 31, 2014 was $31.5 million, which is comprised primarily of the net loss of $8.5 million, add back for depreciation and amortization from continuing operations of $37.0 million, add back expenses for share based compensation of $1.5 million, deduction of a net foreign currency gain of $4.4 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 $4.6 million.

Capital expenditures for continuing operations during the quarter amounted to $59.3 million, predominantly representing investments in our new modular rig, a first milestone payment for the purchase of new land rigs in Argentina, and new equipment for our Pressure Pumping, Wireline and Oil Tools Divisions. The expenditure on the new land rigs will be financed by specific carved out financial arrangements and does not impact the bank covenants imposed by our main lenders.

Predominately as a result of these capital expenditures total net interest-bearing debt at March 31, 2014 increased to $745.4 million compared to $715.3 million as of December 31, 2013.

Share Capital

The total number of issued and fully paid shares of par value $1.00 outstanding at March 31, 2014 was 579,159,787. A total of 28,350,606 options were outstanding as of March 31, 2014.

First Quarter 2014 Operating Results by Area

We are organized in four Areas and our operational comments for the first quarter this year and the second quarter outlook are presented by Area below. During 2013 we sold our Rental, Tubular and Underbalanced businesses in North America. 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 addition we transferred our Wireline operations in the United States from Emerging Markets & Technologies to the North America Area starting January 1, 2014. These changes are reflected in the sequential comparisons and comments below in order to show the results by Area on a comparable basis.

(In millions)	Revenues			EBITDA		
	Q1 2014	Q4 2013	Variance	Q1 2014	Q4 2013	Variance
North America	$ 148.9	$ 152.4	$ (3.5)	$ 0.4	$ 2.4	$ (2.0)
Latin America	122.4	141.7	(19.4)	11.9	13.5	(1.6)
North Sea	181.7	170.9	10.8	16.9	17.7	(0.8)
Emerging Markets	51.8	59.0	(7.2)	10.3	8.3	2.0
	$ 504.8	$ 524.1	$ 19.3	$ 39.5	$ 41.9	$ (2.4)

North America

Revenue in the first quarter 2014 amounted to $148.9 million, a decrease of $3.6 million, or 2.4% and EBITDA of $0.4 million in the first quarter 2014 decreased by $2.0 million or 83% compared to the fourth quarter 2013. Adverse weather conditions impacted several Divisions with an approximate effect on revenue of $5.7 million and an effect of $2.0 million on EBITDA. We booked an additional provision for restructuring costs amounting to $3.2 million, reflecting costs for additional severance and facility closures which compares to $1.2 million restructuring costs incurred in the fourth quarter of 2013. This was partly offset by improved margins as a result of a more favourable revenue mix as explained in more detail below as well as lower costs as a result of the on-going restructuring effort.

Total US Land based well count in the first quarter 2014 decreased by 230 or 2.5% sequentially whereas the well count compared to first quarter 2013 increased by 319 or 3.7%. The average United States land-based rig count of 1,724 for the first quarter 2014 remained flat compared to both the fourth quarter 2013 and the first quarter 2013. The average rig count directed towards natural gas for the first quarter dropped by a further 23 rigs, or 7% sequentially and reduced by 77 rigs, or 23%, compared to the first quarter 2013.

In Pressure Pumping we fracked a total of 1,441 stages in the first quarter 2014 compared to 1,073 during fourth quarter 2013 and utilization increased from 75.3% in the fourth quarter 2013 to 79.3% in the first quarter 2014. However, average revenue per stage decreased by 30% as a result of a change in customer and job mix resulting in a reduction in revenue by $4.5 million compared to the fourth quarter 2013. EBITDA in the first quarter 2014 decreased by $1 million compared to last quarter reflecting the impact of the lower revenue, as well as higher repair and maintenance costs. Compared to the first quarter 2013, revenue was flat and EBITDA increased by $1.5 million, reflecting a reduction in material costs. We anticipate increased revenue and EBITDA performance in the coming quarters due to start-up of activities under a new customer agreement in the second quarter.

Despite weather related downtime in the beginning of the quarter, revenue in our Pressure Control Division increased by $0.9 million or 2.1% compared to the fourth quarter 2013, reflecting higher activity levels in a number of Districts with strong activity in Snubbing and a small improvement in Coiled Tubing pricing partly offset by a reduction in utilization in Coiled Tubing from 51.7% to 47.7%. EBITDA for the first quarter 2014 increased by $2.2 million, reflecting increased margins resulting from incremental revenue. Compared to first quarter 2013, revenue increased by $3 million reflecting increased pricing for Coiled Tubing services and a 38% increase in Snubbing activity. EBITDA increased by $1.5 million, reflecting increased margins from this additional revenue.

Although negatively impacted by adverse weather conditions early in the first quarter, revenue for our Wireline operations in the United States increased by $2.6 million or 10% compared to the fourth quarter 2013, reflecting increased horizontal pump down activity and the absence of the seasonal slowdown during the fourth quarter. As a result of the improved revenue as well as a reduced support cost structure, EBITDA for first quarter 2014 increased by $1.9 million. Compared to the first quarter 2013, revenue decreased by $4.7 million as a result of a continued market reduction for work performed in vertical wells combined with a loss of market share. This was partly offset by higher activity in the horizontal pump down market. EBITDA for the same period decreased by $4.8 million, as a result of the reduced revenue base. Although support costs reduced as a result of the implementation of the restructuring plan, operating costs remained high due to the diverse geographical footprint. A large portion of the incremental restructuring costs provided for in this quarter are directed to adjust and refocus the infrastructure and the footprint in this Division.

First quarter revenue in Directional Drilling decreased by $1.4 million or 6.3% compared to the fourth quarter 2013 due to reduced billings for “lost in hole” and a marginal reduction in activity and pricing mainly as a result of bad weather and a change in drilling programs for one of our customers. EBITDA for the first quarter 2014 decreased by $0.2 million as a result of the lower revenue, partly offset by a reduction in costs. Compared to first quarter 2013 revenue decreased by $4.8 million primarily in the North East, reflecting lower drilling activity for natural gas, partly offset by an increased activity level in the Rocky Mountains and Permian Basin. EBITDA for the same period decreased by $0.4 million reflecting the impact of the reduced revenue partly compensated for by reduced operating and support costs.

Compared to the fourth quarter 2013, first quarter revenue in our Frac Valve Division decreased by $1.1 million or 14%, reflecting a lower number of new valves sold, partially offset by an increase in pricing as a result of a favourable product mix. As a consequence, first quarter 2014 EBITDA decreased by $0.4 million. Compared to the same period last year revenue increased by $2.0 million with a higher number of new valves sold combined with increased aftersales activities leading to an increase in EBITDA of $0.7 million.

With the absence of the adverse weather conditions experienced during the first quarter as well as a shift in geographical and customer mix, we expect second quarter 2014 revenue to be between 10% to 15% above the first quarter 2014. As a result of the improved revenue and the absence of the restructuring costs recorded in the first quarter, we expect EBITDA performance for North America to improve.

Latin America

Revenue in the first quarter 2014 totalled $122.4 million, a decrease of $19.4 million or 13.7% compared to last quarter. This reduction is primarily due to the devaluation of the Argentinian peso, which compared to the average rate of the fourth quarter 2013 lost approximately 25% of its value against the United States Dollar. In addition, first quarter 2014 revenue suffered from the absence of retrospective rate escalations benefitting the fourth quarter 2013, fewer operating days and a rig move in Bolivia to a new location. Mobilization fees as well as the start-up of a new operation and maintenance contract for a major customer partly compensated for the decline in revenue. Overall utilization for our drilling rigs improved sequentially with first quarter 2014 drilling rig utilization at 81% compared to 76.6% in the fourth quarter 2013 and 75% in the first quarter 2013. The improvements are primarily driven by the improved drilling activity in Argentina which compensated for the reduction in utilization in Brazil.

Compared to last quarter, EBITDA decreased by $1.6 million as a result of the one-time devaluation effect amounting $2.5 million as well as the effect of two less operating days during the first quarter impacting results by $2.4 million. This was partly offset by $1.4 million due to lower compensation costs during the extended vacation period at the beginning of the year. Compared to the same period last year, revenue decreased by $8.1 million reflecting the devaluation effect in Argentina as well as the sharp reduction of land based drilling activity in Brazil, partly offset by higher activity levels in Argentina. EBITDA for the same period increased by $1.6 million reflecting improved margins in Argentina as a consequence of the improved activity levels, partly offset by the negative devaluation impact during the first quarter 2014.

We expect second quarter 2014 revenue to be approximately 10% higher than the first quarter 2014 reflecting generally higher activity levels in all countries. EBITDA is expected to be slightly up as incremental revenue and the absence of the devaluation effect will be partly offset by higher compensation with the absence of the vacation period as well as increased amount of personnel to prepare for the higher level activity in the second half of the year. In addition, we experienced two incidents on rigs working in the south of Argentina, which led to some operational downtime negatively impacting second quarter results.

North Sea

First quarter 2014 revenue was $181.7 million, an increase of $10.8 million or 6.3% compared to the fourth quarter 2013 primarily reflecting additional reimbursable revenue, increased activity and increased personnel utilization in our Engineering Division.

Platform Drilling delivered a strong quarter as revenue increased by $6.5 million or 5.1% compared to fourth quarter 2013 with additional reimbursable revenue, a number of performance bonus awards, increased rental activity on several platforms, retrospective rate increases in the UK and generally high activity levels. EBITDA for the first quarter 2014 decreased marginally by $0.8 million as a result of a shift in revenue mix to lower margin projects and higher reimbursable revenue. Compared to the first quarter 2013, Platform Drilling revenue increased by $15.1 million, benefitting from performance bonus awards, increased rental activity and an increased number of platform operations manned in the UK, partly offset by lower activity in Norway. Compared to the same period last year EBITDA increased by $5.1 million as a result of the increased revenue.

Revenue in our Engineering Division increased by $4.1 million or 18.6% compared to the fourth quarter 2013 reflecting increased activity in both our UK and Norway offices. Over the same period EBITDA increased by $1.0 million as a consequence of improved personnel utilization as activity levels have increased. First quarter 2014 revenue increased by $11.5 million compared to the same period last year with additional projects for the interface engineering work related to the Archer Topaz project on the Heimdal platform as well as the drilling package for a new platform in Newfoundland. Compared to the same period last year, EBITDA increased by $1.4 million as a result of the improved utilization of personnel.

We expect second quarter 2014 revenue to be approximately 10% below the first quarter 2014, mainly reflecting the absence of operational bonuses earned in the first quarter as well as slightly lower reimbursable revenue and a reduction of rental revenue. Consequentially we expect lower EBITDA in the second quarter 2014 as a result of the reduced revenue.

Emerging Markets & Technologies

Revenue in the first quarter 2014 was $51.8 million, $7.2 million or 12.2% lower compared to last quarter. Oil Tools revenue decreased by $6.1 million reflecting lower Cflex™ sales in the first quarter compared to the traditionally higher sales at the end of the fourth quarter. Rental income for our LOCK™ well suspension plug also reduced in the first quarter as a result of reduced operations in Norway. Revenue for Wireline services decreased by $1.7 million, as a result of lower activity resulting from a delayed contract award in Asia. These shortfalls were partly offset by an increase in revenue in Survey & Inspection amounting to $0.6 million reflecting a return to normal activity levels and the absence of a one-time reversal of revenue included in fourth quarter 2013. EBITDA increased by $2.0 million with the absence of the one-time charges in the fourth quarter 2013, amounting to $6.0 million, largely offset by lower contribution as a result of the reduced revenue.

When compared to the first quarter 2013, revenue increased by $1.8 million, with Oil Tools up by $6.1 million reflecting higher sales of Cflex™ systems and an increased amount of LOCK™ rentals both in traditional and new markets. This was partly offset by a reduction in revenue of $3.6 million in Wireline, with a slower start of the year in most regions. Survey and Inspection decreased by $0.7 million reflecting lower activity in the United States which to a large extent was offset by the start-up of inspection services in Brazil. EBITDA for the same period improved by $1.4 million in line with the revenue mix and activity combined with lower costs as a result of several facility closures.

We expect second quarter 2014 revenue to be approximately 5-10% higher than first quarter 2014 primarily driven by Wireline operations. EBITDA over the same period is also expected to improve in line with increased Wireline activity.

Summary Outlook

First quarter results were in line with expectations despite a significant impact due to adverse weather conditions in the United States as well as losses resulting from the devaluation of the Argentinean Peso.

We continue to see indications of increased activity levels in key United States markets and believe if this trend continues it should lead to a firming price environment in the last half of the year. We will continue to work to improve our utilization with target customers in order to support increased margins. We expect continued growth of our Land Drilling activity in Argentina driven by the recent contract awards, the transfer of our rigs from Brazil to Argentina as well as other opportunities.

The restructuring plan implemented in the fourth quarter was amended in the first quarter to accelerate the margin recovery notably in North America. The plan is on track and expected to be largely completed at the end of the second quarter. As announced previously, we expect annualized savings from the restructuring plan of approximately $15 million to $20 million that will help improve margins over the remainder of the year and into next year mainly in North America but also in Brazil.

Continued capital investments like those made in regards to the Topaz modular drilling rig and the rig additions in Argentina will positively impact late third quarter and fourth quarter performance. The Board of Directors are confident that these and other changes implemented over the past quarters will have a positive effect on the Company's future results.

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 March 31, 2014. 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 FIRST QUARTER FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations

(Unaudited) *In millions, except per share data)*	Note	**Three Months Ended March 31** **2014**	**2013**
Revenues			
Operating revenues		$ 477.4	$ 461.8
Reimbursable revenues		27.4	22.7
Total revenues		**504.8**	**484.5**
Expenses			
Operating expenses		418.8	413.6
Reimbursable expenses		26.2	22.8
Depreciation and amortization		37.0	40.1
Impairments		-	-
General and administrative expenses		20.3	19.5
Total expenses		**502.3**	**496.0**
Operating profit / (loss)		**2.5**	**(11.5)**
Financial items			
Interest income		0.3	0.3
Interest expenses		(11.9)	(13.8)
Share of results in associated company		(0.3)	(0.6)
Other financial items	2	4.6	(8.2)
Total financial items		**(7.3)**	**(22.3)**
Loss from continuing operations before income taxes		**(4.8)**	**(33.8)**
Income tax expense	3	(3.3)	(1.3)
Loss from continuing operations		**(8.1)**	**(35.1)**
Loss from discontinued operations, net of tax	4	(0.4)	(1.9)
Net loss		**$ (8.5)**	**$ (37.0)**
Loss per share-basic			
Loss from continuing operations		$ (0.01)	$ (0.08)
Loss from discontinued operations		(0.00)	(0.00)
Loss per share		$ (0.01)	$ (0.08)
Loss per share-diluted			
Loss from continuing operations		$ (0.01)	$ (0.08)
Loss from discontinued operations		(0.00)	(0.00)
Loss per share		$ (0.01)	$ (0.08)
Weighted average number of shares outstanding			
Basic		579.2	458.7
Diluted		579.2	457.7

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 March 31 2014	2013
Net loss	**$ (8.5)**	**$ (37.0)**
Other comprehensive income/(loss)		
Translation differences	0.8	(9.0)
Actuarial gain/ (loss) relating to pension	-	-
Other comprehensive Income / (loss)	0.8	(9.0)
Total comprehensive loss	**$ (7.7)**	**$ (46.0)**

Accumulated Other Comprehensive Gain/(Loss)
(Unaudited)

(In millions)	Pension – Unrecognized Losses	Currency Exchange Differences	Total
Balance at December 31, 2013	**$ (22.7)**	**$ 2.7**	**$ (20.0)**
Currency exchange differences		0.8	**0.8**
Actuarial loss relating to pension	-		**-**
Balance at March 31, 2014	**$ (22.7)**	**$ 3.5**	**$ (19.2)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	March 31 2014 (Unaudited)	December 31 2013 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 42.8	$ 49.5
Restricted cash		13.4	16.5
Accounts receivables		380.7	386.1
Inventories	6	70.3	65.2
Deferred income taxes		7.4	5.6
Assets held for sale		-	-
Other current assets		63.3	76.9
Total current assets		**577.9**	**599.8**
Noncurrent assets			
Investments in associates		0.3	0.6
Loans to associates		11.0	9.3
Property plant and equipment, net		825.8	800.0
Deferred income tax asset		17.8	16.2
Goodwill	7	297.0	294.1
Other intangible assets, net	8	63.3	65.5
Deferred charges		17.7	9.4
Total noncurrent assets		**1,232.9**	**1,195.1**
Total assets		**$ 1,810.8**	**$ 1,794.9**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	$ 153.4	$ 150.9
Accounts payable		108.9	110.7
Other current liabilities		210.2	214.3
Total current liabilities		**472.5**	**475.9**
Noncurrent liabilities			
Long-term interest-bearing debt	9	634.8	613.9
Deferred taxes		12.9	11.6
Other noncurrent liabilities		62.2	58.9
Total noncurrent liabilities		**709.9**	**684.4**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $1.00 per share: 1.2 billion shares authorized: 579,159,787 outstanding shares at March 31, 2014 (December 31, 2013: 579,159,787)		579.2	579.2
Additional paid in capital		817.6	816.1
Accumulated deficit		(910.7)	(902.2)
Accumulated other comprehensive loss		(19.2)	(20.0)
Contributed surplus		161.5	161.5
Total shareholders' equity		**628.4**	**634.6**
Total liabilities and shareholders' equity		**$ 1,810.8**	**$ 1,794.9**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Three months ended March 31	
	2014	**2013**
Cash Flows from Operating Activities		
Net loss	$ (8.5)	$ (37.0)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	37.0	40.1
Depreciation and amortization of assets in discontinued operations	-	11.1
Share-based compensation expenses	1.5	0.5
Impairment charges	-	-
Impairment charges – reported in discontinued operations	-	-
Loss/ (gain) on property, plant and equipment disposals	0.1	(0.3)
Gain on disposal of assets in discontinued operations, net	-	(0.4)
Equity in loss of unconsolidated affiliates	0.3	0.6
Amortization of loan fees and senior note premium	1.8	2.3
Deferred income taxes	0.7	(10.1)
Foreign currency loss/(gain)	(4.4)	8.1
Changes in operating assets and liabilities, net of acquisitions		
Decrease/(Increase) in accounts receivable and other current assets	6.8	(40.9)
Increase in inventories	(4.9)	(7.1)
Decrease in accounts payable and other current liabilities	(2.2)	(3.4)
Other, net	3.3	10.7
Net cash provided /(used) by operating activities	**31.5**	**(25.8)**
Cash Flows from Investing Activities		
Capital expenditures	(59.3)	(49.4)
Capital expenditures for discontinued operations	-	(0.5)
Proceeds from disposal of property, plant and equipment	0.2	2.4
Proceeds from disposal of assets in discontinued operations, net	-	1.6
Loans to associates	(1.6)	(5.0)
Net change in restricted cash	3.2	3.3
Net cash used by investing activities	**(57.5)**	**(47.6)**
Cash Flows from Financing Activities		
Net (repayments) borrowings under revolving facilities	(0.1)-	57.2
Proceeds of related party debt	-	10.0
Repayment of related party debt	-	(55.0)
Proceeds from long-term debt	26.4	0.5
Repayment of long-term debt	(4.8)	(202.3)
Debt issuance costs	(2.0)	(2.2)
Proceeds from issuance of equity, net	-	248.4
Net cash provided by financing activities	**19.5**	**56.6**
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(0.6)
Net decrease in cash and cash equivalents	**(6.7)**	**(17.4)**
Cash and cash equivalents at beginning of the period	49.5	58.2
Cash and cash equivalents at the end of the period	**$ 42.8**	**$ 40.8**
Interest paid	$ 10.3	$ 14.0
Taxes paid	$ 3.4	$ 3.9

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 Surplus	Total Shareholders' Equity
Balance at December 31, 2013	**$ 579.2**	**$ 816.1**	**$ (902.2)**	**$ (20.0)**	**$ 161.5**	**$ 634.6**
Translation differences	—	—	—	0.8	—	0.8
Net loss	—	—	(8.5)	—	—	(8.5)
Share based compensation	—	1.5	—	—	—	1.5
Balance at March 31, 2014	**$ 579.2**	**$ 817.6**	**$ (910.7)**	**$ (19.2)**	**$ 161.5**	**$ 628.4**

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 8,200 skilled and experienced people at March 31, 2014.

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 first quarter 2014 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 first quarter financial statements should be read in conjunction with our financial statements as of December 31, 2013. 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 first 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, 2013. 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

Since December 31, 2013, the Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) which may be relevant to Archer's financial statements:

ASU 2014-06 Technical Corrections and Improvements Related to Glossary Terms. The amendments in this update relate to glossary terms and cover a wide range of Topics in the codification. However, as they serve to clarify existing GAAP rather than change existing or add new GAAP, it is not expected to have any material impact on Archer's financial statements. The ASU states that;

The amendments in this update represent changes to Clarify the Master Glossary of the Codification, consolidate multiple instances into a single definition, or make minor improvements to the Master Glossary that are not expected to result in substantive changes to the application of existing guidance.

2014-08 Presentation of Financial Statements (Topic 205) and Property Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this update change the requirements for reporting discontinued operations in subtopic 205-20 by adding the requirement that the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

If a disposal (or planned disposal) meets the criteria for reporting discontinued operations, the amendments in this Update also require additional disclosures including;

1. The major classes of line items constituting the pretax profit/loss of the discontinued operation.
2. Either of the following:
    a. Total operating or investing cashflows of the discontinued operations, or
    b. The depreciation, amortisation, capital expenditures and significant operating and investing non-cash items of the discontinued operations.
3. If the discontinued operation contains a non-controlling interest, the pretax profit/loss attributable to the parent.
4. A reconciliation of the major classes of assets and liabilities of the discontinued operation classified as held for sale that are disclosed in the Notes, to the total assets and total liabilities of the disposal group classified as held for sale in the balance sheet.
5. A reconciliation of the major classes of line items constituting the pretax profit/loss of the discontinued operation that are disclosed in the Notes, to the after tax profit/loss of the discontinued operation reported in the income statement.

These amendments are effective for annual periods beginning on or after December 15 2014.

Note 2 – Other Financial Items

	Three Months Ended March 31	
(In millions)	**2014**	**2013**
Foreign exchange gains / (losses)	$ 4.4	$ (8.1)
Other items	0.2	(0.1)
Total other financial items	**$ 4.6**	**$ (8.2)**

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.

Note 3 – Income Taxes

Tax expense can be split in the following geographical areas:

	Three Months Ended March 31	
(In millions)	**2014**	**2013**
United States	$ 0.4	$ 0.1
South America	(2.0)	0.4
Europe	4.9	0.5
Others	-	0.3
Total	**$ 3.3**	**$ 1.3**

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 three month period ended March 31, 2014 primarily in Europe, which relate to withholding taxes of $2.1 million being expensed in the period. In Latin America we have recognised a tax asset relating to tax deductible currency losses resulting from inflation in Argentina. We have accumulated significant tax losses in the United States and in Brazil, with a total tax value of $240 million. 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 4 – 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:

	Years Ended March 31	
(In millions)	**2014**	**2013**
Revenues	$ 0.0	$ 30.0
Operating and reimbursable expenses	(0.4)	(18.9)
Impairments	—	-
Depreciation and amortization	—	(11.1)
Interest expense	—	(1.7)
Loss from discontinued operations before income tax expense	(0.4)	(1.7)
Income tax expense	—	(0.2)
Loss from discontinued operations, net of tax	**$ (0.4)**	**$ (1.9)**

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 balance sheets as at March 31, 2014 and 31 December 2013.

Note 5 – 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 March 31	
(In thousands)	**2014**	**2013**
Denominator		
Weighted-average common shares outstanding	579,160	458,743
Effect of potentially dilutive common shares		
Share-based compensation shares	—	—
Weighted-average common shares outstanding and assumed conversions	579,160	458,743

Share-based compensation of approximately 970,455 shares were excluded from the computation of diluted earnings per share for the three ended March, 31 2014 respectively, as the effect would have been antidilutive due to the net loss for the period. There was no dilutive effect of the stock option compensation in respect of the three months ended March 31, 2014.

Note 6 – Inventories

(In millions)	**March 31 2014**	**December 31 2013**
Manufactured		
Finished goods	$ 4.6	$ 3.8
Work in progress	4.3	1.4
Raw materials	11.0	8.0
Total manufactured	19.9	13.2
Drilling supplies	21.1	25.0
Chemicals	6.9	11.6
Other items and spares	22.4	15.4
Total inventories	**$ 70.3**	**$ 65.2**

Note 7 – 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, 2013	**$ 294.1**
Goodwill disposed during the period	-
Impairment	-
Currency adjustments	2.9
Net book balance at March 31, 2014	**$ 297.0**

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The testing of the valuation of goodwill involves significant judgement and assumptions to be made in connection with the future performance of the various components of our business operations.

Note 8 – Other Intangible Assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2013	**$ 116.5**	**$ (51.0)**	**$ 65.5**
Amortization	-	(2.4)	(2.4)
Currency adjustments	0.4	(0.2)	0.2
Balance at March 31, 2014	**$ 116.9**	**$ (53.6)**	**$ 63.3**

The net book value at March 31, 2014, consisted of customer relationships of $54.1 million, identified technology of $4.7 million, trademarks of $1.7 million, patents of $2.7 million and noncompete agreements of $0.1 million.

Note 9 – Long-term, Interest-Bearing Debt

(In millions)	March 31 2014	December 31 2013
Multicurrency term and revolving facility	$ 671.2	$ 669.2
Related party subordinated loan	—	—
Hermes-covered term loan	63.4	41.6
Other loans and capital lease liability	53.6	54.0
Total loans and capital lease liability	**788.2**	**764.8**
Less: current portion	(153.4)	(150.9)
Long-term portion of interest bearing debt	**$ 634.8**	**$ 613.9**

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 divesture.

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 instalment 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 March 31, 2014, a total of $671.2 million has been drawn under the multicurrency term and revolving facility, of which $371.3 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 favour 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 5.5x of the last twelve months EBITDA as of March 31, 2014. 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 made under specific carved out financial arrangements.

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 March 31, 2014, 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 instalment on our second modular rig, Archer Topaz. This subordinated term loan was repaid in April 2013.

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 instalments. The interest rate is 1.45% above EURIBOR. At March 31, 2014, the equivalent of $39.1 million was outstanding under this facility. Seadrill Limited, a related party, has granted an on-demand guarantee for the outstanding amount in favour of the lender securing our obligations under this facility.

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 instalments in March and September through March 2017. The interest rate is 1.55% above EURIBOR. At March 31, 2014, the equivalent of $24.3 million was outstanding under this facility.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at March 31, 2014, net borrowings under these facilities were $28.8 million. In addition we have borrowed $9.7 million under short term facilities in Argentina as of March 31, 2014. We also have capital leases covering both real property and equipment and at March 31, 2014, the net balance due under these arrangements was $15.2 million.

Interest rate swap agreement

We have a NOK interest rate swap agreement, currently securing the interest rate on NOK 300 million ($49.9 million at March 31, 2014) 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. The fair value of the swaps as of March 31, 2014 was a net liability of $0.1 million and is included within other non-current liabilities.

Capitalized Interest

During the three months ended March 31, 2014, we capitalized approximately $0.3 million (2013: $0.1 million), of interest costs related to the construction of equipment, primarily our modular rig.

Note 10 – Supplemental Cash Flow Information

During the first quarter of 2014, we financed equipment purchases of $1.8 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 11 – Segment Information

We have determined that our operational performance aligned with the following four segments:

- 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 March 31	
	2014	**2013**
Revenues from external customers		
North America	$ 148.9	$ 153.6
Latin America	122.4	130.6
North Sea	181.7	150.3
Emerging Markets & Technologies	51.8	50.1
Total	**$ 504.8**	**$ 484.5**
Depreciation and amortization		
North America	$ 20.7	$ 23.9
Latin America	7.6	8.1
North Sea	4.1	3.6
Emerging Markets & Technologies	4.6	4.5
Total	**$ 37.0**	**$ 40.1**
Operating (loss)/income – net loss		
North America	$ (19.7)	$ (18.9)
Latin America	4.6	1.5
North Sea	13.1	2.4
Emerging Markets & Technologies	6.0	4.0
Stock compensation costs	(1.5)	(0.5)
Operating (loss)/income	**2.5**	**(11.5)**
Total financial items	(7.3)	(22.3)
Income taxes	(3.3)	(1.3)
Discontinued operations, net of taxes	(0.4)	(1.9)
Net loss	**$ (8.5)**	**$ (37.0)**
Capital expenditures		
North America	$ 6.1	$ 14.8
Latin America	19.4	4.1
North Sea	30.1	25.6
Emerging Markets & Technologies	3.7	5.8
Total	**$ 59.3**	**$ 50.3**

(In millions) **Goodwill**	**North America**	**Latin America**	**North Sea**	**Emerging Markets & Technologies**	**Total**
Balance at December 31, 2013	**$ 5.5**	**$ —**	**$ 132.8**	**$ 155.8**	**$ 294.1**
Currency adjustments	—	—	1.4	1.5	2.9
Balance at March 31, 2014	**$ 5.5**	**$ —**	**$ 134.2**	**$ 157.3**	**$ 297.0**

(In millions)	**March 31 2014**	**December 31 2013**
Total assets		
North America	$ 488.9	$ 501.0
Latin America	475.7	457.9
North Sea	491.9	498.7
Emerging Markets & Technologies	354.3	337.3
Total	**$ 1,810.8**	**$ 1,794.9**

Note 14 – Fair Value of Financial Instruments

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

	March 31, 2014		**December 31, 2013**	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Nonderivatives				
Cash and cash equivalents	$ 42.8	$ 42.8	$ 49.5	$ 49.5
Restricted cash	13.4	13.4	16.5	16.5
Current portion of long-term debt	153.4	153.4	150.9	150.9
Long-term, interest-bearing debt	634.8	634.8	613.9	613.9
Derivatives				
Interest rate swap agreements	(0.1)	(0.1)	—	—

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

	March 31, 2014	Fair Value Measurements at Reporting Date Using		
(In millions)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 42.8	$ 42.8	—	—
Restricted cash	13.4	13.4	—	—
Interest rate swap agreements	(0.1)	—	(0.1)	—
Liabilities				
Multicurrency term and revolving facility, excluding current portion	571.2	—	571.2	—
Other loans and capital leases, excluding current portion	63.6	—	63.6	—

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 March 31,2014, 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.

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 remain 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 three months ended March 31, 2014, we supplied Seadrill Limited and affiliates with services amounting to $0.5 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2014, 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 9). Seadrill is charging us an annual guarantee fee of 1.25% of the guaranteed amount and as of March 31, 2014, 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 $0.2 million for these services in the three months ended March 31, 2014. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At December 31, 2013, we owed Frontline $0.1 million related to these services.

During the three months ended March 31, 2014, we supplied NADL with services amounting to $0.7 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2014, NADL owed us $0.4 million related to these services.

We have provided a loan to our associated company C6 Technologies AS. As at March 31, 2014 the balance on the loan account is $11.0 million.

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Note 17 – Subsequent Events

None

Appendix to Archer First Quarter Report 2014

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 March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, and December 31, 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)	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
Revenue	504.8	524.1	522.6	510.1	484.5	507.1
Cost and expenses						
Operational costs	(502.3)	(520.9)	(515.2)	(523.3)	(496.0)	(532.0)
Impairments	—	(423.7)	—	—	—	—
Net financial items	(7.3)	(17.7)	(13.9)	(19.9)	(22.3)	(8.4)
Loss from continuing operations before income taxes	**(4.8)**	**(438.2)**	**(6.5)**	**(33.1)**	**(33.8)**	**(33.3)**
Income tax (expense) benefit	(4.0)	9.0	(4.6)	(0.5)	(1.3)	(5.1)
Loss from continuing operations	(8.8)	**(429.2)**	**(11.1)**	**(33.6)**	**(35.1)**	**(38.4)**
(Loss)/income from discontinued operations, net of tax	(0.3)	(2.5)	(13.1)	7.9	(1.9)	(3.3)
Net loss	**(8.5**)	**(431.7)**	**(24.2)**	**(25.7)**	**(37.0)**	**(41.7)**

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

(In millions)	Three Months Ended March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
Net loss	(8.5)	(431.7)	(24.2)	(25.7)	(37.0)	(41.7)
Depreciation, amortization and impairments	37.0	462.4	42.5	40.2	40.1	39.5
Net financial items	7.3	17.7	13.9	19.9	22.3	8.4
Taxes on income	3.3	(9.0)	4.6	0.5	1.3	5.1
Loss/(income) from discontinued operations, net of tax	0.4	2.5	13.1	(7.9)	1.9	3.3
EBITDA	**39.5**	**41.9**	**49.9**	**27.0**	**28.6**	**14.6**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

(In millions)	Three Months Ended March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
North America (NAM)	0.4	6.8	13.9	7.1	1.6	2.4
Latin America (LAM)	11.9	13.5	14.5	3.9	9.5	4.9
North Sea (NRS)	16.9	17.7	11.2	8.5	5.9	(1.4)
Emerging Markets & Technologies (EMT)	10.3	3.9	10.3	7.5	11.6	8.7
EBITDA	**39.5**	**41.9**	**49.9**	**27.0**	**28.6**	**14.6**