



## Archer Limited (ARCHER) Second Quarter and Half-year 2014 Results

### Second Quarter 2014 highlights

- Second quarter revenue from continuing operations of \$552 million.
- Second quarter EBITDA from continuing operations at \$53.3 million.
- Net loss for the quarter of \$11.0 million.
- Second quarter operational cash flow of \$21.2 million.
- Net interest-bearing debt of \$757.2 million at June 30, 2014.
- Completion of construction of Archer Topaz within planned time.

### 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 June 30, 2014 to the Three Months Ended March 31, 2014*

Revenue for the second quarter 2014 was \$552.0 million compared to \$504.8 million for the first quarter 2014, an increase of \$47.2 million. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, were \$53.3 million compared to \$39.5 million for the first quarter 2014, an increase of 34.9%.

Net Financial Items were a net expense of \$20.4 million in the second quarter 2014 compared to an expense of \$7.3 million in the first quarter 2014. Interest expenses amounted to \$12.5 million compared to \$11.9 million in the first quarter 2014. Other financial items amounted to \$8.7 million expense compared to \$4.6 million income in the first quarter 2014. Other financial items represent predominantly unrealized foreign exchange losses.

#### *Comparison of the Three Months Ended June 30, 2014 to the Three Months Ended June 30, 2013*

Revenue for the three months ended June 30, 2014 was \$552 million compared to \$510 million for the second quarter 2013, up \$ 42 million or 8.2%. EBITDA of \$53.3 million for the three months ended June 30, 2014 increased 97.4% compared to \$27 million EBITDA for the second 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 \$27.5 million at June 30, 2014 compared to \$42.8 million at March 31, 2014.

Cash inflow from operations for the three months ended June 30, 2014 was \$21.2 million, which is comprised primarily of the net loss of \$11.0 million, add back for depreciation and amortization from continuing operations of \$37.2 million, add back foreign currency losses of \$11.6 million, reduced by \$5.5 million due to an increase in inventory and reduced by \$11.1 million due to an increase in accounts receivable partly offset by an increase in accounts payable and other current liabilities and other net adjustments.

Capital expenditures for continuing operations during the quarter amounted to \$31.5 million, predominantly representing progress payments for our new land drilling rigs in Argentina, additional equipment for Oil Tools, as well as project expenses for our new modular rig Archer Topaz and new equipment for our Pressure Control, Wireline and Frac Valves businesses.

Total net interest-bearing debt at June 30, 2014 was \$757.2 million compared to \$745.4 million as of March 31, 2014.

### Share Capital

The total number of issued and fully paid shares of par value \$1.00 outstanding at June 30, 2014 was 579,159,787. A total of 27,939,606 options and RSUs were outstanding as of June 30, 2014.

### Second Quarter 2014 Operating Results by Area

We are organized in four Areas and our operational comments for the second quarter this year and the third 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. 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>Q2 2014</u>	<u>Q1 2014</u>	<u>Variance</u>	<u>Q2 2014</u>	<u>Q1 2014</u>	<u>Variance</u>
North America	\$ 171.8	\$ 148.9	\$ 22.9	\$ 13.7	\$ 0.4	\$ 13.3
Latin America	142.3	122.4	19.9	11.2	11.9	(0.7)
North Sea	183.4	181.7	1.7	17.7	16.9	0.8
Emerging Markets	<u>54.5</u>	<u>51.8</u>	<u>2.7</u>	<u>10.7</u>	<u>10.3</u>	<u>0.4</u>
	<u>\$ 552.0</u>	<u>\$ 504.8</u>	<u>\$ 47.2</u>	<u>\$ 53.3</u>	<u>\$ 39.5</u>	<u>\$ 13.8</u>

#### North America

Revenue in the second quarter 2014 amounted to \$171.8 million, an increase of \$22.9 million, or 15.4% and EBITDA of \$13.7 million in the second quarter 2014 increased by \$13.3 million compared to the first quarter 2014. In addition to improved operating performance, as explained in more detail below, second quarter 2014 results benefited from absence of \$3.2 million restructuring costs accounted in first quarter 2014 results. Moreover, favourable weather conditions compared to the first quarter 2014 positively contributed to improved equipment utilization and revenue.

Total US Land based well count in the second quarter 2014 increased by 541 or 6.1% sequentially whereas the well count compared to second quarter 2013 increased by 383 or 4.3%. The average United

States land-based rig count of 1,796 for the second quarter 2014 increased by 4% compared to the first quarter 2014 and by 5% as compared to the second quarter 2013. The average rig count directed towards natural gas for the second quarter 2014 decreased further by 24 rigs or 8% sequentially and reduced by 40 rigs, or 13%, compared to the second quarter 2013.

In Pressure Pumping we fracked a total of 2,012 stages in the second quarter 2014 compared to 1,441 stages during the first quarter 2014 as a result of higher activity in both the Permian and Mid-continent regions. Utilization increased from 79.3% in the first quarter 2014 to 88.6% in the second quarter 2014, while revenue per stage remained flat. These factors resulted in revenue increasing by \$18.7 million or 37.6% compared to the first quarter 2014. EBITDA for the same period improved by \$6.8 million as a consequence of the increased revenue as well as lower spend on compensation, material and supplies, freight and shipping costs. Compared to the second quarter 2013, revenue increased by \$17.4 million or 34.1%, following increased utilization from 303 operating days to 472 operating days. Compared to the same period the number of stages fracked increased by 1,039, while revenue per stage reduced by 64.8%. EBITDA for the same period increased by \$5.4 million, as a result of the increased revenue.

Pressure Control revenue for second quarter 2014 remained flat with increased activity for Snubbing services offsetting reduced revenue in Coiled Tubing resulting from transitioning some of our coiled tubing units. As a result EBITDA for the second quarter was also flat compared to the first quarter 2014. Compared to the same period last year, second quarter 2014 revenue increased by \$3.1 million or 7.6%, reflecting improved service mix for Coiled Tubing services and better utilization for Snubbing services. EBITDA for the same period increased by \$1.9 million primarily driven by increased revenue.

Second Quarter revenue and EBITDA in Directional Drilling was flat. Higher activity and slightly improved pricing in both the Rocky Mountain and Permian regions was offset by lower activity in Gulf Coast and Mid-continent area. Compared to second quarter 2013, revenue decreased by \$6.3 million reflecting a loss of market share in the Mid-continent and Gulf Coast regions as well as reduced drilling activity for natural gas in the North East region and overall lower revenue for tools lost in hole. This was partly offset by higher activity levels in both the Permian and Rocky Mountain regions mainly due to the increase in rig counts. As a result of the lower revenue, EBITDA for the same period decreased by \$1.7 million.

Compared to the first quarter 2014, second quarter 2014 revenue in our Frac Valve Division increased by \$5.8 million or 87.7% reflecting higher valve sales and an increase in average price per valve. EBITDA for the same period increased by \$1.5 million due to increased revenue and improved margins. Revenue increased by \$4.1 million compared to second quarter 2013 reflecting higher valve sales as well as increased revenue for aftersales repair services and spare parts, mainly as a result of the expansion of one of the regional repair centers.

Compared to the first quarter, Wireline revenue for second quarter 2014 reduced by \$1.9 million reflecting closure of unprofitable locations as part of the restructuring plan which was partially offset by higher activity in the Permian region and an improved service mix. Despite the lower revenue, EBITDA for the same period improved by \$2.8 million reflecting the absence of the negative contribution from operation locations being closed down as well as improved margins as a result of the more favourable service mix. Year on year, second quarter 2014 revenue decreased by \$2.7 million, reflecting the closure of several locations with negative margins and EBITDA for the same period improved by \$1.6 million as a result of the restructuring process.

We expect third quarter 2014 revenue to increase by approximately 5% compared to the second quarter 2014, with most divisions expected to benefit from the overall increased activity, partly offset by Pressure Pumping, where we expect slightly lower activity levels as a result of constrained logistics mainly in the Permian region. As a result we expect EBITDA for third quarter 2014 to increase in accordance with the improved revenue.

## *Latin America*

Revenue in the second quarter 2014 amounted to \$142.3 million, an increase of \$19.9 million or 16.3% compared to the last quarter. This increase is primarily due to contractual inflation adjustments to cover for higher compensation and other increased local costs. In addition second quarter 2014 revenue increased reflecting the start-up of one rig as part of a new operation and management project with a major customer, one additional working day compared to the prior quarter and absence of a rig move in Bolivia. This was partly offset by operational downtime suffered due to an accident in the South of Argentina, which caused the entire rig fleet in that region to stop for 1.5 days and downtime related to technical issues on 2 drilling rigs. Overall utilization for our drilling rigs was 83% for second quarter 2014 as compared to 81% in first quarter 2014 and 85% in the second quarter 2013.

EBITDA for the second quarter 2014 decreased by \$0.7 million sequentially due to increased costs, partly as a result of the preparation for the significant ramp up in activity, but also due to seasonal effects as well as to address and prevent the operational downtime mentioned above. Compared to second quarter 2013, revenue decreased by \$2.6 million mainly as a result of the reduction in activity in Brazil, the devaluation of the Argentinian Peso, operational downtime in Argentina during the second quarter 2014, which was almost entirely offset by inflation adjusted increased day rates as well as increased activity levels in Argentina. Compared to the same period last year EBITDA for the second quarter 2014 improved by \$8.1 million as a result of higher drilling activity in Argentina and the absence of severance costs in Brazil.

During the second quarter and as part of our restructuring plan we have finalized the divestiture of one of our rigs as well as the equipment rental business in Brazil. We have also initiated the scrapping process of an older rig and transferred 2 land rigs to Argentina.

We expect third quarter 2014 revenue to be approximately 5% higher than the second quarter 2014, reflecting revenue from several new projects, which are forecasted to start during the quarter as well as a reduced amount of operational downtime in Argentina. As a result of this increased revenue we expect EBITDA to improve although partly impacted by a continuous increase in staffing and infrastructure in order to prepare for further activity increases in the second half of 2014 and the beginning of 2015. Considering the latest information we expect our new drilling rigs to start late in the year 2014 as well as in the first and second quarter of 2015. It is unclear at this point in time whether the recent default of Argentina will have an impact on our business and if so to what extent, but we are monitoring the situation closely in order to minimize any potential negative effect.

## *North Sea*

Second quarter 2014 revenue was \$183.4 million, an increase of \$1.7 million compared to the first quarter 2014 primarily reflecting growth for Modular Rig operations. EBITDA for the same period increased by \$0.8 million or 4.7%.

Our Modular Rig Division delivered strong growth during this quarter, as revenue increased by \$2.3 million or 32% compared to first quarter 2014 as a result of a performance bonus award for efficient drilling operation on Archer Emerald and improved uptime. EBITDA for the second quarter 2014 increased by \$1.2 million as a result of this performance award, partly offset by higher repair and maintenance expenditures. Compared to the second quarter 2013, revenue in our Modular Rig Division increased by \$3.7 million benefitting from the performance bonus award and the improved uptime. EBITDA for the same period increased by \$1.5 million mainly due to the margins generated by the additional revenue. Archer Emerald and its crew delivered an outstanding performance during the second quarter resulting in the early completion of a well and the award of an additional well, which will carry the rig until the end of the third quarter 2014, after which we expect to demobilize the unit to the North Sea.

Platform Drilling services revenue was flat compared to the first quarter 2014, while EBITDA for the same period decreased by \$1.1 million or 8.1% reflecting the absence of one-time bonus award granted in the first quarter 2014. Compared to the same period last year revenue increased by \$8.9 million reflecting

higher activity in UK following increased rig operations for a number of customers and increased rental activity partly offset by lower activity in Norway. EBITDA for the same period increased by \$3.6 million as a result of the increased revenue but also as a result of lower costs.

Revenue for our Engineering services was slightly above the first quarter 2014 reflecting higher contract revenue and increased personnel utilization mainly related to the engineering work on the Heimdal platform. EBITDA for the same period increased \$0.6 million or 38.6% directly benefiting from the incremental revenue and the increased personnel utilization. Compared to second quarter 2013 revenue in our Engineering Division increased by \$11.6 million reflecting additional projects in the United States, Norway and the UK resulting in an overall increased utilisation of our Engineering personnel. Consequentially EBITDA for the same period increased by \$2.8 million due to increased revenue.

Our new modular rig Archer Topaz is expected to start in the third quarter 2014. Though at the time of this report the Archer project deliverables are on schedule, the installation and start-up of such a complex operation is co-dependant on parallel work scopes not under the control of Archer. Delays in these parallel work scopes could impact the overall project start up. Assuming the rig starts on time we expect third quarter 2014 revenue to be slightly below the second quarter 2014 with the completion of the engineering project on Heimdal as well as the absence of the performance bonus on Archer Emerald. In line with the reduced revenue we expect third quarter 2014 EBITDA to be below the second quarter 2014.

#### *Emerging Markets & Technologies*

Revenue in the second quarter 2014 was \$54.5 million, \$2.7 million or 5.2% higher compared to last quarter primarily driven by growth in the International Wireline division. EBITDA for the same period increased by \$0.4 million or 3.9% due to increased revenue partially offset by nonrecurring items amounting to \$1.3 million as explained in more detail below.

Revenue in our International Wireline Division increased by \$2.8 million as compared to first quarter 2014 reflecting higher activity levels in the European region. Despite the increased revenue EBITDA for the same period decreased by \$0.5 million or 17.8%. The result was negatively impacted by a \$ 2.3 million provision related to a historical pension dispute in Norway, which crystallized during union negotiations in the second quarter. Compared to same quarter last year revenue increased by \$2.1 million mainly as a consequence of increased activity levels in Norway. EBITDA for the same period decreased by \$0.7 million or 23% reflecting the provision for pension in Norway amounting to \$ 2.3 million partly offset by margins generated from the incremental revenue.

Compared to first quarter 2014, Oil Tools revenue and EBITDA remained flat. Higher costs for logistics were offset by the receipt of client funding during the quarter related to costs to qualify a new product. The costs for this qualification test were incurred in the fourth quarter 2013. Year on year Oil Tools second quarter revenue increased by \$3 million reflecting predominantly an increase in activity in West Africa. EBITDA for the same period increased by \$2.4 million as a result of the increased revenue and the receipt of the client funding mentioned above, partly offset by increased expenditures related to logistics for new equipment in order to support future business growth in different geographies.

We expect third quarter 2014 revenue to be approximately 10% higher than second quarter 2014, with growth in both Oil Tools and International Wireline operations. EBITDA in the third quarter is also expected to improve in line with the increased revenue.

## Summary Outlook

We are pleased that the actions taken during the last few quarters have translated into a tangible improvement of the Company's results, predominantly in North America but also in Brazil. The marked improvement in our North American operation, in particular in our Pressure Pumping, Wireline and Frac Valve business are the result of an improved market environment, the dedication and hard work of our employees as well as the confidence our customers put on us to efficiently deliver flawless products and services. The same applies to our North Sea Area, which has delivered another quarter of strong operational results and managed to complete the construction of the new Modular Rig Archer Topaz on time and on budget.

We expect drilling activity in the North American land market to remain strong in particular in the Permian basin. Combined with higher service intensity as a result of longer laterals and an increased stage count across the US land market, we expect market conditions in North America to continue to improve in the second half of this year and into next year.

Despite the short term political and economic risk as a result of the recent default of Argentina we believe that the opportunities in the Oil & Gas service industry in the medium and long term outweigh the short term risk. We will closely monitor the situation and take corrective actions if necessary in order to minimize any potential impact negative effect on our business.

We are optimistic to see a successful start-up of our new Modular rig Archer Topaz, which in the fourth quarter 2014 and beyond is expected to add significant margins to our results. Although this will be partly offset by the idle period for the Archer Emerald, we have seen an increasing market interest in this technology.

The Board of Directors are encouraged by the recent results and are confident that the steps taken over the past few quarters, the new investments as well as the positive market developments in the United States will lead to a further improvement of the Company's financial performance.

## **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 June 30, 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 AND FULL YEAR FINANCIAL STATEMENTS

Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013	Page 9
Consolidated Statements of Comprehensive (Loss)/Income for the three and six months June 30, 2014 and 2013	Page 10
Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	Page 11
Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013	Page 12
Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2014	Page 13
Notes to Unaudited Consolidated Financial Statements	Page 14
Appendix	Page 28



**ARCHER LIMITED**  
Consolidated Statements of Operations  
(Unaudited)

*(In millions, except per share data)*

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2014	2013	2014	2013
<b>Revenues</b>					
Operating revenues		\$ 525.7	\$ 484.5	\$ 1,003.1	\$ 946.3
Reimbursable revenues		26.3	25.6	53.7	48.3
<b>Total revenues</b>		<b>552.0</b>	<b>510.1</b>	<b>1,056.8</b>	<b>994.6</b>
<b>Expenses</b>					
Operating expenses		453.7	440.7	872.5	854.3
Reimbursable expenses		25.1	23.3	51.3	46.1
Depreciation and amortization		37.2	40.2	74.2	80.3
Impairments		1.5	-	1.5	-
General and administrative expenses		19.9	19.1	40.2	38.6
<b>Total expenses</b>		<b>537.4</b>	<b>523.3</b>	<b>1,039.7</b>	<b>1,019.3</b>
<b>Operating income / (loss)</b>		<b>14.6</b>	<b>(13.2)</b>	<b>17.1</b>	<b>(24.7)</b>
<b>Financial items</b>					
Interest income		1.2	0.2	1.5	0.5
Interest expenses		(12.5)	(13.5)	(24.4)	(27.3)
Share of results in associated company		(0.4)	0.1	(0.7)	(0.5)
Other financial items	2	(8.7)	(6.7)	(4.1)	(14.9)
<b>Total financial items</b>		<b>(20.4)</b>	<b>(19.9)</b>	<b>(27.7)</b>	<b>(42.2)</b>
<b>Loss from continuing operations before income taxes</b>		<b>(5.8)</b>	<b>(33.1)</b>	<b>(10.6)</b>	<b>(66.9)</b>
Income tax expense	3	(5.0)	(0.5)	(8.3)	(1.8)
<b>Loss from continuing operations</b>		<b>(10.8)</b>	<b>(33.6)</b>	<b>(18.9)</b>	<b>(68.7)</b>
(Loss)/ Income from discontinued operations, net of tax	4	(0.2)	7.9	(0.6)	6.0
<b>Net loss</b>		<b>\$ (11.0)</b>	<b>\$ (25.7)</b>	<b>\$ (19.5)</b>	<b>\$ (62.7)</b>
<b>Loss per share-basic</b>					
Loss from continuing operations		\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.13)
Loss from discontinued operations		-	0.01	-	0.01
Loss per share		<b>\$ (0.02)</b>	<b>\$ (0.05)</b>	<b>\$ (0.03)</b>	<b>\$ (0.12)</b>
<b>Loss per share-diluted</b>					
Loss from continuing operations		\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.13)
Loss from discontinued operations		-	0.01	-	0.01
Loss per share		<b>\$ (0.02)</b>	<b>\$ (0.05)</b>	<b>\$ (0.03)</b>	<b>\$ (0.12)</b>
<b>Weighted average number of shares outstanding</b>					
Basic	5	579.2	579.2	579.2	519.3
Diluted	5	579.2	579.2	579.2	519.3

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>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Net loss</b>	<b>\$(11.0)</b>	<b>\$(25.7)</b>	<b>\$(19.5)</b>	<b>\$(62.7)</b>
<b>Other comprehensive income/(loss)</b>				
Currency exchange differences	4.6	(0.8)	5.4	(10.4)
Actuarial gain/ (loss) relating to pension	-	-	-	-
<b>Other comprehensive income/(loss)</b>	<b>4.6</b>	<b>(0.8)</b>	<b>5.4</b>	<b>(10.4)</b>
<b>Total comprehensive loss</b>	<b>\$ (6.4)</b>	<b>\$(26.5)</b>	<b>\$(14.1)</b>	<b>\$(73.1)</b>

**Accumulated Other Comprehensive Gain/(Loss)**  
(Unaudited)

<i>(In millions)</i>	<b>Pension – Unrecognized Losses</b>	<b>Currency Exchange Differences</b>	<b>Total</b>
<b>Balance at December 31, 2013</b>	<b>\$(22.7)</b>	<b>\$ 2.7</b>	<b>\$ (20.0)</b>
Currency exchange differences	-	5.4	5.4
Actuarial loss relating to pension	-	-	-
<b>Balance at June 30, 2014</b>	<b>\$(22.7)</b>	<b>\$ 8.1</b>	<b>\$ (14.6)</b>

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

## ARCHER LIMITED

### Consolidated Balance Sheets

(In millions)

	Note	June 30 2014 (Unaudited)	December 31 2013 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 27.5	\$ 49.5
Restricted cash		18.2	16.5
Accounts receivables		394.7	386.1
Inventories	6	75.7	65.2
Deferred income taxes		6.1	5.6
Other current assets		93.4	76.9
<b>Total current assets</b>		<b>615.6</b>	<b>599.8</b>
<b>Noncurrent assets</b>			
Investments in associates		-	0.6
Loans to associates		14.2	9.3
Property plant and equipment, net		819.9	800.0
Deferred income tax asset		13.4	16.2
Goodwill	7	293.1	294.1
Other intangible assets, net	8	60.6	65.5
Deferred charges		10.7	9.4
<b>Total noncurrent assets</b>		<b>1,211.9</b>	<b>1,195.1</b>
<b>Total assets</b>		<b>\$ 1,827.5</b>	<b>\$ 1,794.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of interest-bearing debt	9	\$ 151.8	\$ 150.9
Accounts payable		125.4	110.7
Other current liabilities		227.8	214.3
<b>Total current liabilities</b>		<b>505.0</b>	<b>475.9</b>
<b>Noncurrent liabilities</b>			
Long-term interest-bearing debt	11	632.9	613.9
Deferred taxes		11.2	11.6
Other noncurrent liabilities		55.7	58.9
<b>Total noncurrent liabilities</b>		<b>699.8</b>	<b>684.4</b>
<b>Commitments and contingencies</b>			
<b>Shareholders' equity</b>			
Common shares of par value \$1.00 per share: 1.2 billion shares authorized: 579,159,787 outstanding shares at June 30, 2014 (December 31, 2013: 579,159,787)		579.2	579.2
Additional paid in capital		818.3	816.1
Accumulated deficit		(921.7)	(902.2)
Accumulated other comprehensive loss		(14.6)	(20.0)
Contributed surplus		161.5	161.5
<b>Total shareholders' equity</b>		<b>622.7</b>	<b>634.6</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,827.5</b>	<b>\$ 1,794.9</b>

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

# ARCHER LIMITED

## Consolidated Statements of Cash Flow (Unaudited)

(In millions)

	<b>Six Months Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (19.5)	\$ (62.7)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	74.2	80.3
Depreciation and amortization of assets in discontinued operations	-	21.6
Share-based compensation expenses	2.2	0.3
Impairment charges	1.5	-
Impairment charges – reported in discontinued operations	-	-
Loss/(gain) on property, plant and equipment disposals	0.4	(0.8)
Gain on disposal of assets in discontinued operations, net	-	(9.8)
Equity in loss of unconsolidated affiliates	0.7	0.5
Amortization of loan fees	3.4	5.6
Deferred income taxes	(2.1)	0.1
Foreign currency loss	7.2	14.5
<i>Changes in operating assets and liabilities, net of acquisitions</i>		
Increase in accounts receivable and other current assets	(24.4)	(21.7)
Increase in inventories	(10.4)	(2.2)
Increase in accounts payable and other current liabilities	32.1	0.9
Other, net	(12.6)	(7.0)
<b>Net cash provided by operating activities</b>	<b>52.7</b>	<b>19.6</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(90.7)	(73.9)
Capital expenditures for discontinued operations	-	(2.1)
Proceeds from disposal of property, plant and equipment	0.5	4.9
Proceeds from disposal of assets in discontinued operations, net	-	235.5
Loans to associates	(5.1)	(6.8)
Net change in restricted cash	(1.8)	(7.1)
<b>Net cash (used)/provided by investing activities</b>	<b>(97.1)</b>	<b>150.5</b>
<b>Cash Flows from Financing Activities</b>		
Net repayments under revolving facilities	(6.6)	(15.0)
Proceeds of related party debt	-	10.0
Repayment of related party debt	-	(65.0)
Proceeds from long-term debt	33.8	30.5
Repayment of long-term debt	(5.9)	(368.1)
Debt issuance costs	(1.9)	(5.2)
Proceeds from issuance of equity, net	-	247.9
<b>Net cash provided/(used) by financing activities</b>	<b>19.4</b>	<b>(164.9)</b>
Effect of exchange rate changes on cash and cash equivalents	3.0	(1.4)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(22.0)</b>	<b>3.8</b>
Cash and cash equivalents at beginning of the period	49.5	58.2
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 27.5</b>	<b>\$ 62.0</b>
Interest paid	\$ 20.0	\$ 26.5
Taxes paid	\$ 6.2	\$ 2.5

*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>
<b>Balance at December 31, 2013</b>	<b>\$ 579.2</b>	<b>\$ 816.1</b>	<b>\$ (902.2)</b>	<b>\$ (20.0)</b>	<b>\$ 161.5</b>	<b>\$ 634.6</b>
Translation differences	—	—	—	5.4	—	5.4
Net loss	—	—	(19.5)	—	—	(19.5)
Share based compensation	—	2.2	—	—	—	2.2
<b>Balance at June 30, 2013</b>	<b><u>\$ 579.2</u></b>	<b><u>\$ 818.3</u></b>	<b><u>\$ (921.7)</u></b>	<b><u>\$ (14.6)</u></b>	<b><u>\$ 161.5</u></b>	<b><u>\$ 622.7</u></b>

*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 8,400 skilled and experienced people at June 30, 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 second quarter and first half 2014 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited second quarter and first half consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These second quarter and half-year 2014 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 second 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.

**2014-09 Revenue from Contracts with Customers (Topic 606):** This update replaces virtually all the previous USGAAP guidance on revenue recognition, with a single model to be applied to all contracts with Customers. It requires the identification of performance obligations in contracts, and allocation of the transaction price to those performance obligations, and then recognition of the revenue as and when each performance obligation is satisfied.

The new guidance removes the collectability criteria for the recognition of the revenue – requiring instead that recorded receivable amounts are impaired as and when their collectability becomes doubtful.

The performance obligation is satisfied, and therefore the revenue recognised over time, if the customer simultaneously receives and consumes the benefits provided by the entities. The majority of Archer's revenue is earned on a day rate basis, the recognition of which would be unchanged by the new guidance.

The guidance is applicable to all public companies' financial statements beginning after December 15, 2016 and early adoption is not permitted. We are currently assessing the potential effect the adoption of the new guidance will have on our financial statements.



## Note 2 – Other Financial Items

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Foreign exchange differences	\$ (7.2)	\$ (6.4)	\$ (2.8)	\$ (14.5)
Other items	(1.5)	(0.3)	(1.3)	(0.4)
<b>Total other financial items</b>	<b>\$ (8.7)</b>	<b>\$ (6.7)</b>	<b>\$ (4.1)</b>	<b>\$ (14.9)</b>

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

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
United States	\$ 0.1	\$ 0.9	\$ 0.5	\$ 1.1
South America	3.0	(0.7)	1.0	(0.3)
Europe	1.7	0.7	6.6	1.3
Others	0.2	(0.4)	0.2	(0.3)
<b>Total</b>	<b>\$ 5.0</b>	<b>\$ 0.5</b>	<b>\$ 8.3</b>	<b>\$ 1.8</b>

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 six month period ended June 30, 2014 primarily in Europe, which relate to withholding taxes of \$2.9 million being expensed in the period and a limitation on interest expense deductibility in Norway of \$2 million. We have accumulated significant tax losses in the United States, with a total tax value of \$200 million. We are precluded from recognising the tax benefit in United States as we do not anticipate being able to utilise the losses within the foreseeable future. However we incur tax expenses in United States including withholding taxes and State income taxes, which are classified as current income tax. In Brazil a minor part of the tax losses totalling \$65 million, have been utilized during the second quarter.

## 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:

<i>(In millions)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues	\$ —	\$ 29.3	\$ —	\$ 59.3
Operating and reimbursable expenses	(0.2)	(17.8)	(0.6)	(36.7)
Impairments	—	-	—	-
Depreciation and amortization	—	(10.5)	—	(21.6)
Interest expense	—	(1.9)	—	(3.6)
Other financial items	—	-	—	—
Gain on sale of discontinued operations, net	—	9.1	—	9.1
(Loss)/income from discontinued operations before income tax expense	(0.2)	8.2	(0.6)	6.5
Income tax expense	—	(0.3)	—	(0.5)
<b>(Loss)/income from discontinued operations, net of tax</b>	<b>\$ (0.2)</b>	<b>\$ 7.9</b>	<b>\$ (0.6)</b>	<b>\$ 6.0</b>

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 June 30, 2014 and December 31, 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:

<i>(In thousands)</i>	<b>Three Months Ended March 31</b>		<b>Six Months Ended June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Denominator</b>				
Weighted-average common shares outstanding	579,160	579,160	579,160	519,284
Effect of potentially dilutive common shares				
Share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	579,160	579,160	579,160	519,284

Share-based compensation of approximately 4,809,406 and 2,973,035 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2014, and 122,191 and 179 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2013, respectively, as the effect would have been antidilutive due to the net loss for the period.

## Note 6 – Inventories

<i>(In millions)</i>	<b>June 30</b>	<b>December 31</b>
	<b>2014</b>	<b>2013</b>
Manufactured		
Finished goods	\$ 8.6	\$ 3.8
Work in progress	1.3	1.4
Raw materials	1.1	8.0
Total manufactured	11.0	13.2
Drilling supplies	23.9	25.0
Chemicals	10.8	11.6
Other items and spares	30.0	15.4
<b>Total inventories</b>	<b>\$ 75.7</b>	<b>\$ 65.2</b>

## Note 7 – Goodwill

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

<i>(In millions)</i>	
<b>Net book balance at December 31, 2013</b>	<b>\$ 294.1</b>
Goodwill disposed during the period	-
Impairment	-
Currency adjustments	(1.0)
<b>Net book balance at June 30, 2014</b>	<b>\$ 293.1</b>

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

<i>(In millions)</i>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Balance at December 31, 2013</b>	<b>\$ 116.5</b>	<b>\$ (51.0)</b>	<b>\$ 65.5</b>
Amortization	—	(5.0)	(5.0)
Currency adjustments	—	0.1	0.1
<b>Balance at March 31, 2014</b>	<b>\$ 116.5</b>	<b>\$ (55.9)</b>	<b>\$ 60.6</b>

The net book value at June 30, 2014, consisted of customer relationships of \$51.8 million, identified technology of \$4.3 million, trademarks of \$1.7 million, patents of \$2.7 million and non-compete agreements of \$0.1 million.

## Note 9 – Long-term, Interest-Bearing Debt

<i>(In millions)</i>	<b>June 30 2014</b>	<b>December 31 2013</b>
Multicurrency term and revolving facility	\$ 668.0	\$ 669.2
Related party subordinated loan	—	-
Hermes-covered term loans	63.1	41.6
Other loans and capital lease liability	53.6	54.0
<b>Total loans and capital lease liability</b>	<b>784.7</b>	<b>764.8</b>
Less: current portion	(151.8)	(150.9)
<b>Long-term portion of interest bearing debt</b>	<b>\$ 632.9</b>	<b>\$ 613.9</b>

### *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 repayment, 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 June 30, 2014, a total of \$668.0 million has been drawn under the multicurrency term and revolving facility, of which \$368.2 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 5.25x of the last twelve months EBITDA as of June 30, 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 June 30, 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 June 30, 2014, the equivalent of \$39.0 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 June 30, 2014, the equivalent of \$24.1 million was outstanding under this facility.

#### *Other loans and capital leases*

We have two \$50.0 million cash overdraft facilities and at June 30, 2014, net borrowings under these facilities were \$30.1 million. In addition we have borrowed \$2.0 million under short term facilities in Argentina as of June 30, 2014. We also have capital leases covering both real property and equipment, and financing arrangements for insurance premiums. At June 30, 2014, the net balance due under these arrangements was \$21.5 million.

### *Interest rate swap agreement*

We have two NOK interest rate swap agreements, securing the interest rate on NOK 300 million (\$49.8 million at June 30, 2014) until October 2015 and NOK 500 million until May 2019. We also have two USD interest rate swap agreements securing the interest rate on \$150 million until October 2015 and \$150 million until October 2017. The fair value of the swaps as of June 30, 2014 was a liability of \$2.3 million and is included within other non-current liabilities.

### *Capitalized Interest*

During the three and six month periods ended June 30, 2014, we capitalized approximately \$0.5 million and \$0.2 million respectively of interest costs related to the construction of equipment, primarily our modular rig (\$0.1 million and \$0.3 million for the three and six months ended June 30 2013 respectively).

### **Note 10 – Supplemental Cash Flow Information**

During the first half of 2014, we financed equipment purchases of \$3.3 million through capitalized leases, and financed insurance premiums of \$4.8 million.

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 June 30		Six Months June 30	
	2014	2013	2014	2013
<b>Revenues from external customers</b>				
North America	\$ 171.8	\$ 156.1	\$ 320.7	\$ 309.8
Latin America	142.3	144.9	264.7	275.5
North Sea	183.4	158.7	365.1	309.0
Emerging Markets & Technologies	54.5	50.3	106.3	100.3
<b>Total</b>	<b>\$ 552.0</b>	<b>\$ 510.0</b>	<b>\$ 1,056.8</b>	<b>\$ 994.6</b>
<b>Depreciation and amortization</b>				
North America	\$ 21.5	\$ 24.2	\$ 42.1	\$ 48.2
Latin America	7.4	8.0	15.1	16.0
North Sea	4.3	3.6	8.4	7.2
Emerging Markets & Technologies	5.5	4.4	10.1	8.9
<b>Total</b>	<b>\$ 38.7</b>	<b>\$ 40.2</b>	<b>\$ 75.7</b>	<b>\$ 80.3</b>
<b>Operating (loss)/income – net loss</b>				
North America	\$ (7.4)	\$ (17.5)	\$ (27.1)	\$ (36.4)
Latin America	3.9	(4.2)	8.5	(2.7)
North Sea	13.5	4.9	26.6	7.3
Emerging Markets & Technologies	5.3	3.4	11.3	7.4
Stock compensation costs	(0.7)	0.2	(2.2)	(0.3)
<b>Operating (loss)/income</b>	<b>14.6</b>	<b>(13.2)</b>	<b>17.1</b>	<b>(24.7)</b>
Total financial items	(20.4)	(19.9)	(27.7)	(42.2)
Income taxes	(5.0)	(0.5)	(8.3)	(1.8)
Discontinued operations, net of taxes	(0.2)	7.9	(0.6)	6.0
<b>Net loss</b>	<b>\$ (11.0)</b>	<b>\$ (25.7)</b>	<b>\$ (19.5)</b>	<b>\$ (62.7)</b>
<b>Capital expenditures</b>				
North America	\$ 1.8	\$ 6.5	\$ 6.6	\$ 22.9
Latin America	19.7	9.6	39.1	13.7
North Sea	2.3	4.2	33.1	29.8
Emerging Markets & Technologies	7.7	10.0	12.0	15.8
<b>Total</b>	<b>\$ 31.5</b>	<b>\$ 30.3</b>	<b>\$ 90.8</b>	<b>\$ 82.2</b>

<i>(In millions)</i>	North America	Latin America	North Sea	Emerging Markets & Technologies	Total
<b>Goodwill</b>					
<b>Balance at December 31, 2013</b>	\$ 5.5	\$ —	\$ 132.8	\$ 155.8	\$ 294.1
Currency adjustments	—	—	(0.1)	(0.9)	(1.0)
<b>Balance at June 30, 2014</b>	\$ 5.5	\$ —	\$ 132.7	\$ 154.9	\$ 293.1

<i>(In millions)</i>	June 30 2014	December 31 2013
<b>Total assets</b>		
North America	\$ 478.9	\$ 501.0
Latin America	498.6	457.9
North Sea	518.4	498.7
Emerging Markets & Technologies	331.6	337.3
<b>Total</b>	<b>\$ 1,827.5</b>	<b>\$ 1,794.9</b>

## Note 12 – Fair Value of Financial Instruments

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

<i>(In millions)</i>	June 30, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Non-derivatives</b>				
Cash and cash equivalents	\$ 27.5	\$ 27.5	\$ 49.5	\$ 49.5
Restricted cash	18.2	18.2	16.5	16.5
Current portion of long-term debt	151.8	151.8	150.9	150.9
Long-term, interest-bearing debt	632.9	632.9	613.9	613.9
<b>Derivatives</b>				
Interest rate swap agreements	(2.4)	(2.4)	—	—



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

<i>(In millions)</i>	<u>June 30, 2014</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 27.5	\$ 27.5	—	—
Restricted cash	18.2	18.2	—	—
Interest rate swap agreements	(2.4)	—	(2.4)	—
<b>Liabilities</b>				
Multicurrency term and revolving facility, excluding current portion	568.0	—	568.0	—
Other loans and capital leases, excluding current portion	64.9	—	64.9	—

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 13 – 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 June 30, 2014, 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 separate class actions have been filed alleging violations the FLSA relating to non-payment of overtime pay with respect to three of our subsidiaries: Great White Pressure Control LLC, Archer Pressure Pumping LLC and Archer Directional Drilling Services LLC. Each of these cases are in different stages of the discovery process, 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. In response, the defendants raised

counterclaims alleging that they are owed more than the amount we claimed in damages. On May 31, 2014, all but one of the defendants filed for Chapter 11 bankruptcy and an agreement amongst the parties has stayed the litigation at least through September 2014. 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 14 – 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 assets and liabilities acquired recorded by us at the historical carrying value of Seadrill Limited, or Seadrill. The excess consideration over the net assets and liabilities acquired has been recorded as adjustment to equity of \$205.1 million. Seadrill currently owns 39.9% of our stock.

During the six months ended June 30, 2014, we supplied Seadrill Limited and affiliates with services amounting to \$1.1 million, including reimbursable material. This amount has been included in operating revenues. At June 30, 2014, Seadrill owed us \$0.5 million related to these services.

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

Seadrill has provided a guarantee of \$200.0 million to the lenders of our multicurrency term and revolving facility (see Note 9). Seadrill is charging us an annual guarantee fee of 1.25% of the guaranteed amount and as of June 30, 2014, we had not yet paid the fees as they are due at the end of the guarantee period. The guarantee fees are being accrued over the guarantee period, and the cost of the fees are reported within Other financial items.

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 \$0.3 million for these services in the six months ended June 30, 2014. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At June 30, 2014, we owed Frontline \$0.1 million related to these services.

During the six months ended June 30, 2014, we supplied NADL with services amounting to \$1.0 million, including reimbursable material. This amount has been included in operating revenues. At June 30, 2014, NADL owed us \$0.2 million related to these services.

We have provided a loan to our associated company C6 Technologies AS. As at June 30, 2014 the balance on the loan account is \$14.2 million.

## Note 15 – Subsequent Events

On July 25 we announced that Statoil Brasil Oleo e Gas Ltda., has exercised the first of two options to extend its contract with Archer for the provision of Platform Drilling Management Services on their Peregrino Field Development. The original contract was for a fixed four year term commencing third quarter 2009. The contract extension will commence September 1, 2014, for three years through August 31, 2017.

On July 30 we announced that ConocoPhillips has exercised an option to extend its contract with Archer AS for the provision of Platform Drilling services for the Greater Ekofisk Area. The Platform Drilling contract was originally signed in early 2010 and previously would have expired June 2015. The contract extension will now commence immediately thereafter for five years with a new expiration date of June 30, 2020.

## 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)

	Three Months Ended					
	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013
<i>(In millions)</i>						
<b>Revenue</b>	552.0	504.8	524.1	522.6	510.1	484.5
<b>Cost and expenses</b>						
Operational costs	(535.9)	(502.3)	(520.9)	(515.2)	(523.3)	(496.0)
Impairments	(1.5)	—	(423.7)	—	—	—
Net financial items	(20.4)	(7.3)	(17.7)	(13.9)	(19.9)	(22.3)
<b>Loss from continuing operations before income taxes</b>	<b>(5.8)</b>	<b>(4.8)</b>	<b>(438.2)</b>	<b>(6.5)</b>	<b>(33.1)</b>	<b>(33.8)</b>
Income tax (expense) benefit	(5.0)	(3.3)	9.0	(4.6)	(0.5)	(1.3)
<b>Loss from continuing operations</b>	<b>(10.8)</b>	<b>(8.1)</b>	<b>(429.2)</b>	<b>(11.1)</b>	<b>(33.6)</b>	<b>(35.1)</b>
(Loss)/income from discontinued operations, net of tax	(0.2)	(0.4)	(2.5)	(13.1)	7.9	(1.9)
<b>Net loss</b>	<b>(11.0)</b>	<b>(8.5)</b>	<b>(431.7)</b>	<b>(24.2)</b>	<b>(25.7)</b>	<b>(37.0)</b>

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

<i>(In millions)</i>	Three Months Ended					
	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013
Net loss	(11.0)	(8.5)	(431.7)	(24.2)	(25.7)	(37.0)
Depreciation, amortization and impairments	38.7	37.0	462.4	42.5	40.2	40.1
Net financial items	20.4	7.3	17.7	13.9	19.9	22.3
Taxes on income	5.0	3.3	(9.0)	4.6	0.5	1.3
Loss/(income) from discontinued operations, net of tax	0.2	0.4	2.5	13.1	(7.9)	1.9
<b>EBITDA</b>	<b>53.3</b>	<b>39.5</b>	<b>41.9</b>	<b>49.9</b>	<b>27.0</b>	<b>28.6</b>

**ARCHER LIMITED**  
**EBITDA by Geographic and Strategic Areas**  
**(Unaudited)**

<i>(In millions)</i>	Three Months Ended					
	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013
North America (NAM)	13.7	0.4	2.8	11.9	6.7	4.8
Latin America (LAM)	11.2	11.9	13.5	14.4	3.9	9.5
North Sea (NRS)	17.7	16.9	17.7	11.0	8.5	5.9
Emerging Markets & Technologies (EMT)	10.7	10.3	7.9	12.6	7.9	8.4
<b>EBITDA</b>	<b>53.3</b>	<b>39.5</b>	<b>41.9</b>	<b>49.9</b>	<b>27.0</b>	<b>28.6</b>