



## Archer Limited (ARCHER) Third Quarter 2014 Results

### Third Quarter 2014 highlights

- Third quarter revenue from continuing operations of \$593.1 million.
- Third quarter EBITDA from continuing operations at \$70.1 million.
- Net income for the quarter of \$13.3 million.
- Third quarter operational cash flow of \$53.9 million.
- Net interest-bearing debt of \$758.3 million at September 30, 2014.
- Archer Topaz successfully mobilized for the Heimdal contract in Norway.
- Agreed on terms to extend and increase available financing facilities.

### Financial Statements

The following discussions are based on a continuing operations basis. 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 September 30, 2014 to the Three Months Ended June 30, 2014*

Revenue for the third quarter 2014 was \$593.1 million compared to \$552.0 million for the second quarter 2014, an increase of \$41.1 million or 7.4%. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, were \$70.1 million compared to \$53.3 million for the second quarter 2014, an increase of 31.5%.

Net Financial Items were a net expense of \$20.9 million in the third quarter 2014 compared to an expense of \$20.4 million in the second quarter 2014. Interest expenses amounted to \$11.3 million compared to \$12.5 million in the second quarter 2014. Other financial items amounted to \$9.7 million expense compared to \$8.7 million expense in the second quarter 2014. Other financial items represent predominantly unrealized foreign exchange losses.

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

Revenue for the three months ended September 30, 2014 was \$593.1 million compared to \$522.6 million for the third quarter 2013, up \$ 70.5 million or 13.5%. EBITDA of \$70.1 million for the three months ended September 30, 2014 increased 40.5% compared to \$49.9 million EBITDA for the third 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 \$41.0 million at September 30, 2014 compared to \$27.5 million at June 30, 2014.

Cash flow from operations for the three months ended September 30, 2014 was \$53.9 million, which is comprised primarily of the net income of \$13.3 million, add back for depreciation and amortization from continuing operations of \$33.9 million, add back expenses for share based compensation of \$ 1.5 million, add back a foreign currency loss of \$7.7 million, add back a reduction in accounts receivable offset by an increase in inventory and a decrease in accounts payable and other current liabilities for a net amount of \$2.5 million.

Capital expenditures for continuing operations during the quarter amounted to \$83 million, representing predominantly additional milestone payments for the purchase of new land rigs destined for Argentina, investments in our second modular rig Archer Topaz, as well as new equipment for our Pressure Control, Wireline, Frac Valves and Oil Tools businesses.

Total net interest-bearing debt at September 30, 2014 was \$758.3 million compared to \$757.2 million as of June 30, 2014.

### *Share Capital*

The total number of issued and fully paid shares of par value \$1.00 outstanding at September 30, 2014 was 579,159,787. A total of 27,592,606 options and RSUs were outstanding as of September 30, 2014.

### **Third Quarter 2014 Operating Results by Area**

We are organized in four Areas and our operational comments for the third quarter this year and the fourth quarter outlook are presented by Area below. During 2013 we sold our Underbalanced business in North America. The commentary that follows excludes the operating results of this business as it is treated as discontinued operations on the face of our statement of operations. The change is reflected in the sequential comparisons and comments below in order to show the results by Area on a comparable basis.

| <i>(In millions)</i> | Revenues        |                 |                 | EBITDA         |                |                 |
|----------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|
|                      | <u>Q3 2014</u>  | <u>Q2 2014</u>  | <u>Variance</u> | <u>Q3 2014</u> | <u>Q2 2014</u> | <u>Variance</u> |
| North America        | \$ 188.2        | \$ 171.8        | \$ 16.4         | \$ 26.7        | \$ 13.7        | \$ 13.0         |
| Latin America        | 152.9           | 142.3           | 10.6            | 10.8           | 11.2           | (0.4)           |
| North Sea            | 200.5           | 183.4           | 17.1            | 24.2           | 17.7           | 6.5             |
| Emerging Markets     | <u>51.5</u>     | <u>54.5</u>     | <u>(3.0)</u>    | <u>8.4</u>     | <u>10.7</u>    | <u>(2.3)</u>    |
|                      | <u>\$ 593.1</u> | <u>\$ 552.0</u> | <u>\$ 41.1</u>  | <u>\$ 70.1</u> | <u>\$ 53.3</u> | <u>\$ 16.8</u>  |

### *North America*

Revenue in the third quarter 2014 amounted to \$188.2 million, an increase of \$16.4 million, or 9.5% and EBITDA of \$26.7 million in the third quarter 2014 increased by \$13 million or 94.9% compared to the second quarter 2014 with generally high activity levels as a result of the increased service intensity.

The total number of wells drilled in the third quarter 2014 increased by 172 or 1.8% sequentially whereas the well count compared to the third quarter 2013 increased by 491 or 5.4%. The average United States land-based rig count of 1,842 for the third quarter 2014 increased 2.6% and 7.8% as compared to second quarter 2014 and third quarter 2013, respectively. The average rig count directed towards natural gas for the third quarter increased marginally by 3 rigs from the second quarter 2014, or 1% sequentially but reduced by 55 rigs, or 15%, compared to the second quarter 2013.

In Pressure Pumping we fracked a total of 2,644 stages in the third quarter 2014 compared to 2,012 stages during second quarter 2014. Fleet utilization for the third quarter 2014 was 82.9% compared to 88.6% in second quarter 2014 and revenue per stage decreased 23.2% compared to the second quarter 2014. Daily revenue per fleet increased by 6.7% mainly reflecting increased efficiencies. As a result Pressure Pumping revenue for third quarter 2014 was flat sequentially with higher revenue in the Permian region offsetting lower activity in the Mid Continent. EBITDA for the same period improved by \$2.9 million or 41.7% reflecting a change in customer and job mix towards higher margin activity combined with lower operating costs. Compared to the third quarter 2013, Pressure Pumping revenue increased by \$7.9 million as a result of improved utilization as well as a significant increase in activity as the number of stages fracked increased from 1,071 to 2,644 while over the same time revenue per stage declined by 54.3%. EBITDA for the same period improved significantly by \$13.3 million, due to the change in customer and job mix towards higher margin contracts coupled with a lower cost structure.

Pressure Control revenue for third quarter 2014 increased by \$2.7 million or 6% reflecting higher pricing for Coiled Tubing and Snubbing services, with an increased utilization for Coiled Tubing partly offset by a minor reduction in utilization for Snubbing services. EBITDA for the same period increased by \$5.4 million or 117.3% reflecting a one-time credit relating to a true-up of expense related to health insurance amounting to \$ 2.2 million and incremental margins as a result of the increased revenue. Compared to the third quarter 2013, revenue increased by 10%, reflecting improved pricing for Coiled Tubing as well as higher utilization for Snubbing services. EBITDA for the same period increased by \$6.3 million reflecting the one-time credit amounting to \$ 2.2 million related to the release of the accrual for health and improved margins resulting from the incremental revenue.

Third quarter revenue in Directional Drilling increased by \$5.1 million or 25.5% reflecting a higher level of activity in all the regions including a significant amount of job awards from a number of new customers. The number of jobs performed during the third quarter 2014 increased by 25.4% as compared to second quarter 2014 and 5.3% increase compared to third quarter 2013. EBITDA increased sequentially by \$1.7 million mainly as a result of the higher revenue. Compared to the third quarter 2013 revenue increased by \$1.4 million or 6% reflecting higher activity levels in Permian region and in the Rocky Mountains as well as revenue related to "lost in hole", partly offset by lower revenue in the Gulf Coast and Mid-continental regions. EBITDA for the same period increased by \$1.9 million reflecting margin increases from incremental revenue and lower operating costs.

Compared to the second quarter 2014, third quarter revenue in our Frac Valve division increased by \$4.8 million or 39% reflecting a higher number of new valves sold, increased after sales repairs and spare parts revenue partially offset by 5.3% decrease in average price per valve due to a change in product mix towards smaller size valves. EBITDA for the same period increased by \$1.6 million or 70.4% reflecting increased income from higher revenue. Year over year revenue increased by \$10.8 million due to an increased number of valves sold, higher revenue from after sales repairs and parts following continued geographical expansion. EBITDA for the same period increased by \$3.2 million, reflecting increased margins as a result of the higher activity.

Wireline revenue for third quarter 2014 increased by \$3.3 million or 12.2% compared to the previous quarter, reflecting increased pump down activity with a number of new customers in the Permian, South Texas as well as the Mid-continent region. EBITDA for the same period increased by \$0.6 million or 48.5% reflecting additional income from higher revenue combined with lower operating costs. Compared to third quarter 2013 revenue was flat while EBITDA improved by \$3.6 million reflecting cost savings as a result of the restructuring plan.

Compared with the third quarter we expect fourth quarter 2014 revenue to be seasonally down by approximately 5%. We also expect lower EBITDA as a result of the reduced activity combined with the absence of the release of the accrual related to health care insurance.

#### *Latin America*

Revenue in the third quarter 2014 amounted to \$152.9 million, an increase of \$10.6 million or 7.4% compared to the last quarter. This increase is primarily due to inflation adjustments related to higher compensation costs and other local costs in Argentina. In addition third quarter 2014 revenue improved following the start-up of new contracts for a number of rigs in Argentina, mobilization fees and reduced equipment downtime in Argentina partially offset by lower activity in Brazil. Overall rig utilization was 87% in third quarter 2014 compared to 83% in the second quarter 2014 and 77% including Argentina, Bolivia and Brazil in the third quarter 2013.

Despite the increased revenue, EBITDA for the third quarter 2014 was marginally lower, as income earned from incremental revenue was more than offset by additional overtime costs amounting to \$ 1.1 million relating to prior periods following an agreement reached with local unions combined with higher than expected mobilization and transport costs.

Compared to the third quarter 2013, revenue increased by \$8.5 million reflecting increased rig activity in Argentina combined with higher rates as a result of inflation adjustments compensating for increased compensation and other local costs. These upsides were partly offset by reduced operating time as a result of operational issues and the absence of retrospective rate escalations billed in third quarter 2013 combined with lower activity in the Brazil land market. EBITDA for the same period decreased by \$3.6 million mainly due to the absence of the retrospective charges in the third quarter 2013 amounting to \$3.0 million combined with higher costs for additional overtime in the third quarter 2014 as mentioned above as well as incremental mobilization costs partially offset by fall through from incremental revenue.

During the quarter and as part of our restructuring plan we have completed the divestiture of one of our workover rigs as well as the rental business in Brazil. With these divestitures our restructuring program in Brazil is largely complete.

We expect fourth quarter revenue for Latin America to be slightly up compared to the third quarter 2014. EBITDA is forecasted to improve reflecting a continued improvement in utilization and the absence of operational issues and retroactive charges included in our third quarter 2014 results. This will be partly offset by increased compensation and infrastructure costs in preparation for further activity increases expected in the beginning of 2015. Considering the latest information we expect three of our new drilling rigs destined for Argentina to start operating during the first quarter of 2015 and the remaining three in the second quarter of 2015.

#### *North Sea*

Third quarter 2014 revenue was \$200.5 million, an increase of \$17.2 million or 9.4% compared to the second quarter 2014 and EBITDA for the same period increased by \$6.5 million or 36.7%.

Revenue for our Platform Drilling services was \$5.6 million or 3.8% higher compared to the previous quarter reflecting increased contract and reimbursable revenue in Brazil and Norway partially offset by lower activity levels in the UK combined with lower equipment rental in Norway. EBITDA for the same period increased by \$1.3 million or 9.8% reflecting improved margins from incremental activities combined with lower operating costs partially offset by reduced income from equipment rentals. Compared to the third quarter last year, Platform drilling revenue increased by \$20.4 million or 15.4%, reflecting higher contract activity in the UK and Norway following an increased number of platforms in operation, combined with better operational performance, leading to a higher level of performance bonus awards. EBITDA for the same period increased \$3.2 million or 27.3% as a result of the increased revenue.

Our Modular Rig division reported \$8.8 million or 92.5% increased revenue compared to second quarter 2014 reflecting a performance bonus award for Archer Emerald relating to efficient drilling operation totalling \$ 4.6 million and the successful installation and start-up of Archer Topaz on the Heimdal platform in Norway. EBITDA in the third quarter 2014 increased by \$5.3 million due to the increased revenue partly reduced by increased operating costs. Compared to the third quarter 2013 revenue increased by \$10.1 million, benefitting from the performance bonus award as well as higher day rates for Archer Emerald as well as the start of operations for Archer Topaz. EBITDA for the same period increased by \$5.9 million as a result of the increased revenue.

Revenue for our Engineering services increased by \$2.8 million or 10.4% as compared to the second quarter 2014 reflecting higher reimbursable billings partly offset by lower offshore activity as the Engineering project on the Heimdal platform, relating to the Topaz installation, came to an end and as a result of lower activity levels during the vacation period in Norway. Despite higher revenue EBITDA for the same period decreased \$0.7 million or 31.2% reflecting lower income from reduced contract activity partially offset by margins from increased reimbursable revenue. Compared to the third quarter last year, revenue increased by \$11 million reflecting increased personnel utilisation following additional project awards in Norway, UK and the US. EBITDA for the same period increased by \$1.4 million as a result of the improved utilization of our Engineering team.

We expect fourth quarter 2014 activity in North Sea area to be about 10% lower following the expected shut down of a number of platforms for maintenance with some of our key customers. In addition fourth quarter revenue is expected to be lower due to absence of the performance bonus for Archer Emerald as mentioned above, the demobilization of the Archer Emerald as it is moving to the North Sea, and lower Engineering services revenue following the completion of the Heimdal project, partially offset by full quarter's activity for Archer Topaz. EBITDA for fourth quarter is expected to decrease reflecting impact of the lower revenue combined additional costs for the demobilization of Archer Emerald amounting to \$2.5 million. As a result of the expected reduction in drilling operation on several platforms we expect a charge for severance and early retirement of approximately \$2.5 million in the fourth quarter 2014. This will be partly offset by improved margins on Archer Topaz, which is forecasted to operate for the entire fourth quarter.

#### *Emerging Markets & Technologies*

Revenue in the third quarter 2014 was \$51.5 million, \$3 million or 5.5% lower compared to last quarter and EBITDA for the same period decreased by \$2.3 million or 21.5%.

Revenue for our International Wireline division decreased by \$4.1 million or 15.8% compared to the second quarter 2014 primarily reflecting lower activity in Norway with the postponement and cancellation of a number of jobs following cost reduction measures implemented by some of our key customers. EBITDA for the same period decreased by \$1.4 million or 57.7% due to lower revenue and increased operating costs in the emerging markets partially offset by absence of \$2.3 million prior years' pension provision adjustment in Norway included in second quarter 2014 results. Compared to same quarter last year revenue decreased by \$3.9 million mainly on account of lower activity level in Norway. EBITDA for the same period decreased by \$4.3 million as a result of the lower revenue combined with increased infrastructure costs in the Middle East to support future growth in that area.

Despite reduced sales in the Gulf of Mexico as a result of loop currents delaying the offshore well construction process Oiltools revenue increased sequentially by \$1.5 million or 6.1% mainly as a result of increased CFlex sales and installations in West Africa and higher LOCK revenue in Asia. EBITDA for the same period decreased by \$0.9 million or 9.7% reflecting the absence of a credit received from a customer during the second quarter 2014 related to custom developments performed in 2013. Compared to the same period last year and largely due to the same reasons mentioned above, Oiltools revenue increased by \$1.3 million while EBITDA decreased by \$1.1 million.

Compared to the third quarter, we expect fourth quarter 2014 revenue to be approximately 10% higher with a corresponding improvement in EBITDA primarily as a result of growth in West Africa, the Middle East and in Asia while we expect activity levels in the North Sea to remain at low levels. As a result of the reduction in activity in Norway we expect a charge for severance and early retirement of approximately \$1.0 million in the fourth quarter 2014.

## **Summary Outlook**

Drilling activity and service intensity in the North American land market remained very strong during the third quarter. We expect this trend to continue in the fourth quarter and, absent of any significant further reduction to the price of oil, well into 2015. Based on these assumptions we plan to selectively invest in order to enhance our overall service offering, further increase equipment utilization and continue to grow our revenue base with improved margins, while maintaining some degree of flexibility to the extent market conditions change.

The increased drilling activity in Argentina during the third quarter 2014 is a good indication of the medium and long term potential for the development of the shale reservoirs in the Neuquén area. While delivery delays and short term political and economic factors are expected to negatively impact our results compared to earlier expectations, in particular in the fourth quarter 2014 and the first half of 2015, we remain optimistic in the long term potential of the shale reservoirs in Argentina and the business case for the investment in new drilling rigs.

In the third quarter we have successfully installed our new Modular rig Archer Topaz on the Heimdal platform in time and on budget and the excellent drilling performance of its sister rig, the Archer Emerald, show the potential of this technology. Although the Archer Emerald will demobilize to the North Sea and will remain idle until the end of 2015, the contractual coverage and the interest in this technology are strong signs for its potential going forward.

The reduction in activity in Norway as a result of the cost reduction initiatives driven by some of our key customers are expected to negatively impact both our North Sea and Emerging Markets and Technologies Reporting Segments. However we expect that cost reductions mainly in Norway and growth in international markets will more than offset this slowdown. The growing interest in our proprietary technology and our product and services in Africa, the Middle East and in Asia are encouraging and we will continue to invest in these growth regions.

## **Cautionary Statement Regarding Forward-Looking Statements**

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

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the year ending December 31, 2013. 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 THIRD QUARTER FINANCIAL STATEMENTS**

|  |         |
|--|---------|
| Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013            | Page 8  |
| Consolidated Statements of Comprehensive (Loss)/Income for the three and nine months September 30, 2014 and 2013 | Page 9  |
| Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013                                       | Page 10 |
| Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013                      | Page 11 |
| Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2014           | Page 12 |
| Notes to Unaudited Consolidated Financial Statements   | Page 13 |
| Appendix   | Page 27 |

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

(In millions, except per share data)

|   | Note | Three Months Ended<br>September 30 |                  | Nine Months Ended<br>September 30 |                  |
|---|------|------------------------------------|------------------|-----------------------------------|------------------|
|   |      | 2014                               | 2013             | 2014                              | 2013             |
| <b>Revenues</b>   |      |                                    |                  |                                   |                  |
| Operating revenues  |      | \$ 557.9                           | \$ 498.8         | \$ 1,561.0                        | \$ 1,445.1       |
| Reimbursable revenues   |      | 35.2                               | 23.8             | 88.9                              | 72.1             |
| <b>Total revenues</b>   |      | <b>593.1</b>                       | <b>522.6</b>     | <b>1,649.9</b>                    | <b>1,517.2</b>   |
| <b>Expenses</b>   |      |                                    |                  |                                   |                  |
| Operating expenses  |      | 468.5                              | 444.9            | 1,341.0                           | 1,299.2          |
| Reimbursable expenses   |      | 33.8                               | 22.8             | 85.1                              | 68.9             |
| Depreciation and amortization   |      | 33.9                               | 42.5             | 108.1                             | 122.8            |
| Impairments   |      | -                                  | -                | 1.5                               | -                |
| General and administrative expenses                                   |      | 20.7                               | 5.0              | 60.9                              | 43.6             |
| <b>Total expenses</b>   |      | <b>556.9</b>                       | <b>515.2</b>     | <b>1,596.6</b>                    | <b>1,534.5</b>   |
| <b>Operating income / (loss)</b>                                      |      | <b>36.2</b>                        | <b>7.4</b>       | <b>53.3</b>                       | <b>(17.3)</b>    |
| <b>Financial items</b>  |      |                                    |                  |                                   |                  |
| Interest income   |      | 0.6                                | 0.4              | 2.1                               | 0.9              |
| Interest expenses   |      | (11.3)                             | (12.8)           | (35.7)                            | (40.1)           |
| Share of results in associated company                                |      | (0.5)                              | (0.1)            | (1.2)                             | (0.6)            |
| Other financial items   | 2    | (9.7)                              | (1.4)            | (13.8)                            | (16.3)           |
| <b>Total financial items</b>  |      | <b>(20.9)</b>                      | <b>(13.9)</b>    | <b>(48.6)</b>                     | <b>(56.1)</b>    |
| <b>Income / (loss) from continuing operations before income taxes</b> |      | <b>15.3</b>                        | <b>(6.5)</b>     | <b>4.7</b>                        | <b>(73.4)</b>    |
| Income tax expense  | 3    | (1.6)                              | (4.6)            | (9.9)                             | (6.4)            |
| <b>Income / (loss) from continuing operations</b>                     |      | <b>13.7</b>                        | <b>(11.1)</b>    | <b>(5.2)</b>                      | <b>(79.8)</b>    |
| Loss from discontinued operations, net of tax                         | 4    | (0.4)                              | (13.1)           | (1.0)                             | (7.1)            |
| <b>Net income / (loss)</b>  |      | <b>\$ 13.3</b>                     | <b>\$ (24.2)</b> | <b>\$ (6.2)</b>                   | <b>\$ (86.9)</b> |
| <b>Income / (loss) per share-basic</b>                                |      |                                    |                  |                                   |                  |
| Income / (loss) from continuing operations                            |      | \$ 0.02                            | \$ (0.02)        | \$ (0.01)                         | \$ (0.15)        |
| Income / (loss) from discontinued operations                          |      | -                                  | (0.02)           | -                                 | (0.01)           |
| Income / (loss) per share   |      | <u>\$0.02</u>                      | <u>\$(0.04)</u>  | <u>\$ (0.01)</u>                  | <u>\$ (0.16)</u> |
| <b>Income (loss) per share-diluted</b>                                |      |                                    |                  |                                   |                  |
| Income / (loss) from continuing operations                            |      | \$ 0.02                            | \$ (0.02)        | \$ (0.01)                         | \$ (0.15)        |
| Income / (loss) from discontinued operations                          |      | -                                  | (0.02)           | -                                 | (0.01)           |
| Income / (loss) per share   |      | <u>\$ 0.02</u>                     | <u>\$ (0.04)</u> | <u>\$ (0.01)</u>                  | <u>\$ (0.16)</u> |
| <b>Weighted average number of shares outstanding</b>                  |      |                                    |                  |                                   |                  |
| Basic   | 5    | 579.2                              | 579.2            | 579.2                             | 539.5            |
| Diluted   | 5    | 586.4                              | 579.2            | 579.2                             | 539.5            |

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



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

| <i>(In millions)</i>                     | Three Months Ended<br>September 30 |                 | Nine Months Ended September<br>30 |                 |
|--|------------------------------------|-----------------|-----------------------------------|-----------------|
|  | 2014                               | 2013            | 2014                              | 2013            |
| <b>Net income / (loss)</b>               | <b>\$ 13.3</b>                     | <b>\$(24.2)</b> | <b>\$ (6.2)</b>                   | <b>\$(86.9)</b> |
| <b>Other comprehensive (loss)/income</b> |                                    |                 |                                   |                 |
| Currency exchange differences            | (3.0)                              | 3.4             | 2.4                               | (7.0)           |
| <b>Total comprehensive income/(loss)</b> | <b>\$ 10.3</b>                     | <b>\$(20.8)</b> | <b>\$ (3.8)</b>                   | <b>\$(93.9)</b> |

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

| <i>(In millions)</i>                 | Pension –<br>Unrecognized<br><u>Losses</u> | Currency<br>Exchange<br><u>Differences</u> | <u>Total</u>     |
|--------------------------------------|--|--|------------------|
| <b>Balance at December 31, 2013</b>  | <b>\$(22.7)</b>                            | <b>\$ 2.7</b>                              | <b>\$ (20.0)</b> |
| Currency translation differences     | -  | 2.4  | 2.4              |
| Actuarial loss relating to pension   | -  | -  | -                |
| <b>Balance at September 30, 2014</b> | <b>\$(22.7)</b>                            | <b>\$ 5.1</b>                              | <b>\$ (17.6)</b> |

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

## ARCHER LIMITED

### Consolidated Balance Sheets

(In millions)

|   | Not<br>e | <u>September 30 2014</u><br>(Unaudited) | <u>December 31 2013</u><br>(Audited) |
|---|----------|---|--------------------------------------|
| <b>ASSETS</b>   |          |   |                                      |
| <b>Current assets</b>   |          |   |                                      |
| Cash and cash equivalents   |          | \$ 41.0                                 | \$ 49.5                              |
| Restricted cash   |          | 13.5                                    | 16.5                                 |
| Accounts receivables  |          | 403.6                                   | 386.1                                |
| Inventories   | 6        | 90.9                                    | 65.2                                 |
| Deferred income taxes   |          | 6.4                                     | 5.6                                  |
| Other current assets  |          | 87.9                                    | 76.9                                 |
| <b>Total current assets</b>   |          | <b>643.3</b>                            | <b>599.8</b>                         |
| <b>Noncurrent assets</b>  |          |   |                                      |
| Investments in associates   |          | -                                       | 0.6                                  |
| Loans to associates   |          | 14.3                                    | 9.3                                  |
| Property plant and equipment, net   |          | 852.9                                   | 800.0                                |
| Deferred income taxes   |          | 12.3                                    | 16.2                                 |
| Goodwill  | 7        | 280.7                                   | 294.1                                |
| Other intangible assets, net  | 8        | 57.5                                    | 65.5                                 |
| Deferred charges  |          | 12.0                                    | 9.4                                  |
| <b>Total noncurrent assets</b>  |          | <b>1,229.7</b>                          | <b>1,195.1</b>                       |
| <b>Total assets</b>   |          | <b>\$ 1,873.0</b>                       | <b>\$ 1,794.9</b>                    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |          |   |                                      |
| <b>Current liabilities</b>  |          |   |                                      |
| Current portion of interest-bearing debt  | 9        | \$ 162.5                                | \$ 150.9                             |
| Accounts payable  |          | 135.6                                   | 110.7                                |
| Other current liabilities   |          | 230.9                                   | 214.3                                |
| <b>Total current liabilities</b>  |          | <b>529.0</b>                            | <b>475.9</b>                         |
| <b>Noncurrent liabilities</b>   |          |   |                                      |
| Long-term interest-bearing debt   | 9        | 636.8                                   | 613.9                                |
| Deferred taxes  |          | 11.4                                    | 11.6                                 |
| Other noncurrent liabilities  |          | 61.3                                    | 58.9                                 |
| <b>Total noncurrent liabilities</b>   |          | <b>709.5</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<br>authorized: 579,159,787 outstanding shares at September 30,<br>2014 (December 31, 2013: 579,159,787) |          | 579.2                                   | 579.2                                |
| Additional paid in capital  |          | 819.8                                   | 816.1                                |
| Accumulated deficit   |          | (908.4)                                 | (902.2)                              |
| Accumulated other comprehensive loss  |          | (17.6)                                  | (20.0)                               |
| Contributed surplus   |          | 161.5                                   | 161.5                                |
| <b>Total shareholders' equity</b>   |          | <b>634.5</b>                            | <b>634.6</b>                         |
| <b>Total liabilities and shareholders' equity</b>   |          | <b>\$ 1,873.0</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)

|   | Nine Months Ended September 30 |                |
|---|--------------------------------|----------------|
|   | 2014                           | 2013           |
| <b>Cash Flows from Operating Activities</b>                                   |                                |                |
| Net loss  | \$ (6.2)                       | \$ (86.9)      |
| Adjustment to reconcile net loss to net cash provided by operating activities |                                |                |
| Depreciation and amortization   | 110.6                          | 122.8          |
| Depreciation and amortization of assets in discontinued operations            | -                              | 23.0           |
| Share-based compensation expenses   | 3.7                            | 0.7            |
| Impairment charges  | 1.5                            | 11.0           |
| Impairment charges – reported in discontinued operations                      | -                              | -              |
| (Gain)/loss on property, plant and equipment disposals                        | (2.5)                          | 1.7            |
| Gain on disposal of assets in discontinued operations, net                    | -                              | (9.8)          |
| Equity in loss of unconsolidated affiliates                                   | 0.7                            | 0.6            |
| Amortization of loan fees   | 4.8                            | 7.5            |
| Deferred income taxes   | (3.5)                          | 0.8            |
| Foreign currency loss   | 14.9                           | 15.7           |
| <i>Changes in operating assets and liabilities, net of acquisitions</i>       |                                |                |
| Increase in accounts receivable and other receivables                         | (41.9)                         | (36.2)         |
| Increase in inventories   | (26.4)                         | (8.6)          |
| Increase in accounts payable and other liabilities                            | 57.2                           | (1.6)          |
| Other, net  | (6.3)                          | (6.8)          |
| <b>Net cash provided by operating activities</b>                              | <b>106.6</b>                   | <b>33.9</b>    |
| <b>Cash Flows from Investing Activities</b>                                   |                                |                |
| Capital expenditures  | (173.7)                        | (94.4)         |
| Capital expenditures for discontinued operations                              | -                              | (2.1)          |
| Proceeds from disposal of property, plant and equipment                       | 13.0                           | 6.5            |
| Proceeds from disposal of assets in discontinued operations, net              | -                              | 235.5          |
| Loans to associates   | (5.9)                          | (7.9)          |
| Net change in restricted cash   | 2.4                            | (1.4)          |
| <b>Net cash (used)/provided by investing activities</b>                       | <b>(164.2)</b>                 | <b>136.3</b>   |
| <b>Cash Flows from Financing Activities</b>                                   |                                |                |
| Net proceeds from revolving facilities  | 3.4                            | (20.2)         |
| Proceeds of related party debt  | -                              | 10.0           |
| Repayment of related party debt   | -                              | (65.0)         |
| Proceeds from long-term debt  | 56.5                           | 30.5           |
| Repayment of long-term debt   | (13.2)                         | (393.2)        |
| Debt issuance costs   | (1.9)                          | (6.6)          |
| Proceeds from issuance of equity, net   | -                              | 247.9          |
| <b>Net cash provided/(used) by financing activities</b>                       | <b>44.8</b>                    | <b>(196.6)</b> |
| Effect of exchange rate changes on cash and cash equivalents                  | 4.3                            | (1.6)          |
| <b>Net decrease in cash and cash equivalents</b>                              | <b>(8.5)</b>                   | <b>(28.0)</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>\$ 41.0</b>                 | <b>\$ 30.2</b> |
| Interest paid   | \$ 28.9                        | \$ 37.1        |
| Taxes paid  | \$ 8.3                         | \$ 6.9         |

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<br/>Capital</u> | <u>Additional<br/>Paid In<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income/(Loss)</u> | <u>Contributed<br/>(Deficit)/<br/>Surplus</u> | <u>Total<br/>Shareholders'<br/>Equity</u> |
|--|--------------------------|---|--------------------------------|--|---|---|
| <b>Balance at<br/>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                  | —                        | —   | —                              | 2.4  | —   | 2.4                                       |
| Net loss                                 | —                        | —   | (6.2)                          | —  | —   | (6.2)                                     |
| Share based<br>compensation              | —                        | 3.7                                       | —                              | —  | —   | 3.7                                       |
| <b>Balance at September<br/>30, 2014</b> | <b>\$ 579.2</b>          | <b>\$ 819.8</b>                           | <b>\$ (908.4)</b>              | <b>\$ (17.6)</b>   | <b>\$ 161.5</b>                               | <b>\$ 634.5</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 8,700 skilled and experienced people at September 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 third quarter interim consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited third quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These third quarter 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.

**ASU 2014-14 Presentation of Financial Statements – Going Concern:** This update, issued August 2014, and effective for annual periods ending after December 15, 2016. provides guidance about Managements responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Early application is permitted

Archer's management already performs an appropriate evaluation each reporting date, and relevant disclosures have been added to the financial statement when it is deemed necessary.

## Note 2 – Other Financial Items

| <i>(In millions)</i>               | Three Months Ended |                 | Nine Months Ended |                  |
|------------------------------------|--------------------|-----------------|-------------------|------------------|
|                                    | September 30       |                 | September 30      |                  |
|                                    | 2014               | 2013            | 2014              | 2013             |
| Foreign exchange differences       | \$ (12.1)          | \$ (1.2)        | \$ (14.9)         | \$ (15.7)        |
| Other items                        | 2.4                | (0.2)           | 1.1               | (0.6)            |
| <b>Total other financial items</b> | <b>\$ (9.7)</b>    | <b>\$ (1.4)</b> | <b>\$ (13.8)</b>  | <b>\$ (16.3)</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 |               | Nine Months Ended |               |
|----------------------|--------------------|---------------|-------------------|---------------|
|                      | September 30       |               | September 30      |               |
|                      | 2014               | 2013          | 2014              | 2013          |
| United States        | \$ (0.4)           | \$ 0.4        | \$ 0.1            | \$ 1.5        |
| South America        | 0.5                | 1.1           | 1.5               | 0.8           |
| Europe               | 2.1                | 2.2           | 8.7               | 3.5           |
| Others               | (0.6)              | 0.9           | (0.4)             | 0.6           |
| <b>Total</b>         | <b>\$ 1.6</b>      | <b>\$ 4.6</b> | <b>\$ 9.9</b>     | <b>\$ 6.4</b> |

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

We have incurred tax expenses of \$9.9 million for the nine month period ended September 30, 2014 primarily in Europe with \$8.7 million, as a result of withholding taxes which were expensed amounting to \$3.4 million and increased profitability in both Norway and UK.

For the nine month period ended September 30, 2014 tax expenses in the United States were \$0.1 million reflecting withholding and state income taxes. We have significant tax assets in United States amounting to \$328 million, out of which \$155 million related to accumulated tax losses carry forward. These tax losses were reduced by \$ 45 million during the third quarter 2014 as a consequence of an internal restructuring. We are precluded from recognising tax benefits related to these tax assets, as there is no certainty whether these tax assets can be used in the foreseeable future.

Increased tax expenses for the first nine months in South America are a result of increased profitability in this region compared to prior year.

Others representing operations in Asia, the Middle East and Corporate functions, benefitted from a release of a tax provisions relating to prior periods.

Tax payments for the first nine months of 2014 amounted to \$ 8.3 million, reflecting payments in Asia, Norway, South America and the United States.

## Note 4 – Discontinued Operations

On September 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<br/>September 30</b> |                  | <b>Nine Months Ended<br/>September 30</b> |                 |
|--|--|------------------|---|-----------------|
|  | <b>2014</b>                                | <b>2013</b>      | <b>2014</b>                               | <b>2013</b>     |
| Revenues   | \$ —                                       | \$ 4.8           | \$ —                                      | \$ 64.1         |
| Operating and reimbursable expenses                                  | (0.4)                                      | (5.3)            | (1.0)                                     | (42.0)          |
| Impairments  | —  | (11.0)           | —   | (11.0)          |
| Depreciation and amortization  | —  | (1.4)            | —   | (23.0)          |
| Interest expense   | —  | (0.2)            | —   | (3.8)           |
| Other financial items  | —  | —                | —   | —               |
| Gain on sale of discontinued operations, net                         | —  | —                | —   | 9.1             |
| (Loss)/income from discontinued operations before income tax expense | (0.4)                                      | (13.1)           | (1.0)                                     | (6.6)           |
| Income tax expense   | —  | —                | —   | (0.5)           |
| <b>(Loss)/income from discontinued operations, net of tax</b>        | <b>\$ (0.4)</b>                            | <b>\$ (13.1)</b> | <b>\$ (1.0)</b>                           | <b>\$ (7.1)</b> |

The Rental and Tubular businesses were deconsolidated at September 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 September 30, 2014 and December 31, 2013. Costs recognised regarding discontinued operations following the sale relate to an on-going legal case.

#### **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<br/>September 30</b> |                | <b>Nine Months Ended<br/>September 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                                   | 539,462        |
| Effect of potentially dilutive share-based compensation shares     | 7,195                                      | —              | —   | —              |
| Weighted-average common shares outstanding and assumed conversions | <u>586,355</u>                             | <u>579,160</u> | <u>579,160</u>                            | <u>539,462</u> |

Share-based compensation of approximately 4,623,801 shares were excluded from the computation of diluted earnings per share for the nine months ended September 30, 2014, and 62,333 and 8,829 shares were excluded from the computation of diluted earnings per share for the three and nine months ended September 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>September 30</b> | <b>December 31</b> |
|--------------------------|---------------------|--------------------|
|                          | <b>2014</b>         | <b>2013</b>        |
| Manufactured             |                     |                    |
| Finished goods           | \$ 10.4             | \$ 3.8             |
| Work in progress         | 3.2                 | 1.4                |
| Raw materials            | 12.6                | 8.0                |
| Total manufactured       | 26.2                | 13.2               |
| Drilling supplies        | 25.9                | 25.0               |
| Chemicals                | 12.7                | 11.6               |
| Other items and spares   | 26.1                | 15.4               |
| <b>Total inventories</b> | <b>\$ 90.9</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                          | (13.4)          |
| <b>Net book balance at September 30, 2014</b> | <b>\$ 280.7</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<br/>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                         | —               | (7.6)                               | (7.6)          |
| Currency adjustments                 | (1.5)           | 1.1                                 | (0.4)          |
| <b>Balance at September 30, 2014</b> | <b>\$ 115.0</b> | <b>\$ (57.5)</b>                    | <b>\$ 57.5</b> |

The net book value at September 30, 2014, consisted of customer relationships of \$49.5 million, identified technology of \$3.7 million, trademarks of \$1.6 million, patents of \$2.6 million and non-compete agreements of \$0.1 million.

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

| <i>(In millions)</i>                              | <b>September 30</b> | <b>December 31</b> |
|---|---------------------|--------------------|
|   | <b>2014</b>         | <b>2013</b>        |
| Multicurrency term and revolving facility         | \$ 660.2            | \$ 669.2           |
| Related party subordinated loan                   | —                   | -                  |
| Hermes-covered term loans                         | 75.5                | 41.6               |
| Other loans and capital lease liability           | 63.6                | 54.0               |
| <b>Total loans and capital lease liability</b>    | <b>799.3</b>        | <b>764.8</b>       |
| Less: current portion                             | (162.5)             | (150.9)            |
| <b>Long-term portion of interest bearing debt</b> | <b>\$ 636.8</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 in 2013 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 September 30, 2014, a total of \$660.2 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 5.00x of the last twelve months EBITDA as of September 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 September 30, 2014, we are in compliance with all covenants under our debt facilities.

Subsequent to September 30, 2014 we have renegotiated the terms of our multicurrency term loan and revolving credit facility as described in Note 15, Subsequent events. The final maturity date of the facility under the newly agreed terms is May 11, 2018.

#### *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 September 30, 2014, €44.8, equivalent to \$56.8 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 September 30, 2014, the equivalent of \$18.7 million was outstanding under this facility.

#### *Other loans and capital leases*

We have two \$50.0 million cash overdraft facilities and at September 30, 2014, net borrowings under these facilities were \$41.4 million. In addition we have borrowed \$0.6 million under short term facilities in Argentina as of September 30, 2014. We also have capital leases covering both real property and equipment, and financing arrangements for insurance premiums. At September 30, 2014, the net balance due under these arrangements was \$21.6 million.

### *Interest rate swap agreement*

We have two NOK interest rate swap agreements, securing the interest rate on NOK 300 million 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 September 30, 2014 was a liability of \$1.6 million and is included within other non-current liabilities.

### *Capitalized Interest*

During the three and nine month periods ended September 30, 2014, we capitalized approximately \$0.7 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 nine months ended September 30 2013 respectively).

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

During the first nine months of 2014, we financed equipment purchases of \$7.2 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<br>September 30 |                  | Nine Months<br>September 30 |                   |
|---|------------------------------------|------------------|-----------------------------|-------------------|
|   | 2014                               | 2013             | 2014                        | 2013              |
| <b>Revenues from external customers</b>   |                                    |                  |                             |                   |
| North America                             | \$ 188.2                           | \$ 134.0         | \$ 508.9                    | \$ 473.2          |
| Latin America                             | 152.9                              | 144.3            | 417.6                       | 419.8             |
| North Sea                                 | 200.5                              | 159.0            | 565.6                       | 468.0             |
| Emerging Markets & Technologies           | 51.5                               | 85.3             | 157.8                       | 156.2             |
| <b>Total</b>                              | <b>\$ 593.1</b>                    | <b>\$ 522.6</b>  | <b>\$ 1,649.9</b>           | <b>\$ 1,517.2</b> |
| <b>Depreciation and amortization</b>      |                                    |                  |                             |                   |
| North America                             | \$ 18.6                            | \$ 19.8          | \$ 60.6                     | \$ 72.4           |
| Latin America                             | 6.3                                | 10.1             | 21.3                        | 26.1              |
| North Sea                                 | 4.6                                | 3.8              | 13.0                        | 11.0              |
| Emerging Markets & Technologies           | 4.4                                | 8.8              | 14.7                        | 13.3              |
| <b>Total</b>                              | <b>\$ 33.9</b>                     | <b>\$ 42.5</b>   | <b>\$ 109.6</b>             | <b>\$ 122.8</b>   |
| <b>Operating income/(loss) – net loss</b> |                                    |                  |                             |                   |
| North America                             | \$ 8.8                             | \$ (5.8)         | \$ (18.2)                   | \$ (48.7)         |
| Latin America                             | 4.9                                | 4.6              | 13.3                        | 1.9               |
| North Sea                                 | 19.9                               | 7.3              | 46.5                        | 14.4              |
| Emerging Markets & Technologies           | 4.1                                | 1.7              | 15.4                        | 15.8              |
| Stock compensation costs                  | (1.5)                              | (0.4)            | (3.7)                       | (0.7)             |
| <b>Operating income/(loss)</b>            | <b>36.2</b>                        | <b>7.4</b>       | <b>53.3</b>                 | <b>(17.3)</b>     |
| Total financial items                     | (20.9)                             | (13.9)           | (48.6)                      | (56.1)            |
| Income taxes                              | (1.6)                              | (4.5)            | (9.9)                       | (6.4)             |
| Discontinued operations, net of taxes     | (0.4)                              | (13.1)           | (1.0)                       | (7.1)             |
| <b>Net income/(loss)</b>                  | <b>\$ 13.3</b>                     | <b>\$ (24.2)</b> | <b>\$ (6.2)</b>             | <b>\$ (86.9)</b>  |
| <b>Capital expenditures</b>               |                                    |                  |                             |                   |
| North America                             | \$ 14.9                            | \$ 2.8           | \$ 21.4                     | \$ 26.8           |
| Latin America                             | 35.2                               | 8.2              | 74.2                        | 21.9              |
| North Sea                                 | 22.9                               | 4.9              | 56.0                        | 34.7              |
| Emerging Markets & Technologies           | 10.1                               | 4.6              | 22.1                        | 19.3              |
| <b>Total</b>                              | <b>\$ 83.1</b>                     | <b>\$ 20.5</b>   | <b>\$ 173.7</b>             | <b>\$ 102.7</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                 | —             | —             | (6.3)     | (7.1)                           | (13.4)   |
| <b>Balance at September 30, 2014</b> | \$ 5.5        | \$ —          | \$ 126.5  | \$ 148.7                        | \$ 280.7 |

| <i>(In millions)</i>            | September 30<br>2014 | December 31<br>2013 |
|---------------------------------|----------------------|---------------------|
| <b>Total assets</b>             |                      |                     |
| North America                   | \$ 484.5             | \$ 501.0            |
| Latin America                   | 533.7                | 457.9               |
| North Sea                       | 528.1                | 498.7               |
| Emerging Markets & Technologies | 326.7                | 337.3               |
| <b>Total</b>                    | <b>\$ 1,873.0</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>              | September 30, 2014 |                | December 31, 2013 |                |
|-----------------------------------|--------------------|----------------|-------------------|----------------|
|                                   | Fair Value         | Carrying Value | Fair Value        | Carrying Value |
| <b>Non-derivatives</b>            |                    |                |                   |                |
| Cash and cash equivalents         | \$ 41.0            | \$ 41.0        | \$ 49.5           | \$ 49.5        |
| Restricted cash                   | 13.5               | 13.5           | 16.5              | 16.5           |
| Current portion of long-term debt | 162.5              | 162.5          | 150.9             | 150.9          |
| Long-term, interest-bearing debt  | 636.8              | 636.8          | 613.9             | 613.9          |
| <b>Derivatives</b>                |                    |                |                   |                |
| Interest rate swap agreements     | (1.6)              | (1.6)          | (0.4)             | (0.4)          |

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

| <i>(In millions)</i>  | <u>September 30,</u><br><u>2014</u> | <u>Fair Value Measurements at</u><br><u>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   | \$ 41.0                             | \$ 41.0  | —              | —              |
| Restricted cash   | 13.5                                | 13.5   | —              | —              |
| Interest rate swap agreements   | (1.6)                               | —  | (1.6)          | —              |
| <b>Liabilities</b>  |                                     |  |                |                |
| Multicurrency term and revolving facility,<br>excluding current portion | 560.2                               | —  | 560.2          | —              |
| Other loans and capital leases, excluding<br>current portion            | 76.6                                | —  | 76.6           | —              |

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 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 September 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 in August 2014, the Archer parties removed the case to U.S. Bankruptcy Court where the claims are currently stayed pending further action by the court. 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 nine months ended September 30, 2014, we supplied Seadrill Limited and affiliates with services amounting to \$1.8 million, including reimbursable material. This amount has been included in operating revenues. At September 30, 2014, Seadrill owed us \$0.4 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 September 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, Hemen Holding Ltd and/or LimeRock Partners LLP have a significant interest:

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

Frontline provides management support and administrative services to us, and we have recorded fees of \$0.5 million for these services in the nine months ended September 30, 2014. These amounts are included in General and administrative expenses in the Consolidated statement of operations. At September 30, 2014, we paid Frontline all outstanding fees related to these services.

During the nine months ended September 30, 2014, we supplied NADL with services amounting to \$4.9 million, including reimbursable material. This amount has been included in operating revenues. At September 30, 2014, NADL owed us \$0.3 million related to these services.

We have provided a loan to our associated company C6 Technologies AS. As at September 30, 2014 the balance on the loan account is \$14.4million.

Geodynamics provided perforating products to the company for which it received \$0.5m for the nine months ended September 30, 2014. This amount was included in operating expenses. At September 30, 2014, a balance of \$0.1m payable to Geodynamics remained outstanding.

#### **Note 15 – Subsequent Events**

On October 24 the Company and its lenders under the Multicurrency term and revolving facility agreed on terms to extend the maturity of this facility until May 11, 2018 and to increase the amount available to \$ 750 million. In addition, it was agreed that no instalments would be due until May 2017, when quarterly instalments of \$ 25 million will commence. In order to secure the financing, Seadrill will increase its guarantee in favour of these lenders to \$ 250 million and Archer commits to secure an amount of \$ 50 million in additional funding before December 31, 2014.

On October 24 the Company entered into a subordinated loan agreement with Metrogas Holdings Inc, which is a related party. The amount available under this agreement is \$ 50 million, with maturity on June 30, 2018. This subordinated loan fulfils the requirement for additional funding as agreed with the lenders under the term sheet for the revised Multicurrency term and revolver facility.

## Appendix to Archer Third 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 September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013 and June 30 2013. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

### ARCHER LIMITED Condensed Consolidated Statements of Operations (Unaudited)

| <i>(In millions)</i>  | Three Months Ended   |                 |                  |                     |                      |                 |
|---|----------------------|-----------------|------------------|---------------------|----------------------|-----------------|
|   | September 30<br>2014 | June 30<br>2014 | March 31<br>2014 | December 31<br>2013 | September 30<br>2013 | June 30<br>2013 |
| <b>Revenue</b>  | 593.1                | 552.0           | 504.8            | 524.1               | 522.6                | 510.1           |
| <b>Cost and expenses</b>  |                      |                 |                  |                     |                      |                 |
| Operational costs   | (556.9)              | (535.9)         | (502.3)          | (520.9)             | (515.2)              | (523.3)         |
| Impairments   | —                    | (1.5)           | —                | (423.7)             | —                    | —               |
| Net financial items   | (20.9)               | (20.4)          | (7.3)            | (17.7)              | (13.9)               | (19.9)          |
| <b>Income / (loss) from<br/>continuing operations<br/>before income taxes</b> | <b>15.3</b>          | <b>(5.8)</b>    | <b>(4.8)</b>     | <b>(438.2)</b>      | <b>(6.5)</b>         | <b>(33.1)</b>   |
| Income tax (expense) benefit  | (1.6)                | (5.0)           | (3.3)            | 9.0                 | (4.6)                | (0.5)           |
| <b>Income / (loss) from<br/>continuing operations</b>                         | <b>13.7</b>          | <b>(10.8)</b>   | <b>(8.1)</b>     | <b>(429.2)</b>      | <b>(11.1)</b>        | <b>(33.6)</b>   |
| (Loss)/income from discontinued<br>operations, net of tax                     | (0.4)                | (0.2)           | (0.4)            | (2.5)               | (13.1)               | 7.9             |
| <b>Net income / (loss)</b>  | <b>13.3</b>          | <b>(11.0)</b>   | <b>(8.5)</b>     | <b>(431.7)</b>      | <b>(24.2)</b>        | <b>(25.7)</b>   |

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

| <i>(In millions)</i>   | Three Months Ended   |                 |                  |                     |                      |                 |
|--|----------------------|-----------------|------------------|---------------------|----------------------|-----------------|
|  | September 30<br>2014 | June 30<br>2014 | March 31<br>2014 | December 31<br>2013 | September 30<br>2013 | June 30<br>2013 |
| Net income / (loss)  | 13.3                 | (11.0)          | (8.5)            | (431.7)             | (24.2)               | (25.7)          |
| Depreciation, amortization<br>and impairments                | 33.9                 | 38.7            | 37.0             | 462.4               | 42.5                 | 40.2            |
| Net financial items  | 20.9                 | 20.4            | 7.3              | 17.7                | 13.9                 | 19.9            |
| Taxes on income  | 1.6                  | 5.0             | 3.3              | (9.0)               | 4.6                  | 0.5             |
| Loss/(income) from<br>discontinued operations,<br>net of tax | 0.4                  | 0.2             | 0.4              | 2.5                 | 13.1                 | (7.9)           |
| <b>EBITDA</b>  | <b>70.1</b>          | <b>53.3</b>     | <b>39.5</b>      | <b>41.9</b>         | <b>49.9</b>          | <b>27.0</b>     |

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

| <i>(In millions)</i>                     | Three Months Ended   |                 |                  |                     |                      |                 |
|--|----------------------|-----------------|------------------|---------------------|----------------------|-----------------|
|  | September 30<br>2014 | June 30<br>2014 | March 31<br>2014 | December 31<br>2013 | September 30<br>2013 | June 30<br>2013 |
| North America (NAM)                      | 26.7                 | 13.7            | 0.4              | 2.8                 | 11.9                 | 6.7             |
| Latin America (LAM)                      | 10.8                 | 11.2            | 11.9             | 13.5                | 14.4                 | 3.9             |
| North Sea (NRS)                          | 24.2                 | 17.7            | 16.9             | 17.7                | 11.0                 | 8.5             |
| Emerging Markets &<br>Technologies (EMT) | 8.4                  | 10.7            | 10.3             | 7.9                 | 12.6                 | 7.9             |
| <b>EBITDA</b>                            | <b>70.1</b>          | <b>53.3</b>     | <b>39.5</b>      | <b>41.9</b>         | <b>49.9</b>          | <b>27.0</b>     |