Archer Limited (ARCHER) Third Quarter 2013 Results

Third Quarter 2013 highlights

- Third quarter revenue from continuing operations of $522.6 million,
- Third quarter EBITDA from continuing operations of $49.9 million including a one-time credit of $13.0 million.
- Net loss for the quarter of $24.2 million
- Third quarter operational cash flow of $14.3 million,
- Net interest-bearing debt of $745.6 million at September 30, 2013.
- Announced the sale of North American Underbalanced Assets to Atlas Copco.

Financial Statements

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

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

Revenue for the third quarter 2013 was $522.6 million vs. $510.1 million for the second quarter 2013. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, was $49.9 million compared to $27.0 million for the second quarter 2013, an increase of 84.8%. Excluding a one-time credit of $13.0 million EBITDA amounted to $36.9 million, an increase of 36.7%. Detailed explanations for the fluctuations are provided in our operational review by area later in this report.

Net Financial Items were a net expense of $13.9 million in the third quarter 2013 compared to an expense of $19.9 million in the second quarter 2013. Interest expenses amounted to $12.8 million compared to $13.5 million in the second quarter 2013. Other financial items amounted to $1.4 million expense compared to $6.7 million expense in the second quarter 2013. Other financial items represent predominantly unrealized foreign exchange losses.

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

Revenue for the three months ended September 30, 2013 was basically flat compared to $519.2 million for the third quarter 2012. EBITDA for the three months ended September 30, 2013 increased 19.4% compared to $41.8 million EBITDA for the third quarter 2012. Excluding the one-time credit of $13.0 million in the third quarter 2013, EBITDA decreased by 11.7%.

Comparison of the Nine Months Ended September 30, 2013 compared to the Nine Months Ended September 30, 2012

Revenue for the nine months ended September 30, 2013 was $1.5 billion, flat compared to the results for the same period in 2012. Revenue gains in Latin America, which reported revenue of $419.8 million for the nine months ended September 30, 2013, an increase of 6.7% compared to the same period of the prior year, was offset by a reduction of revenue in North America, which reported revenue of $381.0 million during the nine months ended September 30, 2013, a reduction of 12.2% compared to the same period last year.

Total EBITDA for the nine months ended September 30, 2013 amounted to $105.5 million, 29.0% below the results for the same period in 2012. All segments experienced a decline in results with the largest declines in EBITDA in North America and Emerging Markets & Technologies, which reported $22.6 million and $29.4 million, respectively, which on a year-over-year basis were decreases of 36.5% and 38.8%, respectively.

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

Cash Flow

Cash and cash equivalents, excluding restricted cash, amounted to $30.2 million at September 30, 2013 compared to $62.0 million at the end of June 2013.

Cash flow from operations for the three months ended September 30, 2013 was $14.3 million, which is comprised primarily of the net loss of $24.2 million, add back for depreciation and amortization from continuing operations of $42.5 million, add back of impairment on discontinued operations of $11.0 million less an increase in trade receivables and other short-term assets of $14.5 million.

Capital expenditures for continuing operations during the quarter amounted to $20.5 million, representing predominantly investments in improvements to existing land drilling rigs, investment in our new modular rig and new wireline equipment. At the time of this report we have committed to capital expenditures of $30 million for the remainder of 2013, bringing the total year capital expenditures to approximately $130 million.

Total net interest-bearing debt at September 30, 2013 was $745.6 million compared to $742.1 million as of June 30, 2013.

Share Capital

The total number of issued and fully paid shares of par value $1.00 outstanding at September 30, 2013 was 579,159,787. A total of 13,103,905 options were outstanding as of September 30, 2013.

Third Quarter 2013 Operating Results by Area

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

During the third quarter of 2013, we recorded cost recoveries in our general and administrative expenses from the settlement of litigation claims. The favorable impact on the third quarter EBITDA compared to the second quarter was $13.0 million for North America.

	Revenues			EBITDA		
	Q3 2013	Q2 2013	Variance	Q3 2013	Q2 2013	Variance
North America	$ 134.0	$ 126.7	$ 7.3	$ 13.9	$ 7.1	$ 6.8
Latin America	144.3	144.9	(0.6)	14.5	3.9	10.6
North Sea	159.0	158.7	0.3	11.2	8.5	2.7
Emerging Markets	85.3	79.8	5.5	10.3	7.5	2.8
	$ 522.6	$ 510.1	$ 12.5	$ 49.9	$ 27.0	$ 22.9

Note: The results of our Underbalanced business in North America have been eliminated from the previously reported Q2 2013 results above as they are now reported under Discontinued Operations.

North America

Revenue for the third quarter 2013 was $134.0 million, an increase of $7.3 million, or 5.8%, compared to the second quarter 2013. Revenue increases in Pressure Pumping and Pressure Control were partly offset by decreased revenue in Directional Drilling and Frac Valves. EBITDA for the third quarter 2013 was $13.9 million, an increase of $6.8 million, or 95.8%, compared to the second quarter 2013 including a favorable impact of $13.0 million from the settlement of litigation claims.

The average United States land-based rig count for the third quarter 2013 remained flat compared to the second quarter 2013, but reduced by 150 rigs, or 8%, compared to the same period in the previous year. The average rig count directed towards natural gas for the third quarter dropped by 15 rigs, or 4% sequentially compared to last quarter and reduced by 103 rigs, or 23%, compared to the third quarter 2012. Our results are negatively impacted by the reduction in rig count and the shift in activity has resulted in significant pricing pressure and decreased utilization throughout most of our business lines and in all geographic regions in which Archer operates.

In our Pressure Pumping division we fracked a total of 1,071 stages in the third quarter 2013 compared to 964 stages in the second quarter 2013. Our overall fleet utilization improved from 66% in the second quarter 2013 to 79% in the third quarter 2013. As a result, revenue for our Pressure Pumping operations increased by approximately $10.1 million in the third quarter 2013 compared to the second quarter 2013. EBITDA decreased by approximately $5.8 million over the same period due to high start-up expenses related to a new contract in the Permian basin, as well as higher expenses for repair and maintenance and non-recurring positive events in the second quarter 2013. At the end of September 2013 we have a total capacity of 208,000 HHP.

Third quarter 2013 revenue in our Pressure Control division increased by approximately $1.5 million compared to the second quarter of 2013 as a result of small improvements in both pricing and utilization in Coiled Tubing and Snubbing. EBITDA improved as a result of the increased revenue by $0.9 million. During the quarter we marketed 20 coiled tubing units and the total operating days for our coiled tubing increased by 2% in the third quarter 2013 compared to the second quarter.

Revenue for our Directional Drilling services decreased by approximately $2.6 million in the third quarter 2013 compared to the second quarter 2013. The decrease is primarily related to a decline in activity in the Mid Continent. Consequentially EBITDA dropped by approximately $1.9 million over the same period.

Revenue for our Frac Valves operation decreased by approximately $1.9 million in the third quarter 2013 compared to the second quarter 2013, with a lower EBITDA of approximately $1.0 million. The decrease is primarily attributable to a decrease in the volume of new valves sold during the quarter, partly offset by increased revenue for after sales services.

We expect fourth quarter 2013 revenue to be down compared to the third quarter 2013, predominantly due to seasonal effects, which are expected to impact all Divisions. Excluding the one-time exceptional credit resulting from the settlement of litigation claims as well as the startup costs in our Pressure Pumping Division, we expect EBITDA in the fourth quarter 2013 to show slightly lower margins as a result of to the above mentioned seasonally lower revenue.

Latin America

Revenue in the third quarter 2013 totalled $144.3 million, flat compared to last quarter. Rig utilization in the third quarter 2013 was 91.7% compared to 85.5% in the second quarter 2013, with lower activity in Brazil being offset by higher utilization in Argentina and Bolivia. EBITDA for the three months ended September 30, 2013 was $14.5 million, an increase of $10.6 million, or 271.8%, compared to the second quarter 2013. The increase in EBITDA is the result of a combination of higher utilization in the third quarter, the absence of severance payments to adjust the workforce to the lower level of activity in Brazil and the high start-up expenses for the redeployment of rigs in the South of Argentina that were incurred in the second quarter.

We expect fourth quarter 2013 revenue and EBITDA to be flat with the third quarter 2013.

North Sea

Third quarter 2013 revenue was $159.0 million, flat compared to the second quarter 2013. Total EBITDA for the three months ended September 30, 2013 was at $11.2 million, an increase of $2.7 million, or 31.8%, compared to the second quarter 2013. The improvement in EBITDA is primarily a function of an improved service mix in Platform Drilling, where high margin revenue in the third quarter replaced lower margin reimbursable revenue in the previous quarter. In addition EBITDA was positively impacted by a higher day rate as well as a onetime bonus payment for reaching a critical milestone on time on the Archer Emerald during the third quarter.

We expect our North Sea revenue and EBITDA for the fourth quarter 2013 to be flat compared to the third quarter.

Emerging Markets & Technologies

Revenue for the third quarter 2013 was $85.3 million, an increase of $5.5 million, or 6.9%, compared to the three months ended June 30, 2013. Revenue in our Oiltools Division increased due to strong Cflex sales in the United States and improved LOCK Series rentals in Norway. Our Wireline Division revenues increased as a result of higher activity in Norway following the shutdown of several platforms due to maintenance in the second quarter. EBITDA for the third quarter 2013 was $10.3 million, an increase of $2.8 million, or 37.3%, compared to the second quarter 2013 with strong margins in our Oiltools Division.

We expect fourth quarter revenue and EBITDA to be slightly below our third quarter caused by seasonally lower activity in Wireline North America.

First Nine Months 2013 Operating Results by Area

	Revenues			EBITDA		
	Nine Months Ended September 30			Nine Months Ended September 30		
	2013	2012	Variance	2013	2012	Variance
North America	$ 381.0	$ 433.7	$ (52.7)	$ 22.6	$ 35.6	$ (13.0)
Latin America	419.8	393.4	26.4	27.9	32.8	(4.9)
North Sea	468.0	478.8	(10.8)	25.6	32.2	(6.6)
Emerging Markets	248.4	241.7	6.7	29.4	48.0	(18.6)
	$ 1,517.2	$ 1,547.6	$ (30.4)	$105.5	$148.6	$ (43.1)

Note: The previously reported 2012 results of our Platform and Engineering business in Brazil has been regrouped from Latin America to the North Sea Area as we moved the responsibility and management from our Latin American Area to the North Sea, effective January 1, 2013. The results of our Rental, Tubular and Underbalanced business in North America and our Tubular business in Latin America have been eliminated from the previously reported 2012 results above as they are now reported under Discontinued Operations.

North America

Revenue for the first nine months of 2013 was $381.0 million, a decrease of $52.7 million, or 12.2%, compared to the first nine months of 2012. Revenue increases in Pressure Pumping were more than offset by decreased revenue in all other North American operations. EBITDA for the first nine months of 2013 was $22.6 million, a decrease of $13.0 million, or 36.5%, compared to the first nine months of 2012. As the case with revenue, the improvements in Pressure Pumping were more than offset by decreased EBITDA in all other North American operations as a result of the difficult market conditions for land based services with strong pricing pressure and lower asset utilization.

Latin America

Revenue in the first nine months of 2013 totalled $419.8 million, an increase of $26.4 million, or 6.7% compared to the first nine months of 2012. The increase was primarily due to less strike days in the first nine months of 2013 compared to the prior year and higher utilization. EBITDA for the nine months ended September 30, 2013 was $27.9 million, a decrease of $4.9 million, or 14.9%, compared to the nine months ended September 30, 2012. While 2013 results are still below the performance in 2012, the gap is narrowing as a result of a strong recovery in the third quarter 2013, after a period of prolonged standby for several rigs in Argentina, a declining land market in Brazil and higher costs to restart operations in Argentina.

North Sea

Revenue for the nine months ended September 30, 2013 was $468.0 million, a decrease of $10.8 million, or 2.3% compared to the first nine months of 2012 mainly as a result of lower revenue for a major operator in Norway. Total EBITDA for the nine months ended September 30, 2013 was $25.6 million, a decrease of $6.6 million, or 20.5%, compared to the first nine months of 2012. The decrease in EBITDA is primarily a function of the lower revenue with the major operator in Norway, partly offset by improved activity in the United Kingdom as well as the Modular rig.

Emerging Markets & Technologies

Revenue for the first nine months of 2013 was $248.4 million, an increase of $6.7 million, or 2.8% compared to the nine months ended September 30, 2012 with continued growth in our Oiltools Division. EBITDA for the first nine months of 2013 was $29.4 million, a decrease of $18.6 million, or 38.8%, compared to the first nine months of 2012. The decrease in EBITDA was predominantly due to lower equipment utilization, pricing pressure and lost market share in our Wireline Division in North America.

Summary Outlook

Excluding exceptional effects for both the second and the third quarter 2013, we have seen a sequential improvement in revenue and in margins as a result of improved drilling activity in Argentina, continued growth of product sales and services in offshore markets and a solid performance of the modular rig. The North America land based market remains challenging, which is reflected in the financial performance of all North American land based Divisions.

We expect that overall normalized margins will continue to slowly improve, although muted from short term seasonal effects. While we foresee the activity in the North American land market to remain high, we believe that the market remains oversupplied in the next year, as efficiency gains in the drilling and completion of shale wells offset equipment attrition.

In order to accelerate the margin improvements and to adapt to a highly competitive North American land market, the Company has decided to implement a restructuring plan, which will include staff reductions mainly in management and support functions, rationalization of offices and operational bases, closure of businesses or locations with negative margins and a reduction in other costs. In combination with this restructuring plan, we expect net charges of approximately $12 to $15 million, with $10 to $12 million in the Fourth Quarter 2013 and $2 to $3 million in the First Quarter 2014. The charges include severance costs for approximately 200 employees, lease termination costs as well as other charges. The restructuring actions are expected to be substantially complete by the end of the First Quarter 2014 and we expect a return of less than one year.

Following the approval of the above mentioned restructuring plan the Company will prepare its annual impairment test in the fourth quarter, which will incorporate the financial effects in the valuation of the business. Depending on the expected impact in each Division, we may impair goodwill and additionally certain assets in one or more reporting segments.

Following the Company's strategy to simplify its portfolio and reduce its debt, we expect to close the sale of all North American assets related to its Underbalanced business in the fourth quarter. Net interest bearing debt at the beginning of the year was at $1.2 billion and following the above mentioned divestiture we expect to end the year 2013 below the level reported at the end of September 2013. Total shareholder equity at the end of September 2013 levelled at $1.2 billion and market capitalization was at approximately $550 million.

The Board of Directors welcomes the improvement in results and the implementation of the strategic plan and expects that the restructuring plan will accelerate the improvements demonstrated over the last quarters.

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

ARCHER LIMITED

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ARCHER LIMITED

Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended September 30 2013	Three Months Ended September 30 2012	Nine Months Ended September 30 2013	Nine Months Ended September 30 2012
Revenues					
Operating revenues		$ 498.8	$ 486.0	$ 1,445.1	$ 1,473.9
Reimbursable revenues		23.8	33.2	72.1	73.7
Total revenues		**522.6**	**519.2**	**1,517.2**	**1,547.6**
Expenses					
Operating expenses		444.9	429.5	1,299.2	1,268.0
Reimbursable expenses		22.8	31.9	68.9	70.7
Depreciation and amortization		42.5	39.5	122.8	116.2
Impairments		—	293.2	—	293.2
General and administrative expenses		5.0	16.0	43.6	60.3
Total expenses		**515.2**	**810.1**	**1,534.5**	**1,808.4**
Operating income/(loss)		**7.4**	**(290.9)**	**(17.3)**	**(260.8)**
Financial items					
Interest income		0.4	0.4	0.9	2.9
Interest expenses		(12.8)	(15.5)	(40.1)	(42.7)
Share of results in associated company		(0.1)	(0.3)	(0.6)	(0.4)
Other financial items	3	(1.4)	10.8	(16.3)	12.9
Total financial items		**(13.9)**	**(4.6)**	**(56.1)**	**(27.3)**
Loss from continuing operations before income taxes		**(6.5)**	**(295.5)**	**(73.4)**	**(288.1)**
Income tax (expense)/benefit	4	(4.6)	2.8	(6.4)	(0.4)
Loss from continuing operations		**(11.1)**	**(292.7)**	**(79.8)**	**(288.5)**
Loss from discontinued operations, net of tax	5	(13.1)	(48.6)	(7.1)	(45.6)
Net loss		**$ (24.2)**	**$(341.3)**	**$ (86.9)**	**$ (334.1)**
Loss per share-basic					
Loss from continuing operations		$ (0.02)	$ (0.80)	$ (0.15)	$ (0.79)
Loss from discontinued operations		(0.02)	(0.13)	(0.01)	(0.12)
Loss per share		$(0.04)	$ (0.93)	$ (0.16)	$ (0.91)
Loss per share-diluted					
Loss from continuing operations		$ (0.02)	$ (0.80)	$ (0.15)	$ (0.79)
Loss from discontinued operations		(0.02)	(0.13)	(0.01)	(0.12)
Loss per share		$ (0.04)	$ (0.93)	$ (0.16)	$ (0.91)
Weighted average number of shares outstanding					
Basic	6	579.2	366.7	539.5	366.5
Diluted	6	579.2	366.7	539.5	366.5

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

ARCHER LIMITED

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

(In millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	**2012**	**2013**	**2012**
Net loss	**$(24.2)**	**$(341.3)**	**$ (86.9)**	**$(334.1)**
Other comprehensive income/(loss)				
Currency exchange differences	3.4	(0.3)	(7.0)	(2.0)
Total comprehensive loss	**$(20.8)**	**$(341.6)**	**$ (93.9)**	**$(336.1)**

Accumulated Other Comprehensive Gain/(Loss)

(Unaudited)

(In millions)	Pension – Unrecognized Losses	Currency Exchange Differences	Other Comprehensive Gains	Total
Balance at December 31, 2012	**$ (7.2)**	**$ 9.2**	**$ —**	**$ 2.0**
Currency exchange differences	—	(7.0)	—	(7.0)
Balance at September 30, 2013	**$ (7.2)**	**$ 2.2**	**$ —**	**$ (5.0)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	September 30 2013 (Unaudited)	December 31 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 30.2	$ 58.2
Restricted cash		12.5	11.9
Accounts receivables		416.4	418.5
Inventories	7	64.9	64.3
Deferred income taxes		5.4	8.4
Assets held for sale	5	17.4	—
Other current assets		85.9	81.0
Total current assets		**632.7**	**642.3**
Noncurrent assets			
Investments in associates		9.7	2.4
Property plant and equipment, net		831.5	1,059.4
Deferred income tax asset		26.9	29.1
Goodwill	8	670.8	706.1
Other intangible assets, net	9	99.7	129.6
Deferred charges		18.8	18.4
Total noncurrent assets		**1,657.4**	**1,945.0**
Total assets		**$ 2,290.1**	**$ 2,587.3**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	10	$ 56.3	$ 329.5
Accounts payable		142.7	142.9
Other current liabilities		204.2	220.4
Total current liabilities		**403.2**	**692.8**
Noncurrent liabilities			
Long-term interest-bearing debt	10	719.5	889.8
Deferred taxes		43.3	38.3
Other noncurrent liabilities		43.2	40.2
Total noncurrent liabilities		**806.0**	**968.3**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $1.00 per share: 1.2 billion shares authorized: 579,159,787 outstanding shares at September 30, 2013 (December 31, 2012: par value $2.00 per share; 600 million authorized; 366,659,120 outstanding)		579.2	733.3
Additional paid in capital		815.7	779.6
Accumulated deficit		(470.5)	(383.6)
Accumulated other comprehensive (loss)/income		(5.0)	2.0
Contributed surplus/(deficit)		161.5	(205.1)
Total shareholders' equity		**1,080.9**	**926.2**
Total liabilities and shareholders' equity		**$ 2,290.1**	**$ 2,587.3**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Nine Months Ended September 30	
	2013	2012
Cash Flows from Operating Activities		
Net loss	$ (86.9)	$ (334.1)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	122.8	116.2
Depreciation and amortization of assets in discontinued operations	23.0	37.5
Share-based compensation expenses	0.7	3.2
Impairment charges	11.0	338.7
Loss/(gain) on property, plant and equipment disposals	1.7	(1.5)
(Gain)/loss on disposal of assets in discontinued operations, net	(9.8)	0.5
Equity in loss of unconsolidated affiliates	0.6	0.4
Gain on debt redemption	—	(4.7)
Amortization of loan fees and senior note premium	7.5	5.4
Deferred income taxes	0.8	(20.5)
Foreign currency loss/(gain)	15.7	(8.4)
Changes in operating assets and liabilities, net of acquisitions		
Increase in accounts receivable and other current assets	(36.2)	(39.3)
Increase in inventories	(8.6)	(11.8)
(Decrease)/increase in accounts payable and other current liabilities	(1.6)	7.7
Other, net	(6.8)	(2.4)
Net cash provided by operating activities	**33.9**	**86.9**
Cash Flows from Investing Activities		
Capital expenditures	(94.4)	(199.7)
Capital expenditures for discontinued operations	(2.1)	(16.5)
Proceeds from disposal of property, plant and equipment	6.5	6.1
Proceeds from disposal of assets in discontinued operations, net	235.6	4.4
Acquisition of subsidiaries, net of cash	—	(0.9)
Investment in associates	(7.9)	—
Net change in restricted cash	(1.4)	5.3
Net cash provided/(used) by investing activities	**136.3**	**(201.3)**
Cash Flows from Financing Activities		
Net (repayments) borrowings under revolving facilities	(20.2)	61.0
Proceeds of related party debt	10.0	20.0
Repayment of related party debt	(65.0)	(20.0)
Proceeds from long-term debt	30.5	434.8
Repayment of long-term debt	(393.2)	(337.5)
Debt issuance costs	(6.6)	(4.3)
Proceeds from issuance of equity, net	247.9	0.4
Net cash (used)/provided by financing activities	**(196.6)**	**154.4**
Effect of exchange rate changes on cash and cash equivalents	(1.6)	0.3
Net (decrease)/increase in cash and cash equivalents	**(28.0)**	**40.3**
Cash and cash equivalents at beginning of the period	58.2	37.3
Cash and cash equivalents at the end of the period	**$ 30.2**	**$ 77.6**
Interest paid	$ 37.1	$ 51.5
Taxes paid	$ 6.9	$ 29.4

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

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

(In millions)	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Contributed (Deficit)/ Surplus	Total Shareholders' Equity
Balance at December 31, 2012	**$ 733.3**	**$ 779.6**	**$ (383.6)**	**$ 2.0**	**$ (205.1)**	**$ 926.2**
Recapitalization	(366.6)	—	—	—	366.6	—
Private placement	212.5	35.4	—	—	—	247.9
Currency exchange differences	—	—	—	(7.0)	—	(7.0)
Net loss	—	—	(86.9)	—	—	(86.9)
Share based compensation	—	0.7	—	—	—	0.7
Balance at September 30, 2013	**$ 579.2**	**$ 815.7**	**$ (470.5)**	**$ (5.0)**	**$ 161.5**	**$ 1,080.9**

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

ARCHER LIMITED
Notes to Unaudited Interim Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

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

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

We employed approximately 8,100 skilled and experienced people at September 30, 2013.

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

Basis of presentation

The unaudited third quarter 2013 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 interim financial statements should be read in conjunction with our financial statements as of December 31, 2012. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

The results of operations from our Underbalanced and Rental 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 third quarter interim financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2012. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

Goodwill

We allocate the cost of acquired businesses to the identifiable tangible and intangible assets and liabilities acquired, with any remaining amount being capitalized as goodwill. Goodwill is not amortized but is tested for impairment at least annually. We test goodwill, by reporting unit, for impairment on an annual basis, and between annual tests if an event occurs, or circumstances change, that would more likely than not, reduce the fair value of a reporting unit below its carrying amount. The reporting units have been identified in accordance with Accounting Standards codification 350-20 "Intangible Assets – Goodwill" as the business components one level below the reporting segments each of which we identified as

- constituting a business,
- for which discrete financial information is available, and
- whose operating results are reviewed regularly by segment management

We aggregated components with similar economic characteristics.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if a reporting unit's fair value is less than its carrying value, an impairment of goodwill may exist, requiring a second step to measure the amount of impairment loss.

We estimate the fair value of each reporting unit using the income approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to a present value. Cash flow projections are based on management's estimates of economic and market conditions that drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The discount rate is based on our specific risk characteristics, our weighted average cost of capital and our underlying forecasts. Once a base case has been established following the above principles, the cash flow model is then altered based on different macroeconomic and operational assumptions and based on probabilities a weighted fair value of the business is obtained. There are inherent risks and uncertainties involved in the estimation process, such as determining growth and discount rates.

Impairment of long-lived assets and intangible asset

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposal. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

Reclassifications

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

Recently issued accounting pronouncements

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

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

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

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

Note 2 – Acquisitions

X-it Energy Services Limited

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

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

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

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

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

Wellbore Solutions

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

The purchase price was allocated to goodwill.

Note 3 – Other Financial Items

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions)	2013	2012	2013	2012
Foreign exchange differences	$ (1.2)	$ 10.2	$(15.7)	$ 8.4
Gain on redemption of debt	—	—	—	4.7
Other items	(0.2)	0.6	(0.6)	(0.2)
Total other financial items	**$ (1.4)**	**$ 10.8**	**$(16.3)**	**$ 12.9**

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

Note 4 – Income Taxes

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

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions)	**2013**	**2012**	**2013**	**2012**
United States	$ 0.4	$ (8.0)	$ 1.5	$(11.5)
South America	1.1	(0.2)	0.8	3.4
Europe	2.2	5.5	3.5	7.9
Others	0.9	(0.1)	0.6	0.6
Total	**$ 4.6**	**$ (2.8)**	**$ 6.4**	**$ 0.4**

Archer is a Bermuda company. Under current Bermuda law, Archer is not required to pay taxes in Bermuda on either income or capital gains. We have received written assurance from the Minister of Finance in Bermuda that, in the event of any such tax being imposed, Archer will be exempted from taxation until year 2035. Therefore, our income tax expense is generated by earnings outside of Bermuda that are taxed at the respective country's income tax rate.

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

Note 5 – Discontinued Operations

On June 27, 2013, we completed the sale of our Rental business in North America and our Tubular business in North America and Latin America. 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:

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions)	**2013**	**2012**	**2013**	**2012**
Revenues	$ 4.8	$ 32.7	$ 64.1	$105.6
Operating and reimbursable expenses	(5.3)	(20.6)	(42.0)	(62.2)
Impairments	(11.0)	(45.5)	(11.0)	(45.5)
Depreciation and amortization	(1.4)	(12.5)	(23.0)	(37.5)
Interest expense	(0.2)	(1.8)	(3.8)	(5.1)
Other financial items	—	—	—	(0.1)
Gain on sale of discontinued operations, net	—	—	9.1	—
Loss from discontinued operations before income tax expense	(13.1)	(47.7)	(6.6)	(44.8)
Income tax expense	—	(0.9)	(0.5)	(0.8)
Loss from discontinued operations, net of tax	**$ (13.1)**	**$ (48.6)**	**$ (7.1)**	**$ (45.6)**

The Rental and Tubular businesses were deconsolidated at June 27, 2013, the date of their disposal, so their assets and liabilities are not included within the September 30, 2013 balance sheet. Since the Underbalanced sale was not completed until October 2013, the assets and liabilities related to the sold operation are presented on the September 30, 2013 balance sheet as Assets Held for Sale. As of September 30, 2013 and December 31, 2012 the carrying amounts of the major classes of assets and liabilities associated with our discontinued operations were classified as follows:

	September 30	December 31
(In millions)	**2013**	**2012**
Accounts receivable	$ 2.9	$ 21.2
Inventory	7.4	7.7
Other current assets	—	0.3
Property plant and equipment	8.8	198.7
Goodwill	—	13.3
Intangibles	—	15.6
Deferred tax assets	—	14.2
Total assets	**$ 19.1**	**$ 271.0**
Accounts payable	0.8	4.2
Other current liabilities	0.9	4.5
Deferred tax liabilities	—	4.1
Total liabilities	**$ 1.7**	**$ 12.8**
Assets held for sale	**$ 17.4**	

Note 6 – Loss Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2013**	**2012**	**2013**	**2012**
Denominator				
Weighted-average common shares outstanding	579,160	366,659	539,462	366,543
Effect of potentially dilutive common shares				
Share-based compensation shares	—	—	—	—
Weighted-average common shares outstanding and assumed conversions	579,160	366,659	539,462	366,543

Share-based compensation of approximately 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 and 140,559 and 285,171 shares were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2012, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 7 – Inventories

	September 30	December 31
(In millions)	**2013**	**2012**
Manufactured		
Finished goods	$ 6.6	$ 6.8
Work in progress	1.3	3.6
Raw materials	4.1	6.6
Total manufactured	12.0	17.0
Drilling supplies	26.4	25.2
Chemicals	9.3	8.1
Other items and spares	17.2	14.0
Total inventories	**$ 64.9**	**$ 64.3**

Note 8 – Goodwill

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

(In millions)	
Net book balance at December 31, 2012	**$ 706.1**
Goodwill disposed during the period	(13.3)
Impairment	(4.4)
Currency adjustments	(17.6)
Net book balance at September 30, 2013	**$ 670.8**

The goodwill associated with the divesture of our Rental and Tubular businesses was removed from our books in 2013 (see Note 5). The selling price of our Underbalanced business is below its carrying cost; therefore all goodwill associated with the business was impaired prior to the closing of the sale.

Following the approval of the above mentioned restructuring plan the Company will prepare its annual impairment test in the fourth quarter, which will incorporate the financial effects in the valuation of the business. Depending on the expected impact in each Division, we may impair goodwill and additionally certain assets in one or more reporting segments.

Note 9 – Other Intangible Assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2012	**$ 173.2**	**$ (43.6)**	**$ 129.6**
Amortization	—	(11.7)	(11.7)
Disposals	(19.2)	4.6	(14.6)
Impairments	(2.8)	—	(2.8)
Currency adjustments	(2.0)	1.2	(0.8)
Balance at September 30, 2013	**$ 149.2**	**$ (49.5)**	**$ 99.7**

The intangibles disposed of during the period were associated with the divesture of our Rental and Tubular businesses (see Note 5). The selling price of our Underbalanced business is below its carrying cost, therefore all intangibles associated with the business were impaired prior to the closing of the sale. The net book value at September 30, 2013 consisted of customer relationships of $77.1 million, identified technology of $6.5 million, trademarks of $9.6 million, patents of $6.4 million and noncompete of $0.1 million.

Note 10 – Long-term, Interest-Bearing Debt

(In millions)	September 30 2013	December 31 2012
Multicurrency term and revolving facility	$ 685.9	$ 1,047.1
Related party subordinated loan	—	55.0
Hermes-covered term loan	27.8	34.9
Other loans and capital lease liability	62.1	82.3
Total loans and capital lease liability	**775.8**	**1,219.3**
Less: current portion	(56.3)	(329.5)
Long-term portion of interest bearing debt	**$ 719.5**	**$ 889.8**

Multicurrency term and revolving facility

On March 7, 2013, we entered into a third amendment and restatement agreement in relation to our multicurrency term and revolving facility agreement with a syndicate of banks, at which time $876.9 million was committed by the lenders. Under the terms of the agreement 75% of the net proceeds from the sale of certain assets need to be applied towards the facility. Therefore, we repaid $164.2 million as a result of the sale of our Rental and Tubular businesses. Following this prepayment the total amount available on our main credit facility has been reduced from $876.9 million to $712.7 million. The agreement was amended by Addendum No. 1 thereto dated July 31, 2013 to address the covenant requirements after the 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 $314.3 million. An installment of $100.0 million is due in November 2014. The final maturity date of the facility is November 11, 2015. The interest payable on the tranches is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 3.00% and 3.95% per annum, depending on the ratio of the net interest bearing debt to EBITDA, in addition to mandatory costs, if any.

As of September 30, 2013, a total of $685.9 million has been drawn under the multicurrency term and revolving facility, of which $371.6 million has been drawn under tranche A and $314.3 million has been drawn under tranche B. The two tranches are secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries. In addition, Seadrill Limited, a related party, has granted on-demand guarantees of $200.0 million in favor of the lenders under the multicurrency term and revolving facilities and the lenders of the overdraft facilities, securing our obligations under tranche A, tranche B and the overdraft facilities. Our entities that fall under the laws of the United States of America and that are parties to the multicurrency term and revolving facility have executed general security agreements in respect of their assets as further security. The multicurrency term and revolving facility contains certain financial covenants, including, among others:

- Our leverage ratio covenant has been increased in Addendum No.1 referred to above. Our total consolidated net interest bearing debt shall not exceed 6.30x of the last twelve months EBITDA as of September 30, 2013. This leverage ratio is reduced to 5.75x as of December 31, 2013 with subsequent quarterly reductions of 0.25x until it reaches 4.0x prior to maturity.
- Our minimum ratio of equity to total assets of at least 30.0%.

- We are to maintain the higher of $30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines).
- We shall ensure that the capital expenditures, on a consolidated basis, measured at the end of each financial year after 2012 shall not exceed $150 million, plus any capital expenditure relating to the modular rigs.

The multicurrency term and revolving facility contains events of default which include payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor's assets, appropriation of an obligor's assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation. In addition there are cross default clauses in the event of the obligor defaulting on other issued debt.

As of September 30, 2013, we are in compliance with all covenants under our debt facilities.

Related party subordinated loan

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

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

Hermes-covered term loan

On January 18, 2012 Archer Emerald (Bermuda) Limited, a wholly owned subsidiary of Archer, signed a €29.5 million Hermes covered term loan agreement for the modular rig, Archer Emerald. The facility is repayable in semi-annual installments in March and September through March 2017. The interest rate is 1.55% above EURIBOR. At September 30, 2013, the equivalent of $27.8 million was outstanding under this facility.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at September 30, 2013, net borrowings under these facilities were $20.3 million. In addition we have borrowed $25.2 million under cash overdraft facilities in Argentina as of September 30, 2013. We also have capital leases covering both real property and equipment and at September 30, 2013, the net balance due under these arrangements was $15.4 million. We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at September 30, 2013 of $1.1 million. In addition, we have several equipment financing obligations that in aggregate had a balance due of $0.1 million at September 30, 2013.

Interest rate swap agreement

We have a NOK interest rate swap agreement, currently securing the interest rate on NOK 300 million ($50.0 million at September 30, 2013) until October 2015. We also have two USD interest rate swap agreement securing the interest rate on $300 million until October 2015 and $150 million until October 2017. The fair value of the swaps as of September 30, 2013 was an asset of $0.3 million and is included within other non-current assets.

Capitalized Interest

During the three and nine months ended September 30, 2013, we capitalized approximately $0.3 million and $0.7 million respectively, of interest costs related to the construction of equipment, primarily our modular rig.

Note 11 – Supplemental Cash Flow Information

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

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

Note 12 – Segment Information

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

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

The split of our organization and aggregation of our business into four segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure. The accounting principles for the segments are the same as for our consolidated financial statements. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment after 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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Revenues from external customers				
North America	$ 134.0	$ 135.7	$ 381.0	$ 433.7
Latin America	144.3	134.2	419.8	393.4
North Sea	159.0	169.0	468.0	478.8
Emerging Markets & Technologies	85.3	80.3	248.4	241.7
Total	**$ 522.6**	**$ 519.2**	**$ 1,517.2**	**$ 1,547.6**
Depreciation and amortization				
North America	$ 19.8	$ 20.2	$ 58.8	$ 58.8
Latin America	10.1	8.9	26.1	26.7
North Sea	3.8	2.7	11.0	7.1
Emerging Markets & Technologies	8.8	7.7	26.9	23.6
Total	**$ 42.5**	**$ 39.5**	**$ 122.8**	**$ 116.2**
Operating (loss)/income – net loss				
North America	$ (5.8)	$(250.4)	$ (35.9)	$(257.6)
Latin America	4.6	(52.9)	1.9	(50.8)
North Sea	7.3	8.5	14.6	25.9
Emerging Markets & Technologies	1.7	5.1	2.8	24.9
Stock compensation costs	(0.4)	(1.2)	(0.7)	(3.2)
Operating (loss)/income	**7.4**	**(290.9)**	**(17.3)**	**(260.8)**
Total financial items	(13.9)	(4.6)	(56.1)	(27.3)
Income taxes	(4.6)	2.8	(6.4)	(0.4)
Discontinued operations, net of taxes	(13.1)	(48.6)	(7.1)	(45.6)
Net loss	**$ (24.2)**	**$(341.3)**	**$ (86.9)**	**$(334.1)**
Capital expenditures				
North America	$ 2.8	$ 24.7	$ 20.0	$ 117.3
Latin America	8.2	11.4	21.9	34.4
North Sea	4.9	(0.2)	34.7	29.2
Emerging Markets & Technologies	4.6	12.8	24.0	23.6
Total	**$ 20.5**	**$ 48.7**	**$ 100.6**	**$ 204.5**

(In millions) **Goodwill**	**North America**	**Latin America**	**North Sea**	**Emerging Markets & Technologies**	**Total**
Balance at December 31, 2012	**$ 324.5**	**$ —**	**$ 141.4**	**$ 240.2**	**$ 706.1**
Goodwill disposed	(13.3)	—	—	—	(13.3)
Impairments	(4.4)	—	—	—	(4.4)
Currency adjustments	—	—	(7.8)	(9.8)	(17.6)
Balance at September 30, 2013	**$ 306.8**	**$ —**	**$ 133.6**	**$ 230.4**	**$ 670.8**

(In millions)	**September 30 2013**	**December 31 2012**
Total assets		
North America	$ 832.4	$ 1,114.9
Latin America	472.8	478.9
North Sea	524.0	479.6
Emerging Markets & Technologies	460.9	513.9
Total	**$ 2,290.1**	**$ 2,587.3**

Note 13 – Fair Value of Financial Instruments

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

	September 30, 2013		**December 31, 2012**	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Nonderivatives				
Cash and cash equivalents	$ 30.2	$ 30.2	$ 58.2	$ 58.2
Restricted cash	12.5	12.5	11.9	11.9
Current portion of long-term debt	56.3	56.3	329.5	329.5
Long-term, interest-bearing debt	719.5	719.5	889.8	889.8
Derivatives				
Interest rate swap agreements	0.3	0.3	—	—

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

	September 30, 2013	Fair Value Measurements at Reporting Date Using		
(In millions)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and cash equivalents	$ 30.2	$ 30.2	—	—
Restricted cash	12.5	12.5	—	—
Interest rate swap agreements	0.3	—	0.3	—
Liabilities				
Multicurrency term and revolving facility, excluding current portion	685.9	—	685.9	—
Other loans and capital leases, excluding current portion	33.6	—	33.6	—

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 14 – Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of September 30, 2013, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

A class action was filed in Corpus Christi, Texas against one of our subsidiaries alleging violations of the FLSA relating to non-payment of overtime pay. The court has conditionally certified a class of potential class members and the opt-in period has expired. The plaintiffs have filed an Amended Petition adding additional subsidiaries as defendants. On April 5, 2013, the Court entered an Order granting preliminary approval of the settlement agreement entered into between the parties. The class settlement process has begun and we anticipate final approval from the Court following a hearing currently scheduled for November 2013. At this time, we have been able to ascertain the total settlement amount and have confirmed that the prior contingency reserve in accordance with U.S. GAAP was sufficient.

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

Two of our wholly owned subsidiaries are the plaintiffs in the case of Archer Drilling LLC and Rig Inspection Services (US) LLC vs. Buccaneer Energy Limited et al., wherein we claim $8.0 million from the defendants for the defendants' failure to pay for services provided. We submitted our writ in December 2012 and a final court decision can be expected at the earliest towards the end of 2014. In the defendants' answer to the writ, they raised counterclaims alleging that they are owed more than the amount we claimed in damages. Litigation is inherently uncertain and while we cannot determine the amount of our ultimate recovery or loss, we believe in the merits of the claim and that the alleged counterclaims are highly defensible.

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

Note 15 – Related Parties

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

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

During the nine months ended September 30, 2013, we supplied Seadrill Limited and affiliates with services amounting to $3.4 million, including reimbursable material. This amount has been included in operating revenues. At September 30, 2013, Seadrill owed us $0.1 million related to these services.

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

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

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

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

Frontline provides management support and administrative services to us, and we have recorded fees of $0.8 million for these services in the nine months ended September 30, 2013. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At September 30, 2013, we owe Frontline $0.1 million related to these services.

During the nine months ended September 30, 2013, we supplied NADL with services amounting to $3.3 million, including reimbursable material. This amount has been included in operating revenues. At September 30, 2013, NADL owed us $0.4 million related to these services.

Note 16 – Subsequent Events

On October 17, 2013, we completed the sale of our North American Underbalanced service assets for approximately $19.3 million in cash. The majority of the proceeds from the sale were used to pay down outstanding balances on our credit facilities. The sales price approximates the carrying value of the assets sold. Approximately 70 former Archer Underbalanced employees continued employment with the buyer.

In 2012, the Underbalanced assets deployed in North America generated approximately $34.3 million in revenue and approximately $5.1 million in earnings before income taxes, depreciation and amortization (EBITDA). Approximately 75 employees were employed by Archer Underbalanced at September 30, 2013.

Appendix to Archer Third Quarter Report 2013

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

ARCHER LIMITED
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
(In millions)	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012
Revenue	522.6	510.1	484.5	507.1	519.2	519.3
Cost and expenses						
Operational costs	(515.2)	(523.3)	(496.0)	(532.0)	(516.9)	(503.3)
Impairments	—	—	—	—	(293.2)	—
Net financial items	(13.9)	(19.9)	(22.3)	(8.4)	(4.6)	(28.4)
Loss from continuing operations before income taxes	**(6.5)**	**(33.1)**	**(33.8)**	**(33.3)**	**(295.5)**	**(12.4)**
Income tax (expense) benefit	(4.6)	(0.5)	(1.3)	(5.1)	2.8	2.8
Loss from continuing operations	**(11.1)**	**(33.6)**	**(35.1)**	**(38.4)**	**(292.7)**	**(9.6)**
(Loss)/income from discontinued operations, net of tax	(13.1)	7.9	(1.9)	(3.3)	(48.6)	1.8
Net loss	**(24.2)**	**(25.7)**	**(37.0)**	**(41.7)**	**(341.3)**	**(7.8)**

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

(In millions)	Three Months Ended					
	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012
Net loss	(24.2)	(25.7)	(37.0)	(41.7)	(341.3)	(7.8)
Depreciation, amortization and impairments	42.5	40.2	40.1	39.5	332.7	38.6
Net financial items	13.9	19.9	22.3	8.4	4.6	28.4
Taxes on income	4.6	0.5	1.3	5.1	(2.8)	(2.8)
Loss/(income) from discontinued operations, net of tax	13.1	(7.9)	1.9	3.3	48.6	(1.8)
EBITDA	**49.9**	**27.0**	**28.6**	**14.6**	**41.8**	**54.6**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

(In millions)	Three Months Ended					
	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012
North America (NAM)	13.9	7.1	1.6	2.4	4.7	16.7
Latin America (LAM)	14.5	3.9	9.5	4.9	13.4	12.4
North Sea (NRS)	11.2	8.5	5.9	(1.4)	10.9	8.0
Emerging Markets & Technologies (EMT)	10.3	7.5	11.6	8.7	12.8	17.5
EBITDA	**49.9**	**27.0**	**28.6**	**14.6**	**41.8**	**54.6**