Archer

Archer Limited (ARCHER) First Quarter 2013 Results

First Quarter Highlights

- First quarter revenue of $514.5 million.
- First quarter EBITDA of $39.7 million.
- Net loss for the quarter of $37.0 million.
- First quarter operational cash outflow of $25.8 million.
- Raised $250.0 million from the issuance of 208.3 million new shares in a private placement
- Net interest bearing debt at the end of the first quarter 2013 at $982.5 million.
- Announced the sale of North American Rental and Tubular business for $244 million.

Financial Statements

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

Revenue for the first quarter 2013 was $514.5 million, a decrease of 3.9% compared to $535.5 million for the fourth quarter 2012. Adjusted Earnings before Income Taxes, Depreciation and Amortization (EBITDA), was $39.7 million, compared to $24.7 million for the fourth quarter 2012, an increase of 60.7%. Detailed explanations for the fluctuations are provided in our operational review by area.

Net financial items amounted to a $24.0 million loss in the first quarter 2013 compared to a loss of $10.0 million in the fourth quarter 2012. Interest expenses for the first quarter 2013 amounted to $15.5 million, compared to $13.7 million in the fourth quarter of 2012. The increase in interest expense is related to financing fees written off and incurred as a result of the third amendment on our multicurrency term and revolving facility. Other financial items amounted to $8.2 million expense in the first quarter 2013 compared to $4.7 million income in the fourth quarter 2012. Other financial items represent predominantly unrealized foreign exchange losses related to loans or cash balances denominated in currencies other than the US dollar.

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

Revenue for the three months ended March 31, 2013 decreased 5.8% compared to $546.3 million for the first quarter 2012. EBITDA for the three months ended March 31, 2013 decreased 40.9% compared to $67.2 million EBITDA for the first quarter 2012.

Attached to this quarterly report is an appendix on the reconciliation between GAAP results and non-GAAP measures.

Cash flow

Cash and cash equivalents, excluding restricted cash, amounted to $40.8 million at the end of the first quarter 2013, compared to $58.2 million at the end of December 2012.

First quarter cash outflow from operations was $25.8 million, which is comprised primarily of net loss of $37.0 million, an increase in trade receivables and other short-term assets of $40.9 million, non-cash deferred income tax benefit of $10.1 million offset by the add back for depreciation and amortization of $51.2 million and the foreign currency loss of $8.1 million.

Capital expenditures during the quarter amounted to $51.9 million, representing predominantly investments in Archer Topaz, the new modular rig, as well as in pressure control and pressure pumping equipment. Capital expenditures for the total year 2013 are expected to be approximately $140.0 million, including $25.0 million for the new modular rig. We are currently in negotiations with lenders to finance the second modular rig using a similar arrangement as for the first Modular Rig and we are confident that we will be able to secure such financing.

Total net interest bearing debt at the end of the first quarter 2013 was $982.5 million compared to $1,161.1 million last quarter, $178.6 million lower compared to the end of December 2012. Proceeds from the private placement, which is described in the share capital section below, were used to reduce outstanding debt. These reductions in debt were partly offset by short-term borrowings needed to fund the above mentioned capital expenditures and the operational cash outflow.

As of March 31, 2013, we are in compliance with all covenants under our debt facilities. Subsequently, in an effort to reduce Net Interest Bearing debt further, the Company has sold its North American Rental and Tubular business to an affiliate of Clearlake Capital Group, L.P. for approximately $244 million. The all-cash transaction is expected to close in June 2013, and is subject to regulatory approvals and other customary closing conditions. The proceeds from the sale will in their entirety be used to pay down debt.

Share capital

In February 2013, we issued 208,334,000 new shares of Archer in a private placement resulting in net proceeds of $250.0 million. Those proceeds were used to prepay the $100.0 million instalment due in November 2013 under our multi-currency facility, prepay $95.0 million under that same facility and repay a $55.0 million subordinated loan from a related party. The private placement was underwritten by Archer's five largest shareholders who in aggregate own 68% of Archer's issued and outstanding share capital.

At a special general meeting on February 13, 2013, we reduced the par value of Archer common stock from $2.00 to $1.00 and increased the number of authorized shares from 600 million to 1.2 billion. Following the par value reduction and the issuance of new shares, Archer has 579,159,787 fully paid shares of par value of $1.00 each. A total of 9,961,905 options were outstanding as of March 31, 2013.

First quarter 2013 operating results by Area

We are organized in four Areas and our operational comments for the first quarter and the second quarter outlook are presented by Area below.

	Revenues			EBITDA		
	Q1 2013	Q4 2012	Variance	Q1 2013	Q4 2012	Variance
North America	$ 148.1	$ 148.9	$ (0.8)	$ 10.7	$ 10.7	$ -
Latin America	132.8	136.0	(3.2)	11.5	6.7	4.8
North Sea	150.3	169.8	(19.5)	5.9	(1.4)	7.3
Emerging Markets	83.3	80.8	2.5	11.6	8.7	2.9
	$ 514.5	$ 535.5	$ (21.0)	$ 39.7	$ 24.7	$ 15.0

Note: The results of our Platform and Engineering business in Brazil has been regrouped from Latin America to the North Sea Area

North America

Revenue for the first quarter 2013 was $148.1 million, flat compared to the fourth quarter 2012. Revenue increases in Pressure Pumping were offset by decreased revenue in Pressure Control and Frac Valve operations. EBITDA for the first quarter 2013 was $10.7 million, flat compared to the fourth quarter 2012.

The average United States land-based rig count dropped by 54 rigs, or 3% sequentially, and by 242, or 13%, compared to the same period in the previous year. The average rig count directed towards natural gas remained flat compared to last quarter but reduced by 292 rigs, or 42%, compared to the first quarter 2012. Our results are negatively impacted by this shift and drop in activity as it resulted in significant pricing pressure and decreased utilization throughout most of our business lines.

Our Pressure Control Division marketed an average of 22 Coiled Tubing units during the first quarter 2013. This is a reduction of 2 units compared to the fourth quarter 2012, as they have been idled during the quarter due to a lack of demand. The average pricing for coiled tubing services declined approximately 8% compared to the previous quarter. Utilization reduced 3% in the first quarter 2013 compared to the fourth quarter 2012 as job days decreased from 960 days to 929 days between periods.

During the first quarter 2013, revenue for our Directional Drilling services has stabilized and was relatively flat compared to the fourth quarter. Minimal gains in utilization between periods were offset by minor pricing deterioration. However, EBITDA improved by approximately $1.1 million as a result of continued reductions to our cost structure to reflect the lower utilization.

In our Pressure Pumping Division we commissioned our fifth fleet in the beginning of the first quarter and we fracked a total of 1,004 stages compared to 780 stages in the fourth quarter 2012. Overall fleet utilization was flat between periods even with the addition of the fifth fleet compared to the previous quarter. Margins remained depressed with current pricing close to breakeven levels. At the end of March we have a total capacity of 186,000 HHP.

Revenue for our Frac Valve operation decreased by approximately $5.0 million in the first quarter 2013 compared to the fourth quarter 2012. The decrease is primarily attributable to a decline in volume of valves sold. EBITDA decreased approximately $2.0 million compared to the fourth quarter 2012.

Although oil prices remained relatively flat during the quarter, increased drilling efficiency has led to a reduction in rig count. However we have lately seen a marginal increase in completion activity related to shut in drilled wells. As activity continues to gradually improve we expect a modest improvement in revenue in the second quarter 2013, resulting in a slight improvement in EBITDA.

Latin America

Revenue in the first quarter 2013 totalled $132.8 million, a decrease of $3.2 million, or 2.4% compared to last quarter. The decrease was primarily due to the non-recurring nature of customer reimbursement of union negotiated salary increases which were reported in the fourth quarter 2012. Rig utilization in the first quarter 2013 was 81.3% compared to 78.1% in the fourth quarter 2012, reflecting mainly the status of the 15 rigs that were previously released and are now going back on contract. EBITDA for the three months ended March 31, 2013 was $11.5 million, an increase of $4.8 million, or 71.6%, compared to the fourth quarter 2012. The increase in EBITDA is a result of lower costs in the first quarter of 2013 as the fourth quarter of 2012 included retroactive salary increases not covered by customer reimbursement. In addition we benefitted from lower subcontractor and repair and maintenance expenses as well as the usage of vacation accruals to offset labor costs incurred while the 15 rigs were idle.

We expect second quarter 2013 revenue to be relatively flat compared to the first quarter 2013 as a result of increased revenue in Argentina with all previously idled rigs having resumed operations, offset by reduced activity in Brazil and a temporary stoppage of a rig in both Argentina and Bolivia in order to mobilize for a new contract. EBITDA for Latin America is expected to be below the level of the first quarter as a result of the reduced activity in Brazil including severance payments to adjust the workforce to the lower activity levels, high start-up expenses for the activity in the South of Argentina as well as the temporary stoppage of two rigs with a limited ability to substantially reduce costs over this short term period. We believe that the second half of 2013, once the temporary stoppage and start up challenges in Argentina are overcame and the Brazil operation adjusted for the lower activity levels, will return to a more normalized financial performance.

North Sea

First quarter 2013 revenue was $150.3 million, a decrease of $19.5 million, or 11.5%, compared to the fourth quarter 2012. Revenue in the fourth quarter 2012 included $10 million related to the sale of equipment as well as increased reimbursable revenue not repeated in the first three months of 2013. Total EBITDA for the three months ended March 31, 2013 came in at $5.9 million, an increase of $7.3 million, compared to the fourth quarter 2012. The improvement in EBITDA is primarily a function of fourth quarter 2012 being depressed by an exceptional charge related to the termination of a customer agreement in Alaska due to non-payment of overdue invoices.

The Archer Emerald has successfully commenced drilling operations and completed its first well at the end of April 2013. During the quarter we have started the construction of our second modular rig, Archer Topaz. The Archer Topaz is being built for a two and half year contract with Statoil and its partners and will start operations in the fourth quarter of 2014 on the Heimdal platform in Norway performing plug and abandonment services.

Subsequent to the first quarter by BP awarded a three-year contract extension of our platform drilling and rig maintenance service contract on the Ula and Valhall platforms in the Norwegian North Sea. With this contract valued at $150 million all operations in the North Sea Area are under firm contract until 2014. In addition we are in direct negotiations with several customers for the provision of the modular rig

We expect our North Sea revenue for the second quarter 2013 to be slightly below our first quarter primarily due to non-recurring retroactive adjustments in Brazil in the first quarter of 2013. We expect EBITDA in the second quarter 2013 to improve from the first quarter due to higher utilization of the modular rig.

Emerging Markets & Technologies

Revenue for the first quarter 2013 was $83.3 million, an increase of $2.5 million, or 3.1% compared to the three months ended December 31, 2012. Revenue in North America rebounded from the year-end curtailment of spending from customers and activity for Wireline in the North Sea increased during the first quarter of 2013 compared to the fourth quarter of 2012. These gains were partly offset by a seasonal decrease in revenue at our Oil Tools operations coming off a very strong fourth quarter 2012. EBITDA for the first quarter 2013 of $11.6 million, an increase of $2.9 million, or 33.3% compared to the fourth quarter 2012. The increase in EBITDA correlates with the increase in revenue and an improved revenue mix.

We expect second quarter revenue and EBITDA to be slightly down compared to the first quarter due to continued pricing pressure in our North America Wireline Division and the planned shutdown of a large portion of operations in the North Sea by one of our key customers.

Summary outlook

The beginning of 2013 was characterized by the recommencement of drilling operations in Argentina but also continued pressure on pricing and utilization in North America. While there are signs of the North America land based oil service cycle bottoming and the company's operational performance improving, the financial results will only materially improve when the US land market recovers with sustainable pricing improvements.

The company will continue to streamline its operations in line with the strategy to simplify the structure, and reduce its net debt.

The company's two largest shareholders, Seadrill and Lime Rock, remain committed and are encouraged by the debt reduction achieved by selling the North American Rental and Tubular business.

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 relating to the merger; 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 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

INDEX TO UNAUDITED FIRST QUARTER INTERIM FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended March 31 2013	2012
Revenues			
Operating revenues		$ 488.0	$ 526.6
Reimbursable revenues		26.5	19.7
Total revenues		**514.5**	**546.3**
Expenses			
Operating expenses		430.1	437.1
Reimbursable expenses		25.2	18.3
Depreciation and amortization		51.2	50.4
General and administrative expenses		19.5	23.7
Total expenses		**526.0**	**529.5**
Operating (loss)/income		**(11.5)**	**16.8**
Financial items			
Interest income		0.3	2.1
Interest expense		(15.5)	(14.9)
Share of results in associated company		(0.6)	(0.4)
Other financial items	3	(8.2)	17.3
Total financial items		**(24.0)**	**4.1**
(Loss)/income before income taxes		**(35.5)**	**20.9**
Income taxes	4	(1.5)	(5.9)
Net (loss)/income		**$ (37.0)**	**$ 15.0**
Basic (loss)/earnings per share	**5**	**$ (0.08)**	**$ 0.04**
Diluted (loss)/earnings per share	**5**	**$ (0.08)**	**$ 0.04**
Weighted average number of shares outstanding			
Basic		458.7	366.4
Diluted		458.7	367.0

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

ARCHER LIMITED

Consolidated Statements of Comprehensive (Loss)/Income

(Unaudited)

(In millions)	Three Months Ended March 31 2013	2012
Net (loss)/income	**$ (37.0)**	**$ 15.0**
Other comprehensive loss		
Currency exchange differences	(9.0)	(2.8)
Other	-	-
Other comprehensive loss	**(9.0)**	**(2.8)**
Total comprehensive (loss)/income	**$ (46.0)**	**$ 12.2**

Accumulated Other Comprehensive Gain/(Loss)

(Unaudited)

(In millions)	Pension – Unrecognized Losses	Currency Exchange Differences	Other Comprehensive Gains/(Losses)	Total
Balance at December 31, 2012	**$ (7.2)**	**$ 9.2**	**$ -**	**$ 2.0**
Currency exchange differences	-	(9.0)	-	(9.0)
Balance at March 31, 2013	**$ (7.2)**	**$ 0.2**	**$ -**	**$ (7.0)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	March 31,2013 (Unaudited)	December 31,2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 40.8	$ 58.2
Restricted cash		8.1	11.9
Accounts receivables		443.2	418.5
Inventories	6	71.0	64.3
Deferred income taxes		4.3	8.4
Other current assets		86.7	81.0
Total current assets		**654.1**	**642.3**
Noncurrent assets			
Investments in associates		6.7	2.4
Property plant and equipment, net		1,053.5	1,059.4
Deferred income tax asset		17.6	29.1
Goodwill	7	693.9	706.1
Other intangible assets, net	8	124.7	129.6
Deferred charges		17.5	18.4
Total noncurrent assets		**1,913.9**	**1,945.0**
Total assets		**$ 2,568.0**	**$ 2,587.3**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	9	$ 144.7	$ 329.5
Accounts payable		138.1	142.9
Other current liabilities		215.0	220.4
Total current liabilities		**497.8**	**692.8**
Noncurrent liabilities			
Long-term interest-bearing debt	9	878.6	889.8
Deferred income taxes		23.3	38.3
Other noncurrent liabilities		39.2	40.2
Total noncurrent liabilities		**941.1**	**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 March 31, 2013 (December 31, 2012: par value $2.00 per share; 600 million shares authorized; 366,659,120 outstanding)		579.2	733.3
Additional paid in capital		816.0	779.6
Accumulated deficit		(420.6)	(383.6)
Accumulated other comprehensive (loss)/income		(7.0)	2.0
Contributed surplus/(deficit)		161.5	(205.1)
Total shareholders' equity		**1,129.1**	**926.2**
Total liabilities and shareholders' equity		**$ 2,568.0**	**$ 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)	Three Months Ended March 31	
	2013	2012
Cash Flows from Operating Activities		
Net (loss)/income	$ (37.0)	$ 15.0
Adjustments to reconcile net (loss)/income to net cash (used)/provided by operating activities:		
Depreciation and amortization	51.2	50.4
Share-based compensation expenses	0.5	1.0
Gain on property, plant and equipment disposals	(0.7)	(0.4)
Equity in loss of unconsolidated affiliates	0.6	0.4
Gain on debt redemption	-	(4.7)
Amortization of loan fees and senior note premium	2.3	0.5
Deferred income taxes	(10.1)	(1.3)
Foreign currency loss/(gain)	8.1	(12.5)
Changes in operating assets and liabilities, net of acquisitions		
Increase in accounts receivable and other current assets	(40.9)	(34.1)
Increase in inventories	(7.1)	(9.2)
(Decrease)/increase in accounts payable and other current liabilities	(3.4)	16.7
Other, net	10.7	(2.1)
Net cash (used)/provided by operating activities	**(25.8)**	**19.7**
Cash Flows from Investing Activities		
Additions to property plant and equipment	(49.9)	(73.2)
Proceeds from disposal of property, plant and equipment	4.0	1.7
Acquisition of subsidiaries, net of cash	-	5.2
Investment in associates	(5.0)	-
Net change in restricted cash	3.3	4.2
Net cash used in investing activities	**(47.6)**	**(62.1)**
Cash Flows from Financing Activities		
Net borrowings under revolving facilities	57.2	7.7
Proceeds from long-term debt	0.5	327.8
Repayment of long-term debt	(202.3)	(293.8)
Proceeds of related party debt	10.0	-
Repayment of related party debt	(55.0)	-
Debt issuance costs	(2.2)	(0.8)
Proceeds from issuance of equity, net	248.4	-
Net cash provided by financing activities	**56.6**	**40.9**
Effect of exchange rate changes on cash and cash equivalents	(0.6)	1.3
Net decrease in cash and cash equivalents	**(17.4)**	**(0.2)**
Cash and cash equivalents at beginning of the period	58.2	37.3
Cash and cash equivalents at the end of the period	**$ 40.8**	**$ 37.1**
Interest paid	$ 14.0	$ 23.6
Taxes paid	$ 3.9	$ 11.4

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	35.9	-	-	-	248.4
Foreign exchange differences	-	-	-	(9.0)	-	(9.0)
Share based compensation	-	0.5	-	-	-	0.5
Net loss	-	-	(37.0)	-	-	(37.0)
Balance at March 31, 2013	**$ 579.2**	**$ 816.0**	**$ (420.6)**	**$ (7.0)**	**$ 161.5**	**$ 1,129.1**

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, underbalanced drilling, modular rigs, engineering services, equipment rentals, wireline services, pressure control and pressure pumping, production monitoring, well imaging and integrity management tools.

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

We employed approximately 8,200 skilled and experienced people at March 31, 2013.

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

Basis of presentation

The unaudited First Quarter Interim consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The unaudited First Quarter Interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These First Quarter Interim financial statements should be read in conjunction with our financial statements as at December 31, 2012. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

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 adopted in the preparation of the unaudited First 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.

Reclassifications

Certain amounts in prior years' consolidated financial statements and notes have been reclassified to conform to the current year presentation.

Recently issued accounting pronouncements

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

In December 2011, the FASB issued ASU 2011-11 "Disclosures about Offsetting Assets and Liabilities" in order to standardize the disclosure requirements under US GAAP and IFRS relating to both instruments and transactions eligible for offset in financial statements. ASU 2011-11 is applicable for annual reporting periods beginning on or after January 1, 2013. We adopted these provisions in the first quarter of 2013 and the adoption had no material impact on our consolidated financial statements.

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.

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 applied the purchase method of accounting to this business combination (per ASC topic 805). The resulting acquired goodwill recognized in the consolidated 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 March 31	
(In millions)	**2013**	**2012**
Foreign exchange differences	$ (8.1)	$ 12.5
Gain on redemption of debt	-	4.7
Other items	(0.1)	0.1
Total other financial items	**$ (8.2)**	**$ 17.3**

Financial items consist mainly of foreign exchange gains (losses) arising in respect of 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

Income tax expense can be split in the following geographical areas:

	Three Months Ended March 31	
(In millions)	**2013**	**2012**
United States	$ 0.4	$ 0.9
South America	0.4	2.1
Europe	0.5	2.8
Others	0.3	0.1
Total	**$ 1.5**	**$ 5.9**

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 first quarter of 2013 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 before income taxes

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.

	Three Months Ended March 31	
(In millions, except per share amounts)	**2013**	**2012**
Numerator		
Net (loss)/income	$ (37.0)	$ 15.0
Denominator		
Weighted-average common shares outstanding	458.7	366.4
Effect of potentially dilutive common shares:		
Share based compensation shares	-	0.6
Weighted-average common shares outstanding and assumed conversions	458.7	367.0
Net (loss)/income per common share		
Basic	$ (0.08)	$ 0.04
Diluted	$ (0.08)	$ 0.04

Note 6 – Inventories

(In millions)	**March 31, 2013**	**December 31, 2012**
Manufactured		
Finished goods	$ 8.0	$ 6.8
Work in progress	3.5	3.6
Raw materials	8.8	6.6
Total manufactured	20.3	17.0
Drilling supplies	27.8	25.2
Chemicals	7.9	8.1
Other items and spares	15.0	14.0
Total Inventories	**$ 71.0**	**$ 64.3**

Note 7 – Goodwill

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

(In millions)	
Net book balance at December 31, 2012	**$ 706.1**
Currency adjustments	(12.2)
Net book balance at March 31, 2013	**$ 693.9**

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.

If the unfavorable changes in market and other economic factors seen in North America during the first quarter continue to impact our operating performance, we may need to revisit the forward looking assumptions and estimates underlying the carrying value of goodwill. Any changes could result in additional impairment charges, which could have a material adverse effect on our consolidated balance sheet and results of operations. The amount of any impairment is dependent on the performance of the business, which is dependent upon a number of variables which cannot be predicted with certainty.

Note 8 – Intangible Assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2012	**$ 173.2**	**$ (43.6)**	**$ 129.6**
Amortization	-	(4.1)	(4.1)
Currency adjustments	(1.5)	0.7	(0.8)
Balance at March 31, 2013	**$ 171.7**	**$ (47.0)**	**$ 124.7**

The net book value at March 31, 2013 consisted of customer relationships of $100.0 million, identified technology of $7.5 million, trademarks of $9.5 million, patents of $7.6 million and non-compete of $0.1 million.

Note 9 – Long-term Interest Bearing Debt

(In millions)	March 31 2013	December 31 2012
Multi-currency term and revolving facility	$ 844.9	$ 1,047.1
Related party subordinated loan	10.0	55.0
Hermes covered term loan	30.2	34.9
Other loans and capital lease liability	138.2	82.3
Total loans and capital lease liability	**1,023.3**	**1,219.3**
Less: current portion	(144.7)	(329.5)
Long-term portion of interest bearing debt	**$ 878.6**	**$ 889.8**

Multi-currency term and revolving facility

On March 7, 2013, we entered into a third amendment and restatement agreement in relation to our $1,187.5 million multicurrency term and revolving facility agreement with a syndicate of banks, of which $1,171.9 million was committed by the lenders. Prior to entering into this agreement $195.0 million was prepaid to the bank syndicate from the proceeds of our private placement in February 2013. Following the prepayment the total amount available under the multicurrency term and revolving facility agreement, our main credit facility, has been reduced from $1,171.9 million to $876.9 million.

The amended and restated multicurrency term and revolving facility agreement, is divided into two tranches. The total amount available under tranche A (the revolving credit facility) has been reduced from $493.4 million to $398.4 million and the total amount available under tranche B (the term loan facility) has been reduced from $678.5 million to $478.5 million. We will need to make an installment of $100.0 million in November 2014. The final maturity date of the facility is November 11, 2015. The interest payable on the tranches is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 3.00% and 3.95% per annum, depending on the ratio of the net interest bearing debt to EBITDA, in addition to mandatory costs, if any.

As of March 31, 2013, a total of $844.9 million has been drawn under the multicurrency term and revolving facility, of which $366.4 million has been drawn under tranche A and $478.5 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 an on-demand guarantee of $100.0 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 total consolidated net interest bearing debt shall not exceed 4.75x of the last twelve months EBITDA until September 30, 2013, with a subsequent reduction of 0.25x per quarter to 3.25x from March 31, 2015 and onwards.

- Our minimum ratio of equity to total assets of at least 30.0%

- We are to maintain the higher of $30 million and at least 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 March 31, 2013, we are in compliance with all covenants under our debt facilities. We continue to closely monitor our financial performance and the ability to maintain compliance with the financial ratios required under the multi-currency term and revolving facility.

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 instalments in March and September through March 2017. The interest rate is 1.3% above EURIBOR. At March 31, 2013, the equivalent of $30.2 million was outstanding under this facility.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at March 31, 2013, net borrowings under these facilities were $89.3 million in aggregate. In addition we have borrowed $33.6 million under cash overdraft facilities in Argentina. We have a $25.0 million import facility in Argentina, which had an outstanding balance at March 31, 2013 of $0.6 million. We also have capital leases covering both real property and equipment and at March 31, 2013, the net balance due under these arrangements was $12.8 million. We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at March 31, 2013 of $1.7 million. In addition, we have several equipment financing obligations that in aggregate had a balance due of $0.2 million at March 31, 2013.

Note 10 – Supplemental Cash Flow Information

During 2013, we financed equipment purchases of $2.0 million through capitalized leases.

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

Note 11 – Segment Information

We have determined that our operational performance aligned with the following four segments 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 on the following pages are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment.

(In millions)	THREE MONTHS ENDED MARCH 31	
	2013	**2012**
Revenues from external customers		
North America	$ 148.1	$ 183.3
Latin America	132.8	126.6
North Sea	150.3	157.0
Emerging Markets & Technologies	83.3	79.4
Total	**$ 514.5**	**$ 546.3**
Depreciation and amortization		
North America	$ 30.0	$ 30.8
Latin America	8.6	9.4
North Sea	3.6	2.6
Emerging Markets & Technologies	9.0	7.6
Total	**$ 51.2**	**$ 50.4**
Operating (loss)/income to net (loss)/income		
North America	$ (19.1)	$ (2.8)
Latin America	3.0	(0.5)
North Sea	2.4	10.8
Emerging Markets & Technologies	2.7	10.3
Stock compensation costs	(0.5)	(1.0)
Operating (loss)/income	**(11.5)**	**16.8**
Total financial items	(24.0)	4.1
Income taxes	(1.5)	(5.9)
Net (loss)/income	**$ (37.0)**	**$ 15.0**
Capital expenditures		
North America	$ 13.1	$ 44.9
Latin America	5.0	13.8
North Sea	25.6	10.9
Emerging Markets & Technologies	8.2	3.6
Total	**$ 51.9**	**$ 73.2**

(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**
Exchange rate fluctuations on goodwill measured in foreign currency	-	-	(6.2)	(6.0)	(12.2)
Balance at March 31, 2013	**$ 324.5**	**$ -**	**$ 135.2**	**$ 234.2**	**$ 693.9**

(In millions)	March 31, 2013	December 31, 2012
Total assets		
North America	$ 1,073.3	$ 1,114.9
Latin America	502.5	478.9
North Sea	473.8	479.6
Emerging Markets & Technologies	518.4	513.9
Total	**$ 2,568.0**	**$ 2,587.3**

Note 12 – Fair Value of Financial Instruments

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

(In millions)	March 31, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 40.8	$ 40.8	$ 58.2	$ 58.2
Restricted cash	8.1	8.1	11.9	11.9
Current portion of long-term debt	144.7	144.7	329.5	329.5
Long-term interest bearing debt	878.6	878.6	889.8	889.8

The above financial assets and liabilities are measured at fair value on a recurring basis as follows:

(In millions)	March 31 2013 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 40.8	$ 40.8	-	-
Restricted cash	8.1	8.1	-	-
Liabilities				
Multicurrency Term and Revolving Facility, excluding current portion	844.9	-	844.9	-
Other loans and capital leases, excluding current portion	33.7	-	33.7	-

Level 1: Quoted prices in active markets for identical assets
Level 2: Significant other observable inputs
Level 3: Significant unobservable inputs

We used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments. For certain instruments, including cash and cash equivalents it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair 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 April 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.

We are also named from time to time in legal proceedings related to activities that occurred prior to of one of our predecessor's bankruptcy in 1988 (Allis-Chalmers). However, we believe that we were discharged from liability for all such claims in the bankruptcy and believe the likelihood of a material loss relating to any such legal proceeding is remote.

The case of *Cudd Pressure Control, Inc. vs. Great White Pressure Control, LLC, et. al*., one of our subsidiaries, pre-dates Archer's acquisition of the Great White group. Plaintiff, Cudd Pressure Control, alleges several causes of action relating to Great White Pressure Control's employment of former Cudd employees. Although the case was filed in 2006 and the relevant events date back more than five years, the case was just recently tried in Texas state district court with the jury returning a verdict in favor of the defendants. Although plaintiff has filed an appeal of the jury verdict, we believe the appeal will be unsuccessful.

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. Because of the nature of a settlement class, we are not able to predict with any degree of certainty at this time the ultimate settlement amount; however, we have received an assessment of potential liabilities from outside counsel which has allowed us to assess a contingency reserve in accordance with U.S. GAAP.

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

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

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

Note 16 – Related parties

In the normal course of business, we transact business with related parties.

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

During the three months ended March 31, 2013, we supplied Seadrill Limited and affiliates with services amounting to $4.0 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2013, Seadrill owed us $1.0 million related to these services.

In March of 2013, Seadrill provided Archer with a $10.0 million subordinated term-loan facility 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.

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 $0.5 million for these services in the three months ended March 31, 2013. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At March 31, 2013, we owe Frontline $0.9 million related to these services.

During the three months ended March 31, 2013, we supplied NADL with services amounting to $1.3 million, including reimbursable material. This amount has been included in operating revenues. At March 31, 2013, NADL owed us $0.5 million related to these services.

Note 17 – Subsequent events

On May 20, we signed an agreement to sell our Rental business in North America and our Tubular business in North America and Latin America to an affiliate of Clearlake Capital Group, L.P. for approximately $244 million. The all-cash transaction is expected to close in June 2013, and is subject to regulatory approvals and other customary closing conditions. We will use the majority of the proceeds from the sale to pay down outstanding balances on our credit facilities.

In 2012, these businesses generated approximately $100 million in revenue and contributed approximately $45 million in earnings before income taxes, depreciation and amortization (EBITDA). At the end of December 2012, these businesses had net assets of approximately $244 million and employed a total of 250 employees.

Appendix to Archer First 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 below for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended March 31, 2013, December 31, 2012, September 30, 2012, June 30, 2012 and March 31, 2012. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

ARCHER LIMITED
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended				
(In millions)	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Revenue	514.5	535.5	551.9	555.0	546.3
Cost and expenses					
Operational Costs	526.0	562.1	550.0	535.4	529.5
Impairments	-	-	338.7	-	-
Net financial items	24.0	10.0	6.4	30.2	(4.1)
(Loss)/income before income taxes	(35.5)	(36.6)	(343.2)	(10.6)	20.9
Income tax expense (benefit)	1.5	5.1	(1.9)	(2.8)	5.9
Total net (loss)/income	**(37.0)**	**(41.7)**	**(341.3)**	**(7.8)**	**15.0**

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

	Three Months Ended				
(In millions)	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Total net income / (loss)	(37.0)	(41.7)	(341.3)	(7.8)	15.0
Depreciation, amortization and impairments	51.2	51.3	390.7	51.3	50.4
Net financial items	24.0	10.0	6.4	30.2	(4.1)
Taxes on Income	1.5	5.1	(1.9)	(2.8)	5.9
EBITDA	**39.7**	**24.7**	**53.9**	**70.9**	**67.2**