Archer Limited (ARCHER) First Quarter 2012 Results

First Quarter Highlights

- First quarter revenue of $546.3 million.
- First quarter EBITDA of $67.2 million.
- Net income for the quarter of $15.0 million.
- First quarter operational cash flow of $19.7 million.
- Net interest bearing debt at the end of the first quarter 2012 at $1,110.9 million.
- Agreement reached with lenders to increase gearing ratio to 3.5 until the third quarter 2012.
- Pressure pumping improvement program in North America on track.

Financial Statements

First quarter 2012 operating results

Revenue for the first quarter 2012 was $546.3 million, a decrease of 8.4% compared to $596.1 million for the fourth quarter 2011. Adjusted Earnings before Income Taxes, Depreciation and Amortization (EBITDA), was $67.2 million, compared to $82.0 million for the fourth quarter 2011, a reduction of 18.0%.

Comparison of Three Months Ended March 31, 2012 to Pro Forma Results for Three Months Ended March 31, 2011

Our pro forma results give effect to the merger with Allis-Chalmers and the acquisition of Great White as if both transactions had occurred at the beginning of 2011. Pro forma revenue for the three months ended March 31, 2012 increased 9.2% compared to pro forma revenue of $500.4 million for the first quarter 2011. Pro forma EBITDA for the three months ended March 31, 2012 decreased 22.1% compared to $86.3 million pro forma EBITDA for the first quarter 2011.

Attached to this quarterly report is an appendix with additional information on our pro forma numbers. The appendix also includes reconciliation between GAAP results and non-GAAP measures.

Cash flow

Cash and cash equivalents, excluding restricted cash, amounted to $37.1 million at the end of the first quarter 2012, compared to $37.3 million at the end of December 2011.

First quarter cash flow from operations was $19.7 million, which is comprised primarily of net income of $15.0 million, add back for depreciation and amortization of $50.4 million offset by the unrealized foreign currency gain of $11.4 million and an increase in trade receivables and other short-term assets of $34.1 million. In addition to a general seasonal increase in receivables, the strike in Argentina caused a delay in customer billings and subsequent payments.

Capital expenditures during the quarter amounted to $73.2 million, representing predominantly investments in new drilling equipment as well as in pressure control and pressure pumping equipment. The Company has committed to a total of $180 million of CAPEX for this year at the time of the report. The decision to release further CAPEX will be made in conjunction with the second quarter 2012 results.

During the first quarter of 2012, we redeemed the Allis-Chalmers senior notes that bore interest between 8.5% and 9.0% and replaced them with borrowing under our multi-currency term and revolving facility. Depending on the currency borrowed, the interest rate on the multi-currency term and revolving facility is the LIBOR, NIBOR or EURIBOR plus between 2.25% and 3.75% per annum.

Total Net interest bearing debt at the end of the first quarter 2012 was $1,110.9 million compared to $1,048.9 million last quarter.

The Company obtained a waiver from the lenders of the multicurrency term and revolving facility and reached an agreement to temporarily increase the Net Interest Bearing Debt to EBITDA covenant ratio from 3.0x to 3.5x until the end of the third quarter 2012. The Group continues to closely monitor its financial performance and the ability to maintain compliance with the financial ratios.

Share capital

The total number of issued and fully paid shares of par value $2.00 is 366,409,122. A total of 14,143,905 options were outstanding as of March 31, 2011.

First quarter 2012 operating results by Area

Starting January 1, 2012, the Company has been organized in four Areas. Our operational comments for the first quarter and the second quarter outlook are presented by Area below.

North America

Revenue for the first quarter 2012 was $183.3 million, an increase of $2.4 million compared to last quarter. The increase in revenue was primarily due to improved utilization of our directional drilling services and increased sales in our AWC Frac Valve division, partly offset by lower utilization in our Pressure Pumping division.

EBITDA of $27.6 million decreased by $1.1 million compared to the fourth quarter 2011. The deterioration in margins was primarily caused by higher maintenance and repair costs in our Pressure Control division.

Latin America

Revenue in the first quarter 2012 totalled $139.1 million, a decrease of $8.7 million, or 5.9% compared to last quarter. The majority of the decrease is attributable to industrial action in Argentina and road blocks in Bolivia.

First quarter 2012 EBITDA of $9.7 million decreased from $18.7 million in the fourth quarter 2011. Industrial action in Argentina and Bolivia negatively affected EBITDA by $5.2 million with the remainder attributable to utilization and exceptional income in the fourth quarter 2011.

North Sea

First quarter 2012 revenue was $144.5 million, a decrease of $44.5 million, or 23.5% compared to the fourth quarter 2011. The main reason for the reduction is the finalization of the main deliverables for the Statfjord Late Life project at the end of 2011 as well as seasonally lower activity due to weather related downtime and reduced reimbursable revenue.

EBITDA for the three months ended March 31, 2012 was $12.2 million, compared to $19.5 million for the fourth quarter 2011. The absence of revenue related to the Statfjord Late Life project and exceptional billings in our Engineering Division was the predominant reason for the reduced EBITDA.

Emerging Markets & Technologies

Revenue for the first quarter 2012 totalled $79.4 million, an increase of $1.0 million, or 1.3% compared to last quarter, mainly due to sustained wireline activity in the United States and in Asia.

EBITDA for the first quarter 2012 was $17.7 million, an improvement of $2.6 million, or 17.2% compared to last quarter. Reduced costs in our Wireline business, as well as a favourable product mix with increased logging services explain the improvement.

Operational Comments and Area Specific Outlook

North America

While the shift from drilling for dry gas towards wet and oil rich reservoirs continued in the first quarter, overall activity levels in North America remained strong. Triggered by record low prices for natural gas, the average gas rig count dropped by 106 rigs or 13% sequentially and 135 rigs or 16% year over year. This rapid decline was only partially offset by a sequential increase in rigs engaged in oil drilling of 53 rigs or 5%. The year over year increase of rigs drilling for oil, however, was 300 rigs or 36%.

During the quarter, our focus remained squarely on integrating the former Allis-Chalmers and Great White coiled tubing operations and we are on schedule to complete the process by the end of the second quarter.

The market for pressure pumping remains oversupplied with price reductions between 5% to 10%, depending on the basin, over the course of the quarter. Utilization in our Pressure Pumping division remained low in the first quarter with 205 stages fracked and an average of 2 crews operating. Following extensive changes initiated by the new management team in North America the outlook for the Pressure Pumping division has improved. Work continues to rebuild the organization, upgrade personnel and equipment, and implement new supply chain and operational processes. The changes made to date have improved credibility with our customers and the division is expected to break even on EBITDA in the second quarter following a loss in the first quarter. The Company currently has 122,000 HHP of capacity and expects to have 3 fleets fully crewed and operational for the majority of the second quarter.

Pricing for coiled tubing services also came under pressure in the second quarter due to the shift from gas to liquids rich plays. At the end of March, the Company owned 24 Coiled Tubing units with 21 units operational and three units being reviewed for scrap or complete refurbishment. Including units down for refurbishment, utilization improved slightly from 54% to 59% over the quarter. The company initiated a full upgrade program for all former Allis-Chalmers units in the first quarter and expects utilisation to continue to increase quarter over quarter as more units are upgraded. The refurbishment program is being run out of Archers own manufacturing facility in Oklahoma City and is expected to complete in the first quarter 2013. Other Pressure Control services continued to perform strongly during the first quarter 2012.

Directional Drilling reported a solid increase in activity amid the high horizontal rig count combined with an improved utilization and favourable weather patterns throughout the United States during the quarter. Notwithstanding this, we expect a short term reduction of our revenue and related margins in the second and third quarter as a result of a loss of business with a major customer. In the short term 10 rigs were lost and the corresponding EBITDA effect is estimated at a negative $700,000 per month for the next two quarters. Despite this short term set back we feel strongly about the medium and longer term prospects for this business and will continue to grow and invest in this segment.

Our Rentals and Tubulars Division continued its shift from dry gas into liquids rich plays, particularly into West Texas and the Bakken, to offset the reduced activity experienced in the dry gas basins such as the Haynesville. Pricing decreased for both service lines amid the increased competition following an influx of new companies in the liquid rich regions. With the offshore rig count in the Gulf of Mexico at 80 at the end of the quarter, representing a 4% increase over last year end, we expect a slow but steady rise in demand for our services in the coming quarters.

Overall North America revenue totalled $183.3 million and generated EBITDA of $27.6 million in the first quarter. Considering the above mentioned trends we expect high single digit revenue growth at a similar cost level in the second quarter. The capital investments in Pressure Pumping, Pressure Control and Directional Drilling in the first and second quarter as well as the addition of experienced sales staff will help us to continue to grow the business in the second half of the year. Further improvements in operational efficiency and supply chain will contribute to margins improvements going forward.

Latin America

During the first quarter, the government of three Argentinean provinces revoked some of the operating licenses awarded to Repsol / YPF, the first move in a process that eventually ended with the nationalization of the 51% of the Repsol ownership in YPF. Uncertainty about the reaction of international investors remains, both in terms of investments in Argentina in general and in the unconventional shale in the Neuquén province in particular.

Our financial performance during the quarter was negatively impacted by a strike in the southern part of Argentina lasting twelve days and impacting 21 workover and 12 drilling rigs. Additionally, our operations in Bolivia were affected by road blocks from the local communities, requesting higher royalties from the central government.

During the quarter we started the yearly price negotiations with customers in Argentina to compensate for increased labour cost and other cost inflation. We are confident that an agreement will be reached during the second quarter. The Quicksilver rig in the United States completed its contract in the Eagle Ford and started the mobilization to Argentina. We expect the rig to start operations in Argentina towards the end of the third quarter. A drilling rig working for Pan American went off contract in March and is currently being tendered for other customers in the region.

Rig utilization in Brazil improved from 65% in the fourth quarter to 67% in the first quarter 2012 and is expected to further improve in the second quarter. Currently we have seven rigs on contract out of a fleet of eight rigs. After a major upgrade, we started operations of rig BCH-08 in the State of Minas Gerais for Petra and at the end of March, we started operations of BCH-12, a brand new AC controlled advanced rig manufactured by NOV, for OGX in the Maranhao Region. Operational results were negatively impacted by technical downtime during the first quarter. We expect that the actions taken to improve the maintenance program combined with upgrading some of the equipment in the first quarter will lead to improved uptime going forward.

Mexico operations were affected by bad weather, especially in the Marine regions, causing Pemex to evacuate the rigs due to safety concerns, which consequentially caused delays for our operations. This performance was offset by higher activity in the South Region during the months of February and March as Pemex upgraded casing running procedures on several rigs in this region.

We completed the Underbalanced Drilling campaign in Bolivia in the first quarter with good operational results. The project is now completed for the year and new opportunities are being negotiated with customers in Argentina.

Latin America reported $139.1 million revenue in the first quarter, and $9.7million EBITDA. With the absence of large scale industrial action in the second quarter and improved utilization in Brazil, we expect the second quarter 2012 to improve over the first quarter.

North Sea

Following a successful inspection of the modular rig and the training of key personnel at the manufacturer in Germany, the rig has left and is currently on its way to New Zealand. It is expected to arrive at the beginning of June and commence operation at the end of the quarter. While the rig will contribute approximately $12 million of revenue in the second half of 2012, we do not expect it to positively contribute to our results until 2013 due to start up and training costs for our personnel. In the first quarter Shell Todd Oil Services exercised one of several options and committed to a 160 days contract extension in addition to the 120 days initial contract period.

During the quarter we participated in a tender for the majority of Statoil's platform drilling services in Norway. The scope of this tender included drilling services for a total of 18 platforms, divided into six lots, with an initial period of 4 years plus 3 times 2 years extension. Following the competitive tender process, Archer was awarded one lot, representing the three Statfjord platforms but lost the lot related to the three Gulfaks platforms, where it is the incumbent today. The activity related to Gulfaks represents approximately 15% of our current total North Sea business. The new contract regime will commence on 1st. October 2012 and the Company has already taken action to adjust its fixed cost base including the closure of its Bergen, Norway based platform drilling operation and base.

At the beginning of the second quarter we secured a five year contract to provide integrated plug and abandonment services across Shell's Brent field operations. As the incumbent provider of drilling, engineering, maintenance and operational support services on Shell's Brent Alpha, Bravo, Charlie, Delta and Nelson platforms since 2004, the new plug and abandonment contract will increase Archer's operational activity on Shell's North Sea assets. The additional service elements provided by Archer include drilling and maintenance, swarf management, cuttings re-injection (CRI), casing pulling services, tubulars and handling equipment.

Our Engineering division returned to lower levels of activity in the first quarter following the completion of the main scope of the Statfjord late life engineering project in the fourth quarter. The remaining work on Statfjord will also come to an end in the beginning of the second quarter however we have recently seen an increase in orders of smaller projects related to drilling facilities, which will partly compensate for the lost revenue from Statfjord late life project in the second half of the year.

First quarter 2012 revenue totalled $144.5 million with EBITDA of $12.2 million. Lower reimbursable revenue, the finalization of the Statfjord Late Life project as well as start up costs for the modular rig will lead to reduced revenue and EBITDA in the second quarter. The Company might also incur one time costs related to the restructuring related to its North Sea business.

Emerging Markets & Technologies

The ongoing global trend of an increased focus on well integrity supported the growing demand for Archer's well integrity products and services. Following the successful introduction of our Cflex multi-stage cementing technology with a large operator in the Gulf of Mexico last quarter, the customer has accelerated its adoption of the technology, placing multiple orders for a number of different assets and long-term multi-well projects. Cflex improves the effectiveness and efficiency of cementing operations, helping operators to deliver a secure seal between the casing and formation, thereby minimising the risk of well integrity failures during the life of the well. Two additional customers in the Gulf of Mexico are evaluating the technology, and a major UK-based operator has selected Cflex for one of its North Sea developments. Staying with the theme of improving integrity during well construction, Archer's gas-tight VMB suspension plug technology has been selected by a European-based super major for two development projects in the Norwegian and Barent's Sea.

Well integrity inspection services expanded this quarter, as several existing customers have ramped up their usage of LeakPoint, a member of our Point family of services designed to locate well leaks quickly and precisely and enabling effective remediation. In Malaysia, LeakPoint has been selected to inspect over 60 wells. This contract award followed a letter of appreciation from the client for reducing production deferment as a result of LeakPoint efficiencies by 50% during an earlier program. A customer in Qatar increased the initial work scope for LeakPoint services to include over 30 wells and a new customer in Australia turned to LeakPoint after incurring several days of non-productive time attempting to locate leaks using traditional techniques. LeakPoint was deployed rapidly and located the leak within 14 hours during a single logging run.

Improving well performance through the deployment of new and conventional well intervention services continued to gain momentum globally. In North America, our wireline activity has seen revenue growth compared to last quarter, due in part to a growing pipe recovery business. In the North Sea and Europe, two major contract awards have consolidated our position as a leading provider of well intervention services in the region. We have also expanded our portfolio to include cutting, perforating and production logging, which will attract additional revenue streams going forward. During the quarter we introduced TASK, a new and unique wireline-deployed scale removal service. This new service was deployed to clean and reactivate a failed sub-sea safety valve and this in-situ restoration service eliminated the cost and risk of a complex valve replacement operation.

As a whole, Emerging Markets and Technologies reported $79.4 million revenue in the first quarter, which is a sequential increase of 1.3%. The EBITDA of $17.7 million is a result of the growth, the favourable product mix as well as lower costs for compensation.

Health, Safety & Environment

Tragically one of our employees in North America lost his life at a well site in early February. Following this incident, we reviewed our processes, personnel, and equipment in order to prevent such an accident from reoccurring. In the North Sea we delivered safe and efficient platform drilling services to our customers throughout the quarter. During the quarter one of our employees was recognized at the annual UK Oil and Gas Industry Safety Awards for his safety leadership. We also received the People Award at Chevron Upstream Europe's Contractor Health, Environment & Safety Management (CHESM) away day, for demonstrating exceptional knowledge, skills and behaviours and embracing Chevron's values.

Summary outlook

The first quarter results were in line with our expectations. The corrective actions taken since the beginning of the year have shown the first encouraging results with an increasing monthly EBITDA run rate during the quarter. With the exception of our North Sea region, we expect all other Areas to show sequential growth in both revenue and EBITDA from the first to the second quarter.

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, 2011. 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 2012	2011
Revenues			
Operating revenues		$ 526.6	$ 267.3
Reimbursable revenues		19.7	25.9
Total revenues		**546.3**	**293.2**
Expenses			
Operating expenses		433.2	214.8
Reimbursable expenses		18.3	25.1
Depreciation and amortization		50.4	19.3
Impairment of intangible assets	3	-	5.1
General and administrative expenses		27.6	22.4
Total expenses		**529.5**	**286.7**
Operating income		**16.8**	**6.5**
Financial items			
Interest income		2.1	0.5
Interest expenses		(14.9)	(7.1)
Share of results in associated company		(0.4)	(0.3)
Other financial items	4	17.3	(11.5)
Total financial items		**4.1**	**(18.4)**
Income / (loss) before income taxes		**20.9**	**(11.9)**
Income taxes	5	(5.9)	(0.2)
Net income / (loss)		**$ 15.0**	**$ (12.1)**
Basic earnings per share	**6**	**$ 0.04**	**$ (0.04)**
Diluted earnings per share	**6**	**$ 0.04**	**$ (0.04)**
Weighted average number of shares outstanding			
Basic		366.4	264.3
Diluted		367.0	264.3

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

ARCHER LIMITED

Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended March 31 2012		2011	
Net income / (loss)	**$**	**15.0**	**$**	**(12.1)**
Other comprehensive (loss) / income				
Change in unrealized foreign exchange differences		(2.8)		21.7
Other		-		0.7
Other comprehensive (loss) / income		**(2.8)**		**22.4**
Total comprehensive income	**$**	**12.2**	**$**	**10.3**

Accumulated Other Comprehensive Loss

(Unaudited)

(In millions)	Pension – Unrecognized Gains/Losses		Change in Unrealized Foreign Exchange Differences		Other Comprehensive Gains/Losses		Total	
Balance at December 31, 2011	**$**	**(21.6)**	**$**	**14.2**	**$**	**(1.2)**	**$**	**(8.6)**
Foreign exchange differences		-		(2.8)		-		(2.8)
Balance at March 31, 2012	**$**	**(21.6)**	**$**	**11.4**	**$**	**(1.2)**	**$**	**(11.4)**

Note: All items of other comprehensive income are stated net of tax.

The applicable amount of income taxes associated with unrealized gain on foreign exchange and other comprehensive gains/losses is $0 due to the fact that the items relate to companies domiciled in non-taxable jurisdictions.

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	March 31 (Unaudited)	December 31
ASSETS			
Current assets			
Cash and cash equivalents		$ 37.1	$ 37.3
Restricted cash		9.1	13.3
Accounts receivables		482.9	432.0
Inventories		64.3	58.2
Other current assets		80.8	97.6
Total current assets		**674.2**	**638.4**
Noncurrent assets			
Investments in associates		7.0	7.4
Property plant and equipment		1,079.0	1,044.1
Deferred income tax asset		33.0	10.3
Goodwill	7	904.7	898.9
Other intangible assets	8	197.7	203.3
Deferred charges		20.7	12.3
Total noncurrent assets		**2,242.1**	**2,176.3**
Total assets		**$ 2,916.3**	**$ 2,814.7**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	9	$ 128.2	$ 108.4
Accounts payable		134.6	143.1
Other current liabilities		230.7	215.0
Total current liabilities		**493.5**	**466.5**
Noncurrent liabilities			
Long-term interest-bearing debt	9	1,019.8	977.8
Deferred taxes		37.9	16.3
Other noncurrent liabilities		66.1	67.3
Total noncurrent liabilities		**1,123.8**	**1,061.4**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,409,122 outstanding shares at March 31, 2012 (December 31, 2011: 366,397,622)		732.8	732.8
Additional paid in capital		775.5	775.5
Retained earnings / (accumulated deficit)		7.2	(7.8)
Accumulated other comprehensive loss		(11.4)	(8.6)
Contributed deficit		(205.1)	(205.1)
Total shareholders' equity		**1,299.0**	**1,286.8**
Total liabilities and shareholders' equity		**$ 2,916.3**	**$ 2,814.7**

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	
	2012	**2011**
Cash Flows from Operating Activities		
Net income / (loss)	$ 15.0	$ (12.1)
Adjustment to reconcile net income / (loss) to net cash provided/(used) by operating activities:		
Depreciation and amortization	50.4	19.3
Share-based compensation expenses	1.0	0.7
Impairment of intangibles	-	5.1
Gain on property, plant and equipment disposals	(0.4)	-
Equity in loss of unconsolidated affiliates	0.4	0.3
Gain on debt redemption	(4.7)	-
Amortization of loan fees and senior note premium	0.5	-
Deferred income taxes	(1.3)	(2.6)
Unrealized foreign currency (gain) loss	(11.4)	22.5
Changes in operating assets and liabilities, net of acquisitions		
Increase in trade accounts receivable and other short-term receivables	(34.1)	(21.6)
Increase/(decrease) in trade accounts payable and other short-term liabilities	16.7	(45.0)
Increase in inventories	(9.2)	(0.7)
(Increase)/decrease in other noncurrent assets	(8.6)	0.3
Increase in other noncurrent liabilities	5.4	2.2
Net cash provided (used) by operating activities	**19.7**	**(31.6)**
Cash Flows from Investing Activities		
Additions to property plant and equipment	(73.2)	(17.7)
Proceeds from disposal of property, plant and equipment	1.7	1.4
Acquisition of subsidiaries, net of cash	5.2	(21.9)
Net change in restricted cash	4.2	4.4
Net cash used in investing activities	**(62.1)**	**(33.8)**
Cash Flows from Financing Activities		
Net borrowings under revolving facilities	7.7	-
Proceeds from long-term debt	327.8	55.0
Repayment of long-term debt	(293.8)	(62.8)
Debt issuance costs	(0.8)	-
Proceeds from issuance of equity, net	-	1.5
Net cash provided (used) by financing activities	**40.9**	**(6.3)**
Effect of exchange rate changes on cash and cash equivalents	1.3	(1.4)
Net (decrease) decrease in cash and cash equivalents	**(0.2)**	**(73.1)**
Cash and cash equivalents at beginning of the period	37.3	174.4
Cash and cash equivalents at the end of the period	**$ 37.1**	**$ 101.3**
Interest paid	$ 23.6	$ 12.0
Taxes paid	$ 11.4	$ 11.3

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

ARCHER LIMITED
Consolidated Statement of Changes in Equity
(Unaudited)

(In millions)	Share Capital	Additional Paid In Capital	(Accumulated Deficit) / Retained Earnings	Accumulated Other Comprehensive Loss	Contributed Deficit	Total Shareholders' Equity
Balance at December 31, 2011	**$ 732.8**	**$ 775.5**	**$ (7.8)**	**$ (8.6)**	**$ (205.1)**	**$ 1,286.8**
Foreign exchange differences	-	-	-	(2.8)	-	(2.8)
Net income	-	-	15.0	-	-	15.0
Balance at March 31, 2012	**$ 732.8**	**$ 775.5**	**$ 7.2**	**$(11.4)**	**$ (205.1)**	**$ 1,299.0**

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.

The Company employed at the end of the quarter approximately 8,600 skilled and experienced people.

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 the Company's financial statements as at December 31, 2011. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

In conjunction with organizational changes made at the end of 2011, we reviewed the presentation of our reporting segments during the first quarter of 2012 and determined that change in reporting segments was necessary. Our historical segment data previously reported for the three months ended March 31, 2011 and year ended December 31, 2011, have been restated to conform to the new presentation (See Note 11).

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 the Company's annual consolidated financial statements and accompanying notes for the year ended December 31, 2011.

Recently issued accounting pronouncements

In May 2011, the FASB amended existing guidance to achieve consistent fair value measurements and to clarify certain disclosure requirements for fair value measurements. The new guidance includes clarification about when the concept of highest and best use is applicable to fair value measurements, requires quantitative disclosures about inputs used and qualitative disclosures about the sensitivity of recurring Level 3 measurements, and requires the classification of all assets and liabilities measured at fair value in the fair value hierarchy including those assets and liabilities which are not recorded at fair value but for which fair value is disclosed. The guidance is effective for our interim and annual reporting periods beginning after December 15, 2011. The adoption of this newly issued guidance did not have a material impact on our consolidated financial statements.

In June 2011, the FASB amended guidance on the presentation of comprehensive income in the financial statements. The new guidance allows entities to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate but consecutive statements and removes the current option to report other comprehensive income and its components in the statement of changes in equity. Under the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of the amended guidance did not have a material impact on our consolidated financial statements.

In September 2011, the FASB issued an accounting update that gives companies the option to make a qualitative evaluation about the likelihood of goodwill impairment. Companies will be required to perform the two-step impairment test only if it concludes that the fair value of a reporting unit is more likely than not less than its carrying value. The accounting update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this updated guidance did not have a material impact on our consolidated financial statements.

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. Its adoption is not expected to have a material impact on the Company's disclosures.

Note 2 – Acquisitions

Universal Wireline

On January 27, 2011, the Company announced the acquisition of Universal Wireline for $25.5 million on an interest bearing debt and cash free basis. Following the acquisition, we merged Universal Wireline with our existing operations of Gray Wireline expanding the capabilities of the largest pure play cased hole wireline company in the US.

The purchase price has been allocated as follows *(in millions):*

Drilling equipment and other fixed asset	$ 19.1
Goodwill	6.4
Total purchase price	**$ 25.5**

Allis-Chalmers Energy Inc.

On February 23, 2011 the Company completed the merger with Allis-Chalmers Energy Inc., or Allis-Chalmers. Allis-Chalmers conducts land drilling operations in Argentina, Brazil and Bolivia and provides directional drilling, coiled tubing, underbalanced drilling, casing and tubing and rental services primarily in the US. Allis-Chalmers also manufactures and sell frac valves in the US.

The purchase price comprised both cash and equity payments to the shareholders of Allis-Chalmers, which resulted in us acquiring 100% of the share capital in Allis-Chalmers in exchange for Archer shares, in a ratio of 1.15 shares to each Allis-Chalmers share, or a cash settlement of $4.25 per share. 95.3% of Allis-Chalmers shareholders elected to take Archer stock in the above ratio as consideration, with the remainder receiving cash. The total purchase price, which includes an adjustment pertaining to the exchange of Allis-Chalmers share options, to Archer share options, was $600.9 million.

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

Current assets	$ 232.5
Property and equipment	655.5
Intangible assets (excluding goodwill)	105.8
Goodwill	298.6
Total Assets acquired	**1,292.4**
Current liabilities	148.4
Long-term debt, less current portion	460.8
Other long-term liabilities	82.3
Total liabilities acquired	**691.5**
Total purchase price	**$ 600.9**

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 the acquired workforce, expected synergies and other acquired intangible assets which cannot be separately identified. The allocation of the purchase price of Allis-Chalmers has been based upon fair values studies.

Great White

On August 24, 2011, the Company completed the acquisition of all the operating companies of Great White in a transaction valued at $630 million on a cash and debt free basis, which was changed to $668.3 million including agreed upon working capital adjustments.

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

Preliminary Allocation	**Fair Value / Allocation of Purchase Price at December 31 2011**	**Adjustments to Preliminary Fair Values**	**Fair Value / Allocation of Purchase Price at March 31, 2012**
Current assets	$ 98.9	$ -	$ 98.9
Property and equipment	192.5	1.0	193.5
Intangible assets (excluding goodwill)	92.1	0.2	92.3
Acquired Goodwill	338.1	(6.4)	331.7
Total Assets acquired	**721.6**	**(5.2)**	**716.4**
Current liabilities	41.4	-	41.4
Other long-term liabilities	6.7	-	6.7
Total liabilities acquired	**48.1**	**-**	**48.1**
Total purchase price	**$ 673.5**	**$ (5.2)**	**$ 668.3**

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 the acquired workforce, expected synergies, and other acquired intangible assets which cannot be separately identified.

The allocation of the purchase price of Great White has been based upon preliminary fair values studies. Estimates and assumptions are subject to change upon management's review of the final valuations. The table above summarizes the preliminary acquisition date fair value of the asset acquired and liabilities assumed, as at December 31, 2011 and changes to those preliminary valuations. The adjustments to preliminary fair values at December 31, 2011 resulted from agreed up adjustments to the closing balance sheet of Great White. The resulting changes summarized above have decreased the value of goodwill acquired by $6.4 million and resulted in a return of $5.2 million in cash from the sellers.

Note 3 – Impairment of Intangibles

In the first quarter of 2011 an impairment of $5.1 million was made to certain of the acquired brand names in the Allis-Chalmers merger. The Company made the decision to discontinue certain brand names and replace with the Archer brand name.

Note 4 – Financial Items

(In millions)	Three Months Ended March 31 2012	2011
Foreign exchange differences	$ 12.5	$ (11.9)
Gain on redemption of debt	4.7	-
Other items	0.1	0.4
Total other financial items	**$ 17.3**	**$ (11.5)**

The other financial items consist mainly of foreign exchange gains (losses) arising on settlement of transactions loans denominated in currencies other than USD. The redemption of the Allis-Chalmers senior notes in the first quarter of 2012 generated a gain of $4.7 million (See Note 9).

Note 5 – Income Taxes

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

(In millions)	Three Months Ended March 31 2012	2011
United States	$ 0.9	$ (1.9)
South America	2.1	1.2
Europe	2.8	0.6
Others	0.1	0.3
Total	**$ 5.9**	**$ 0.2**

The following table shows a reconciliation of the expected tax rate to an effective tax rate:

	Three Months Ended March 31, 2012
Group average tax rate	24.8%
Nondeductible expenses	2.6%
Tax exempted income and credits	(0.8)%
Foreign tax rate differences	(26.5)%
Foreign tax credits, withholding and state taxes	6.1%
Valuation allowances	22.1%
Effective tax rate	**28.3%**

The effective tax rate is impacted by a write down of tax assets in the form of tax losses, which are not expected to be utilized in the foreseeable future; the tax assets are mainly related to Allis-Chalmers. Foreign tax credits and withholding taxes related to the United States and Brazil increases the effective tax rate, since it is not expected to get full credit. The effective tax rate is significantly impacted by foreign exchange gains in Bermuda where Archer has a tax exemption.

Note 6 – 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 thousands, except per share amounts)	**2012**	**2011**
Numerator		
Net income(loss)	$ 15,000	$ (12,100)
Denominator		
Weighted-average common shares outstanding	366,405	264,283
Effect of potentially dilutive common shares:		
Share based compensation shares	556	-
Weighted-average common shares outstanding and assumed conversions	366,961	264,283
Net income (loss) per common share		
Basic	$ 0.04	$ (0.04)
Diluted	$ 0.04	$ (0.04)

Share-based compensation of approximately 4.0 million shares were excluded from the computation of diluted earnings per share for the three months ended March 31, 2011 as the effect would have been anti-dilutive due to the net loss for the period.

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, 2011	**$ 898.9**
Adjustments to goodwill during the measurement period	(6.4)
Currency adjustments	12.2
Net book balance at March 31, 2012	**$ 904.7**

The adjustment to goodwill during the measurement period related to a working capital adjustment on the Great White acquisition.

The Company tests 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.

If the unfavourable 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)	March 31 2012	December 31 2011
Cost	$ 260.1	$ 259.8
Accumulated amortization	(62.4)	(56.5)
Net book value	**$ 197.7**	**$ 203.3**

The net book value at March 31, 2012 consisted of customer relationships of $170.8 million, identified technology of $11.6 million, trademarks of $10.0 million, patents of $5.2 million and backlog of $0.1 million.

Note 9 – Long-term Interest Bearing Debt

(In millions)	March 31 2012	December 31 2011
$1,171.9 multi-currency term and revolving facility	$ 1,110.1	$ 774.1
Hermes covered term loan	-	-
Allis-Chalmers 2014 senior note	-	99.2
Allis-Chalmers 2017 senior note	-	197.4
Other loans and capital lease liability	37.9	15.5
Total loans and capital lease liability	**1,148.0**	**1,086.2**
Less: current portion	(128.2)	(108.4)
Long-term portion of interest bearing debt	**$ 1,019.8**	**$ 977.8**

$1,171.9 million multi-currency term and revolving facility

Archer entered, on December 22, 2011, into an amended and restated $1,121.9 million multi-currency term and revolving facility agreement adding two new banks to the syndicate. The purpose of the facility was to replace the existing $1,187.5 million term and revolving facility entered into August 22, 2011. In January 2012, Citi was added to the facility, bringing the total facility to $1,171.9 million.

The facility is divided into two tranches. Tranche A, a revolving facility, is for $493.4 million and Tranche B, a term loan, amounting to $678.5 million. The final maturity date of the tranches is November 11, 2015. The interest rate of the tranches is LIBOR, NIBOR or EURIBOR, plus between 2.25% and 3.25% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any. An annual instalment of USD 100 million is payable in November each year, and the remaining is payable upon final maturity of the facility, if not refinanced.

The tranches made under the $1,171.9 million multi-currency term and revolving facility agreement are secured by pledges over shares in material subsidiaries, and assignment over intercompany debt, as well as by guarantees issued by the material subsidiaries.

During the first quarter, adverse market conditions and pricing pressures, particularly in North America, had a substantial impact on our financial performance. On April 25, 2012, Archer and the lenders of the multicurrency term and revolving facility agreed to temporarily modify the Net Interest Bearing Debt to EBITDA covenant for the quarters ending March 31, June 30 and September 30, 2012, to increase the maximum ratio from 3.00 to 3.50. Absent such a waiver, the Group would not have been in compliance with this covenant at March 31, 2011. The margin has been amended to be between 2.25% and 3.75% per annum, depending on the net interest bearing debt to EBITDA ratio, plus mandatory costs, if any.

As a result of the above mentioned changes the financial covenants in Archer's multi-currency term and revolving facility are now, among others, as follows:

- The Company's total consolidated net interest bearing debt shall not exceed 3.5x twelve months rolling pro forma EBITDA until September 30, 2012, and 3.0x thereafter

- The Company's minimum ratio of equity to total assets of at least 30.0%

- The Company is to maintain the higher of $30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines)

The multi-currency term and revolving facility agreement contains events of default which includes 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.

As of March 31, 2012, the Company is in compliance with all of the covenants under this facility. The Group continues to closely monitor its financial performance and the ability to maintain compliance with the financial ratios required under the multi-currency facility. Based on current internal projections, we believe that the Group will meet the restated Net Interest Bearing Debt to EBITDA covenant requirement and all other covenants during the next twelve months. Accordingly, the long-term portion of the multi-current facility loans is classified as a non-current liability in the consolidated balance sheet at March 31, 2012.

In the event that market conditions in North America continue to adversely affect financial performance and these projections are not met, the Group has other options available to remedy any such a violation that may arise, including negotiations with its lenders to seek further modifications or waivers, curtailing discretionary capital expenditure or obtaining additional equity financing through the support of its primary shareholders.

Hermes covered term loan

On January 18, 2012 Archer Emerald Ltd., a wholly owned subsidiary of Archer Limited, signed a €29.5 million Hermes covered term loan agreement for the modular rig Archer Emerald. On March 31, 2012 the drawn amount under this facility was zero.

Allis-Chalmers senior notes

Archer had through the acquisition of Allis-Chalmers two senior notes outstanding December 31, 2011. The first senior notes where due in January 15, 2014 and had interest at 9.0%. Total outstanding of these notes was $97.7 million. The 2014 notes were recorded in the balance sheet at 101.6% of the total outstanding amount. The second senior notes were due March 1, 2017 and had interest at 8.5%. Total outstanding of these notes was $186.1 million. The 2017 notes were recorded in the balance sheet at 106.1% of the total outstanding amount.

Archer redeemed all outstanding 2014 and 2017 senior notes on March 1, 2012. The 2014 notes were redeemed at a redemption price of 100.000% of the outstanding aggregate principal amount, plus accrued and unpaid interest. The 2017 notes were redeemed at a redemption price of 104.250% of the outstanding aggregate principal amount, plus accrued and unpaid interest. The redemption of this debt generated a gain of $4.7 million in the three months ended March 31, 2012.

Other loans and capital leases

The Company has two $50.0 million cash overdraft facilities and at March 31, 2012, net borrowings under these facilities were $18.2 million. The Company has a $25.0 import facility which had an outstanding balance at March 31, 2012 of $6.9 million. The Company also has capital leases covering both real property and equipment and at March 31, 2012, the net balance due under these arrangements was $6.2 million. The Company has a $4.0 million term loan facility which had an outstanding balance at March 31, 2012 of $2.9 million. In addition, the Company has several equipment financing obligations that in aggregate had a balance due of $3.7 million at March 31, 2012.

Interest rate swap agreement

The Company has entered into a NOK interest rate swap agreement, currently securing the interest rate on NOK 490 million ($85.4 million) until October 2012. The agreement was entered into in mid-March 2009, with the commencement of the hedging period and start up of hedging accounting by end of April 2009. The fair value of the swap as of March 31, 2012 was a liability of $1.2 million and is included within other current liabilities.

Note 10 – Supplemental Cash Flow Information

The merger with Allis-Chalmers Energy Inc. was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders. The merger is described in detail in Note 2.

Note 11 – Segment Information

In conjunction with organizational changes made at the end of 2011, we reviewed the presentation of our reporting segments during the first quarter of 2012 and determined that our operational performance aligned with the following four segments effective January 1, 2012:

- North America (NAM) headquartered in Houston
- Latin America (LAM) headquartered in Buenos Aires
- North Sea (NRS) headquartered in Stavanger
- Emerging Markets & Technologies (EMT) headquartered in Stavanger

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 the Company's consolidated financial statements. Our historical segment data previously reported for the three months ended Marcher 31, 2011 and year ended December 31, 2011, have been restated to conform to the new presentation. 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	
	2012	**2011**
Revenues from external customers		
North America	$ 183.3	$ 32.6
Latin America	139.1	46.2
North Sea	144.5	148.3
Emerging Markets & Technologies	79.4	66.1
Total	**$ 546.3**	**$ 293.2**
Depreciation and amortization		
North America	$ 30.8	$ 5.3
Latin America	9.4	3.9
North Sea	2.6	2.1
Emerging Markets & Technologies	7.6	8.0
Total	**$ 50.4**	**$ 19.3**
Operating income – net income (loss)		
North America	$ (2.8)	$ 0.2
Latin America	0.6	0.2
North Sea	9.7	10.6
Emerging Markets & Technologies	10.3	4.8
Stock compensation costs	(1.0)	(0.7)
Merger and acquisition costs	-	(8.6)
Operating income	**16.8**	**6.5**
Total financial items	4.1	(18.4)
Income taxes	(5.9)	(0.2)
Net income (loss)	**$ 15.0**	**$ (12.1)**
Capital expenditures		
North America	$ 44.9	$ 5.5
Latin America	13.8	1.6
North Sea	10.9	7.6
Emerging Markets & Technologies	3.6	3.0
Total	**$ 73.2**	**$ 17.7**

(in millions)				Emerging	
	North	Latin		Markets &	
Goodwill	**America**	**America**	**North Sea**	**Technologies**	**Total**
Balance at December 31, 2011	**$ 538.5**	**$ -**	**$ 132.4**	**$ 228.0**	**$ 898.9**
Changes to goodwill	(6.4)	-	-	-	(6.4)
Exchange rate fluctuations on goodwill measured in foreign currency	-	-	6.0	6.2	12.2
Balance at March 31, 2012	**$ 532.1**	**$ -**	**$ 138.4**	**$ 234.2**	**$ 904.7**

(In millions)	**March 31, 2012**	**December 31, 2011**
Total assets		
North America	$ 1,427.4	$ 1,386.8
Latin America	541.4	521.7
North Sea	409.9	385.5
Emerging Markets & Technologies	537.6	520.7
Total	**$ 2,916.3**	**$ 2,814.7**

Note 12 – Fair Value of Financial Instruments

The estimated fair value and the carrying value of the Company's financial instruments are as follows:

	March 31, 2012		**December 31, 2011**	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Non-derivatives				
Cash and cash equivalents	$ 37.1	$ 37.1	$ 37.3	$ 37.3
Restricted cash	9.1	9.1	13.3	13.3
Current portion of long-term debt	128.2	128.2	108.4	108.4
Long-term interest bearing debt	1,019.8	1,019.8	963.9	977.8
Derivatives				
Interest rate swap agreements	1.2	1.2	1.2	1.2

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

(In millions)	March 31 2012 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 37.1	$ 37.1	-	-
Restricted cash	9.1	9.1	-	-
Liabilities				
$1,171.9 Multicurrency Term and Revolving Facility, excluding current portion	1,010.1	-	1,010.1	-
Other loans and capital leases, excluding current portion	9.7	-	9.7	-
Interest rate swap agreements	1.2	-	1.2	-

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

The Company has 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 the Company's 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 cannot be purchased by the Company at prices other than the outstanding balance plus accrued interest.

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.

Note 13 – Legal Proceedings

From time to time, the Company is involved in litigations, disputes and other legal proceedings arising in the normal course of their 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 but at this time any such expected loss are immaterial to our financial condition 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.

The Company is 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 and is currently pending in Texas state district court. Plaintiff, Cudd Pressure Control, alleges several causes of action relating to Great White Pressure Control's employment of former Cudd employees. While the events relevant to the case date more than five years, the case remains in the discovery phase. Litigation is inherently uncertain and with the current case still in the discovery phase, management cannot determine the amount of loss, if any that might result.

A class action lawsuit was filed in Pennsylvania in 2010 against one of our subsidiaries alleging violations of the U.S. Fair Labor Standards Act (FLSA) relating to nonpayment of overtime pay. The parties have agreed to a conditional certification of potential class members, and the case recently completed the opt-in period for potential class members. The case remains in the discovery phase with no set court date. However, management received an assessment of potential liabilities from outside counsel and has participated in mediation and continues to work toward a negotiated settlement, which provides the basis for the Company to assess the contingency reserve required and booked a reserve in accordance with US GAAP.

Two other similar class action lawsuits have been filed in Texas against two of our other subsidiaries, alleging violations of the FLSA relating to nonpayment of overtime pay. In the first of the two Texas cases, the court conditionally certified a class of potential class members on February 8, 2012 and set a deadline of April 17, 2012 for potential class members to opt-in. The class definition was expanded by the court on April 20, 2012, allowing new putative class members until June 17, 212 to opt-in. The second Texas case is in the very early stages. While we believe that a negative outcome is reasonably possible, for both cases, we cannot predict any such amounts with any degree of certainty at this time.

Other than the above, the Company is 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 the Company's financial position or profitability.

Appendix to Archer First Quarter Report 2012

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, 2012, December 31, 2011, September 30, 2011, June 30, 2011 and March 31, 2011. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

The unaudited pro forma statements of operations below gives effect to the merger with Allis-Chalmers Inc (which was consummated in the first quarter of 2011) and Great White (which was acquired in the third quarter of 2011), as if they had occurred at the beginning of 2011 using the historical pre-acquisition results of the acquiree. This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations, or of the results that would have occurred had the acquisition taken place at the beginning of 2011.

ARCHER LIMITED
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended				
(In millions)	March 31 2012	December 31 2011	September 30 2011	June 30 2011	March 31 2011
Revenue	546.3	596.1	505.4	459.9	293.2
Cost and expenses					
Operational Costs	529.5	561.4	441.0	424.3	273.0
Impairment of Goodwill and Intangibles	-	121.5	-	-	5.1
Merger & Integration expenses	-	-	31.5	4.1	8.6
Net financial items	(4.1)	28.2	(23.7)	23.7	18.4
Income/(loss) before income taxes	20.9	(115.0)	56.6	7.8	(11.9)
Income tax expense	5.9	(3.2)	11.0	6.5	0.2
Total net income / (loss)	**15.0**	**(111.8)**	**45.6**	**1.3**	**(12.1)**

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

	Three Months Ended				
(In millions)	March 31 2012	December 31 2011	September 30 2011	June 30 2011	March 31 2011
Total net income / (loss)	15.0	(111.8)	45.6	1.3	(12.1)
Depreciation, amortization and impairments	50.4	168.8	43.2	37.3	24.4
Net financial items	(4.1)	28.2	(23.7)	23.7	18.4
Taxes on Income	5.9	(3.2)	11.0	6.5	0.2
EBITDA	**67.2**	**82.0**	**76.1**	**68.8**	**30.9**
EBITDA for acquired companies					
Allis-Chalmers [1]	-	-	-	-	6.0
Great White [2]	-	-	(9.6)	28.8	25.9
Merger, transaction and listing expenses [3]	-	-	31.5	4.1	23.5
Adjusted EBITDA	**67.2**	**82.0**	**98.0**	**101.7**	**86.3**

Note 1: Represents 2 months of Allis-Chalmers EBITDA in the first quarter 2011.
Note 2: Represents 56 days of Great White's EBITDA in the third quarter 2011 and a full quarter prior to the third quarter in 2011.
Note 3: Merger, transaction and listing (M&A) expenses are considered one-time items on a pro forma basis. M&A expenses of $15.2 million were incurred by Archer on a non pro forma GAAP basis for the year ended December 31, 2011.

The merger, transaction and listing expenses for Archer on a pro forma basis companies can be broken down as follows.

	Three Months Ended				
(in millions)	March 31 2012	December 31 2011	September 30 2011	June 30 2011	March 31 2011
Severance and other compensation costs	-	-	24.9	1.5	9.5
Professional fees	-	-	5.5	2.6	13.8
Other merger and integration cost	-	-	1.1	-	0.2
Total merger, transaction and listing expenses	**-**	**-**	**31.5**	**4.1**	**23.5**

Pro Forma Revenue by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended				
(In millions)	March 31 2012	December 31 2011	September 30 2011	June 30 2011	March 31 2011
North America (NAM)	183.3	180.9	196.5	194.9	169.9
Latin America (LAM)	139.1	147.8	138.6	134.9	116.1
North Sea (NRS)	144.5	189.0	154.3	159.7	148.3
Emerging Markets & Technologies (EMT)	79.4	78.4	76.2	72.1	66.1
Pro Forma Revenue	**546.3**	**596.1**	**565.6**	**561.6**	**500.4**

ARCHER LIMITED
Pro Forma EBITDA by Geographic and Strategic Areas
After regional and global allocations
(Unaudited)

	Three Months Ended				
(In millions)	March 31 2012	December 31 2011	September 30 2011	June 30 2011	March 31 2011
North America (NAM)	27.6	28.7	53.4	55.3	49.8
Latin America (LAM)	9.7	18.7	15.0	13.9	10.3
North Sea (NRS)	12.2	19.5	13.8	19.4	13.2
Emerging Markets & Technologies (EMT)	17.7	15.1	15.8	13.1	13.0
Pro Forma EBITDA	**67.2**	**82.0**	**98.0**	**101.7**	**86.3**