# Archer Limited (ARCHER) Second Quarter and Half Year 2012 Results

**Second Quarter and first half 2012 Highlights**

- Second quarter revenue of $555.0 million, Year-to-date revenue of $1.1 billion.
- Second quarter EBITDA of $70.9 million, Year-to-date EBITDA of $138.1 million.
- Net loss for the quarter of $7.8 million, Year to date net income of $7.2 million.
- Second quarter operational cash flow of $114.8 million, Year to date operational cash flow of $134.5 million.
- Net interest bearing debt of $1,087.0 million at June 30, 2012

**Financial Statements**

*Comparison of Three Months Ended June 30, 2012 to Three Months Ended March 31, 2012*

Revenue for the second quarter 2012 was $555.0 million, vs. $546.3 million for the first quarter 2012. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, were $70.9 million, compared to $67.2 million for the first quarter 2012, an improvement of 5.5%.

Net Financial Items were negative by $30.2 million in the second quarter 2012 compared to a gain of $4.1 million in the first quarter 2012. Interest expenses amounted to $15.6 million, compared to $14.9 million in the first quarter of 2012. Other financial items amounted to $15.3 million expense compared to $17.3 million gain in the first quarter 2012. Other financial items represent predominantly unrealized foreign exchange losses related to the weakening of the Norwegian Kroner during the second quarter.

*Comparison of Three Months Ended June 30, 2012 to Pro Forma Results for Three Months Ended June 30, 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. Revenue for the three months ended June 30, 2012 decreased 1.2% compared to pro forma revenue of $561.6 million for the second quarter of 2011. EBITDA for the three months ended June 30, 2012 decreased 30.3% compared to $101.7 million pro forma EBITDA for the second quarter of 2011.

*Comparison of Six Months Ended June 30, 2012 compared to Pro Forma Results for Six Months Ended June 30, 2011*

Revenue for the six months ended June 30, 2012 was $1.1 billion, an increase of 3.7% compared to the pro forma results for the same period in 2011. Both Emerging Markets & Technologies, reporting six months revenue of $161.4 million, and Latin America, with revenue of $287.8 million, showed solid revenue growth at 16.8% and 14.7% respectively. North America remained flat compared to last year at $367.6 million, while North Sea reported revenue of $284.5 million, a reduction of 7.6% compared to the same period last year.

Total EBITDA for the six months ended June 30, 2012 amounted to $138.1 million, 27% below the pro forma results for the same period in 2011. North America reported $59.1 million, a decrease of 44% and North Sea reported $18.6 million a decrease of 43% year over year. This was partly offset by Emerging Markets & Technologies, at $35.2 million, an increase of 35% as well as Latin America, totalling $25.2 million an improvement of 4% compared to the same period in 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 $100.3 million at June 30, 2012, compared to $37.1 million at the end of March 2012.

Cash flow from operations for the three months ended June 30, 2012 was $114.8 million, which is comprised primarily of add back for depreciation and amortization of $51.3 million, add back of unrealized foreign currency losses of $13.2 million and a reduction in trade receivables and other short-term assets of $49.7 million as a result of improved collections in the quarter.

The Company expects improved EBITDA performance in the second half of 2012. While the Company's cash flow forecast exceeds its debt and repayment obligations, the current covenant waiver granted to the Company in the first quarter, will expire at the end of the third quarter. The Company will need to either exceed its internal EBITDA forecast or favourably conclude negotiations with its lenders to remain in compliance. The Company is currently evaluating more comprehensive options to remedy a potential covenant breach in the coming quarters. These options include, among others, negotiations with lenders to seek further modifications or waivers, obtaining subordinated loans from its primary shareholders, the sale of assets or obtaining additional equity financing through the support of its primary shareholders. We are confident in our ability to execute on the above.

Capital expenditures during the quarter amounted to $92.0 million, representing predominantly investments in new pressure pumping and pressure control equipment as well as Drilling and Wireline equipment. At the time of this report the Company has committed to capital expenditures of $55 million for the remainder of 2012, bringing the total year capital expenditures to approximately $220 million.

Total net interest bearing debt at June 30, 2012 was $1,087.0 million compared to $1,110.9 million as of March 31, 2012.

*Share capital*

The total number of issued and fully paid shares of par value $2.00 outstanding at June 30, 2012 was 366,609,120. A total of 13,014,905 options were outstanding as of June 30, 2012.

**Second quarter 2012 operating results by Area**

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

*North America*

Revenue for the second quarter 2012 was $184.3 million, flat compared to the first quarter 2012. Improvements in Pressure Pumping, as a result of higher utilization and significantly improved equipment performance was offset by a reduction in Directional Drilling as a result of a loss of a major customer as well as pricing pressure on our Rentals and Tubulars division.

Second quarter 2012 EBITDA of $31.5 million improved by $3.9 million compared to the first quarter 2012. This improvement is due to Pressure Pumping, which while suffering from strong pricing pressure during the quarter, managed to improve its equipment utilization and reduced its cost. This was partly offset by the lower contribution from Directional Drilling, following a sudden loss in revenue as well as increased expenses to rebuild the lost business with other customers.

*Latin America*

Revenue in the second quarter 2012 totalled $148.7 million, an increase of $9.6 million, or 6.9% compared to last quarter. While our operation in Argentina suffered from a new strike at the end of the quarter, the majority of this improvement is attributable to the absence of the large scale industrial action experienced in Argentina and Bolivia in the first quarter as well as retroactive price adjustments in Argentina.

Second quarter 2012 EBITDA of $15.5 million improved from $9.7 million in the first quarter 2012. Improved revenue with a flat cost structure led to this improvement in results. While there was no wide spread industrial action targeted against our Company in the second quarter, we experienced losses as a result of unrest and strikes in the Chubut region at the end of the quarter with an estimated effect of $2.1 million.

*North Sea*

Second quarter 2012 revenue was $140.0 million, a decrease of $4.5 million, or 3.1% compared to the first quarter 2012. The main reason for the lower revenue is the reduction of drilling operation on Ekofisk as well as lower reimbursable revenue on Statfjord.

EBITDA for the three months ended June 30, 2012 was $6.4 million, compared to $12.2 million for the first quarter 2012. Reduced revenue, start up costs for the modular rig as well as high overtime costs as a consequence of industrial action in Norway during the month of June led to lower EBITDA in the second quarter.

*Emerging Markets & Technologies*

Revenue for the second quarter 2012 totalled $82.0 million, an increase of $2.6 million, or 3.3% compared to last quarter, mainly due to strong revenue from our Oiltools Division with increased demand for VMB gas tight plugs.

EBITDA for the second quarter 2012 of $17.5 million was flat compared to the first quarter 2012. Improved margins in Oiltools were offset by an unfavourable product mix in Wireline with fewer logging services provided during the quarter.

## Operational Comments and Area Specific Outlook

*North America*

While the overall activity level in the United States remained strong, the average land based gas rig count dropped by 135 rigs or 19% sequentially and by 296 or 34% compared to last year. The decline in gas rigs was offset by a sequential increase in rigs engaged in oil drilling of 113 rigs or 9% and 423 rigs or 45% compared to the same period last year. Our results are negatively impacted by this shift due to increased mobilisation costs and lower service intensity of oil based completions, and the resulting concentration of equipment in oil basins yielding weaker bargaining power with customers and subsequently pricing pressure.

Pressure Pumping. The operational improvement program initiated at the start of the year is yielding results. During the second quarter we fraced 306 stages with an average of three crews operating and equipment utilization improved from 44% to 52% sequentially. While encouraging, the underlying improvements are not sufficient to fully withstand the strong drop in prices. We estimate that prices declined by another 15% during the second quarter approaching cash cost in the basins we operate.

We currently have a total capacity of 122,000 HHP, which is equivalent to four operational fleets. While we expect the arrival of our fifth fleet in the month of September, the average number of operational and fully staffed crews will be kept at four until the pricing environment improves. We expect our Pressure Pumping division to run at break-even EBITDA through the third quarter which is unchanged from the second quarter.

Coiled Tubing. In the second quarter we successfully placed two new coiled tubing units into operations, which brought our coiled tubing fleet to 26 units, including a continual refurbishment program which will effectively keep four units out of service until the end of 2013. Pricing for coiled tubing services remained flat during the second quarter but we experienced lower utilization in the Northeast United States as well as in the Eagle Ford. Including units down for refurbishment, average utilization deteriorated from 59% to 52% over the quarter. At the beginning of August, we added another new coiled tubing unit, which will bring our fleet to 27 units for the majority of the third quarter. We expect a small improvement in utilization in the Northeast, but we do not expect any improvement in the Eagle Ford leading to a small improvement in overall Pressure Control utilization in the third quarter.

Directional Drilling. Although overall demand for directional drilling services remained strong, with 61% of all land rigs in the United States drilling horizontally in the second quarter, our Directional Drilling Division suffered from the sudden loss of revenue of a large contract, covering 14 rigs for a major customer. Several new sales people and rig managers were hired in the quarter to rectify the situation and we are confident the division will see continuous improvements in the coming quarters.

Across our other service lines, Rental, Tubulars, Underbalanced, and AWC, we experienced only minor shifts over the course of the quarter.

North America revenue in the second quarter of 2012 was $184.3 million generating EBITDA of $31.5 million. Considering the above, we expect North America to deliver third quarter on par with the second quarter with further improvements in the fourth quarter.

*Latin America*

Following the nationalization of YPF in Argentina, the government and the new YPF management have issued aggressive plans to increase production of both oil and gas from the unconventional Vaca Muerta reservoir and from the mature fields. They are actively meeting with potential local and foreign investors. The level of their capital expenditure will depend to a large degree on the success in attracting international exploration and production investors to develop the unconventional reservoirs.

YPF has issued an invitation to tender for several drilling and workover rigs, indicating its intention to reverse the current trend in reserves and production by adding production from new fields as well as increasing production from existing fields. Archer is participating in these bids providing offers for drilling rigs, drilling fluids and fluid management services. We also concluded the negotiation of price updates to compensate for labour and material cost increases in Argentina during the quarter.

Our financial performance during the three months ended June 30, 2012 was largely in line with expectations; however we were negatively impacted by a strike that shut down all activity in the Cerro Dragon field impacting 42 drilling, workover and pulling units for 16 days (ten days in June and six days in July).

Rig utilization in Brazil improved from 67% in the first quarter to 82% in the second quarter of 2012. Improved operational performance with less technical downtime contributed positively to our improved results for Latin America for the second quarter of 2012. One rig contract was terminated early following disappointing well results for the customer and is being sent back to Argentina.

In the second 2012 quarter, Latin America reported revenue of $148.7 million and EBITDA of $15.5 million. Notwithstanding the positive developments in the second quarter we have been notified that Pan American Energy is temporarily shutting down activity of 5 drilling rigs, 7 workover rigs and 7 pulling units to assess damage done to the reservoirs during the before mentioned strikes. The economic impact of such shut down will depend on whether the rigs are kept on stand-by or mobilized to other customers. With the uncertainty in the near term activity due to recent industrial actions and their effect on production and investment focus of our customers, our outlook for the third quarter is for a moderate reduction from the second quarter, with the potential for a greater impact should labour and customer actions deteriorate further.

*North Sea*

Platform drilling activity in the second quarter of 2012 was in line with our expectations. During the quarter activity on the Norwegian Continental shelf slowed as ConocoPhillips shut down the drilling activity on Eldfisk Bravo. On the UK continental shelf we signed a five year contract and five year option with Marathon Oil UK for Platform drilling Services on the Brae field. Archer is the incumbent holder of the contract as of today.

As reported in the first quarter, we lost the Platform Drilling contract on Gullfaks following a competitive tender process. The new contract regime will commence in the fourth quarter of 2012 and as such had no impact on our second quarter results. We are adjusting our cost structure as a result of the loss with actions including the closure of the Bergen, Norway based platform drilling operation and base. The termination of the contract and closure of the office are progressing according to plan with no unexpected cost incurred.

Our modular rig was successfully shipped to New Zealand on schedule and is currently being installed on the Maui A platform. The installation and preparation for drilling operations are going according to plan and drilling operations are expected to commence in September 2012. The rig has been on standby rate since the beginning of July 2012. We expect the rig to start contributing positively to our results in the first quarter of 2013.

The Engineering division delivered to expectations in the quarter. We have seen an increase in orders of smaller projects related to drilling facilities which in combination with cost reductions and the Bergen office closure will allow the division deliver improved results.

North Sea second quarter 2012 revenue totalled $140.0 million with EBITDA of $6.4 million. With lower drilling activity on Eldfisk Bravo, partially offset by the start-up of the modular rig in New Zealand, we expect overall revenue in the coming quarter to be slightly down, however with an improved EBITDA as a result of the start of drilling operations with the modular rig.

*Emerging Markets & Technologies*

Operators globally continue to increase their focus on improving well integrity, which is fuelling the demand for Archer's proprietary well integrity products and services. Following the successful introduction of our Cflex multi-stage cementing technology to the Gulf of Mexico, another international operator has placed orders for two of its key projects in the region. Notably, one of these awards is for the world's deepest offshore development and production facility. Cflex improves the effectiveness 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. The selection of Cflex for this ultra-deepwater project reflects the growing reliance operators are placing upon it to improve annulus integrity.

Archer's gas-tight VMB suspension plug technology has been selected by two new customers for development projects in Australia and Indonesia, expanding the global penetration and customer base of this important technology.

In well integrity inspection services, several existing customers have ramped up their usage of LeakPoint, a member of our Point family of diagnostic services designed to locate barrier leaks quickly and precisely, enabling effective remediation to take place. In Qatar, an international customer has extended the scope of a multi-well campaign both in terms of number of wells and associated services. In Malaysia, a national operator experienced significant non-productive time attempting to diagnose a failed barrier using traditional methods. The leak was preventing final completion of the well. Archer's LeakPoint was mobilised and successfully diagnosed three separate leaks during a single intervention. Results from this survey enabled a targeted remediation and a successful completion of the well.

During the second quarter Archer performed its first well perforating service in the North Sea, which was a significant milestone. Based on our in depth knowledge and long standing experience in perforating services in the United States, we will continue to slowly expand this service offering going forward.

As a whole, Emerging Markets and Technologies reported $82.0 million revenue in the second quarter, which is a sequential increase of 3.3%. The EBITDA of $17.5 million is a result of the growth in activity, partly offset by an unfavourable product mix. We expect a continued single digit growth in the third quarter as demand for Well Integrity products remains strong.

**Summary outlook**

The second quarter of 2012 was characterized by continued deterioration of pricing and asset utilization in the North American onshore market. Our other Areas of operations held up well.

In particular, for North America, we expect pressure on pricing and asset utilisation to continue throughout the third quarter. Strong long-term capital spending trends for oil-directed drilling and continued operational improvements should counteract pricing pressure in the medium term. The Board compliments the team in North America for their success in turning around the operational performance in the second quarter.

Underpinned by demand for Archer’s products and services in Emerging Markets & Technologies, the start-up of the Modular Rig, and continued operational performance in North America, the Board expects financial results in the second half of the year to be above the first half of 2012. The long term prospects for our services remain positive, and the asset base holds significant upside in a scenario where gas prices recover.

**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

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

| *(In millions, except per share data)* | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|---|
| | Note | **2012** | **2011** | **2012** | **2011** |
| **Revenues** | | | | | |
| Operating revenues | | $ 529.9 | $ 433.9 | $ 1,056.5 | $ 701.2 |
| Reimbursable revenues | | 25.1 | 26.0 | 44.8 | 51.9 |
| **Total revenues** | | **555.0** | **459.9** | **1,101.3** | **753.1** |
| **Expenses** | | | | | |
| Operating expenses | | 431.3 | 351.6 | 864.5 | 566.4 |
| Reimbursable expenses | | 23.2 | 22.9 | 41.5 | 48.0 |
| Depreciation and amortization | | 51.3 | 37.3 | 101.7 | 56.6 |
| Impairment of intangible assets | 3 | - | - | - | 5.1 |
| General and administrative expenses | | 29.6 | 16.6 | 57.2 | 39.0 |
| **Total expenses** | | **535.4** | **428.4** | **1,064.9** | **715.1** |
| **Operating income** | | **19.6** | **31.5** | **36.4** | **38.0** |
| **Financial items** | | | | | |
| Interest income | | 0.4 | 1.5 | 2.5 | 2.0 |
| Interest expenses | | (15.6) | (12.9) | (30.5) | (20.0) |
| Share of results in associated company | | 0.3 | 1.1 | (0.1) | 0.8 |
| Other financial items | 4 | (15.3) | (13.4) | 2.0 | (24.9) |
| **Total financial items** | | **(30.2)** | **(23.7)** | **(26.1)** | **(42.1)** |
| **Income / (loss) before income taxes** | | **(10.6)** | **7.8** | **10.3** | **(4.1)** |
| Income tax benefit (expense) | 5 | 2.8 | (6.5) | (3.1) | (6.7) |
| **Net income / (loss)** | | **$ (7.8)** | **$ 1.3** | **$ 7.2** | **$ (10.8)** |
| **Basic earnings/(loss) per share** | **6** | **$ (0.02)** | **$ 0.00** | **$ 0.02** | **$ (0.04)** |
| **Diluted earnings/(loss) per share** | **6** | **$ (0.02)** | **$ 0.00** | **$ 0.02** | **$ (0.04)** |
| **Weighted average number of shares outstanding** | | | | | |
| Basic | | 366.6 | 323.4 | 366.5 | 294.2 |
| Diluted | | 366.6 | 327.7 | 366.8 | 294.2 |

*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 June 30 2012 | Three Months Ended June 30 2011 | Six Months Ended June 30 2012 | Six Months Ended June 30 2011 |
|---|---|---|---|---|
| **Net income / (loss)** | **$ (7.8)** | **$ 1.3** | **$ 7.2** | **$ (10.8)** |
| **Other comprehensive income/(loss)** | | | | |
| Change in unrealized foreign exchange differences | 1.1 | 18.5 | (1.7) | 40.2 |
| Other | - | 2.6 | - | 3.3 |
| **Other comprehensive income/(loss)** | **1.1** | **21.1** | **(1.7)** | **43.5** |
| **Total comprehensive income/(loss)** | **$ (6.7)** | **$ 22.4** | **$ 5.5** | **$ 32.7** |

## 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 | - | (1.7) | - | (1.7) |
| **Balance at June 30, 2012** | **$ (21.6)** | **$ 12.5** | **$ (1.2)** | **$ (10.3)** |

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 | June 30, 2012 (Unaudited) | December 31, 2011 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 100.3 | $ 37.3 |
| Restricted cash | | 15.6 | 13.3 |
| Accounts receivables | | 416.4 | 432.0 |
| Inventories | | 67.6 | 58.2 |
| Other current assets | | 101.2 | 97.6 |
| **Total current assets** | | **701.1** | **638.4** |
| **Noncurrent assets** | | | |
| Investments in associates | | 7.2 | 7.4 |
| Property plant and equipment, net | | 1,115.0 | 1,044.1 |
| Deferred income tax asset | | 20.5 | 10.3 |
| Goodwill | 7 | 894.8 | 898.9 |
| Other intangible assets, net | 8 | 196.0 | 203.3 |
| Deferred charges | | 16.0 | 12.3 |
| **Total noncurrent assets** | | **2,249.5** | **2,176.3** |
| **Total assets** | | **$ 2,950.6** | **$ 2,814.7** |
| | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Current portion of long-term debt | 9 | $ 118.9 | $ 108.4 |
| Accounts payable | | 169.9 | 143.1 |
| Other current liabilities | | 215.7 | 215.0 |
| **Total current liabilities** | | **504.5** | **466.5** |
| **Noncurrent liabilities** | | | |
| Long-term interest-bearing debt | 9 | 1,068.4 | 977.8 |
| Deferred taxes | | 24.8 | 16.3 |
| Other noncurrent liabilities | | 60.1 | 67.3 |
| **Total noncurrent liabilities** | | **1,153.3** | **1,061.4** |
| | | | |
| **Commitments and contingencies** | | | |
| **Shareholders' equity** | | | |
| Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,609,120 outstanding shares at June 30, 2012 (December 31, 2011: 366,397,622) | | 733.2 | 732.8 |
| Additional paid in capital | | 775.6 | 775.5 |
| Accumulated deficit | | (0.6) | (7.8) |
| Accumulated other comprehensive loss | | (10.3) | (8.6) |
| Contributed deficit | | (205.1) | (205.1) |
| **Total shareholders' equity** | | **1,292.8** | **1,286.8** |
| **Total liabilities and shareholders' equity** | | **$ 2,950.6** | **$ 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)* | Six Months Ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| **Cash Flows from Operating Activities** | | |
| Net income / (loss) | $ 7.2 | $ (10.8) |
| Adjustment to reconcile net income / (loss) to net cash provided/(used) by operating activities: | | |
| Depreciation and amortization | 101.7 | 56.6 |
| Share-based compensation expenses | 2.0 | 2.3 |
| Impairment of intangibles | - | 5.1 |
| Gain on property, plant and equipment disposals | (0.3) | - |
| Equity in loss of unconsolidated affiliates | 0.1 | (0.8) |
| Gain on debt redemption | (4.7) | - |
| Amortization of loan fees and senior note premium | 2.5 | - |
| Deferred income taxes | (5.5) | (1.0) |
| Foreign currency loss | 1.8 | 23.6 |
| *Changes in operating assets and liabilities, net of acquisitions* | | |
| Decrease/(increase) in trade accounts receivable and other short-term receivables | 15.7 | (44.5) |
| Increase in inventories | (12.5) | (6.1) |
| Increase/(decrease) in trade accounts payable and other short-term liabilities | 36.1 | (31.9) |
| Other, net | (9.6) | (0.4) |
| **Net cash provided (used) by operating activities** | **134.5** | **(7.9)** |
| **Cash Flows from Investing Activities** | | |
| Additions to property plant and equipment | (165.2) | (46.8) |
| Proceeds from disposal of property, plant and equipment | 8.0 | 2.5 |
| Acquisition of subsidiaries, net of cash | (0.9) | (21.9) |
| Net change in restricted cash | (2.4) | (2.3) |
| **Net cash used in investing activities** | **(160.5)** | **(68.5)** |
| **Cash Flows from Financing Activities** | | |
| Net repayments under revolving facilities | (0.1) | - |
| Proceeds from related party debt | 20.0 | - |
| Proceeds from long-term debt | 368.0 | 62.5 |
| Repayment of long-term debt | (296.4) | (122.4) |
| Debt issuance costs | (2.8) | - |
| Proceeds from issuance of equity, net | 0.3 | 2.9 |
| **Net cash provided (used) by financing activities** | **89.0** | **(57.0)** |
| Effect of exchange rate changes on cash and cash equivalents | - | 1.9 |
| **Net increase (decrease) in cash and cash equivalents** | **63.0** | **(131.5)** |
| Cash and cash equivalents at beginning of the period | 37.3 | 174.4 |
| **Cash and cash equivalents at the end of the period** | **$ 100.3** | **$ 42.9** |
| Interest paid | $ 37.0 | $ 14.7 |
| Taxes paid | $ 23.2 | $ 17.7 |

*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 | - | - | - | (1.7) | - | (1.7) |
| Net income | - | - | 7.2 | - | - | 7.2 |
| Options exercised | 0.4 | 0.1 | - | - | - | 0.5 |
| **Balance at June 30, 2012** | **$ 733.2** | **$ 775.6** | **$ (0.6)** | **$(10.3)** | **$ (205.1)** | **$ 1,292.8** |

*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, 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 8,500 skilled and experienced people at June 30, 2012.

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

*Basis of presentation*

The unaudited Second Quarter and first half 2012 interim consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The unaudited Second Quarter and first half 2012 interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These Second Quarter and first half interim financial statements should be read in conjunction with our 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 and six months ended June 30, 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 utilized in the preparation of the unaudited Second 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 July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). The revised standard is intended to reduce the complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary.

The revised standard allows an entity the option to first assess qualitatively whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite lived intangible asset is impaired, thus necessitating that it perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired.

The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. However, an entity can choose to early adopt the revised guidance even if its annual test date is before the issuance of the revised standard, provided that the entity has not yet performed its 2012 annual impairment test or issued its financial statements. Management is currently considering whether this revised standard will be adopted for the year ended December 31, 2012.

## Note 2 – Acquisitions

*Universal Wireline*

On January 27, 2011, we 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, we 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 Energy Group*

On August 24, 2011, we completed the acquisition of all the operating companies of Great White Energy Group, or 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. Great White provides directional drilling, coiled tubing, snubbing and pressure pumping services.

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 June 30, 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.

*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):*

| Preliminary Allocation | **Fair Value / Allocation of Purchase Price at June 30, 2012** |
|---|---|
| Current assets | $ 1.2 |
| Intangible assets (excluding goodwill) | 5.2 |
| Acquired Goodwill | 1.9 |
| **Total Assets acquired** | **8.3** |
| Current liabilities | 0.9 |
| Deferred tax liabilities | 1.4 |
| **Total liabilities acquired** | **2.3** |
| **Total purchase price** | **$ 6.0** |

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

The allocation of the purchase price of X-it has been based upon preliminary fair value estimates. 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 of June 30, 2012.

*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 – 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. We made the decision to discontinue certain brand names and replace with the Archer brand name.

**Note 4 – Financial Items**

| *(In millions)* | Three Months Ended June 30 2012 | Three Months Ended June 30 2011 | Six Months Ended June 30 2012 | Six Months Ended June 30 2011 |
|---|---|---|---|---|
| Foreign exchange differences | $ (14.3) | $ (10.9) | $ (1.8) | $ (22.8) |
| Gain on redemption of debt | - | - | 4.7 | - |
| Other items | (1.0) | (2.5) | (0.9) | (2.1) |
| **Total other financial items** | **$ (15.3)** | **$ (13.4)** | **$ 2.0** | **$ (24.9)** |

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

| *(In millions)* | Three Months Ended June 30 2012 | Three Months Ended June 30 2011 | Six Months Ended June 30 2012 | Six Months Ended June 30 2011 |
|---|---|---|---|---|
| United States | $ (4.4) | $ 1.3 | $ (3.6) | $ (0.6) |
| South America | 1.4 | 2.7 | 3.6 | 3.9 |
| Europe | (0.3) | 2.5 | 2.4 | 3.1 |
| Others | 0.5 | - | 0.7 | 0.3 |
| **Total** | **$ (2.8)** | **$ 6.5** | **$ 3.1** | **$ 6.7** |

The effective tax rate for the six month period 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 BCH Brazil and Allis-Chalmers. Foreign tax credits and state taxes related to the United States and Canada increases the effective tax rate. The effective tax rate is significantly impacted by income 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.

| *(In thousands, except per share amounts)* | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Numerator** | | | | |
| Net income(loss) | $ (7,744) | $ 1,348 | $ 7,249 | $ (10,752) |
| **Denominator** | | | | |
| Weighted-average common shares outstanding | 366,576 | 323,368 | 366,489 | 294,167 |
| Effect of potentially dilutive common shares: | | | | |
| Share based compensation shares | - | 4,300 | 319 | - |
| Weighted-average common shares outstanding and assumed conversions | 366,576 | 327,668 | 366,808 | 294,167 |
| **Net income (loss) per common share** | | | | |
| Basic | $ (0.02) | $ 0.00 | $ 0.02 | $ (0.04) |
| Diluted | $ (0.02) | $ 0.00 | $ 0.02 | $ (0.04) |

Share-based compensation of approximately 122,191 and 4.3 million shares were excluded from the computation of diluted earnings per share for the three months ended June 30, 2012 and the six months ended June 30, 2011, respectively, 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** |
| Goodwill acquired during the period | 2.3 |
| Adjustments to goodwill during the measurement period | (6.4) |
| Currency adjustments | - |
| **Net book balance at June 30, 2012** | **$ 894.8** |

The acquisitions of X-it and Wellbore during the quarter ending June 30, 2012 both had a purchase price was in excess of the fair value of tangible and identifiable intangible assets acquired (See Note 2).

The adjustment to goodwill during the measurement period related to a working capital adjustment on the Great White acquisition (See Note 2).

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.

The level of our stock price, the loss of a larger customer in Directional Drilling as well as the significant decline in our 2012 forecasted results compared to forecasts prepared at the time of the 2011 goodwill impairment testing, were considered to be interim triggering events and therefore we performed an interim goodwill impairment assessment. We considered the key assumptions including long term market growth predictions, the discount rate to be applied and potential tax effects. As a consequence, we concluded at the end of this quarter that it is more likely than not, that the fair value of our reporting units remains above their carrying value.

We will continue to monitor this closely given the sensitivity of the outcome to reasonably possible changes in the key assumptions outlined above. If the unfavourable changes in market and other economic factors seen in North America during the first half continue to impact our operating performance, we may need to revisit the forward looking assumptions and estimates underlying the carrying value of goodwill before year end. Any changes could result in an impairment charge, 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)* | **June 30 2012** | **December 31 2011** |
|---|---|---|
| Cost | $ 263.0 | $ 259.8 |
| Accumulated amortization | (67.0) | (56.5) |
| **Net book value** | **$ 196.0** | **$ 203.3** |

The net book value at June 30, 2012 consisted of customer relationships of $165.8 million, identified technology of $10.7 million, trademarks of $11.3 million, patents of $8.1 million and backlog of $0.1 million.

**Note 9 – Long-term Interest Bearing Debt**

| *(In millions)* | **June 30 2012** | **December 31 2011** |
|---|---|---|
| $1,171.9 multi-currency term and revolving facility | $ 1,140.0 | $ 774.1 |
| Related party subordinated loan | 20.0 | - |
| Hermes covered term loan | - | - |
| Allis-Chalmers 2014 senior note | - | 99.2 |
| Allis-Chalmers 2017 senior note | - | 197.4 |
| Other loans and capital lease liability | 27.3 | 15.5 |
| **Total loans and capital lease liability** | **1,187.3** | **1,086.2** |
| Less: current portion | (118.9) | (108.4) |
| **Long-term portion of interest bearing debt** | **$ 1,068.4** | **$ 977.8** |

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

On December 22, 2011, Archer entered into an amended and restated $1,121.9 million multi-currency term and revolving facility agreement adding two new banks to the syndicate. 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 3.75% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any. An annual instalment of $100.0 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.

Archer's multicurrency term and revolving facility agreement contains certain financial covenants, including, among others:

- Our 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

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

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

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 June 30, 2012, we are 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.

Adverse market conditions and pricing pressures particularly in North America, as well as the loss of a key customer in Directional Drilling had a substantial impact on our financial performance in the first half of 2012. Our current forecast suggests a potential breach of the Net Interest Bearing Debt to EBITDA covenant as it currently stands in the third and fourth quarter. We are currently evaluating more comprehensive options to remedy a potential breach of covenants in the coming quarters. These options include, among others, negotiations with our lenders to seek further modifications or waivers, obtaining subordinated loans from our primary shareholders, the sale of assets or obtaining additional equity financing through the support of our primary shareholders. We are confident in our ability to execute on the above and therefore we have continued to classify the debt as non-current. Should we, however, not be able to deliver on the above mentioned options, the lenders of this facility could exercise their remedies under the loan, including acceleration of all amounts due thereunder.

*Related Party Subordinated loan*

In the month of June, Seadrill Limited provided Archer with a $20.0 million subordinated term loan facility to provide a contingency in case of a potential breach of covenants. As the covenants were met without this loan all amounts were repaid in August. The loan was due June 30, 2018 and had interest at LIBOR plus 4.5%.

*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. At June 30, 2012 no amount was drawn under this facility.

*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 at December 31, 2011 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 at December 31, 2011 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 100.0% of the outstanding aggregate principal amount, plus accrued and unpaid interest. The 2017 notes were redeemed at a redemption price of 104.25% 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 six months ended June 30, 2012.

*Other loans and capital leases*

We have two $50.0 million cash overdraft facilities and at June 30, 2012, net borrowings under these facilities were $10.3 million. We have a $25.0 import facility in Argentina, which had an outstanding balance at June 30, 2012 of $5.7 million. We also have capital leases covering both real property and equipment and at June 30, 2012, the net balance due under these arrangements was $8.8 million. We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at June 30, 2012 of $2.3 million. In addition, we have several equipment financing obligations that in aggregate had a balance due of $0.2 million at June 30, 2012.

*Interest rate swap agreement*

We have 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 June 30, 2012 was a liability of $0.8 million and is included within other current liabilities.

**Note 10 – Supplemental Cash Flow Information**

The merger with Allis-Chalmers in 2011 was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders (See 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)
- 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. Our historical segment data previously reported for the three and six months ended June 30, 2011 and year ended December 31, 2011, have been restated to conform to the new presentation. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment.

| (In millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Revenues from external customers** | | | | |
| North America | $ 184.3 | $ 93.2 | $ 367.6 | $ 125.8 |
| Latin America | 148.7 | 134.9 | 287.8 | 181.1 |
| North Sea | 140.0 | 159.7 | 284.5 | 308.0 |
| Emerging Markets & Technologies | 82.0 | 72.1 | 161.4 | 138.2 |
| **Total** | **$ 555.0** | **$ 459.9** | **$ 1,101.3** | **$ 753.1** |
| **Depreciation and amortization** | | | | |
| North America | $ 31.7 | $ 16.2 | $ 62.5 | $ 21.5 |
| Latin America | 9.7 | 11.4 | 19.1 | 15.3 |
| North Sea | 1.6 | 2.0 | 4.2 | 4.1 |
| Emerging Markets & Technologies | 8.3 | 7.7 | 15.9 | 15.7 |
| **Total** | **$ 51.3** | **$ 37.3** | **$ 101.7** | **$ 56.6** |

| (In millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Operating income – net income (loss)** | | | | |
| North America | $ (0.1) | $ 12.9 | $ (2.9) | $ 13.1 |
| Latin America | 6.0 | 2.0 | 6.6 | 2.2 |
| North Sea | 5.2 | 17.0 | 14.9 | 27.6 |
| Emerging Markets & Technologies | 9.5 | 5.3 | 19.8 | 10.1 |
| Stock compensation costs | (1.0) | (1.6) | (2.0) | (2.3) |
| Merger and acquisition costs | - | (4.1) | - | (12.7) |
| **Operating income** | **19.6** | **31.5** | **36.4** | **38.0** |
| Total financial items | (30.2) | (23.7) | (26.1) | (42.1) |
| Income taxes | 2.8 | (6.5) | (3.1) | (6.7) |
| **Net income (loss)** | **$ (7.8)** | **$ 1.3** | **$ 7.2** | **$ (10.8)** |
| | | | | |
| **Capital expenditures** | | | | |
| North America | $ 57.1 | $ 10.3 | $ 102.0 | $ 15.8 |
| Latin America | 9.2 | 8.2 | 23.0 | 9.8 |
| North Sea | 18.5 | 7.6 | 29.4 | 15.2 |
| Emerging Markets & Technologies | 7.2 | 3.0 | 10.8 | 6.0 |
| **Total** | **$ 92.0** | **$ 29.1** | **$ 165.2** | **$ 46.8** |

| *(In millions)*<br>**Goodwill** | **North America** | **Latin America** | **North Sea** | **Emerging Markets & Technologies** | **Total** |
|---|---|---|---|---|---|
| **Balance at December 31, 2011** | **$ 538.5** | **$ -** | **$ 132.4** | **$ 228.0** | **$ 898.9** |
| Goodwill acquired | - | - | - | 2.3 | 2.3 |
| Adjustments to goodwill during measurement period | (6.4) | - | - | - | (6.4) |
| Currency adjustments | - | - | 0.2 | (0.2) | - |
| **Balance at June 30, 2012** | **$ 532.1** | **$ -** | **$ 132.6** | **$ 230.1** | **$ 894.8** |

| *(In millions)* | **June 30, 2012** | **December 31, 2011** |
|---|---|---|
| **Total assets** | | |
| North America | $ 1,483.2 | $ 1,386.8 |
| Latin America | 560.8 | 521.7 |
| North Sea | 405.0 | 385.5 |
| Emerging Markets & Technologies | 501.6 | 520.7 |
| **Total** | **$ 2,950.6** | **$ 2,814.7** |

## Note 12 – Fair Value of Financial Instruments

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

| *(In millions)* | June 30, 2012 Fair Value | June 30, 2012 Carrying Value | December 31, 2011 Fair Value | December 31, 2011 Carrying Value |
|---|---|---|---|---|
| ***Non-derivatives*** | | | | |
| Cash and cash equivalents | $ 100.3 | $ 100.3 | $ 37.3 | $ 37.3 |
| Restricted cash | 15.6 | 15.6 | 13.3 | 13.3 |
| Current portion of long-term debt | 118.9 | 118.9 | 108.4 | 108.4 |
| Long-term interest bearing debt | 1,068.4 | 1,068.4 | 963.9 | 977.8 |
| ***Derivatives*** | | | | |
| Interest rate swap agreements | 0.8 | 0.8 | 1.2 | 1.2 |

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

| *(In millions)* | June 30 2012 Fair Value | Fair Value Measurements at Reporting Date Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Cash and cash equivalents | $ 100.3 | $ 100.3 | - | - |
| Restricted cash | 15.6 | 15.6 | - | - |
| ***Liabilities*** | | | | |
| $1,171.9 Multicurrency Term and Revolving Facility, excluding current portion | 1,040.0 | - | 1,040.0 | - |
| Other loans and capital leases, excluding current portion | 28.4 | - | 28.4 | - |
| Interest rate swap agreements | 0.8 | - | 0.8 | - |

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 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, we are involved in litigation, 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.

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 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. Although the case was filed in 2006 and the relevant events date back more than five years, the case just recently completed its discovery phase and is now set for trial in September 2012. Litigation is inherently uncertain and while we cannot determine the amount of loss, if any that might result, management believes the case is highly defensible.

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 non-payment of overtime pay. After significant negotiation, the parties reached settlement terms. The parties Motion for Preliminary Approval of Settlement was granted by the Court in June 2012 and the Final Settlement Hearing is scheduled for September 2012. The settlement amount has been fully accrued.

Two other similar class action lawsuits have been filed in Texas against two of our other subsidiaries, alleging violations of the FLSA relating to non-payment of overtime pay. In the first of the two Texas cases, filed in Corpus Christi, Texas in 2011, 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, 2012 to opt-in. The opt-in deadline was extended by the Court for certain putative class members who may not have received Notice to September 17, 2012. The case remains in the discovery phase. The second Texas case, filed in Houston, Texas in 2012, the court conditionally certified a class of potential class members on May 5, 2012 and set a deadline of August 15, 2012 for potential class members to opt in. While we believe that a negative outcome is reasonably possible, 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.

**Note 14 – Related Parties**

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

We were established at the end of the third quarter of 2007, as a spin-off of Seadrill'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. The excess of consideration of 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 six months ended June 30, 2012, we supplied Seadrill with services amounting to $7.5 million, including reimbursable material. This amount has been included in operating revenue. At June 30, 2012, Seadrill owed us $1.5 million related to these services. At June 30, 2012, we also have a $20.0 million subordinated loan with Seadrill (See Note 9).

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

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

Frontline provides management support and administrative services to us, and we have recorded fees of $0.3 million for these services in the six months ended June 30, 2012. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At June 30, 2012, we owe Frontline $0.5 million related to these services.

During the six months ended June 30, 2012, we supplied NADL with services amounting to $ 1.0 million, including reimbursable material. This amount has been included in operating revenue. At June 30, 2012, NADL owed us $0.2 million related to these services.

In addition, one of our largest customers is Pan American Energy, or PAE, which we also consider to be a related party. One of the principal shareholders of PAE is Bridas Corporation, Bridas Corporation is owned 50% by Bridas Energy Holdings Ltd and at the end of December 31, 2011, 50% by CNOOC International Limited. Alejandro P. Bulgheroni, one of the directors of Archer, may be deemed to indirectly beneficially own 50% of the outstanding capital stock of Bridas Energy Holdings Ltd and is a member of the Management Committee of PAE.

We had revenue for the six months ended June 30, 2012 from PAE of approximately $141.2 million, or 12.8%, of our consolidated revenues for the period. At June 30, 2012, we had trade receivables and other receivables with PAE of $ 39.4 million.

# Archer Limited

INTERIM REPORT JANUARY – JUNE 2012

Responsibility Statement

We confirm, to the best of our knowledge, that the condensed interim financial statements for the period January 1 to June 30, 2012 have been prepared in accordance with U.S generally accepted accounting principles, and give a true and fair view of the Company's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

The Board of Directors
Archer Limited.
Hamilton, Bermuda
August 28, 2012

Saad Bargach
Chairman

Fredrik Halvorsen
Vice Chairman &
CEO

Kate Blankenship
Director

Alejandro Bulgheroni
Director

Cecilie Fredriksen
Director

Giovanni Dell'Orto
Director

John Reynolds
Director

Tor Olav Trøim
Director

**Appendix to Archer Second Quarter and Half Year 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 June 30, 2012, 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 (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)* | June 30 2012 | March 31 2012 | December 31 2011 | September 30 2011 | June 30 2011 | March 31 2011 |
| **Revenue** | 555.0 | 546.3 | 596.1 | 505.4 | 459.9 | 293.2 |
| **Cost and expenses** | | | | | | |
| Operational Costs | 535.4 | 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 | 30.2 | (4.1) | 28.2 | (23.7) | 23.7 | 18.4 |
| **Income/(loss) before income taxes** | **(10.6)** | **20.9** | **(115.0)** | **56.6** | **7.8** | **(11.9)** |
| Income tax expense (benefit) | (2.8) | 5.9 | (3.2) | 11.0 | 6.5 | 0.2 |
| **Total net income / (loss)** | **(7.8)** | **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)* | June 30 2012 | March 31 2012 | December 31 2011 | September 30 2011 | June 30 2011 | March 31 2011 |
| Total net income / (loss) | (7.8) | 15.0 | (111.8) | 45.6 | 1.3 | (12.1) |
| Depreciation, amortization and impairments | 51.3 | 50.4 | 168.8 | 43.2 | 37.3 | 24.4 |
| Net financial items | 30.2 | (4.1) | 28.2 | (23.7) | 23.7 | 18.4 |
| Taxes on Income | (2.8) | 5.9 | (3.2) | 11.0 | 6.5 | 0.2 |
| **EBITDA** | **70.9** | **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** | **70.9** | **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.

| (In millions) | Three Months Ended<br>June 30<br>2012 | <br>March 31<br>2012 | <br>December 31<br>2011 | <br>September 30<br>2011 | <br>June 30<br>2011 | <br>March 31<br>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)

| (In millions) | Three Months Ended<br>June 30<br>2012 | <br>March 31<br>2012 | <br>December 31<br>2011 | <br>September 30<br>2011 | <br>June 30<br>2011 | <br>March 31<br>2011 |
|---|---|---|---|---|---|---|
| North America (NAM) | 184.3 | 183.3 | 180.9 | 196.5 | 194.9 | 169.9 |
| Latin America (LAM) | 148.7 | 139.1 | 147.8 | 138.6 | 134.9 | 116.1 |
| North Sea (NRS) | 140.0 | 144.5 | 189.0 | 154.3 | 159.7 | 148.3 |
| Emerging Markets & Technologies (EMT) | 82.0 | 79.4 | 78.4 | 76.2 | 72.1 | 66.1 |
| **Pro Forma Revenue** | **555.0** | **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)

| (In millions) | Three Months Ended<br>June 30<br>2012 | <br>March 31<br>2012 | <br>December 31<br>2011 | <br>September 30<br>2011 | <br>June 30<br>2011 | <br>March 31<br>2011 |
|---|---|---|---|---|---|---|
| North America (NAM) | 31.5 | 27.6 | 28.7 | 53.4 | 55.3 | 49.8 |
| Latin America (LAM) | 15.5 | 9.7 | 18.7 | 15.0 | 13.9 | 10.3 |
| North Sea (NRS) | 6.4 | 12.2 | 19.5 | 13.8 | 19.4 | 13.2 |
| Emerging Markets & Technologies (EMT) | 17.5 | 17.7 | 15.1 | 15.8 | 13.1 | 13.0 |
| **Pro Forma EBITDA** | **70.9** | **67.2** | **82.0** | **98.0** | **101.7** | **86.3** |