Archer

Archer Limited (ARCHER) Third Quarter 2012 Results

Third quarter 2012 highlights

- Third quarter revenue of $551.9 million.
- Third quarter EBITDA of $53.9 million including $9.0 million of exceptional charges.
- Third quarter impairment charge of $338.7 million
- Net loss for the quarter of $341.3 million.
- Third quarter operational cash outflow of $47.6 million.
- Net interest bearing debt of $1,189.3 million at September 30, 2012

Financial statements

Comparison of Three Months Ended September 30, 2012 to Three Months Ended June 30, 2012

Revenue for the third quarter 2012 was $551.9 million, compared to $555.0 million for the second quarter 2012. Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA, for the third quarter 2012 was $53.9 million, including exceptional charges of $9.0 million, compared to $70.9 million for the second quarter 2012. Detailed explanations for the fluctuations are provided in our operational review by area.

In accordance with US GAAP assets and goodwill shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. As market conditions for Oilfield Services in the United States, Argentina as well as for onshore services in Brazil remain challenged, the company recorded a $338.7 million impairment charge related to the North and Latin America Reporting Segments during the third quarter. This non-cash charge has not impacted the company's normal business operations, affected the liquidity of the company, impacted the cash flow from operations or affected the calculation of the financial covenants.

Net financial items amounted to a $6.4 million loss in the third quarter 2012 compared to a loss of $30.2 million in the second quarter 2012. Interest expenses for the third quarter 2012 amounted to $17.3 million, compared to $15.6 million in the second quarter of 2012. Other financial items amounted to $10.8 million income compared to $15.3 million expense in the second quarter 2012. Other financial items represent predominantly unrealized foreign exchange gains related to the strengthening of the Norwegian Kroner during the third quarter.

Comparison of Three Months Ended September 30, 2012 to Pro Forma Results for Three Months Ended September 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 September 30, 2012 decreased 2.4% compared to pro forma revenue of $565.6 million for the third quarter of 2011. EBITDA for the three months ended September 30, 2012 including $9.0 million exceptional charges, decreased 45.0% compared to $98.0 million pro forma EBITDA for the third quarter of 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 $77.6 million at September 30, 2012, compared to $100.3 million at June 30, 2012.

Cash flow from operations for the three months ended September 30, 2012 was negative $47.6 million, which is comprised primarily of the net loss of $341.3 million with add backs for impairment charges of $338.7 million and depreciation and amortization of $52.0 million, less deferred taxes of $15.0 million, an increase in trade receivables and other short-term assets of $55.0 million and a reduction of trade accounts payable and other short-term liabilities of $28.4 million.

As of September 30, 2012, we are not in compliance with the financial covenants set out in our credit facilities and have notified our lenders accordingly. In support of the Company, Archer's largest shareholder, Seadrill extended a $55.0 million short-term loan with expiry on December 10th. The Company is working with its banks to find a viable solution. The solution is totally dependent on support from the main shareholders.

At the time of this report the Company has committed to capital expenditures of $30 million for the remainder of 2012, bringing the total year cash capital expenditures to approximately $246 million.

Total net interest bearing debt at September 30, 2012 was $1,189.3 million compared to $1,087.0 million as of June 30, 2012.

Share capital

The total number of issued and fully paid shares of par value $2.00 outstanding at September 30, 2012 was 366,659,120. A total of 12,865,572 options were outstanding as of September 30, 2012.

Third quarter 2012 operating results by Area

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

	Revenue			EBITDA		
	Q3 2012	Q2 2012	Pro forma Q3 2011	Q3 2012	Q2 2012	Pro forma Q3 2011
North America	$ 166.6	184.3	196.5	$ 15.2	$ 31.5	$ 53.4
Latin America	146.0	148.7	138.6	16.1	15.5	15.0
North Sea	159.0	140.0	154.3	10.0	6.4	13.8
Emerging Markets	80.3	82.0	76.2	12.6	17.5	15.8
	$ 551.9	$ 555.0	$ 565.6	$ 53.9	$ 70.9	$ 98.0

North America

Revenue for the third quarter 2012 was $166.6 million, a reduction of 9.6% compared to the second quarter 2012. The reduction was related to our Directional Drilling, Underbalanced, Pressure Control and Pressure Pumping operations, partly offset by our American Well Control and Rental Divisions which reported a sequential increase in revenue. EBITDA for the third quarter 2012 was $15.2 million, a reduction of $16.3 million compared to the second quarter 2012, with all Divisions apart from Rental reporting a sequential decline. The quarterly results in North America include $8.3 million of one-time charges including provisions related to long standing labour disputes as well as several other items.

While the overall activity level in the United States remained relatively high, the average land-based gas rig count dropped by 107 rigs, or 18% sequentially, and by 409, or 46%, compared to last year. The decline in gas rigs was partly offset by a sequential increase in rigs engaged in oil drilling of 44 rigs, or 3%, and 371 rigs, or 35%, 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. The resulting concentration of equipment in oil basins led to significant pricing pressure throughout most of our business lines.

Our Pressure Control Division owned a total of 27 Coiled Tubing units, out of which 23 were operating during the quarter and 4 are being refurbished which effectively keeps them out of service until the end of 2013. The average pricing for coiled tubing services declined approximately 10% compared to the previous quarter and between 15-20% year over year. Considering working units only, utilization reduced from 59% in the second quarter 2012 to 54% in the third quarter, while the average utilization during the same period last year was above 60%. While other areas were also impacted the majority of the decline in pricing and utilization occurred in the North East United States as well as in East Texas and in the Eagle Ford.

With a reduction in overall rig count the demand for directional drilling services declined this quarter, while additional supply is still being added. The number of operating days for directional drilling dropped 12% sequentially and the operating days for MWD services reduced by almost 10% compared to the second quarter. In addition to the activity related reduction, results were negatively impacted by pricing pressure that resulted in a 5–10% reduction in revenue per job.

In our Pressure Pumping Division we fraced 278 stages this quarter compared to 306 stages in the second quarter. At the end of the quarter we had four fleets operating compared to an average of three fleets during the second quarter. September was our strongest revenue month in this Division, but margins remain depressed with pricing of new contracts close to breakeven levels. At the end of September we have a total capacity of 148,000 HHP.

Revenue for our American Well Control and Rental Divisions increased sequentially and showed solid operating margin improvements over last quarter.

We expect fourth quarter revenue to decrease by approximately 10% compared to the third quarter 2012.

Latin America

Revenue in the third quarter 2012 totalled $146.0 million, a decrease of $2.7 million, or 1.8% compared to last quarter. The decrease was primarily due to a reduction in rate on 19 of our rigs in Argentina, which were placed on standby by a major customer. Rig utilization in the third quarter was 84.9% compared to 86.3% in the second quarter, reflecting mainly the cancellation of contracts for rigs BCH 2 and BCH 8 in Brazil. Third quarter 2012 EBITDA of $16.1 million was flat compared to the previous quarter.

We are pleased that the management team in Latin America was able to maintain year over year and quarter over quarter results despite multiple challenges during this quarter.

The outlook for Latin America in fourth quarter 2012 remains flat from third quarter 2012 results.

North Sea

Third quarter 2012 revenue was $159.0 million, an increase of $19.0 million, or 13.6%, compared to the second quarter 2012. The increased revenue reflects increased reimbursable expenses invoiced to our clients, amounting to $11.3 million as well as revenue earned during the installation phase of the modular rig. EBITDA for the three months ended September 30, 2012 was $10.0 million, an increase of $3.6 million, or 56.3%, compared to the second quarter 2012. The increased EBITDA is related to increased revenue as well as costs for overtime incurred during the industrial actions in the second quarter.

Compared to the third quarter 2011, revenue increased by $4.7 million, or 3.0%, which is mainly attributable to higher reimbursable revenue, as well as revenue in relation to the installation phase of the modular rig. This was partly offset by the finalization of a large Engineering project. Year over year EBITDA decreased $3.8 million, or 27.5%, as a result of higher margin platform drilling and engineering contract work in 2011 being replaced by lower margin reimbursable revenue in the third quarter 2012 as well as high preparation costs for the Modular Rig.

During the quarter we have extended our contract with Apache on the Forties Alpha, Forties Bravo, Forties Charlie and Forties Delta as well as with Marathon on the Brae Alpha, Brae Bravo and East Brae platforms. In addition we have been awarded a contract for the Beryl Alpha and Beryl Bravo platforms, which Apache recently acquired from ExxonMobil.

The Emerald Modular Rig was under an installation rate during the third quarter, which allowed for the compensation of the majority of the costs incurred during the quarter. The rig is expected to commence operations in December.

We expect our revenue for the fourth quarter 2012 to be approximately 18% below our third quarter primarily due to the loss of approximately $20 million on the platform drilling contract on Gullfaks in Norway, which completed at the end of September.

Emerging markets & technologies

Revenue for the third quarter 2012 totalled $80.3 million, a decrease of $1.7 million, or 2.1%, compared to last quarter, as a result of increased pricing pressure in our North American based Wireline operations. EBITDA for the third quarter 2012 of $12.6 million, a decrease of $4.9 million, or 28.0% compared to the second quarter 2012. The decrease in EBITDA is primarily related to the reduced revenue in the United States, increased costs to build our infrastructure in the Eastern Hemisphere and an unfavourable sales mix for the quarter, as we experienced a shift of revenue to the lower margin mechanical Wireline jobs.

Compared to the third quarter 2011, revenue increased by $4.1 million, or 5.4%. This increase is primarily attributable to the growth in our Oil Tools division. EBITDA for the three months ended September 30, 2012 decreased $3.2, or 20.3%, compared to the third quarter 2011. The decrease in EBITDA is primarily related to lower pricing and utilization of our Wireline activity in the US.

During the quarter we have performed a successful job with our SPACE tool on a high profile well in the North-Sea, demonstrating clearly the perfect condition of the tubing, free of any stress fracture. Based on this result the customer was able to recover the completion with a single deep cut and move ahead with the abandonment program. We have also successfully completed the first LeakPoint XT operations in the Jasmine and Jade fields, which exposed the tools to temperatures above 160^0C in their first operation with excellent results. We have also completed our first LeakPoint operation in China, which was a technically demanding operation but it enabled our customer to quickly remediate in a high profile field.

We expect fourth quarter revenue to be in line with the third quarter.

Summary outlook

The third quarter of 2012 was characterized by continued deterioration of pricing and asset utilization in the North American onshore market, while our other areas of operations have held up well.

Overall we expect fourth quarter 2012 revenue to be down on North American seasonality and the loss of the platform drilling contract on Gullfaks. Due to the reduced revenue and the continued pressure on margins in North America, we expect fourth quarter EBITDA to be weaker than the third quarter.

While the cyclical downturn and performance of the company has severed utilization and cashflow generation, the North Sea and EMT business lines are delivering to expectations.

Gas prices have trended up over the course of the quarter and the Company's asset base in North America provides strong upside in a scenario where this continues. The reduced gas drilling activities, the steep well decline curves and a solid pick up in US industrial gas demand support such a scenario.

Importantly, the Company is engaging with its banks and shareholders to find a solution to remedy the breach of covenants before year end.

The Board sees, despite the weak operating results, significant value in Archer's individual businesses.

The Board and the Company's major shareholders, Seadrill and Lime Rock, are committed to building on and supporting the turnaround initiated in the first quarter 2012. However no assurance can be given that a solution can be found.

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 THIRD QUARTER FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues					
Operating revenues		$ 515.6	$ 468.2	$ 1,572.1	$ 1,169.4
Reimbursable revenues		36.3	37.2	81.1	89.1
Total revenues		**551.9**	**505.4**	**1,653.2**	**1,258.5**
Expenses					
Operating expenses		425.3	369.5	1,289.8	935.9
Reimbursable expenses		34.0	36.2	75.5	84.2
Depreciation and amortization		52.0	43.2	153.7	99.8
Impairments	3	338.7	-	338.7	5.1
General and administrative expenses		38.7	23.6	95.9	62.6
Total expenses		**888.7**	**472.5**	**1,953.6**	**1,187.6**
Operating income (loss)		**(336.8)**	**32.9**	**(300.4)**	**70.9**
Financial items					
Interest income		0.4	1.5	2.9	3.5
Interest expenses		(17.3)	(14.0)	(47.8)	(34.0)
Share of results in associated company		(0.3)	(2.5)	(0.4)	(1.7)
Other financial items	4	10.8	38.7	12.8	13.8
Total financial items		**(6.4)**	**23.7**	**(32.5)**	**(18.4)**
Income / (loss) before income taxes		**(343.2)**	**56.6**	**(332.9)**	**52.5**
Income tax benefit (expense)	5	1.9	(11.0)	(1.2)	(17.7)
Net income / (loss)		**$ (341.3)**	**$ 45.6**	**$ (334.1)**	**$ 34.8**
Basic earnings/(loss) per share	**6**	**$ (0.93)**	**$ 0.13**	**$ (0.91)**	**$ 0.11**
Diluted earnings/(loss) per share	**6**	**$ (0.93)**	**$ 0.13**	**$ (0.91)**	**$ 0.11**
Weighted average number of shares outstanding					
Basic		366.7	337.8	366.5	308.5
Diluted		366.7	340.2	366.5	310.9

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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income / (loss)	**$ (341.3)**	**$ 45.6**	**$ (334.1)**	**$ 34.8**
Other comprehensive income/(loss)				
Currency exchange differences	(0.4)	(55.3)	(2.4)	(15.1)
Change in valuation of interest swap	0.1	(3.0)	0.4	0.3
Other comprehensive loss	**(0.3)**	**(58.3)**	**(2.0)**	**(14.8)**
Total comprehensive income (loss)	**$ (341.6)**	**$ (12.7)**	**$ (336.1)**	**$ 20.0**

Accumulated Other Comprehensive Loss

(Unaudited)

(In millions)	Pension – Unrecognized Gains/Losses	Currency Exchange Differences	Other Comprehensive Gains/Losses	Total
Balance at December 31, 2011	**$ (21.6)**	**$ 14.2**	**$ (1.2)**	**$ (8.6)**
Currency exchange differences	-	(2.4)	-	(2.4)
Change in valuation of swap	-	-	0.4	0.4
Balance at September 30, 2012	**$ (21.6)**	**$ 11.8**	**$ (0.8)**	**$ (10.6)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 77.6	$ 37.3
Restricted cash		8.6	13.3
Accounts receivables		441.3	432.0
Inventories	7	64.2	58.2
Other current assets		128.0	97.6
Total current assets		**719.7**	**638.4**
Noncurrent assets			
Investments in associates	8	2.1	7.4
Property plant and equipment, net		1,059.4	1,044.1
Deferred income tax asset		84.5	10.3
Goodwill	9	700.4	898.9
Other intangible assets, net	10	133.4	203.3
Deferred charges		16.4	12.3
Total noncurrent assets		**1,996.2**	**2,176.3**
Total assets		**$ 2,715.9**	**$ 2,814.7**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	11	$ 186.5	$ 108.4
Accounts payable		150.7	143.1
Other current liabilities		204.7	215.0
Total current liabilities		**541.9**	**466.5**
Noncurrent liabilities			
Long-term interest-bearing debt	11	1,080.4	977.8
Deferred taxes		74.5	16.3
Other noncurrent liabilities		64.8	67.3
Total noncurrent liabilities		**1,219.7**	**1,061.4**
Commitments and contingencies			
Shareholders' equity			
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,659,120 outstanding shares at September 30, 2012 (December 31, 2011: 366,397,622)		733.2	732.8
Additional paid in capital		778.7	775.5
Accumulated deficit		(341.9)	(7.8)
Accumulated other comprehensive loss		(10.6)	(8.6)
Contributed deficit		(205.1)	(205.1)
Total shareholders' equity		**954.3**	**1,286.8**
Total liabilities and shareholders' equity		**$ 2,715.9**	**$ 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)	Nine Months Ended September 30, 2012	2011
Cash Flows from Operating Activities		
Net income / (loss)	$ (334.1)	$ 34.8
Adjustment to reconcile net income / (loss) to net cash provided by operating activities:		
Depreciation and amortization	153.7	99.8
Share-based compensation expenses	3.2	3.6
Impairment charges	338.7	5.1
Gain on property, plant and equipment disposals	(1.0)	-
Equity in loss of unconsolidated affiliates	0.4	1.7
Gain on debt redemption	(4.7)	-
Amortization of loan fees and senior note premium	5.4	-
Deferred income taxes	(20.5)	1.8
Foreign currency gain	(8.4)	(16.1)
Changes in operating assets and liabilities, net of acquisitions		
Increase in trade accounts receivable and other short-term receivables	(39.3)	(48.3)
Increase in inventories	(11.8)	(13.7)
Increase (decrease) in trade accounts payable and other short-term liabilities	7.7	(35.1)
Other, net	(2.4)	(25.7)
Net cash provided by operating activities	**86.9**	**7.9**
Cash Flows from Investing Activities		
Additions to property plant and equipment	(216.2)	(103.9)
Proceeds from disposal of property, plant and equipment	10.5	6.7
Acquisition of subsidiaries, net of cash	(0.9)	(695.4)
Net change in restricted cash	5.3	8.7
Net cash used in investing activities	**(201.3)**	**(783.9)**
Cash Flows from Financing Activities		
Net borrowings under revolving facilities	61.0	-
Proceeds from related party debt	20.0	-
Repayment on related party debt	(20.0)	-
Proceeds from long-term debt	434.8	882.6
Repayment of long-term debt	(337.5)	(501.3)
Debt issuance costs	(4.3)	-
Proceeds from issuance of equity, net	0.4	247.3
Net cash provided by financing activities	**154.4**	**628.6**
Effect of exchange rate changes on cash and cash equivalents	0.3	16.3
Net increase (decrease) in cash and cash equivalents	**40.3**	**(131.1)**
Cash and cash equivalents at beginning of the period	37.3	174.4
Cash and cash equivalents at the end of the period	**$ 77.6**	**$ 43.3**
Interest paid	$ 51.5	$ 39.0
Taxes paid	$ 29.4	$ 25.4

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

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

(In millions)	**Share Capital**	**Additional Paid In Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Contributed Deficit**	**Total Shareholders' Equity**
Balance at December 31, 2011	**$ 732.8**	**$ 775.5**	**$ (7.8)**	**$ (8.6)**	**$ (205.1)**	**$ 1,286.8**
Net loss	-	-	(334.1)	-	-	(334.1)
Share options exercised	0.4	-	-	-	-	0.4
Stock based compensation	-	3.2	-	-	-	3.2
Other comprehensive loss	-	-	-	(2.0)	-	(2.0)
Balance at September 30, 2012	**$ 733.2**	**$ 778.7**	**$(341.9)**	**$ (10.6)**	**$ (205.1)**	**$ 954.3**

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 8,600 skilled and experienced people at September 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 Third Quarter 2012 interim consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The unaudited Third Quarter 2012 interim consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These Third Quarter interim financial statements should be read in conjunction with our financial statements as 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 nine months ended September 30, 2011 and year ended December 31, 2011, have been restated to conform to the new presentation (See Note 13).

Use of estimates

In accordance with accounting principles generally accepted in the United States of America, the preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be perceived with certainty. Accordingly, our accounting estimates require the exercise of judgment. While management believes that the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts, recoverability of long-lived assets, goodwill and intangibles, useful lives used in depreciation and amortization, income taxes, valuation allowances and purchase price allocations. The accounting estimates used in the preparation of the consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

Significant accounting policies

The accounting policies utilized in the preparation of the unaudited Third Quarter interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements and accompanying notes for the year ended December 31, 2011. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

Goodwill

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

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

We aggregated components with similar economic characteristics.

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

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

Impairment of long-lived assets and intangible asset

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

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.

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 United States.

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 conducted land drilling operations in Argentina, Brazil and Bolivia and provided directional drilling, coiled tubing, underbalanced drilling, casing and tubing and rental services primarily in the United States. Allis-Chalmers also manufactured and sold frac valves in the United States.

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 in the United States.

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

	Fair Value / Allocation of Purchase Price at December 31, 2011	**Adjustments to Preliminary Fair Values**	**Fair Value / Allocation of Purchase Price at September 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 fair values studies. 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 September 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 – Impairments

The level of our stock price, the loss of several large customers in North America 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 circumstances, which more likely than not, would reduce the fair value of a reporting unit below its carrying amount. As consequence, we prepared a comprehensive impairment test for long lived assets, including intangibles and goodwill, which results in the following impairments: An impairment of goodwill, amounting to $207.6 million (See Note 9), an impairment of fixed assets amounting to $66.6 million, an impairment of intangibles amounting to $57.5 million (See Note 10), an impairment of investments in associates totalling $4.9 million (See Note 8) and an impairment of inventory of $2.1 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2012**	**2011**	**2012**	**2011**
Foreign exchange differences	$ 10.2	$ 38.9	$ 8.4	$ 16.1
Gain on redemption of debt	-	-	4.7	-
Other items	0.6	(0.2)	(0.3)	(2.3)
Total other financial items	**$ 10.8**	**$ 38.7**	**$ 12.8**	**$ 13.8**

Financial items consist mainly of foreign exchange gains (losses) arising in respect of loans or cash balances denominated in currencies other than the recording company's functional currency. The redemption of the Allis-Chalmers senior notes in the first quarter of 2012 generated a gain of $4.7 million (See Note 11).

Note 5 – Income taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2012**	**2011**	**2012**	**2011**
United States	$ (8.0)	$ 1.5	$(11.6)	$ 2.6
South America	0.7	3.2	4.3	7.5
Europe	5.5	6.2	7.9	7.5
Others	(0.1)	0.1	0.6	0.1
Total	**$ (1.9)**	**$ 11.0**	**$ 1.2**	**$ 17.7**

Our effective tax rate is impacted by the derecognition of some of our deferred tax assets as we do not expect to utilize these in the foreseeable future. We have booked valuation allowances against most of our net operating losses and foreign tax credits in the United States, Brazil and Canada. The effective tax rate is also impacted by our goodwill impairment which is a permanent difference for tax purposes. Foreign tax credits and state taxes related to the United States and Canada increases the effective tax rate. The effective tax rate is impacted by income in Bermuda where Archer has a tax exemption.

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

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Expected tax rate	30.0%	31.1%
Goodwill impairment	(20.3)	(21.0)
Other non-deductible expenses	(0.5)	(0.9)
Tax exempted income and credits	(0.2)	0.3
Foreign tax rate differences	0.9	2.2
Valuation allowances	(9.9)	(11.9)
Other	0.5	(0.2)
Effective tax rate	**0.5%**	**(0.4)%**

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 millions, except per share amounts)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Numerator				
Net income (loss)	$ (341.3)	$ 45.6	$ (334.1)	$ 34.8
Denominator				
Weighted-average common shares outstanding	366.7	337.8	366.5	308.5
Effect of potentially dilutive common shares:				
Share based compensation shares	-	2.4	-	2.4
Weighted-average common shares outstanding and assumed conversions	366.7	340.2	366.5	310.9
Net income (loss) per common share				
Basic	$ (0.93)	$ 0.13	$ (0.91)	$ 0.11
Diluted	$ (0.93)	$ 0.13	$ (0.91)	$ 0.11

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

Note 7 – Inventories

(In millions)	September 30, 2012	December 31, 2011
Manufactured		
Finished goods	$ 5.4	$ 4.7
Work in progress	3.3	3.6
Raw materials	7.6	5.9
Total manufactured	16.3	14.2
Drilling supplies	25.7	17.6
Chemicals	8.3	9.3
Other items and spares	13.9	17.1
Total Inventories	**$ 64.2**	**$ 58.2**

Note 8 – Investment in joint ventures

(In millions)	September 30, 2012	December 31, 2011
C6 Technologies AS	$ 2.1	$ 2.4
Rawabi Allis-Chalmers Company Ltd	-	5.0
Equity in net assets of non-consolidated investees	**$ 2.1**	**$ 7.4**

During the third quarter of 2012, we wrote off our investment in Rawabi Allis-Chalmers Company Ltd due to sustained historical losses and limited potential for prospective future earnings. The impairment recorded was $4.9 million.

Note 9 – 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
Impairments	(207.6)
Currency adjustments	13.2
Other adjustments	(6.4)
Net book balance at September 30, 2012	**$ 700.4**

The acquisitions of X-it and Wellbore during the quarter ending June 30, 2012 both had a purchase price 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 large customers in North America 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 our carrying value exceeded the fair value and we recorded a goodwill impairment of $207.6 million.

Note 10 – Intangible assets

(In millions)	**Cost**	**Accumulated Amortization**	**Net**
Balance at December 31, 2011	$ 259.8	$ (56.5)	$ 203.3
Additions – acquisitions	5.4	-	5.4
Deletions	(29.1)	29.1	-
Impairments	(57.5)	-	(57.5)
Amortization	-	(18.2)	(18.2)
Currency adjustments	0.1	0.3	0.4
Balance at September 30, 2012	**$ 178.7**	**$ (45.3)**	**$ 133.4**

The net book value at September 30, 2012 consisted of customer relationships of $105.0 million, identified technology of $10.6 million, trademarks of $9.6 million, patents of $8.1 million and noncompete arrangement of $0.1 million.

Due to certain trigger events recognized in the three months ended September 30, 2012, we performed impairment assessments on our long-lived amortizable intangibles and impaired $44.5 million of customer relationship value in our Pressure Pumping business. Those same trigger events caused us to perform impairment assessment of goodwill and we determined that our Land Drilling business carrying value was in excess of the fair value and since Land Drilling had no remaining goodwill we impaired all of its associated intangibles, consisting of $10.0 million of customer relationships and $1.6 million for trademark. In addition, this same impairment testing resulted in an impairment for our Directional Drilling business in excess of its goodwill value, therefore customer relationships were impaired by the $1.4 million overage.

Note 11 – Long-term, interest-bearing debt

(In millions)	September 30, 2012	December 31, 2011
$1,171.9 multi-currency term and revolving facility	$ 1,143.1	$ 774.1
Hermes covered term loan	34.2	-
Allis-Chalmers 2014 senior note	-	99.2
Allis-Chalmers 2017 senior note	-	197.4
Other loans and capital lease liability	89.6	15.5
Total loans and capital lease liability	**1,266.9**	**1,086.2**
Less: current portion	(186.5)	(108.4)
Long-term portion of interest bearing debt	**$ 1,080.4**	**$ 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 September 30, 2012, we are not in compliance with the financial covenants set out in our credit facilities and have notified our lenders accordingly. In support of the Company, Archer's largest shareholder, Seadrill extended a $55.0 million short-term loan with expiry on December 10th. The Company is working with its banks to find a viable solution. The solution is totally dependent on support from the main 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.

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. The facility is repayable in semi-annual instalments in March and September through March 2017. The interest rate is 1.3% above EURIBOR. At September 30, 2012, the equivalent of $34.2 million was outstanding 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 nine months ended September 30, 2012.

Other loans and capital leases

We have two $50.0 million cash overdraft facilities and at September 30, 2012, net borrowings under these facilities were $64.6 million. In addition we have borrowed $6.9 million under cash overdraft facilities in Argentina. We have a $25.0 million import facility in Argentina, which had an outstanding balance at September 30, 2012 of $4.0 million. We also have capital leases covering both real property and equipment and at September 30, 2012, the net balance due under these arrangements was $11.6 million. We have a $4.0 million term loan facility in Argentina, which had an outstanding balance at September 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 September 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 startup of hedging accounting by end of April 2009. The fair value of the swap as of September 30, 2012 was a liability of $0.7 million and is included within other current liabilities.

Note 12 – Supplemental cash flow information

During 2012, we financed the equipment purchases of $3.2 million through capitalized leases. We also utilized lease incentives to finance $1.5 million of leasehold improvements that were capitalized in 2012.

The merger with Allis-Chalmers in 2011 was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders (See Note 2).

Note 13 – 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 nine months ended September 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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues from external customers				
North America	$ 166.6	$ 136.3	$ 534.2	$ 262.1
Latin America	146.0	138.6	433.8	319.7
North Sea	159.0	154.3	443.5	462.3
Emerging Markets & Technologies	80.3	76.2	241.7	214.4
Total	**$ 551.9**	**$ 505.4**	**$ 1,653.2**	**$ 1,258.5**
Depreciation and amortization				
North America	$ 32.1	$ 21.7	$ 94.6	$ 43.2
Latin America	9.6	10.7	28.7	26.0
North Sea	2.6	2.5	6.8	6.6
Emerging Markets & Technologies	7.7	8.3	23.6	24.0
Total	**$ 52.0**	**$ 43.2**	**$ 153.7**	**$ 99.8**

(In millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating income (loss) – net income (loss)				
North America	$ (297.3)	$ 16.6	$ (300.2)	$ 29.7
Latin America	(51.0)	4.1	(44.4)	6.3
North Sea	7.6	11.1	22.5	38.7
Emerging Markets & Technologies	5.1	7.4	24.9	17.5
Stock compensation costs	(1.2)	(1.3)	(3.2)	(3.6)
Merger and acquisition costs	-	(5.0)	-	(17.7)
Operating income (loss)	**(336.8)**	**32.9**	**(300.4)**	**70.9**
Total financial items	(6.4)	23.7	(32.5)	(18.4)
Income taxes	1.9	(11.0)	(1.2)	(17.7)
Net income (loss)	**$ (341.3)**	**$ 45.6**	**$ (334.1)**	**$ 34.8**
Capital expenditures				
North America	$ 31.8	$ 15.5	$ 133.8	$ 31.3
Latin America	11.4	13.8	34.4	23.6
North Sea	(0.2)	21.7	29.2	36.9
Emerging Markets & Technologies	12.8	6.1	23.6	12.1
Total	**$ 55.8**	**$ 57.1**	**$ 221.0**	**$ 103.9**

(In millions)

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
Impairments	(207.6)	-	-	-	(207.6)
Adjustments to goodwill during measurement period	(6.4)	-	-	-	(6.4)
Currency adjustments	-	-	6.5	6.7	13.2
Balance at September 30, 2012	**$ 324.5**	**$ -**	**$ 138.9**	**$ 237.0**	**$ 700.4**

(In millions)	**September 30, 2012**	**December 31, 2011**
Total assets		
North America	$ 1,228.6	$ 1,386.8
Latin America	509.4	521.7
North Sea	451.2	385.5
Emerging Markets & Technologies	526.7	520.7
Total	**$ 2,715.9**	**$ 2,814.7**

Note 14 – Fair value of financial instruments

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

(In millions)	September 30, 2012 Fair Value	September 30, 2012 Carrying Value	December 31, 2011 Fair Value	December 31, 2011 Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 77.6	$ 77.6	$ 37.3	$ 37.3
Restricted cash	8.6	8.6	13.3	13.3
Current portion of long-term debt	186.5	186.5	108.4	108.4
Long-term interest bearing debt	1,080.4	1,080.4	963.9	977.8
Derivatives				
Interest rate swap agreements	0.7	0.7	1.2	1.2

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

(In millions)	September 30, 2012 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 77.6	$ 77.6	-	-
Restricted cash	8.6	8.6	-	-
Liabilities				
$1,171.9 Multicurrency Term and Revolving Facility, excluding current portion	1,043.1	-	1,043.1	-
Other loans and capital leases, excluding current portion	37.3	-	37.3	-
Interest rate swap agreements	0.7	-	0.7	-

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

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

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months. The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis. This debt is not freely tradable and 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 15 – 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. At September 30, 2012, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

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

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

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 Court granted final approval of the settlement terms at a Final Settlement Hearing in 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 has conditionally certified a class of potential class members and the opt-in period has expired. The plaintiffs have filed an Amended Petition adding additional subsidiaries as defendants. In the second Texas case, filed in Houston, Texas in 2012, the court conditionally certified a class of potential class members and the opt-in period has expired. Both of these cases remain in the discovery phase; however, the parties have started to engage in settlement discussions. While we believe that a negative outcome is reasonably possible, we have not been able to predict any such amount with any degree of certainty at this time with respect to all of the potential and putative class members. We have, however, received an assessment of potential liabilities from outside counsel which has allowed us to assess a contingency reserve in accordance with U.S. GAAP.

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 16 – Related parties

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

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

During the nine months ended September 30, 2012, we supplied Seadrill Limited and affiliates, or Seadrill, with services amounting to $13.8 million, including reimbursable material. This amount has been included in operating revenue. At September 30, 2012, Seadrill owed us $1.0 million related to these services.

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 along with $116,000 of interest. The loan was due June 30, 2018 and had interest at LIBOR plus 4.5%.

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 $0.4 million for these services in the nine months ended September 30, 2012. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations. At September 30, 2012, we owe Frontline $0.4 million related to these services.

During the nine months ended September 30, 2012, we supplied NADL with services amounting to $ 2.0 million, including reimbursable material. This amount has been included in operating revenue. At September 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 nine months ended September 30, 2012 from PAE of approximately $205.7 million, or 12.4%, of our consolidated revenues for the period. At September 30, 2012, we had trade receivables and other receivables with PAE of $43.2 million.

At September 30, 2012, we owe Lime Rock Partners V LP, or Lime Rock, $4,000 for expenses related to attending board events. During the nine months we incurred a total of $30,000 from Lime Rock for expenses of attending board events.

Note 17 – Subsequent events

On November 12, 2012, Seadrill Limited, a related party, provided Archer with a $55.0 million subordinated term loan facility that is repayable by December 10, 2012. Once repaid the amount is not available for reborrowing. The loan provides for interest at LIBOR + 5%. In November, we borrowed the full $55.0 million and applied it to our annual principal payment of $100 million due in November under the multi-currency term and revolving facility along with using part of our existing cash balances on hand. Management expects to have reached agreement with the lenders of the multi-currency term and revolving facility before the $55 million falls due for repayment in order to settle this shareholder loan.

Appendix to Archer third 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 September 30, 2012, June 30, 2012, March 31, 2012, December 31, 2011, September 30, 2011 and June 30, 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 acquisition of Great White (which was acquired in the third quarter of 2011), as if it 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)

(In millions)	Three Months Ended September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
Revenue	551.9	555.0	546.3	596.1	505.4	459.9
Cost and expenses						
Operational Costs	550.0	535.4	529.5	561.4	441.0	424.3
Impairments	338.7	-	-	121.5	-	-
Merger & Integration expenses	-	-	-	-	31.5	4.1
Net financial items	6.4	30.2	(4.1)	28.2	(23.7)	23.7
Income/(loss) before income taxes	**(343.2)**	**(10.6)**	**20.9**	**(115.0)**	**56.6**	**7.8**
Income tax expense (benefit)	(1.9)	(2.8)	5.9	(3.2)	11.0	6.5
Total net income / (loss)	**(341.3)**	**(7.8)**	**15.0**	**(111.8)**	**45.6**	**1.3**

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

(In millions)	Three Months Ended September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
Total net income / (loss)	(341.3)	(7.8)	15.0	(111.8)	45.6	1.3
Depreciation, amortization and impairments	390.7	51.3	50.4	168.8	43.2	37.3
Net financial items	6.4	30.2	(4.1)	28.2	(23.7)	23.7
Taxes on Income	(1.9)	(2.8)	5.9	(3.2)	11.0	6.5
EBITDA	**53.9**	**70.9**	**67.2**	**82.0**	**76.1**	**68.8**
EBITDA for acquired companies						
Great White [1]	-	-	-	-	(9.6)	28.8
Merger, transaction and listing expenses [2]	-	-	-	-	31.5	4.1
Adjusted EBITDA	**53.9**	**70.9**	**67.2**	**82.0**	**98.0**	**101.7**

Note 1: Represents 56 days of Great White's EBITDA in the third quarter 2011 and a full quarter for the second quarter 2011.
Note 2: Merger, transaction and listing (M&A) expenses are considered one-time items on a pro forma basis. Great White incurred $26.5 million of M&A expenses in the third quarter 2011prior to the closing of the acquisition.

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)	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
Severance and other compensation costs	-	-	-	-	24.9	1.5
Professional fees	-	-	-	-	5.5	2.6
Other merger and integration cost	-	-	-	-	1.1	-
Total merger, transaction and listing expenses	**-**	**-**	**-**	**-**	**31.5**	**4.1**

Pro Forma Revenue by Geographic and Strategic Areas (Unaudited)

	Three Months Ended					
(In millions)	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
North America (NAM)	166.6	184.3	183.3	180.9	196.5	194.9
Latin America (LAM)	146.0	148.7	139.1	147.8	138.6	134.9
North Sea (NRS)	159.0	140.0	144.5	189.0	154.3	159.7
Emerging Markets & Technologies (EMT)	80.3	82.0	79.4	78.4	76.2	72.1
Pro Forma Revenue	**551.9**	**555.0**	**546.3**	**596.1**	**565.6**	**561.6**

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

	Three Months Ended					
(In millions)	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
North America (NAM)	15.2	31.5	27.6	28.7	53.4	55.3
Latin America (LAM)	16.1	15.5	9.7	18.7	15.0	13.9
North Sea (NRS)	10.0	6.4	12.2	19.5	13.8	19.4
Emerging Markets & Technologies (EMT)	12.6	17.5	17.7	15.1	15.8	13.1
Pro Forma EBITDA	**53.9**	**70.9**	**67.2**	**82.0**	**98.0**	**101.7**