archerwell.com

Archer Limited
Annual Report
2011

We are a global oilfield service company that specializes in drilling services and well services because we believe that specialists do the job best. Our experience drives our difference in our constant search for new ways to deliver better wells. We listen to our customers to provide straightforward solutions to help them produce more oil and gas. We are craftsmen, who take pride in our work and do what we promise. **We are Archer, the well company.**

Archer
The well company

Archer

In 2011, Archer has established itself as an international oilfield services company specializing in drilling and well services.

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We are confident that these changes give the Company a solid long-term foundation

Letter to Shareholders

In 2011 we transformed our business by bringing together Seawell, Allis-Chalmers, Gray Wireline, Great White Energy Services and several other subsidiary companies to create Archer. Our first year as Archer was fast paced and challenging, we acquired the assets required to establish ourselves as an international oilfield service provider; expanded our global footprint and broadened our service offering to meet the needs of our customers.

From a financial perspective, revenue grew from $719 million to $1.9 billion and EBITDA also grew from $87 million in 2010 to $258 million in 2011. The Company reported a net loss of $77 million overall, compared to a profit of $12 million in 2010. While we are dissatisfied with our short term financial performance, steps have been taken to improve it.

We have integrated and restructured the business to focus on organic growth and delivery and are positioned to react swiftly to our customer's needs and drive operational performance. As a result, we have entered 2012 as one group, aligned around four key geographic areas; North Sea, North America, Latin America and Emerging Markets & Technologies.

We are confident these changes give the Company a solid long-term foundation. We are now firmly established as an integrated organization and we look forward to delivering for our customers and improving our financial performance in 2012 and the years to come.

Fredrik Halvorsen

Fredrik Halvorsen
Chief Executive Officer & Vice Chairman

Board of Director's Report
Company overview and history

We have become Archer with the merger of Seawell Limited with Allis-Chalmers Energy Inc., or Allis-Chalmers, and subsequent acquisition of Great White Energy Group, or Great White. Archer has established itself as an international oilfield services company specializing in drilling and well services. Archer is the coming together of several companies, each with a deep heritage in providing services to the oil and gas industry in four continents.

Archer milestones in 2011

- In January 2011 the Company acquired Universal Wireline, or Universal, for $25.5 million. Universal operated in the United States and complements our wireline services.
- In February 2011 the Company closed its previously announced merger with Allis-Chalmers by issuing 97,071,710 shares and paying approximately $18 million to the former Allis-Chalmers shareholders. 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.
- In May 2011 the Company changed its name from Seawell Limited to Archer Limited.
- In August 2011 the Company entered into an agreement to acquire the business operations of Great White for $630 million prior to a working capital adjustment. Great White operates in the United States and provides pressure pumping, directional drilling, snubbing and coiled tubing services.
- In August 2011 the Company raised gross proceeds of $82.8 million through the issuance of 12.7 million Shares at NOK 35 (equivalent to $6.55).
- In August 2011 the Company raised gross proceeds of $167 million through the issuance of 30.0 million Shares at NOK 30 (equivalent to $5.62).

Archer is the coming together of several companies, each with a deep heritage in providing services to the oil and gas industry in four continents.

Archer, previously named Seawell Limited, was incorporated on August 31, 2007, with registration number 40612, as an exempted limited company and is organized and exists under the laws of Bermuda.

The Company's registered office is at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda and the office of Archer Management Limited (UK) is in 2 Basil Street, London SW3 1AA, Great Britain, telephone: +44 207 590 1590. The Company is listed on the Oslo stock exchange under the ticker symbol ARCHER.NO and the company's web site is www.archerwell.com

Board of Director's Report
Business overview

Service and product offering

Archer provides a broad range of drilling and well services for the oil and gas industry, helping our customers by delivering better wells to maximize production of hydrocarbons from their reservoirs.

Underpinned by experience and an outstanding record for safety and efficiency, Archer's drilling services include platform drilling, where Archer supplies experienced personnel and processes for drilling and other technical operations on more than 30 offshore platforms in the North Seas; land drilling, through our fleet of 78 rigs, including 30 drilling rigs and 48 service rigs; and Archer has built its first modular offshore drilling unit, the ARCHER EMERALD, which will start operations in 2012. Drilling services also include engineering services covering detailed design, construction, commissioning and maintenance of drilling facilities; directional and underbalanced drilling operations; tubular services; rental equipment for both onshore and offshore operations; and hammer drill bits are also a part of our portfolio of drilling services helping our customers in the well construction process.

Archer will continue to aggressively invest in its well services business with specific focus on international expansion as well as enhancing its technology portfolio.

Archer well specialists leverage experience and the right tools to improve well integrity and performance, extending the productive life of these vital assets. Our well services capabilities include a variety of wireline logging and intervention services, including supporting customers with our proprietary technology to complete and maintain their wells. Pressure control products and services, including coiled tubing, snubbing, and nitrogen services and frac valve products support our customers in well completion and intervention. Following the acquisition of Great White, Archer also provides pressure pumping services featuring hydraulic fracturing, a service used to enable production of hydrocarbons from unconventional reservoirs such as shale.

Principal markets

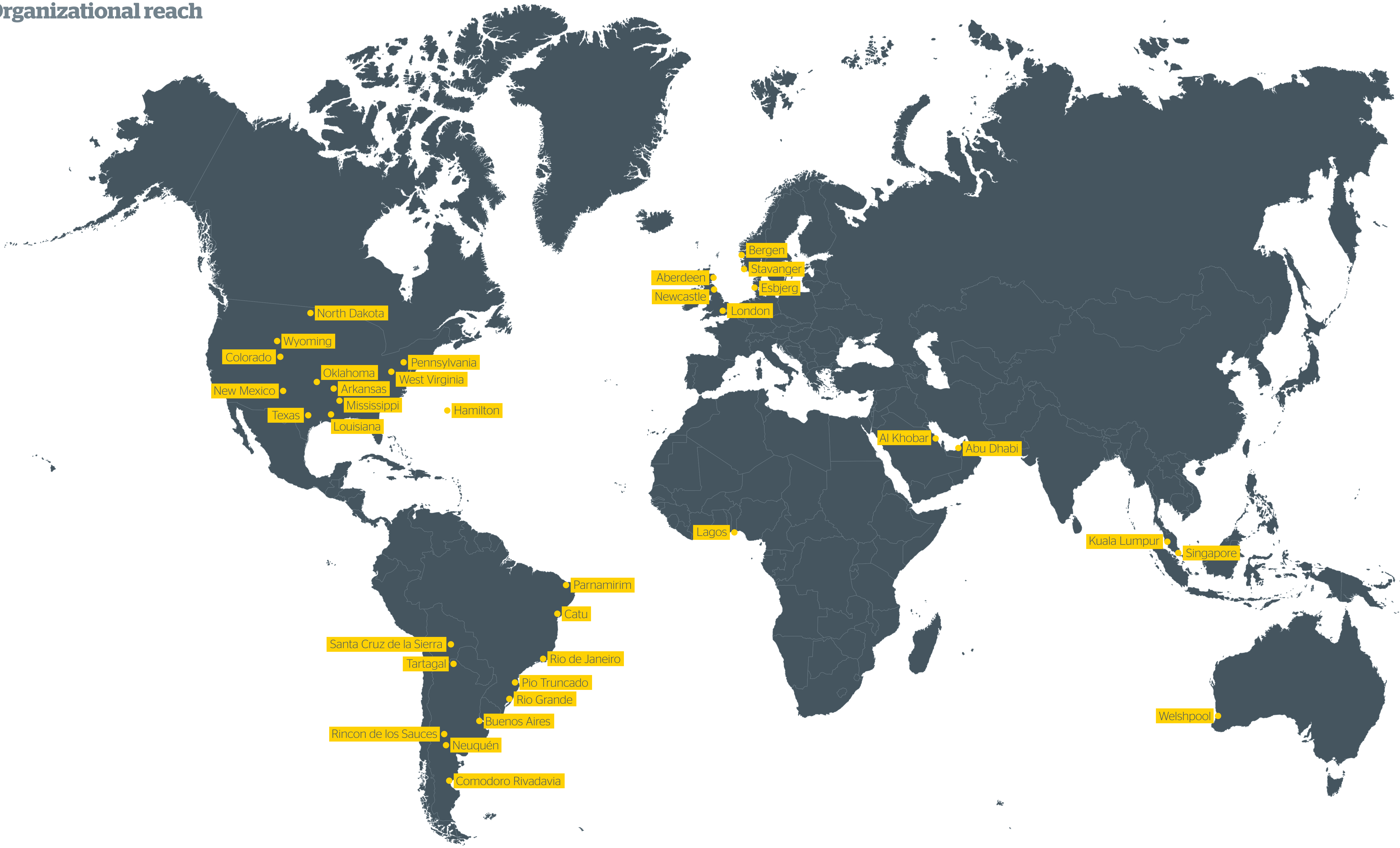
The demand for Archer's products and services is driven by the price for hydrocarbons in the countries we operate. As such we believe that the long-term fundamentals for the services we provide are sound and give the Company a good basis to grow. The immediate prospects in 2012 remain uncertain due to the low price for natural gas in the United States as well as the uncertainty created for exploration and production companies by the cancellation of the Oil Plus and Refinery Plus programs in Argentina.

As part of the growth in 2011, Archer now operates in Argentina, Australia, Bolivia, Brazil, Denmark, Egypt, Malaysia, Norway, Qatar, Saudi Arabia, Singapore, Thailand, United Arab Emirates, United Kingdom, and the United States. Archer has facilities and offices in Argentina, Bolivia, Brazil, Norway, Singapore, the United Kingdom, and the United States.

Strategy

Archer is in the early phase of becoming a mid-sized oilfield service company with a presence around the world. Following two large acquisitions in 2011, our primary objectives for Archer in the short-term are to consolidate the various businesses, improve its operational performance and asset utilization, and expand its services throughout a selected list of countries within our existing footprint. Archer will continue to aggressively invest in its well services business with specific focus on international expansion as well as enhancing its technology portfolio.

Board of Director's Report
Organizational reach



Board of Director's Report
Financial review

2011 Operating results
Total operating revenue and reimbursables for the twelve months ended December 31, 2011 amounted to $1,854.6 million, an increase of 158.1% compared to $718.7 million for the twelve months ended December 31, 2010. The additional revenue is primarily attributable to the acquired activities of Allis-Chalmers, Great White, Gray Wireline and Universal Wireline and growth in our oil tools division.

Total operating expenses for the year ended December 31, 2011 amounted to $1,377.7 million, an increase of 173.2% compared to $504.3 million for the year ended December 31, 2010. Operating expenses increased primarily due to acquired operations of Allis-Chalmers, Great White, Gray Wireline and Universal Wireline, and growth in our oil tools division.

Depreciation and amortization expenses for the year ended December 31, 2011 amounted to $147.1 million, an increase of 550.9% compared to $22.6 million for the year ended December 31, 2010. The increase is due to additional fixed assets and intangibles attributable to the acquisitions of Allis-Chalmers, Great White, Gray Wireline and Universal Wireline. In addition, depreciation and amortization expense for the year ended December 31, 2011 included $4.1 million in impairment on tangible fixed assets.

Impairment of goodwill and intangibles assets resulted in a non-cash charge of $126.6 million in the year ended December 31, 2011 and no charge for the year ended December 31, 2010. The annual impairment testing of goodwill and intangibles in 2011 resulted in impairment expense in $99.0 million of goodwill impairment and $21.7 million of intangible impairment in our drilling services segment related to operations acquired in the Allis-Chalmers merger. In addition we recorded a $5.1 million impairment on trade name shortly after the Allis-Chalmers merger and a $0.9 million impairment on trade name shortly after the Great White acquisition. In both instances, Archer decided to discontinue the use of certain acquired trade names.

General and administrative expense for the year ended December 31, 2011 amounted to $92.1 million, an increase of 265.5% compared to $25.2 million for the year ended December 31, 2010. The growth in the Company and the diversity in product offerings resulted in the increase. In addition, general and administrative expenses for the year ended December 31, 2011 included $15.2 million of acquisition costs related primarily to the acquisitions of Allis-Chalmers and Great White. General and administrative expense as a percentage of total revenues was 5.0% for the year ended December 31, 2011 and 3.5% for the year ended December 31, 2010.

Interest expense for the year ended December 31, 2011 amounted to $46.4 million, an increase of 109.0% compared to $22.2 million for the year ended December 31, 2010. Long-term interest bearing debt was $1.1 billion at December 31, 2011 compared to $194.2 million at December 31, 2010. The increase in debt is primarily related to the acquisitions of Allis-Chalmers and Great White. The Allis-Chalmers merger was funded primarily with stock but as part of the acquisition, we acquired approximately $450 million of debt and the Great White initial purchase price of $630 million was funded with cash.

Significant growth in 2011 as a result of a series of acquisitions. Net Income was negatively impacted by the one-time non cash charge for the impairment of goodwill and intangibles of $126.6 million

Other financial items for the year ended December 31, 2011 amounted to $1.0 million of expense compared to $15.3 million of expense for the year ended December 31, 2010. Other financial items consist mainly of foreign exchange losses arising on settlement of transaction loans denominated in currencies other than the functional currency.

Total income tax charges for 2011 amounted to $14.5 million, mainly related to operations in Europe and Latin America, compared to $15.3 million for 2010.

Net financial loss for the twelve-month period ended December 31, 2011 amounted to $77.0 million compared to a net profit of $12.3 million for the twelve months ended December 31, 2010.. No dividends have been proposed for the year ending December 31, 2011.

Balance sheet
Total current assets were $638.4 million at December 31, 2011 and consisted primarily of trade accounts receivables.

Total non-current assets were $2.2 billion at December 31, 2011 and consisted primarily of fixed assets used in our operations, goodwill and other intangibles.

As of December 31, 2011, total assets amounted to $2.8 billion compared to $1.0 billion at December 31, 2010. The growth in assets is primarily attributable to the acquisitions of Allis-Chalmers and Great White in 2011.

Total current liabilities were $466.5 million at December 31, 2011 and consisted primarily of current portion of long term debt, accounts payable and accrued expenses.

Total non-current liabilities were $1.1 billion at December 31, 2011 and consisted primarily of long-term interest bearing debt.

Total equity has increased to $1.3 billion at December 31, 2011 compared to $557.9 million at December 31, 2010. The increase in equity is primarily attributable to shares issued in the acquisition of Allis-Chalmers and shares issued via private placements, partly offset by the 2011 loss.

Cash flow
Cash and cash equivalents, excluding restricted cash, amounted to $37.3 million as of December 31, 2011, compared to $174.4 million as of December 31, 2010.

Capital expenditures amounted to $166.2 million for 2011 representing predominantly investments in new drilling, pressure pumping and pressure control equipment.

On December 22, 2011, the company entered into an amended and re-stated multicurrency term and revolving facility agreement. The $1,121.9 million facility is split into 2 tranches and has a maturity in November 2015.

Parent company results 2011
Net loss for the year was $77.0 million, corresponding to a net loss per share of $0.24.

Going concern
The Board of Directors confirms their assumption of the Company as a going concern. This assumption is based on the market outlook for oil service sector as per December 31, 2011. The Company's economic and financial situation is sound. The Board believes that the annual report provides a correct outline of the Company's assets and debt, financial position and financial performance.

Key figures

	2011	2010
Revenue *In $ millions*	1,855	719
EBITDA *In $ millions*	258	87
Net income/(loss) *In $ millions*	(77)	12
Net interest bearing debt *In $ millions*	1,049	20
Employees at December 31	8.500	3.200

Board of Director's Report
Health, safety and environment

Archer conducts business in accordance with a well-defined set of processes. Archer's Health, Safety and Environmental, or HSE, philosophy is to establish and maintain a culture where there are no accidents, injuries or losses. Management believes that a good working environment is a prerequisite for achieving good safety results and that sincere commitment from senior management is a key factor in reaching the goal of no accidents, injuries or losses. At Archer, line management is responsible for the implementation of systematic and preventive HSE work, as well as encouraging and promoting a sound health, environment and safety culture. In addition, Archer has implemented targeted programs in each area of operation to encourage and stress each individual's responsibility for and commitment to HSE matters. This program includes seminars, on-the-job training, best practice campaigns and a focus on leadership.

For example in the North Sea, Archer's management system has been certified according to ISO 9001:2008, Quality Management. In addition, the North Sea management system has met the requirements of ISO 14001:2006, Environmental Management Standards, for several years and Archer's management is currently in the process of certifying other Archer operations according to these or other similar and locally accepted standards. Local authorities such as the Petroleum Safety Authority in Norway and the UK Health & Safety Executive have accepted Archer's North Sea management system through the Acknowledgement of Compliance and the Safety Case certification, respectively.

As a result of Archer's systematic and focused safety management program, improvements have been shown in most safety statistics. However, despite our efforts we unfortunately encountered incidents with the potential to harm our employees or the environment and although the majority of those incidents had a very low potential for serious personal injuries, spills or emissions to the environment or economic losses, we are taking those incidents very seriously. Archer is actively working to prevent damage to the environment as a result of it's operations. This includes the systematic registration of emissions and discharges and pre-emptive action in selecting chemicals that cause minimum harm to the environment.

Archer is committed to a culture in which everyone works together to ensure good health and a sound working environment with no accidents, injuries or losses and business activities conducted in an environmentally sustainable manner. Archer's policies can be found on Archer's webpage: www.archerwell.com.

As this was the first year of Archer, combining several companies operating in different markets and with a diverse cultural heritage, we spent a lot of time promoting a focused approach when it comes to the health of our employees, a safe work environment and the protection of the environment we work in. The result of these efforts is clearly visible in our statistics as well as through the feedback we received from employees and customers.

Tragically two of our employees in the United States lost their lives in a car accident while driving to a job site. In addition we regrettably experienced twenty-six lost time injuries in 2011 throughout the company during a total of 17.8 million man hours-worked in the field. The statistics by geographic Area are as follows:

Area	Injuries	Incidents
North Sea	5	9
North America	16	45
Latin America	7	37
Rest of the world	0	2
Archer Total	28	93

As part of our proactive program to improve our safety performance and avoid incidents to the maximum extent possible, we encourage employees and contractors to proactively report and participate in the improvement of our safety. As part of this program Archer collected and analyzed over 385,000 observations in 2011.

The recorded sick leave for the entire company was 3.2% in 2011 compared to 4.2% in 2010. The combination of several companies with operations in several continents complicates the measurement as rules and regulations differ from country to country. It has to be noted that the sick leave of Archer's operations in Norway is higher compared to other areas of operation and as such the improvement is mainly due to the inclusion of the statistics from other countries such as the United States. A specific program has been implemented in Norway during 2011, which helped us to reduce the sick leave and we continue to closely monitor this statistic.

We were very successful in our efforts related to the environment and we had no environmental spill in 2011. We also dedicated a significant portion of our efforts to reducing our consumption of energy, the handling and disposal of waste and the substitution of hazardous chemicals through more environmentally friendly products.

Board of Director's Report
Employees and diversity

With the rapid expansion in 2011, we grew from a company being predominantly focused on the North Sea to a truly international company operating in 5 continents. In 2011, we combined employees with different cultural backgrounds, languages and business heritage. Not surprisingly, this brought a lot of challenges in 2011 and some will naturally remain going forward. However, it has allowed us to broaden our technical capabilities and our pool of resources, which will become an ever more important aspect of our business in the future. We are proud to employ 8,500 employees at the end of December 2011.

Being a service company means that we rely on the quality of our employees and the work they perform for our customers. It is mainly our employees who differentiate us from our competition and as such, having a diverse workforce means we will be more competitive. In Archer there are equal employment opportunities and fair treatment to all individuals regardless of race, color, religion, gender, national origin, age, disability or any other status protected by law. This commitment applies to all employment decisions in all the countries in which we operate.

In 2011, we combined employees with different cultural backgrounds, languages and business heritage. Being a service company means that we rely on the quality of our employees and the work they perform for our customers. It is mainly our employees who differentiate us from our competition and as such having a diverse workforce means we will be more competitive.

Board of Director's Report
Risk factors

Market risk

Global political, economic and market conditions could negatively impact Archer's business.

Archer's operations are affected by global political, economic and market conditions. A worldwide economic downturn could reduce the availability of liquidity and credit to fund business operations worldwide. This could adversely affect the operations of Archer's customers, suppliers and lenders that in turn could affect demand for and delivery of Archer's services. In addition, an economic downturn could reduce demand for drilling and well services, negatively impact Archer's activity levels and pricing of its services and thus adversely affect Archer's financial condition and results of operations. A decline in energy consumption following an economic downturn would materially and adversely affect Archer's operating results. Continued hostilities in the Middle East and West Africa and the occurrence or threat of terrorist attacks against the United States or other countries could contribute to a downturn in the economies of countries in which Archer operates. A sustained or deep recession could further limit economic activity and thus result in an additional decrease in energy consumption, which in turn could cause Archer's revenues and margins to decline and limit Archer's future growth prospects.

Archer's business depends on the level of activity in the exploration and production industry, which is significantly affected by volatile oil and natural gas prices.

Archer's business depends on the level of activity of oil and natural gas exploration, development and production in the North Sea, the United States and other markets where we maintain critical mass and in particular, the level of exploration, development and production expenditures of Archer's customers. Demand for Archer's drilling and well services is adversely affected by declines in exploration, development and production activity associated with depressed oil and natural gas prices. Even the perceived risk of a decline in oil or natural gas prices often causes exploration and production companies to reduce their spending. Higher prices do not necessarily translate into increased drilling activity since Archer's client's expectations about future commodity prices typically drive demand for Archer's services. Oil and natural gas prices are extremely volatile. On July 2, 2008 natural gas prices were \$13.31 per million British thermal unit, or MMBtu, at the Henry Hub. They subsequently declined sharply, reaching a low of \$1.88 per MMBtu at the Henry Hub on September 4, 2009. As of December 30, 2011, the closing price of natural gas at the Henry Hub was \$2.98 per MMBtu. The spot price for West Texas intermediate crude has in the last few years ranged from a high of \$145.29 per barrel as of July 3, 2008, to a low of \$33.87 per barrel as of December 19, 2008, with a closing price of \$98.83 per barrel as of December 30, 2011. Oil and natural gas prices are affected by numerous factors, including the following:

- the demand for oil and natural gas in Europe, the United States and elsewhere;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- political, economic and weather conditions in Europe, the United States and elsewhere;
- advances in exploration, development and production technology;
- the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain oil production levels and pricing;
- the level of production in non-OPEC countries;
- domestic and international tax policies and governmental regulations;
- the development and exploitation of alternative fuels, and the competitive, social and political position of natural gas as a source of energy compared with other energy sources;
- the policies of various governments regarding exploration and development of their oil and natural gas reserves;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East, West Africa and other significant oil and natural gas producing regions; and
- acts of terrorism or piracy that affect oil and natural gas producing regions, especially in Nigeria, where armed conflict, civil unrest and acts of terrorism have recently increased.

Archer's industry is highly competitive, with intense price competition. Archer's inability to compete successfully may reduce its profitability.

Archer's industry is highly competitive. Archer's contracts are traditionally awarded on a competitive bid basis, with pricing often being the primary factor in determining which qualified contractor is awarded a job, although each contractor's technical capability, product and service quality and availability, responsiveness, experience, safety performance record and reputation for quality can also be key factors in the determination.

Several other oilfield service companies are larger than Archer and have resources that are significantly greater than our own. Furthermore, Archer competes with several smaller companies capable of competing effectively on a regional or local basis. These competitors may be able to better withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect Archer's revenues and profitability. These competitors compete with Archer both for customers and for acquisitions of other businesses. This competition may cause Archer's business to suffer. Archer's management believes that competition for contracts will continue to be intense in the foreseeable future.

In addition, some exploration and production companies have begun performing hydraulic fracturing and directional drilling on their wells using their own equipment and personnel. Any increase in the development and utilization of in-house fracturing and directional drilling capabilities by Archer's customers could decrease the demand for Archer's services and have a material adverse impact on Archer's business.

The oilfield service industry is highly cyclical and lower demand and pricing could result in declines in Archer's profitability.

Historically, the oilfield service industry has been highly cyclical, with periods of high demand and favorable pricing often followed by periods of low demand and sharp reduction in pricing power. Periods of decreased demand or increased supply intensify the competition in the industry. As a result of the cyclicality of Archer's industry, management expects Archer's results of operations to be volatile and to decrease during market declines.

Archer has historically been dependent on a few customers and the loss of one or more customers could adversely affect our financial condition and results of operations.

In 2011, three customers accounted for nearly 50% of the Archer's revenue and in 2010, one customer accounted for nearly 50% of Archer's revenue. This concentration of customers may also increase our overall exposure to credit risk. Our customers will likely be similarly affected by changes in economic and industry conditions. Our financial condition and results of operations will be materially adversely affected if one or more of our significant customers fails to pay us or ceases to contract with us for our services on terms that are favorable to us or at all.

Operational risk

Archer's growth strategy includes making acquisitions, but Archer may be unable to complete and finance future acquisitions on acceptable terms.

As part of its growth strategy, Archer may consider future acquisitions that could involve the payment by Archer of a substantial amount of cash, the incurrence of a substantial amount of debt, the issuance of a substantial amount of equity or a combination of the foregoing. If Archer is restricted from using cash or incurring debt to fund a potential acquisition, Archer may not be able to issue; on terms it finds acceptable, sufficient equity to complete an acquisition or investment.

If Archer is unable to renew or obtain new and favorable contracts for rigs whose contracts are expiring or are terminated, Archer's revenues and profitability could be materially reduced.

Archer has a number of contracts that will expire. Archer's ability to renew these contracts or obtain new contracts and the terms of any such contracts will depend on market conditions. Archer may be unable to renew its expiring contracts or obtain new contracts for the rigs and the day rates under any new contracts may be substantially below the existing day rates, which could materially reduce Archer's revenues and profitability.

Archer's inability to effectively integrate the business and operations of acquired companies with its own could disrupt its operations and force Archer to incur unanticipated costs.

Archer's ability to integrate acquired companies' operations with its own will be important to the future success of Archer. Successful integration is subject to numerous conditions beyond Archer's control, including adverse general and regional economic conditions, general industry trends and competition. The successful integration of acquired companies' business will require Archer to, among other things, retain key employees. Archer's failure to retain and successfully integrate these new employees, or otherwise effectively integrate the operations of acquired companies with its own, could disrupt Archer's on-going business, force Archer to incur unanticipated costs and adversely affect the trading price of Archer common shares.

Archer does business in jurisdictions whose political and regulatory environments and compliance regimes differ.

Risks associated with Archer's operations in foreign areas include, but are not limited to:

- political, social and economic instability, war and acts of terrorism;
- potential seizure, expropriation or nationalization of assets;
- damage to Archer's equipment or violence directed at its employees, including kidnappings and piracy;
- increased operating costs;
- complications associated with repairing and replacing equipment in remote locations;
- repudiation, modification or renegotiation of contracts, disputes and legal proceedings in international jurisdictions;
- limitations on insurance coverage, such as war risk coverage in certain areas;
- import-export quotas;
- confiscatory taxation;
- work stoppages or strikes;
- unexpected changes in regulatory requirements;
- wage and price controls;

Board of Director's Report
Risk factors

- imposition of trade barriers;
- imposition or changes in enforcement of local content laws;
- the inability to collect or repatriate currency, income, capital or assets;
- foreign currency fluctuations and devaluation; and
- other forms of government regulation and economic conditions that are beyond Archer's control.

Part of Archer's strategy is to prudently and opportunistically acquire businesses and assets that complement Archer's existing products and services and to expand Archer's geographic footprint. If Archer makes acquisitions in other countries, Archer may increase its exposure to the risks discussed above.

We are subject to numerous governmental laws and regulations, some of which may impose significant liability on us for environmental and natural resource damages.
We are subject to various federal, state, local and foreign laws and regulations, including those relating to the energy industry in general and the environment in particular and may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of governmental authorities and organizations. Moreover, the cost of compliance could be higher than anticipated. Our operations are subject, as applicable, to various anti-bribery laws, including the Norway Penal Code Against Corruption, the U.K. Bribery Act and the U.S. Foreign Corrupt Practices Act, as well as certain international conventions and the laws, regulations and standards of the countries in which we operate. It is also possible that existing and proposed governmental conventions, laws, regulations and standards, including those related to climate and emissions of "greenhouse gases," may in the future add significantly to our operating costs or limit our activities or the activities and levels of capital spending by our customers.

In addition, many aspects of our operations are subject to laws and regulations that relate, directly or indirectly, to the oilfield services industry, including laws requiring us to control the discharge of oil and other contaminants into the environment or otherwise relating to environmental protection. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and even criminal penalties, the imposition of remedial obligations and the issuance of injunctions that may limit or prohibit our operations. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part. These laws and regulations may expose us to liability for the conduct of, or conditions caused by, others or for acts that were in compliance with all applicable laws at the time the acts were performed. The application of these requirements, the modification of existing laws or regulations, or the adoption of new laws or regulations curtailing exploration and production activity could materially limit our future contract opportunities, materially increase our costs or both.

The scope of regulation of our industry and our products and services may increase further following the April 2010 accident in the Gulf of Mexico. In addition, members of the U.S. Congress, the U.S. Environmental Protection Agency and various agencies of several states within the U.S. are reviewing more stringent regulation of hydraulic fracturing, a technology employed by our pressure pumping business. Regulators are investigating whether there is a link between the fracturing process and ground water or soil contamination. A significant portion of North American service activity today is directed at prospects that require hydraulic fracturing in order to produce hydrocarbons and additional regulation could increase the costs of conducting our business. Our business opportunities and revenues could be impacted if our customers decrease their levels of activity in response to such regulation.

We may be subject to claims for personal injury and property damage, which could materially adversely affect our financial condition and results of operations.
Substantially all of our operations are subject to hazards that are customary for exploration and production activity including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution, and mechanical failure. Any of these risks could result in damage to or destruction of drilling equipment, personal injury and property damage and suspension of operations or environmental damage. We may also be subject to property, environmental and other damage claims by oil and natural gas companies and other businesses operating offshore and in coastal areas. Litigation arising from an accident at a location where our products or services are used or provided may cause us to be named as a defendant in lawsuits asserting potentially large claims. Generally, our contracts provide for the division of responsibilities between us and our customers and, consistent with standard industry practice, our clients generally assume and indemnify us against, some of these risks. In particular, contract terms generally provide that our customer, the operator, will retain liability and indemnify us for (i) environmental pollution caused by any oil, gas, water or other fluids and pollutants originating from below the surface or seabed, as applicable, (ii) damage to customer and third-party equipment and property including any damage to the sub-surface and reservoir, and (iii) personal injury to or death of customer personnel. There can be no assurance, however, that these clients will necessarily be financially able to indemnify us against all risks. Also, we may be effectively prevented from enforcing these indemnities because of the nature of our relationship with some of our larger clients. Additionally, from time to time we may not be able to obtain agreement from our customers to indemnify us for such damages and risks.

To the extent that we are unable to transfer such risks to customers by contract or indemnification agreements, we generally seek protection through customary insurance to protect our business against these potential losses. However, we have a significant amount of self-insured retention or deductible for certain losses relating to general liability and property damage. There is no assurance that such insurance or indemnification agreements will adequately protect us against liability from all of the consequences of the hazards and risks described above. The occurrence of an event for which we are not fully insured or indemnified against, or the failure of a customer or insurer to meet our indemnification or insurance obligations, could result in substantial losses.

Severe weather could have a material adverse impact on Archer's business.
Archer's business could be materially and adversely affected by severe weather. Repercussions of severe weather conditions may include:

- curtailment of services;
- weather-related damage to facilities and equipment resulting in suspension of operations;
- inability to deliver materials to job sites in accordance with contract schedules; and
- loss of productivity.

A substantial portion of Archer's revenue from operations is generated from work performed in the North Sea. Adverse weather conditions during the winter months in the North Sea usually result in low levels of offshore activity.. Adverse seasonal weather conditions in the United States and in Argentina may limit Archer's access to job sites and its ability to service wells in affected areas. These constraints and the resulting shortages or high costs could delay Archer's operations and materially increase Archer's operating and capital costs in general or for the affected regions.

Financial risk
Archer's results of operations may be adversely affected by currency fluctuations.
Due to its international operations, Archer may experience currency exchange losses when revenues are received and expenses are paid in nonconvertible currencies or when Archer does not hedge an exposure to a foreign currency. Archer may also incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital. Archer attempts to limit the risks of currency fluctuation and restrictions on currency repatriation where possible by obtaining contracts providing for payment of a percentage of the contract indexed to the U.S. dollar exchange rate. To the extent possible, Archer seeks to limit its exposure to local currencies by matching the acceptance of local currencies to Archer's local expense requirements in those currencies. Archer may not be able to take these actions in the future, thereby exposing it to foreign currency fluctuations that could cause Archer's results of operations, financial condition and cash flows to deteriorate materially.

Archer has a significant level of debt and could incur additional debt in the future, which could have significant consequences for its business and future prospects.
As of December 31, 2011, Archer had total outstanding debt of approximately $1,086.2 million. This debt represented approximately 38.6% of Archer's total book capitalization. Archer's debt and the limitations imposed on Archer by its existing or future debt agreements could have significant consequences for Archer's business and future prospects, including the following:

- Archer may not be able to obtain necessary financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- Archer will be required to dedicate a substantial portion of its cash flow from operations to payments of principal and interest on its debt;
- Archer could be more vulnerable during downturns in its business and be less able to take advantage of significant business opportunities and to react to changes in Archer's business and in market or industry conditions; and
- Archer may have a competitive disadvantage relative to its competitors that have less debt.

Archer's ability to make payments on and to refinance its indebtedness and to fund planned capital expenditures will depend on Archer's ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond Archer's control. Archer's earnings and cash flow may vary significantly from year to year due to the cyclical nature of the oilfield services industry. As a result, Archer's future cash flows may be insufficient to meet all of its debt obligations and other commitments and any insufficiency could negatively impact Archer's business. To the extent Archer is unable to repay its indebtedness as it becomes due or at maturity

Board of Director's Report
Risk factors

with cash on hand, Archer will need to refinance its debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to Archer in the future for the refinancing or repayment of existing indebtedness, and Archer may not be able to complete asset sales in a timely manner sufficient to make such repayments.

Archer's credit facility imposes restrictions on Archer that may limit the discretion of management in operating Archer's business and that, in turn, could impair Archer's ability to meet its obligations.
Archer's credit facility contains various restrictive covenants that limit management's discretion in operating its business. In particular, these covenants limit its ability to, among other things:

- make certain types of loans and investments;
- incur or guarantee additional indebtedness;
- pay dividends, redeem or repurchase stock, prepay, redeem or repurchase other debt or make other restricted payments;
- use proceeds from asset sales, new indebtedness or equity issuances for general corporate purposes or investment into its business;
- place restrictions on Archer's subsidiaries' ability to make dividends or other payments to Archer;
- invest in joint ventures;
- create or incur liens;
- enter into transactions with affiliates;
- sell assets or consolidate or merge with or into other companies; and
- enter into new lines of business.

The credit facility also imposes additional covenants and restrictions, including the imposition of a requirement to maintain a minimum equity ratio at all times. Archer's ability to comply with these financial covenants and restrictions may be affected by events beyond Archer's control. Archer's credit facility requires that Archer meet certain financial ratios and tests and there can be no assurance that Archer will be able to comply with the financial covenants. Reduced activity levels in the exploration and production industry could adversely impact Archer's ability to comply with such covenants in the future. Archer's failure to comply with such covenants would result in an event of default under the credit facility, which could result in Archer having to immediately repay all amounts outstanding under the credit facility and in foreclosure of liens on Archer's assets.

These covenants could materially and adversely affect Archer's ability to finance its future operations or capital needs. Furthermore, they may restrict Archer's ability to expand, to pursue its business strategies and otherwise to conduct its business. A breach of these covenants could result in a default under Archer's credit facility. If there were to be an event of default under the credit facility, the affected creditors could cause all amounts borrowed under the facility to be due and payable immediately. Additionally, if Archer fails to repay indebtedness under its credit facility when it becomes due, the lender under the credit facility could proceed against the assets which Archer has pledged as security. Archer's assets and cash flow might not be sufficient to repay its outstanding debt in the event of a default.

Archer's operations are subject to a significant number of tax regimes, and changes in legislation or regulations in any one of the countries in which Archer operates could negatively and adversely affect Archer's results of operations.
Archer's operations are carried out in several countries across the world, and Archer's tax filings are therefore subject to the jurisdiction of a significant number of tax authorities and tax regimes, as well as cross-border tax treaties between governments. Furthermore, the nature of Archer's operations means that Archer routinely has to deal with complex tax issues (such as transfer pricing, permanent establishment or similar issues) as well as competing and developing tax systems where tax treaties may not exist or where the legislative framework is unclear. In addition, Archer's international operations are taxed on different bases that vary from country to country, including net profit, deemed net profit (generally based on turnover) and revenue based withholding taxes based on turnover.

Archer's management determines its tax provision based on its interpretation of enacted local tax laws and existing practices and uses assumptions regarding the tax deductibility of items and recognition of revenue. Changes in these assumptions and practices could impact the amount of income taxes that Archer provides for in any given year and could negatively and adversely affect the result of Archer's operations.

The Company has recorded substantial goodwill as the result of recent acquisitions and as such goodwill is subject to periodic reviews of impairment.
Archer performs purchase price allocations to intangible assets when accounting for a business combination. The excess of the purchase price after allocation of fair values to tangible assets is allocated to identifiable intangibles and thereafter to goodwill. Periodic reviews of goodwill for impairment in value are conducted at least annually. Any impairments would result in a non-cash charge against earnings in the period reviewed, which may or may not create a tax benefit, and would have a corresponding decrease in stockholders' equity. 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 Archers business operations.

We reviewed goodwill at December 31, 2010 and recorded no impairment but based on our review of goodwill at December 31, 2011 we recorded an impairment of $99.0 million, which relates to goodwill acquired on the merger with Allis-Chalmers. 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 Archers business operations. In the event that market conditions deteriorate or other circumstances arise which result in changes to these estimates and assumptions, we may be required to record an additional impairment of goodwill and such impairment could be material.

Risks related to shares

Archer common shares may trade at low volumes that could have an adverse effect on the resale price, if any, of the Archer common shares.
An active trading market may not prevail on Oslo Børs. Active and liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an active trading market for the Archer common shares does not prevail, the price of the shares may be more volatile and it may be more difficult to complete a buy or sell order for Archer common shares.

Even if an active public trading market prevails, there may be little or no market demand for the Archer common shares, making it difficult or impossible to resell the shares, which would have an adverse effect on the resale price, if any, of the Archer common shares. Archer cannot predict the price, if any, at which Archer common shares will trade.

The price of Archer's common shares has been, and may continue to be, volatile.
The trading price of Archer common shares as registered on Oslo Børs has historically fluctuated. The volatility of the price of Archer's common shares depends upon many factors including:

- decreases in prices for oil and natural gas resulting in decreased demand for Archer's services;
- variations in Archer's operating results and failure to meet expectations of investors and analysts;
- increases in interest rates;
- illiquidity of the market for Archer's common shares;
- sales of common shares by existing shareholders;
- Archer's substantial indebtedness; and
- other developments affecting Archer or the financial markets.

A reduced share price may result in a loss to investors and will adversely affect Archer's ability to issue common shares to fund Archer's activities.

Archer is a Bermuda company and being a shareholder of a Bermuda company involves different rights and privileges than being a stockholder of a corporation registered in Norway.
The rights of Archer shareholders of Archer are governed by the law of Bermuda, Archer's memorandum of association and its amended and restated bye-laws. Bermuda law extends to shareholders certain rights and privileges that may not exist under Norwegian law, conversely, does not extend rights and privileges extended by Norwegian law.

Because Archer is organized under the laws of Bermuda, investors may face difficulties in protecting their interests, and their ability to protect their rights through courts may be limited.
It may be difficult to bring and enforce suits against Archer because Archer is organized under the laws of Bermuda. Some of Archer's directors reside in various jurisdictions outside Norway. As a result, it may be difficult for investors to affect service of process within Norway upon Archer's non-Norwegian directors or within other jurisdictions outside the relevant director's country of residence. Equally it may be difficult for investors to enforce judgments obtained in the Norwegian courts or courts of other jurisdictions outside Bermuda or the relevant director's country of residence against Archer or its non-Norwegian directors. In addition, there is some doubt as to whether the courts of Bermuda and other countries would recognize or enforce judgments of foreign courts obtained against Archer or its directors or officers or would hear actions against Archer or those persons based on foreign laws. Archer has been advised by its legal advisors in Bermuda that Norway and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Some remedies available under the laws of Norway, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Therefore, a final judgment for the payment of money rendered by any federal or state court in Norway based on civil liability would not automatically be enforceable in Bermuda.

Archer may not have sufficient capital in the future to meet its needs. Future financings to provide this capital may dilute shareholders' ownership in the combined company.
Archer may raise additional capital in the future through public or private debt or equity financings by issuing additional common shares or other preferred financing shares, debt or equity securities convertible into common or preferred shares, or rights to acquire these securities. Archer may need to raise this

additional capital in order to (among other things):
- take advantage of expansion or acquisition opportunities;
- acquire, form joint ventures with or make investments in complementary businesses, technologies or products;
- develop new products or services;
- respond to competitive pressures;
- repay debt; or
- respond to a difficult market climate.

Archer's board may issue additional equity securities to fund the potential acquisition of additional businesses and pursuant to employee benefit plans. Archer may also issue additional equity securities for other purposes. These securities may have the same rights as Archer's common shares or, alternatively, may have dividend, liquidation, or other preferences to Archer's common shares. The issuance of additional equity securities will dilute the holdings of existing shareholders and may reduce the price of Archer's common shares.

Seadrill Limited and Lime Rock Partners V L.P. currently control a substantial ownership stake in Archer and such interests could conflict with those of Archer's other shareholders.
Seadrill Limited, or Seadrill and Lime Rock Partners V L.P., or Lime Rock, held 146,238,446 and 45,101,867 respectively of Archer's common shares as of December 31, 2011, which corresponds to 39.9% and 12.3% of the issued and fully paid shares.

As a result of these substantial ownership interests in Archer, Seadrill and Lime Rock have the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorized share capital of Archer (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with a controlling shareholder could benefit Archer, the interests of these significant shareholders could at times conflict with the interests of other holders of Archer's common shares. Although Archer has in the past sought and continues to seek to conclude all related party transactions on an arm's-length basis, and Archer has adopted procedures for entering into transactions with related parties, conflicts of interest may arise between Archer and Archer's principal shareholders or their respective affiliates, resulting in the conclusion of transactions on terms not determined by market forces. Any such conflicts of interest could adversely affect Archer's business, financial condition and results of operations, and therefore the value of its shares.

Board of Director's Report
Share capital issues

At December 31, 2011 the Company's authorized share capital is $1,200,000,000, divided into 600,000,000 Shares each with a par value of $2.00. All Shares in the Company are of the same class.

A total of 225,400,050 shares were issued and outstanding at December 31, 2010.

Archer issued a total of 97,071,710 common shares in connection with the merger with Allis-Chalmers on March 4, 2011.

Archer issued 12.7 million new shares on August 31, following a Private Placement directed towards its two largest shareholders, Seadrill and Lime Rock. Seadrill was allocated 10.8 million of the shares while Lime Rock was allocated the remaining 1.9 million shares. The proceeds were used to partly finance the acquisition of Great White.

Archer issued 30 million new shares on September 6, following a Private Placement on August 31, 2011. The proceeds were used to partly finance the acquisition of Great White.

A total of 997,242 shares was issued during 2011 in relation to exercise of options, and a further 228,620 shares were issued in relation to settlement with dissenting shareholders from the merger with Allis-Chalmers.

At December 31, 2011 the number of shares issued is 366,397,622 corresponding to a share capital of $732,795,244. The issued shares are fully paid. There are no shares not representing the capital in the Company. The shares are equal in all respects, and each share carries one vote at the Company's General Meeting. None of the Company's shareholders have different voting rights.

All of the Company's issued shares are listed on the Oslo Stock Exchange and the split of the shareholders was as per the graph below:

Shareholder overview

Seadrill	39.9%
Lime Rock	12.3%
Hemen Holdings	6.6%
Others	41.1%

Board of Director's Report
Corporate governance

The Board has reviewed the compliance of the Company with various rules and regulations, such as Norwegian Accounting Act, the Norwegian Code of Practice for Corporate Governance as well as the respective Bermuda law. A detailed discussion of each item can be found in the compliance section of this annual report in Appendix A. The Board believes that, in general, the Company is in compliance with most rules and regulations. The compliance section outlines the parts where the Company is not in compliance and the reasons for this non-compliance.

Board of Director's Report
Board of Directors

Composition of the Board
Overall responsibility for the management of the Company and its subsidiaries rests with the Board. The Company's bye-laws provide that the Board shall consist of minimum two and maximum nine directors.

The Company's business address at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton HM 08, Bermuda, serves as c/o addresses for the members of the Board in relation to their directorships of the Company.

Saad Bargach
Chairman
Mr. Bargach has served as Chairman of the Board since February 2011, following the merger with Allis-Chalmers. Prior to the merger, Mr. Bargach served as a director of Allis-Chalmers from June 2009 to February 2011. Mr. Bargach is a managing director at Lime Rock Partners. Prior to joining Lime Rock Partners, Mr. Bargach worked for more than 25 years at Schlumberger. Most recently, he served as Schlumberger's chief information officer and from July 2004 to March 2006, as president, well completions & productivity group which included artificial lift, completions, testing, subsea and sand management services. During his career at Schlumberger, Mr. Bargach also served as president of consulting & systems integration for SchlumbergerSema in several European locations; the president of the drilling & measurements division with worldwide responsibility for drill bits, directional drilling, measurements-while-drilling, and logging-while-drilling services; and the Cairo-based president, oilfield services for Africa and Near East. He is also a member of the board of the American Productivity and Quality Center and currently serves on the board of directors of Artificial Lift Company (Chairman), a U.S. based oil services company, Gas2 Limited, an Aberdeen-based oil service technology company, Tiway Oil, a Dubai-based oil and gas producing company, Expert Petroleum, a Bucharest-based production enhancement company, DHS Oil (Chairman), a Dubai based oil service company, OilSERV, an Iraq-based service company, Tercel Oilfield Products, a Dubai-based oilfield services technology company, TGT Oil and Gas Services (Chairman), a Dubai-based oil services company, Xtreme Oil Drilling, an Alberta-based oil services technology provider, GEODynamics (Chairman), a U.S. based oil services company specializing in the manufacturing, assembly and sale of high performance perforating systems. He previously served on the board of directors of ITS Energy Services. Mr. Bargach has a bachelor's degree in electrical engineering and a master's degree in control systems. Mr. Bargach is a British citizen, resident in Dubai.

Fredrik Halvorsen
Vice Chairman and CEO
Fredrik Halvorsen has served as a Director since October 2010 and was appointed Vice Chairman of the Board in February 2011. Mr. Halvorsen is a director of Deep Sea Supply Plc., where he has served since October 2010. Mr. Halvorsen's experience includes the position as chief executive officer of Tandberg ASA and, subsequently, senior vice president of Cisco Systems Inc. Prior to that he was the leader of McKinsey's South East Asia corporate finance practice. Mr. Halvorsen is currently employed by Frontline Corporate Services Ltd, and holds a degree in Business Administration from The Norwegian School of Economics and Business Administration, with majors in finance and economics. The Finance major was obtained at the J.L. Kellogg Graduate School of Management. Mr. Halvorsen is a Norwegian citizen, resident in the UK.

Kate Blankenship
Director
Kate Blankenship has served as a Director since its incorporation in August 2007. Mrs. Blankenship has also served as a director of Seadrill since 2005, Frontline Ltd. since 2004, Ship Finance International Limited since October 2003, Independent Tankers Corporation Limited since February 2008, Golar LNG Limited since July 2003, Golden Ocean Group Limited since November 2004 and North Atlantic Drilling Ltd since 2011. Mrs. Blankenship has also served as chief accounting officer and secretary of Frontline Limited between 1994 and 2005, as chief financial officer of Knightsbridge Tankers Limited from April 2000 until September 2007 and was secretary of Knightsbridge Tankers Limited from December 2000 until March 2007. Mrs. Blankenship is a member of the Institute of Chartered Accountants in England and Wales. Ms. Blankenship is a British citizen, resident in France.

Alejandro P. Bulgheroni
Director
Alejandro P. Bulgheroni was appointed as a Director in February 2011. Mr. Bulgheroni serves as the chairman of the Management Committee of Pan American Energy LLC since 1997. He also serves as chairman, president and chief executive officer of Associated Petroleum Investors Ltd., an international oil and gas holding company, as chairman and president of Global Oilfield Holdings Ltd., as chairman of Beusa Holdings, Inc., as chairman of Becana Holdings Corporation, as vice-president and chief executive officer of Samconsult S.A. and as president and chief executive officer of Nuevo Manantial S.A. and Agroland S.A. Mr. Bulgheroni is a member of the Petroleum and Gas Argentine Institute and of the Society of Petroleum Engineers (USA), vice-president of the Argentine Chamber of Hydrocarbons Producers, vice-president of the Argentine-Uruguayan Chamber of Commerce, counsellor of the Buenos Aires Stock Exchange, member of the Latin America Conservation Council, counsellor of the Argentine Business Council for Sustainable Development and vice-president of the Educando Foundation (Argentina). Mr. Bulgheroni is a graduate of the University of Buenos Aires with a degree in industrial engineering. Mr. Bulgheroni is an Argentinean/Italian citizen, resident in Argentina.

Cecilie Fredriksen
Director
Cecilie Fredriksen has served as a Director since September 2008. Ms. Fredriksen has been employed by Frontline Corporate Services Limited in London since 2007 where she has served as an investment director. Ms. Fredriksen has been a director of Aktiv Kapital ASA since 2006, Golden Ocean Group Limited, since September 2008 and Ship Finance International Limited, since November 2008, Frontline Ltd since September 2010 and North Atlantic Drilling Ltd since 2011. Ms. Fredriksen also serves as a director of Marine Harvest ASA and Marine Harvest Ireland and has been a director of Northern Offshore Ltd. since February 2010. She received a BA in Business and Spanish from the London Metropolitan University in 2006. Ms. Fredriksen is a Norwegian citizen, resident in the UK

Giovanni Dell' Orto
Director
Giovanni Dell' Orto was appointed as a Director in February 2011. Mr. Dell' Orto was president and chief executive officer of DLS Drilling, Logistics and Services from 1994 to August 2006. He is member of the board of Energy Developments and Investments Corporation (EDIC), supervising EDIC's gas marketing activities in Europe and other upstream projects in North Africa. He is also a nonexecutive member of the board of directors of Gas Plus S.p.a., an Italian company listed on the Milan Stock Exchange. Mr. Dell' Orto has also served as chairman and chief executive officer of Saipem and was a board member of Agip and Snam. Mr. Dell'Orto is an Argentinean citizen, resident in Argentina.

John Reynolds
Director
John Reynolds was appointed as a Director in February 2011. Mr. Reynolds co-founded Lime Rock Partners in 1998 and is currently a managing director of Lime Rock Partners. Mr. Reynolds remains an active member of the Lime Rock Partners investment team, investigating and executing primarily energy service investment opportunities worldwide. Prior to co-founding Lime Rock Partners, Mr. Reynolds worked at Goldman Sachs where he spent six years in the investment research department and had senior analyst responsibility for global oil service sector research and was one of the top-rated analysts in the sector. He currently serves on the board of directors of Tesco Corporation, EnerMech Ltd., Revelation Energy Holdings LLC, Tercel Oilfield Products, and VEDCO Holdings Inc. He previously served on the board of directors of Hercules Offshore Inc., Eastern Drilling ASA, IPEC Ltd., Noble Rochford Drilling Ltd., Patriot Drilling, Roxar ASA, Sensa Ltd., and Torch Offshore Inc. Mr. Reynolds is a U.S. citizen, resident in the United States.

Tor Olav Trøim
Director
Tor Olav Trøim has served as a Director since its incorporation in August 2007. Mr. Trøim is vice president and director of Seadrill, where he has served since May 2005. Mr. Trøim graduated as M.Sc Naval Architect from the University of Trondheim, Norway in 1985. From 1987 to 1990, Mr. Trøim served as portfolio manager equity for Storebrand ASA and from 1992 to 1995 he was chief executive officer of Norwegian Oil Company DNO AS. Mr. Trøim serves as a director of three companies listed on Oslo Børs: Golden Ocean Group Limited, Golar LNG Energy Limited, and Aktiv Kapital ASA, as well as being an alternate director in Marine Harvest ASA. In addition he is currently the chairman of Independent Tankers Corporation Limited. Mr. Trøim served as a director of Frontline Ltd from November 1997 until February 2008 and now serves as a consultant to the board of Frontline Ltd. He also has acted as chief executive officer for Knightsbridge Tankers Limited, a Bermuda company listed on the NASDAQ Global Select Market, until September 2007 and for Golar LNG Limited until April 2006. Mr. Trøim is a Norwegian citizen, resident in the UK.

Board independence
Except for Mr. Halvorsen, all other directors are independent from the executive management team and Archer's material business relations, and four of the eight directors (Alejandro P. Bulgheroni, Fredrik Halvorsen, Giovanni Dell' Orto, and Cecilie Fredriksen) are independent from shareholders holding 10% or more of the shares in the Company. Thus, as a whole the Board complies with the independency requirements of Oslo Børs listing rules and the Norwegian corporate governance code.

Board of Director's Report
Senior management

Kjetil Bjornson
President North Sea and Executive Vice President
Mr. Bjørnson has held been President North Sea since January 2012. Mr. Bjornson started working for Seawell in July 2010 having previously held the role of Senior VP of Human Resources with Seadrill. He has held several senior positions with Schlumberger Limited both in Europe and in the U.S. Mr. Bjornson has also held senior positions in the CHC Helicopter Services Company.

Prior to his career in the offshore industry, Mr. Bjørnson served for several years on submarines. He completed the Submarine Commanding Officers Training in 1987 and graduated from the Royal Norwegian Naval Academy in 1989.

Mr. Bjornson is a Norwegian citizen and resides in Sandnes, Norway.

Ronney Coleman
President North America and Executive Vice President
Mr. Coleman has been President North America since January 2012. Mr. Coleman came to Archer following a year with Select Energy Services were he served as Chief Operating Officer and a 33 year career at BJ Services where he established himself as a leader in the oil and gas industry. Mr. Coleman joined BJ Services in 1977 and over the course of his career, he served in various capacities, beginning as an equipment operator and culminating as the Vice President for North America Pressure Pumping Services in 2007. Prior to being promoted to Vice President for North America, he was the Vice President for U.S./Mexico Operations from 1998 through 2007. He previously held various management positions within U.S./Mexico sales and operations groups.

Mr. Coleman graduated from the University of Texas – Permian Basin. He is a US citizen, a native Texan, and resides in Houston, Texas.

Thorleif Egeli
President Latin America, Corporate Marketing and Executive Vice President
Mr. Egeli has held the position as President Latin America since January 2012. Prior to this, Mr. Egeli held the position as CEO of Seawell from October 2009 becoming Chief Operating Officer on the launch of Archer in February 2011. Prior to this, Mr. Egeli was employed by Schlumberger Limited for 16 years. His professional experience includes serving in a range of positions in Europe, North Africa, North and South America, and Asia. From 2007 to 2009 he served as Vice President, Schlumberger North America, from 2004 to 2007 he served as Marketing Director North Sea and has previously held management positions as Managing Director Dowell Norge A.S., QHSE Manager East Asia, and served as country manager in well services and drilling fluids.

Mr. Egeli holds a degree in mechanical engineering from the Norwegian Technical University and an MBA from Erasmus school of Management, Rotterdam. He is a Norwegian citizen and resides in Houston, Texas.

Olivier Muller
President Emerging Markets & Technologies and Executive Vice President
Mr. Muller has been President Emerging Markets & Technologies, since January 2012. Before joining Archer, Mr. Muller was CEO for C6 Technologies, an Archer technology Joint Venture. His experience includes 18 years with Schlumberger Limited serving in a range of positions across Europe and Africa. Amongst others he was Vice President of the global perforation business including R&E and Manufacturing, Vice President and Managing Director of oilfield operations in North Africa and General Manager for wireline operations in Scandinavia. He later served as Vice President and General Manager of the Areva mining business in Niger, Africa.

Mr. Muller holds a Masters degree in Mechanical Engineering from the Lille University in France. He is a French citizen and resides in Stavanger, Norway.

Fredrik Halvorsen
Vice Chairman and CEO
See above section 10.1.

Christoph Bausch
Chief Financial Officer and Executive Vice President
Mr. Bausch has been the Executive Vice President and Chief Financial Officer since May 2011. Before joining Archer, Mr. Bausch was global director finance at Transocean. Prior to this, he had a 20-year career in Schlumberger, where he held various financial positions around the world. After several financial positions in Germany, he started his international career in 1996 as region controller for Sedco Forex Contract Drilling Services in South America. From 1998 until 2000, Mr. Bausch was responsible for the financial integration of Camco International Inc. into Schlumberger. Mr. Bausch also worked as financial controller responsible for Mexico & Central America and Middle East & Asia. From 2006 to 2010 he was based in Houston as the worldwide controller for research, engineering and manufacturing activities in Schlumberger.

Mr. Bausch studied at the University of Mannheim, where he obtained a degree in Masters of Business Administration. Mr. Bausch is a German citizen based in the UK.

Max L. Bouthillette
General Counsel and Executive Vice President
Mr. Bouthillette has been the Executive Vice President and General Counsel since August 2010. Mr. Bouthillette was previously employed for 16 years with BJ Services, Schlumberger Limited and the U.S. law firm of Baker Hostetler LLP. His professional experience includes serving as chief compliance officer and associate general counsel for BJ Services from 2006 to 2010, as a partner with Baker Hostetler LLP from January 2004 to 2006, and in several positions with Schlumberger in North America, Asia, and Europe from 1998 to December 2003.

Mr. Bouthillette holds a degree in accounting from Texas A&M University and a Juris Doctorate from the University of Houston Law Center. Mr. Bouthillette is a U.S. citizen, and resides in Houston, Texas.

Board of Director's Report
Responsibility statement

We confirm to the best of our knowledge, that the financial statements for the year ending December 31, 2011 have been prepared in accordance with accounting principles generally accepted in the United States, or US GAAP and give a true and fair view of the Company's consolidated assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the year-end Director's Report includes a fair review of important events that have occurred during the financial year and their impact on the set of consolidated financial statements and a description of the principal risks and uncertainties.

April 30, 2012
The Board of Archer Limited

Saad Bargach
(Chairman)

Fredrik Halvorsen
(Vice Chairman)

Kate Blankenship
(Director)

Cecilie Fredriksen
(Director)

Tor Olav Trøim
(Director)

Alejandro P. Bulgheroni
(Director)

Giovanni Dell' Orto
(Director)

John Reynolds
(Director)

Financial Statements 2011

Report of Independent Auditors

To the Board of Directors and Shareholders of Archer Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Archer Limited and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for the years then ended in accordance with the applicable law in Bermuda and in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit of these statements in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of The Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

PricewaterhouseCoopers LLP

London
United Kingdom
April 30, 2012

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH
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Archer Limited and Subsidiaries
Consolidated statement of operations

(In millions of $, except share and per share data)	YEAR ENDED DECEMBER 31	
	2011	2010
Revenues		
Operating revenues	1,720.8	612.0
Reimbursable revenues	133.8	106.7
Total revenues	**1,854.6**	**718.7**
Expenses		
Operating expenses	1,377.7	504.3
Reimbursable expenses	127.0	102.7
Depreciation and amortization	147.1	22.6
Impairment of goodwill and intangible assets	126.6	-
General and administrative expenses	92.1	25.2
Total expenses	**1,870.5**	**654.8**
Operating (loss) / income	**(15.9)**	**63.9**
Financial items		
Interest income	3.7	1.5
Interest expenses	(46.4)	(22.2)
Share of results in associated company	(2.9)	(0.3)
Other financial items	(1.0)	(15.3)
Total financial items	**(46.6)**	**(36.3)**
(Loss) / income before income taxes	**(62.5)**	**27.6**
Income taxes	(14.5)	(15.3)
Net (loss) / income	**(77.0)**	**12.3**
Net (loss) / income attributable to controlling interests	**(77.0)**	**12.4**
Net (loss) / income attributable to non-controlling interests	**-**	**(0.1)**
Basic earnings per share ($)	**(0.24)**	**0.08**
Diluted earnings per share ($)	**(0.24)**	**0.08**
Weighted average number of shares outstanding		
Basic	322,420,262	152,049,913
Diluted	322,420,262	155,930,383

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

Archer Limited and Subsidiaries
Consolidated statement of comprehensive (loss) / income

(In millions of $)	YEAR ENDED DECEMBER 31	
	2011	2010
Net (loss) / income	(77.0)	12.3
Other comprehensive (loss) / income net of tax		
Change in unrealized loss/gain related to pension	(15.3)	(11.2)
Change in unrealized foreign exchange differences	(17.5)	30.0
Interest swap gain / (loss)	0.7	(0.9)
Other comprehensive loss	**(32.1)**	**17.9**
Total comprehensive loss / income (net of tax)	**(109.1)**	**30.2**

Archer Limited and Subsidiaries
Accumulated other comprehensive (loss) / income

	PENSION - UNRECOGNIZED GAINS/LOSSES	CHANGE IN UNREALIZED FOREIGN EXCHANGE DIFFERENCES	OTHER COMPREHENSIVE GAINS/LOSSES	TOTAL
Balance at December 31, 2009	**4.9**	**1.7**	**(1.0)**	**5.6**
Net change in gains and losses and prior service cost	(11.2)	-	-	(11.2)
Interest swap loss	-	-	(0.9)	(0.9)
Foreign exchange differences	-	30.0	-	30.0
Balance at December 31, 2010	**(6.3)**	**31.7**	**(1.9)**	**23.5**
Net change in gains and losses and prior service cost	(15.3)	-	-	(15.3)
Interest swap gain	-	-	0.7	0.7
Foreign exchange differences	-	(17.5)	-	(17.5)
Balance at December 31, 2011	**(21.6)**	**14.2**	**(1.2)**	**(8.6)**

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

Archer Limited and Subsidiaries
Consolidated balance sheet

(In millions of $)	DECEMBER 31	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	37.3	174.4
Restricted cash	13.3	12.2
Accounts receivables, net of allowance for doubtful accounts of 3.4 and 1.1 respectively.	432.0	151.6
Inventories	58.2	0.1
Other current assets	97.6	64.4
Total current assets	**638.4**	**402.7**
Non-current assets		
Investments in associates	7.4	5.3
Property plant and equipment	1,044.1	142.3
Deferred income tax asset	10.3	5.4
Goodwill	898.9	356.4
Other intangible assets	203.3	58.6
Deferred charges	12.3	4.6
Total non-current assets	**2,176.3**	**572.6**
Total assets	**2,814.7**	**975.3**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long term debt	108.4	1.9
Other current liabilities	358.1	162.9
Total current liabilities	**466.5**	**164.8**
Non-current liabilities		
Long-term interest bearing debt	977.8	192.4
Deferred taxes	16.3	12.8
Other non-current liabilities	67.3	47.4
Total non current liabilities	**1,061.4**	**252.6**
Commitments and contingencies		
Shareholders' equity		
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,397,622 outstanding shares at December 31, 2011 (December, 31 2010: 225,400,050)	732.8	450.8
Additional paid in capital	775.5	219.4
(Accumulated deficit)/retained earnings	(7.8)	69.2
Accumulated other comprehensive income/ (loss)	(8.6)	23.5
Contributed deficit	(205.1)	(205.1)
Non-controlling interest	-	0.1
Total shareholders' equity	**1,286.8**	**557.9**
Total liabilities and shareholders' equity	**2,814.7**	**975.3**

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

Archer Limited and Subsidiaries
Consolidated statement of cash flows

(In millions of $)	YEAR ENDED DECEMBER 31	
	2011	2010
Cash Flows from Operating Activities		
Net (loss) / income	(77.0)	12.3
Adjustment to reconcile net (loss)/income to net cash provided/(used) by operating activities:		
Depreciation and amortization	147.1	22.6
Share-based compensation expenses	4.9	(1.6)
Change in pension liability	(15.3)	(1.4)
Impairment of goodwill and intangibles	126.6	-
Deferred income taxes	(18.4)	2.7
Unrealized foreign currency gain (loss)	(6.1)	6.1
Changes in operating assets and liabilities, net of acquisitions		
(Decrease)/increase in other non current assets	(2.6)	9.7
Increase in other non current liabilities	-	8.7
Increase in trade accounts receivable and other short-term receivables	(55.6)	(64.7)
(Decrease)/increase in trade accounts payable and other short-term liabilities	(4.1)	57.4
Increase in inventories	(10.7)	-
Change in other operating assets and liabilities, net	2.7	(1.3)
Net cash provided by operating activities	**91.5**	**50.5**
Cash Flows from Investing Activities		
Additions to property plant and equipment	(166.2)	(27.8)
Sale of property, plant and equipment	3.4	3.2
Acquisition of subsidiaries, net of cash	(695.4)	(162.6)
Net change in restricted cash	3.1	(3.3)
Net cash used in investing activities	**(855.1)**	**(190.5)**
Cash Flows from Financing Activities		
Proceeds from debt	903.3	-
Repayment of debt	(523.0)	(18.8)
Proceeds from issuance of equity, net	247.3	289.2
Net cash provided by financing activities	**627.6**	**270.4**
Effect of exchange rate changes on cash and cash equivalents	(1.1)	2.9
Net (decrease) increase in cash and cash equivalents	**(137.1)**	**133.3**
Cash and cash equivalents at beginning of the period	174.4	41.1
Cash and cash equivalents at the end of the period	**37.3**	**174.4**
Interest paid	(49.5)	(9.4)
Taxes paid	(25.2)	(5.9)

The merger with Allis-Chalmers Energy Inc. was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders. The merger is described in detail in Note 3.

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

Archer Limited and Subsidiaries
Consolidated statement of changes in shareholders' equity

(In millions of $)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	(ACCUMULATED DEFICIT) RETAINED EARNINGS	CONTRIBUTED DEFICIT	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2009	**220.0**	**31.2**	**5.6**	**56.9**	**(205.1)**	**0.0**	**108.6**
Private Placement	230.8	189.8	-	-	-	-	420.6
Foreign exchange differences	-	-	30.0	-	-	-	30.0
Interest swap loss	-	-	(0.9)	-	-	-	(0.9)
Pension – unrecognized loss	-	-	(11.2)	-	-	-	(11.2)
Options issued	-	(1.6)	-	-	-	-	(1.6)
Net income	-	-	-	12.3	-	0.1	12.4
Balance at December 31, 2010	**450.8**	**219.4**	**23.5**	**69.2**	**(205.1)**	**0.1**	**557.9**
Shares issued on Merger with Allis-Chalmers	194.6	389.6	-	-	-	-	584.2
Private Placement	85.4	161.9	-	-	-	-	247.3
Foreign exchange differences	-	-	(17.5)	-	-	(0.1)	(17.6)
Interest swap gain	-	-	0.7	-	-	-	0.7
Pension – unrecognized loss	-	-	(15.3)	-	-	-	(15.3)
Options issued	2.0	4.6	-	-	-	-	6.6
Net loss	-	-	-	(77.0)	-	-	(77.0)
Consolidated Balance at December 31, 2011	**732.8**	**775.5**	**(8.6)**	**(7.8)**	**(205.1)**	**-**	**1,286.8**

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

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Note 1 - General Information

Archer Limited is an international oilfield service company providing drilling services, including platform drilling, land drilling, directional drilling, modular rigs, fluids, drill bits, engineering and equipment rentals, as well as a select range of well delivery support services and products, including well intervention using wireline, tractors and coiled tubing, pressure control and pressure pumping, production monitoring, well imaging and integrity management tools.

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

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

Basis of presentation

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The amounts are presented in United States Dollars, or USD, or $ rounded to the nearest million, unless otherwise stated.

Until December 31, 2010, Archer (reporting as Seawell) historically presented its consolidated financial statements in Norwegian krone or "NOK". In February 2011, the Company closed on its previously announced merger with Allis-Chalmers Energy, Inc., or Allis-Chalmers, The merger significantly increased the scale of the Company's operations with the main expansion being in the United States. As a result of the significant increase in the proportion of our business being conducted in USD in 2011 compared to 2010, our reporting currency was changed from the NOK to USD with effect from January 1, 2011.

Any future dividend declaration will be denominated in NOK.

For the purposes of comparative figures included in our 2011 financial statements, the historical audited financial statements of Seawell have been converted to USD. The income and cash flow statements have been translated by applying average periodic exchange rates. Assets and liabilities have been converted at exchange rates prevailing at the balance sheet dates. The cumulative components of stockholders equity as at December 31, 2010 have been converted at the exchange rate for that date.

Prior period cumulative balances for stockholders equity have been calculated by translating period movements and the average rate for the relevant period, or using a spot rate for material, identifiable individual transactions.

The following table lists exchange rates applied to our historical NOK financial statements. Rates for NOK to USD

PERIOD	PERIOD END DATE	AVERAGE RATE FOR PERIOD	RATE AT PERIOD END DATE
	December 31, 2007		5.3868
Three months	March 31, 2008	5.2948	5.0623
Three months	June 30, 2008	5.0678	5.0448
Three months	September 30, 2008	5.3464	5.7865
Three months	December 31, 2008	6.7775	7.0000
Year	December 31, 2008	5.5216	7.0000
Three months	March 31, 2009	6.8519	6.6589
Three months	June 30, 2009	6.4807	6.3809
Three months	September 30, 2009	6.1035	5.8077
Three months	December 31, 2009	5.6647	5.7639
Year	December 31, 2009	6.2752	5.7639
Three months	March 31, 2010	5.8396	5.9794
Three months	June 30, 2010	6.2059	6.4642
Three months	September 30, 2010	6.1532	5.8551
Three months	December 31, 2010	5.9109	5.8679
Year	December 31, 2010	6.0274	5.8679

In accordance with US GAAP, the Company's acquisition of Gray Wireline group, or Gray, in 2010, its merger with Allis-Chalmers in 2011 and its acquisition of the Great White Energy Services group of companies, or Great White, in 2011, have been accounted for as purchases in accordance with Accounting Standards Codification (ASC) Topic 805 "Business Combinations". The fair value of the assets acquired and liabilities assumed were included in the Company's consolidated financial statements beginning on the date when control was achieved.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

The accounting policies set out below have been applied consistently to all periods in these consolidated financial statements.

Basis of consolidation
Investments in companies in which Archer directly or indirectly holds more than 50% of the voting control are consolidated in the financial statements. In addition Archer consolidates the financial statements of Wellbore Solutions AS in which Archer owns 42.6% of the voting shares. This entity is consolidated due to the fact that Archer is considered to have control over the company through a shareholder agreement which gives Archer the power to vote for 50.1% of the shares.

Entities in which the Company does not have a controlling interest, but over which it has significant influence are accounted for under the equity method of accounting. The Company's share of after-tax earnings of equity method investees are reported under Share of results of associated companies.

A list of all significant consolidated subsidiaries is attached – see Appendix B

Intercompany transactions and internal sales have been eliminated on consolidation.

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

Note 2 - Accounting Policies

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 predicted 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 and 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.

Revenue recognition
The Company recognizes revenue for services and products when purchase orders, contracts or other persuasive evidence of an arrangement with the customer exist, the price is fixed or determinable, collectability is reasonably assured and services have been performed, or the product delivered. Contracts for equipment rental, drilling services or well services are provided to our customers at various contractual rates. Revenue from contract services performed on an hourly, daily or monthly rate basis is recognized as the service is performed based on the number of days completed at fixed rates stipulated by the contract. Revenues contracted on a per job basis are recognized on a percentage completion basis, calculated with reference to time recorded against the project, budgeted total time for the project, and budgeted daily rates.

For certain contracts we receive lump-sum payments and other fees for equipment and mobilization costs. Mobilizations fees and related costs are deferred and amortized over the contract term.

Reimbursements for the purchase of supplies, equipment, personnel services, and other services provided at the request of the Company's customers in accordance with a contract or agreement are recorded as revenue when incurred. The related costs are recorded as reimbursable expenses when incurred.

All known or anticipated losses on contracts are provided for when they become evident.

Foreign currencies
As of December 31, 2011 most of the Company's subsidiaries have functional currency in USD. For subsidiaries that have functional currencies other than USD, the Company uses the current method of translation whereby the statements of operations are translated using the average exchange rate for the month and the assets and liabilities are translated using the year end exchange rate. Foreign currency translation gains or losses are recorded as a separate component of other comprehensive income in shareholders' equity.

Transactions in foreign currencies during the year are translated into functional currency at the specific entity at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using historical rates of exchange. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

Current and non-current classification
Assets and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long-term.

Cash and cash equivalents
Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with maturity of three months or less, and exclude restricted cash.

Restricted cash
Restricted cash consists of bank deposits arising from advance employee tax withholdings.

Receivables
Accounts receivable are recorded in the balance sheet at their full amount less allowance for doubtful receivables. The Company establishes reserves for doubtful receivables on a case-by-case basis. In establishing these reserves, the Company considers changes in the financial position of the customer as well as customer payment history. Uncollectible trade accounts receivables are written off when a settlement is reached for an amount that is less than the outstanding historical balance, or when they are considered unrecoverable.

Bad debt expense for 2011 was $1.7 million. There was no bad debt expense in 2010.

Inventories
Inventories are valued at the lower of first-in, first-out cost or market. On a regular basis, the Company evaluates its inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are written down, if necessary.

Property, plant and equipment
Property, plant and equipment are recorded at historical cost less accumulated depreciation. The cost of these assets less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of the Company's fixed assets are in the following ranges;

- Land and buildings 3-40 years
- Drilling and well service equipment 2-12 years
- Office furniture and fixtures 3-10 years
- Motor vehicles 3-7 years

The Company evaluates the remaining useful life of its property, plant and equipment on a periodic basis to determine whether events and circumstances warrant a revision.

Expenditures for replacements or improvements are capitalized. Maintenance and repairs are charged to operating expenses as incurred.

Fully depreciated assets are retained in property, plant and equipment and accumulated depreciation until disposal. Upon sale or retirement, the cost of property and equipment, related accumulated depreciation and write-downs are removed from the balance sheet, and the net amount, less any proceeds from disposal, is charged or credited to the consolidated statement of operations.

Asset under construction
The carrying value of assets under construction ("New builds") represents the accumulated costs at the balance sheet date and are included in property, plant and equipment on the face of the balance sheet. Cost components include payments for installments and variation orders, construction supervision, equipment, spare parts, capitalized interest, costs related to first time mobilization and commissioning costs. No charge for depreciation is made until commissioning of the new builds has been completed and it is ready for its intended use.

Capitalized interest
Interest expenses are capitalized during construction of long-lived assets based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an accounting period shall be determined by applying an interest rate ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period.

If the Company's financing plans associate a specific new borrowing with a qualifying asset, the Company uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the Company.

Capital leases
The Company leases office space and equipment at various locations. Where the company has substantially all the risks and rewards of ownership, the lease is classified as a capital lease. Capital leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Each lease payment is allocated between the corresponding capital lease liability and finance charges so as to achieve a constant rate on the liability outstanding. The interest element of the capital cost is charged to the income statement over the lease period.

Depreciation of assets held under capital leases is reported within "Depreciation and amortization expense" in the consolidated statement of operations. Capitalized leased assets are depreciated on a straight-line basis over the estimated useful economic lives of the assets or a straight-line basis over the lease term, whichever is shorter.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Intangible assets
Intangible assets are recorded at historical cost less accumulated amortization. The cost of intangible assets are generally amortized on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful lives of the Company's intangible assets ranges from 1 year to 20 years. The Company evaluates the remaining useful life of its intangible assets on a periodic basis to determine whether events and circumstances warrant a revision of the remaining amortization period.

Trade names under which the Company intends to trade for the foreseeable future are not amortized. In circumstances where management decide to phase out the use of a trade name, the relevant cost is amortized to zero over the remaining estimated useful life of the asset.

Acquired technology is not amortized until ready for marketing.

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. 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.

Research and development
All research and development expenditures ("R&D") are expensed as incurred. Under the provisions of ASC 805, 'Business Combinations', acquired in-process R&D that meet the definition of an intangible asset are capitalized and amortized.

Defined benefit pension plans
The Company has several defined benefit plans that provide retirement, death, and termination benefits. The Company's net obligation is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their cumulative service.

The projected future benefit obligation is discounted to its present value, and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date on government bonds in the currency and based on terms consistent with the post-employment benefit obligations. The retirement benefits are generally a function of years of employment and amount of compensation. The plans are primarily funded through payments to insurance companies. The Company records its pension costs in the period during which the services are rendered by the employees. Actuarial gains and losses are recognized in the income statement when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected remaining working lives of the employees participating in the plans. Otherwise, recognition of actuarial gains and losses is not recognized in the income statement. The Company has adopted amended recognition and disclosures provisions, which requires the recognition of the funded status of the plan in the balance sheet with a corresponding adjustment to accumulated other comprehensive income. The adjustment to other comprehensive income represents the net unrecognized actuarial losses and unrecognized prior service costs, all of which were previously netted against the plans' funded status on the balance sheet. These amounts will continue to be recognized as net periodic pension cost pursuant to our historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income.

Income taxes
Archer is a Bermuda company. Under current Bermuda law, Archer is not required to pay taxes in Bermuda on either income or capital gains. Archer has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, Archer will be exempted from taxation until year 2035.

Certain of our subsidiaries operate in other jurisdictions where taxes are imposed, mainly Norway, the United States, Argentina, Brazil, and the United Kingdom. For legal entities operating in taxable jurisdictions, the Company computes tax on income in accordance with the tax rules and regulations of the taxing authority where the income is earned. The income tax rates imposed by these authorities vary. Taxable income may differ from pre-tax income for accounting purposes. To the extent that differences are due to revenues or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred taxes is made. A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, the Company provides a valuation allowance against that deferred tax asset. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

The impact of changes to income tax rates or tax law is recognized in periods when the change is enacted.

Significant judgment is involved in determining the provision for income taxes. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. The Company's tax filings are subject to regular audit by the tax authorities in most of the jurisdictions in which it conducts its business. These audits may result in assessments for additional taxes which are resolved with the authorities or, potentially, through the courts. The Company recognizes the impact of a tax position in its financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The level of judgment involved in estimating such potential liabilities and the uncertain and complex application of tax regulations, may result in liabilities on the resolution of such audits, which are materially different from the Company's original estimates. In such an event, any additional tax expense or tax benefit will be recognized in the year in which the resolution occurs.

Earnings per share, or EPS
Basic earnings per share is calculated based on the income for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which for the Company includes share options. The determination of dilutive earnings per share requires the Company to potentially make certain adjustments to net income and to the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

Deferred charges
Loan related costs, including debt arrangement fees, incurred on the initial arrangement are capitalized and amortized over the term of the related loan using the straight-line method, which approximates the interest method. Amortization of loan related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognized in the income statement within other financial items in the period in which they are incurred.

Share-based compensation
The Company has established a stock option plan under which employees, directors and officers of the Group may be allocated options to subscribe for new shares in Archer.

The fair value of the share options issued under the Company's employee share option plans is determined at grant date taking into account the terms and conditions upon which the options are granted, and using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in determining fair value. The fair value of the share options is recognized as personnel expenses with a corresponding increase in equity over the period during which the employees become unconditionally entitled to the options. Compensation cost is initially recognized based upon options expected to vest with appropriate adjustments to reflect actual forfeitures. National insurance contributions arising from such incentive programs are expensed when the options are exercised.

Financial Instruments
The Company enters into interest rate swaps in order to manage floating interest rates on debt. The Company's interest-rate swap agreements are recorded at fair value in the balance sheet. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting the Company formally designates the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognized in the "Accumulated other comprehensive loss" line of the Consolidated Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the income statement in Other Financial Items. Changes in the fair value of interest-rate swaps are otherwise recorded as a gain or loss under Other Financial Items in the statement of operations where those hedges are not designated as cash flow hedges.

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Segment reporting
A segment is a distinguishable component of the Company that is engaged in business activities from which it earns revenues and incur expenses whose operating results are regularly reviewed by the chief operating decision maker, and which is subject to risks and rewards that are different from those of other segments.

For the purposes of this annual report, segmental data, in note 21 is presented under the two segments existing as of December 31, 2011.

Related party transactions
Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements
In October 2009, the Financial Accounting Standards Board, or FASB, issued authoritative guidance that amends earlier guidance addressing the accounting for contractual arrangements in which an entity provides multiple products or services (deliverables) to a customer. The amendments address the unit of accounting for arrangements involving multiple deliverables and how arrangement consideration should be allocated to the separate units of accounting, when applicable, by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. The amendments also require that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The guidance is effective for fiscal years beginning on or after June 15, 2010, with earlier application permitted. We adopted the guidance effective January 1, 2011, which did not have a material effect on our financial statements.

In January 2010, the FASB issued authoritative guidance that changes the disclosure requirements for fair value measurements using significant unobservable inputs (Level 3). The updated guidance requires that Level 3 disclosures present information about purchases, sales, issuances, and settlements on a gross basis. The disclosure requirements for the treatment of purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the guidance in the first quarter 2011, which did not have an impact on its financial position, results of operations or cash flows.

In December 2010, the FASB issued authoritative guidance that modifies the requirements of step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The Company adopted this guidance in the first quarter of fiscal year 2011. The adoption of this guidance did not have a material impact on our financial statements.

In December 2010, the FASB amended guidance on business combinations that requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period, and when comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The guidance was effective for annual reporting periods beginning on or after December 15, 2010. The Company has adopted this guidance and has included proforma information in Note 25 to the financial statements.

In April 2011, the FASB issued authoritative guidance to clarify when a modification or restructuring of a receivable constitutes a troubled debt restructuring. In evaluating whether such a modification or restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that two conditions exist: (1) the modification or restructuring constitutes a concession and (2) the debtor is experiencing financial difficulties. The guidance was effective for our interim and annual reporting periods beginning after June 15, 2011 and was applied retrospectively to the beginning of the annual period of adoption. The adoption of this newly issued guidance has not had a material impact on our consolidated financial statements.

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

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

In September 2011, the FASB issued an accounting update that gives companies the option to make a qualitative evaluation about the likelihood of goodwill impairment. Companies will be required to perform the two-step impairment test only if it concludes that the fair value of a reporting unit is more likely than not less than its carrying value. The accounting update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The company has not applied the new guidance for the year ended December 31, 2011. Application of the guidance would not have had a material affect on our goodwill impairment testing for this period.

In December 2011, the FASB issued accounting standards update "Disclosures about Offsetting Assets and Liabilities" in order to standardize the disclosure requirements under US GAAP and International Financial Reporting Standards relating to both instruments and transactions eligible for offset in financial statements. The update is applicable for annual reporting periods beginning on or after January 1, 2013. Its adoption is not expected to have a material impact on the Company's disclosures.

Note 3 – Acquisitions and Non-controlling Interest
Acquisitions in 2010:

Viking Intervention Technology AS

On April 30, 2010 the Company announced the acquisition of Viking Intervention Technology AS for a consideration of $11.6 million. Viking Intervention Technology is a company developing an integrated carbon cable intervention system and was acquired for its complimentary product portfolio.

Joint Venture with IKM

In November 2010, the Company closed an agreement with the IKM Group, pursuant to which IKM Group acquired 50% of the shares in C6 Technologies AS through an equity issue, and C6 Technologies AS simultaneously purchased 100% of the shares in Viking Intervention Technology AS. These transactions were completed under the same terms as the initial share purchase agreement.

Following the loss of control in C6 Technologies AS and Viking Intervention Technology AS, the Company deconsolidated C6 Technologies AS, and has accounted for the investment in C6 Technologies AS as an investment in associates in the balance sheet. See note 9.

Rig Inspection Services Limited

On August 5, 2010, the Company entered into a Sale and Purchase agreement with the shareholders of Rig Inspection Services Limited (RIS), a private company based in Singapore and Australia, for a price of $9.1 million, with $3.4 million considered contingent based on financial performance over the next two years. The addition of RIS compliments the the Company's drilling facility engineering capabilities and allows us to offer our clients a very broad range of inspection services on rigs, risers and drilling equipment on a global basis.

Gray Wireline

On December 16, 2010 the Company acquired Gray Wireline Service, Inc. for a consideration of $163.2 million. Gray Wireline is the largest independent cased hole wireline company in the United States and its acquisition is an important step in our product and service expansion.

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The purchase price of these acquisitions has been allocated as follows:

($ in millions)	VIKING INTERVENTION TECHNOLOGY AS	RIG INSPECTION SERVICES LTD.	GRAY WIRELINE SERVICES, INC.	TOTAL
Current assets				
Cash and cash equivalents	-	0.6	2.7	3.3
Accounts receivable	0.5	2.4	17.5	20.4
Deferred tax asset	-	-	11.6	11.6
Other current assets	0.8	0.2	3.7	4.7
Total current assets	**1.3**	**3.2**	**35.5**	**40.0**
Non-current assets				
Drilling equipment and other fixed asset	0.8	0.1	44.3	45.2
Other intangible asset	11.7	2.3	35.5	49.5
Goodwill	3.6	4.4	80.8	88.8
Total non-current assets	**16.1**	**6.8**	**160.6**	**183.5**
Current liabilities				
Accounts payable	-	0.5	6.0	6.5
Other current liabilities	1.1	0.4	1.8	3.3
Total current liabilities	**1.1**	**0.9**	**7.8**	**9.8**
Deferred taxes	3.1	-	25.1	28.2
Other non-current liabilities	1.6	-	-	1.6
Total non-current liabilities	**4.7**	**-**	**25.1**	**29.8**
Total purchase price (fair value)	**11.6**	**9.1**	**163.2**	**183.9**

Acquisitions in 2011:

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

The purchase price has been allocated as follows:

Allocation ($ in millions)	UNIVERSAL WIRELINE
Non-current assets	
Drilling equipment and other fixed asset	19.1
Goodwill	6.4
Total non-current assets	**25.5**
Total purchase price (fair value)	**25.5**

Allis-Chalmers
On February 23, 2011 the Company completed the merger with Allis-Chalmers, which was previously announced in August 2010. 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:

Allocation ($ in millions)	ALLIS-CHALMERS ENERGY INC		
	FAIR VALUE/ALLOCATION OF PURCHASE PRICE AS AT 31 MARCH 2011	ADJUSTMENTS TO PRELIMINARY FAIR VALUES	FAIR VALUE/ALLOCATION OF PURCHASE PRICE AS AT 31 DECEMBER 2011
Current assets	239.0	(6.5)	232.5
Property and equipment	682.4	(26.9)	655.5
Intangible assets (excluding goodwill)	105.8	0	105.8
Goodwill	215.0	83.6	298.6
Other non-current assets	44.9	(50.2)	(5.3)
Total Assets acquired	**1,287.1**	**0**	**1,287.1**
Current liabilities	148.4	0	148.4
Long-term debt, less current portion	460.8	0	460.8
Other long-term liabilities	77.0	0	77.0
Total liabilities acquired	**686.2**	**0**	**686.2**
Net assets acquired (purchase price)	**600.9**	**0**	**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 can not be separately identified.

The allocation of the purchase price of Allis-Chalmers 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 valuations of Allis Chalmers fixed assets have changed following a review of the underlying assumptions. The resulting changes summarized above have increased the value of goodwill acquired by $ 83.6 million.

Great White
On August 24, 2011 the Company completed the acquisition of all the operating companies of Great White in a transaction valued at $ 630 million on a cash and debt free basis, which was changed to $ 673.5 million including agreed working capital adjustments at closing of the acquisition.

The net assets acquired as a result of the acquisition are listed below:

PRELIMINARY ALLOCATION ($ IN MILLIONS)	GREAT WHITE		
	FAIR VALUE/ALLOCATION OF PURCHASE PRICE AS AT 30 SEPTEMBER 2011	ADJUSTMENTS TO PRELIMINARY FAIR VALUES	FAIR VALUE/ALLOCATION OF PURCHASE PRICE AS AT 31 DECEMBER 2011
Current assets	98.9	-	98.9
Property and equipment	192.9	(0.4)	192.5
Intangible assets (excluding goodwill)	92.1	-	92.1
Acquired Goodwill	337.7	0.4	338.1
Other non-current assets	0.0	-	0.0
Total Assets acquired	**721.6**	**0.0**	**721.6**
Current liabilities	41.4	-	41.4
Long-term debt, less current portion	0.0	-	0.0
Other long-term liabilities	6.7	-	6.7
Total liabilities acquired	**48.1**	**0.0**	**48.1**
Net assets acquired (purchase price)	**673.5**	**0.0**	**673.5**

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 can not 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 valuations of Great White fixed assets have changed following a review of the underlying assumptions. The resulting changes summarized above have increased the value of goodwill acquired by $ 0.4 million.

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Note 4 –Other Financial Income / (Expense)

	YEARS ENDED DECEMBER 31	
($ in millions)	2011	2010
Foreign exchange differences	6.1	(14.0)
Other items	(7.1)	(1.3)
Total other financial items	**(1.0)**	**(15.3)**

The other financial items consist mainly of foreign exchange losses arising on settlement of transactions loans denominated in currencies other than USD. In 2011, the loss is mainly due to the weakening of the NOK against the USD, and relates to unrealized exchange losses on intercompany loans and bank deposits.

Note 5 – Taxes
The income taxes consist of the following:

	YEARS ENDED DECEMBER 31	
($ in millions)	2011	2010
Current tax expense:	24.2	15.4
Deferred tax expense:	(9.7)	(0.1)
Total expense	**14.5**	**15.3**

The effective tax rate is impacted by the de-recognition of some deferred tax assets as we do not expect to utilize these in the foreseeable future. Archer has booked valuation allowances against some net operating losses and foreign tax credits in United States and Brazil. The effective tax rate is also impacted by foreign exchange gains and losses in Bermuda where Archer has a tax exemption. In addition it is impacted by goodwill impairment which is a permanent difference for tax purposes.

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

	YEARS ENDED DECEMBER 31	
($ in millions)	2011	2010
United States	(1.9)	0.2
South America	4.7	-
Europe	11.7	13.7
Others	-	1.4
Total	**14.5**	**15.3**

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

	YEARS ENDED DECEMBER 31	
	2011	2010
Expected tax rate	26.8%	28.8%
Goodwill impairment	-50.2%	-
Other non deductible expenses	-3.9%	2.9%
Tax exempted income and credits	6.4%	-
Foreign tax rate differences	10.4%	19.1%
Valuation allowances	-12.8%	4.9%
Effective tax rate	**-23.3%**	**55.7%**

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The net deferred tax assets (liabilities) consist of the following:

	DECEMBER 31	
($ in millions)	2011	2010
Pension	16.9	10.0
Tax loss carry forward	103.7	10.1
Provisions	33.7	3.4
Other	2.4	-
Gross deferred tax asset	**156.7**	**23.5**
Drilling equipment and other fixed assets	67.7	8.7
Deferred tax on excess values	28.8	22.5
Other	0.4	0.6
Gross deferred tax liability	**96.9**	**31.8**
Gross deferred tax asset / (liability)	**59,8**	**(8.3)**
Valuation allowance	(66.0)	-
Net deferred tax liability	**(6.2)**	**(8.3)**

Gross tax losses of $ 226 million originate in the United States, and expire over a period of 20 years. Additional tax losses of $ 70 million originate from Brazil. These losses do not expire and can be forward ad infinitum.

The deferred tax liability in respect of the timing differences in the depreciation of fixed assets increased significantly in 2011, mainly due to the acquisitions of Allis-Chalmers and Great White both of which have significant assets in the form of land drilling rigs and pressure control equipment.

The gross deferred tax liability for 2011 includes $ 28.8 million in respect of surplus values recognized in the purchase price allocations of the acquisitions of Allis-Chalmers and Great White in 2011 and previous purchases of Noble Corporation's North Sea Platform Division, Peak Well Solutions AS, TecWel AS, Rig Inspection Services Ltd., Romeg Holdings Pty, and Gray.

The valuation allowance relates to tax operating losses and foreign tax credits brought forward in the Allis-Chalmers financial statements, for which we do not, at the balance sheet date, have a sufficiently documented tax strategy for their realization.

Deferred taxes are classified as follows:

	DECEMBER 31	
($ in millions)	2011	2010
Short-term deferred tax asset	1.7	1.7
Long-term deferred tax asset	10.3	5.4
Short-term deferred tax liability	(1.9)	(2.6)
Long-term deferred tax liability	(16.3)	(12.8)
Net deferred tax liability	**(6.2)**	**(8.3)**

Note 6 – Earnings Per Share
The components of the numerator for the calculation of basic EPS and diluted EPS for net (loss) / income are shown below.

The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

	NET INCOME ALLOCATED TO MAJORITY SHAREHOLDERS *($ in millions)*	WEIGHTED AVERAGE SHARES OUTSTANDING	(LOSS) PER SHARE (IN $)
2011			
Basic loss per share	(77.0)	322,420,262	(0.24)
Effect of dilutive options*		-	-
Diluted loss per share	(77.0)	322,420,262	(0.24)

**Loss per share not adjusted for dilutive, in the money share options*

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	NET INCOME ALLOCATED TO MAJORITY SHAREHOLDERS ($ in millions)	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE (IN $)
2010			
Basic earnings per share	12.4	152,049,913	0.08
Effect of dilutive options		3,880,470	
Diluted earnings per share	12.4	155,930,383	0.08

Note 7 – Inventories
Prior to the merger with Allis-Chalmers and the acquisition of Great White in 2011, the Company did not hold a significant amount of inventory. Inventories comprise the following:

	DECEMBER 31	
($ in millions)	2011	2010
Manufactured:		
Finished goods	4.7	-
Work in Progress	3.6	-
Raw materials	5.9	-
Total manufactured	**14.2**	**-**
Drilling supplies	17.6	-
Chemicals	9.3	-
Other items and spares	17.1	0.1
Total inventories	**58.2**	**0.1**

Note 8 – Other Current Assets
Other current assets include:

	DECEMBER 31	
($ in millions)	2011	2010
Unbilled and accrued revenue	15.5	11.0
Prepaid expenses	58.5	28.6
VAT receivable	6.2	4.0
Deferred tax assets	1.7	1.7
Other short term receivables	15.7	19.1
Total other current assets	**97.6**	**64.4**

Other short term receivables are interest free.

Note 9 – Investments in Associates
The Company had the following participation in investments that are recorded using the equity method:

	2011	2010
C6 Technologies AS	50.00%	50.00%
Rawabi Allis-Chalmers Company Ltd	50.00%	-

The carrying amounts of the Company's investments in its equity method investment are as follows:

	DECEMBER 31	
($ in millions)	2011	2010
C6 Technologies AS	2.4	5.3
Rawabi Allis-Chalmers Company Ltd	5.0	-
Equity in net assets of non-consolidated investees	**7.4**	**5.3**

The components of equity in net assets of non-consolidated investees are as follows:

($ in millions)	2011		2010	
	C6	RAWABI	C6	RAWABI
Cost	5.6	5.2	5.6	-
Equity in net earnings of investees	(3.2)	(0.2)	(0.3)	-
Equity in net assets of non-consolidated investees	**2.4**	**5.0**	**5.3**	**-**

Quoted market prices for C6 Technologies AS and Rawabi Allis-Chalmers Company Limited are not available because shares are not publicly traded.

Rawabi Allis-Chalmers Company Limited
Rawabi Allis-Chalmers Limited or "Rawabi JV" is a joint venture between Archer's 100% owned subsidiary Allis-Chalmers Inc., and an unrelated Saudi company, Rawabi Holding Company Ltd. The joint venture was formed to provide oilfield services, including directional drilling, tubular services, under-balanced services and production services, and rental, drilling and completion services in Saudi Arabia. Currently, the joint venture is providing rental services in Saudi Arabia.

The Company has determined that Rawabi JV is a variable interest entity under the terms of its joint venture agreement that does not allow either shareholder, acting alone, to control the entity's operations. While Archer is not the primary beneficiary under the joint venture agreement, the Company is able to materially influence the operational and financial decisions of Rawabi JV and has accounted for its investment using the equity method.

C6 Technologies AS
On April 30, 2010 the Company announced the acquisition of Viking Intervention Technology AS (VIT). VIT is a company developing an integrated carbon cable intervention system and was acquired for its complimentary product portfolio. In November 2010 the Company closed an agreement with the IKM Group, pursuant to which IKM Group acquired 50% of the shares in C6 Technologies AS through an equity issue, and C6 Technologies AS simultaneously purchased 100% of the shares in Viking Intervention Technology AS. These transactions were completed under the same terms as the initial share purchase agreement.

Following the loss of control in C6 Technologies AS and Viking Intervention Technology AS, the Company deconsolidated C6 Technologies AS, and has accounted for the investment in C6 Technologies AS as an investment in associates.

Note 10 – Property Plant and Equipment

($ in millions)	OPERATIONAL EQUIPMENT	OTHER FIXED ASSETS OWNED	OTHER FIXED ASSETS LEASED	ASSETS UNDER CONSTRUCTION	TOTAL
As at December 31, 2011					
Cost	1,053.1	132.1	7.7	90.9	1,283.8
Accumulated depreciation and impairments	(197.0)	(40.8)	(1.9)	-	(239.7)
Net book value	**856.1**	**91.3**	**5.8**	**90.9**	**1,044.1**
Depreciation and amortization for 2011	102.7	21.7		–	124.4
As at December 31, 2010					
Cost	173.8	61.2	-	31.4	266.4
Accumulated depreciation and impairments	(99.4)	(24.7)	-	-	(124.1)
Net book value	**74.4**	**36.5**	**-**	**31.4**	**142.3**
Depreciation and amortization for 2010	14.4	3.9	-	–	18.3

- Operational equipment includes drilling rigs and equipment and well services equipment.
- Other fixed assets include office fixtures, furniture and equipment and motor vehicles.
- The balance of assets under construction includes the cumulative costs of the modular rig, ARCHER EMERALD, which was ordered in February 2008 and completed in the first quarter of 2012. During the year ended December 31, 2011 the Company capitalized interest costs amounting to $1.8 million in the cost of ARCHER EMERALD (Interest of $0.8 million was capitalized in 2010). As at December 31, 2011 the balance comprises $52.0 million in respect of ARCHER EMERALD and $ 38.9 million relating to purchases of, or deposits on, long-term assets that have not yet been deployed as they await modification or additional parts.
- The leased assets were acquired with the acquisition of Great White.

We reviewed our long-lived assets for impairment as of December 31, 2011 and we have recognized impairments totalling $4.1 million in respect of tangible fixed assets.

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Note 11 – Intangible Assets

The following table discloses the Company's intangible assets:

($ in millions)	TECHNOLOGY	CUSTOMER RELATIONSHIPS	TRADE NAMES	PATENTS	ORDER BACKLOG	TOTAL
Estimated useful lives	8-10 years	4-11 years	5 years	9-20 years	2 years	
Remaining average amortization period, December 31, 2011	5.8 years	8.5 years	0.8 years	16.3 years	0.9 years	
As of December 31, 2011						
Cost	13.7	225.1	13.1	5.6	2.3	259.8
Accumulated amortization and impairments	(4.0)	(46.5)	(2.9)	(0.3)	(2.1)	(55.8)
Currency adjustment	(0.7)	-	-	-	-	(0.7)
Net book value	**9.0**	**178.6**	**10.2**	**5.3**	**0.2**	**203.3**
Amortization and impairments for 2011	1.2	40.0	6.6	0.4	2.1	50.3
As of December 31, 2010						
Cost	13.7	47.3	8.0	-	-	69.0
Accumulated amortization and impairments	(3.0)	(7.4)	-	-	-	(10.4)
Net book value	**10.7**	**39.9**	**8.0**	**-**	**-**	**58.6**
Amortization for 2010	1.2	3.0	0.1	-	-	4.3

In the first quarter of 2011 an impairment of $ 5.1 million was made to the Allis Chalmers brand name and in the fourth quarter of 2011, an impairment of $ 0.9 million was made to the brand name of Great White Pressure Pumping as we do not believe the brand names will have any value for the Archer Group going forward. In December 2011, an impairment review of intangibles was undertaken and as a result there was an impairment of intangibles of the drilling service assets of $ 21.7 million.

Future amortization of intangible asset as of December 31, 2011 is as follows:

($ in millions)	2012	2013	2014	2015	2016 AND THEREAFTER	ASSETS NOT CURRENTLY BEING AMORTIZED	TOTAL
Intangible assets							
Customer relationships	21.3	20.9	20.9	20.9	94.6	-	178.6
Technology	1.4	1.4	1.4	1.4	2.3	1.1	9.0
Trade names	0.6	-	-	-	-	9.6	10.2
Patents	0.4	0.4	0.4	0.4	3.7	-	5.3
Order backlog	0.2	-	-	-	-	-	0.2
Total intangible amortizations	**23.9**	**22.7**	**22.7**	**22.7**	**100.6**	**10.7**	**203.3**

We acquired technology with the acquisition of Welbore Solutions and will not begin amortizing until the technology is ready for marketing. We are not currently amortizing the trade names of Gray Wireline, acquired by Archer in 2010 and DLS Drilling and Logistic Services, acquired on the merger with Allis-Chalmers in 2011 as we intend to continue to trade under these brands for the foreseeable future. We review all our intangible assets at least annually to ensure the carrying value remains justifiable.

Note 12 - Goodwill

The goodwill acquired during 2011 and 2010 represents the excess of purchase price over the fair value of tangible and identifiable intangible asset acquired, which represents primarily intangible assets pertaining to the acquired workforce of Gray, Great White, Allis Chalmers and Universal Wireline and their expected fu-ture synergies.

	DECEMBER 31	
($ in millions)	2011	2010
Net book balance at beginning of period	356.4	275.8
Goodwill acquired during the period	560.4	84.7
Adjustments to goodwill during the measurement period	85.4	-
Impairments of goodwill	(99.0)	-
Currency adjustments	(4.3)	(4.1)
Net book balance at end of period	**898.9**	**356.4**

The Company initiated its annual goodwill analysis in the fourth quarter of 2011 and concluded that the fair value was below carrying value for certain reporting units. Archer management believes that the decline in the estimated fair values of these reporting segments during 2011 was a result of a number of factors, including:

- Since the beginning of 2011 there has been a significant drop in the price of natural gas, which has lead to a shift in production from gas to oil. This has adversely affected the demand for the services provided by the Under-balance division of our Drilling segment, which is predominantly involved in gas extraction.
- Changes in customer behavior and in regulations following the Macondo incident have resulted in some of our rental equipment being unable to realize the operating returns originally anticipated.
- Operational issues and inflationary pressures in Argentina and Brazil have adversely affected the performance of our Land Drilling division.

The resulting impairment adjustments are disclosed in the table above, and comprise a $99 million impairment of goodwill in relation to the Drilling Services segment. The evaluation of the goodwill and quantification of any impairment was conducted by reporting unit, an organizational level below the reporting segment.

Note 13 – Long-term Interest Bearing Debt

	DECEMBER 31	
($ in millions)	2011	2010
Long-term debt:		
$ 1,121.9 multicurrency term and revolving facility	774.1	189.0
Allis-Chalmers 2014 senior note	99.2	-
Allis-Chalmers 2017 senior note	197.4	-
Other loans and capital lease liability	15.5	5.3
Total loans and capital lease liability	**1,086.2**	**194.3**
Less: current portion	(108.4)	(1.9)
Long-term portion of interest bearing debt	**977.8**	**192.4**

$ 1,121.9 million multicurrency term and revolving facility

On December 22, 2011 Archer entered into an amended and restated $ 1,121.9 million multicurrency term and revolving facility agreement adding two new banks to the syndicate. The purpose of the facility was to replace the existing $ 1,187.5 million term and revolving facility entered into August 22, 2011. The $ 1,178.5 million facility replaced the $550 million multicurrency term and revolving credit facility which comprised the $189 million balance as of December 31, 2010.

The facility is divided into two tranches. Tranche A, a revolving facility, is for $ 472.4 million, and Tranche B, a term loan, is for $ 649.5 million. The final maturity date of the tranches is November 11, 2015. The interest rate of the tranches is the aggregate of LIBOR, NIBOR or EURIBOR, plus between 2.25% and 3.25% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any. An annual installment of $ 100 million is payable in November each year, and the remaining is payable upon final maturity of the facility, if not refinanced.

The multicurrency term and revolving facility agreement is 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:

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- The Company's total consolidated net interest bearing debt shall not exceed 3.5x twelve months rolling proforma EBITDA until December 31, 2011 and 3.0x thereafter
- The Company's minimum ratio of equity to total assets of at least 30.0%
- The Company is to maintain the higher of $ 30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines)

The multicurrency 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 December 31, 2011 the Company was in compliance with all of the covenants under its long-term facilities.

Allis-Chalmers senior notes
Archer has, through the acquisition of Allis-Chalmers, two senior notes outstanding. The first senior notes are due in January 15, 2014 and bear interest at 9.0%. Total outstanding of these notes are $ 97.7 million. The 2014 notes are recorded in the balance sheet at 101.6% of the total outstanding amount, which was the fair value at the time of the Allis-Chalmers acquisition. The second senior notes are due in March 1, 2017 and bear interest at 8.5%. Total outstanding of these notes are $ 186.1 million. The 2017 notes are recorded in the balance sheet at 106.1% of the total outstanding amount, which was the fair value at the time of the Allis-Chalmers acquisition.

During 2011, Allis-Chalmers repurchased a total of $ 19.8 million of its outstanding 2017 notes, and $ 126.8 million of its outstanding 2014 notes, in open market repurchases.

Any premiums of the booked value of the 2014 and 2017 notes, arising on the revaluation at the time of the merger and subsequent re-purchases are deferred and amortized as a reduction in the interest expenses over the course of the remaining lifetime of the notes.

These notes were all retired in March 2012 at a rate less than the fair value at the time of the Allis-Chalmers acquisition, with 2014 notes redeemed at 100% and the 2017 notes redeemed at 104.25%. The retirement of the notes was financed by a drawing on Archer's multicurrency term and revolving facility.

Capital leases
The Company has capital leases for properties rented for its well services segment. The leases commenced in 2007 and 2008 and have lease terms of 20 years with options for two five-year extensions. The aggregate monthly lease payments are $54,922 and provide for annual lease escalation based on increases in the consumer price index.

The Company leases certain equipment under a capital lease. The lease terms are 42 months at an aggregate monthly payment of $16,724. Ownership of the assets transfers at expiration of the lease but purchase of the assets, at a prescribed formula, can be accelerated at lessee's option at any time.

The Company leases certain equipment under a capital lease. The lease terms are 12 months at an aggregate monthly payment of $135,324. Ownership of the assets transfers at expiration of the lease.

The Company leases certain vehicles under a capital lease. The terms are 36 months at an aggregate monthly payment of $16,104.

Other debt
The Company also has two $50 million cash overdraft facilities available and letters of credit totaling $4.7 million outstanding at December 31, 2011.

The Company's outstanding debt as of December 31, 2011 is repayable as follows:

($ in millions)	
Year ending December 31	
2012	108.5
2013	105.2
2014	200.5
2015	474.5
2016	0.1
2017	197.4
Total debt	**1,086.2**

Note 14 – Other Current Liabilities

Other current liabilities are comprised of the following:

	DECEMBER 31	
($ in millions)	2011	2010
Accounts payable	143.1	22.4
Taxes payable	28.6	15.8
Employee withheld taxes, social security and vacation payment	57.8	45.0
Accrued expenses and prepaid income	85.1	51.3
Current portion of capital lease obligations	0.5	-
Other current liabilities	43.0	28.4
Total other current liabilities	**358.1**	**162.9**

Note 15 – Other Non-current Liabilities
Other non-current liabilities are comprised of the followings:

	DECEMBER 31	
($ in millions)	2011	2010
Accrued pension and early retirement obligation	57.5	35.7
Capital lease obligations, non-current	5.9	-
Other non-current liabilities	3.9	11.7
Total other non-current liabilities	**67.3**	**47.4**

Note 16 – Commitments and Contingencies
Purchase commitments
As of December 31, 2011 the Company has committed to purchase obligations in respect of capital expenditure amounting to $56.0 million, all of which is payable in 2012.

Guarantees
The Company has issued guarantees in favor of third parties as follows, which is the maximum potential future payment for each type of guarantee:

	DECEMBER 31	
($ in millions)	2011	2010
Guarantees to customers of the Company's own performance	30.8	31.5
Guarantee in favor of banks	4.7	0.5
Other guarantees	-	0.3
	35.5	**32.3**

Legal Proceedings
From time to time, the Company is involved in litigations, disputes and other legal proceedings arising in the normal course of their business.

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

Shortly following the announcement of the Merger Agreement with Allis-Chalmers in August 2010 multiple stockholder class-action lawsuits were filed in Delaware and in Texas against various combinations of Allis-Chalmers, members of its board of directors and the Archer parties to the Merger Agreement. These lawsuits had challenged the Merger and generally alleged that Allis-Chalmers directors had breached their fiduciary duties owed to its public stockholders by approving the Merger and failing to take steps to maximize Allis-Chalmers value to its public stockholders. In February 2011 the Delaware court denied plaintiffs' request for an injunction and the Merger closed on February 23, 2011. After the Merger, the consolidated Delaware lawsuit was dismissed and now all of the Texas lawsuits have also been dismissed.

The Company is also named from time to time in legal proceedings related to activities that occurred prior to of one of our predecessor's bankruptcy

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in 1988 (Allis-Chalmers). However, we believe that we were discharged from liability for all such claims in the bankruptcy and believe the likelihood of a material loss relating to any such legal proceeding is remote.

The case of Cudd Pressure Control, Inc. vs. Great White Pressure Control, LLC, et al, one of our subsidiaries, pre-dates Archer's acquisition of the Great White group and is currently pending in Texas state district court. Plaintiff Cudd Pressure Control alleges several causes of action relating to Great White Pressure Control's employment of former Cudd employees. While the events relevant to the case date more than five years, the case remains in the discovery phase. Litigation is inherently uncertain and with the current case still in the discovery phase, management cannot determine the amount of loss, if any that might result.

A class action lawsuit was filed in Pennsylvania in 2010 against one of our subsidiaries alleging violations of the U.S. Fair Labor Standards Act (FLSA) relating to non-payment of overtime pay. The parties have agreed to a conditional certification of potential class members, and the case recently completed the opt-in period for potential class members. The case remains in the discovery phase with no set court date. However, management believes there is a reasonable probability of a negative outcome and have recorded an accrual of $996,000 in accordance with U.S. GAAP.

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

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

Note 17 – Share Capital

	DECEMBER 31			
	2011		2010	
	All shares are common shares of $2.00 par value each			
	SHARES	$ MILLION	SHARES	$ MILLION
Authorized share capital	600,000,000	1,200.0	600,000,000	1,200.0
Issued, outstanding and fully paid share capital	366,397,622	732.8	225,400,050	450.8

The Company's shares are traded on the Oslo Börs under the symbol "ARCHER.OL".

The Company was incorporated in 2007 and 50 ordinary shares were issued. In October 2007, the company also issued of 100,000,000 shares. In April 2008 there was an equity issue of 10,000,000 shares. There were no new shares issued in 2009. At December 31, 2009, there were 110,000,050 shares issued and outstanding.

In August 2010 the Company completed a private placement of 115.4 million shares.

On March 4, 2011, the Company issued a total of 97,071,710 common shares in connection with the merger with Allis-Chalmers.

On August 31, 2011, the Company issued 12.7 million new shares, following a Private Placement directed towards its two largest shareholders, Seadrill Limited, or Seadrill, and Lime Rock Partners V. L.P., or Lime Rock. Seadrill was allocated 10.8 million of the new shares while Lime Rock was allocated the remaining 1.9 million shares. The proceeds were used to partly finance the acquisition of Great White.

In August 2011, Archer completed a private placement of 30.0 million shares. The proceeds were used to partly finance the acquisition of Great White.

A total of 997,242 shares was issued during 2011 in relation to exercise of options, and a further 228,620 shares were issued in relation to settlement with dissenting shareholders from the merger with Allis-Chalmers.

Note 18 – Share Option Plans

Options on Archer shares:

Archer has granted options to senior management and directors of the Company that provide the employee with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the board of directors. The options granted under the plan to date vest over a period of one to five years.

As of December 31, 2011 there were five option programs: one in 2007, one in 2009 one in 2010 and two options programs which were acquired in and have been continued following the merger with Allis-Chalmers.

Accounting for share-based compensation

The fair value of the share options granted is recognized as personnel expenses. During 2011, $ 5.0 million has been expensed in the income statement ($ 0.7 million in 2010). There were no effects on taxes in the financial statements. If the option will be exercised social security related to the exercise will be expensed at the exercise date.

The following summarizes share option transactions related to the Archer Schemes in 2011 and 2010:

	2011		2010	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	6,507,000	14.79	6,147,000	13.76
Granted	5,575,000	34.00	460,000	19.30
Granted in respect of ALY merger	2,012,481	23.25	-	
Exercised	(997,242)	16.26	-	
Forfeited	(284,667)	23.21	(100,000)	10.00
Outstanding at end of year	**12,812,572**	19.75	**6,507,000**	14.79
Exercisable at end of year	6,548,900	17.89	3,398,000	15.16

$ 4.9 million was received in 2011 as a result of share options being exercised ($0 in 2010).

Options issued under the 2007 Program may be exercised up to October 5, 2012. The exercise price is initially NOK 13.75 per share increasing by 6 percent per anniversary. Options issued under the 2007 Program may be exercised by one third per year, first time on January 1, 2009. At December 31. 2011 a total of 3,200,667 option were outstanding and exercisable under the 2007 Program.

Options issued in 2009 may be exercised up to December 31, 2015. The exercise price is between NOK 10 and NOK 12 per share, and may be exercised one third each year beginning twelve months after they where granted. At December 31, 2011 a total of 1,930,000 options were outstanding under the 2009 Program, of which two thirds were exercisable.

Options issued under the 2010 program have exercise prices between NOK 18 and NOK 36. They may be exercised by one third or one fifth each year beginning 12 months after they were granted, and expire between December 31, 2015 and February 28, 2017. Subsequent to December 31, 2011, 4.3 million of the 5.6 million of options granted in 2011 at NOK 34 were repriced to NOK 20. At December 31, 2011 5,742,000 options under the 2010 Program were outstanding and approximately 2.2% were exercisable.

Options issued under the Allis-Chalmers 2003 Program have exercise prices between NOK 6.03 and NOK 72.26. At December 31, 2011 all 787,068 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program have exercise prices between NOK 18.48 and NOK 19.22. At December 31, 2011 all 1,152,837 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

The weighted average grant-date fair value of options granted during 2011 is NOK 14.01 per share (2010: NOK 7.56 per share per share)

As of December 31, 2011 total unrecognized compensation costs related to all unvested share-based awards totalled NOK 44.7 million, which is expected to be recognized as expenses in 2012, 2013, 2014, 2015 and 2016 by, NOK 17.3 million, NOK 13.4 million, NOK 8.7 million, NOK 5.0 million and NOK 0.3 million, respectively.

The weighted average remaining contractual life of outstanding options are 45 months (2010: 36 months) and their weighted average fair value was NOK 9.29 per option (2010: NOK 4.56 per option).

The Company will pay employers' national insurance contributions related to the options, while the option holders will be charged for the individual income taxes.

When stock options are exercised the Company intends to settle the obligation by issuing new shares.

Valuation:

Archer uses the Black-Scholes pricing model to value stock options granted. The fair value of options granted is determined based on the expected term, risk-free interest rate, dividend yield and expected volatility. The expected term is based on historical information of past employee behavior regarding exercises and forfeiture of options. The risk-free interest rate assumption is based upon the published Norwegian treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield assumption is based on Archer's history and expectation of dividend payouts.

The Company uses a blended volatility for the volatility assumption, to reflect the expectation of how the share price will react to the future cyclicality of the

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Company's industry. The blended volatility is calculated using two components. The first component is derived from volatility computed from historical data for a period of time approximately equal to the expected term of the stock option, starting from the date of grant. The second component is the implied volatility derived from the Company's "at-the-money" long-term call options. The two components are equally weighted to create a blended volatility.

The parameters used in calculating these weighted fair values are as follows:
- average risk-free interest rate 2.8% (2010: 4.8%);
- volatility 50% (2010: 38.7 %);
- dividend yield 0% (2010: 0%),;
- option holder retirement rate 10% (2010: 10%) and
- expected term 3.89 years (2010: 5.62 years)

Note 19 - Pension Benefits
Defined benefits plan
The Company has a defined benefit pension plan covering substantially all Norwegian employees as of December 31, 2011. A significant part of this plan is administered by a life insurance company.

The primary benefits for the onshore employees in Norway are a retirement pension of approximately 66 percent of salary at retirement age of 67 years, together with a long-term disability pension. The retirement pension per employee is capped at an annual payment of 66 percent of the total of 12 times the Norwegian Social Security Base. Most employees in this group may choose to retire at 62 years of age on a pre-retirement pension. Offshore employees in Norway have retirement and long-term disability pension of approximately 60 percent of salary at retirement age of 67. Offshore employees on fixed installations have the same pre-retirement pension, but the employees may not retire until they are 62 years of age.

The pension obligations were originally transferred from the Seadrill group to the Seawell group in connection with the spin-off and transfer of Seadrill Well Service companies from Seadrill in 2007. One pension contract was split between Seadrill and Seawell, as only some of the participants in the pension contract were transferred to Seawell. The obligations related to retired persons as of October 1, 2007 participating in this contract were not transferred and are a Seadrill obligation.

Annual pension cost

($ in millions)	2011	2010
Benefits earned during the year	11.6	8.3
Interest cost on prior years' benefit obligation	4.3	3.7
Gross pension cost for the year	**15.9**	**12.0**
Expected return on plan assets	(3.6)	(3.1)
Administration charges	0.3	0.2
Net pension cost for the year	**12.6**	**9.1**
Social security cost	1.8	1.3
Amortization of actuarial gains/losses	0.1	-
Amortization of prior service cost	0.3	(1.8)
Amortization of net transition assets	-	(1.1)
Total net pension cost	**14.8**	**7.5**

The funded status of the defined benefit plan

	DECEMBER 31	
($ in millions)	2011	2010
Projected benefit obligations	125.5	90.0
Plan assets at market value	(75.1)	(58.7)
Accrued pension liability exclusive social security	**50.4**	**31.3**
Social security related to pension obligations	7.1	4.4
Accrued pension liabilities	**57.5**	**35.7**

Change in benefit obligations

	DECEMBER 31	
($ in millions)	2011	2010
Benefit obligations at beginning of year	90.0	73.2
Interest cost	4.3	3.7
Current service cost	11.6	8.3
Acquisitions	0.3	(1.5)
Benefits paid	(1.2)	(0.9)
Change in unrecognized actuarial gain	25.5	8.0
Translation adjustments	(4.9)	(0.8)
Benefit obligations at end of year	**125.6**	**90.0**

Change in pension plan assets

	DECEMBER 31	
($ in millions)	2011	2010
Fair value of plan assets at beginning of year	58.8	54.3
Estimated return	3.6	3.1
Contribution by employer	11.0	7.3
Administration charges	(0.3)	(0.2)
Benefits paid	(0.5)	(0.4)
Change in unrecognized actuarial gain	5.3	(4.5)
Translation adjustments	(2.7)	(0.8)
Fair value of plan assets at end of year	**75.2**	**58.8**

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets, discount rates, compensation increases and employee turnover rates. The Company evaluates the assumptions periodically and makes adjustments to these assumptions and the recorded liabilities as necessary.

Two of the most critical assumptions used in calculating the Company's pension expense and liabilities are the expected rate of return on plan assets and the assumed discount rate. The Company evaluates assumptions regarding the estimated rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by a third party investment advisor utilizing the asset allocation classes held by the plan's portfolios. In determining the discount rate Seawell utilized the Norwegian government 10 year-bond effective yield plus 0.3-0.5 percent. Changes in these and other assumptions used in the actuarial computations could impact the projected benefit obligations, pension liabilities, pension expense and other comprehensive income.

Assumptions used in calculation of pension obligations

	2011	2010
Rate of compensation increase at the end of year	3.50%	4.00%
Discount rate at the end of year	3.80%	4.60%
Prescribed pension index factor	2.50%	2.50%
Expected return on plan assets for the year	4.10%	5.40%
Turnover	4.00%	4.00%
Expected increases in Social Security Base	3.25%	3.75%
Expected annual early retirement from age 60/62:		
Offshore personnel fixed installations	30.0%	30.0%
Offshore personnel and onshore employees	50.0%	50.0%

The asset allocation of funds related to the Company's defined benefit plan was as follows:

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Pension benefit plan assets

	DECEMBER 31	
	2011	2010
Equity securities	19.5%	15.6%
Debt securities	47.2%	49.1%
Real estate	17.0%	16.1%
Money market	13.3%	13.2%
Other	3.0%	6.0%
Total	**100.0%**	**100.0%**

The investment policies and strategies for the pension benefit plan funds do not use target allocations for the individual asset categories. The investment objectives are to maximize returns subject to specific risk management policies. The Company addresses diversification by the use of domestic and international fixed income securities and domestic and international equity securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The estimated yearly return on pension assets was 4.1 percent in 2011. (5.4 percent in 2010).

Cash flows - Benefits expected to be paid
The table below shows the Company's expected annual pension plan payments under defined benefit plans for the years 2012-2021. The expected payments are based on the assumptions used to measure the Company's obligations at December 31, 2011 and include estimated future employee services.

($ in millions)	
2012	12.4
2013	13.3
2014	14.6
2015	15.8
2016	14.6
2017-2021	105.7
Total payments expected during the next 10 years	**176.4**

Defined Contributions Plans
The Company contributes to a private contributory defined contribution pension plan, for the UK based employees, which is administered by a private pensions broker on behalf of the Company. Eligible employees may contribute a minimum of 2% of their salary to the scheme, and the Company contributes between 5% and 7.5% to participants' plans. In 2011 Archer contributed $0.5 million (2010:$0.4 million) to the plan.

The Company also contributes to the 401(k) Profit Sharing Plan adopted for the US employees. The plan is a defined contribution savings plans designed to provide retirement income to eligible employees. It is funded by voluntary pre-tax contributions from employees up to statutory limits based on percentage of salary. The Company funds the plans with matching contributions. In 2011 Archer has contributed $2.1 million to 401(k) plans for its employees. In 2010 Archer contributions totalled $0.3 million. The increase in 2011 compared to 2010, results from the expansion in US operations following the acquisitions of Allis-Chalmers and Great White.

Note 20 – Related Party Transactions
The Company transacts business with the following related parties, being companies in which our parent company's principal shareholders Hemen Holding Ltd and Farahead Investments Inc (hereafter jointly referred to as "Hemen") and companies associated with Hemen have a significant interest:

- Seadrill Limited ("Seadrill")
- Frontline Management (Bermuda) Limited ("Frontline")
- North Atlantic Drilling Ltd ("NADL")

The Company was established at the end of the third quarter of 2007 as a spin-off of Seadrill's Well Service division. The Company acquired the shares in the Seadrill Well Service division entities on October 1, 2007. The consideration for the shares was $ 449.1 million. The acquisition has been accounted for as a common control transaction with the asset and liabilities acquired recorded by the Company at 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.

Some of the Company's senior management and directors also have options in Seadrill. The option agreement provides the option holder with the right to subscribe for new shares in Seadrill. The fair value of these options is recognized as personnel expenses in the Company's financial statements and amounted to $0.1 million in both the years ended December 31, 2011 and 2010.
Seadrill Management AS, a company within the Seadrill Group has not charged the Company a fee for services during 2011. In 2010 the Company was invoiced $ 0.5 million for management support and administrative services. Frontline provides management support and administrative services for the Company, and charged the Company fees of $ 0.7 million for these services in the twelve months ended December 31, 2011 and $ 0.3 million for the twelve months ended December 31, 2010. These amounts are included in "General and administrative expenses" in the Consolidated Statement of Operations.

The Company also supplied Seadrill with engineering services amounting to $ 8.0 million including reimbursable material for the year to date ending December 31, 2011 ($ 3.6 million in 2010). This amount has been included in operating revenue.

In order to secure timely delivery and earlier tradability of the 30.0 million shares that were to be issued, in the private placing at NOK 30 a share on the August 31, 2011, Archer borrowed shares from Seadrill pursuant to a share lending agreement.

As of December 31, 2010 $ 0.5 million of the current liabilities stated in the balance sheet is related to short term loans to Seadrill. The interest rate on these loans was three month LIBOR plus 1.25% margin. These loans have been repaid in 2011. No interest was accrued during 2011 on these loans. $ 0.7 million interest was recorded in the twelve months ended December 31, 2010.

The Company also supplied NADL with engineering services amounting to $ 1.1 million including reimbursable material for the year to date ending December 31, 2011. This amount has been included in operating revenue. There were no transactions with NADL in 2010.

The Company also transacts business with the following related parties, being companies in which some of Archer's directors may be deemed to indirectly beneficially own 50% of, or control:

- Pan American Energy, or PAE
- BEUSA Energy, Inc, or BEUSA

One of our largest customers is PAE, which is a joint venture by Bridas Corporation and CNOC International Limited. One of Archer's directors, Alejandro P. Bulgheroni, indirectly beneficially owns 50% of the share of the Bridas Corporation and is a member of the management committee of PAE. Since the merger of Allis-Chalmers, PAE represented 14.7% of our consolidated revenues for the year ended December 31, 2011. At December 31, 2011, the Company had trade receivables and other receivables with PAE of $55.5 million.

In the twelve months ended December 31, 2011 we derived revenue of approximately $3.7 million from BEUSA, a company controlled by Alejandro P. Bulgheroni. At December 31, 2011 we had trade receivables from BEUSA of approximately $0.5 million.

The relationships with PAE and BEUSA arose from the merger with Allis-Chalmers. Archer therefore had no transactions with these related parties in 2010.

Note 21 – Reporting and Geographical Segment Information
Up to and including 2011, the Company had two segments, drilling services and well services. The split of our organization and aggregation of our business into two segments was based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure. Although the Company's segments are generally influenced by the same economic factors, each represents a distinct service to the oil and gas industry. There have not been any intersegment sales during the periods presented. Segment results are evaluated based on operating income. The accounting principles for the segments are the same as for the Company's consolidated financial statements. Indirect general and administrative expenses are allocated to each segment based on estimated use.

- Drilling Services: The Company performs platform drilling, modular rig activities, land drilling, horizontal and directional drilling, drill bits and drilling and completion fluids, tubular services, under balanced services, rentals, and engineering services on several fixed installations in North and South America and in the North Sea; and
- Well Services: The Company performs wireline intervention, wireline logging, coiled tubing, completion services and pressure control, pressure pumping, fishing and specialist intervention, frac valves, cementing tools, and plugs and packers.

Following the significant expansion of the business in 2011, the management structure of the group has been reorganized in 2012 with focus on four geographic and strategic areas: North America, Latin America, North Sea and Emerging Markets and Technologies. The new structure will increase our operational focus and consolidate activities by geographical areas. The new reorganization will take effect from January 1, 2012.

The following segmental information reflects the two reporting segments as they existed as at December 31, 2011.

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($ in millions)	FOR THE YEARS ENDED DECEMBER 31	
	2011	2010
Revenues from external customers		
Drilling Services	1,381.6	593.9
Well Services	473.0	124.8
Total	**1,854.6**	**718.7**
Depreciation and amortization		
Drilling Services	91.7	8.9
Well Services	55.4	13.7
Total	**147.1**	**22.6**
Operating income (loss) - net income (loss)		
Drilling Services	(41.1)	46.9
Well Services	45.3	17.0
Stock compensation costs	(4.9)	-
Merger and acquisition costs	(15.2)	-
Operating income / (loss)	**(15.9)**	**63.9**
Total financial items	(46.6)	(36.3)
Income taxes	(14.5)	(15.3)
Net (loss) / income attributable to the parent	**(77.0)**	**12.3**
Capital expenditures – fixed assets		
Drilling Services	114.8	16.5
Well Services	51.4	11.3
Total	**166.2**	**27.8**

($ in millions)	AS OF DECEMBER 31	
	2011	2010
Total assets		
Drilling Services	1,421.7	453.3
Well Services	1,393.0	522.0
Total	**2,814.7**	**975.3**

Goodwill

($ in millions)	DRILLING SERVICES	WELL SERVICES	TOTAL
Balance at December 31, 2009	**137.6**	**138.2**	**275.8**
Acquisitions	4.6	79.5	84.1
Changes to goodwill	-	0.6	0.6
Exchange rate fluctuations on goodwill measured in foreign currency	(2.8)	(1.3)	(4.1)
Balance at December 31, 2010	**139.4**	**217.0**	**356.4**
Acquisitions	239.6	404.8	644.4
Changes to goodwill	-	1.6	1.6
Impairment	(99.0)	-	(99.0)
Exchange rate fluctuations on goodwill measured in foreign currency	(3.4)	(1.1)	(4.5)
Balance at December 31, 2011	**276.6**	**622.3**	**898.9**

Geographic information by country

	FOR THE YEARS ENDED DECEMBER 31	
($ in millions)	2011	2010
Revenue		
Norway	641.2	531.1
United States	605.0	-
Argentina	359.2	-
United Kingdom	134.0	139.3
Other	115.2	48.3
Total	**1,854.6**	**718.7**

Property plant and equipment

	AS OF DECEMBER 31	
($ in millions)	2011	2010
United States	603.7	45.7
Argentina	170.1	-
Norway	67.0	62.5
Brazil	85.6	1.4
Other	117.7	32.7
Total	**1,044.1**	**142.3**

Note 22 – Risk Management and Financial Instruments

The company's reporting currency is US Dollars. The Company has operations and assets in a number of countries worldwide, and receives revenues and incurs expenditure in other currencies, causing its results from operations to be affected by fluctuations in currency exchange rates, primarily relative to the Norwegian krone and British pounds. The Company is also exposed to changes in interest rates on variable interest rate debt, and to the impact of changes in currency exchange rates on debt denominated in Norwegian krone, Euros and British pounds. There is thus a risk that currency and interest rate fluctuations will have a negative effect on the value of the Company's cash flows.

Interest rate risk management

The Company's exposure to interest rate risk relates mainly to its variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. The Company's policy is to obtain the most favorable interest rate borrowings available without increasing its foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide the Company with flexibility to meet requirements for working capital and capital investments.

The extent to which the Company utilizes interest rate swaps and other derivatives to manage its interest rate risk is determined by reference to its net debt exposure and its views regarding future interest rates. At December 31, 2011 the Company had outstanding interest rate swap agreements covering

Archer Limited and Subsidiaries
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NOK 490 million of its NOK interest bearing debt (2010: NOK 715 million), effectively fixing the interest rate on approximately 8% of the debt (2010: 63%). These agreements qualify for hedge accounting, and accordingly any changes in the fair values of the swap agreements are included in the Consolidated Balance Sheet under "Other Comprehensive Income". The total fair value gain relating to interest rate swaps in 2011 amounted to $ 0.7 million.

Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. The Company recognized a $ 0.6 million loss related to the interest swap agreement prior to the start up of the hedging period. Other then this, the Company has not recognized any gain or loss due to hedge ineffectiveness in the consolidated financial statements during the year ended December 31, 2011.

The Company's interest rate swap agreement as at December 31 2011, was as follows:

NOTIONAL AMOUNT	RECEIVE RATE	PAY RATE	LENGTH OF CONTRACT
(NOK in millions)			
490	3 month NIBOR	3.355%	April 30, 2009 - October 31, 2012

The counterparties to the above contract are Fokus Bank. Credit risk exists to the extent that the counterpar-ties are unable to perform under the contracts, but this risk is considered remote as the counterparties are all banks which have provided the Company with loan finance and the interest rate swaps are related to those financing arrangements.

Foreign currency risk management
The Company is exposed to foreign currency exchange movements in both transactions that are denominated in currency other than usd, and in translating consolidated subsidiaries who do not have a functional currency of usd, which is the reporting currency for the Company. Transaction losses are recognized in Other Financial Items in the period to which they relate. Translation differences are recognized as a component of equity. The total transaction loss relating to foreign exchange movements recognized in the consolidated statement of operations in 2011 amounted to $ 17.5 million (2010: 14.7 million).

Credit risk management
The Company has financial assets, including cash and cash equivalents, other receivables and certain amounts receivable on derivative instruments, mainly interest rate swaps. These assets expose the Company to credit risk arising from possible default by the counterparty. The Company considers the counterparties to be creditworthy financial institutions and does not expect any significant loss to result from non-performance by such counterparties. The Company, in the normal course of business, does not demand collateral. The credit exposure of interest rate swap agreements is represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements. It is the Company's policy to enter into master netting agreements with the counterparties to derivative financial instrument contracts, which give the Company the legal right to discharge all or a portion of amounts owed to a counterparty by offsetting them against amounts that the counterparty owes to the Company.

Fair values
The carrying value and estimated fair value of the Company's financial instruments at December 31, 2011 and December 31, 2010 are as follows:

($ in millions)	DECEMBER 31			
	2011		2010	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Non-Derivatives				
Cash and cash equivalents	37.3	37.3	174.4	174.4
Restricted cash	13.3	13.3	12.2	12.2
Current portion of long term floating rate debt	108.4	108.4	1.9	1.9
Long term interest bearing debt	963.9	977.8	192.4	192.4
Interest rate swap agreement – long term liability	1.2	1.2	1.9	1.9

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

($ in millions)		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
	DECEMBER 31 2011	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets:				
Cash and cash equivalents	37.3	37.3	-	-
Restricted cash	13.3	13.3	-	-
Liabilities:				
Allis-Chalmers 2014 note	96.3	96.3	-	-
Allis-Chalmers 2017 note	186.5	186.5	-	-
$1,121.9 million multicurrency term revolving facility	774.1	-	774.1	-
Other loans and capital leases, excluding current portion	15.4	-	15.4	-
Interest rate swap contacts – short term payables	1.2	-	1.2	-

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

The Company has used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of the Company's financial instruments as of December 31, 2011 and 2010. For certain instruments, including cash and cash equivalents, receivables and accounts payable, 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 2014 and 2017 notes are based on the last trading prices of the notes in December 2011.

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 as at December 31, 2011 and 2010.

Retained risk
The Company retains the risk, through self-insurance, for the deductibles relating to physical damage insurance on the Company's capital equipment, currently a maximum of $ 1.0 million per occurrence. In the opinion of management, adequate provisions have been made in relation to such exposures, based on known and estimated losses.

Concentration of risk
The following table summarizes revenues from major customers as a percentage of total revenues (revenues in excess of 10 percent for the period):

CUSTOMER	2011	2010
StatoilHydro	19%	46%
Pan American Energy	15%	-
ConocoPhillips	10%	16%
Customer <10%	56%	38%
Total	**100%**	**100%**

Figures in the table are total operating revenues, and include reimbursables.

Note 23 – Lease Obligations

Archer Limited and Subsidiaries
Notes to consolidated financial statements

Operating leases
The Company has signed operating leases for certain premises, office equipment and operating equipment. The most significant lease agreements are related to offices in the United States, Norway and United Kingdom. Rental expenses amounted to $ 11.0 in 2011 ($ 8.6 million for 2010).

Estimated future minimum rental payments are as follows:

YEAR	AMOUNT ($ IN MILLIONS)
2012	10.9
2013	10.8
2014	10.2
2015	9.1
2016	8.6
Thereafter	18.7
Total	**68.3**

Note 24 – Subsequent Events
Subsequent events have been incorporated to related notes where appropriate. Other subsequent events are disclosed in this note .

Archer and the lenders of the multicurrency term and revolving facility agreed on April 25, 2012 that for the quarters ending March 31, June 30 and September 30, 2012, the ratio of Net Interest Bearing Debt to EBITDA for the Group (on a consolidated basis) shall not exceed 3.50. From the quarters ending December 31, 2012 and thereafter, the ratio of Net Interest Bearing Debt to EBITDA for the Group (on a consolidated basis) shall not exceed 3.00. The margin has been amended to be between 2.25% and 3.75% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any.

Note 25 – Supplemental Pro Forma Data (Unaudited)
The unaudited pro forma statement of operations data below gives effect to the acquisitions of Great White and Allis-Chalmers, both acquired during 2011 and Gray Wireline acquired in 2010, as if all acquisitions had occurred at the beginning of 2010. The following data includes the amortization of purchased intangible assets. 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 acquisitions taken place at the beginning of 2010.

(In millions of $s)	YEAR ENDED DECEMBER 31	
	2011	2010
Pro forma net revenue	2,223.7	1,681.1
Pro forma net (loss)	(72.6)	(119.1)

Appendices

Appendix A
Corporate governance

The Norwegian Code of Practice for Corporate Governance (the "Code") applies to the Company to the extent that the provisions of this code do not conflict with the legislation of its national jurisdiction. The Code is a "comply or explain" guideline and the Company generally aims at complying with the recommendations of the Code. However, the Company will to some extent deviate from certain recommendations of the Code, partly due to different practice and principles under which Bermuda companies operate. The status of non-compliance and the explanations therefore is set out below.

The Code is available in its entirety at the Oslo Stock Exchange website (www.ose.no) and the website of The Norwegian Corporate Governance Board (www.nues.no).

Section 1
The Board has reviewed its corporate governance for the financial year 2011 and, in line with the Code, it will cover the compliance with each section of the code below.

Section 2
In accordance with normal practice for Bermuda companies, the Company's bye-laws do not include a specific description of the Company's business. According to the memorandum of association, no restrictions apply as to the purpose of the company and the reasons for its incorporation. As a Bermuda incorporated company, the Company has chosen to establish the constitutional framework in compliance with the normal practice of Bermuda and accordingly deviate from section 2 of the Code.

Section 3
The Company's equity capital is at a level appropriate to its objectives, strategy, and risk profile. In accordance with Bermuda law, the Board is authorised to repurchase treasury shares, and to issue any unissued shares within the limits of the authorised share capital. These authorities are neither limited to specific purposes nor to a specific period as recommended in section 3 of the Code. While the Company aims at providing competitive long-term return on the investments for its shareholders, it does not currently have a formal dividend policy.

Section 4
In accordance with the company laws of Bermuda, the shareholders can resolve an amount of authorised capital within which the Board may decide to increase the issued capital at its discretion without further shareholder approval. There is no legal framework providing for specific time limited or purpose limited authorisations to increase the share capital. The Board will propose to the shareholders that they consider and, if necessary, resolve to increase the authorised capital of the Company that will allow the Board some flexibility to increase the number of issued shares without further shareholder approval. As such, the Company may deviate from the Code's recommendation in section 4 to limit such authorisation to 10% of the issued share capital. Any increase of the authorized capital is, however, subject to approval by the shareholders by 2/3 majority of the votes cast. Neither the Company's bye-laws nor Bermuda company laws include regulation of pre-emptive rights for shareholders in connection with share capital increases. The Company's bye-laws provide for the Board in its sole discretion to direct a share issue to existing shareholders at par value or at a premium price.

Section 5
The Company is subject to the general principle of equal treatment of shareholders under the Norwegian Securities Trading Act section 5-14. The Board will in connection with any future share issues on a case-by-case basis evaluate whether deviation from the principle of equal treatment is justified. The Board will consider and determine on a case-by-case basis whether independent third party evaluations are required if entering into agreements with close associates in accordance with the Code section 5. The Board may decide, however, due to the specific agreement or transaction, to deviate from this recommendation if the interests of the shareholders in general are believed to be maintained in a satisfactory manner through other measures.

Section 6
As a Bermuda registered Company, the general meetings of the Company can be conducted through proxy voting. The VPS registered shareholders are holders of interests in the shares and thus represented by the VPS Registrar in the general meetings and not through their own physical presence. This is in line with the general practise of other non-Norwegian companies listed on Oslo Børs. The Company complies in all other respects with the recommendations for general meetings as set out in of the Code.

Section 7
The Company has not established a nomination and remuneration committee as recommended by the Code section 7. In lieu of a nomination committee comprised of independent directors, the Board is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees.

Section 8
The Chairman of our eight-member board has been elected by the Board and not by the shareholders as recommended in the Code. This is in compliance with normal procedures under Bermuda law. The Company is not fully in compliance with section 8 with respect to independence of board members. The Code recommends that the board should not include executive personnel and that the majority of the shareholder-elected board members should be independent of the company's executive personnel and material business contacts. The Code also recommends that at least two of the members of the board should be independent of the company's main shareholders. Fredrik Halvorsen, a director since October 2010, currently serves as the Company's interim Chief Executive Officer. No other executive also serves as a director. Four of our eight directors, Alejandro P. Bulgheroni, Giovanni Dell' Orto, Cecilie Fredriksen, and Fredrik Halvorsen are independent of the Company's two largest shareholders, Lime Rock Partners and Seadrill. Two of our directors, Tor Olav Trøim and Kate Blankenship, may be deemed affiliated, under the Code, with our largest shareholder, Seadrill. Our chairman Saad Bargach and director John Reynolds are affiliated with our second largest shareholder, Lime Rock Partners. The Company accordingly deviates from the Code section 8.

Section 9
The Board annually sets a plan for its work in December for the following year which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and review and monitoring of the Company's current year financial performance. The Board meets at least four times a year, with further meetings being held as required to react to operational or strategic changes in the market and company circumstances. The board receives frequent and relevant information to carry out its duties. It has delegated authority to the Management by the means of a delegation of authority guideline. The board has established an HSE committee, which reviews the Company's performance related to health, safety and environment. It has also established an audit committee, which reviews the financial information and confirms to the board that it has been prepared in line with the adopted accounting policies.

The Company's Board acknowledges its responsibility for the Company's system of internal control and for reviewing its effectiveness. The Company's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

Section 10
The Board has established an audit committee, which has formal charter and terms of reference approved by the Board. The audit committee, which is comprised of two directors, Kate Blankenship and John Reynolds, is responsible for ensuring that Archer has an independent and effective internal and external audit system. The audit committee supports the Board in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintaining appropriate relationships with the Company's auditors. Appointment of the auditor for audit services is approved at the Company's annual general meeting and the Board is given authority to approve the fees to be paid to the auditor. The Company's auditor meets the audit committee annually regarding the preparation of the annual accounts and also to present their report on the internal control procedures. The audit committee holds separate discussions with the Company's external auditor on a quarterly basis without executive management being present. The scope, resources, and the level of fees proposed by the external auditor in relation to Archer's audit are approved by the audit committee.

The Company has in place clearly defined lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of expenditures. The senior management team meets with its geographic and divisional leadership on a regular basis to discuss particular issues affecting each region and business unit, including their key risks, health and safety statistics and legal and financial matters.

Section 11
There is no obligation to present the guidelines for remuneration of the board of directors to the shareholders of a Bermuda incorporated company. The Company will provide information to its shareholders regarding remuneration of the Board in compliance with US GAAP, but will not implement procedures that are not generally applied under Bermuda law. The Company thus deviates from this part of section 11 of the Code. For 2011, remuneration to directors was $75,000 per director. There are no service contracts between the Company and any of our directors providing for benefits upon termination of their service.

Section 12
There is no obligation to present the guidelines for remuneration of the executive management to the shareholders of a Bermuda incorporated company. The Company provides information to its shareholders regarding remuneration of the executive management in compliance with US GAAP, but will not implement procedures that are not generally applied under Bermuda law. In the view of the Company there is sufficient transparency and simplicity in the remuneration structure that the information provided through the annual report and accounts are sufficient to keep shareholders adequately informed. The Company thus deviates from this part of section 12 of the Code.

Section 13
The Board of Directors has established guidelines requiring the Company to report interim financial information on a quarterly basis according to a financial calendar that is publically available. It has also asked the Company to hold a quarterly financial results conference call, which is accessible to all participants in the securities market. Timing and venue for such events are announced through public press releases. For specific events the Board of Directors asks the Company to hold investor meetings allowing for more detailed information. The information shared in such meetings are published on the Company's investor relations website.

Section 14
The Board of Directors has adopted all recommendation related to take-overs, which requires that all shareholders are given sufficient information and time to form an independent view of a potential take over offer.

Norwegian Accounting Act Section 3-3 b
In addition to the Norwegian Code of Practice for Corporate Governance, the Norwegian Accounting Act has set out additional requirements for corporate governance. The Company has established a set of guidelines related to internal control and corporate governance.

Risk Oversight
It is management's responsibility to manage risk and bring the most material risks to the Company to the attention of the Board of Directors. The Board of Directors has delegated to the Audit Committee the responsibility to discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control those exposures, including the Company's risk assessment and risk management policies. The Audit Committee reports as appropriate to the full Board. Each operational division head is responsible to report risks related to each segment to the chief executive officer, who in turn reports to the Board.

Appendix A
Corporate governance

Internal control
Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with United States generally accepted accounting principles. Our control environment is the foundation for our system of internal control over financial reporting and is an integral part of our Code of Business Ethics and Conduct for the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, which sets the tone of our company. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Audit committee
The Audit Committee currently consists of two directors, Kate Blankenship and John Reynolds. The Audit Committee assists our Board of Directors in fulfilling its oversight responsibility by overseeing and evaluating (i) the conduct of our accounting and financial reporting process and the integrity of our financial statements; (ii) the functioning of our systems of internal accounting and financial controls; (iii) the performance and independence of our internal audit function and (iv) the engagement, compensation, performance, qualifications and independence of our independent auditors.

The independent auditors have unrestricted access and report directly to the Audit Committee. The Audit Committee meets privately with, and has unrestricted access to, the independent auditors and all of our personnel.

Compensation committee
The Compensation Committee currently consists of three directors, Tor Olav Troim, Fredrik Halvorson and Saad Bargach. The Compensation Committee formulates and oversees the execution of our compensation strategies, including making recommendations to our Board of Directors with respect to compensation arrangements for senior management, directors and other key employees. The Compensation Committee also administers our stock compensation plans.

Health, Safety and Environment Committee
The Health, Safety and Environment Committee currently consists of two directors, Alejandro P. Bulgheroni and Gianni del Orto. The Health, Safety and Environmental Committee directs management to conduct the Company's business with no accidents, injuries or losses in an environmental sustainable manner. The committee reviews material incidents and discusses appropriate actions to mitigate future occurrences.

Communications with the Board of Directors
Stockholders and other interested parties wishing to communicate with the Board of Directors, the non-management directors or any individual director, including the presiding director, should send any communication to Corporate Secretary, Archer Well Limited, 10613 W Sam Houston Parkway N, Suite 600, Houston, Texas 77064. Any such communication must state the number of shares beneficially owned by the stockholder making the communication. The Corporate Secretary will forward such communication to the director or directors to whom the communication is directed, unless the Corporate Secretary determines that the communication does not relate to the business or affairs of the Company or the functioning or constitution of the Board of Directors or any of its committees, relates to routine or insignificant matters that do not warrant the attention of the Board of Directors, is an advertisement or other commercial solicitation or communication, is frivolous or offensive, or is otherwise not appropriate for delivery to directors.

Communication from the Company
Information of relevance to the Company's share price is communicated through the Company's website, and includes information relating to results and economic development. The Company's policy is to comply with all applicable standards aimed at securing a good information flow.

Archer Limited publishes annual and quarterly reports at its website. The Company acknowledges the importance of providing shareholders, and the equity market in general, with correct and relevant information about the Company and its activities.

Related party transaction approval policy
Our Board of Directors has adopted a written policy relating to the approval of transactions with related persons. For purposes of this policy, a related person transaction is one in which the Company was, is or will be a participant and the amount involved exceeds $120,000, and in which any related person had, has or will have a direct or indirect material interest. Pursuant to the policy, all related party transactions must be reviewed and approved by the Audit Committee of our Board of Directors.

Other than the ones mentioned above, the Company has not established any further guidelines regulating the work of the Board and its committees.

Appendix B
List of significant subsidiaries

Company Name	Percent holding	Nature of Company
Allis-Chalmers Energy Inc.	100%	Holding Company
Allis-Chalmers Holdings Inc.	100%	Holding Company
Allis-Chalmers Management LLC	100%	Provides management services
Archer (UK) Ltd.	100%	Drilling and well service operations
Archer AS	100%	Drilling and well service operations
Archer Asset UK Ltd.	100%	Holding Company
Archer BCH (Canada) Ltd	100%	Holding Company
Archer Consulting Resources Ltd.	100%	Provides management services
Archer Directional Drilling Services LLC	100%	Drilling Service operations
Archer DLS Corporation	100%	Holding Company
Archer do Brazil Servicos de Petroleo Ltda	100%	Drilling Service operations
Archer Drilling LLC	100%	Drilling Service operations
Archer Emerald (Bermuda)Ltd.	100%	Owns and operates modular rig
Archer Logistica y servicos de Mexico	100%	Drilling Service operations
Archer Management (Bermuda) Ltd.	100%	Provides management services
Archer Management (US) LLC	100%	Provides management services
Archer Management AS	100%	Provides management services
Archer Management LLC	100%	Provides management services
Archer Management Ltd.	100%	Provides management services
Archer Norge AS	100%	Drilling and well service operations
Archer Offshore Denmark AS	100%	Well Service operations
Archer Oil Tools (Bermuda) Ltd.	100%	Well Service operations
Archer Oil Tools AS	100%	Well Service operations
Archer Overseas Contracting Ltd	100%	Provides crewing services
Archer Pressure Pumping LLC	100%	Well Service operations
Archer Production and Completion Services LLC	100%	Well Service operations
Archer Rental Services LLC	100%	Drilling Service operations
Archer Services Limited	100%	Well Service operations
Archer Tubular Services LLC	100%	Drilling Service operations
Archer Underbalanced Services LLC	100%	Drilling Service operations
Archer Well Co (Australia) Pty Ltd	100%	Well Service operations
Archer Well Co (M) Sdn Bhd	100%	Well Service operations
Archer Well Co (Singapore) Pte Ltd	100%	Well Service operations
Archer Well Company Inc	100%	Holding Company
AWC Frac Valves Inc.	100%	Well Service operations
BCH Energy do Brazil Servicos de Petroleo Ltda	100%	Drilling Service operations
DLS Argentina Limited	100%	Drilling Service operations
Gray Wireline Service Inc.	100%	Well Service operations
Great White Directional Services LLC	100%	Drilling Service operations
Great White Pressure Control LLC	100%	Well Service operations
Peak well Solutions AS	100%	Well Service operations
Rig Inspection Services (US) LLC	100%	Well Service operations
Rig Inspection Services Pte Ltd	100%	Well Service operations
Seawell DO Brazil Servicos de Petroleo Ltda	100%	Drilling and well service operations
Seawell Drilling Ltd. (UK)	100%	Dormant
Seawell Engineering AS	100%	Drilling and well service operations
Tanus Argentina S.A	100%	Drilling Service operations
Tecwel (UK) Limited	100%	Well Service operations
Tecwel AS	100%	Well Service operations
Tecwel Inc.	100%	Well Service operations
Tecwel Telemetri AS	100%	Well Service operations
Viking intervention Technology (UK) Ltd.	100%	Well Service operations
Viking Intervention Technology AS	100%	Well Service operations
Wellbore Solutions AS	100%	Well Service operations

Report of Independent Auditors

To the Board of Directors and Shareholders of Archer Limited:

We have audited the accompanying balance sheets of Archer Limited (parent company alone) as of December 31, 2011 and 2010, and the related statements of operations, comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company publishes consolidated financial statements, which are its primary financial statements. The financial statements of Archer Limited (parent company alone) have been prepared solely to comply with the reporting requirements of Section 5.5 of the Norwegian Securities Trading Act.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of The Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Archer Limited (parent company alone) at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

London
United Kingdom
April 30, 2012

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH
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Appendix C
Supplemental parent company only information

Archer Limited Statement of Operations

(In millions of $, except share and per share data)	YEAR ENDED DECEMBER 31	
	2011	2010
Revenues		
Operating revenues	-	-
Total revenues	**-**	**-**
Expenses		
General and administrative expenses	(13.4)	(6.6)
Impairment of investments	(99.0)	-
Total expenses	**(112.4)**	**(6.6)**
Operating loss	**(112.4)**	**(6.6)**
Financial items		
Interest income	0.7	0.7
Interest expenses	(12.7)	(9.1)
Share of profit from subsidiaries	44.7	49.3
Other financial items	2.7	(22.0)
Total financial items	**35.4**	**18.9**
(Loss) / income before income taxes	**(77.0)**	**12.3**
Income taxes	-	-
Net (loss) / income	**(77.0)**	**12.3**
Basic earnings / (loss) per share	**(0.24)**	**0.08**
Diluted earnings / (loss) per share	**(0.24)**	**0.08**
Weighted average number of shares outstanding		
Basic	322,420,262	152,049,913
Diluted	322,420,262	155,930,383

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

Appendix C
Supplemental parent company only information

Archer Limited Statement of Comprehensive Income

(In millions of $)	YEAR ENDED DECEMBER 31	
	2011	2010
Net income (loss)	(77.0)	12.3
Other comprehensive (loss)		
Change in unrealized loss relating to subsidiary pension plans	(15.3)	(11.2)
Change in unrealized foreign exchange differences	(17.5)	30.0
Interest swap gain / (loss)	0.7	(0.9)
Other comprehensive (loss) / income	**(32.1)**	**17.9**
Total comprehensive (loss) / income	**(109.1)**	**30.2**

Accumulated Other Comprehensive Income

	Subsidiary pension plans-unrecognised gains / losses	Change in unrealized foreign exchange differences	Other comprehensive gains/losses	Total
Balance at December 31, 2009	**4.9**	**1.7**	**(1.0)**	**5.6**
Net changes in gains and losses and prior service costs	(11.2)	-	-	(11.2)
Interest swap gain (loss)	-	-	(0.9)	(0.9)
Foreign exchange differences	-	30.0	-	30.0
Balance at December 31, 2010	**(6.3)**	**31.7**	**(1.9)**	**23.5**
Net changes in gains and losses and prior service costs	(15.3)	-	-	(15.3)
Interest swap gain (loss)	-	-	0.7	0.7
Foreign exchange differences	-	(17.5)	-	(17.5)
Balance at December 31, 2011	**(21.6)**	**14.2**	**(1.2)**	**(8.6)**

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

Archer Limited Balance Sheet

(In millions of $)	DECEMBER 31	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	1.6	127.3
Amounts owed from subsidiaries	219.1	411.0
Other current assets	4.8	25.6
Total current assets	**225.5**	**563.9**
Non-current assets		
Capitalized debt fees	7.1	4.7
Amounts due from subsidiaries, long-term	480.0	0.1
Investments in subsidiaries	764.8	181.3
Total non-current assets	**1,251.9**	**186.1**
Total assets	**1,477.4**	**750.0**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Due to subsidiaries	2.9	0.2
Other current liabilities	3.1	3.0
Total current liabilities	**6.0**	**3.2**
Non-current liabilities		
Long-term interest bearing debt	184.6	189.0
Total non-current liabilities	**184.6**	**189.0**
Commitments and contingencies		
Shareholders' equity		
Common shares of par value $2.00 per share: 600,000,000 shares authorized: 366,397,622 outstanding shares at December 31, 2011 (December, 31 2010: 225,400,050)	732.8	450.8
Additional paid in capital	775.5	219.4
(Accumulated deficit) / retained earnings	(7.8)	69.2
Accumulated other comprehensive income / (loss)	(8.6)	23.5
Contributed deficit	(205.1)	(205.1)
Total shareholders' equity	**1,286.8**	**557.8**
Total liabilities and shareholders' equity	**1,477.4**	**750.0**

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

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Supplemental parent company only information

Archer Limited Statement of Cash Flows for the years ended December 31, 2011 and 2010

(In millions of $)	YEAR ENDED DECEMBER 31	
	2011	2010
Cash Flows from Operating Activities		
Net (loss) / income	**(77.0)**	**12.3**
Adjustment to reconcile net income to net cash provided by operating activities:		
Impairment of investments	99.0	-
Amortization of deferred debt costs	4.4	0.2
Unrealized foreign currency losses	(4.4)	(4.6)
Changes in operating assets and liabilities, net of acquisitions		
Decrease / (increase) in amounts owed by subsidiaries	201.0	(163.0)
Change in other operating assets and liabilities, net	(11.1)	19.5
Net cash provided by (used in) operating activities	**211.9**	**(135.6)**
Cash Flows from Investing Activities		
Acquisition of subsidiaries	(98.3)	(29.5)
Net cash used in investing activities	**(98.3)**	**(29.5)**
Cash Flows from Financing Activities		
Repayment of debt	-	(17.0)
Debt fees paid	(6.8)	(4.9)
Loans advanced to subsidiaries	(479.9)	-
Repayment of subordinated loan to shareholder	-	(106.5)
Proceeds from issuance of equity, net	247.4	420.6
Net cash provided by (used in) financing activities	**(239.3)**	**292.2**
Effect of exchange rate changes on cash and cash equiva-lents		
Net (decrease) increase in cash and cash equivalents	**(125.7)**	**127.1**
Cash and cash equivalents at beginning of the period	127.3	0.2
Cash and cash equivalents at the end of the period	**1.6**	**127.3**
Interest paid	12.7	9.1
Taxes paid	-	-

The merger with Allis-Chalmers Energy Inc. was primarily financed by the issue of Archer shares to Allis-Chalmers shareholders. The merger is described in detail in Note 6.

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

Archer Limited Statement of Changes in Shareholders' Equity for the years ended December 31, 2011 and 2010

(In millions of $)	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	(ACCUMULATED DEFICIT)RETAINED EARNINGS	CONTRIBUTED DEFICIT	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 2009	**220.0**	**31.2**	**5.6**	**56.9**	**(205.1)**	**108.6**
Private Placement	230.8	189.8	-	-	-	420.6
Foreign exchange differences	-	-	30.0	-	-	30.0
Interest swap loss	-	-	(0.9)	-	-	(0.9)
Pension – unrecognized loss	-	-	(11.2)	-	-	(11.2)
Options issued	-	(1.6)	-	-	-	(1.6)
Net income	-	-	-	12.3	-	12.3
Balance at December 31, 2010	**450.8**	**219.4**	**23.5**	**69.2**	**(205.1)**	**557.8**
Shares issued on Merger with Allis-Chalmers	194.6	389.6	-	-	-	584.2
Private Placement	85.4	161.9	-	-	-	247.3
Foreign exchange differences	-	-	(17.5)	-	-	(17.5)
Interest swap gain	-	-	0.7	-	-	0.7
Pension – unrecognized loss	-	-	(15.3)	-	-	(15.3)
Options issued	2.0	4.6	-	-	-	6.6
Net loss	-	-	-	(77.0)	-	(77.0)
Consolidated Balance at December 31, 2011	**732.8**	**775.5**	**(8.6)**	**(7.8)**	**(205.1)**	**1,286.8**

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

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Archer Limited Notes to the supplemental parent only financial information

Note 1 - General information
Archer Limited Is a holding company and was previously named Seawell Ltd, or Seawell. The formal name change from Seawell to Archer Limited was approved in a shareholder resolution on May 16, 2011.

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

The Company was incorporated on August 31, 2007.

Archer's shares are traded on the Oslo Börs under the symbol "ARCHER.OL".

Any future dividend declaration will be denominated in NOK.

Basis of presentation
Archer is a limited company that conducts substantially all of its business through its subsidiaries. This supplemental information has been presented on a "parent company only" basis to comply with Norwegian regulations..

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP). The amounts are presented in United States Dollars, or USD, or $ rounded to the nearest million, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods in these financial statements.

Note 2 - Accounting Policies
Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 predicted with certainty. Actual results could differ from those estimates.

Foreign currencies
With effect from October 1, 2011, Archer's functional currency was changed from the NOK to USD. This followed the acquisition of Great White, by one of Archer's subsidiaries after which the majority of revenues generated by the Company's subsidiaries, and thus ultimately remitted to it by way of dividend, are received in USD.

For the purposes of comparative figures included in our 2011 financial statements, our historical financial statements have been converted to USD. The income and cash flow statements have been translated by applying average periodic exchange rates. Assets and liabilities have been converted at exchange rates prevailing at the balance sheet dates. The cumulative components of stockholders equity as at December 31, 2010 have been converted at the exchange rate for that date.

Prior period cumulative balances for stockholders equity have been calculated by translating period movements and the average rate for the relevant period, or using a spot rate for material, identifiable individual transactions.

The following table lists exchange rates applied to our historical NOK financial statements. Rates for NOK to USD

Period	Period end date	Average rate for period	Rate at period end date
	December 31, 2007		5.3868
Three months	March 31, 2008	5.2948	5.0623
Three months	June 30, 2008	5.0678	5.0448
Three months	September 30, 2008	5.3464	5.7865
Three months	December 31, 2008	6.7775	7.0000
Year	December 31, 2008	5.5216	7.0000
Three months	March 31, 2009	6.8519	6.6589
Three months	June 30, 2009	6.4807	6.3809
Three months	September 30, 2009	6.1035	5.8077
Three months	December 31, 2009	5.6647	5.7639
Year	December 31, 2009	6.2752	5.7639
Three months	March 31, 2010	5.8396	5.9794
Three months	June 30, 2010	6.2059	6.4642
Three months	September 30, 2010	6.1532	5.8551
Three months	December 31, 2010	5.9109	5.8679
Year	December 31, 2010	6.0274	5.8679

Current and non-current classification
Assets and liabilities are classified as current assets and liabilities respectively, if their maturity is within one year of the balance sheet date. Assets and liabilities not maturing within one year are classified as long-term.

Cash and cash equivalents
Cash and cash equivalents consist of cash, demand deposits and highly liquid financial instruments purchased with maturity of three months or less, and exclude restricted cash.

Capitalized debt fees
Loan related costs, including debt arrangement fees, incurred on the initial arrangement of loan finance, are capitalized and amortized over the term of the related loan using the straight-line method, which approximates the interest method. Amortization of loan related costs is included in interest expense. Subsequent loan costs in respect of existing loans, such as commitment fees, are recognized in the income statement within other financial items in the period in which they are incurred.

Investment in subsidiaries
The Company's investment in its subsidiaries are presented under the equity method of accounting. Under the equity method of accounting, the investment is initially recorded at cost and is subsequently adjusted to reflect the Company's share of the net profit or loss of the associate. Distributions received from the investee reduce the carrying amount of the investment.

Impairment of long-lived assets
The carrying values of long-lived 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

Income taxes
Archer Limited is a Bermuda company. Under current Bermuda law, Archer is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until year 2035.

The impact of changes to income tax rates or tax law is recognized in periods when the change is enacted.

Earnings per share, or EPS
Basic earnings per share is calculated based on the income for the period available to common stockholders divided by the weighted average number of shares outstanding for basic EPS for the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which for the Company includes share options. The determination of dilutive earnings per share requires the Company to potentially make certain adjustments to net income and to the weighted average shares outstanding used to compute basic earnings per share unless anti-dilutive.

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Financial Instruments
The Company enters into interest rate swaps in order to manage floating interest rates on debt. The Company's interest-rate swap agreements are recorded at fair value in the balance sheet. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability may be designated as a cash flow hedge.

When the interest swap qualifies for hedge accounting the Company formally designates the swap instrument as a hedge of cash flows to be paid on the underlying loan, and in so far as the hedge is effective, the change in the fair value of the swap each period are recognized in the "Accumulated other comprehensive loss" line of the Balance Sheet. Changes in fair value of any ineffective portion of the hedges are charged to the income statement in Other Financial Items. Changes in the fair value of interest-rate swaps are otherwise recorded as a gain or loss under Other Financial Items in the statement of operations where those hedges are not designated as cash flow hedges.

Segment reporting
A segment is a distinguishable component of the Company that is engaged in business activities from which it earns revenues and incur expenses whose operating results are regularly reviewed by the chief operating decision maker and which is subject to risks and rewards that are different from those of other segments.

The Company has one reportable business segment, which is being a holding company.

Related party transactions
Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence.

Recently issued accounting pronouncements
In January 2010, the Financial Accounting Standards Board, or FASB, issued authoritative guidance that changes the disclosure requirements for fair value measurements using significant unobservable inputs (Level 3). The updated guidance requires that Level 3 disclosures present information about purchases, sales, issuances, and settlements on a gross basis. The disclosure requirements for the treatment of purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the guidance in the first quarter 2011, which did not have an impact on its financial position, results of operations or cash flows.

In December 2010, the FASB issued authoritative guidance that modifies the requirements of step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The Company adopted this guidance in the first quarter of fiscal year 2011. The adoption of this guidance did not have a material impact on our financial statements.

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

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

In September 2011, the FASB issued an accounting update that gives companies the option to make a qualitative evaluation about the likelihood of goodwill impairment. Companies will be required to perform the two-step impairment test only if it concludes that the fair value of a reporting unit is more likely than not less than its carrying value. The accounting update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The company has not applied the new guidance for the year ended December 31, 2011. Application of the guidance would not have had a material affect on our goodwill impairment testing for this period.

In December 2011, the FASB issued accounting standards update "Disclosures about Offsetting Assets and Liabilities" in order to standardize the disclosure requirements under US GAAP and International Financial Rreporting Standards relating to both instruments and transactions eligible for offset in financial statements. The update is applicable for annual reporting periods beginning on or after January 1, 2013. Its adoption is not expected to have a material impact on the Company's disclosures.

Note 3 – Impairment of Investments
As a result of impairment charges recognized by our subsidiaries in conjunction with their annual impairment testing of long-lived assets, the Company became aware of a triggering event that its carrying value of investments in subsidiaries may be impaired. After performing the required impairment testing, the company recorded a $99.0 million impairment of its investment.

Note 4 – Earnings Per share
The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

	NET LOSS	WEIGHTED AVERAGE SHARES OUTSTANDING	(LOSS) PER SHARE (IN $)
2011			
(Loss) per share	(77.0)	322,420,262	(0.24)
Effect of dilution:			
Options*		-	-
Diluted earnings per share	(77.0)	322,420,262	(0.24)

*Loss per share not adjusted for dilutive, in the money share options

(in $ millions)	NET INCOME	WEIGHTED AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE (IN $)
2010			
Earnings per share	12.4	152,049,913	0.08
Effect of dilution:			
Options		3,880,470	
Diluted earnings per share	12.4	155,930,383	0.08

Note 5 – Other current assets

Other current assets include:

($ in millions)	DECEMBER 31	
	2011	2010
Prepaid expenses	2.1	1.2
Other short term receivables	2.7	24.4
Total other current assets	**4.8**	**25.6**

Other short term receivables are interest free.

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Note 6 – Investments in subsidiaries

The Company had the following direct participation in investments:

COMPANY NAME	PERCENT HOLDING AS OF DECEMBER 31	
	2011	2010
Archer Management AS	100%	100%
Archer Management Ltd.	100%	100%
Archer Well Co (Singapore) Pte Ltd	100%	100%
Archer Management (US) LLC	100%	100%
Archer Asset UK Ltd.	100%	100%
Archer Consulting Resources Ltd.	100%	100%
Archer Overseas Contracting Ltd	100%	100%
Rig Inspection Services Pte Ltd	100%	100%
Allis-Chalmers Energy Inc.	100%	-

Allis-Chalmers Energy, Inc.

On February 23, 2011 the Company completed the merger with Allis-Chalmers Energy Inc, or Allis-Chalmers, which was previously announced in August 2010. 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 our share options, was $600.9 million.

The components of equity in net assets of non-consolidated investees are as follows:

($ in millions)	2011	2010
Cost	771.9	92.3
Equity in net earnings of investees	(7.1)	89.0
Equity in net assets of non-consolidated investees	**764.8**	**181.3**

Note 7 – Long-term interest bearing debt

	DECEMBER 31	
($ in millions)	2011	2010
Long-term debt:		
$ 1,121.9 multicurrency term and revolving facility	184.6	189.0
Total long-term debt	**184.6**	**189.0**
Less: current portion	-	-
Long-term portion of interest bearing debt	**184.6**	**189.0**

$ 1,121.9 million multicurrency term and revolving facility

On December 22, 2011, Archer entered into an amended and restated $ 1,121.9 million multicurrency term and revolving facility agreement adding two new banks to the syndicate. The purpose of the facility was to replace the existing $ 1,187.5 million term and revolving facility entered into August 22, 2011. The $ 1,178.5 million facility replaced the $550 million multicurrency term and revolving credit facility which comprised the $189 million balance as of December 31, 2010.

The facility is divided into two tranches. Tranche A, a revolving facility, is for $ 472.4 million, and Tranche B, a term loan, is for $ 649.5 million. The final maturity date of the tranches is November 11, 2015. The interest rate of the tranches is the aggregate of LIBOR, NIBOR or EURIBOR, plus between 2.25% and 3.25% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any. An annual instalment of $ 100 million is payable in November each year, and the remaining is payable upon final maturity of the facility, if not refinanced.

As of December 31, 2011, $774.1 million is drawn under this facility of which $184.6 million is attributable to the Company.

The multicurrency term and revolving facility agreement is 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:

- Archer Limited and subsidiairies' total consolidated net interest bearing debt shall not exceed 3.5x twelve months rolling proforma EBITDA until December 31, 2011, and 3.0x thereafter
- Archer Limited and subsidiaries' minimum ratio of equity to total assets of at least 30.0%
- Archer Limited and subisidiaries are to maintain the higher of $ 30 million and 5% of interest bearing debt in freely available cash (including undrawn committed credit lines)

The multicurrency 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 December 31, 2011, the Company was in compliance with all of the covenants under its long-term facilities.

Archer Limited's outstanding debt as of December 31, 2011 is repayable as follows:

($ in millions)	
Year ending December 31	
2012	-
2013	-
2014	-
2015	184.6
Total debt	**184.6**

Note 8 – Other current liabilities

Other current liabilities comprise the following:

($ in millions)	DECEMBER 31	
	2011	2010
Accounts payable	0.7	-
Accrued expenses	1,2	1.1
Interest rate swap	1.2	1.9
Total other current liabilities	**3.1**	**3.0**

Note 9 – Commitments and contingencies

Guarantees

The Company has issued guarantees in favor of third parties as follows, which is the maximum potential future payment for each type of guarantee:

($ in millions)	DECEMBER 31	
	2011	2010
Guarantees to customers of the Company's own performance	30.8	31.5
Guarantee in favor of banks	4.7	0.5
Other guarantees	-	0.3
	35.5	**32.3**

Legal Proceedings

From time to time, Archer is involved in litigations, disputes and other legal proceedings arising in the normal course of their business.

We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent

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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.

Note 10 – Share capital

	DECEMBER 31			
	2011		2010	
All shares are common shares of $2.00 par value each	SHARES	$ MILLION	SHARES	$ MILLION
Authorized share capital	600,000,000	1,200.0	600,000,000	1,200.0
Issued, outstanding and fully paid share capital	366,397,622	732.8	225,400,050	450.8

The Company was incorporated in 2007 and 50 ordinary shares each were issued. In October 2007, the company also issued of 100,000,000 shares In April 2008 there was an equity issue of 10,000,000 shares. There were no new shares issued in 2009. At December 31, 2009, there were 110,000,050 shares issued and outstanding.

In August 2010 the Company completed a private placement of 115.4 million shares.

On March 4, 2011, the Company issued a total of 97,071,710 common shares in connection with the merger with Allis-Chalmers.

On August 31, 2011, the Company issued 12.7 million new shares, following a Private Placement directed towards its two largest shareholders, Seadrill Limited, or Seadrill, and Lime Rock Partners V. L.P., or Lime Rock. Seadrill was allocated 10.8 million of the new shares while Lime Rock was allocated the remaining 1.9 million shares. The proceeds were used to partly finance the acquisition of Great White.

In August 2011, Archer completed a private placement of 30.0 million shares. The proceeds were used to partly finance the acquisition of Great White.

A total of 997.242 shares was issued during 2011 in relation to exercise of options, and a further 228,620 shares were issued in relation to settlement with dissenting shareholders from the merger with Allis-Chalmers.

Note 11 – Share option plans
Options on Archer shares:

Archer has granted options to senior management and directors of the Company and its subsidiaries, that provide the grantee with the right to subscribe for new shares. The options are not transferable and may be withdrawn upon termination of employment under certain conditions. Options granted under the scheme will vest at a date determined by the board of directors. The options granted under the plan to date vest over a period of one to five years.

As of December 31, 2011 there were five option programs: one in 2007, one in 2009, one in 2010 and two options programs which were acquired in, and have been continued following, the merger with Allis-Chalmers.

The following summarizes share option transactions related to the Archer Schemes in 2011, and 2010:

	2011		2010	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE NOK
Outstanding at beginning of year	6,507,000	14.79	6,147,000	13.76
Granted	5,575,000	34.00	460,000	19.30
Granted in respect of ALY merger	2,012,481	23.25	-	
Exercised	(997,242)	16.26	-	
Forfeited	(284,667)	23.21	(100,000)	10.00
Outstanding at end of year	**12,812,572**	**19.75**	**6,507,000**	**14.79**
Exercisable at end of year	6,548,900	18.55	3,398,000	15.16

$ 4.9 million was received in 2011 as a result of share options being exercised ($0 in 2010).

Options issued under the 2007 Program may be exercised up to October 5, 2012. The exercise price is initially NOK 13.75 per share increasing by 6 percent per anniversary. Options issued under the 2007 Program may be exercised by one third per year, first time on January 1, 2009. At December 31. 2011 a total of 3,200,667 option were outstanding and exercisable under the 2007 Program.

Options issued in 2009 may be exercised up to December 31, 2015. The exercise price is between NOK 10 and NOK 12 per share, and may be exercised one third each year beginning twelve months after they where granted. At December 31, 2011 a total of 1,930,000 options were outstanding under the 2009 Program, of which two thirds were exercisable.

Options issued under the 2010 program have exercise prices between NOK 18 and NOK 36. They may be exercised by one third or one fifth each year beginning 12 months after they were granted, and expire between December 31, 2015 and February 28, 2017. Subsequent to December 31, 2011, 4.3 million of the 5.6 million of options granted in 2011 at NOK 34 were repriced to NOK 20. At December 31, 2011 5,742,000 options under the 2010 Program were outstanding and approximately 2.2% were exercisable.

Options issued under the Allis-Chalmers 2003 Program have exercise prices between NOK 6.03 and NOK 72.26. At December 31, 2011 all 787,068 outstanding options under the Allis-Chalmers 2003 Program were exercisable.

Options issued under the Allis-Chalmers 2006 Program have exercise prices between NOK 18.48 and NOK 19.22. At December 31, 2011 all 1,152,837 options outstanding under the Allis-Chalmers 2006 Program were exercisable.

When stock options are exercised the Company intends to settle the obligation by issuing new shares.

Note 12 – Risk management and financial instruments

Interest rate risk management
The Company's exposure to interest rate risk relates mainly to its variable interest rate debt and balances of surplus funds placed with financial institutions, and this is managed through the use of interest rate swaps and other derivative arrangements. The Company's policy is to obtain the most favorable interest rate borrowings available without increasing its foreign currency exposure. Surplus funds are generally placed in fixed deposits with reputable financial institutions, yielding higher returns than are available on cash at bank. Such deposits generally have short-term maturities, in order to provide the Company with flexibility to meet requirements for working capital and capital investments.

The extent to which the Company utilizes interest rate swaps and other derivatives to manage its interest rate risk is determined by reference to its net debt exposure and its views regarding future interest rates. At December 31, 2011, the Company had outstanding interest rate swap agreements covering NOK 490 million of its NOK interest bearing debt (2010: NOK 715 million), effectively fixing the interest rate on approximately 8% of the debt (2010: 63%). These agreements qualify for hedge accounting, and accordingly any changes in the fair values of the swap agreements are included in the Balance Sheet under "Other Comprehensive Income ". The total fair value gain relating to interest rate swaps in 2011 amounted to $ 0.7 million.

Any change in fair value resulting from hedge ineffectiveness is recognized immediately in earnings. The Company recognized a $ 0.6 million loss related to the interest swap agreement prior to the start up of the hedging period. Other than this, the Company has not recognized any gain or loss due to hedge ineffectiveness in the financial statements during the year ended December 31, 2011.

The Company's interest rate swap agreement as at December 31, 2011 was as follows:

NOTIONAL AMOUNT	RECEIVE RATE	PAY RATE	LENGTH OF CONTRACT
(NOK in millions)			
490	3 month NIBOR	3.355%	April 30, 2009 - October 31, 2012

The counterparties to the above contract are Fokus Bank. Credit risk exists to the extent that the counterparties are unable to perform under the contracts, but this risk is considered remote as the counterparties are all banks which have provided the Company with loan finance and the interest rate swaps are related to those financing arrangements.

Credit risk management
The Company has financial assets, including cash and cash equivalents, other receivables and certain amounts receivable on derivative instruments, mainly interest rate swaps. These assets expose the Company to credit risk arising from possible default by the counterparty. The Company considers the counterparties to be creditworthy financial institutions and does not expect any significant loss to result from non-performance by such counterparties. The Company, in the normal course of business, does not demand collateral. The credit exposure of interest rate swap agreements is represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements. It is the Company's policy to enter into master netting agreements with the counterparties to derivative financial instrument contracts, which give the Company the legal right to discharge all or a portion of amounts owed to a counterparty by offsetting them against amounts that the counterparty owes to the Company.

Appendix C
Supplemental parent company only information

Fair values

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2011 and December 31, 2010 are as follows:

	DECEMBER 31,			
($ in millions)	2011		2010	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Non-Derivatives				
Cash and cash equivalents	1.6	1.6	127.3	127.3
Long term interest bearing debt	184.6	184.6	189.0	189.0
Interest rate swap agreement – long term liability	1.2	1.2	1.9	1.9

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

		FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS
($ in millions)	DECEMBER 31, 2011	(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Assets:				
Cash and cash equivalents	1.6	1.6	-	-
Liabilities:				
$1,121.9 million multicurrency term revolving facility	184.6	-	184.6	-
Interest rate swap contacts – short term payables	1.2	-	1.2	-

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

The Company has used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of the Company's financial instruments as of December 31, 2011 and 2010. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

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 as at December 31, 2011 and 2010.

Note 13 – Subsequent Events

Archer and the lenders of the multicurrency term and revolving facility agreed on April 25, 2012 that, for the quarters ending March 31, June 30 and September 30, 2012, the ratio of Net Interest Bearing Debt to EBITDA for the Group (on a consolidated basis) shall not exceed 3.50. From the quarters ending December 31, 2012 and thereafter, the ratio of Net Interest Bearing Debt to EBITDA for the Group (on a consolidated basis) shall not exceed 3.00. The margin has been amended to be between 2.25% and 3.75% per annum, depending on the net interest bearing debt to EBITDA, plus mandatory costs, if any.

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