

Archer

Second quarter 2019 highlights

- Revenue \$235.6 million
- EBITDA of \$23.5 million before exceptional items
- EBIT of \$11.3 million or 5% of revenue versus a loss in same period last year
- Net Income of \$3.5 million
- Net Interest Bearing Debt further reduced to \$580 million

Second Quarter and First Six Months 2019 Results

Archer's revenue was up \$10 million, or 4.4%, to \$235.6 million in the second quarter compared to the previous quarter, reflecting increasing activity levels in Eastern Hemisphere business segments, mainly within the Platform Drilling division. Western Hemisphere revenue is in line with previous quarter.

EBITDA for second quarter of \$23.5 million was slightly down from previous quarter of \$25 million. Eastern Hemisphere reported EBITDA in line with previous quarter whereas Western Hemisphere EBITDA was reduced by \$2.2 million. The main reason for the reduction in EBITDA is increased repair and maintenance cost and inflation outpacing the depreciation of the Argentine pesos against USD.

Net financial items, was a cost of \$7.1 million in the second quarter, compared to a \$12.8 million in the first quarter. The reduced financial cost during second quarter is related to favourable foreign exchange rates movements, primarily NOK versus US\$ in the quarter, partly offset by increased losses in associated companies, mainly QES.

Archer reports net income attributable to the Company of \$3.5 million, or \$0.02 per share, for the second quarter of 2019 compared with net income attributable to the Company of \$1.4 million, or \$0.01 per share in the first quarter.

Net income for the first six months of 2019 was \$4.9 million compared with a net loss of \$3.0 million for the first six months of 2018. For the first six months of 2019, net operating income was \$23.2 million, an improvement of \$27 million compared with the net operating loss of \$3.8 million in the corresponding period in 2018.

In the second quarter of 2019, operating cash flow contributed \$18.1 million to our cash balance, compared to \$4.0 million in first quarter. Net cash used in investing activities was \$5.2 million, relating primarily to essential capital expenditure. Net cash provided by financing activities was \$10.0 million, which included additional \$5.0 million drawn on our revolving credit facility and \$4.5 million additional overdraft.

Cash and cash equivalents, excluding restricted cash, amounted to \$35.7 million at June 30, 2019 compared to \$23.7 million at March 31, 2019. Undrawn committed credit lines amounted to \$109.2 million at the end of the quarter.

Disciplined capex spend of \$7.9 million for first six months of 2019 was in line with our capex spending in comparable period in 2018. Capex in Eastern Hemisphere is mainly related investment in new rental equipment for Platform Drilling and new plugs solutions for Oiltools. The capex spending in Western Hemisphere of \$4.1 million is related to upgrades of rigs being mobilized in Latin America.

Total net interest-bearing debt at June 30, 2019 was \$580.0 million compared to \$581.3 million end of March 2019.

Attached to this quarterly report is an appendix with the reconciliation between GAAP results and non-GAAP measures, as well as the EBITDA by segment for the last six quarters.

Outlook

The outlook for oil services has improved over the last years, and we are seeing sustained improvements within most of our divisions, although we continue to experience uncertainty and volatility in Latin America operations and markets.

Risks and uncertainties

Archer is exposed to a number of risk factors relating to the Company's finance and the industry in which the Company operates. Archer has not identified any additional risk exposure beyond those described in Archer Limited's 2018 Annual report.

Our largest uncertainty in activity going forward continues to be our operations in Argentina as activity continues to be volatile. The financial instability in Argentina over the last 18 months has reduced the reported contribution of the operation there, as a consequence of high inflation and depreciation of the Argentine Peso.

Cautionary Statement Regarding Forward-Looking Statements

In addition to historical information, this news release contains statements relating to our future business and/or results. These statements include certain projections and business trends that are "forward-looking." All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including statements preceded by, followed by or that include the words "estimate," pro forma numbers, "plan," "project," "forecast," "intend," "expect," "predict," "anticipate," "believe," "think," "view," "seek," "target," "goal" or similar expressions; any projections of earnings, revenues, expenses, synergies, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations, including integration and any potential restructuring plans; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ materially from projected results/pro forma results as a result of certain risks and uncertainties. Further information about these risks and uncertainties are set forth in our most recent annual report for the Year ending December 31, 2018. These forward-looking statements are made only as of the date of this news release. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies, which are impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

Responsibility Statement from the Board of Directors

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period January 1, to June 30, 2019 has been prepared in accordance with United States Generally Accepted Accounting Principles, or "US GAAP" and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements. We have disclosed all major related parties' transactions. A detailed description of the principal risks and uncertainties facing the group is provided in our annual statement for the year ended December 31, 2018, and remain materially unchanged for the remaining six months of the financial year 2019.

August 2019
The Board of Archer Limited

Kjell-Erik Østdahl
Chairman

John Reynolds
Director

James O'Shaughnessy
Director

Giovanni Dell Orto
Director

Kristian Melhuus
Director

Archer

ARCHER LIMITED

INDEX TO UNAUDITED SECOND QUARTER AND HALF YEAR FINANCIAL STATEMENTS

Consolidated Statements of Operations for the three and six months ended June 30, 2019 and 2018	Page 5
Consolidated Statements of Comprehensive Income/(Loss) for the three and six months June 30, 2019 and 2018 and Accumulated Other Comprehensive Loss as of June 30, 2019 and December 31, 2018	Page 6
Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018	Page 7
Consolidated Statements of Cash Flows for the six months ended June 30, 2019 and 2018	Page 8
Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2019	Page 9
Notes to Unaudited Consolidated Financial Statements	Page 10
Appendix	Page 21

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	2019	2018
Revenues					
Operating revenues		\$ 212.8	\$ 204.0	\$ 423.0	\$ 405.6
Reimbursable revenues		22.9	20.4	38.2	37.1
Total revenues		235.6	224.4	461.3	442.7
Expenses					
Operating expenses		177.0	184.8	348.9	366.4
Reimbursable expenses		22.3	19.2	37.3	34.9
Operating lease costs	10	3.2	-	6.3	-
Depreciation and amortization		12.4	14.6	25.5	29.6
Loss/(Gain) on sale of assets		(0.2)	-	(0.2)	(0.2)
General and administrative expenses		9.6	8.0	20.3	15.8
Total expenses		224.4	226.7	438.1	446.5
Operating income/(loss)		11.3	(2.3)	23.2	(3.8)
Financial items					
Interest income		0.9	0.7	1.4	1.8
Interest expenses		(10.2)	(10.7)	(20.9)	(20.7)
Share of results in associated companies		(3.7)	0.3	(4.9)	(3.7)
Other financial items	3	5.9	(10.1)	4.6	6.8
Total financial items		(7.1)	(19.8)	(19.9)	(15.8)
Profit/(loss) from continuing operations before income taxes		4.2	(22.1)	3.3	(19.6)
Income tax(expense)/ benefit	4	(0.6)	14.7	1.7	16.6
Income/(loss) from continuing operations		3.5	(7.4)	4.9	(3.0)
Income/(loss) from discontinued operations, net of tax		-	-	-	-
Net Income / (loss)		\$ 3.5	\$ (7.4)	\$ 4.9	\$ (3.0)
Income / (loss) per share-basic					
Income/(loss) from continuing operations		\$ 0.02	\$ (0.05)	\$ 0.03	\$ (0.02)
Loss from discontinued operations		-	-	-	-
Income/(loss) per share		\$ 0.02	\$ (0.05)	\$ 0.03	\$ (0.02)
Income / (loss) per share-diluted					
Income/(loss) from continuing operations		\$ 0.02	\$ (0.05)	\$ 0.03	\$ (0.02)
Loss from discontinued operations		-	-	-	-
Income/(loss) per share		\$ 0.02	\$ (0.05)	\$ 0.03	\$ (0.02)
Weighted average number of shares outstanding					
Basic	5	147.5	147.5	147.5	147.4
Diluted	5	147.9	147.5	147.9	147.4

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

ARCHER LIMITED
Consolidated Statements of Comprehensive Income/(Loss)
(Unaudited)

<i>(In millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Net income/(loss)	\$ 3.5	\$ (7.4)	\$ 4.9	\$ (3.0)
Other comprehensive income/(loss)				
Currency translation differences	1.3	(5.6)	0.6	(4.7)
Other comprehensive income/(loss)	1.3	(5.6)	0.6	(4.7)
Total comprehensive income/(loss)	\$ 4.8	\$ (13.0)	\$ 5.5	\$ (7.7)

Accumulated Other Comprehensive Loss
(Unaudited)

<i>(In millions)</i>	<u>Translation differences</u>	<u>Total</u>
Balance at December 31, 2018	\$ (2.1)	\$ (2.1)
Foreign currency translation differences arising during 2019	0.6	0.6
Balance at June 30, 2019	\$ (1.5)	\$ (1.5)

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

ARCHER LIMITED

Consolidated Balance Sheets

(In millions)

	Note	<u>June 30 2019</u> (Unaudited)	<u>December 31 2018</u> (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 35.7	\$ 20.2
Restricted cash		15.4	11.3
Accounts receivables		148.1	137.0
Inventories	6	52.1	51.9
Right of use assets		1.4	-
Other current assets		24.4	23.5
Total current assets		<u>277.1</u>	<u>243.9</u>
Noncurrent assets			
Investments in associates	7	53.3	57.0
Loans to associates	7	10.1	9.5
Property plant and equipment, net		378.1	392.5
Right of use assets		41.7	-
Deferred income tax asset	4	32.2	26.9
Goodwill	8	175.6	172.6
Other intangible assets, net		1.0	1.1
Deferred charges and other current assets		7.4	7.1
Total noncurrent assets		<u>699.4</u>	<u>666.7</u>
Total assets		<u>\$ 976.5</u>	<u>\$ 910.6</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	\$ 33.4	\$ 4.7
Accounts payable		55.1	45.5
Operating lease liabilities		12.3	-
Other current liabilities		106.4	108.1
Total current liabilities		<u>207.3</u>	<u>158.3</u>
Noncurrent liabilities			
Long-term interest-bearing debt	9	524.0	543.0
Subordinated related party loan		58.3	58.3
Operating lease liabilities		30.8	-
Deferred taxes		2.3	2.8
Other noncurrent liabilities		0.6	1.0
Total noncurrent liabilities		<u>616.0</u>	<u>605.1</u>
Shareholders' equity			
Common shares of par value \$0.01 per share: 1.0 billion shares authorized: 147,462,012 outstanding shares at June 30, 2019 (December 31, 2018: 147,462,012)		1.5	1.5
Additional paid in capital		927.2	926.7
Accumulated deficit		(1,514.1)	(1,519.0)
Accumulated other comprehensive loss		(1.5)	(2.1)
Contributed surplus		740.1	740.1
Total shareholders' equity		<u>153.2</u>	<u>147.2</u>
Total liabilities and shareholders' equity		<u>\$ 976.5</u>	<u>\$ 910.6</u>

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)

	Six Months Ended June 30	
	2019	2018
Cash Flows from Operating Activities		
Net income/(loss)	\$ 4.9	\$ (3.0)
<u>Adjustment to reconcile net income/(loss) to net cash (used in)/provided by operating activities</u>		
Depreciation and amortization	25.5	29.6
Gain on QES IPO	-	(2.3)
Share-based compensation expenses	0.6	0.3
Gain on property, plant and equipment disposals	(0.2)	(0.2)
Share of results in associated companies	4.9	3.7
Amortization of loan fees	0.6	0.5
Deferred income taxes	(3.6)	(17.3)
Foreign currency gain	(4.3)	(1.2)
<i>Changes in operating assets and liabilities</i>		
(Increase)/decrease in accounts receivable and other current assets	(13.6)	6.0
Decrease in inventories	0.9	0.4
Increase/(decrease) in accounts payable and other current liabilities	6.4	(14.2)
Other, net	-	-
Net cash provided by/(used in) operating activities	22.2	2.3
Cash Flows from Investing Activities		
Capital expenditures	(7.9)	(7.7)
Proceeds from disposal of property, plant and equipment	1.9	0.6
Loans to / investment in associates	(1.6)	(11.1)
Net cash used in investing activities	(7.6)	(18.2)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	20.5	11.7
Repayments under revolving facilities	(12.1)	(22.3)
Borrowings under finance lease agreements	1.9	-
Payments made under finance agreements	(1.1)	-
Net cash (used in)/provided by financing activities	9.2	(10.6)
Effect of exchange rate changes on cash and cash equivalents	(4.2)	(8.0)
Net increase/(decrease) in cash and cash equivalents	19.6	(34.5)
Cash and cash equivalents, including restricted cash, at beginning of the period	31.5	67.7
Cash and cash equivalents, including restricted cash, at the end of the period	51.1	33.2
Interest paid	\$ 20.3	\$ 20.4
Taxes paid	\$ 1.5	\$ 1.6

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

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

(In millions)

	<u>Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Contributed Surplus</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2018	\$ 1.5	\$ 926.7	\$ (1,519.0)	\$ (2.1)	\$ 740.1	\$ 147.2
Share based compensation	-	0.6	-	-	-	0.3
Shares purchased for vested RSUs	-	(0.1)	-	-	-	(0.1)
Translation differences	-	-	-	0.6	-	0.6
Net income	-	-	4.9	-	-	4.9
Balance at June 30, 2019	\$ 1.5	\$ 927.2	\$ (1,514.1)	\$ (1.5)	\$ 740.1	\$ 153.2

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

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

Archer Limited is an international oilfield service company providing a variety of oilfield products and services through its Area organization. Services include platform drilling, land drilling, modular rigs, engineering services, equipment rentals, wireline services, production monitoring, well imaging and integrity management tools.

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

We employed approximately 5,031 skilled and experienced people at June 30, 2019.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited second quarter 2019 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited first quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These unaudited second quarter financial statements should be read in conjunction with our financial statements as of December 31, 2018. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included.

Use of estimates

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

Significant accounting policies

The accounting policies utilized in the preparation of the unaudited second quarter financial statements are consistent with those followed in the preparation of our annual consolidated financial statements and accompanying notes for the year ended December 31, 2018.

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 2 — Revenue from contracts with customers

The following table provides information about receivables, contract assets and contract liabilities from our contracts with customers:

<i>(In \$ millions)</i>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Accounts receivable net	148.1	137.0

Practical expedient - We have applied the disclosure practical expedient in ASC 606-10-50-14A(b) and have not included estimated variable consideration related to wholly unsatisfied performance obligations or to distinct future time increments within our contracts, including dayrate revenue. The duration of our performance obligations varies by contract.

Note 3 – Other Financial Items

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Foreign exchange gains / (losses)	\$ 5.8	\$ (13.2)	\$ 4.3	\$ 1.3
Other items	0.1	3.1	0.3	5.5
Total other financial items	<u>\$ 5.9</u>	<u>\$ (10.1)</u>	<u>\$ 4.6</u>	<u>\$ 6.8</u>

Other financial items represent predominantly foreign exchange gains and losses on an intercompany loan balance denominated in Norwegian Kroner. The intercompany loan is held in a USD functional entity, while the corresponding intercompany debt is held in a Norwegian Kroner functional entity. The financial impact of the entity with Norwegian Kroner functional currency is classified as other comprehensive income

Note 4 – Income Taxes

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

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
United States	\$ 0.6	\$ -	\$ 0.5	\$ -
South America	0.8	(5.5)	(1.2)	(5.4)
Europe	(0.1)	(8.7)	(0.8)	(11.4)
Others	(0.7)	(0.5)	(0.2)	0.2
Total	<u>\$ 0.6</u>	<u>\$ (14.7)</u>	<u>\$ (1.7)</u>	<u>\$ (16.6)</u>

Archer is operating in many jurisdictions and our income tax expense is generated by earnings, which are taxed at the respective country's corporate income tax rate.

The Group's net tax position for the second quarter of 2019 is a tax cost of \$0.6 million, which primarily relates to deferred tax cost of \$0.8 million from Argentina North operations.

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

The net tax benefit in Europe amounted to \$0.1 million in second quarter. An increase in deferred tax benefit in UK of \$ 0.8 million is offset by a reduction in deferred tax benefit in Norway of \$0.7 million

The net tax expense in North America of \$0.6 million in the second quarter relates to withholding taxes.

We have not recognized any deferred tax assets in relation to operational losses from our North American operations.

As at 30 June 2019 we have total deferred tax assets of \$32.2 million which includes \$12 million of tax assets in Norway, \$12.3 million tax assets in Argentina and \$7.8 million tax assets in UK.

Deferred tax liabilities at 30 June 2019 were total \$2.3 million.

Note 5 – Earnings Per Share

The computation of basic EPS is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments. The denominator used for the computation of basic and diluted earnings was computed as follows:

<i>(In thousands)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Denominator				
Weighted-average common shares outstanding	147,462	147,462	147,462	147,395
Effect of potentially dilutive share based compensation shares	437	—	485	—
Weighted-average common shares outstanding and assumed conversions	147,899	147,462	147,947	147,395

Share-based compensation of 54,380 and 110,170 shares were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2018, respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 6 – Inventories

<i>(In millions)</i>	June 30	December 31
	2019	2018
Manufactured		
Raw Materials	\$ 3.0	\$ 3.4
Finished goods	6.0	4.9
Work in progress	0.6	0.6
Total manufactured	9.6	8.9
Drilling supplies	16.0	15.2
Chemicals	1.3	2.1
Other items and spares	25.2	25.7
Total inventories	\$ 52.1	\$ 51.9

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 7 — Investments in Associates

We have the following participation in investments that are recorded using the equity method:

	June 30, 2019	December 31, 2018
C6 Technologies AS	50.0%	50.0%
Rawabi Archer Company	50.0%	50.0%
Quintana Energy Services Inc.	28.1%	28.1%

The carrying amounts of our investments in our equity method investment are as follows:

<i>(In millions)</i>	June 30, 2019	December 31, 2018
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services Inc.	53.2	57.0

The components of investments in associates are as follows:

(In millions)

	QES	C6	Rawabi
Carrying value of investment at December 31, 2018	57.0	-	-
Additional capital investment	-	-	-
Share in results of associates	(3.7)	-	-
Carrying value of investment at June 30, 2019	53.2	-	-
Carrying value of Loan balance at June 30, 2019	-	10.1	-

Since the IPO in February 2018, QES's shares have been quoted on the New York Stock exchange. Shares were valued at \$10 per share at the time of the IPO. The fall in the share price following the IPO has led us to regularly consider whether the carrying value of our investment is impaired. Technically, we compare our carrying value with professional analysts' estimates of future value. This exercise resulted in an impairment charge of \$35.1 million at December 31, 2018 relating to the reduction which we believed was other than temporary. At June 30, 2019, we do not believe the total fall in in the share price is a permanent loss in value. At June 30, 2019 our carrying value of QES shares is \$5.6 per share.

Quoted market prices for C6 Technologies AS, (or C6), and Rawabi Archer Company, (or Rawabi) are not available because the shares are not publicly traded.

In addition to our capital investment in C6, we have made additional investment by way of a loan which, at June 30, 2019, has a carrying value of \$10.1 million (2018 \$8.9 million) and is repayable in 2021. Our equity share of the losses incurred by C6 in 2018 is greater than the remaining carrying value of our capital investment. We have applied the remaining share of the losses as a reduction of the carrying value of this loan due from the entity.

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. All of our remaining goodwill relates to our Eastern Hemisphere reporting segment – see also note 10.

(In millions)

Net book balance at December 31, 2018	\$ 172.6
Currency adjustments	3.0
Net book balance at June 30, 2019	\$175.6

We test goodwill for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The testing of the valuation of goodwill involves significant judgement and assumptions to be made in connection with the future performance of the various components of our business operations, including assumptions about future cash flows of each reporting unit, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of future revenue growth rates, gross profit performance, and other assumptions used to estimate our reporting units' fair value, future reductions in our expected cash flows, should current market conditions worsen or persist for an extended period of time, could lead to future a material non-cash impairment charge of in relation to our remaining goodwill.

Note 9 – Long-term, Interest-Bearing Debt

	June 30, 2019			December 31 2018		
<i>(In millions)</i>	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs	Loan balance	Unamortized debt issuance costs	Long-term debt less unamortized debt issuance costs
Multicurrency term and revolving facility	515.0	(1.0)	514.0	510.0	(1.6)	508.4
Related party subordinated convertible loan	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loans	24.3	(0.3)	24.0	24.5	(0.3)	24.2
Other loans and capital lease liability	19.4	-	19.4	15.1	-	15.1
Total loans and capital lease liability	617.0	(1.3)	615.7	607.9	(1.9)	606.0
Less: current portion	(34.5)	1.1	(33.4)	(5.8)	1.1	(4.7)
Long-term portion of interest bearing debt	582.5	(0.2)	582.3	602.1	(0.8)	601.3

Multicurrency term and revolving credit facilities

The total amount available under the Multicurrency term and revolving credit facilities (the “Facilities”) is \$610.8 million, split between \$372.9 million under a term loan and \$238.0 million in a revolving facility. A total of \$515.0 million was drawn at June 30, 2019 under the Facilities and \$95.8 million remains available. The Facilities are secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

The interest payable on the Facilities is the aggregate of 1, 3 or 6 month NIBOR, LIBOR or EURIBOR, plus between 2.25% and 4.35% per annum, depending on the ratio of the net interest bearing debt to

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

EBITDA. In March 2020 quarterly instalments of \$10 million commence, and the final maturity date of the Facilities is September 30, 2020.

The Facilities contain certain financial covenants, including, among others:

- Archer will ensure that the 12 months rolling Nominal EBITDA (after certain adjustments) of the group is at least \$65 million in 2019 and \$85 million in 2020.
- Archer shall ensure that the 12 months rolling EBITDA (as reported) for the group is positive.
- Archer shall maintain \$30 million in freely available cash (including undrawn committed credit lines).
- Archer shall ensure that the capital expenditures shall not exceed \$40 million per year.

The Facilities contain events of default which include payment defaults, breach of financial covenants, breach of other obligations, breach of representations and warranties, insolvency, illegality, unenforceability, curtailment of business, claims against an obligor's assets, appropriation of an obligor's assets, failure to maintain exchange listing, material adverse effect, repudiation and material litigation. In addition there are cross default clauses in the event of the obligor defaulting on other issued debt.

As of June 30, 2019, the Company is in compliance with all covenants as agreed with its lenders under the Facilities.

Related party subordinated loan

We established a subordinated convertible loan with face value of \$45 million in Q2 2017 from Seadrill Limited, or Seadrill. The loan matures on December 31, 2021, and bears PIK interest of 5.5% per year. The conversion rights attached to the loan are exercisable from January 1, 2021, and entitle Seadrill to convert the debt at a rate of 0.48 ordinary shares in Archer for each \$1.00 of loan and accrued interest.

Under the USGAAP provisions, interest up to the maturity date has been accrued to the loan balance, increasing the book value of the loan from \$45 million to \$58.3 million.

Hermes-covered term loan

On December 6, 2013 Archer Topaz Limited, a wholly owned subsidiary of Archer, signed a €48.4 million Hermes covered term loan agreement for the financing of the modular rig, Archer Topaz. The agreement was amended and restated on October 6, 2017. The loan matures September 2020, and contains covenants aligned to those of the Facilities. The interest rate applied to this loan is 1.45% above EURIBOR. At June 30, 2019 the equivalent of \$24.3 million was outstanding under this facility.

Other loans and capital leases

We have two \$11.7 million overdraft facilities and at June 30, 2019, net borrowing under these facilities amounted to \$10.1 million.

At June 30, 2019 we have borrowed \$5.3 million under a long term facility in Argentina, and we have borrowed a further \$1.0 million under local short term facilities in Latin America.

We have finance arrangements relating to various items of equipment. At June 30, 2019, the balance due under these arrangements was \$3.0 million.

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Note 10 Leases

Finance leases

We have entered into finance arrangements for the purchase of some items of equipment, mainly well plugs for use in our Oiltools division. The leases are entered into under a frame agreement with the bank, and lease term is typically 5 years.

Assets leased under finance leases with a carrying value of \$2.0 million are included in property plant and equipment.

Operating leases

The company has historically leased some operating assets, office and warehouse facilities and office equipment under operating leases. With effect from January 1, 2019 for material operating leases, we have recognised the relevant right of use assets and lease liabilities in our balance sheet. The leases have remaining lease terms of 1 to 15 years at June 30, 2019. Some operating leases include options to extend the leases for up to 2 years. We have sub-let unused office space, for which we received rental income of \$0.7 million in the first half of 2019.

We have calculated an incremental borrowing rate, or IBR, for discounting each lease's cash-flows to arrive at an initial value for the lease liability and right of use asset. The IBR is calculated as a function of the following elements/considerations;

- Base rate – generally the inter-bank lending rate in the relevant jurisdictions,
- Credit spread – we estimate the effect of the lessee credit worthiness
- Country risk premium
- Inflation differential
- Contract term
- Security or collateral provided in the lease contract.

Significant judgment is required in estimating some of these elements. We apply a consistent methodology in estimating IBR for each lease.

We have elected not to recognise the right of use asset and lease liability for short term leases.

Supplemental information pertaining to the Company's leasing activities for the six month period ended June 30, 2019 was as follows;

<i>(In millions)</i>	Six months ended June 30, 2019
Finance Lease costs	
Amortisation of right of use assets	\$ 0.1
Interest on lease liabilities	0.1
Operating lease costs	6.3
Short term lease costs	7.2
Total Lease costs	13.7

Other information

Cash paid for amounts included in measurement lease liabilities

Operating cash flows from finance leases	-
Operating cash flows from operating leases	6.3
Financing cash flows from finance leases	1.1
Right of use assets obtained in exchange for new finance lease liabilities	0.4
Right of use assets obtained in exchange for new operating lease liabilities	-

Weighted average remaining lease term – finance leases	1 year
Weighted average remaining lease term – operating leases	8.6 years

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Weighted average discount rate – finance leases	4.5%
Weighted average discount rate – operating leases	16%

Note 11 – Segment Information

The split of our organization and aggregation of our business into segments is based on differences in management structure and reporting, location of regional management and assets, economic characteristics, customer base, asset class and contract structure.

We present our business under two reporting segments based on geographical location;

- Eastern Hemisphere
- Western Hemisphere

In addition we report corporate costs, and assets as separate line items.

The accounting principles for the segments are the same as for our consolidated financial statements. Presented below and on the following page are the revenues, depreciation and amortization, operating income, capital expenditures, goodwill and total assets by segment after treating our divested North America well service businesses, as discontinued operations and not as part of our continuing operations by segment.

(In millions)	Three Months Ended June 30		Six Months June 30	
	2019	2018	2019	2018
Revenues from external customers				
Eastern Hemisphere	\$ 155.4	\$ 128.3	\$ 300.6	\$ 249.0
Western Hemisphere	80.3	96.1	160.7	193.7
Total	\$ 235.6	\$ 224.4	\$ 461.3	\$ 442.7
Depreciation and amortization				
Eastern Hemisphere	\$ 4.6	\$ 5.9	\$ 9.6	\$ 12.5
Western Hemisphere	7.9	8.7	15.9	17.1
Total	\$ 12.4	\$ 14.6	\$ 25.5	\$ 29.6
Operating (loss)/income – net				
Eastern Hemisphere	\$ 10.8	\$ 7.2	\$ 21.1	\$ 11.1
Western Hemisphere	1.9	(7.3)	5.8	(10.9)
Corporate costs	(1.1)	(2.1)	(3.0)	(3.7)
Stock compensation costs	(0.3)	(0.1)	(0.6)	(0.3)
Total Operating Income/(loss) - net	11.3	(2.3)	23.2	(3.8)
Total financial items	(7.1)	(19.8)	(19.9)	(15.8)
Income taxes	(0.6)	14.7	1.7	16.6
Discontinued operations, net of taxes	-	-	-	-
Net income/(loss)	\$ 3.5	\$ (7.4)	\$ 4.9	\$ (3.0)

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

Capital expenditures

Eastern Hemisphere	\$ 2.4	\$ 1.0	\$ 3.8	\$ 1.9
Western Hemisphere	3.1	3.8	4.1	5.8
Total	\$ 5.4	\$ 4.8	\$ 7.9	\$ 7.7

(In millions)

	Eastern Hemisphere	Western Hemisphere	Total
Goodwill			
Balance at December 31, 2018	\$ 172.6	\$ -	\$ 172.6
Currency adjustments	3.0	-	3.0
Balance at June 30, 2019	\$ 175.6	\$ -	\$ 175.6

(In millions)

	June 30 2019	December 31 2018
Total assets		
Eastern Hemisphere	\$ 547.2	\$ 515.2
Western Hemisphere	407.1	394.7
Corporate	1.1	0.6
Total	\$ 976.5	\$ 910.6

Note 12 – Fair Value of Financial Instruments

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

(In millions)	June 30, 2019		December 31, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	\$ 35.7	\$ 35.7	\$ 20.2	\$ 20.2
Restricted cash	15.4	15.4	11.3	11.3
Accounts receivable	148.1	148.1	137.0	137.0
Accounts payable	(55.1)	(55.1)	(45.5)	(45.5)
Current portion of long-term debt	(33.4)	(33.4)	(4.7)	(4.7)
Current portion of operating lease liability	(12.3)	(12.3)	-	-
Long-term, interest-bearing debt	(524.0)	(524.0)	(543.0)	(543.0)
Operating lease liability	(30.8)	(30.8)	-	-
Subordinated related party debt	(58.3)	(58.3)	(58.3)	(58.3)
Derivatives				
Interest rate swap agreements	-	-	(0.3)	(0.3)

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

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

<i>(In millions)</i>	<u>June 30, 2019</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash and cash equivalents	\$ 35.7	\$ 35.7	—	—
Restricted cash	15.4	15.4	—	—
Accounts receivable	148.1	—	148.1	—
Liabilities				
Accounts payable	(55.1)	—	(55.1)	—
Current portion of interest-bearing debt	(33.4)	—	(33.4)	—
Current portion of operating lease liability	(12.3)	—	(12.3)	—
Long-term, interest-bearing debt	(524.0)	—	(524.0)	—
Operating lease liability	(30.8)	—	(30.8)	—
Subordinated related party debt	(58.3)	—	(58.3)	—

Level 1: Quoted prices in active markets for identical assets

Level 2: Significant other observable inputs

Level 3: Significant unobservable inputs

We used a variety of methods and assumptions, which are based on market conditions and risks existing at the time, to estimate the fair value of our financial instruments as of June 30, 2019, and December 31, 2018. For certain instruments, including cash and cash equivalents, receivables and accounts payable, it is assumed the carrying amount approximated fair value due to the short-term maturity of those instruments.

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months.

The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates. This debt is not freely tradable and cannot be purchased by us at prices other than the outstanding balance plus accrued interest.

The fair value of interest rate swaps are calculated using well-established independent market valuation techniques applied to contracted cash flows and relevant interest rates.

The fair value of the subordinated related party debt is considered not to be materially different from its carrying value as the fixed interest rate payable on the loan is considered a fair market rate as at June 30, 2019.

We consider the effect of Archer's own credit risk when estimating the fair value of our financial instruments.

Note 13 – Legal Proceedings

From time to time, we are involved in litigation, disputes and other legal proceedings arising in the normal course of our business. We insure against the risks arising from these legal proceedings to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. If

ARCHER LIMITED

Notes to Unaudited Consolidated Financial Statements

there is a claim, dispute or pending litigation in which we believe a negative outcome is probable and a loss by the Company can be reasonably estimated, we record a liability for the expected loss. As of June 30, 2019, we are not aware of any such expected loss which would be material to our financial position and results of operations. In addition we have certain claims, disputes and pending litigation in which we do not believe a negative outcome is probable or for which the loss cannot be reasonably estimated.

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

Note 14 – Related Parties

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

Transactions with Seadrill:

During the six months ended June 30, 2019, we have rented warehouse and office space and platform drilling and engineering services to Seadrill Limited and affiliates in respect of which we have recorded revenue of \$1.2 million. At June 30, 2019 Seadrill owes a total of \$0.4 million in respect of supplies we have made.

Transactions with C6 Technologies AS:

We own 50% of C6 Technologies AS, an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. We do not control this entity and as a result we have consolidated its financial results using the equity method of accounting since its creation in 2010. In the six months ended June 30, 2019 we have advanced \$1.2 million as additional loan to C6, and applied \$0.4 million interest to the loan balance.

Transactions with other related parties

The following are related parties, being companies in which Archer's largest shareholders, Seadrill, Lime Rock Partners LLP and/or Hemen Holding Ltd have a significant interest:

- Frontline Management (Bermuda) Limited, ("Frontline")
- Seatankers Management Company Limited ("Seatankers")
- Enermech Services Inc. ("Enermech")

Frontline and Seatankers provides management support and administrative services to us, and we have recorded fees of \$0.1 and \$0.3 million for these services from these companies respectively in the six months ended June 30, 2019. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

Note 15 – Subsequent Events

Archer awarded contract for the modular drilling rig Archer Emerald with OMV Taranaki Limited for provision of drilling services on July 8th 2019. The contract is for a firm five well contract with two one well options on OMV's Maui A platform located in the Tasman Sea in New Zealand.

ARCHER LIMITED

Appendix

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the three months ended June 30, 2019, March 31, 2019, December 31, 2018, September 30, 2018, June 30, 2018, and March 31, 2018. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

ARCHER LIMITED

Condensed Consolidated Statements of Operations (Unaudited)

<i>(In millions)</i>	Three Months Ended					
	June 30 2019	March 31 2019	December 31 2018	September 30 2018	June 30 2018	March 31 2018
Revenue	235.6	225.7	233.2	213.7	224.4	218.3
Cost and expenses						
Operational costs	(224.4)	(213.7)	(221.4)	(205.1)	(226.7)	(219.8)
Impairments	—	—	(1.1)	—	—	—
Net financial items	(7.1)	(12.8)	(60.0)	(7.3)	(19.8)	4.0
Income / (loss) from continuing operations before income taxes	4.2	(0.9)	(49.3)	1.3	(22.1)	2.5
Income tax (expense) benefit	(0.6)	2.3	(7.6)	5.6	14.7	1.9
Income / (loss) from continuing operations	3.5	1.4	(56.9)	6.9	(7.4)	4.4
(Loss)/income from discontinued operations, net of tax	-	-	-	-	-	-
Net income (loss)	3.5	1.4	(56.9)	6.9	(7.4)	4.4

ARCHER LIMITED
Appendix

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

<i>(In millions)</i>	Three Months Ended					
	June 30 2019	March 31 2019	December 31 2018	September 30 2018	June 30 2018	March 31 2018
Net income / (loss)	3.5	1.4	(56.9)	6.9	(7.4)	4.4
Depreciation, amortization and impairments	12.2	13.1	13.6	13.8	14.6	14.7
Net financial items	7.1	12.8	60.0	7.3	19.8	(4.0)
Taxes on income	0.6	(2.3)	7.6	(5.6)	(14.7)	(1.9)
Income/(loss) from discontinued operations, net of tax	-	-	-	-	-	-
EBITDA	23.5	25.0	24.3	22.4	12.3	13.2
Restructuring costs	-	-	2.5	3.3	5.6	4.9
EBITDA before restructuring costs	23.5	25.0	26.9	25.7	18.0	18.1

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

<i>(In millions)</i>	Three Months Ended					
	June 30 2019	March 31 2019	December 31 2018	September 30 2018	June 30 2018	March 31 2018
Eastern Hemisphere	15.1	15.2	15.3	12.0	13.0	10.2
Western Hemisphere	9.7	12.0	11.4	12.1	1.4	4.7
Corporate costs and stock compensation costs	(1.4)	(2.2)	(2.4)	(1.7)	(2.1)	(1.7)
EBITDA	23.5	25.0	24.3	22.4	12.3	13.2