ARCHER LIMITED

INDEX TO UNAUDITED FOURTH QUARTER FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended December 31 2019	Three Months Ended December 31 2018	Year Ended December 31 2019	Year Ended December 31 2018
Revenues					
Operating revenues		$ 207.1	$ 212.7	$ 833.6	$ 811.2
Reimbursable revenues		32.6	20.5	95.0	78.4
Total revenues		239.7	233.2	928.6	889.6
Expenses					
Operating expenses		172.8	177.1	689.3	707.4
Reimbursable expenses		32.1	19.4	93.1	74.1
Operating lease costs		3.2	-	12.7	-
Depreciation and amortization		12.6	12.6	50.4	55.7
Impairment charges		1.8	1.1	1.8	1.1
Loss/(Gain) on sale of assets		(0.2)	(0.1)	(0.4)	-
General and administrative expenses		9.0	12.4	39.2	35.8
Total expenses		231.4	222.5	886.1	874.1
Operating income		8.3	10.7	42.5	15.5
Financial items					
Interest income		-	0.6	1.9	3.7
Interest expenses		(9.8)	(10.6)	(41.5)	(41.9)
Share of losses of unconsolidated affiliates		0.7	(35.9)	(37.0)	(39.4)
Gain on sale of Frac Valve business		-	(0.1)	-	8.8
Other financial items	3	1.6	(14.0)	(17.2)	(14.3)
Total financial items		(7.4)	(60.0)	(93.8)	(83.1)
Income /(loss) from continuing operations before income taxes		0.9	(49.3)	(51.2)	(67.6)
Income tax benefit/(expense)	4	3.1	(7.6)	3.6	14.6
Income/(loss) from continuing operations		3.9	(56.9)	(47.7)	(53.0)
Loss from discontinued operations, net of tax		-	-	-	-
Net income/(loss)		$ 3.9	$ (56.9)	$ (47.7)	$ (53.0)
Income/(loss) per share-basic					
Income/(loss) from continuing operations		$ 0.03	$ (0.39)	$ (0.32)	$ (0.36)
Income/(loss) from discontinued operations		-	-	-	-
Income/(loss) per share		$ 0.03	$ (0.39)	$ (0.32)	$ (0.36)
Income/(loss) per share-diluted					
Income/(loss)from continuing operations		$ 0.03	$ (0.39)	$ (0.32)	$ (0.36)
Income/(loss) from discontinued operations		-	-	-	-
Income/(loss) per share		$ 0.03	$ (0.39)	$ (0.32)	$ (0.36)
Weighted average number of shares outstanding					
Basic	5	148.0	147.5	147.6	147.4
Diluted	5	148.2	147.5	147.6	147.4

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

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

(In millions)	Three Months Ended December 31		Year Ended December 31	
	2019	2018	2019	2018
Net income/(loss)	$ 3.9	$(56.9)	$ (47.7)	$ (53.0)
Other comprehensive income /(loss)				
Currency translation differences	7.5	1.2	8.0	(1.6)
Change in pension liability	-	0.7	-	0.7
Other comprehensive income	7.5	1.9	8.0	(0.9)
Total comprehensive income/(loss)	$ 11.4	$ (55.0)	$ (39.7)	$ (53.9)

Accumulated Other Comprehensive Loss
(Unaudited)

(In millions)	**Foreign currency translation differences**	**Total**
Balance at December 31, 2018	**$ (2.1)**	**$ (2.1)**
Foreign currency translation differences arising during 2019	8.0	8.0
Balance at December 31, 2019	**$ 5.9**	**$ 5.9**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	December 31 2019 (Unaudited)	December 31 2018 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 31.4	$ 20.2
Restricted cash		12.7	11.3
Accounts receivables		145.4	137.0
Inventories	6	53.0	51.9
Right of use assets		0.7	-
Other current assets		23.6	23.5
Total current assets		**266.8**	**243.8**
Noncurrent assets			
Investments in associates	7	21.3	57.0
Loans to associates	7	10.0	9.5
Property plant and equipment, net		373.9	392.5
Right of use assets		42.1	-
Deferred income tax asset		30.5	26.9
Goodwill	8	171.1	172.6
Other intangible assets, net		0.9	1.1
Deferred charges and other assets		13.2	7.1
Total noncurrent assets		**663.1**	**666.7**
Total assets		**$ 930.0**	**$ 910.6**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	$ 548.1	$ 4.7
Accounts payable		45.2	45.5
Operating lease liabilities		11.9	-
Other current liabilities		117.1	108.1
Total current liabilities		**722.3**	**158.3**
Noncurrent liabilities			
Long-term interest-bearing debt	9	7.3	543.0
Subordinated related party loan		58.3	58.3
Operating lease liabilities		31.0	-
Deferred taxes		2.3	2.8
Other noncurrent liabilities		0.4	1.0
Total noncurrent liabilities		**99.4**	**605.0**
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 148,050,298outstanding shares at December 31, 2019 (December 31, 2018: 147,462,012)		1.5	1.5
Additional paid in capital		927.6	926.7
Accumulated deficit		(1,566.7)	(1,519.0)
Accumulated other comprehensive loss		5.9	(2.1)
Contributed surplus		740.1	740.1
Total shareholders' equity		**108.4**	**147.2**
Total liabilities and shareholders' equity		**$ 930.0**	**$ 910.6**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Year Ended December 31	
	2019	2018
Cash Flows from Operating Activities		
Net operating (loss)/income	$ (47.7)	$ (53.0)
Net loss from discontinued operations	-	-
Net (loss) / income from continuing operations	(47.7)	(53.0)
Adjustment to reconcile net (loss) / income to net cash provided by operating activities		
Depreciation and amortization	50.4	55.7
Impairments	1.8	1.1
Gain on QES IPO	-	(2.3)
Gain on sale of Frac Valve business	-	(8.8)
Share-based compensation expenses	0.9	0.7
Loss/(gain) on property, plant and equipment disposals	(0.4)	0.2
Share of losses of unconsolidated affiliates	37.0	39.4
Amortization of loan fees	1.2	1.1
Foreign currency loss/(gain)	15.6	18.6
Changes in operating assets and liabilities		
(Increase)/decrease in accounts receivable and other current assets	(7.2)	10.7
Decrease /(Increase in inventories	4.0	(2.0)
(Increase)/decrease in accounts payable and other current liabilities	8.9	(7.6)
Change in other operating assets and liabilities net	(10.4)	(16.9)
Net cash provided by discontinued operations	54.1	36.9
Cash Flows from Investing Activities		
Capital expenditures	(41.5)	(24.5)
Proceeds from disposal of property, plant and equipment	3.7	1.2
Proceeds from disposal of subsidiary and liquidation of equity investment	-	33.2
Loans to / investment in associates	(1.9)	(11.6)
Net cash used in investing activities	(39.7)	(1.7)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	36.7	9.4
Repayments under revolving facilities	(32.9)	(63.6)
Proceeds from long-term debt	5.1	0.8
Repayment of long-term debt	(1.7)	(2.7)
Debt issuance costs	-	-
Net proceeds from private placement and subsequent offering	-	-
Net cash provided by/(used in) financing activities	7.2	(56.1)
Effect of exchange rate changes on cash and cash equivalents	(9.0)	(15.3)
Net increase/(decrease) in cash and cash equivalents	12.6	(36.2)
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	44.1	31.5
Interest paid	$ 40.3	$ 40.9
Taxes paid	$ 5.1	$ 3.5

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2018	**$ 1.5**	**$ 926.7**	**$ (1,519.0)**	**$ (2.1)**	**$ 740.1**	**$ 147.2**
Share based compensation	-	0.9	-	-	-	0.9
Translation differences	-	-	-	8.0	-	8.0
Net income	-	-	(47.7)	-	-	(47.7)
Balance at December 31, 2019	**$ 1.5**	**$ 927.6**	**$ (1,567.4)**	**$ 5.9**	**$ 740.1**	**$ 108.4**

See accompanying notes that are an integral part of these 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 5,000 skilled and experienced people at December 31, 2019.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited fourth quarter 2019 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited fourth quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These unaudited fourth 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 fourth 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. For ease of reference we have stated some specific policies, which have a significant impact on this quarters result.

Goodwill

We allocate 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. We test 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.

We estimate 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 our specific risk characteristics, our weighted average cost of capital and our 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 assets

The carrying values of long-lived assets, including intangible assets that are held and used by us are reviewed for impairment at least once a year during the fourth quarter. As prescribed by USGAAP, for step one of the impairment test, we assess our major assets/asset groups for 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 is required. We use various methods to estimate the fair value of our assets, using all and best available relevant data, including estimated discounted cashflow forecasts, relevant market data where available, and independent broker valuations for our land rigs. Once the fair value has been determined, the potential impairment is recorded equal to the difference between the asset's carrying value and fair value.

Recently issued accounting pronouncements

The following summary describes provisions of Accounting Standards Updates (ASUs) recently issued by the Financial Accounting Standards Board (FASB) which are relevant to Archer's financial statements:

In February 2018, the FASB issued ASU 2018-02, *Leases (Topic 842)*. The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance is be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The Company has implemented the new provisions with effect from January 1, 2019,resulting in the recognition of $42.9 million right of use assets and operating lease liabilities.

Note 2 — Revenue from contracts with customers

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

(In $ millions)	December 31, 2019	December 31, 2018
Accounts receivable net	145.4	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

	Three Months Ended December 31		Year Ended December 31	
(In millions)	2019	2018	2019	2018
Foreign exchange (losses)/gains	$ 3.5	$ (14.2)	$ (15.6)	$ (18.6)
Gain on debt restructure	-	-	-	-
Other items	(1.9)	0.2	(1.6)	4.3
Total other financial items	$ 1.6	$ (14.0)	$ (17.2)	$ (14.3)

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:

	Three Months Ended December 31		Year Ended December 31	
(In millions)	2019	2018	2019	2018
North America	$ (0.3)	$ 1.3	$ 0.7	$ 1.3
South America	(3.6)	4.0	(5.6)	(7.0)
Europe	1.1	3.1	1.5	(9.7)
Others	(0.3)	(0.8)	(0.2)	(0.8)
Total	**$ (3.1)**	**$ 7.6**	**$ (3.6)**	**$(14.6)**

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 fourth quarter of 2019 is a tax benefit of $3.1 million, which primarily relates to net reported loss for the Argentinian operations.

The net tax benefit in South America amounted to $3.6 million in the fourth quarter and relates to the net loss from the operations in the North of Argentina. The net loss generated in North of Argentina is heavily impacted by the sharp depreciation of Argentine pesos towards USD in the second half of 2019.

The net tax expense in Europe amounted to $1.1 million in the fourth quarter which primarily relates to reduction in deferred tax asset in Norway due to net gain from operations.

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

As at 31 December 2019 we have total deferred tax assets of $30.5 million which mainly consist of $9.8 million of tax assets in Norway, $14.3 million tax assets in Argentina and $6.1 million tax assets in UK.

Deferred tax liabilities at 31 December 2019 were total $2.3 million.

Note 5 – Earnings Per Share

The computation of basic Earnings Per Share ("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:

	Three Months Ended December 31		**Year Ended December 31**	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Denominator				
Weighted-average common shares outstanding	148,038	147,462	147,607	147,429
Effect of potentially dilutive common shares due to share-based compensation schemes	131	-	-	-
Weighted-average common shares outstanding and assumed conversions	148,169	147,462	147,607	147,429

Share-based compensation of 939,941 shares were excluded from the computation of diluted earnings per share for the year ended December 31, 2019, and 171,704 and 269, 753 shares were excluded from the computations for 3 months and year ended December 31, 2018 respectively, as the effect would have been antidilutive due to the net loss for the period.

Note 6 – Inventories

(In millions)	December 31 2019	December 31 2018
Manufactured		
Raw Materials	$ 3.3	$ 3.4
Finished goods	8.0	4.9
Work in progress	0.2	0.6
Total manufactured	11.5	8.9
Drilling supplies	16.4	15.2
Chemicals	0.4	2.1
Other items and spares	24.7	25.7
Total inventories	**$ 53.0**	**$ 51.9**

Note 7 — Investments in Associates

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

	December 31, 2019	December 31, 2018
C6 Technologies AS	50.0%	50.0%
Rawabi Archer Company	50.0%	50.0%
Quintana Energy Services LLP	28.1%	28.1%

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

(In millions)	December 31, 2019	December 31, 2018
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services LP	21.3	57.0

The components of investments in associates are as follows:

	QES	C6	Rawabi
Carrying value of investment at December 31, 2018	57.0	-	-
Additional capital investment	-	1.3	-
Share in results of associates	(7.8)	(1.3)	-
Impairment of investment	(27.9)	-	-
Carrying value of investment at December 31, 2019	21.3	-	-
Carrying value of Loan balance at December 31, 2019	-	10.0	-

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. At September 30, 2019, following continued depression of the QES share price, we recognised another impairment charge of $27.9 million. Following the impairment, our carrying value of QES shares was $2.2 per share.

Quoted market prices for C6 and 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 December 31, 2019, has a carrying value of $10.0 million (2018 $9.5 million) and is repayable in 2021. Our equity share of the losses incurred by C6 in 2019 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.

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 11.

(In millions)	
Net book balance at December 31, 2018	**$ 172.6**
Currency adjustments	(1.5)
Net book balance at December 31, 2019	**$ 171.1**

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 a future material non-cash impairment charge in relation to our remaining goodwill.

Note 9 – Debt

(In millions)	December 31, 2019			December 31 2018		
	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 facilities	515.0	(0.6)	514.4	510.0	(1.6)	508.4
Related party subordinated convertible loan	58.3	-	58.3	58.3	-	58.3
Hermes-covered term loan	23.9	(0.1)	23.8	24.5	(0.3)	24.2
Other loans and capital lease liability	17.2	-	17.2	15.1	-	15.1
Total loans and capital lease liability	**607.9**	**(1.9)**	**606.0**	**607.9**	**(1.9)**	**606.0**
Less: current portion	(548.8)	0.7	(548.1)	(5.8)	1.1	(4.7)
Long-term portion of interest bearing debt	**65.6**	**-**	**65.6**	**602.1**	**(0.8)**	**601.3**

Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the “Facility”) is $610.8 million, split between $372.8 million under a term loan and $238.0 million in a revolving facility. A total of $24 million of the Facility was carved out during the second quarter of 2018 to two overdraft facilities, each of $ 11.7 million. A total of $515.0 million was drawn as at December 31, 2019 under the Facility and $95.8 million remain available. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

At September 30, 2019 the facility has been reclassified as short term finance as the loan is due to mature by September, 30 2020. Please see note 15 for an update on the refinancing.

The interest payable on the Facility 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 EBITDA. In the event our total consolidated net interest bearing debt, after adjustments of the related party subordinated convertible loan amount, exceeds 6.0x the last twelve months Nominal EBITDA measured at December 31, 2019 and/or August 31, 2020, the loan will accrue an additional 1% PIK margin for 2019 and/or part of 2020. In March 2020 quarterly instalments of $10 million commence and the final maturity date of the Facility is September 30, 2020.

The Facility contains 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 Facility contains 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 December 31, 2019, the Company is in compliance with all covenants as agreed with its lenders under this Facility.

Related party subordinated loan

We established a subordinated convertible loan with face value of $45 million in Q2 2017 from Seadrill Ltd., 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 form $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 loan matures September 2020, and contains covenants aligned to those of the multi-currency term loan and revolving credit facility. The interest rate applied to this loan is 1.45% above EURIBOR. At December 31, 2019 the equivalent of $23.9 million was outstanding under this facility.

Other loans and capital leases

We have two $11.7 million overdraft facilities and at December 31, 2019, net borrowing under these facilities amounted to $6.2 million.

At December 31, 2019 we have borrowed $4.5 million under a long term facility in Argentina, and in Bolivia we have borrowed a further $1.0 million under local short term facilities.

We have finance arrangements relating to equipment in our Oiltools and Platform Drilling divisions. At December 31, 2019, the balance due under these arrangements was $5.8 million.

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 and some rental equipment in our Platform Drilling 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 $5.8 million are included in property plant and equipment and the liability is included in the interest bearing debt.

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 December 31, 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 $1.4 million in the year ended December 31, 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 year ended December 31, 2019 was as follows;

(In millions)	Twelve months ended December 31, 2019
Finance Lease costs	
Amortisation of right of use assets	$ 2.3
Interest on lease liabilities	0.5
Operating lease costs	11.0
Short term lease costs	14.6
Total Lease costs	28.4
Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	-
Operating cash flows from operating leases	11.0
Financing cash flows from finance leases	1.7
Right of use assets obtained in exchange for new finance lease liabilities	5.4
Right of use assets obtained in exchange for new operating lease liabilities	0.9
Weighted average remaining lease term – finance leases	3.9 years
Weighted average remaining lease term – operating leases	8.3 years
Weighted average discount rate – finance leases	5%

Weighted average discount rate – operating leases	8%

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 December 31**		**Year December 31**	
	2019	2018	2019	2018
Revenues from external customers				
Eastern Hemisphere	$ 167.0	$ 150.9	$ 623.0	$ 526.1
Western Hemisphere	72.7	82.3	305.6	363.5
Total	$ 239.7	$ 233.2	$ 928.6	$ 889.6
Depreciation and amortization				
Eastern Hemisphere	$ 4.6	$ 5.2	$ 18.7	$ 23.0
Western Hemisphere	7.9	7.4	31.7	32.7
Total	$ 12.6	$ 12.6	$ 50.4	$ 55.7
Net operating (loss)/gain				
Eastern Hemisphere	$ 11.6	$ 5.3	$ 44.6	$ 22.5
Western Hemisphere	(1.3)	0.6	5.4	(6.2)
Corporate costs	(1.8)	5.2	(6.6)	(0.1)
Stock compensation costs	(0.3)	(0.3)	(0.9)	(0.7)
Operating income	8.3	10.7	42.5	15.5
Total financial items	(7.4)	(60.0)	(93.8)	(81.3)
Income taxes	3.1	(7.6)	3.6	14.6
Discontinued operations, net of taxes	-	-	-	-
Net gain/ (loss)	$ 3.9	$ (56.9)	$ (47.7)	$ (53.0)
Capital expenditures				
Eastern Hemisphere	$ 9.5	$ 7.3	$ 20.2	$ 11.3
Western Hemisphere	9.1	4.9	21.3	13.1
Total	**$ 18.7**	**$ 12.2**	**$ 41.5**	**$ 24.5**

(In millions) Goodwill	Eastern Hemisphere	Western Hemisphere	Total
Balance at December 31, 2018	**$ 172.6**	**$ -**	**$ 172.6**
Currency adjustments	(1.5)	-	(1.5)
Balance at December 31, 2019	**$ 171.1**	**$ -**	**$ 171.1**

(In millions)	December 31 2019	December 31 2018
Total assets		
Eastern Hemisphere	**$ 578.4**	**$ 515.2**
Western Hemisphere	**350.7**	**394.7**
Corporate	**0.9**	**0.6**
Total	**$ 930.0**	**$ 910.6**

Note 12 – Fair Value of Financial Instruments

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

	December 31, 2019		December 31, 2018	
(In millions)	Fair Value	Carrying Value	Fair Value	Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 31.4	$ 31.4	$ 20.2	$ 20.2
Restricted cash	12.7	12.7	11.3	11.3
Accounts receivable	145.4	145.4	137.0	137.0
Accounts payable	(45.2)	(45.2)	(45.5)	(45.5)
Current portion of long-term debt	(548.1)	(548.1)	(4.7)	(4.7)
Long-term, interest-bearing debt	(7.3)	(7.3)	(543.0)	(543.0)
Subordinated related party debt	(58.3)	(58.3)	(58.3)	(58.3)
Derivatives				
Interest rate swap agreements	—	—	(0.3)	(0.3)

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

	December 31, 2019	Fair Value Measurements at Reporting Date Using		
(In millions)	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 31.4	$ 31.4	—	—
Restricted cash	12.7	12.7	—	—
Accounts receivable	145.4	—	145.4	—
Liabilities				
Accounts payable	(45.2)	—	(45.2)	—
Current portion of interest-bearing debt	(548.1)	—	(548.1)	—
Long-term, interest-bearing debt	(7.3)	—	(7.3)	—
Subordinated related party debt	(58.3)	—	(58.3)	—
Interest rate swap agreements	—	—	—	—

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

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

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

The fair value of the current portion of long-term debt is estimated to be equal to the carrying value, since it is repayable within twelve months. The fair value of the long-term portion of floating rate debt is estimated to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis. This debt is not freely tradable and we cannot purchase them at prices other than the outstanding balance plus accrued interest.

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 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 December 31, 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 year ended December 31, 2019, we supplied Seadrill Limited and affiliates with services amounting to $3.3 million, mainly relating to the provision of offshore equipment and rental of warehouse space to Seadrill by our Aberdeen facility. This amount has been included in operating revenue.

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 reported its financial results using the equity method of accounting since its creation in 2010.

In the year ended December 31, 2019 we have advanced $1.9 million as additional loan to C6. During 2019 we have supplied C6 with personnel and facility services amounting to $0.1 million. We have also rented office space form C6 for a cost of $0.1 million in 2019

Transactions with other associated companies

Our relationship with Rawabi is described in note 7 above. At December 31, 2019 we have a trading balance of $0.1 million owed to us by Rawabi.

Transactions with other related parties

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

- Frontline Management (Bermuda) Limited, ("Frontline")
- Seatankers Management Company Limited ("Seatankers")

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.3 million and $0.7 million for these services from these two companies respectively in the year ended December 31, 2019. These amounts are included in General and administrative expenses in the Consolidated statement of operations. As at December 31, 2019 have a balance owing to Seatankers $0.1 million in respect of these services.

Note 15 – Subsequent Events

We are in the closing stages to conclude an amend and extend solution with our senior lenders. We expect to announce a solution in Q1 2020.

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

We report our financial results in accordance with generally accepted accounting principles (US 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 US GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with US GAAP. See the table that follows for supplemental financial data and corresponding reconciliations to US GAAP financial measures for the three months ended December 31, 2019, September 30, 2019, June 30, 2019, March 31, 2019, December 31, 2018 and September 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 US GAAP.

ARCHER LIMITED
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2019	September 31 2019	June 30 2019	March 31 2019	December 31 2018	September 31 2018
Revenue	239.7	227.6	235.6	225.7	233.2	213.7
Cost and expenses						
Operational costs	(229.6)	(216.5)	(224.4)	(213.7)	(221.4)	(205.1)
Impairments	(1.8)	—	—	—	(1.1)	—
Net financial items	(7.4)	(66.5)	(7.1)	(12.8)	(60.0)	(7.3)
Income/(loss) from continuing operations before income taxes	**0.9**	**(55.4)**	**4.2**	**(0.9)**	**(49.3)**	**1.3**
Income tax (expense) / benefit	3.1	(1.2)	(0.6)	2.3	(7.6)	5.6
Income/(loss) from continuing operations	**3.9**	**(56.6)**	**3.5**	**1.4**	**(56.9)**	**6.9**
Loss from discontinued operations, net of tax	-	-	-	-	-	-
Net income/(loss)	**3.9**	**(56.6)**	**3.5**	**1.4**	**(56.9)**	**6.9**

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

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

	Three Months Ended					
(In millions)	December 31 2019	September 31 2019	June 30 2019	March 31 2019	December 31 2018	September 31 2018
Net income /(loss)	3.9	(56.6)	3.5	1.4	(56.9)	6.9
Depreciation, amortization and impairments	14.3	12.3	12.2	13.1	13.6	13.8
Net financial items	7.4	66.5	7.1	12.8	60.0	7.3
Taxes on income	(3.1)	1.2	0.6	(2.3)	7.6	(5.6)
Loss from discontinued operations, net of tax	-	-	-	-	-	-
EBITDA – Continuing operations	**22.5**	**23.4**	**23.5**	**25.0**	**24.3**	**22.4**
Restructuring and exceptional costs	5.0	2.0	1.7	0.9	2.5	3.3
EBITDA before restructuring costs	**27.5**	**25.4**	**25.2**	**25.9**	**26.9**	**25.7**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2019	September 31 2019	June 30 2019	March 31 2019	December 31 2018	September 31 2018
Eastern Hemisphere	16.3	16.5	15.1	15.2	15.3	12.0
Western Hemisphere	8.3	8.7	9.7	12.0	11.4	12.1
Corporate costs and stock compensation costs	(2.1)	(1.8)	(1.4)	(2.2)	(2.4)	(1.7)
EBITDA	**22.5**	**23.4**	**23.5**	**25.0**	**24.3**	**22.4**