Archer

UNAUDITED HALF YEAR RESULTS 2020

Archer's revenue was down $31.4 million, or 6.8%, to $429.9 million in the first half of 2020 compared to the corresponding period last year, reflecting lower activity levels following the Covid-19 outbreak, partly offset by our modular rigs being back in operations.

EBITDA before exceptional items for the first half year in 2020 of $53.5 million was up 5% from same period last year of $51.0 million. Eastern Hemisphere reported an increase of $7.0 million in EBITDA mainly due to modular rigs in operation and higher activity for Oiltools, where Western Hemisphere EBITDA was reduced by $4.9 million following Covid-19 related reduction in activity in Argentina and the impact of lockdown during second quarter.

For the first six months of 2020, net operating income was $9.2 million, a decrease of $14 million compared with the net operating income of $23.2 million in the corresponding period in 2019. Eastern Hemisphere reported an impairment of $4.0 million related to goodwill and Western Hemisphere reported an impairment of assets total $3.4 million during first half of 2020.

Net financial items were a cost of $6.2 million in the first six months of 2020, compared to a cost of $19.9 million previous year. The reduced financial cost is explained by a gain arising from the debt forgiveness of the subordinated debt of $45.0 million, offset by higher cost from associated companies as well as negative impact from foreign exchange movements and accrual of interest on the subordinated debt up to its maturity.

Net income for the first six months of 2020 was $2.1 million, or $0.01 per share, compared with a net income of $4.9 million, or $0.03 per share, for the first six months of 2019.

Disciplined capex spends of $12.8 million for first six months of 2020 represents an increase of $4.9 million compared with $7.9 million for the first six months of 2019. Capex in Eastern Hemisphere of $10.7 million is mainly related to mobilization of the modular rigs, overhauls and recertifications for Platform Drilling and new plugs for Oiltools. The capex spending in Western Hemisphere of $2.1 million is related to upgrades of rigs being mobilized in Latin America.

In the first half 2020, operating cash flow contributed $42.9 million to our cash balance, compared to $22.2 million in the same period last year. Net cash used in investing activities was $12.9 million, relating primarily to essential capital expenditure. Net cash provided by financing activities was $9.8 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 $41.2 million at June 30, 2020 compared to $31.4 million at December 31, 2019. Undrawn committed credit lines amounted to $118 million at the end of the reporting period.

Total net interest-bearing debt at June 30, 2020 was $520.3 million compared to $582.3 million end of 2019.

Attached to this half year 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 current situation of the coronavirus pandemic and the volatile oil price has led to significant uncertainty in the marketplace, which we anticipate will have an adverse effect on our operations in 2020 and likely also going into 2021. We have taken necessary actions to adjust headcount, cost levels and investments in 2020.

Archer is well positioned to participate in the recovery of our industry in 2021 and beyond.

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.

The COVID-19 pandemic and associated market turmoil during 2020 have made the following risks more predominant:

Risk Relating to Operations:
The lockdown in various regions following the pandemic outbreak caused disruptions to our operations and imposed a risk to the health of our personnel. Our sites were impacted by reduced personnel, closures, and many employees were working from home or enforced to stay home following local regulations. Further escalations of the current pandemic outbreaks and other natural disasters could occur in the future and impact Archer's operation.

Risks Relating to the Industry in which we Operate:
The Group's business depends on the level of activity of oil and natural gas exploration, development and production and the level of exploration, development and production expenditures of the Group's customers. The sharp decline in oil prices, which led operators to delay sanctioning and reduce spending plans, has consequences for Archer.

Risk Relating to the Argentina's default on its Sovereign Debt:
After defaulting on its debt obligation in May 2020, Argentina remains in negotiations with its private-sector creditors over a restructuring of Argentina's USD billion of foreign currency debt. The outcome of these negotiations will impact Archer's operation in Argentina and its ability to repatriate funds. Furthermore, the outcome may affect inflation rates, currency rate and interest rates in Argentina which can have an adverse effect on Archer's results.

Archer has not identified any material additional risks beyond these and those described in Archer Limited's 2019 Annual Report.

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, 2019. 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, 2020 has been prepared in accordance with Unites 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, 2019 as supplemented herein, remain materially unchanged for the remaining six months of the financial year 2020.

August 2020
The Board of Archer Limited

Kjell-Erik Østdahl	Peter J. Sharpe	James O’Shaughnessy
Chairman	Director	Director

Giovanni Dell Orto	Kristian Melhuus
Director	Director

ARCHER LIMITED

INDEX TO UNAUDITED HALF YEAR FINANCIAL STATEMENTS

ARCHER LIMITED

Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Six Months Ended June 30 2020	2019
Revenues			
Operating revenues		$ 369.5	$ 423.0
Reimbursable revenues		60.3	38.2
Total revenues		**429.9**	**461.3**
Expenses			
Operating expenses		305.8	348.9
Reimbursable expenses		59.7	37.3
Operating lease costs	10	6.3	6.3
Depreciation and amortization		24.0	25.5
Loss/(Gain) on sale of assets		0.3	(0.2)
Impairment charges		7.4	-
General and administrative expenses		17.3	20.3
Total expenses		**420.7**	**438.1**
Operating (loss) / income		**9.2**	**23.2**
Financial items			
Interest income		1.6	1.4
Interest expenses		(18.0)	(20.9)
Share of results in associated companies		(12.9)	(4.9)
Other financial items	3	23.1	4.6
Total financial items		**(6.2)**	**(19.9)**
Profit/(loss) from continuing operations before income taxes		**3.0**	**3.3**
Income tax(expense)/ benefit	4	(0.9)	1.7
Income from continuing operations		**2.1**	**4.9**
Net Income		**$ 2.1**	**$ 4.9**
Income per share-basic			
Income from continuing operations		$ 0.01	$ 0.03
Income per share		$ 0.01	$ 0.03
Income per share-diluted			
Income from continuing operations		$ 0.01	$ 0.03
Income per share		$ 0.01	$ 0.03
Weighted average number of shares outstanding			
Basic	5	148.1	147.5
Diluted	5	148.9	147.9

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

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

(In millions)	Six Months Ended June 30 2020	2019
Net income	**$ 2.1**	**$ 4.9**
Other comprehensive income/(loss)		
Currency translation differences	(9.9)	0.6
Other comprehensive income/(loss)	(9.9)	0.6
Total comprehensive income/(loss)	**$ (7.8)**	**$ 5.5**

Accumulated Other Comprehensive Loss
(Unaudited)

(In millions)	Translation differences	Total
Balance at December 31, 2019	**$ 5.9**	**$ 5.9**
Foreign currency translation differences arising during 2020	(9.9)	(9.9)
Balance at June 30, 2020	**$ (4.0)**	**$ (4.0)**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	June 30 2020 (Unaudited)	December 31 2019 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 41.2	$ 31.4
Restricted cash		14.3	12.7
Accounts receivables		115.4	145.4
Inventories	6	51.0	53.0
Other current assets		31.7	23.6
Total current assets		**253.6**	**266.1**
Noncurrent assets			
Investments in associates	7	9.6	21.3
Loans to associates	7	8.8	10.0
Property plant and equipment, net		355.1	373.9
Right of use assets		37.6	42.8
Deferred income tax asset	4	28.8	30.5
Goodwill	8	151.9	171.1
Other intangible assets, net		0.7	0.9
Deferred charges and other current assets		13.5	13.2
Total noncurrent assets		**606.0**	**663.9**
Total assets		**$ 859.6**	**$ 930.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	$ 16.0	$ 548.1
Accounts payable		36.7	45.2
Operating lease labilities		11.2	11.9
Other current liabilities		120.5	117.1
Total current liabilities		**184.4**	**722.3**
Noncurrent liabilities			
Long-term interest-bearing debt	9	529.6	7.3
Subordinated related party loan		15.9	58.3
Operating lease labilities		26.3	31.0
Deferred taxes		1.5	2.3
Other noncurrent liabilities		0.9	0.4
Total noncurrent liabilities		**574.3**	**99.4**
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 148,050,298 outstanding shares at June 30, 2020 (December 31, 2019: 148,050,298)		1.5	1.5
Additional paid in capital		928.0	927.6
Accumulated deficit		(1,564.6)	(1,566.7)
Accumulated other comprehensive income		(4.0)	5.9
Contributed surplus		740.1	740.1
Total shareholders' equity		**101.0**	**108.4**
Total liabilities and shareholders' equity		**$ 859.6**	**$ 930.0**

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

ARCHER LIMITED
Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended June 30	
	2020	**2019**
Cash Flows from Operating Activities		
Net income/(loss)	$ 2.1	$ 4.9
Adjustment to reconcile net income to net cash (used in)/provided by operating activities		
Depreciation and amortization	24.0	25.5
Impairment charges	7.4	
Gain subordinated debt restructure	(42.2)	-
Share-based compensation expenses	0.4	0.6
Gain on property, plant and equipment disposals	0.3	(0.2)
Share of results in associated companies	12.9	4.9
Amortization of loan fees	0.6	0.6
Mark to market of interest rate caps	1.8	
Deferred income taxes	4.0	(3.6)
Foreign currency loss/(gain)	19.2	(4.3)
Changes in operating assets and liabilities		
(Increase)/decrease in accounts receivable and other current assets	9.3	(13.6)
Decrease in inventories	(1.6)	0.9
Increase/(decrease) in accounts payable and other current liabilities	4.8	6.4
Net cash provided by operating activities	**42.9**	**22.2**
Cash Flows from Investing Activities		
Capital expenditures	(12.8)	(7.9)
Proceeds from disposal of property, plant and equipment	0.9	1.9
Loans to / investment in associates	(1.0)	(1.6)
Net cash used in investing activities	**(12.9)**	**(7.6)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities	97.2	20.5
Repayments under revolving facilities	(104.3)	(12.1)
Debt fees paid on restructuring	(4.3)	-
Borrowings under finance lease agreements	2.2	1.9
Payments made under finance agreements	(0.6)	(1.1)
Net cash (used in)/provided by financing activities	**(9.8)**	**9.2**
Effect of exchange rate changes on cash and cash equivalents	(8.8)	(4.2)
Net increase/(decrease) in cash and cash equivalents, including restricted cash	**11.4**	**19.6**
Cash and cash equivalents, including restricted cash, at beginning of the period	44.1	31.5
Cash and cash equivalents, including restricted cash, at the end of the period	**55.5**	**51.1**
Interest paid	$ 17.1	$ 20.3
Taxes paid	$ 1.2	$ 1.5

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)	Common shares	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2019	**$ 1.5**	**$ 927.6**	**$ (1,566.7)**	**$ 5.9**	**$ 740.1**	**$ 108.4**
Share based compensation	-	0.4	-	-	-	0.4
Translation differences	-	-	-	(9.9)	-	(9.9)
Net income	-	-	2.1	-	-	2.6
Balance at June 30, 2020	**$ 1.5**	**$ 928.0**	**$ (1,564.6)**	**$ (4.0)**	**$ 740.1**	**$ 101.0**

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 4,703 skilled and experienced people at June 30, 2020.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited half year consolidated financial statements 2020 are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited half year consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These unaudited half year financial statements should be read in conjunction with our financial statements as of December 31, 2019. 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 half year 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, 2019.

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)	June 30, 2020	December 31, 2019
Accounts receivable net	115.4	145.4

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

	Six Months Ended June 30	
(In millions)	**2020**	**2019**
Foreign exchange gains / (losses)	$(19.2)	$ 4.3
Other items	42.3	0.3
Total other financial items	**$ 23.1**	**$ 4.6**

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.
In second quarter 2020 we have recorded a non-routine gain of $42.2 million which resulted from our debt restructure, which is discussed in note 9.

Note 4 – Income Taxes

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

	Six Months Ended June 30	
(In millions)	**2020**	**2019**
North America	$ 0.1	$ 0.5
South America	(4.5)	(1.2)
Europe	4.7	(0.8)
Others	0.7	(0.2)
Total	**$ 0.9**	**$ (1.7)**

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 end of June 2020 is a tax expense of $0.9 million, which primarily relates to net reported gain for the Norwegian and Australian operations, offset by tax loss in South America.

The net tax benefit in South America amounted to $4.5 million end of June 2020 and relates to the net loss from the operations in the North of Argentina and an adjustment for previous year tax in South of Argentina.

The net tax expense in Europe amounted to $4.7 million end of June 2020 which primarily relates to net tax expense in Norway due to net reported gain in second quarter.

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

As at 30 June 2020 we have total deferred tax assets of $28.8 million which mainly consist of $7.8 million of tax assets in Norway, $16.4 million tax assets in Argentina and $4.4 million tax assets in UK.

Deferred tax liabilities at 30 June 2020 were total $1.5 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:

	Six Months Ended June 30	
(In thousands)	**2020**	**2019**
Denominator		
Weighted-average common shares outstanding	148,050	147,462
Effect of potentially dilutive share-based compensation shares	424	485
Weighted-average common shares outstanding and assumed conversions	148,874	147,947

Note 6 – Inventories

(In millions)	June 30, 2020	December 31, 2019
Manufactured		
Raw Materials	$ 7.4	$ 3.3
Finished goods	2.5	8.0
Work in progress	0.7	0.2
Total manufactured	10.6	11.5
Drilling supplies	16.6	16.4
Chemicals	0.8	0.4
Other items and spares	23.0	24.7
Total inventories	**$ 51.0**	**$ 53.0**

Note 7 — Investments in Associates

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

	June 30, 2020	December 31, 2019
C6 Technologies AS ("C6")	50.0%	50.0%
Rawabi Archer Company ("Rawabi")	-	50.0%
Quintana Energy Services Inc. ("QES")	28.1%	28.1%

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

(In millions)	June 30, 2020	December 31, 2019
C6 Technologies AS	—	—
Rawabi Archer Company	—	—
Quintana Energy Services Inc.	9.6	21.3

The components of investments in associates are as follows:

(In millions)

	QES	C6	Rawabi
Carrying value of investment at December 31, 2019	21.3	-	-
Additional capital investment	-	1.0	-
Share in results of associates	(11.7)	(1.2)	-
Translation adjustment		0.2	
Carrying value of investment at June 30, 2020	9.6	-	-
Carrying value of Loan balance at June 30, 2020	-	8.8	-

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 impairment charges totalling $26.6 million in 2019 relating to the reduction which we believed was other than temporary. During 2020 we have recognised a further impairment charge of $10.0 million. The carrying value of our investment at June 30, 2020 is $9.6 million equivalent to approximately $1.01 per share.

Quoted market prices for C6 Technologies AS, and Rawabi Archer Company 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 to C6 which, at June 30, 2020, has a carrying value of $8.8 million (2019 $10.0 million). Our share of the losses incurred by C6 in 2020 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 10.

(In millions)	
Net book balance at December 31, 2019	**$ 171.1**
Write-off of goodwill allocated to Survey & Inspection (Asia) business	(4.0)
Currency adjustments	(15.2)
Net book balance at June 30, 2020	**$151.9**

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 the carrying amount.

During the reporting period, we have written off the carrying value of goodwill allocated to our Survey and Inspection (S&I) business unit which related to our acquisition of S&I businesses in Singapore and Australia.

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, 2020			**December 31, 2019**		
(In millions)	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	525.3	(4.1)	521.2	515.0	(0.6)	514.4
Related party subordinated convertible loan	15.9	-	15.9	58.3	-	58.3
Hermes-covered term loans	12.7	(0.1)	12.6	23.9	(0.1)	23.8
Other loans and capital lease liability	11.8	-	11.8	17.2	-	17.2
Total loans and capital lease liability	**565.7**	**(4.2)**	**561.5**	**614.4**	**(0.7)**	**613.7**
Less: current portion	(17.4)	1.4	(16.0)	(548.8)	0.7	(548.1)
Long-term portion of interest-bearing debt	**548.3**	**(2.8)**	**545.5**	**65.6**	**-**	**65.6**

Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the "Facility") is $580.3 million, split between $353.5 million under a term loan and $226.8 million in a revolving facility. In addition, a total of $22.3 million of the Facility is carved out to two overdraft facilities, each of $ 11.2 million. A total of $525.3 million was drawn as at June 30, 2020 under the Facility. The Facility is secured by pledges over shares in material subsidiaries, assignment over intercompany debt and guarantees issued by the material subsidiaries.

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, 2020, 2021, 2022 and/or August 31, 2023, the loan will accrue an additional 1% PIK margin for 2020, 2021, 2022 and/or from January 1st to October 1st 2023. In March 2021 quarterly instalments of $4 million commenced 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 ratio of net interest-bearing debt (after certain adjustments) to 12 months rolling Nominal EBITDA (after certain adjustments) shall not exceed; 7.0x before September 30, 2020, 6.5x at December 31, 2020, 6.25x at March 31, 2021, 6.0x from June 30 2021 to December 31, 2021, 5.75x at March 31, 2022, 5.5x from June 30, 2022 to December 31, 2022, 5.25x at March 31, 2023 and 5.0x thereafter.
- 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 June 30, 2020, the Company is compliant with all covenants as agreed with its lenders under this Facility.

Related party subordinated loan

In Q2, 2017 we established a subordinated convertible loan from Seadrill Ltd. with face value of $45 million. In April 2020 we renegotiated the terms of the subordinated loan, with a new face value of $13.1 million. The loan matures on March 31, 2024 and bear PIK interest of 5.5% per year. The conversion rights attached to the loan is exercisable, enabling Seadrill to convert the debt at a rate of 2.5 ordinary shares in Archer for each $1.00 of loan and accrued interest. The nature of the concession granted by way of reduction of the face value of the loan defined the changes to the subordinated debt as a troubled debt restructure, and hence interest up to the maturity date has been accrued to the loan balance, increasing the book value of the loan from $13.1 million to $15.9 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 terms of this loan were renegotiated as part of our overall refinancing in April 2020. The loan now matures December 31, 2022, 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 June 30, 2020 the equivalent of $12.7 million was outstanding under this facility.

Other loans and capital leases

As described above, interconnected to the Facility, we have two $11.2 million overdraft facilities and at June 30, 2020, we have zero net borrowing under these facilities.

At June 30, 2020 we have borrowed $5.4 million under short-term facilities in Argentina and in Bolivia.

We have finance arrangements relating to equipment in our Oiltools and Platform Drilling divisions. At June 30, 2020, the balance due under these arrangements was $6.5 million.

Interest rate cap agreement

We have entered into USD interest rate cap agreements, securing the interest rate against fluctuations above 1.65% on $198 million until February 2025 and $102 million. The fair value of the swaps as of June 30, 2020 was an asset of $0.5 million and is included within other non-current assets.

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 $5.2 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, 2020. 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 first half of 2020.

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, 2020 was as follows;

(In millions)	Six months ended June 30, 2020
Finance Lease costs	
Amortisation of right of use assets	$ 0.4
Interest on lease liabilities	0.2
Operating lease costs	6.3
Short term lease costs	3.7
Total Lease costs	10.6

Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	0.6
Operating cash flows from operating leases	6.3
Financing cash flows from finance leases	0.2
Right of use assets obtained in exchange for new finance lease liabilities	1.2
Right of use assets obtained in exchange for new operating lease liabilities	-
Weighted average remaining lease term – finance leases	3.5 years
Weighted average remaining lease term – operating leases	7.9 years
Weighted average discount rate – finance leases	4.5%
Weighted average discount rate – operating leases	7.5%

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	
	2020	**2019**	**2020**	**2019**
Revenues from external customers				
Eastern Hemisphere	$ 160.3	$ 155.4	$ 327.4	$ 300.6
Western Hemisphere	32.5	80.3	102.5	160.7
Total	**$ 192.8**	**$ 235.6**	**$ 429.9**	**$ 461.3**
Depreciation and amortization				
Eastern Hemisphere	$ 4.1	$ 4.6	$ 8.2	$ 9.6
Western Hemisphere	7.9	7.9	15.8	15.9
Total	**$ 12.0**	**$ 12.4**	**$ 24.0**	**$ 25.5**
Operating income – net				
Eastern Hemisphere	$ 13.1	$ 10.8	$ 22.7	$ 21.1
Western Hemisphere	(12.6)	1.9	(10.4)	5.8
Corporate costs	(0.9)	(1.1)	(2.6)	(3.0)
Stock compensation costs	(0.2)	(0.3)	(0.5)	(0.6)
Total Operating (loss) / Income - net	(0.7)	11.3	9.2	23.2
Total financial items	47.2	(7.1)	(6.2)	(19.9)
Income taxes	(0.9)	(0.6)	(0.9)	1.7
Discontinued operations, net of taxes	-	-	-	-
Net income	**$ 45.7**	**$ 3.5**	**$ 2.1**	**$ 4.9**
Capital expenditures				
Eastern Hemisphere	$ 5.5	$ 2.4	$ 10.2	$ 3.8
Western Hemisphere	0.7	3.1	2.6	4.1
Total	**$ 6.2**	**$ 5.4**	**$ 12.8**	**$ 7.9**

(In millions) **Goodwill**	**Eastern Hemisphere**	**Western Hemisphere**	**Total**
Balance at December 31, 2019	**$ 171.1**	**$ -**	**$ 171.1**
Impairments	(4.0)	-	(4.0)
Currency adjustments	(15.2)	-	(15.2)
Balance at June 30, 2020	**$ 151.9**	**$ -**	**$ 151.9**

(In millions)	June 30 2020	December 31 2019
Total assets		
Eastern Hemisphere	$ 534.5	**$ 578.4**
Western Hemisphere	324.5	**350.7**
Corporate	0.6	**0.9**
Total	**$ 859.6**	**$ 930.0**

Note 12 – Fair Value of Financial Instruments

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

	June 30, 2020		December 31, 2019	
(In millions)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Non-derivatives				
Cash and cash equivalents	$ 41.2	$ 41.2	$ 31.4	$ 31.4
Restricted cash	14.3	14.3	12.7	12.7
Accounts receivable	115.4	115.4	145.4	145.4
Accounts payable	(36.7)	(36.7)	(45.2)	(45.2)
Current portion of long-term debt	(16.0)	(16.0)	(548.1)	(548.1)
Current portion of operating lease liability	(11.2)	(11.2)	-	-
Long-term, interest-bearing debt	(529.6)	(529.6	(7.3)	(7.3)
Operating lease liability	(26.3)	(26.3)	-	-
Subordinated related party debt	(15.9)	(15.9)	(58.3)	(58.3)
Derivatives				
Interest rate caps	0.5	0.5	-	-

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

	June 30, 2020	Fair Value Measurements at Reporting Date Using		
(In millions)	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and cash equivalents	$ 41.2	$ 41.2	—	—
Restricted cash	14.3	14.3	—	—
Accounts receivable	115.4	—	115.4	—
Interest rate Cops	0.5	—	0.5	—
Liabilities				
Accounts payable	(36.7)	—	(36.7)	—
Current portion of interest-bearing debt	(16.0)	—	(16.0)	—
Current portion of operating lease liability	(11.2)		(11.2)	
Long-term, interest-bearing debt	(529.6)	—	(529.6)	—
Operating lease liability	(26.3)		(26.3)	
Subordinated related party debt	(15.9)	—	(15.9)	—

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, 2020, and December 31, 2019. 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 is 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, 2020.

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 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, 2020, 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.

<u>Transactions with Seadrill;</u>

During the six months ended June 30, 2020, we have rented offshore equipment and warehouse space to Seadrill Limited in respect of which we have recorded revenue of $0.6 million. At June 30, 2020 Seadrill owes a total of $0.1 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, 2020 we have advanced $0.6 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 and/or Hemen Holding Ltd have a significant interest:

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

Frontline and Seatankers provides management support and administrative services to us, and we have recorded fees of $0.2 for these services from Frontine in the six months ended June 30, 2020. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

Note 15 – Subsequent Events

On July 28, 2020 Quintana Energy Services Inc. and KLX Energy Services Holdings Inc. ("KLXE") completed a merger whereby they combined their services. Archer received a total of 919,998 shares in KLXE, who will continue to be listed on Nasdaq.

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, 2020, March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019, and March 31, 2019. 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)

	Three Months Ended					
(In millions)	June 30 2020	March 31 2020	December 31 2019	September 30 2019	June 30 2019	March 31 2019
Revenue	192.8	237.1	239.7	227.6	235.6	225.7
Cost and expenses						
Operational costs	(186.0)	(227.5)	(229.6)	(216.5)	(224.4)	(213.7)
Impairments	(7.4)	—	(1.8)	—	—	—
Net financial items	47.2	(53.2)	(7.4)	(66.5)	(7.1)	(12.8)
Income / (loss) from continuing operations before income taxes	46.6	**(43.5)**	**0.9**	**(55.4)**	**4.2**	**(0.9)**
Income tax expense/ (benefit)	(0.9)	(0.1)	3.1	(1.2)	(0.6)	2.3
Income / (loss) from continuing operations	45.7	(43.6)	**3.9**	**(56.6)**	**3.5**	**1.4**
(Loss)/income from discontinued operations, net of tax	-	-	-	-	-	-
Net income /(loss)	45.7	**(43.6)**	**3.9**	**(56.6)**	**3.5**	**1.4**

ARCHER LIMITED
Appendix

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

	Three Months Ended					
(In millions)	June 30 2020	March 31 2020	December 31 2019	September 30 2019	June 30 2019	March 31 2019
Net income / (loss)	45.7	(43.6)	3.9	(56.6)	3.5	1.4
Depreciation, amortization and impairments	19.6	12.0	14.3	12.3	12.2	13.1
Net financial items	(47.2)	53.2	7.4	66.5	7.1	12.8
Taxes on income	0.9	0.1	(3.1)	1.2	0.6	(2.3)
Income/(loss) from discontinued operations, net of tax	-	-	-	-	-	-
EBITDA	**19.0**	**21.7**	**22.5**	**23.4**	**23.5**	**25.0**
Restructuring costs	6.3	6.4	5.0	2.0	1.7	0.9
EBITDA before restructuring costs	**25.4**	**28.1**	**27.5**	**25.4**	**25.2**	**25.9**

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
(In millions)	June 30 2020	March 31 2020	December 31 2019	September 30 2019	June 30 2019	March 31 2019
Eastern Hemisphere	20.2	13.7	16.3	16.5	15.1	15.2
Western Hemisphere	-	10.0	8.3	8.7	9.7	12.0
Corporate costs and stock compensation costs	(1.2)	(2.0)	(2.1)	(1.8)	(1.4)	(2.2)
EBITDA	**19.0**	**21.7**	**22.5**	**23.4**	**23.5**	**25.0**