ARCHER LIMITED

INDEX TO UNAUDITED THIRD QUARTER FINANCIAL STATEMENTS

ARCHER LIMITED
Consolidated Statements of Operations
(Unaudited)

(In millions, except per share data)	Note	Three Months Ended September 30 2020	Three Months Ended September 30 2019	Nine Months Ended September 30 2020	Nine Months Ended September 30 2019
Revenues					
Operating revenues		$ 160.2	$ 203.5	$ 529.8	$ 626.5
Reimbursable revenues		23.3	24.2	83.7	62.4
Total revenues		**183.6**	**227.6**	**613.5**	**688.9**
Expenses					
Operating expenses		133.3	167.5	439.3	516.5
Reimbursable expenses		23.2	23.7	82.9	60.9
Operating lease costs	10	3.0	3.1	9.2	9.5
Depreciation and amortization		12.2	12.3	36.2	37.8
Loss/(Gain) on sale of assets		0.7	-	1.0	(0.2)
Impairment charges		-	-	7.4	-
General and administrative expenses		8.3	9.9	25.6	30.2
Total expenses		**180.7**	**216.5**	**601.6**	**654.6**
Operating income		**2.8**	**11.1**	**11.8**	**34.3**
Financial items					
Interest income		1.1	0.5	2.7	1.9
Interest expenses		(7.4)	(10.8)	(25.4)	(31.7)
Share of results in associated companies	7	(5.4)	(32.8)	(18.3)	(37.7)
Other financial items	3	(4.9)	(23.4)	18.4	(18.9)
Total financial items		**(16.7)**	**(66.5)**	**(22.7)**	**(86.4)**
Loss from continuing operations before income taxes		(13.9)	(55.4)	(10.9)	(52.1)
Income tax benefit / (expense)	4	1.5	(1.2)	0.6	0.5
Loss from continuing operations		(12.3)	(56.6)	(10.3)	(51.6)
Net Loss		**$ (12.3)**	**$ (56.6)**	**$ (10.3)**	**$ (51.6)**
Loss per share-basic					
Loss from continuing operations		$ (0.08)	$ (0.38)	$ (0.07)	$ (0.35)
Loss per share		(0.08)	(0.38)	(0.07)	(0.35)
Loss per share-diluted					
Loss from continuing operations		$ (0.08)	$ (0.38)	$ (0.07)	$ (0.35)
Loss per share		(0.08)	(0.38)	(0.07)	(0.35)
Weighted average number of shares outstanding					
Basic	5	148.1	147.5	148.1	147.5
Diluted	5	148.1	147.5	148.1	147.5

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 September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Net (loss)/income	**$(12.3)**	**$(56.6)**	**$ (10.3)**	**$ (51.6)**
Other comprehensive income /(loss)				
Currency translation differences	6.0	(0.1)	(3.9)	0.5
Other comprehensive income	6.0	(0.1)	(3.9)	0.5
Total comprehensive loss	**$ (6.3)**	**$(56.7)**	**$ (14.2)**	**$ (51.1)**

Accumulated Other Comprehensive Loss
(Unaudited)

(In millions)	Foreign currency translation differences	Total
Balance at December 31, 2019	**$ 5.9**	**$ 5.9**
Foreign currency translation differences arising during 2020	(3.9)	(3.9)
Balance at September 30, 2020	**$ 2.0**	**$ 2.0**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	September 30 2020 (Unaudited)	December 31 2019 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 47.4	$ 31.4
Restricted cash		7.2	12.7
Accounts receivables	2	95.2	145.4
Inventories	6	53.2	53.0
Other current assets		34.1	23.6
Total current assets		**237.0**	**266.1**
Noncurrent assets			
Investments in associates	7	-	21.3
Loans to associates	7	4.0	10.0
Marketable Securities		3.8	-
Property plant and equipment, net		350.0	373.9
Right of use assets	10	35.2	42.8
Deferred income tax asset		29.5	30.5
Goodwill	8	156.8	171.1
Other intangible assets, net	9	0.7	0.9
Deferred charges and other assets		13.2	13.2
Total noncurrent assets		**593.2**	**663.9**
Total assets		**$ 830.2**	**$ 930.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	$ 18.2	$ 548.1
Accounts payable		33.8	45.2
Operating lease liabilities	10	10.9	11.9
Other current liabilities		116.8	117.1
Total current liabilities		**179.7**	**722.3**
Noncurrent liabilities			
Long-term interest-bearing debt	9	513.1	7.3
Subordinated related party loan		15.9	58.3
Operating lease liabilities	10	24.3	31.0
Deferred taxes		1.4	2.3
Other noncurrent liabilities		0.8	0.4
Total noncurrent liabilities		**555.5**	**99.4**
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 147,462,012 outstanding shares at September 30, 2020 (December 31, 2019: 147,462,012)		1.5	1.5
Additional paid in capital		928.3	927.6
Accumulated deficit		(1,577.0)	(1,566.7)
Accumulated other comprehensive loss		2.1	5.9
Contributed surplus		740.1	740.1
Total shareholders' equity		**95.0**	**108.4**
Total liabilities and shareholders' equity		**$ 830.2**	**$ 930.0**

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

ARCHER LIMITED
Consolidated Statements of Cash Flow
(Unaudited)

(In millions)	Nine Months Ended September 30	
	2020	**2019**
Cash Flows from Operating Activities		
Net Loss from continuing operations	$ (10.3)	$ (51.6)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	36.2	37.8
Asset impairments	7.4	-
Gain on Debt restructure	(42.2)	
Share-based compensation expenses	0.7	0.6
Loss / (gain) on sale of assets	1.0	(0.2)
Share of losses of unconsolidated affiliates	18.3	37.7
Amortization of loan fees	1.0	0.9
Mark to market of financial instruments	2.0	
Mark to market of marketable securities	5.7	-
Deferred income taxes	(4.2)	(5.7)
Foreign currency loss/(gain)	17.9	19.1
Changes in operating assets and liabilities		
(Increase)/decrease in accounts receivable and other current assets	30.2	(17.4)
(Decrease/(increase) in inventories	(5.5)	1.0
Decrease in accounts payable and other current liabilities	(4.4)	(15.0)
Net cash provided by operations	**$ 53.8**	**$ 7.2**
Cash Flows from Investing Activities		
Capital expenditures	(13.6)	(22.8)
Proceeds from disposal of property, plant and equipment	1.6	2.7
Loans to / investment in associates	(1.2)	(2.3)
Net cash provided by/(used in) investing activities	**$ (13.2)**	**$ (22.4)**
Cash Flows from Financing Activities		
Borrowings under revolving and other loan facilities	97.2	22.5
Repayments under revolving and other loan facilities	(120.0)	(12.6)
Borrowings under finance lease agreements	2.8	3.1
Payments made under finance agreements	(0.9)	(1.4)
Debt fees paid	(4.3)	-
Net cash provided by financing activities	**$ (25.2)**	**$ 11.6**
Effect of exchange rate changes on cash and cash equivalents	(4.8)	(9.2)
Net increase/(decrease) in cash and cash equivalents	**$ 10.6**	**$ (12.8)**
Cash and cash equivalents, including restricted cash, at beginning of the	44.1	31.5
Cash and cash equivalents, **including restricted cash, at the end of the**	**$ 54.7**	**$ 18.7**
Interest paid	$ 24.5	$ 30.8
Taxes paid	$ 1.8	$ 1.4

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

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

(In millions)	Share Capital	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2019	**$ 1.5**	**$ 928.0**	**$ (1,566.7)**	**$ 5.9**	**$ 740.1**	**$ 108.4**
Share based compensation	-	0.7	-	-	-	0.7
Translation differences	-	-	-	(3.8)	-	(3.8)
Net loss	-	-	(10.3)	-	-	(10.3)
Balance at September 30, 2020	**$ 1.5**	**$ 928.3**	**$ (1,577.0)**	**$ 2.1**	**$ 740.1**	**$ 95.0**

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 4,145 skilled and experienced people at September 30, 2020.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited third quarter 2020 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unaudited third quarter consolidated financial statements do not include all of the disclosures required in complete annual financial statements. These unaudited third quarter 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 third 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, 2019 and as described below.

Under our policies we conduct a review of our fixed assets during the fourth quarter, and at any other time that we perceive indicators that any of our assets may be materially impaired. We shall recognise impairment charges during the fourth quarter of 2020 if our testing indicates a charge is appropriate.

Adoption of new accounting standards

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance is be effective January 1, 2020, with early adoption permitted. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The adoption, effective January 1, 2020, did not have a material impact on the condensed consolidated financial statements and related disclosures.

ASU 2020-04 Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments provide temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The applicable expedients for us are in relation to modifications of contracts within the scope of Topics 310, Receivables, 470, Debt, and Topic 842, Leases. This optional guidance has been adopted prospectively from April 1, 2020.

ASU 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement Removes some disclosure requirements relating to transfers between Level 1 and Level 2 of the FV hierarchy. Introduces new disclosure requirements for Level 3 measurements. Date of adoption was January 1, 2020 and it did not have a material impact on the condensed consolidated financial statements and related disclosures.

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)	**September 30, 2020**	**December 31, 2019**
Accounts receivable net	95.2	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 day rate revenue. The duration of our performance obligations varies by contract.

Note 3 – Other Financial Items

	Three Months Ended September 30		**Nine Months Ended September 30**	
(In millions)	**2020**	**2019**	**2020**	**2019**
Foreign exchange (losses)/gains	$ 1.3	$ (23.4)	$ (17.9)	$ (19.1)
Gain on debt restructure	-	-	42.2	-
Other items	(6.2)	-	(5.9)	0.2
Total other financial items	**$ (4.9)**	**$ (23.4)**	**$ 18.4**	**$ (18.9)**

Other financial items in third quarter represent foreign exchange gain 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 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:

	Nine Months Ended September 30	
(In millions)	**2020**	**2019**
North America	$ 0.2	$ 1.0
South America	(7.6)	(2.0)
Europe	5.2	0.4
Others	1.7	0.1
Total	**$ (0.6)**	**$ (0.5)**

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 September 2020 is a tax benefit of $0.6 million, which primarily relates to net reported tax losses in South America, offset by net gain for the Norwegian and Australian operations.

The net tax benefit in South America amounted to $7.6 million at the end of September 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 $5.2 million at the end of September 2020 which primarily relates to net tax expense in Norway due to net reported gain in second and third quarter of 2020.

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

As at 30 September 2020 we have total deferred tax assets of $29.5 million which mainly consist of $6.5 million of tax assets in Norway, $17.9 million tax assets in Argentina and $5.0 million tax assets in UK.

Deferred tax liabilities at 30 September 2020 totalled $1.4 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:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Denominator				
Weighted-average common shares outstanding	148,050	147,462	148,050	147,462
Effect of potentially dilutive common shares due to share-based compensation schemes	-	-	-	-
Weighted-average common shares outstanding and assumed conversions	148,050	147,462	148,050	147,462

Effect of potential dilution from share-based compensation of 1,486,032 and 1,537,656 shares were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2020, respectively, (748,771 and 848,651 respectively for the three and nine months ended September 30, 2019) as the effect would have been antidilutive due to the net loss for the period.

Note 6 – Inventories

	September 30	December 31
(In millions)	**2020**	**2019**
Manufactured		
Raw Materials	$ 2.3	$ 3.3
Finished goods	8.0	8.0
Work in progress	0.6	0.2
Total manufactured	10.9	11.5
Drilling supplies	15.2	16.4
Chemicals	0.9	0.4
Other items and spares	26.2	24.7
Total inventories	**$ 53.2**	**$ 53.0**

Note 7 — Investments in Associates

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

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

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

(In millions)	**September 30, 2020**	**December 31, 2019**
C6 Technologies AS*	4.0	10.0
Rawabi Archer Company	—	—
Quintana Energy Services Inc.	—	57.0

The components of investments in associates are as follows:

	QES	**C6***	**Rawabi**
Carrying value of investment and loans at December 31, 2019	**21.3**	**10.0**	**-**
Additional capital investment	-	1.2	-
Share in results of associates	(11.8)	(2.3)	-
Impairment of C6 investment		(4.2)	
Conversion to KLX shares	(9.5)		-
Translation adjustment	-	(0.7)	-
Carrying value of investment and loans at September 30, 2020	**-**	**4.0**	**-**

* Equity and loan investments combined

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

Our investment in C6 comprises equity investment and a loan. 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 the loan due from the entity. In 2020 we have made an additional impairment charge of $4.2 million against the carrying value of the loan.

In 2020, we sold our interest in Rawabi to Rawabi Oil and Gas Co Ltd. for consideration of $1.9 million. The proceeds have been recognised as a gain in other financial items.

Following an IPO in February 2018, QES's shares were 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 led us to regularly consider whether the carrying value of our investment is impaired. 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, which is recognised in share of results of associates. The carrying value of our investment at June 30, 2020 was $9.6 million equivalent to approximately $1.01 per share.

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 in exchange for its interest in QES. KLXE will continue to be listed on Nasdaq. Our KLXE shares are reported as Marketable securities in our balance sheet, and are adjusted to market value, based on share price, each reporting period. The change in fair value of this investment is reported in Other financial items. We do not equity account for this investment, as we did for the QES shares, since we do not have the ability to significant influence the operations of KLX. Our percentage interest in the merged entity is significantly less than our previous percentage interest in QES.

Note 8 – Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. Our remaining goodwill relates to our Eastern Hemisphere reporting segment – see also note 11.

(In millions)	
Net book balance at December 31, 2019	**$ 171.1**
Impairment charges	(4.0)
Currency adjustments	(10.3)
Net book balance at September 30, 2020	**$ 156.8**

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.

In the second quarter of 2020, we recorded impairment charges to write off goodwill relating to survey and inspection business purchased in 2010. The relevant office in Singapore has been closed down.

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 in relation to our remaining goodwill.

Note 9 – Long-term, Interest-Bearing Debt

(In millions)	September 30, 2020			December 31, 2019		
	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	510.3	(3.8)	506.5	515.0	(0.6)	514.4
Related party subordinated convertible loan	15.9	-	15.9	58.3	-	58.3
Hermes-covered term loans	13.3	(0.1)	13.2	23.9	(0.1)	23.8
Other loans and capital lease liability	11.6	-	11.6	17.2	-	17.2
Total loans and capital lease liability	**551.1**	**(3.9)**	**547.2**	**614.4**	**(0.7)**	**613.7**
Less: current portion	(19.6)	1.4	(18.2)	(548.8)	0.7	(548.1)
Long-term portion of interest-bearing debt	**531.5**	**(2.5)**	**529.0**	**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 $510.3 million was drawn as at September 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 will commence and the final maturity date of the Facility is September 30, 2023.

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 and 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 September 30, 2020, the Company is compliant with all covenants as agreed with its lenders under this Facility.

On October 13, 2020 Archer announced certain amendments to the Facility, which has not yet been documented, and hence not reflected in the above. See note 15 Subsequent events.

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 loan 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 September 30, 2020 the equivalent of $13.3 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 September 30, 2020, we have zero net borrowing under these facilities.

At September 30, 2020 we have borrowed $4.6 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 September 30, 2020, the balance under these arrangements was $6.9 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 until February 2023. The fair value of the instruments as of September 30, 2020 was an asset of $0.3 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 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 $7.0 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, 2020 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 September 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 nine months 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 nine-month period ended September 30, 2020 was as follows;

(In millions)	Nine months ended September 30, 2020
Finance Lease costs	
Amortisation of right of use assets	$ 0.8
Interest on lease liabilities	0.3
Operating lease costs	9.2
Short term lease costs	4.7
Total Lease costs	**15.0**
Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	0.9
Operating cash flows from operating leases	9.2
Financing cash flows from finance leases	0.3
Right of use assets obtained in exchange for new finance lease liabilities	5.6
Right of use assets obtained in exchange for new operating lease liabilities	2.1
Weighted average remaining lease term – finance leases	3.8 years
Weighted average remaining lease term – operating leases	7.9 years
Weighted average discount rate – finance leases	3.5%
Weighted average discount rate – operating leases	7.3%

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.

(In millions)	Three Months Ended September 30		Nine Months September 30	
	2020	**2019**	**2020**	**2019**
Revenues from external customers				
Eastern Hemisphere	$ 146.5	$ 155.3	$ 473.9	$ 455.9
Western Hemisphere	37.1	72.3	139.6	233.0
Total	**$ 183.6**	**$ 227.6**	**$ 613.5**	**$ 688.9**
Depreciation and amortization				
Eastern Hemisphere	$ 4.5	$ 4.4	$ 12.7	$ 13.9
Western Hemisphere	7.7	7.9	23.5	23.7
Total	**$ 12.2**	**$ 12.3**	**$ 36.2**	**$ 37.6**

Operating income – net loss				
Eastern Hemisphere	$ 13.7	$ 12.0	$ 36.4	$ 33.0
Western Hemisphere	(9.7)	0.9	(20.1)	6.7
Corporate costs	(1.0)	(1.7)	(3.8)	(4.7)
Stock compensation costs	(0.2)	(0.1)	(0.7)	(0.7)
Operating Income	2.8	11.1	11.8	34.3
Total financial items	(16.7)	(66.5)	(22.7)	(86.4)
Income taxes	1.5	(1.2)	0.6	0.5
Discontinued operations, net of taxes	-	-	-	-
Net loss	**$ (12.3)**	**$ (56.6)**	**$ (10.3)**	**$ (51.6)**

(In millions)	**Three Months Ended September 30**		**Nine Months September 30**	
	2020	**2019**	**2020**	**2019**
Capital expenditures				
Eastern Hemisphere	$ 5.5	$ 6.6	$ 12.6	$ 10.6
Western Hemisphere	0.9	8.1	5.3	12.2
Total	**$ 6.4**	**$ 14.8**	**$ 17.9**	**$ 22.8**

(In millions) **Goodwill**	**Eastern Hemisphere**	**Western Hemisphere**	**Total**
Balance at December 31, 2019	**$ 171.1**	**$ -**	**$ 171.1**
Impairment charges	(4.0)	-	(4.0)
Currency adjustments	(10.3)	-	(10.3)
Balance at September 30, 2020	**$ 156.8**	**$ -**	**$ 156.8**

(In millions)	**September 30, 2020**	**December 31, 2019**
Total assets		
Eastern Hemisphere	$ 461.0	$ 552.7
Western Hemisphere	369.0	344.7
Corporate	0.3	0.3
Total	**$ 830.2**	**$ 898.0**

Note 12 – Fair Value of Financial Instruments

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

(In millions)	September 30, 2020 Fair Value	September 30, 2020 Carrying Value	December 31, 2019 Fair Value	December 31, 2019 Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 47.4	$ 47.4	$ 31.4	$ 31.4
Restricted cash	7.2	7.2	12.7	12.7
Accounts receivable	95.2	95.2	145.4	145.4
Accounts payable	(33.8)	(33.8)	(45.2)	(45.2)
Current portion of long-term debt	(18.2)	(18.2)	(548.1)	(548.1)
Current portion of operating lease liability	(10.9)	(10.9)	-	-
Long-term, interest-bearing debt	(513.1)	(513.1)	(7.3)	(7.3)
Operating lease liability	(24.3)	(24.3)	-	-
Subordinated related party debt	(15.9)	(15.9)	(58.3)	(58.3)
Derivatives				
Interest rate caps	0.3	0.3	-	-

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

(In millions)	September 30, 2020 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 47.4	$ 47.4	—	—
Restricted cash	7.2	7.2	—	—
Accounts receivable	95.2	—	95.2	—
Interest rate Caps	0.3	—	0.3	—
Liabilities				
Accounts payable	(33.8)	—	(33.8)	—
Current portion of interest-bearing debt	(18.2	—	(18.2)	—
Current portion of operating lease liability	(10.9)		(10.9)	
Long-term, interest-bearing debt	(513.1)	—	(513.1)	—
Operating lease liability	(24.3)		(24.3)	
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. For certain instruments, including cash and cash equivalents, it is assumed that the carrying amount approximated fair value due to the short-term maturity of those instruments.

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

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

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

Transactions with Seadrill;

During the nine months ended September 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. We also have an engineering service contract with Seadrill, in respect of which we have recorded service revenues of $3.1 million during 2020. At September 30, 2020 Seadrill owes a total of $0.2 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 nine months ended September 30, 2020 we have advanced $0.8 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 $0.3 for these services from Frontline in the nine months ended September 30, 2020. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

Note 15 – Subsequent Events

On October 13, 2020, Archer announced that the Lenders under its Multicurrency term and revolving credit facility agreed to certain amendments to the USD 580 Facility. Primarily, the amendments include a temporary increase in the leverage ratio covenant permitting a ratio of 7.5:1 in 2021, with a gradual reduction to 5:1 at Maturity. In exchange for the covenant amendments, Archer has agreed to prepay the instalments under the Facility that is due in 2021 and first quarter 2022, totaling USD 20 million. The amendments are conditional on the completion of satisfactory documentation.

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

We report our financial results in accordance with U.S. 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 September 30, 2020, June 30, 2020, March 31, 2020, December 31, 2019, September 30, 2019 and June 30, 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)	September 30 2020	June 30 2020	March 31 2020	December 31 2019	September 30 2019	June 30 2019
Revenue	183.6	192.8	237.1	239.7	227.6	235.6
Cost and expenses						
Operational costs	(180.7)	(186.0)	(227.5)	(229.6)	(216.5)	(224.4)
Impairments	—	(7.4)	—	(1.8)	—	—
Net financial items	(16.7)	47.2	(53.2)	(7.4)	(66.5)	(7.1)
(Loss)/income from continuing operations before income taxes	**(13.9)**	46.6	**(43.5)**	**0.9**	**(55.4)**	**4.2**
Income tax (expense)/benefit	1.5	(0.9)	(0.1)	3.1	(1.2)	(0.6)
(Loss)/income from continuing operations	**(12.3)**	**45.7**	**(43.6)**	**3.9**	**(56.6)**	**3.5**
(Loss)/income from discontinued operations, net of tax	-	-	-	-	-	-
Net (loss)/income	**(12.3)**	**45.7**	**(43.6)**	**3.9**	**(56.6)**	**3.5**

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

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

	Three Months Ended					
(In millions)	September 30 2020	June 30 2020	March 31 2020	December 31 2019	September 30 2019	June 30 2019
Net income /(loss)	(12.3)	45.7	(43.6)	3.9	(56.6)	3.5
Depreciation, amortization and impairments	12.9	19.6	12.0	14.3	12.3	12.2
Net financial items	16.7	(47.2)	53.2	7.4	66.5	7.1
Taxes on income	(1.5)	0.9	0.1	(3.1)	1.2	0.6
Loss / (income) from discontinued operations, net of tax	-	-	-	-	-	-
EBITDA – Continuing operations	**15.6**	**19.0**	**21.7**	**22.5**	**23.4**	**23.5**
Exceptional and restructuring costs	6.7	6.3	6.4	5.0	2.0	1.7
EBITDA before exceptional costs	**22.3**	**25.4**	**28.1**	**27.5**	**25.4**	**25.2**

**EBITDA before exceptional items is presented as an alternative measure to improve comparability of the underlying business performance between the periods. Exceptional items have been amended for the previous quarters in 2020 in the table above due to materiality for the full year 2020 and to increase comparability throughout the year.*

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

	Three Months Ended					
(In millions)	September 30 2020	June 30 2020	March 31 2020	December 31 2019	September 30 2019	June 30 2019
Eastern Hemisphere	18.1	20.2	13.7	16.3	16.5	15.1
Western Hemisphere	(1.2)	-	10.0	8.3	8.7	9.7
Corporate costs and stock compensation costs	(1.2)	(1.2)	(2.0)	(2.1)	(1.8)	(1.4)
EBITDA	**15.6**	**19.0**	**21.7**	**22.5**	**23.4**	**23.5**