Archer

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 2020	Three Months Ended December 31 2019	Year Ended December 31 2020	Year Ended December 31 2019
Revenues					
Operating revenues		$ 185.3	$ 207.1	$ 715.1	$ 833.6
Reimbursable revenues		25.2	32.6	108.9	95.0
Total revenues		210.6	239.7	824.0	928.6
Expenses					
Operating expenses		156.6	172.8	595.9	689.3
Reimbursable expenses		25.8	32.1	108.7	93.1
Operating lease costs		0.7	3.2	9.9	12.7
Depreciation and amortization		11.8	12.6	48.0	50.4
Impairment charges		0.2	1.8	7.6	1.8
Loss/(Gain) on sale of assets		(0.5)	(0.2)	0.5	(0.4)
General and administrative expenses		8.4	9.0	33.9	39.2
Total expenses		203.0	231.4	804.6	886.1
Operating income		7.6	8.3	19.4	42.5
Financial items					
Interest income		1.1	-	3.8	1.9
Interest expenses		(8.1)	(9.8)	(33.5)	(41.5)
Share of losses of equity method affiliates		(0.4)	0.7	(18.7)	(37.0)
Other financial items	3	14.7	1.6	33.1	(17.2)
Total financial items		7.3	(7.4)	(15.3)	(93.8)
Income /(loss) from continuing operations before income taxes		15.0	0.9	4.1	(51.3)
Income tax (expense)/benefit	4	(12.2)	3.1	(11.6)	3.6
Income/(loss) from continuing operations		2.7	3.9	(7.5)	(47.7)
Net income/(loss)		$ 2.7	$ 3.9	$ (7.5)	$ (47.7)
Income/(loss) per share-basic					
Income/(loss) from continuing operations		$ 0.02	$ 0.03	$ (0.05)	$ (0.32)
Income/(loss) per share		$ 0.02	$ 0.03	$ (0.05)	$ (0.32)
Income/(loss) per share-diluted					
Income/(loss)from continuing operations		$ 0.02	$ 0.03	$ (0.05)	$ (0.32)
Income/(loss) per share		$ 0.02	$ 0.03	$ (0.05)	$ (0.32)
Weighted average number of shares outstanding					
Basic	5	148.1	148.0	148.1	147.6
Diluted	5	148.5	148.2	148.1	147.6

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	
	2020	2019	2020	2019
Net income/(loss)	$ 2.7	$ 3.9	$ (7.5)	$ (47.7)
Other comprehensive income /(loss)				
Currency translation differences	11.6	7.5	7.7	8.0
Other comprehensive income	11.6	7.5	0.2	8.0
Total comprehensive income/(loss)	$ 14.3	$ 11.4	$ 0.2	$ (39.7)

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	7.7	7.7
Balance at December 31, 2020	**$ 13.6**	**$ 13.6**

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

ARCHER LIMITED
Consolidated Balance Sheets

(In millions)	Note	December 31 2020 (Unaudited)	December 31 2019 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		$ 41.2	$ 31.4
Restricted cash		12.4	12.7
Accounts receivables		109.2	145.4
Inventories	6	54.2	53.0
Other current assets		28.0	23.6
Total current assets		**245.0**	**266.1**
Noncurrent assets			
Investments in associates	7	-	21.3
Loans to associates	7	4.7	10.0
Marketable securities		6.1	-
Property plant and equipment, net		355.2	373.9
Right of use assets		29.9	42.8
Deferred income tax asset		16.3	30.5
Goodwill	8	172.7	171.1
Other intangible assets, net		0.6	1.1
Deferred charges and other assets		15.0	13.2
Total noncurrent assets		**600.4**	**663.9**
Total assets		**$ 845.4**	**$ 930.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of interest-bearing debt	9	$ 10.5	$ 548.1
Accounts payable		34.4	45.2
Operating lease liabilities		8.5	11.9
Other current liabilities		125.5	117.1
Total current liabilities		**178.9**	**722.3**
Noncurrent liabilities			
Long-term interest-bearing debt	9	519.1	7.3
Subordinated related party loan		15.9	58.3
Operating lease liabilities		21.4	31.0
Deferred taxes		0.8	2.3
Other noncurrent liabilities		0.2	0.4
Total noncurrent liabilities		**557.4**	**99.3**
Shareholders' equity			
Common shares of par value $0.01 per share: 1.0 billion shares authorized: 148,050,298 outstanding shares at December 31, 2020 (December 31, 2019: 147,462,012)		1.5	1.5
Additional paid in capital		928.1	927.6
Accumulated deficit		(1,574.2)	(1,566.7)
Accumulated other comprehensive loss		13.6	5.9
Contributed surplus		740.1	740.1
Total shareholders' equity		**109.1**	**108.4**
Total liabilities and shareholders' equity		**$ 845.4**	**$ 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)	Year Ended December 31	
	2020	2019
Cash Flows from Operating Activities		
Net operating (loss)/income	$ (7.5)	$ (47.7)
Adjustment to reconcile net (loss) / income to net cash provided by operating activities		
Depreciation and amortization	48.0	50.4
Impairments	7.6	1.8
Share-based compensation expenses	0.8	0.9
Loss/(gain) on property, plant and equipment disposals	0.5	(0.4)
Share of losses of unconsolidated affiliates	18.7	37.0
Subordinated debt restructure	(42.2)	-
Amortization of loan fees	1.4	1.2
Mark to market of financial intruments	1.8	-
Mark to market of marketable securities	3.4	-
Change in deferred and accrued taxes	8.5	(9.2)
Changes in operating assets and liabilities		
(Increase)/decrease in accounts receivable and other current assets	27.1	(7.2)
Decrease /(Increase in inventories	(0.7)	4.0
(Increase)/decrease in accounts payable and other current liabilities	(4.9)	8.8
Change in other operating assets and liabilities net, including non-cash fx effects	7.5	2.5
Net cash provided by discontinued operations	70.0	42.1
Cash Flows from Investing Activities		
Capital expenditures	(32.0)	(41.5)
Proceeds from disposal of property, plant and equipment	1.9	3.7
Loans to / investment in associates	(1.4)	(1.9)
Net cash used in investing activities	(31.5)	(39.7)
Cash Flows from Financing Activities		
Borrowings under revolving facilities	95.8	35.0
Repayments under revolving facilities	(115.8)	(30.0)
Proceeds from other long-term debt	1.5	1.6
Repayment of other long-term debt	(8.8)	(2.8)
Debt issuance costs	4.3	-
Borrowings under finance leases	4.2	5.1
Repayments under finance leases	(1.3)	(1.7)
Cash settlement of RSU	(0.4)	-
Net cash provided by/(used in) financing activities	(29.1)	7.2
Effect of exchange rate changes on cash and cash equivalents	0.1	3.0
Net increase/(decrease) in cash and cash equivalents	9.5	12.6
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	53.6	44.1
Interest paid	$ 32.1	$ 40.3
Taxes paid	$ 3.1	$ 5.1

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, 2019	**$ 1.5**	**$ 927.6**	**$ (1,566.7)**	**$ 5.9**	**$ 740.1**	**$ 108.4**
Share based compensation	-	0.8	-	-	-	0.8
Cash settlement of RUS's		(0.4)	-	-	-	(0.4)
Translation differences	-	-	-	7.7	-	7.7
Net income	-	-	(7.5)	-	-	(7.5)
Balance at December 31, 2020	**$ 1.5**	**$ 928.1**	**$ (1,574.2)**	**$ 13.6**	**$ 740.1**	**$ 109.1**

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

ARCHER LIMITED
Notes to Unaudited Consolidated Financial Statements

Note 1 – Summary of Business and Significant Accounting Policies

Description of business

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

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

We employed approximately 4,500 skilled and experienced people at December 31, 2020.

Archer was incorporated in Bermuda on August 31, 2007.

Going concern
At the date of this report, the industry continues to be affected by the global pandemic (Covid-19). The Board of Directors and the management team of Archer have been working hard to assess and understand the impacts the pandemic, and to identify mitigating factors that will ensure the company is able to withstand the crisis. Archer has a solid liquidity position following the refinancing of the company in April 2020 and does not face any significant loan maturities until the fourth quarter 2023. Due to the downturn in the market in 2020, management implemented a plan to reduce costs and postpone investments, and will take further action if necessary, in order to safeguard liquidity for continued operation.

The Board and management will continue to closely monitor the situation and is prepared to execute on management plans described above to ensure the long-term strength of the company. Based on the company's liquidity position and forecasted cash flows from operations, the Board confirms that the conditions for continued operation as a going concern.

Basis of presentation

The unaudited fourth quarter 2020 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, 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 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, 2019. 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 seg ments 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 an initial qualitative review to determine whether it is more likely that not that goodwill is impaired. If step one indicates a possible impairment, we follow with ja one-step process involing a comparison of each reporting unit's fair value to its carrying value. If a reporting unit's fair value is less than its carrying value, an impairment charge equal to the shortfall is made against the relevant goodwill, until the balance is zero.

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 pro jections 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

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.

ASU 2017-04 (ASC 350 Intangibles - Goodwill) The Company has adopted this update effective January 1, 2020, which simplifies the test for goodwill impairment. The accounting update eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of the assets acquired and liabilities assumed in a business combination. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The Company will apply the one step approach in our quantitative impairment assessments henceforth which may result in the recognition of impairment losses sooner as compared to the two-step impairment test. There has been no impact of this accounting standard on the Company's condensed consolidated financial statements on adoption or as of December 31, 2020.

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, 2020**	**December 31, 2019**
Accounts receivable net	109.2	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 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)	2020	**2019**	**2020**	**2019**
Foreign exchange (losses)/gains	$ 11.3	$ 3.5	$ (6.7)	$ (15.6)
Gain on subordinated debt restructure	-	-	42.2	-
Other items	3.5	(1.9)	(2.4)	(1.6)
Total other financial items	$ 14.7	$ 1.6	$ 33.1	$ (17.2)

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 recorded a non-routine gain of $42.2 million which resulted from our debt restructure, which is discussed in note 9.

Following the merger of our equity investment in Quintana Energy Services Inc (“QES”) with KLX Energy Services holdings Inc. (“KLX”), our investment in the merged KLX is accounted for as a marketable security. With effect from the third quarter 2020 therefore, we report the change in market value of our KLX shares in Other Financial Items.

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)	**2020**	**2019**	**2020**	**2019**
North America	$ 0.2	$ (0.3)	$ 0.3	$ 0.7
South America	6.9	(3.6)	(0.7)	(5.6)
Europe	5.8	1.1	11.1	1.5
Others	(0.6)	(0.3)	0.9	(0.2)
Total	**$ 12.2**	**$ (3.1)**	**$ 11.6**	**$ (3.6)**

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 in fourth quarter 2020 is a tax expense of $12.2 million, related to reversal of deferred tax assets in South America and tax expense for Norway and UK operations. The Group`s net tax position end of December 2020 is a tax expense of $11.6 million, which primarily relates to tax expense from operations in Europe, driven by underlying improved profitability for the Norway operations.

The net tax expense in South America in fourth quarter of $6.9 million relates to reversal of deffered tax related to recapitalization of the local entities in South America and forgiveness of interest on intercompany loans. The net tax benefit in South America amounted to $0.7 million at the end of December 2020 and relates to the net loss from the operations in the North of Argentina.

The net tax expense in Europe amounted to $11.1 million at the end of December 2020 which primarily relates to net tax expense in Norway of $7.8 million and previous years tax adjustment in UK related to interest restrictions.

As at 31 December 2020 we have total deferred tax assets of $16.3 million which mainly consist of $4.4 million of tax assets in Norway, $10.0 million tax assets in Argentina and $1.7 million tax assets in UK.

Deferred tax liabilities at 31 December 2020 totalled $0.8 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)	**2020**	**2019**	**2020**	**2019**
Denominator				
Weighted-average common shares outstanding	148,050	148,038	148,050	147,607
Effect of potentially dilutive common shares due to share-based compensation schemes	463	131	-	-
Weighted-average common shares outstanding and assumed conversions	148,513	148,169	148,050	147,607

Share-based compensation of 1,442,233 shares were excluded from the computation of diluted earnings per share for the year ended December 31, 2020, and 939,941 shares were excluded from the computation for year ended December 31, 2019, as the effect would have been antidilutive due to the net loss for the period.

Note 6 – Inventories

(In millions)	December 31 2020	December 31 2019
Manufactured		
Raw Materials	$ 1.8	$ 3.3
Finished goods	9.8	8.0
Work in progress	0.4	0.2
Total manufactured	12.0	11.5
Drilling supplies	13.6	16.4
Chemicals	1.0	0.4
Other items and spares	27.6	24.7
Total inventories	**$ 54.2**	**$ 53.0**

Note 7 — Investments in Associates

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

	December 31, 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)	December 31, 2020	December 31, 2019
C6 Technologies AS*	4.7	10.0
Rawabi Archer Company	—	—
Quintana Energy Services Inc.	—	21.3

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	-	1.4	-
Share in results of associates	(11.8)	(1.3)	-
Impairment of C6 investment		(5.3)	
Conversion to KLX shares	(9.5)		-
Translation adjustment	-	(0.1)	-
Carrying value of investment and loans at December 31, 2020	**-**	**4.7**	**-**

* Equity and loan investments combined

Quoted market prices for C6 Technologies AS, and Rawabi Archer Copany 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 additional impairment charges of $5.3 million against the carrying value of the loan. In December 2020, we entered into a sale and purchase agreement with IKM, the other 50% shareholder of C6. Under the agreement our investment in the Comtrac technology developed by C6 is transfererred to a new joint venture in which we continue to hold a 50% interest.

This transaction is described in more detail in note 15 Subsequent events.

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 in the way that 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. All of 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.	(4.0)
Currency adjustments	5.6
Net book balance at December 31, 2020	**$ 172.7**

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.

In 2020 we wrote off goodwill relating to our Survey and inspection ("S&I") business unit, which was recognised in 2010 in the acquisition of S&I business in Australia and Singapore. These businesses have not developed as expected and in 2020 we closed our Singapore office and wrote off the goodwill relating to this business acquisition.

In the event that market conditions deteriorate or there is a prolonged downturn, the Group may be required to record an impairment of goodwill, and such impairment could be material.

Note 9 – Long-term, Interest-Bearing Debt

	December 31, 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	510.3	(3.4)	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	9.6	-	9.6	23.9	(0.1)	23.8
Other loans and capital lease liability	13.1	-	131	17.2	-	17.2
Total loans and capital lease liability	**548.9**	**(3.4)**	**545.5**	**614.4**	**(0.7)**	**613.7**
Less: current portion	(10.5)	-	(10.5)	(548.8)	0.7	(548.1)
Long-term portion of interest-bearing debt	**538.4**	**(3.4)**	**535.0**	**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 $560.3 million, split between $341.0 million under a term loan and $219.2 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 December 31, 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 June 2022 quarterly instalments of $4 million will commence. In addition to the scheduled instalments, there is a cash sweep mechanism in the Facility agreement whereby 90% of the available liquidity above $90 million, calculated each December and June after certain adjustments, is applied towards prepayment under the Facility. The final maturity date of the Facility is October 1, 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) at the financial quarters ending from December 31, 2020 to June 30, 2021 shall not exceed 7.0x, from September 30, 2021 to June 30, 2022 shall not exceed 7.5x, at September 30, 2022 shall not exceed 7.25x, at December 31, 2022 shall not exceed 6.75x, at March 31, 2023 shall not exceed 6.00x, at June 30, 2023 shall not exceed 5.5x 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 December 31, 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 April 1, 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 December 31, 2020 the equivalent of $9.6 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 December 31, 2020, we have zero net borrowing under these facilities.

At December 31, 2020 we have borrowed $4.4 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 December 31, 2020, the balance under these arrangements was $8.8 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. In Ocober 2020, we entered into additional USD interest rate cap agreements, securing the interest rate against fluctuations above 0.85% on $200 million until December 2025. The fair value of the instruments as of December 31, 2020 was an asset of $1.8 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 $8.0 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 13 years at December 31, 2020. Some operating leases include options to extend the leases annually after the lease termination date, and one lease contains an option to extend for a further three years. We have sub-let unused office space, for which we received rental income of $2.4 million in the year ended December 31, 2020.

We calculate 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, 2020 was as follows;

(In millions)	Twelve months ended December 31, 2020
Finance Lease costs	
Amortisation of right of use assets	$ 1.0
Interest on lease liabilities	0.3
Operating lease costs	9.9
Short term lease costs	8.0
Total Lease costs	19.2
Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	1.3
Operating cash flows from operating leases	9.8
Financing cash flows from finance leases	0.3
Right of use assets obtained in exchange for new finance lease liabilities	4.0
Right of use assets obtained in exchange for new operating lease liabilities	3.1
Weighted average remaining lease term – finance leases	3.8 years
Weighted average remaining lease term – operating leases	9.3 years
Weighted average discount rate – finance leases	3.7%
Weighted average discount rate – operating leases	6.1%

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 December 31**		**Year December 31**	
	2020	2019	2020	2019
Revenues from external customers				
Eastern Hemisphere	$ 164.3	$ 167.0	$ 638.1	$ 623.0
Western Hemisphere	46.3	72.7	185.9	305.6
Total	$ 210.6	$ 239.7	$ 824.0	$ 928.6
Depreciation and amortization				
Eastern Hemisphere	$ 4.5	$ 4.6	$ 17.2	$ 18.7
Western Hemisphere	7.3	7.9	38.8	31.7
Total	$ 11.8	$ 12.6	$ 48.0	$ 50.4

ARCHER LIMITED
Notes to Unaudited Consolidated Financial Statements

Net operating (loss)/gain				
Eastern Hemisphere	$ 15.3	$ 11.6	$ 51.6	$ 44.6
Western Hemisphere	(5.9)	(1.3)	(26.0)	5.4
Corporate costs	(1.6)	(1.8)	(5.4)	(6.6)
Stock compensation costs	(0.1)	(0.3)	(0.8)	(0.9)
Operating income	7.6	8.3	19.4	42.5
Total financial items	7.3	(7.4)	(15.3)	(93.8)
Income taxes	(12.2)	3.1	(11.6)	3.6
Net gain/ (loss)	$ 2.7	$ 3.9	$ (7.5)	$ (47.7)
Capital expenditures				
Eastern Hemisphere	$ 8.4	$ 9.5	$ 21.0	$ 20.2
Western Hemisphere	5.7	9.1	11.0	21.3
Total	**$ 14.1**	**$ 18.7**	**$ 32.0**	**$ 41.5**

(In millions) **Goodwill**	**Eastern Hemisphere**	**Western Hemisphere**	**Total**
Balance at December 31, 2019	**$ 171.1**	**$ -**	**$ 171.1**
Impairments	(4.0)	-	(4.0)
Currency adjustments	5.6	-	5.6
Balance at December 31, 2020	**$ 172.7**	**$ -**	**$ 172.7**

(In millions)	**December 31 2020**	**December 31 2019**
Total assets		
Eastern Hemisphere	**$ 495.1**	**$ 578.4**
Western Hemisphere	**347.8**	**350.7**
Corporate	**2.5**	**0.9**
Total	**$ 845.4**	**$ 930.0**

Note 12 – Fair Value of Financial Instruments

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

(In millions)	December 31, 2020 Fair Value	December 31, 2020 Carrying Value	December 31, 2019 Fair Value	December 31, 2019 Carrying Value
Non-derivatives				
Cash and cash equivalents	$ 41.2	$ 41.2	$ 31.4	$ 31.4
Restricted cash	12.4	12.4	12.7	12.7
Accounts receivable	109.2	109.2	145.4	145.4
Accounts payable	(34.4)	(34.4)	(45.2)	(45.2)
Current portion of long-term debt	(10.5)	(10.5)	(548.1)	(548.1)
Long-term, interest-bearing debt	(535.0)	(535.0)	(7.3)	(7.3)
Subordinated related party debt	(15.9)	(15.9)	(58.3)	(58.3)
Derivatives				
Interest rate cap agreements	1.9	1.9	—	—

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

(In millions)	December 31, 2020 Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 41.2	$ 41.2	—	—
Restricted cash	12.4	12.4	—	—
Accounts receivable	109.2	—	109.2	—
Interest rate swap agreements	1.9	—	1.9	
Liabilities				
Accounts payable	(34.4)	—	(34.4)	—
Current portion of interest-bearing debt	(10.5)	—	(10.5	—
Long-term, interest-bearing debt	(535.0)	—	(535.0)	—
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 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, 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 year ended December 31, 2020, we have rented offshore equipment and warehouse space to Seadrill Limited in respect of which we have recorded revenue of $0.7 million. We also have an engineering service contract with Seadrill, in respect of which we have recorded service revenues of $3.8 million during 2020. At December 31, 2020 Seadrill owes a total of $0.2 million in respect of supplies we have made.

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.

As a result of the reorganisation we recorded a non-cash gain of $42.1 million in other financial items.

<u>Transactions with C6 Technologies AS:</u>
At December 31, 2020, we owned 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 year ended December 31, 2020 we have advanced $0.8 million as additional loan to C6 and applied $0.6 million interest to the loan balance.

During January 2021, we have sold our interest in C6 to it's other shareholder IKM. The transaction in described in Note 15 Subsequnet events, below.

<u>Transactions with other related parties</u>
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 $0.4 million and $0.2 million respectively for these services from these enttities in the year ended December 31, 2020. These amounts are included in General and administrative expenses in the Consolidated statement of operations.

Note 15 – Subsequent Events

In December 2020, we entered into a sale and purchase agreement with IKM, the other 50% shareholder of C6. Under the agreement our investment in the Comtrac technology developed by C6 is transferred to a new joint venture in which we continue to hold a 50% interest.

The remaining technology developed by C6 will remain with IKM. The agreement provides for Archer to receive some purchase consideration for the technology not transferred to the new entity, comprising some cash, and an earnout provision.

The agreement was signed in December 2020, and the transaction will be completed in Q1 2021, The net effect of the sale and purchase agreement is not expected to have any material impact on our balance sheet or 2021 income statement.

In January 2021, Equinor awarded Archer Integrated Services AS a five-year contract for the provision of integrated wireline services in the North Sea. The contract was awarded in alliance with Welltec Oilfield Services (Norway) AS and Schlumberger Norge AS. The services that will be provided under the contract include cased hole mechanical wireline services, tractor and powered mechanical services as well as electric-line logging services.

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, 2020, September 30, 2020, June 30, 2020, March 31, 2020, December 31, 2019 and September 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 US GAAP.

ARCHER LIMITED
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended					
(In millions)	December 31 2020	September 30 2020	June 30 2020	March 31 2020	December 31 2019	September 30 2019
Revenue	210.6	183.6	192.8	237.1	239.7	227.6
Cost and expenses						
Operational costs	(203.0)	(180.7)	(186.0)	(227.5)	(229.6)	(216.5)
Impairments	(0.2)	—	(7.4)	—	(1.8)	—
Net financial items*	7.3	(16.7)	47.2	(53.2)	(7.4)	(66.5)
Income/(loss) from continuing operations before income taxes	**15.0**	**(13.9)**	46.6	**(43.5)**	**0.9**	**(55.4)**
Income tax (expense) / benefit	(12.2)	1.5	(0.9)	(0.1)	3.1	(1.2)
Income/(loss) from continuing operations	**2.7**	**(12.3)**	**45.7**	**(43.6)**	**3.9**	**(56.6)**
Loss from discontinued operations, net of tax	-	-	-	-	-	-
Net income/(loss)	**2.7**	**(12.3)**	**45.7**	**(43.6)**	**3.9**	**(56.6)**

ARCHER LIMITED
Appendix to Unaudited Consolidated Financial Statements

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

(In millions)	Three Months Ended December 31 2020	September 30 2020	June 30 2020	March 31 2020	December 31 2019	September 30 2019
Net income /(loss)	2.7	(12.3)	45.7	(43.6)	3.9	(56.6)
Depreciation, amortization and impairments	11.5	12.9	19.6	12.0	14.3	12.3
Net financial items*	(7.3)	16.7	(47.2)	53.2	7.4	66.5
Taxes on income	12.2	(1.5)	0.9	0.1	(3.1)	1.2
Loss from discontinued operations, net of tax	-	-	-	-	-	-
EBITDA – Continuing operations	**19.2**	**15.6**	**19.0**	**21.7**	**22.5**	**23.4**
Restructuring and exceptional costs**	4.2	6.7	6.3	6.4	5.0	2.0
EBITDA before restructuring costs	**23.4**	**22.3**	**25.4**	**28.1**	**27.5**	**25.4**

* Net financials items in Q2 2020 includes a one-off-/non routine gain of $42.2 million, related to our debt restructure, which is discussed in note 9.
** The Restructuring and exceptional items mainly relates to severance costs in Argentina and UK.

ARCHER LIMITED
EBITDA by Geographic and Strategic Areas
(Unaudited)

(In millions)	Three Months Ended December 31 2020	September 30 2020	June 30 2020	March 31 2020	December 31 2019	September 30 2019
Eastern Hemisphere	19.8	18.1	20.2	13.7	16.3	16.5
Western Hemisphere	1.1	(1.2)	-	10.0	8.3	8.7
Corporate costs and stock compensation costs	(1.7)	(1.2)	(1.2)	(2.0)	(2.1)	(1.8)
EBITDA	**19.2**	**15.6**	**19.0**	**21.7**	**22.5**	**23.4**