Archer

2021
Archer Limited

THIRD QUARTER 2021 REPORT

Table of Contents

Consolidated Statements of Operations (unaudited)

(In USD millions)		Three Months Ended September 30		Nine Months Ended September 30	
	Note	**2021**	**2020**	**2021**	**2020**
Revenues					
Operating revenues		206.1	160.2	602.4	529.8
Reimbursable revenues		36.6	23.3	81.8	83.7
Total revenues		**242.8**	**183.6**	**684.2**	**613.5**
Expenses					
Operating expenses		178.5	133.3	507.5	439.3
Reimbursable expenses		34.8	23.2	80.1	82.9
Operating lease costs	10	2.1	3.0	6.3	9.2
Depreciation and amortization		13.2	12.2	39.2	36.2
(Gain)/loss on sale of assets		(0.2)	0.7	(0.3)	1.0
Impairment charges		—	—	3.0	7.4
General and administrative expenses		6.9	8.3	27.5	25.6
Total expenses		**235.3**	**180.7**	**663.2**	**601.6**
Operating income		**7.4**	**2.8**	**20.9**	**11.8**
Gain on bargain purchase	13	—	—	**12.2**	—
Financial items					
Interest income		0.5	1.1	1.7	2.7
Interest expenses		(7.3)	(7.4)	(22.6)	(25.4)
Share of results in associated companies	7	(0.4)	(5.4)	(0.6)	(18.3)
Other financial items	3	(7.8)	(4.9)	(6.8)	18.4
Total financial items		**(15.0)**	**(16.7)**	**(28.2)**	**(22.7)**
Profit/(loss) from continuing operations before income taxes		**(7.5)**	**(13.9)**	**4.9**	**(10.9)**
Income tax(expense)/ benefit	4	(2.2)	1.5	(7.0)	0.6
Loss from continuing operations		**(9.7)**	**(12.3)**	**(2.0)**	**(10.3)**
Net Loss		**(9.7)**	**(12.3)**	**(2.0)**	**(10.3)**
Loss per share - basic		(0.07)	(0.08)	(0.01)	(0.07)
Loss per share - diluted		(0.07)	(0.08)	(0.01)	(0.07)
Weighted average number of shares outstanding					
Basic	5	148.1	148.1	148.1	148.1
Diluted	5	148.1	148.1	148.1	148.1

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

Consolidated Statements of Comprehensive Income/(Loss) and Accumulated Other Comprehensive Loss

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

(in USD millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	**(9.7)**	**(12.3)**	**(2.0)**	**(10.3)**
Other comprehensive income (loss)				
Currency translation differences	(4.7)	6.0	(5.0)	(3.9)
Gain on sale of equity investment	—	—	0.6	—
Total other comprehensive income (loss)	(4.7)	**6.0**	(4.4)	**(3.9)**
Total comprehensive income (loss)	**(14.4)**	**(6.3)**	**(6.4)**	**(14.2)**

Accumulated Other Comprehensive Loss (Unaudited)

(in USD millions)	Translation differences	Other comprehensive income	Total
Balance at December 31, 2020	**13.6**	—	**13.6**
Total other comprehensive income during 2021	(5.0)	0.6	(4.4)
Balance at September 30, 2021	**7.6**	**0.6**	**9.2**

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

Consolidated Balance Sheet (unaudited)

(In USD million)	Note	September 30, 2021	December 31, 2020
	Note	(Unaudited)	(Audited)
ASSETS			
Cash and cash equivalents		26.6	41.2
Restricted cash		10.0	12.4
Accounts receivables	2	125.0	109.2
Inventories	6	53.4	54.2
Other current assets		32.6	28.0
Total current assets		**247.6**	**245.0**
Loans to associates	7	3.1	4.7
Marketable securities		4.4	6.1
Property plant and equipment, net		355.8	355.2
Right of use assets	10	27.8	29.9
Deferred income tax asset	4	19.7	16.3
Goodwill	8	168.2	172.7
Other intangible assets, net		0.7	0.6
Deferred charges and other assets		10.8	15.0
Total noncurrent assets		**590.5**	**600.4**
Total assets		**838.1**	**845.4**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current portion of interest-bearing debt	9	21.8	10.5
Accounts payable		37.3	34.4
Operating Lease liabilities		5.4	8.5
Other current liabilities	10	125.1	125.5
Total current liabilities		**189.6**	**178.9**
Long-term interest-bearing debt	9	506.7	519.1
Subordinated related party Loan	9	15.9	15.9
Operating Lease liabilities	10	22.4	21.4
Deferred tax	4	0.8	0.8
Other noncurrent liabilities		0.1	0.2
Total noncurrent liabilities		**545.6**	**557.4**
Shareholders' equity		**102.9**	**109.1**
Total liabilities and shareholders' equity		**838.1**	**845.4**

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

Consolidated Statements of Cash Flows (unaudited)

(In USD millions)	Nine Months Ended September 30,	
Cash Flows from Operating Activities	**2021**	**2020**
Net (loss)/profit from continuing operations	(2.0)	$ (10.3)
Adjustment to reconcile net loss to net cash provided by operating activities		
Depreciation and amortisation	39.2	36.2
Impairment of fixed assets	3.0	7.4
Gain on debt restructure	—	(42.2)
Share-based compensation expenses	0.3	0.7
(Gain)/loss on assetsdisposals	(0.3)	1.0
Share of losses of unconsolidated affiliates	0.6	18.3
Amortisation of loan fees	1.0	1.0
Mark to market of financial instruments	(3.1)	2.0
Mark to market of marketable securities	1.7	5.7
Change in deferred and accrued taxes	3.8	1.2
Gain on bargain purchase	(12.2)	—
Decrease/(increase) in accounts receivable and other current assets	(11.1)	30.2
Decrease/(increase) in inventories	2.0	(5.5)
(Decrease)/increase in accounts payable and other current liabilities	(8.4)	(4.4)
Change in other operating assets and liabilities net, including non-cash fx effects	(1.6)	(7.1)
Net cash provided by operating activities	**12.9**	**52.1**
Cash Flows from Investing Activities		
Capital expenditures	(19.5)	(13.6)
Proceeds from asset disposals	3.0	1.6
Proceeds from partial sale of equity investment	1.9	-
Loans to associated entities	(0.4)	(1.2)
Investment in subsidiaries net of cash acquired	(13.3)	—
Net cash used by investing activities	**(28.3)**	**(13.2)**
Cash Flows from Financing Activities		
Borrowings under revolving facilities, other long-term debt and financial leases	32.2	100.0
Repayments under revolving facilities, other long-term debt and financial leases	(32.4)	(120.9)
Fees paid on restructuring	—	(4.3)
Net cash provided by financing activities	**(0.2)**	**(25.2)**
Effect of exchange rate changes on cash and cash equivalents	(1.5)	(3.1)
Net increase in cash and cash equivalents	**(17.0)**	**10.6**
Cash and cash equivalents, including restricted cash, at beginning of the period	53.6	44.1
Cash and cash equivalents, including restricted cash, at the end of the period	**36.6**	**54.7**
Interest paid	21.5	24.5
Taxes paid	3.2	1.8

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

Consolidated Statement of Changes in Shareholders' Equity (unaudited)

(In USD millions)	Common shares	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Contributed Surplus	Total Shareholders' Equity
Balance at December 31, 2020	**1.5**	**928.1**	**(1,574.2)**	**13.6**	**740.1**	**109.1**
Share based compensation	—	0.3	—	—	—	0.3
Translation differences	—	—	—	(5.1)	—	(5.1)
Gain on sale of equity investment	—	—	—	0.6	—	0.6
Net income	—	—	(2.0)	—	—	(2.0)
Balance at September 30, 2021	**1.5**	**928.4**	**(1,576.2)**	**9.1**	**740.1**	**102.9**

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

Notes

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 September 30, 2021.

Archer was incorporated in Bermuda on August 31, 2007.

Basis of presentation

The unaudited third quarter and first nine months 2021 consolidated financial statements are presented in accordance with United States of America Generally Accepted Accounting Principles (US GAAP). The unauditedthird quarter and first nine months 2021 consolidated financial statements do not include all 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, 2020. 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 and first nine months 2021 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, 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:

Revenue from contracts with customers

(In USD millions)	September 30, 2021	December 31, 2020
Accounts receivable net	125.0	109.2

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

Other Financial Items

(In USD million)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Foreign exchange losses	(2.8)	1.3	(5.4)	(17.9)
Mark-to-market of financial investments and marketable securities	(4.4)	—	1.4	(1.8)
Gain on debt restructuring	—	—	—	42.2
Other items	(0.5)	(6.2)	(2.8)	1.9
Total other financial items	**(7.8)**	**(4.9)**	**(6.8)**	**18.4**

Foreign exchange losses include 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. Mark to market of financial investments and marketable securities, include the mark to market of our investment in KLX Energy Services Holdings Inc. and our interest rate caps agreements.

Note 4 Income Taxes

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

Income Taxes

(In USD millions)	Nine Months Ended September 30,	
	2021	**2020**
United States	0.4	0.2
South America	0.6	(7.6)
Europe	4.6	5.2
Others	1.4	1.7
Total	**7.0**	**(0.6)**

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

The Group’s net tax expense for the first nine months of 2021 is $7.0 million. The tax charge reported in the current period relates primarily to taxable profit reported from operations in Norway, United Kingdom and Australia

The net tax expense in Europe amounted to $4.6 million for the first nine months of 2021, which primarily relates to our operation in Norway and United Kingdom.

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

As at 30 September 2021 we have total deferred tax assets of $19.7 million which mainly consist of $10.5 million of tax assets in Norway, $8.0 million tax assets in Argentina and $1.0 million tax assets in UK. $9.6 million of deferred tax asset in Norway relates to the acquisition of Deepwell AS.

Deferred tax liabilities at 30 September 2021 totals $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:

Weighted number of shares outstanding

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Denominator				
Weighted-average common shares outstanding	148,050	148,050	148,050	148,050
Effect of potentially dilutive common shares	-	-	-	-
Weighted-average common shares outstanding and assumed conversions	148,050	148,050	148,050	148,050

Note 6 Inventories

Inventories

(In USD millions)	September 30, 2021	December 31, 2020
Manufactured		
Raw materials	10.4	1.8
Finished goods	0.4	9.8
Work in progress	1.2	0.4
Total manufactured	12.0	12.0
Drilling supplies	14.1	13.6
Chemicals	0.2	1.0
Other items and spares	27.1	27.6
Total inventories	**53.4**	**54.2**

Note 7 Investments in Associates

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

	September 30, 2021	December 31, 2020
C6 Technologies AS	—	50.0%
Comtrac AS	50.0%	—

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

(In USD millions)	September 30, 2021	December 31, 2020
C6 Technologies AS	—	4.7
Comtrac AS	3.1	—

The components of our investments in associated entities are as follows:

(In USD millions)	Comtrac AS	C6 Technologies AS
Carrying value of investment at December 31, 2020	**—**	**4.7**
Transfer of loan advances	3.4	(3.4)
Additional capital investment	0.4	—
Share in results of associates	(0.6)	—
Sale of remaining balance	—	1.3
Translation adjustments	(0.1)	—
Carrying value of investment at September 30, 2021	**3.1**	**—**

Quoted market prices for C6 Technologies AS ("C6") and Comtrac AS ("Comtrac") are not available because the shares are not publicly traded.

Our investment in C6 comprised equity investment and a loan. Our share of the losses incurred by C6 was greater than the carrying value of our capital investment. We applied the remaining share of the losses as a reduction of the carrying value of the loan due from the entity. In 2020 we made additional impairment charges of $5.3 million against the carrying value our investments in C6. In December 2020, we entered into a sale and purchase agreement with IKM Gruppen AS (or 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 Comtrac AS, in which we continue to hold a 50% interest. The terms of sale were finalized in the second quarter of 2021.

Comtrac AS is financed by the transfer of loans advanced to C6 by the original shareholders. We have historically adjusted the carrying value of our investment in C6 to reflect the USGAAP treatment of R&D expenditure, which is capitalized by C6 which would be expensed under USGAAP. The carrying value of our investment in the new enity has been adjusted to reflect historical adjustments made to the original investnent in C6 which related to the Comtrac technology.

We received the sales consideration of $1.9 million from IKM for our shares in C6, after the carve out of the Comtrac business. The resultant gain of $0.6 million has been recognized in other comprehensive income.

Note 8 Goodwill

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

Goodwill

(In USD millions)	
Net book balance at December 31, 2020	**172.7**
Translation adjustments	(4.4)
Net book balance at September 30, 2021	**168.2**

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 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

(In USD millions)	September 30, 2021			December 31, 2020		
	Loan balance	Unamortised debt issuance costs	Loan balance less unamortised debt issuance costs	Loan balance	Unamortised debt issuance costs	Loan balance less unamortised debt issuance costs
Multicurrency term and revolving facility	508.1	(2.2)	505.8	510.3	(3.4)	506.9
Related party subordinated loan	15.9	—	15.9	15.9	—	15.9
Hermes-covered term loans	5.7	—	5.7	9.6	—	9.6
Other loans and capital lease liability	16.9	—	16.9	13.1	—	13.1
Total loans and capital lease liability	**546.6**	**(2.2)**	**544.2**	**548.9**	**(3.4)**	**545.5**
Less: current portion	(21.8)	—	(21.7)	(10.4)	—	(10.4)
Long-term portion of interest-bearing debt	**524.9**	**(2.2)**	**522.6**	**538.5**	**(3.4)**	**535.1**

Multicurrency term and revolving credit facility

The total amount available under the Multicurrency term and revolving credit facility (the "Facility") is $561.0 million, split between $341.8 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 into two overdraft facilities, each of $ 11.2 million. A total of $508.1 million was drawn as at September 30, 2021 under the Facility of which the equivalent of $22.8 million was drawn in Norwegian Kroner. 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 quarter ending 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 September 30, 2021, 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 bears PIK interest of 5.5% per year. The conversion rights attached to the loan are 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 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, 2021 the equivalent of $5.7 million was outstanding under this facility.

Other loans and capital leases

As described above, a total of $22.3 million of the Facility is carved out into two overdraft facilities, each of $ 11.2 million. Net borrowing under the overdraft facilities was $0.0 million at September 30, 2021.

At September 30, 2021 net borrowing under short-term facilities in Argentina and in Bolivia was $3.7 million. In addition, net borrowing on the 600 million Argentinian pesos syndicated loan facility in Argentina was equivalent to $4.5 million dollars. The syndicated loan is repayable in monthly instalments which commenced April 2021 and continue until January 2023.

We have finance arrangements relating to equipment in our Oiltools and Platform Drilling divisions. At September 30, 2021, the balance under these arrangements was $8.7 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. Furthermore, we have entered into 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 September 30, 2021 was an asset of $5.0 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, predominantly well plugs for use in our Oiltools division. The leases are entered into under a frame agreement with the bank, and initial lease term is typically 5 years.

Assets leased under finance leases with a carrying value of $7.5 million are included in property plant and equipment.

Operating leases

The company has historically leased some operating assets, office and warehouse facilities and office equipment under operating leases. With effect from January 1, 2019, for material operating leases, we have recognised the relevant right of use assets and lease liabilities in our balance sheet. The leases have remaining lease terms of 1 to 13 years at September 30, 2021. Some operating leases include options to extend the leases for up to 3 years. We have sub-let unused office space, for which we received rental income of $1.0 million during 2021.

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 three-month period ended September 30, 2021 was as follows;

(In USD millions)	**Nine Months Ended September 30, 2021**
Finance Lease costs	
Amortisation of right of use assets	1.3
Interest on lease liabilities	0.3
Operating lease costs	6.3
Short term lease costs	13.6
Total Lease costs	20.1
Other information	
Cash paid for amounts included in measurement lease liabilities	
Operating cash flows from finance leases	—
Operating cash flows from operating leases	6.3
Financing cash flows from finance leases	1.5
Right of use assets obtained in exchange for new finance lease liabilities	1.4
Right of use assets obtained in exchange for new operating lease liabilities	—
Weighted average remaining lease term – finance leases	3.5 years
Weighted average remaining lease term – operating leases	8.7 years
Weighted average discount rate – finance leases	3.7%
Weighted average discount rate – operating leases	5.9%

Note 11 Segment Information

The split of our organisation 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 amortisation, operating income, capital expenditures, goodwill and total assets by segment after treating our divested North America well service businesses, as discontinued operations and not as part of our continuing operations by segment.

Segment information

(In USD millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2021	**2020**	**2021**	**2020**
Revenues from external customers				
Eastern Hemisphere	187.6	146.5	531.6	473.9
Western Hemisphere	55.2	37.1	152.6	139.6
Total revenue	**242.8**	**183.6**	**684.2**	**613.5**
Depreciation and amortisation				
Eastern Hemisphere	5.4	4.5	15.9	12.7
Western Hemisphere	7.8	7.7	23.3	23.5
Total depreciation and amortisation	**13.2**	**12.2**	**39.2**	**36.2**
Operating income/net income				
Eastern Hemisphere	15.2	13.7	43.8	36.4
Western Hemisphere	(6.0)	(9.7)	(17.9)	(20.1)
Corporate Cost	(1.7)	(1.0)	(4.8)	(3.8)
Stock compensation cost	(0.0)	(0.2)	(0.2)	(0.7)
Total operating income / (loss)	**7.4**	**2.8**	**20.9**	**11.8**
Total financial items	(15.0)	(16.7)	(28.2)	(22.7)
Gain on bargain purchase	—	1.5	12.2	0.6
Income taxes	(2.2)	—	(7.0)	—
Net income	**(9.7)**	**(12.3)**	**(2.0)**	**(10.3)**
Capital Expenditures				
Eastern Hemisphere	6.7	5.5	12.9	12.6
Western Hemisphere	4.1	0.9	6.9	5.3
Total	**10.8**	**6.4**	**19.8**	**17.9**

Goodwill

(in USD millions)	Eastern Hemisphere	Western Hemisphere	Total
Balance at December 31, 2020	**172.7**	**—**	**172.7**
Adjustments	(4.4)	—	(4.4)
Balance at September 30, 2021	**168.4**	**—**	**168.4**

Total assets

(In USD millions)	September 30, 2021	December 31, 2020
Eastern Hemisphere	509.1	495.1
Western Hemisphere	324.4	347.8
Corporate	4.6	2.5
Total	**838.1**	**845.4**

We test our fixed assets for impairment on an annual basis during the fourth quarter and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below the carrying amount. The testing of the valuation of our assets involves significant judgement and assumptions to be made in connection with the future performance of those assets in our business operations, including assumptions about future cash flows generated from these assets, discount rates applied to these cash flows and current market estimates of value.

Note 12 Fair Value of Financial Instruments

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

Carrying value of financial instruments

(In USD millions)	September 30, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Nonderivatives				
Cash and cash equivalents	26.6	26.6	41.2	41.2
Restricted cash	10.0	10.0	12.4	12.4
Accounts receivable	125.0	125.0	109.2	109.2
Accounts payable	(37.3)	(37.3)	(34.4)	(34.4)
Current portion of interest-bearing debt	(21.8)	(21.8)	(10.5)	(10.5)
Current portion of operating lease liability	(5.4)	(5.4)	(8.5)	(8.5)
Long-term interest-bearing debt	(506.7)	(506.7)	(535.0)	(535.0)
Operating lease liability	(22.4)	(22.4)	(21.4)	(21.4)
Subordinated related party loan	(15.9)	(15.9)	(15.9)	(15.9)
Derivatives				
Interest cap agreements	5.0	5.0	1.9	1.9

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

Financial assets and liabilities

In USD millions)	September 30, 2021	Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	26.6	26.6	—	—
Restricted cash	10.0	10.0	—	—
Accounts receivable	125.0	—	125.0	—
Interest cap agreements	5.0	—	5.0	—
Liabilities				
Accounts payable	(37.3)	—	(37.3)	—
Current portion of interest-bearing debt	(21.8)	—	(21.8)	—
Current portion of operating lease liability	(5.4)	—	(5.4)	—
Long-term, interest-bearing debt	(506.7)	—	(506.7)	—
Operating lease liability	(22.4)	—	(22.4)	—
Subordinated related party loan	(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 Gain on bargain purchase

The gain on bargain purchase of $12.2 million relates to the acquisition of all of the shares in Deepwell AS and in DW Quip AS (collectively referred to as DeepWell), from Moreld AS, an unrelated third party.

DeepWell provides well intervention and cased hole services from its base in Norway. Archer's interest in acquiring DeepWell was driven by the fact that DeepWell's business complements Archer's wireline division. The ultilisation of DeepWell's equipment and personnel and its advanced technology will enable Archer to improve and expand its wireline business. Prior to the acquisition, Archer was already renting some equipment from DeepWell.

Purchase consideration for the DeepWell totaled NOK 170.4 million (or $19.9 million) and settled as follows:

Purchase consideration

	(In NOK millions)	(In USD million equivalent)
Cash settlement	2.0	0.2
Repayment of DeepWell's external loan	121.4	14.2
Sellers credit, due in January 2022	47.0	5.5
Total consideration	**170.4**	**19.9**

The fair value of the assets acquired at the acquisition date of June 3, 2021 were as follows:

Fair value of assets acquired (preliminary)

	(In NOK millions)	(In USD million equivalent)
Cash and restricted cash	9.7	1.1
Other current assets	57.5	6.7
Tangible fixed assets	194.4	22.7
Intangible assets	2.4	0.3
Deferred tax asset	84.3	9.8
Liabilities	(73.2)	(8.5)
Total fair value of assets acquired	**275.0**	**32.1**

The excess of fair value of the assets acquired over the purchase consideration is reported as a separate line item, "Gain on bargain purchase" in our second quarter 2021 consolidated financial statements. The gain arises primarily from the recognition of a deferred tax asset upon the acquisition relating to DeepWell's carried forward tax losses, which Archer can utilize going forward.

The gain on bargain purchase results from our preliminary calculations, based on all information available to date. The calculation may change if further information materializes within 12 months from the acquisition date of June 3, 2021, which would result in adjustment to the reported gain and relevant carrying values acquired.

The acquisition and future operation of DeepWell are included in our Eastern Hemisphere reporting segment. For the period from the acquisition until the end of June 2021, Archer recognized a total of $1.1 million in external revenue from DeepWell.

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 2021, we supplied Seadrill Limited and affiliates ("Seadrill") with services amounting to $3.3 million, mainly relating to the provision of offshore equipment and rental of warehouse space to Seadrill by our Aberdeen facility. This amount has been included in operating revenue. At September 30, 2021 Seadrill owed us $0.3 million in respect of these services.

Transactions with C6 Technologies AS and Comtrac AS:

At December 31, 2020, we owned 50% of C6 Technologies AS ("C6"), an oilfield technology company offering new solutions for well intervention and conveyance utilizing composite materials. Because we did not control this entity we have reported its financial results using the equity method of accounting since its creation in 2010. As described in note 7 above, during the second quarter of 2021 we concluded a sale and purchase agreement to sell our share of C6 to the other 50% shareholder. The sale was contingent upon the carve out of the Comtrac technology developed by C6 into a new entity, Comtrac AS, under the same shared ownership as C6.

The sale of the remainder of our investment in C6 resulted in a gain of $0.6 million which is reported in Other comprehensive income. We transferred a loan investment with a carrying value of $3.4 million from C6 to Comtrac AS, in addition to which we have made further advances to Comtrac AS during 2021 totaling $0.4 million

Transactions with other related parties

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

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

- Seatankers Management Company Limited ("Seatankers")

Frontline and Seatankers provide management support and administrative services to us, and we have recorded fees of $0.1 million for these services from Frontline in the first three quarters of 2021. In the second quarter we received a credit note from Seatankeers resulting in the reporting of total net negative costs of $0.1 million in the first nine months of 2021.These expenses are included in General and administrative expenses in the Consolidated statement of operations.

Note 15 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, 2021, we are not aware of any such expected loss which would be material to our financial position and results of operations. Nor are we are 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 16 Subsequent Events

None

Appendix to Third Quarter 2021 Report

We report our financial results in accordance with generally accepted accounting principles (GAAP). However, Archer's management believes that certain non-GAAP performance measures and ratios may provide users of this financial information additional meaningful comparison between current results and results in prior operating periods. One such non-GAAP financial measure we use is earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for special charges or amounts. This adjusted income amount is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for operating income, net income or other income data prepared in accordance with GAAP. See the table that follows for supplemental financial data and corresponding reconciliations to GAAP financial measures for the Three Months Ended September 30, 2021, March 31, 2021, December 30, 2020, September 30, 2020, June 30, 2020 and March 31, 2020. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

Condensed Consolidated Statements of Operations (Unaudited)

(In USD million)			**Three Months Ended**			
	Sep. 30, 2021	**Jun. 30, 2021**	**Mar. 31, 2021**	**Dec. 31, 2020**	**Sep. 30, 2020**	**Jun. 30, 2020**
Revenue	**242.8**	**228.0**	**213.4**	**210.6**	**183.6**	**192.8**
Cost and expenses						
Operational costs	(235.3)	(220.4)	(204.6)	(203.0)	(180.7)	(186.0)
Impairments	—	—	(3.0)	(0.2)	—	(7.4)
Net financial items	(15.0)	(16.2)	3.0	7.3	(16.7)	47.2
Gain on bargain purchase	—	12.2	—	—	—	—
Income/(loss) from continuing operations before income taxes	**(7.5)**	**3.6**	**8.8**	**15.0**	**(13.9)**	**46.6**
Income tax (expense)/benefit	(2.2)	(2.0)	(2.8)	(12.2)	1.5	(0.9)
Net income / (loss)	**(9.7)**	**1.6**	**6.1**	**2.7**	**(12.3)**	**45.8**

Reconciliation of GAAP to non-GAAP Measures (Unaudited)

(In USD million)			**Three Months Ended**			
	Sep. 30, 2021	**Jun. 30, 2021**	**Mar. 31, 2021**	**Dec. 31, 2020**	**Sep. 30, 2020**	**Jun. 30, 2020**
Net income / (loss)	(9.7)	1.6	6.1	2.7	(12.3)	45.7
Depreciation, amortisation and impairments (net of gains/losses on sale of assets)	13.2	13.7	15.2	11.5	12.9	19.6
Net financial items	15.0	16.2	(3.0)	(7.3)	16.7	(47.2)
Taxes on income	2.2	2.0	2.8	12.2	(1.5)	0.9
Gain on sale of asset	(0.2)	(0.1)	—	—	—	—
Gain on bargain purchase	—	(12.2)	—	—	—	—
EBITDA	**20.5**	**21.2**	**21.0**	**19.2**	**15.6**	**19.0**
Exceptional charges	3.0	1.1	0.5	4.2	6.7	6.3
EBITDA before restructuring costs	**23.5**	**22.3**	**21.5**	**23.4**	**22.3**	**25.4**

EBITDA by Geographic and Strategic Areas (Unaudited)

(In USD million)			**Three Months Ended**			
	Sep. 30, 2021	**Jun. 30, 2021**	**Mar. 31, 2021**	**Dec. 31, 2020**	**Sep. 30, 2020**	**Jun. 30, 2020**
Eastern Hemisphere	20.6	19.7	19.4	19.8	18.1	20.2
Western Hemisphere	1.6	3.2	3.2	1.1	(1.2)	—
Corporate costs	(1.7)	(1.7)	(1.6)	(1.7)	(1.2)	(1.2)
EBITDA	**20.5**	**21.2**	**21.0**	**19.2**	**15.6**	**19.0**